

**Extract from the minutes of special meeting  
of the LegCo Panel on Commerce and Industry  
held on 26 June 2001**

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**V Proposed Commencement of the Dutiable Commodities (Amendment) Regulation 2001**

(LC Paper No. CB(1)1577/00-01(01) -- Information paper provided by the Administration

LC Paper No. CB(1)1588/00-01(05) -- Submission from the Customs & Excise Dutiable Commodities Customer Liaison Group)

34. Mr Albert LAM, the spokesperson of the Customs & Excise Dutiable Commodities Customer Liaison Group presented his views on the following three respects:

(a) Charges

The Customs & Excise Dutiable Commodities Customer Liaison Group (The Liaison Group) questioned the basis for determining the fees for submitting applications for dutiable commodities permits (DCPs) in electronic form. They considered that the charging system lacked transparency. The Liaison Group further opined that instead of cutting the operating costs of the industry, this proposal would give rise to extra costs and undermined the traders' competitiveness. Though Tradelink Electronic Commerce Limited (Tradelink) had adjusted the fees at the request of the industry, the Liaison Group urged the Administration to consider the actual affordability of the industry when implementing the proposal, and to explore actively the feasibility of waiving the fees concerned in order to maintain the commercial viability of the industry.

(b) Technology

The Liaison Group considered the seminars and talks held by Tradelink not well organized. Besides, the contents were too simple for the industry to fully comprehend and grasp the overall operation of the charging system. Although Tradelink had launched a pilot project on making electronic DCP applications, it did not follow up the problems occurred and seek solutions

accordingly. As the Liaison Group had no confidence in Tradelink's technical support, it expected that the Administration would strengthen its supervision of Tradelink's technology standards and actual operation to ensure the smooth operation of the system.

(c) Monitoring

The Liaison Group opined that the Administration should ensure the stability of the electronic DCP application system and formulate a detailed contingency plan for sudden service breakdown. It also suggested that the working group concerned should monitor the system's operation continuously and conduct regular reviews. Communication with the industry should also be strengthened so as to gather views and find ways of improvements.

35. In response to the views of the Liaison Group, DSCI said that the Administration had always been aware of the industry's grave concern over the charges of making electronic DCP applications. It hoped that the fees determined by Tradelink would be acceptable to the industry in general. He pointed out that the Administration had not formally approved the proposed fees at this stage. Under the franchise agreement between the Government and Tradelink, the return rate of Tradelink could not exceed 18% over the seven-year franchise period. As the proposed fees of DCPs and other services could only generate an estimated return of about 9%, Tradelink's profit level would not exceed the agreed percentage. The return brought by DCPs alone would be about 3% (based on the fees of \$25 for each Ship Stores Permit (SSP) and \$40 for each of other permits).

36. DSCI explained that in order to offset the investment made by Tradelink in front-end computer system for processing DCPs by electronic means, the proposed fees were determined according to the user-pays principle. The Government would continue to provide back-end computer system free of charge. Based on the existing cost of processing DCPs manually, the cost of each DCP was \$120. From this point of view, the industry was being subsidized by taxpayers. He stressed that processing DCPs by electronic means was more efficient than manual operation. The application time would be shortened significantly from two days to half a day. In addition, the system accepted applications every day from 7:00 am to 11:00 pm, which would provide more convenience to the industry. As such, the Administration considered the proposed fees reasonable.

37. On the technical front, DSCI highlighted the responsibility of the Administration to supervise and ensure the smooth implementation of electronic DCP applications. He pointed out that the electronic services provided by Tradelink for the other four categories of documents were so far doing well and a great deal of experience had been gained. He undertook that if there was anything wrong with the electronic processing of DCP applications, the

Administration would examine the situation with Tradelink as soon as possible and would consult the industry for a solution. He stressed that during the specified transitional period after the Commencement of the Dutiable Commodities (Amendment) Regulation 2001, individual enterprises could, having considered their own needs, choose whether to apply for DCPs in electronic form immediately or continue to use the paper mode.

38. Mr Justine YUE, the Chief Executive Officer of Tradelink Electronic Commerce Limited, denied that the proposed fees lacked transparency as Tradelink had submitted extensive supporting data to the Administration beforehand. He pointed out that only with the fees proposed at present and the expected growth of services could Tradelink achieve the projected profit level within the next five years. As the five-year return period exceeded Tradelink's franchise period which would end in 2003, Tradelink had in fact taken great risks. If the Government brought in other competitors at that time, Tradelink might suffer losses due to a reduction in market share. In the technical aspect, Tradelink had provided similar electronic services since 1997 and had gained considerable hands-on operational experience. Moreover, the contingency system concerned was subjected to frequent testing and it met the recognized standard required by the Government. As there was no need to activate the contingency system so far, he believed that the existing technology was sufficient to ensure normal operation of the system. He advised that Tradelink had consulted the industry extensively on its electronic system and all the problems found during the testing process had been solved. He stressed that the problem Tradelink faced at present was the technical support for individual customers such as the ways to link individual customers' platforms with that of Tradelink to increase the efficiency of the electronic processing of DCP applications. Tradelink was willing to provide assistance in this regard. As the services concerned would be launched in July, Tradelink had strengthened communication with its customers and organized additional seminars. He said that over 100 customers had indicated interest in using Tradelink's service to apply for DCPs by electronic means. Tradelink also intended to provide some incentives for early customers, such as offering free electronic services in the first two to three months to familiarize them with the operation of the system. Mr YUE advised that at present, 10 customers were assisting in the final testing of the system to ensure its smooth operation.

39. Mrs Selina CHOW queried whether Tradelink had consulted the industry extensively on the system and obtained its general support. She was worried that the launch and the use of the system would bring unnecessary additional expenses to the industry and increase its operating costs. In her opinion, the Administration should not force the industry to use the system before it was totally error-free. DSCI clarified that the Administration had consulted the industry all along and the Liaison Group had also participated in the discussion concerned. As regards to the charges, Tradelink had already lowered its original proposed fees at the request of the industry. He emphasized that Tradelink had not withheld the process or contents of its consultation with the industry. He explained that as the present legislation only allowed the

application of DCPs in paper mode, it was necessary to amend the existing legislation so that application could be made in either electronic or paper mode. He stressed that the industry had absolute freedom to choose whether to apply in electronic mode or not. He further estimated that after the introduction of the electronic mode of application, the fees to be paid by over 80% of the enterprises would be less than \$4,000 each year. Based on last year's figures, each enterprise would have to pay about \$800 in average every year. He pointed out that this plan might have a greater financial impact on the enterprises which had to apply for a lot of permits, such as those providing marine supplies.

40. The Chairman said he had an impression that the Administration had already obtained the support and consensus of the industry in its earlier consultation. However, judging from the present reaction of the industry, it seemed that the plan had not been widely accepted.

41. DSCI advised that the electronic processing of DCP applications aimed at enhancing the efficiency of the application process instead of making excuses to increase the operating costs of the industry. He reiterated that Tradelink only sought to offset its investments, particularly those in computer hardware, by charging reasonable fees.

42. Due to insufficient time, Mr SIN Chung-kai opposed in principle the proposal to commence the Dutiable Commodities (Amendment) Regulation 2001 on 20 July. He considered that the "user-pays" principle upheld by the Administration lacked uniform criteria and justifications.

43. Mr MO Ying-chun, the representative of the Customs & Excise Dutiable Commodities Customer Liaison Group, considered that the fee increase was not proportionate to the efficiency it could enhance. He said that according to last year's experience and the present fee proposal, his company had to pay an extra fee of about \$200,000 for making electronic DCP applications. Therefore, he believed that the Administration had to review the fees to avoid adding to the industry's operating costs, which would result in unnecessary financial pressure.

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