

立法會
Legislative Council

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by the Administration)

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Panel on Commerce and Industry

Minutes of Meeting
held on Monday, 10 December 2001, at 2:30 pm
in the Chamber of the Legislative Council Building

- Members present** : Hon Kenneth TING Woo-shou, JP (Chairman)
Hon HUI Cheung-ching, JP (Deputy Chairman)
Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, JP
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon SIN Chung-kai
Hon CHOY So-yuk
Hon MA Fung-kwok
- Non-Panel Members attending** : Hon James TIEN Pei-chun, GBS, JP
Hon David CHU Yu-lin, JP
Hon LEUNG Fu-wah, MH, JP
Hon Tommy CHEUNG Yu-yan, JP
- Member absent** : Hon Henry WU King-cheong, BBS
- Public officers attending** : Items IV and V
Mr CHAU Tak-hay
Secretary for Commerce and Industry

Mr Raymond YOUNG
Deputy Secretary for Commerce and Industry

Item IV

Mr Stuart HARBINSON
Permanent Representative of the Hong Kong Special
Administrative Region of China to the World Trade
Organization

Miss Jacqueline WILLIS
Commissioner for Economic and Trade Affairs, USA

Mr Christopher JACKSON
Special Representative for Hong Kong Economic and
Trade Affairs to the European Communities

Mr Andrew LEUNG
Director-General, London

Miss CHEUNG Man-yee
Principal Hong Kong Economic and Trade
Representative, Tokyo

Mrs Jenny WALLIS
Director, Hong Kong Economic and Trade Affairs,
Sydney

Miss Annie TANG
Director, Hong Kong Economic and Trade Affairs, San
Francisco

Mr Edward YAU
Director-General, Hong Kong Economic and Trade
Affairs, Washington

Mrs Rosanna URE
Director, Hong Kong Economic and Trade Affairs,
Toronto

Mr Raymond FAN
Director, Hong Kong Economic and Trade Affairs,
New York

Mr Rex CHANG
Director, Hong Kong Economic and Trade Affairs,
Singapore

Item V

Miss Viola CHAN
Principal Executive Officer, Commerce and Industry
Bureau

Item VI

Mr Kenneth MAK
Deputy Secretary for Commerce and Industry

Mr Philip CHAN
Principal Assistant Secretary for Commerce and
Industry

**Attendance by
invitation** : Item VI

Mr Justin YUE
Chief Executive Officer, Tradelink Electronic
Commerce Limited

Clerk in attendance : Ms Connie SZETO
Chief Assistant Secretary (1)4

Staff in attendance : Mr S C TSANG
Senior Assistant Secretary (1)7

I Confirmation of minutes of previous meeting
(LC Paper No. CB(1) 503/01-02)

The minutes of the special meeting held on 22 October 2001 were confirmed.

II Information papers issued since the last meeting

2. Members noted that no information paper had been issued since the last meeting.

III Date of next meeting and items for discussion

- (LC Paper No. CB(1) 518/01-02(01) - List of outstanding items for discussion
LC Paper No. CB(1) 518(01-02(02) - List of follow-up actions)

Regular meetings

3. Members agreed that the next regular meeting would be held on Monday, 14 January 2002, at 4:30 pm to discuss the following items proposed by the Administration:

- (a) Briefing on the Dutiable Commodities (Amendment) Bill 2002;
- (b) Proposed upgrading of Government's back-end computer system to cope with additional service providers of electronic data interchange services; and
- (c) Update on the operation of the Applied Research Fund.

4. As the date of the regular meeting for February 2002 would fall on the Lunar New Year Eve, members agreed to advance the meeting to Monday, 4 February 2002, at 2:30 pm.

IV Briefing by Heads of the Overseas Hong Kong Economic and Trade Offices

(LC Paper No. CB(1) 490/01-02(01))

5. The Chairman referred members to the reports of the Hong Kong Economic and Trade Offices (ETOs) overseas as set out in the information paper provided by the Administration and invited questions from members.

Impact of the terrorist attacks in the United States on 11 September 2001 on the global economy

6. Mr HUI Cheung-ching asked the Administration for an assessment on the impact of the terrorist attacks in the United States (US) on its economy and the likely effects on Hong Kong's export trade.

7. The Commissioner for Economic and Trade Affairs, USA (C/USA) said that the September 11 incident had been a great shock to the US. Out of the disaster a strong sense of unity and patriotism had emerged among Americans. Companies which had to relocate from the financial centre in New York quickly found temporary offices, some as far as New Jersey. Their operations were now decentralized over a number of locations and some were considering maintaining decentralized operations to reduce their vulnerability to terrorist attacks. The US was now preoccupied with rebuilding the economy. For many enterprises

the immediate concern was the survival of their business. Many of the companies that the US ETOs were in discussion with had put on hold their business plans for expansion until later in 2002. The focus of the US Administration was mainly on issues such as national security, including aviation and transportation security issues. All other issues, including trade and industry matters, were receiving lower priority from the Administration and from Congress. C/USA further pointed out that the US was in a recession and that the unemployment rate in the US had gone up to 5.7%. There were different views on when the economy would turn around. Some sectors were optimistic that the economy would improve by late 2002.

8. The Director, Hong Kong Economic and Trade Affairs, New York (D/NY) supplemented that notwithstanding the rapid recovery of the financial market in New York after the September 11 incident, many enterprises due to uncertainty involved, tended to adopt a wait-and-see attitude in their business plans. Although the demand for imported goods had suffered serious setbacks after the incident, it was anticipated that the demand would return to normal soon taking into account the strong consumer spending during Christmas and the New Year periods.

9. As to the impact of the September 11 incident on Hong Kong's export trade, the Secretary for Commerce and Industry (SCI) said that due to the higher risk involved, some of the goods orders originally destined for Muslim countries had been diverted to Hong Kong. On the economic prospect of the US, SCI said that according to forecast, the US economy would start growing again by the middle of 2002.

10. Mr CHAN Kam-lam remarked that it was a good opportunity for Hong Kong to promote its trade interests in the Middle East. He asked whether the ETO in Singapore would take up this role. While concurring with Mr CHAN's remarks, SCI said that it was the primary responsibility of the Trade Development Council (TDC) to promote trade. The TDC regularly organized overseas missions for local enterprises to participate in major international exhibitions and trade fairs, including those held in the Middle East.

11. In response to the Chairman's enquiry on the impact of the September 11 incident on the European Union (EU) countries, the Special Representative for Hong Kong Economic and Trade Affairs to the European Communities (SREC) said that the European countries were in general sympathetic towards the incident. While the Netherlands continued to be economically strong and the least affected by the incident, countries like Germany and France had been experiencing an economic slow-down due to the incident and some other structural reasons. In view of the global economic downturn, the attention of European businessmen was on China, particularly after its accession to the World Trade Organization (WTO). Being a symbol for modern China, Shanghai had captured most of the attention of EU countries. The Brussels ETO had therefore stepped up its efforts to raise Hong Kong's profile and to publicize the business opportunities in

Hong Kong. For instance, a web site had been launched recently to highlight the advantages for doing business Hong Kong.

12. The Director-General, London (DG/L) said that the September 11 incident had less impact on the United Kingdom (UK) economy which continued to be relatively buoyant. As indicated in the Chancellor of the Exchequer's report to the Parliament in November 2001, the UK's Gross Domestic Products (GDP) was forecast to grow by 2.25% in 2001 and could exceed 3% in 2002. Following China's accession to the WTO, many small and medium enterprises in the UK had expressed interests in establishing business links in China. The London ETO would take the opportunity to promote Hong Kong as the leading gateway to the huge Chinese market.

13. The Chairman asked whether the London ETO would make concerted efforts with Invest Hong Kong to attract foreign investments to Hong Kong. DG/L replied that the London ETO continued to work hand in hand with Invest Hong Kong to identify business opportunities in Hong Kong suitable for foreign investments and to formulate strategies to promote them to the interested enterprises through company visits and briefings to their top management.

Impact of China's accession to the WTO on Hong Kong

14. Mr TIEN Pei-chun asked about ETOs' efforts in promoting Hong Kong and maintaining its role as an intermediary between the Mainland and overseas countries after China's accession to the WTO. C/USA said that there was a keen interest among US businessmen on opportunities arising from China's entry to the WTO. Many US enterprises continued to regard Hong Kong as their strategic base for developing business in the Mainland in the coming years. SCI supplemented that as he learned from the US government, enterprises which had indicated their interests to invest in the Mainland also considered the professionalism and expertise in Hong Kong would facilitate their business operations in the Mainland.

15. In respect of the efforts made by the Brussels ETO, SREC said that the level of understanding about the business opportunities which Hong Kong and China represented was generally low among EU countries. Although some countries like the Netherlands, were positive towards the business prospects in Hong Kong and were well aware of its importance as the gateway to the Chinese market, the majority of EU countries were less enthusiastic about expanding their business to Hong Kong and China. The Brussels ETO recognized the need to reinforce its joint effort with the TDC and Invest Hong Kong in promoting Hong Kong to EU countries. While large enterprises were generally aware of Hong Kong's advantages and strategic location to the Mainland, more promotional activities were needed to educate medium and small enterprises in Europe to the opportunities which Hong Kong could offer.

16. As regards efforts of the London ETO, DG/L said that his promotional programmes on Hong Kong would stress its unique position as an international financial centre, a regional logistics centre, and a developing arbitration centre for the Chinese market.

17. In reply to enquiry by Mr TIEN Pei-chun and Mr MA Fung-kwok on whether the recently proposed free trade agreement (FTA) between China and members of the Association of Southeast Asian Nations (ASEAN) would help promote US inward investments into Hong Kong, C/USA said that as far as she was aware the proposed FTA had not yet been picked up in the US. In doing business with Hong Kong, US businessmen were attracted by its high standard of professional services, the robust legal system, good arbitration facilities and logistics support, free flow of information and low tax and simple taxation system. These were the advantages which US enterprises would continue to look for. So far, whether there was a FTA was not an important factor for them in considering investment in Hong Kong. SREC also remarked that the FTA had not captured much attention of the business enterprises in EU countries.

18. On details of the FTA and the likely impact on Hong Kong and China, SCI said that China and ASEAN members had only agreed in principle to enter into the agreement within the next 10 years. The agreement would be confined to "goods" and the major benefit enjoyed by members would be reduced tariffs. The likely advantages of FTA would be enlargement in the scope and volume of trade and would thus benefit both the Mainland and Hong Kong. On concerns about possible negative impact on Hong Kong, SCI responded that as the details of the agreement had not been worked out, it was pre-mature to make an assessment.

The work of the San Francisco ETO

19. Referring to the report on the work of the San Francisco ETO, Mr NG Leung-sing enquired about the efforts of the office in promoting Hong Kong as a place for doing business amidst the downturn in business opportunities on the west coast. The Director, Hong Kong Economic and Trade Affairs, San Francisco (D/SF) said that as a result of the business downturn, a number of companies on the west coast, in particular, the Silicon Valley had closed down or shelved their business expansion plans. Taking the position that even a crisis can provide new opportunities, the ETO seized this change to promote Hong Kong's advantages in a rough economic climate by stressing Hong Kong's role in accessing growth in China's market. At the same time, in cases where companies had temporarily put off planned expansions into Hong Kong, the ETO continued to work with those companies to nurture the existing relationship through this troubled period.

20. On Mr NG Leung-sing's enquiry about how Hong Kong companies could benefit from the experience of the hi-tech companies in the Silicon Valley,

D/SF said that Hong Kong companies should be more aware of the growing importance of using Internet as a strategic means for developing business. Besides, they would appreciate the emergence of the e-commerce concept. Regarding the three Silicon Valley tenants successfully recruited by the San Francisco ETO for the Hong Kong Science Park, D/SF advised that they belonged to the high-technology and telecommunication sectors. These companies were attracted to establish business in Hong Kong by its favourable business environment and its strategic position as the gateway to China.

Other roles of ETOs

21. Ms CHOI So-yuk remarked that ETOs should take a pro-active role in maintaining diplomatic relationship with civilian organizations or non-government organizations overseas. SCI replied that the primary role of ETOs was to promote Hong Kong's economic and trade interests overseas. According to the Basic Law, consular matters should be taken up by the Central People's Government. Nevertheless, where appropriate, ETOs would provide assistance to Hong Kong organizations established overseas on trade-related matters. He also welcomed suggestions from members on organizations which ETOs might consider extending contacts with.

22. Mr MA Fung-kwok suggested that where possible, ETOs should help promote Hong Kong's cultural activities held overseas. SCI replied that where appropriate and resources available, ETOs had been providing assistance to cultural groups in organizing their activities overseas. However, in the absence of a policy on promotion of cultural activities overseas, to be formulated by the Home Affairs Bureau, it would be difficult for ETOs to pursue the task on a systematic basis.

V Establishment of Hong Kong Economic and Trade Office in Guangzhou

(LC Paper No. CB(1) 490/01-02(02))

23. Details of the proposal on the establishment of the Hong Kong Economic and Trade Office (ETO) in Guangzhou and the creation of a directorate post to head the ETO were set out in the information paper provided by the Administration (LC Paper No. CB(1) 490/01-02(02)).

Role of the ETO

24. Referring to paragraph 6(c) of the paper which stated that the ETO would not be in a position to arbitrate on individual commercial and legal disputes, the Chairman and Mr CHAN Kam-lam enquired whether the ETO would offer assistance to Hong Kong businessmen who encountered difficulties when operating their businesses in Guangdong Province. SCI advised that the ETO would look at the difficulties faced by Hong Kong businessmen first.

Where appropriate, it would bring the issues to the attention of Guangdong authorities for taking follow-up actions and making referrals to the relevant authorities. Given the roles and functions of the ETO, it in general could only handle economic and trade issues within Guangdong Province. As to those complaints involving Mainland government departments, the ETO would not be in a position to follow up.

25. In response to Mr CHAN Kam-lam's remark regarding the compulsory measures, such as detention, imposed on Hong Kong businessmen by the Mainland authorities, SCI said that at present, a notification mechanism was in place under which Hong Kong businessmen and their families could seek assistance from the Security Bureau and the Immigration Department on such matters.

26. Mr LEUNG Fu-wah enquired whether the ETO would take any measures to attract Mainland enterprises to invest in Hong Kong. SCI replied that the ETO would keep a close eye on the local business environment and make an effort to attract inward investments from Mainland. However, whether Guangdong businessmen would develop their businesses in Hong Kong would depend on the production costs involved in relocating their development bases. This was purely the commercial decision of individual enterprises. The Deputy Secretary for Commerce and Industry (DSCI) said that the ETO in Guangzhou would reinforce the economic and trade relations between Hong Kong and Guangdong. He believed that such relations would be conducive to further development of enterprises of both places.

27. In order to attract more Guangdong businessmen to pursue business opportunities in Hong Kong, the Chairman and Mr LEUNG Fu-wah urged the Government to promote actively to Mainland enterprises the trade development facilities (e.g. airport) and advantages of doing business in Hong Kong.

28. Mr NG Leung-sing took note of the role of the ETO as set out in paragraph 6 of the paper. However, he enquired whether the Administration, while assisting Hong Kong businessmen in promoting their businesses in Guangdong Province, could provide similar assistance to Guangdong businessmen to promote their business in Hong Kong. Moreover, he also anticipated that the growth in bilateral economic and trade activities would facilitate the exchange of talents between the two places. Hence, he suggested that the ETO in Guangzhou should provide support in this regard. In response, SCI said that the ETO would render appropriate assistance to Guangdong businessmen through its contacts with business associations in Guangdong Province. As for the exchange of talents, he advised that Mr NG's suggestion would be referred to the Education and Manpower Bureau for consideration.

29. Ms Selina CHOW urged the Administration to consider seriously establishing a close working relationship with the Hong Kong Tourism Board (HKTB) in promoting Hong Kong's tourism industry in the Mainland while

developing the economic and trade relations between the two places. Besides, she also suggested that the Administration should examine the functional demarcation between the TDC and the ETO in promoting economic and trade activities to avoid overlapping of resources. SCI welcomed the suggestion on strengthening the cooperation between the ETO and the HKTB in promoting Hong Kong's tourism industry in the Mainland. Regarding the functional demarcation between the ETO and the TDC, he advised that he would follow up the issue with the TDC.

Establishment of the ETO

30. Mr HUI Cheung-ching enquired about the Mainland authorities responsible for handling economic and trade issues, and the need to engage ten support staff as mentioned in paragraph 12 of the paper in the Mainland as well as their salary levels. SCI advised that the Mainland authorities which dealt with economic and trade issues included the General Administration of Customs, State Taxation Administration, Ministry of Foreign Trade and Economic Cooperation, and the relevant business and trade organizations of various provincial and municipal governments. As to the need to engage ten support staff locally, it was mainly because the potential candidates were expected to have a good understanding of the economic and trade situation of Guangdong Province. DSCI added that it was an requirement of the Guangdong Provincial Government that the support staff had to be recruited through local recruitment agencies. Their salary levels would be determined according to the prevailing market rates.

31. In response to Mr LEUNG Fu-wah's enquiry on whether it would be more appropriate to recruit some of the support staff namely, the Assistant Trade Officer and Investor Support Officer in Hong Kong, DSCI said that as the applicants for these posts were required to possess detailed knowledge of the local economic and trade situation, it was not desirable to recruit them in Hong Kong.

32. The Chairman concluded that the Panel supported the establishment of the ETO in Guangzhou and the creation of a directorate post to head the ETO. Members also noted that the proposal would be submitted to the Establishment Subcommittee and the Finance Committee for approval in early 2002.

VI Resolution of the Asset Transfer Provision under the Community Electronic Trading Service Agreement (LC Paper No. CB(1) 490/01-02(03))

33. Details of the proposal to resolve the asset transfer provision under the Community Electronic Trading Service (CETS) Agreement were set out in the information paper provided by the Administration (LC Paper No. CB(1) 490/01-02(03)).

Operation of Tradelink Electronic Commerce Limited (Tradelink) and the charges for existing services

34. Referring to the information provided in paragraph 6 of the paper, Mrs Sophie LEUNG expressed concern about the increase in the charges for four types of Electronic Data Interchange (EDI) services currently provided by Tradelink. She was also worried that the increase was meant to make up the loss Tradelink incurred due to its initial operation blunders. As the Administration planned to engage additional service providers after the expiry of Tradelink's franchise in 2003, she was concerned that the possible termination of Tradelink's service might render it necessary to rearrange the transfer of assets under the CETS Agreement.

35. DSCI explained that the loss Tradelink incurred in the early stage of its operation (i.e. before 1997) was attributed to the development of its computer system. As Tradelink's EDI services had not been officially launched at that time, it had no revenue to make up its operating deficits. Regarding the Government loan of \$130 million provided to Tradelink in 1996 as referred to by Mrs Sophie LEUNG, he responded that it was mainly for financing the development of Tradelink's computer system for the provision of EDI services. Tradelink had fully repaid the loan to the Government. DSCI added that under the CETS Agreement, Tradelink was permitted to set user charges at a level sufficient for it to obtain an internal rate of return not exceeding 18% over the franchise period. However, these charges were subject to the Government's prior approval. According to the Tradelink's latest forecast and the projected charges already approved by the Government, Tradelink's internal rate of return would be below 6%. He advised that that Government had planned to engage two additional service providers after the expiry of Tradelink's franchise in 2003 with a view to bringing down the existing charges as well as enhancing the quality of service. The Government was negotiating with Tradelink on arrangement for service provision after 2003.

36. Mrs Sophie LEUNG opined that although Tradelink had repaid the loan to the Government, it should still be held responsible for its initial operation blunders. DSCI said that Tradelink operated according to commercial principles. Under the agreement signed between the Government and Tradelink, the loss incurred in the development of Tradelink's computer system in the early stage formed part of its costs. Hence, it was reflected in its charges to users. Mrs Sophie LEUNG urged the Administration to monitor closely the operation of Tradelink to prevent it from transferring its loss to the users of EDI services.

37. Mr Justin YUE, Chief Executive Officer, Tradelink Electronic Commerce Limited supplemented that Tradelink spent most of its initial capital investments on the development of its computer system. He stressed that the existing charging levels had already taken into account the affordability of users

in general. He further pointed out that since the introduction of EDI services in 1997, Tradelink had offered concessionary rates to users on several occasions. It was estimated that such concessions had enabled users to achieve savings in operating cost amounting to some \$99 million.

Proposed asset transfer arrangement

38. Mr CHAN Kam-lam expressed concern about the competitiveness of the existing charging levels of EDI services and whether the market was attractive enough to new service providers. He considered that although the proposed asset transfer could reduce Tradelink's operating cost indirectly, he was worried that the charges for services would increase if the new service providers failed to secure a market share upon the expiry of Tradelink's franchise in 2003. He suggested that the Administration should seriously examine and assess the implication of the asset transfer.

39. DSCI advised that it was difficult to predict the reaction of the market at this stage. However, according to the letters of intent the Administration received from the industry from August to September this year, about 20 local organizations or bodies had indicated interest in providing EDI and other related services. The ultimate number of service providers which would apply for the provision of EDI services would still depend on the market reaction when the tender exercise was actually conducted. On the other hand, he did not consider the asset transfer arrangement under the CETS Agreement a kind of indirect subsidy to Tradelink. The proposal simply allowed Tradelink to continue to use its existing assets in delivering services so that there would not be any disruption to EDI services. If the Administration took possession of the assets at the expiry of Tradelink's franchise, Tradelink could recoup all of its capital investments during its franchise period by adopting an accelerated depreciation policy under the CETS Agreement. As a result, Tradelink might raise its existing charges drastically. The present proposal did not require the assets concerned to be reverted to the Government at the expiry of the franchise. This would allow Tradelink to determine charges for its services by adopting a normal, not an accelerated, depreciation policy.

40. Mrs Selina CHOW had reservation about the proposed charges and the estimated total revenue (i.e. \$93.5 million) forgone by Tradelink over the remaining franchise period arising from the present asset transfer proposal as set out in paragraphs 12 and 13 of the paper. She opined that there was still room for lowering the charges. She therefore requested the Administration to negotiate with Tradelink for further reduction in its charges for the benefit of the users of EDI services.

41. In response to Mrs Selina CHOW's query on Tradelink's offer of preferential prices to long-term customers using its dutiable commodities permit (DCP) and cargo manifest (EMAN) services as stated in paragraph 12 of the paper, Mr Justin YUE advised that the preferential prices could only cover

Tradelink's annual recurrent expenses for the delivery of such services. As its capital investments were not taken into account, the prices could be set at lower levels.

42. While supporting the proposed asset transfer arrangement in principle, Mr SIN-Chung-kai hoped that the Administration could further devise long-term solutions which could benefit more service users. Mr HUI Cheung-ching shared Mr SIN Chung-kai's view. He urged the Government to discuss with Tradelink for a reduction or a freeze in charges to alleviate the cost burden on users.

43. Mr CHAN Kam-lam considered Tradelink's existing franchise period of seven years too long, which was detrimental to free competition. He also had reservation over Tradelink's proposal of using preferential prices to lure users for entering into long-term contracts. Mrs Selina CHOW advised that even with the liberalization of the market, the existing service provider would inevitably have certain edges over new comers. She stressed that it was necessary to ensure that users understood the details of the charges, thus enabling them to make informed decisions. In response, DSCI said that the preferential prices offered to long-term customers as proposed by Tradelink were only applicable to two of the six types of services being offered (i.e. DCP and EMAN). He further advised that the Government would launch large-scale publicity programmes to inform users of its plan to liberalize the market of electronic trading services. Moreover, additional service providers should also be introduced to intensify market competition, which would in turn brought about improved services and lower charges.

44. The Chairman concluded that the Panel supported the resolution of the asset transfer provision under the CETS Agreement in principle and noted that the proposal would be submitted to FC for approval at its meeting on 21 December.

VII Any other business

45. There being no other business, the meeting ended at 5:05 pm.