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Panel on Commerce and Industry

Minutes of Special Meeting
held on Thursday, 3 October 2002 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 CHEUNG Man-kwong
Hon CHAN Kam-lam, JP
Hon SIN Chung-kai
Hon CHOY So-yuk
Hon MA Fung-kwok, JP
- Members absent** : Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon Henry WU King-cheong, BBS, JP
- Public officers attending** : **For Items I and II**
- Mr Henry TANG
Secretary for Commerce, Industry and Technology
- Miss Denise YUE
Permanent Secretary for Commerce, Industry and
Technology (Commerce and Industry)
- Miss Shirley YUEN
Administrative Assistant to Secretary for Commerce,
Industry and Technology

For Item I

Mrs Sarah KWOK
Acting Commissioner for Innovation and Technology

Mr Kenneth MAK
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)

For Item II

Mr Raymond WONG
Commissioner of Customs and Excise

Ms Ellen CHOY
Principal Assistant Secretary for Commerce, Industry
and Technology (Commerce and Industry)

Mr C L WONG
Head of Ship Search & Cargo Command, Customs and
Excise Department

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

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Mr S C TSANG
Senior Assistant Secretary (1)7

Action

**I Briefing by the new Secretary for Commerce, Industry and
Technology**
(LC Paper No. CB(1) 2643/01-02)

Upon invitation by the Chairman, the Secretary for Commerce, Industry and Technology (SCIT) made an audio-visual presentation on his areas of responsibilities and future work plans in respect of the programme areas relating to commerce and industry.

2. SCIT said that Hong Kong was confronted with several challenges and had to make full use of its competitive advantages to create wealth and employment opportunities, as well as to bring new momentum to the economy. He affirmed the Government's commitment in maintaining Hong Kong's competitiveness through proactive support to the business community to ride out of the current economic downturn.

Maintain favourable trading relation

External trade

3. SCIT said that Hong Kong had become a renowned commodity and service trading centre in the world. It had successfully built up sound bilateral and multilateral trade relations with its business partners worldwide. The economic success of Hong Kong was attributed to a number of factors including a simple taxation system with low tax rate, well-developed infrastructure facilities, free flow of information and capital, the rule of law, a level playing field for business, and upholding the principle of free trade.

4. SCIT stressed that the Government would continue to participate actively in multilateral trade negotiations under the World Trade Organization (WTO) to lower trade barriers and enhance Hong Kong's access to the international market. It would also work closely with members of the Asia-Pacific Economic Cooperation to take forward initiatives for achieving free and open trade in the Asia-pacific region. Moreover, Hong Kong would further strengthen relationship with its trading partners through the dedicated efforts of Economic and Trade Offices (ETOs). In the international front, Hong Kong would cooperate with the US in implementing the Container Security Initiative to enhance the security of global maritime shipping and trading. The Government would monitor the impact of the removal of quotas for textiles and clothing (T&C) products in 2005 under the WTO Agreement on Textiles and Clothing and continue to combat illegal transshipment of T&C products.

Economic and trade relations with the Mainland

5. SCIT pointed out that the Mainland had become Hong Kong's largest trading partner. Trade with the Mainland constituted about 40% of Hong Kong's total trade volume. Hong Kong was the fourth largest trading partner of the Mainland following the United States, Japan and European Union. On the other hand, Hong Kong and the Mainland had made direct investment in both places. After China's accession to the WTO, there would be significant growth in the Mainland's external trade which would also benefit Hong Kong. In view of the rapid development in the Pearl River Delta (PRD) region, SCIT remarked that Hong Kong should seize the enormous business opportunities there to help stimulate Hong Kong's economic growth.

6. On enhancing economic and trading relationship with the Mainland, SCIT advised that the Government would continue to participate in the Mainland and Hong Kong Special Administrative Region Joint Commission on Commerce and Trade. In order to help Hong Kong businesses to tap on the rapidly increasing opportunities upon the opening up of the Mainland market, the Government had been actively pursuing with the Mainland authorities for establishing the Closer Economic Partnership Arrangement (CEPA). Moreover, the newly established ETO in Guangdong (GDETO) would assist Hong Kong enterprises to grasp the business opportunities in the Mainland.

Maintain a business-friendly environment

7. SCIT remarked that Hong Kong continued to maintain a business-friendly environment. In 2001, the total amount of direct foreign investment in Hong Kong reached \$180 billion and Hong Kong was ranked first in Asia in terms of attracting foreign investment. More than 3,200 foreign enterprises had established their regional headquarters or offices in Hong Kong. SCIT advised that the Government would continue to encourage departments to streamline their operation and cut red tape in order to remove obstacles to business development.

8. In order to facilitate the development of logistics industry and to reduce cost for doing business, SCIT advised that the Government was considering a proposal to relax the import and export licensing requirements on transshipment cargoes. The Administration would consult the industry and submit the legislative proposal to the Legislative Council (LegCo) in 2003. Moreover, the Government also planned to implement the electronic data interchange service for cargo manifests and notification under the Textiles Trader Registration Scheme in early 2003.

9. As regards attracting foreign investment, SCIT stressed that the Government would focus on the nine priority sectors identified by Invest Hong Kong and develop strategies and business plans on each sector. The Government would also join with the Hong Kong Airport Authority and invite a third partner to construct a new exhibition centre with a net exhibition area of 80,000 m² to 100,000 m² at Chek Lap Kok. Interested parties were being invited to express initial interest on the project. The Administration would seek funding approval from the Finance Committee by end of 2002. The new centre was expected to be completed in 2005. In view of the rapid economic development in the PRD region, SCIT advised that Invest Hong Kong and the GDETO, with concerted efforts from the Trade Development Council, would help attract foreign investment in Hong Kong.

Protection of intellectual property rights

10. SCIT remarked that Hong Kong had enacted law which fully complied with international standards for protection of intellectual property rights. With

the cooperation from the public and copyright owners, the Customs and Excise Department continued to take vigorous enforcement actions against copyright piracy and trade mark counterfeiting at all levels. The Government would step up efforts in organizing public education programmes targeting at the youth and students to promote their awareness on protection of intellectual property rights. The Government would soon submit a bill to the LegCo to make permanent the arrangement in the Copyright (Suspension of Amendments) Ordinance 2001 so that end-user criminal liability exists for only four categories of copyright works, namely, computer program, movie, television drama or musical recording. It would also proceed with other recommendations made at the public consultation on the Copyright Ordinance in November 2001.

Continuous development in commerce and industries

Support to small and medium enterprises

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11. In order to assist the development of industries in Hong Kong, SCIT said that the Government would continue to provide a variety of infrastructure facilities and support services to meet the needs of various industries. It would work closely with organizations like the Hong Kong Productivity Council, Trade Development Council, and Vocational Training Council to raise the productivity and competitiveness of the local enterprises. The Government had strengthened the support to the small and medium enterprises (SMEs) through the four SMEs funding schemes launched in late 2001/early 2002 to help them raise capital, upgrade human resources, expand overseas market and enhance competitiveness. In view of increasing financing difficulties faced by SMEs, the Government had requested the Small and Medium Enterprises Committee to advance the review on these funding schemes and to make recommendations for improvement. The Panel would be briefed on the results and recommendations when they were available. Moreover, the Small and Medium Enterprises Information Centre had been established to provide comprehensive one-stop information service in support of SMEs' development.

Promoting innovation and technology

12. SCIT pointed out that Hong Kong's garment, toy, clocks and watches, and jewelry industries assumed a leading position in the international market. Besides, the rapid growth in service industry including import and export, wholesaling and retailing, and trade financing also contributed to the growth of Hong Kong economy. At present, the service industry accounted for about 86% of Hong Kong's Gross Domestic Products (GDP) and employed about 83% of the local work force. However, the cost for doing business in Hong Kong remained high as compared with neighbouring regions. In order to maintain the competitiveness of Hong Kong industries and business, SCIT emphasized that Hong Kong industries had to focus on developing high-value-added and high-technology-based products to be delivered with quality, speed and creativity.

13. SCIT stressed that the Government was committed to maintaining the competitiveness of Hong Kong industries through promoting the use of innovation and technology in industries. The Innovation and Technology Fund (ITF) and the Applied Research Fund continued to provide funding support to research projects and start-up technology companies. Efforts were also made to promote commercialization of research and development results and technology transfer. The establishment of the Hong Kong Science and Technology Parks Corporation, Applied Science and Technology Research Institute and Hong Kong Jockey Club Institute of Chinese Medicine had also strengthened Hong Kong's technological infrastructure in support of the development of innovative and technology-based industries.

Developing Hong Kong into a fashion centre

14. SCIT said that the works of local designers and local fashion brands had gained a foothold in the international market. As such, Hong Kong had great potential to develop into a world-class fashion centre. To achieve this end, the Government would establish a high-level committee to coordinate efforts of the industry and supporting organizations to work out the targets and measures for promoting the development of the fashion industry.

Promoting the design industry

15. SCIT emphasized that the recent establishment of the Hong Kong Design Centre (HKDC) aimed at enhancing competitiveness of the local design industry as well as helping Hong Kong become an internationally recognized centre of innovative products. By serving as the focal point for design-related activities in Hong Kong, HKDC would help encourage, inspire, support and facilitate the work of local designers and contribute to raising the competitiveness of Hong Kong designed products in the international market.

Discussion with Members

Competition from Yantian Port

16. In view of the rapid development in the Yantian Port in Shenzhen, Mr NG Leung-sing expressed concern about competition on Hong Kong port and enquired about the Government's measures to maintain Hong Kong's status as an international maritime centre. In response, SCIT said that notwithstanding competition from ports in PRD region, owing to its advantageous geographical location and efficient operation, Hong Kong port still recorded a remarkable growth in business. SCIT expected that continued economic growth in the PRD region would benefit the cargo and shipping industries of both places and that their ports would complement each other in the long run.

Assistance to businessmen operating in the Mainland

17. Responding to Mr NG Leung-sing's enquiry on support service provided by GDETO to Hong Kong businessmen, SCIT explained that the work of GDETO was to promote economic and trade relations between Guangdong province and Hong Kong. Besides organizing activities to promote investment in Hong Kong and help local enterprises gain access to Mainland market, GDETO would enhance communication with Hong Kong businessmen operating in Guangdong province and help them resolve commerce and trade-related problems.

Development of a special industrial zone in the border

18. Mr SIN Chung-kai referred to a recent proposal put forward by some business groups to develop a special industrial zone near Shenzhen River and the border where both Hong Kong and Mainland workers could be employed to work in the zone. Mr SIN opined that the proposal was worth pursuing as it would attract enterprises already moved northward back to take advantage of the lower costs of operation, as well as help create employment opportunities for local workers.

19. In reply, SCIT remarked that such a proposal involved complex issues. Firstly, it required the provision of necessary infrastructure facilities which might take years to complete. Secondly, there would be concern from local labour groups on importation of Mainland workers to work in the zone. SCIT stressed that the Government was still studying the proposal and had not yet arrived at any decision. He assured members that the Administration would take into consideration views and concerns on the proposal, and consult relevant parties before deciding on the matter. SCIT further took note of Mr SIN Chung-kai's view that the Government should provide the necessary infrastructure facilities to facilitate the development of the industrial zone and agreed to convey the view for consideration of the Housing, Planning and Lands Bureau.

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Technology support to SMEs

20. Mr CHAN Kam-lam remarked that notwithstanding Government's continuous efforts, the level of technology application on operations of SMEs remained low. Mr CHAN opined that the Government should strengthen its work in this area to help SMEs enhance their competitiveness and reduce cost.

21. In response, SCIT said that the Government recognized the important role played by SMEs in the local economy and had already provided assistance including the four SMEs funding schemes. He re-iterated that a review on these funding schemes was underway to consider new support measures to help SMEs.

Consultation on the Closer Economic Partnership Arrangement (CEPA) with the Mainland

22. In reply to enquiries raised by Mr CHAN Kam-lam and Dr LUI Ming-wah on the progress of talks on CEPA, SCIT said that both sides were actively engaging in discussions and were making progress at various fronts. However, due to the enormous scope (covering trade in goods and services, as well as trade and investment facilitation) and the complexity of issues involved, it would not be meaningful to set an artificial timetable for completing the consultation. SCIT emphasized that both sides had recognized that CEPA should be mutually beneficial and consistent with the WTO's rules.

Development of creative industries

23. Benefited from the wide variety of culture and the abundant supply of talents, Mr MA Fung-kwok saw the great potential for creative industries to develop in Hong Kong and urged the Government to work out plans to promote these industries.

24. Concurring with Mr MA's views, SCIT said that creative industries included a wide variety of industries, such as fashion design, IT services and high-value-added products. However, Hong Kong faced a number of competitors including South Korea and Japan which had established large design centres to help these industries to develop. Nevertheless, SCIT noted Mr MA's view that the Government should formulate appropriate measures to promote Hong Kong's creative industries and brief the Panel on the details in due course.

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Development of design and fashion industries

25. Mr CHAN Kam-lam anticipated that the development of design and fashion industries would require factory buildings owners to pay additional land premium to change the usage of their buildings, thus might add extra cost on their operation. Mr CHAN urged the Administration to take up the matter with relevant authorities. SCIT noted Mr CHAN's views and undertook to refer the matter for consideration of the Housing, Planning and Lands Bureau.

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Measures to boost Hong Kong economy

26. Dr LUI Ming-wah considered that reviving the manufacturing industry, further promoting tourism and foreign investment in Hong Kong would help create employment and stimulate economic growth. He called on the Government to formulate an industrial policy to facilitate the development of the manufacturing industry.

27. In reply, SCIT re-iterated that Hong Kong had transformed from a centre of manufacturing industries into the present position as an international financial and service centre. The Government's target was to create a

favourable environment facilitating innovation and technological development for Hong Kong industries and focusing on production of high-value-added products.

28. In response to Dr LUI Ming-wah's concern that the fast opening up Mainland market would divert foreign investment from Hong Kong to the Mainland, SCIT remarked that while Hong Kong continued to serve as an important conduit for foreign companies making investment in the Mainland, Hong Kong would also benefit from playing an intermediary role to facilitate Mainland business/investment to access the global market.

Impact on removal of quota for textiles and clothing products

29. Mr HUI Cheung-ching expressed concern that the removal of WTO quotas for textiles and clothing products in 2005 might undermine the competitiveness of the textiles and clothing industry and deteriorate the unemployment problem. He enquired about measures to be taken by the Government to address this problem. SCIT said that the Government was still studying the issue and had yet to fully assess the impact of quota removal on Hong Kong. SCIT took note of Mr HUI's view urging the Government to take measures to tackle the problem in consultation with the industry as soon as possible. He undertook to report to the Panel when more details were available.

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30. The Chairman welcomed the change in the Government's role from a positive non-interventionist in the past to become a proactive market enabler to help the economic development of Hong Kong. He also appreciated the Government's efforts in promoting investment in Hong Kong and fostering the development of "Hong Kong Style" products to gain access to the international market.

II Briefing on possible implementation of Container Security Initiative in Hong Kong

(LC Paper No. CB(1) 2613/01-02(01))

Details of Container Security Initiative

31. SCIT briefed members on the present position regarding the Hong Kong/United States (US) cooperation on the implementation of Container Security Initiative (CSI) in Hong Kong. He advised that in the wake of the September 11 incident, the US Government had been seeking international cooperation on the proposed CSI with an aim to address the potential risk of terrorists making use of ocean-going containers to make attacks on the US. After discussions with the US authorities and visits to CSI pilot ports in mid 2002, the Hong Kong and US Customs signed a Declaration of Principles (DoP) on bilateral customs cooperation on CSI on 23 September 2002 under which both sides agreed to exchange information and work closely together to facilitate the

identification and screening of high-risk containers. SCIT stressed that Hong Kong's participation in CSI would help ensure the smooth flow of US-bound containers, as containers pre-screened in Hong Kong would normally not be inspected again when they arrived at the US ports. The proposal would also help enhance the security of global maritime trading, which was vital to Hong Kong as an important trading economy and the world's busiest container port.

32. The Commissioner of Customs and Excise (CCE) supplemented that among the 20 mega posts with which the US Customs had been actively seeking cooperation on CSI, 11 of them (including Hong Kong) had already signed the DoP. He said that the Government had consulted the industry on CSI and obtained its support. The Administration would soon start discussion with the US Customs on the implementation details of a CSI pilot scheme in Hong Kong. Noting the industry's concerns on possible impact on trade and port efficiency, the Administration would continue to maintain close liaison with the relevant stakeholders and consult them on the details.

CITB 33. Mr SIN Chung-kai expressed support for Hong Kong to participate in CSI as it would help enhance its overall competitiveness in the global cargo business. He also requested the Administration to brief the Panel on the implementation details after they had been worked out with the US authorities.

Identification of high-risk containers

34. Pointing out that one of the purposes of CSI was to identify high-risk containers for detailed examination, Mr CHAN Kam-lam asked whether a specific list of high-risk items to be subject to CSI control would be worked out. In response, CCE explained that CSI aimed to combat smuggling of weapons of mass destruction, such as nuclear and biochemical weapons. He added that the Administration had already put in place an effective regulatory regime for strategic goods under which the import and export of such items were subject to stringent licensing control. As regards the development of security criteria for identifying high-risk containers, CCE advised that these would be worked out with the US Customs in due course to facilitate the implementation of CSI.

35. Noting that some containers would have been loaded in the Mainland before they were transported to Hong Kong for shipment to the US, Mr CHAN Kam-lam asked whether the Administration would consider working out arrangements with the Mainland authorities to pre-screen containers so that they would be exempted from further screening when they arrived at Hong Kong port.

36. In reply, CCE explained that Hong Kong and the Mainland were separate customs territories under the WTO and both places had different customs authorities and inspection procedures. As such, it might not be feasible to pursue Mr CHAN's suggestion. Nonetheless, in order to facilitate the development of logistics industry, the Administration, in collaboration with the Mainland authorities were exploring the feasibility of developing an express line

to provide one-stop customs service at Hong Kong port with a view to expediting and simplifying the customs clearance process for Mainland containers shipped through Hong Kong.

Resources implications of CSI and the impact on port efficiency

37. Mr CHEUNG Man-kwong remarked that while the Democratic Party was supportive of CSI, there was concern that implementation of the proposal would have resources implications on the Government. Moreover, as the Government was suffering from huge budget deficits in recent years and all departments had been demanded to reduce their operating expenditure in the next few years, he was concerned that the proposal would add further strains on the resources of the Customs and Excise Department (C&ED). In this connection, Mr CHAN Kam-lam also enquired about the estimated cost on the Government arising from the implementation of CSI.

38. In response, CCE advised that the C&ED needed to install high technology equipment to help identify high-risk containers. He said that funding approval from the Finance Committee had been given for purchase of two additional new mobile X-ray scanning machines which could be used to implement CSI. Besides, the C&ED's computer system would need to be upgraded to facilitate the handling of cargo manifests through electronic means. In addition, extra manpower might be required to conduct risk assessment for and inspections on risky containers. However, CCE stressed that it would be difficult to estimate the additional cost arising from CSI at this stage before the implementation details were worked out.

39. Mr HUI Cheung-ching remarked that the implementation of CSI might adversely affect the operation of the cargo industry and compromise port efficiency. He also expressed concern that increasing political tension between the US and the Middle East might lead to further tightening in security measures for cargo industry.

40. The Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (PS/CI) stressed Hong Kong's commitment in joining the global efforts to fight against terrorism. She re-iterated that the implementation of CSI would help enhance Hong Kong's position as a premier world port and render its cargo business and export to the US free from terrorist attacks. She assured members that the Administration would take into consideration factors including the impact of CSI on the operation of concerned trades and efficiency of Hong Kong port in working out the implementation details. As regards the concern about resources implications, PS/CI said that the Administration would deploy internal resources where appropriate to implement CSI and would keep in view the additional costs involved in considering whether new resources would need to be sought.

41. The Chairman concluded that the Panel supported the implementation of CSI in Hong Kong as it would help maintain its overall competitiveness in the international market. He stressed that the Government should pay attention to the industry concerns in working out the implementation details and ensure Hong Kong would receive comparable treatment as other CSI participating ports.

III Any other business

42. There being no other business, the meeting ended at 4:15 pm.

Council Business Division 1
Legislative Council Secretariat
13 November 2002