

For Discussion

On 8 July 2002

**Legislative Council Panel on Commerce and Industry**  
**Role and Mission of the Hong Kong Productivity Council**

**Purpose**

This paper informs Members of the progress of the review of the role and mission of the Hong Kong Productivity Council (HKPC), and addresses Members' concerns about the following -

- (a) how HKPC, as a subvented organisation, should meet its role in assisting local companies to move up market;
- (b) whether the increasing involvement of HKPC as a service provider in the private sector, in particular the information technology (IT) sector, has posed unfair competition to private companies and conflicted with its role; and
- (c) whether HKPC as an implementation agent of the Patent Application Grant (PAG) Scheme should refrain from developing and marketing patent products similar to those developed by PAG applicant companies in order to prevent possible conflict of interest.

**Background**

2. On 8 April 2002, the Administration informed the Panel of the findings and recommendations of a consultancy study to review the role, management and operation of HKPC, as well as the priority actions to be taken to follow up on the

recommendations. Since then, the Council of HKPC has formed an Implementation Steering Committee (ISC) to take forward the recommendations.

### **Progress of Review of the Role and Mission of HKPC**

3. The Consultants have recommended that HKPC's future service focus should be to provide integrated support to innovative and growth oriented Hong Kong firms across the value chain. The principal sectoral focus should be on manufacturing firms, particularly those in Hong Kong's foundation industries, and related service activities. The main geographical focus should be Hong Kong and the Pearl River Delta (PRD). Within this focus, HKPC should develop a capacity to package integrated support, but should only deliver services in those areas in which it has real depth of expertise. A sharper focus will mean that HKPC has to devote more resources in those areas with expertise to help the upgrading of local industries through value auditing, technology acquisition and innovation management etc. At the same time, HKPC will have to reduce resources or withdraw from other areas. The Administration has requested HKPC to define its future service areas and clientele along the role and delivery focuses suggested in the consultancy report.

4. Since the Panel meeting of 8 April, four meetings have been held by the ISC to follow up on the recommendations of the study. The ISC generally accepts the new role and focus of HKPC as recommended by the Consultants, and on that basis has initiated actions in the following aspects:

- (a) a framework for HKPC to reduce its role as a service provider in the IT sector is being worked out. Views from the industry will be sought to ensure that the framework can address the concern on unfair competition on the one hand, and the IT needs of SMEs on the other;
- (b) the scope of HKPC's service areas is being redefined to ensure that they are commensurate with the sharper focus recommended by the

Consultants and that they do not compete with private sector service providers; and

- (c) a PRD programme is being drawn up whereby HKPC will extend its services to the PRD. Views from the industry will be taken into account.

5. Subject to the consideration of the above initiatives by the HKPC Council, it is expected that they will be introduced progressively during the latter half of this year. Deliberations on the other recommendations will continue, and additional initiatives are expected to be introduced in due course.

### **Competition with the IT Industry**

6. HKPC's involvement in the IT sector as a service provider has been a cause of concern on unfair competition. While efforts have been made to ensure that HKPC adopts a pricing system which could avoid unfair competition, it remains a point of principle and policy whether HKPC should take the role of a service provider, given that it is a subvented organisation. In this regard, the Consultants have recommended that HKPC's support to the IT sector should be focused on improving the quality, capacity and productivity of IT service providers and integration of IT support across the value chain.

7. To take the matter forward, HKPC is conducting rigorous analysis of its consultancy and service activities in the IT area. Activities which may be construed as in competition with the private sector and where the role of HKPC is not clearly essential will be critically reviewed with a view to withdrawing from these activities. New arrangements are being worked out and in this relation, it has already been agreed in principle by the ISC that HKPC will no longer undertake equipment or system manufacturing for marketing purpose, but will only focus on technology transfer of its research and development outputs and technical know-how.

8. Nevertheless, the case of HKPC as a service provider to SMEs will be considered carefully given the limitations of small IT firms in supporting them, in terms of technical capability, services and overall reliability. In the process of defining HKPC's future activities in the IT area, we will take account of the views of the industry.

### **Patent Application Grant**

9. The HKPC is one of the implementation agents of the PAG scheme administered by the Innovation and Technology Commission (ITC). The role of an implementation agent is to scrutinize and examine the eligibility of the application, and do due diligence in vetting the application, such as patent searches to reasonably ascertain that the application will not infringe on existing patents.

10. To safeguard the interest of PAG applicants, the ITC has issued guidelines to HKPC setting out the role and procedures in handling and vetting the PAG applications. It is clearly stipulated in the guidelines that all completed application forms should be treated in confidence, and except for the purpose of making assessment, no information should be divulged to a third party without the prior consent of the applicant.

11. PAG applications are processed by a team of HKPC staff specifically set up to deal with patent issues. The team operates independently from other divisions of HKPC, and the latter do not have access to the information on PAG applications. Hence, the system is in place to prevent possible conflict of interest between the role of HKPC as an implementation agent of the PAG and its role of developing patent products of its own.

12. In order to preserve the confidentiality of the information provided by PAG applicants, it would not be appropriate for the product developing arm of HKPC to have access to such information and check whether the products being developed by

HKPC are similar to those developed by PAG applicants. On the other hand, as explained in paragraph 7 above, HKPC will in future refrain from undertaking equipment or system manufacturing for marketing purpose, but will only focus on technology transfer of its research and development outputs and technical know-how. This would address the question of possible conflict of interest between HKPC's role as an implementation agent of PAG, and its involvement in developing and marketing patent products in competition with patent applicants.

### **Advice Sought**

13. Members are invited to note this paper.

Commerce and Industry Bureau

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