

立法會
Legislative Council

LC Paper No. CB(1) 647/02-03
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Ref: CB1/PL/CI/1

Panel on Commerce and Industry

Minutes of meeting
held on Monday, 9 December 2002 at 4:30 pm
in Conference Room A 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, GBS, JP
Hon CHEUNG Man-kwong
Hon CHAN Kam-lam, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon SIN Chung-kai
Hon MA Fung-kwok, JP
- Non-Panel member attending** : Hon James TIEN Pei-chun, GBS, JP
- Member absent** : Hon Henry WU King-cheong, BBS, JP
- Public officers attending** : **Agenda item III**
- Mr M J T ROWSE
Director-General of Investment Promotion
- Mr Raymond YOUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)
- Mr Simon GALPIN
Associate Director-General of Investment Promotion

Agenda item IV

Mrs Sarah KWOK
Acting Commissioner for Innovation and Technology

Mrs Shirley LAU
Acting Assistant Commissioner for Innovation and
Technology (Projects)

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

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

Action

I Information papers issued since last meeting

- (LC Paper No. CB(1) 333/02-03 -- Information paper on proposed creation of a permanent Administration Officer Staff Grade C post in the Commerce, Industry and Technology Bureau
- LC Paper No. CB(1) 423/02-03 -- Information paper on Government programme and initiatives for improving business environment)

Members noted that the above two papers were issued on 20 November and 3 December 2002 respectively for members' general information.

II Items for discussion at the next meeting

- (LC Paper No. CB(1) 426/02-03(01) -- List of outstanding items for discussion
- LC Paper No. CB(1) 426/02-03(02) -- List of follow-up actions)

2. Members agreed to hold the next regular meeting on Monday, 13 January 2003, at 4:30 pm to discuss the draft Trade Marks Rules as proposed by the Administration.

3. The Chairman also reminded members that a special meeting would be held on Monday, 16 December 2002, at 4:30 pm to receive a briefing from the Small and Medium Enterprises (SME) Committee and the Administration on the recent review on the four SME funding schemes.

III Proposed International Exhibition Centre at Chek Lap Kok

- (LC Paper No. CB(1) 426/02-03(03) -- Information paper provided by the Administration
- LC Paper No. CB(1) 461/02-03(01) -- Extract of the relevant minutes of meetings of the Panel held on 12 November 2001, 14 January and 8 April 2002, and of the Finance Committee held on 21 December 2001
- LC Paper No. CB(1) 943/01-02 -- Letter dated 11 January 2002 from the Hong Kong Exhibition and Convention Organizers' and Suppliers' Association on proposals for improvement and modifications to the initial design of the new exhibition centre
- LC Paper No. CB(1) 1068/01-02 -- Administration's response on movement of tender prices for construction projects of similar scale with the new exhibition centre for the past few years
- LC Paper No. CB(1) 1405/01-02 -- Administration's response on the financial position of the Hong Kong Airport Authority
- LC Paper No. CB(1) 1983/01-02 -- Administration's response on the lease rates charged by similar exhibition facilities in other places)

4. The Director-General of Investment Promotion (DGIP) briefed members on the outcome of the invitation of expression of interest (EOI) exercise and the way forward for the proposed new international exhibition centre (IEC) at Chek Lap Kok.

5. The Chairman declared interest as a member of the Trade Development Council (TDC). Mrs Selina CHOW declared interest as a member of the TDC and a board member of the Airport Authority (AA).

Funding for the project

6. Mr CHEUNG Man-kwong expressed concern on the proposed equity contribution to be made by the Government towards the construction of the IEC. Noting that the IEC would have a minimum net usable area of 60,000 m² in the first phase with an estimated construction cost of \$2.41 billion, he considered the proposed contribution of \$2 billion for the project, which would account for 85%

of the cost, on the high side and would pose a financial burden on the Government, particularly in view of the growing fiscal deficit problem.

7. In reply, DGIP explained that the original estimated construction cost of \$4 billion for the IEC had been made on a conservative basis and on the assumption that developing the centre in phases might be less efficient. He clarified that the current estimated cost of \$2.41 billion was merely for the first phase of the centre. With the participation of the private sector consortium, DGIP anticipated that a high quality exhibition centre could be built in a cost-effective manner, thus lowering the total construction cost for the project. He stressed that the Government's contribution would be capped at 85% of the construction cost of the first phase of the IEC. In the event that the Government's contribution of \$2 billion were not utilized, the balance would be used for the subsequent phases of the project.

8. Mr CHEUNG Man-kwong queried why the Government had dropped its original proposal of requiring a 50% contribution from the private sector consortium. DGIP explained that in order to create a level playing field between the Hong Kong Convention and Exhibition Centre (CEC), which was 100% government funded, and the IEC, the Administration considered it necessary to subsidize the construction of the IEC. Moreover, given that the project was not financially viable, a dollar-for-dollar matching investment approach would be a disincentive to private sector participation. The operator might also set high lease rates for facilities to recover the huge capital injected in the project. In view of the industry's concern on the high lease rates, the Administration would treat the IEC as an economic infrastructure and was prepared to contribute up to \$2 billion for the project without seeking a matching investment from the private sector consortium.

9. Mr CHEUNG Man-kwong opined that the Administration should leave the private sector consortia to decide on the amount of investment they were willing to make on the project. DGIP replied that the proposed 15% contribution from the private sector consortium was in line with market expectation. Nevertheless, the Administration would give preference to bidders with a larger percentage contribution. He supplemented that the present proposal was based on the feedback collected at EOI exercise and previous discussion with potential overseas and local exhibition centre operators and exhibition companies.

10. Dr LUI Ming-wah supported that the IEC should start with a net usable area of 60,000 m² in the first phase and end up with an ultimate size of 100,000 m². In response to Dr LUI's enquiry, DGIP confirmed that the IEC would be built at ground level and that the standard net to gross floor area ratio for the project would be 1:2. Concerning the construction cost of the IEC, DGIP explained that the estimated construction cost of \$18,000 - \$20,000 per m² gross was based on the estimation made by most private sector consortia responding to

the EOI exercise. The cost, which was in line with that estimated by the Architectural Services Department, was considered reasonable.

11. Regarding Dr LUI's suggestion that the Government should fund the entire project, DGIP remarked that such an option, though feasible, would be a disincentive for the private sector consortium to explore ways to drive down the project cost. He remarked that the 15% equity contribution to be borne by the private sector consortium was a suitable share. Referring to the experience in some overseas countries, DGIP pointed out that exhibition facilities had been largely funded by respective governments. Although the IEC would generate substantial economic benefits for the economy, the overall internal rate of return of the project was unattractive to private investors and therefore necessitated Government's support. The Administration did not propose to fund the entire project since participation of private sector consortium could strike a good balance between the public and private sector interests. As the Government would meet the lion's share of the capital cost for the project, he envisaged that the lease rates for the facilities could be held down.

12. As for Dr LUI's request to disclose the names and particulars of the four private sector consortia short-listed for the tender of the project, DGIP said that as the information was commercially sensitive, the Administration considered it inappropriate to provide the details. He however assured members that these consortia had gained high recognition in the international exhibition industry and some of them had also established strong business links with Hong Kong. Hence, there was no doubt on their capability in taking forward the project.

Competition faced by the IEC

13. Although the CEC and the IEC would complement each other, Mr HUI Cheung-ching expressed concern on possible competition between the two centres. DGIP pointed out that while it was envisaged that the IEC would mainly accommodate trade shows, such as those for heavy machinery and building materials, the CEC would focus on high-technology-based and high-value-added exhibitions and products. Being located at the ground level, the IEC would have operational advantages over the CEC especially when loading and unloading of exhibits were indispensable. The IEC would also be free from traffic congestion problem in Wan Chai. Notwithstanding a certain degree of overlap in terms of shows and products, the Administration considered that both centres would be complementing each other. With the co-existence of the CEC and the IEC, Hong Kong would be able to showcase a broad range of products and services to buyers from all over the world, in particular in the Asia-Pacific region, and hence enhance its competitiveness in the international exhibition industry. In view of growing competition from similar exhibition facilities in the neighbouring places, DGIP stressed that there was a need to carve out a niche for Hong Kong's exhibition business in the international market.

14. Mr. HUI Cheung-ching anticipated that completion of the Hong Kong-Macau-Zhuhai bridge would accelerate the flow of goods and people between Mainland and Hong Kong via Chek Lap Kok. In this regard, he enquired whether the IEC would specialize in shows for Mainland products. DGIP advised that the Administration had no intention to restrict the types of shows and exhibitions that would be staged at the IEC. As a general practice, shows which targeted for Mainland customers were normally held in Mainland cities whereas those organized in Hong Kong were intended to catch international exhibitors and buyers. He assured members that the four private sector consortia short-listed for the tender stage of the project would have the capability of bringing into Hong Kong popular shows which were currently held in other places. Moreover, they were able to create new shows to capture the attention of international exhibitors and buyers.

15. Mr HUI Cheung-ching enquired whether the Administration had any plan to build up an image for the IEC, for instance, an identity with particular type of products or services. DGIP remarked that given its international credibility, the selected private sector consortium when marketing shows and exhibitions would spontaneously set the tone and build up the appropriate image for the IEC.

16. In response to the Chairman's enquiry, DGIP said that the IEC would have a number of advantages over other similar exhibition facilities in the region. As it was adjacent to the airport, the IEC would provide a convenient venue to showcase Hong Kong's products and services to business travellers visiting Hong Kong. Besides, due to the strategic geographical location of Hong Kong at the centre of the Asian-Pacific region, the IEC would become a new focal point for international exhibition business and be able to serve a large catchment area in the region, in particular, the Mainland. In addressing Mrs Selina CHOW's concern, DGIP said that all the four private sector consortia short-listed for the tender stage had experience and good knowledge in developing the Mainland market.

Government's control over the operation of IEC

17. Mr SIN Chung-kai enquired whether there would be measure to tackle management problem of the IEC. DGIP replied that being the owner of the new IEC, the tripartite joint venture comprising the Government, the AA and the private sector consortium would have a separate contract with the management company and replace the company if its performance was found unsatisfactory. Given that both the Government and AA would hold the majority of shares, DGIP assured members that they would have substantial control over the joint venture. Nevertheless, there was no provision for the Government to buy back the equity shares from the private sector consortium. At members' request, the Administration undertook to provide, in its submission for funding approval to the Finance Committee (FC) on 20 December 2002, more details on

Government's control over the future operation of the IEC, in particular, the mechanism for removing the management company with unsatisfactory performance.

Conflict of interests

18. Dr LUI Ming-wah raised concern on the possible conflict of interest between the construction and management of IEC and suggested that separate tender on the two aspects of the project be arranged. He was concerned that the private sector consortium might opt for a cheap construction method in order to save cost. This might increase the maintenance cost of the IEC in the long run and hence its future lease rates. DGIP said that as the project would be tendered on a competitive basis, there should be sufficient safeguard against any conflict of interest. By further splitting the tendering exercise into different components would render the whole process more time-consuming and less effective.

19. Mrs Selina CHOW opined that it was unnecessary to separate the construction and management of the IEC since a single developer would develop the project more efficiently and effectively. Notwithstanding that some members considered that the construction cost of the IEC was on the high side, Mrs CHOW supported the present proposal having regard to the benefits it would bring for Hong Kong in terms of promoting tourism, stimulating economic growth and creating new jobs. She added that as the project was not financially viable, in the absence of Government capital injection, private sector consortia would not be interested to invest in the project.

Other concerns

20. Mr NG Leung-sing enquired whether potential bidders of the project would be informed in advance of the evaluative criteria set out in paragraph 9 of the paper. DGIP replied in the affirmative but stressed that bidders would not be informed of the relative weightings of criteria.

21. The Chairman said that the Panel was supportive of the proposal in general. Members also noted that the Administration would seek FC's approval for the Government's equity investment in the project at the latter's meeting to be held on 20 December 2002. Subject to the funding approval, the Administration would proceed to the tender stage of the project in the first quarter of 2003.

IV Review of Hong Kong Productivity Council

(LC Paper No. CB(1) 426/02- -- Information paper provided by
03(04) the Administration

- LC Paper No. CB(1) 461/02-03(02) -- Extract of the relevant minutes of meetings of the Panel held on 8 April and 8 July 2002
- LC Paper No. CB(1) 2532/01-02 -- Administration's response on follow-up actions taken in respect of two complaints lodged against the Hong Kong Productivity Council in May 2002)

22. The Acting Commissioner for Innovation and Technology (ACIT) briefed members on the further progress in following up the consultancy study to review the role, management and operation of the Hong Kong Productivity Council (HKPC).

Competition with information technology industry

23. Mr SIN Chung-kai expressed concern about HKPC's competition with the information technology (IT) industry. He urged HKPC to undertake regular review on its role in consultation with the IT industry in order to avoid any unfair competition. In order to facilitate communication with the IT industry, Mr SIN further suggested that consideration should be given to co-opt members of major industry associations, in particular, those representing the software industry, into the IT industry work group set up under the Business Development Committee (BDC) of HKPC.

24. In reply, ACIT said that the Administration and HKPC were aware of the concerns expressed by Mr SIN. She advised that with a view to addressing the concern about unfair competition, HKPC would stop undertaking customized activities for individual companies/organizations and stop bidding for government projects unless acting in a project management capacity and teaming up with other private service providers. Moreover, HKPC would cease the production of equipment or system for marketing purpose but only focus on technology transfer of its research and development outputs to private service providers. In addition, implementation of the new funding regime, which emphasized on programme-based funding, could enhance financial accountability, strategic and programme control on HKPC to ensure that its resources would not be used for activities in competition with the IT industry. On the other hand, to enable HKPC to better solicit views of the IT industry, ACIT further said that HKPC would take note of Mr SIN's suggestions in co-opting members for its IT industry work group set up under BDC.

25. In response to the Chairman's enquiry on whether the six industry work groups would cover the toys and plastics industries, ACIT clarified that the work group on foundation industries would cover industries including toys and plastics,

electronics, textiles and clothing etc. The Chairman opined that the work groups should cover as many industries as possible to enhance their representativeness. ACIT noted the view.

HKPC's geographical focus and support to service industry

26. Mrs Sophie LEUNG cast doubt on whether HKPC's effort in supporting the local manufacturing industry had actually benefited industries, such as textiles and garment. While acknowledging that the main sectoral focus of HKPC should be on manufacturing and related service activities, Mrs LEUNG expressed reservation over the appropriateness for HKPC and its capability to extend services to Hong Kong enterprises operating in the Pearl River Delta (PRD) region. She opined that such a proposal might have resources implications and stressed that HKPC should continue providing assistance to enterprises stationed and based in Hong Kong. She further pointed out that it was of paramount importance for HKPC to map out its future role and overall strategy. The Chairman shared Mrs LEUNG's view and urged that HKPC should meet the needs of both local enterprises and those operating in the PRD region.

27. Given its ample experience accumulated in the past, ACIT anticipated that HKPC would not have difficulty in providing services to Hong Kong enterprises operating in the PRD region. Besides, extending HKPC's geographical focus to the PRD region was considered an appropriate step to meet the need of Hong Kong's changing industrial environment where increasing number of local manufacturing enterprises had moved their manufacturing bases to the Mainland for the benefit of lower operating costs.

28. Responding to Mrs Sophie LEUNG's concern about how HKPC would assess the effectiveness of its services, such as services relating to chain management solutions, ISO compliance, etc., ACIT reiterated that HKPC had established communication network with the industries to collect feedbacks from and exchange views with service users. The HKPC would step up consultation with the industries through the six industry work groups, which included textiles and garment, set up under the BDC. Furthermore, the new funding regime would help ensure better financial management and greater financial accountability on the part of HKPC. In this connection, Mrs Sophie LEUNG remarked that HKPC should appoint representative members from the industry to sit on its consultative/industry work groups.

29. Mrs Selina CHOW expressed concern about HKPC's inadequate support to Hong Kong's service industry. She pointed out that with the continued dispersion of local manufacturing enterprises to operate in the Mainland, HKPC should consider expanding its service focus to include service industry rather than merely extending its geographical focus to the PRD region.

30. Noting Mrs CHOW's concern, ACIT explained that HKPC's core competence was in manufacturing technologies, and hence in recommending a focus for HKPC under the value chain concept, the consultants had recommended that the principal sectoral focus of HKPC should be on manufacturing, particularly Hong Kong's foundation industries, and related service activities. Under the new sectoral focus, HKPC would continue to provide support to service industries that were related to manufacturing, such as logistics and distribution, marketing and product promotion, etc..

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31. The Chairman pointed out that services offered by HKPC to Hong Kong enterprises operating in the PRD region, such as training courses for management personnel, were popular and useful to Hong Kong enterprises. He therefore opined that HKPC should continue to provide such services to assist local enterprises operating in the region in enhancing their competitiveness. To enable members to know more about HKPC's work in this area, the Chairman suggested the Administration to provide the Panel with more information, such as the types of training courses offered and the responses from enterprises etc., after the meeting.

32. On the need for HKPC to provide support services to Hong Kong's service industry, the Chairman shared Mrs Selina CHOW's view that suitable assistance should be provided to help the industry.

33. Noting that HKPC would establish offices in Guangzhou, Dongguan, Shenzhen and Zhuhai to provide integrated support and services to Hong Kong enterprises operating in PRD region, Mr HUI Cheung-ching enquired how HKPC would finance the operation of these offices. ACIT advised that these offices would be run as "wholly foreign owned enterprises", and would be held by a subsidiary company to be set up in Hong Kong under HKPC. While HKPC would provide start-up fund for these offices from its savings, they were expected to operate in a full cost recovery basis in the long run. They would charge the users for services provided in order to cover the operational costs, including the direct cost in provision of services and the administration overhead cost.

34. The Chairman enquired on the definition of the Hong Kong enterprises operating in the PRD region to be eligible for HKPC's services. ACIT said that these would possibly include branches or subsidiary companies set up by Hong Kong enterprises, but HKPC would need to further reflect as it was still working on its PRD programme.

35. Dr LUI Ming-wah acknowledged HKPC's contribution in supporting Hong Kong manufacturing industry but stressed that HKPC should reposition its role, focus and operation in meeting changing market needs. However, given the expertise of HKPC was on manufacturing industries, Dr LUI had reservation on HKPC providing support to the service industry, especially the small and

medium enterprises (SMEs). Furthermore, he opined that if HKPC's services in the PRD region were to remain competitive, it might not be possible to recover the full cost from users. Hence, there would be concern about financial support for HKPC's activities in the PRD region in the long run.

36. On the concern about cost in provision of service, ACIT opined that as the HKPC offices in PRD would mainly be supported by local staff, the cost involved would be relatively lower. As regards HKPC's support to SMEs in the services industries, ACIT opined that besides HKPC, other types of support and assistance, such as the Small and Medium Enterprises Funding Schemes, were also available to help SMEs.

V Any other business

37. There being no other business, the meeting ended at 6:30 pm.