

Legislative Council Panel on Commerce and Industry

**Tender exercise for the provision of front-end
Government Electronic Trading Services (GETS)
for processing certain official trade-related documents**

Purpose

This paper briefs Members on the outcome of the GETS tender exercise and related issues.

Background

2. In December 1992, the Government granted an exclusive franchise to Tradelink Electronic Commerce Ltd (Tradelink) for the provision of front-end Electronic Data Interchange (EDI) services¹ to the trading community for six trade-related documents. The franchise is for seven years, beginning from the start of Tradelink's commercial operation in 1997 and expiring on 31 December 2003. Tradelink has introduced or will shortly introduce EDI services for all six documents, namely, restrained textiles export licence (RTEL), certificate of origin (CO), production notification (PN), import and export declaration (TDEC), dutiable commodities permit (DCP) and cargo manifest (excluding road mode) (EMAN). In addition, Tradelink will introduce an electronic service for the Textiles Trader Registration Scheme (TTRS) in May 2003, and has developed other non-Government related electronic commerce services for the trading community².

3. In 2001, after consulting this Panel and the trade, we decided to appoint Tradelink as a service provider after expiry of the franchise in 2003, but in addition to appoint up to two new service providers to bring

¹ The services include receiving data electronically, confirmation of identity of the trader, validation of data and where necessary, consolidation of data from several sources, charging the account of the trader for relevant fees and levies, and transmission of the data to back-end computer systems of relevant Government departments.

² TTRS and non-Government related services are not covered by the 1992 franchise agreement.

in competition for the provision of TDEC, DCP and EMAN services (hereinafter referred to as non-time limited services³). For this purpose, we invited expressions of interest from the industry in August 2001, and received 22 positive responses.

Outcome of the GETS tender exercise

4. We launched a tender exercise in April 2002 for the provision of front-end EDI services for TDEC, DCP and EMAN. Under the terms of the tender, a bid must include TDEC service and might optionally include DCP service or EMAN service or both⁴. DCP and EMAN services were made optional for new service providers because Tradelink offered substantial price discounts to customers which signed long-term contracts to use its DCP or EMAN service (both of which were not yet launched at that time) in the face of industry opposition to its prices, and a considerable number of users had signed up or were considering to sign up. It was therefore appropriate to give tenderers the flexibility to decide whether they would provide these two services based on their own assessment of the commercial viability of each individual service.

5. A total of three bids were received, of which two were assessed to be in full compliance with the tender requirements. We started negotiations with the two qualifying bidders - OnePort GETS Ltd (OnePort) and GACOLink Ltd (GACOLink) - in October 2002.

6. Subsequently, OnePort withdrew its bid on the ground that its parent company had entered into a business alliance with Tradelink to provide e-commerce solutions for the trade and transport sectors and, as a result, OnePort might not be able to comply with the cross-ownership restriction stipulated by the Government in the tender document⁵.

³ "Time-limited services" refer to RTEL, CO and PN. We are now reviewing whether these services will still be required from 2005 when textiles quotas will be abolished. "Non-time limited services" are those relating to TDEC, DCP and EMAN.

⁴ Under the terms of the tender, a bid that includes DCP service or EMAN service or both may be awarded a higher score in the overall assessment of the bid.

⁵ One of the terms on cross-ownership provides that the service provider should not hold 15% or more of the shares of another service provider.

7. In view of the synergies between the services offered by Tradelink and by OnePort, all the private shareholders of Tradelink (accounting for 57.5% of the shareholding) support the above business alliance. Although a (42.5%) shareholder of Tradelink, the Government has all along adopted a passive stance towards Tradelink's commercial strategies in order to avoid any potential or perceived conflict with its role as the market regulator. Thus the Government neither supports nor opposes Tradelink's alliance with OnePort.

8. We signed a contract with GACOLink (which has now been renamed as Global e-Trading Services Ltd [Ge-TS]) on 24 March 2003. The key features of the contract are -

- (a) the contract period is for five years beginning from 2004, extendable by the Government for two years;
- (b) the Government will pay the contractor \$1 and the contractor will deliver and operate two services – TDEC and DCP⁶ – throughout the contract period in accordance with the technical specifications in the tender document; and
- (c) the contractor cannot charge user fees higher than those set out in the contract throughout the contract period, in relation to providing services at service levels specified in the tender document. These price ceilings are significantly lower than the prevailing fees charged by Tradelink for comparable services.

Review in 2004

9. As only one new service provider has been appointed through the just completed tender exercise, we have considered and concluded against launching a new round of tendering for the time being. In arriving at this decision, we have taken into account that only three bids were received in the open tender exercise even though more than 20 companies had indicated interest to tender. This suggests to us that the

⁶ GACOLink did not tender for the provision of EMAN.

private sector may not consider the GETS market to be particularly attractive in the current circumstances. We have noted that the presence of two operators in the market place starting from 2004 would offer competition and enable traders to choose between the services offered by the service providers.

10. We will review the position in 2004, when we need to decide whether the existing time-limited services need to be retained (as they are or in some modified form) or not after the lifting of quotas in trade in textiles from January 2005 onwards. Meanwhile, we will monitor closely the operation of Tradelink and Ge-TS to ensure that there is no unfair competition. We do not rule out the option of mounting a tender exercise as and when circumstances so warrant.

Negotiations with Tradelink on post-2003 arrangements

11. In parallel with the GETS tender exercise, we have been negotiating with Tradelink on its provision of GETS after 2003. The main items of negotiations include technical specifications, user charges and pro-competition safeguard measures. We aim to conclude the negotiations by mid-2003.

Government's role as both market regulator and shareholder of one of the operators

12. The Government at present holds 42.5% of the shares of Tradelink. In line with the policy to introduce competition into the GETS market, it has been the Government's intention to sell down its shareholding through a public listing offer (or initial public offering, IPO) of Tradelink. The private shareholders of Tradelink have also agreed in principle to the proposed IPO. Preparation for the IPO, which has been proceeding for some months, has recently been put on hold by Tradelink pending its consideration of participating in the development of the Digital Trade and Transportation Network (DTTN) system (which is being deliberated at the Logistics Development Council).

13. Irrespective of Tradelink's role (if any) in the development of the DTTN system and of the Government's shareholding (if maintained)

in Tradelink, we (the Commerce, Industry and Technology Bureau) will continue to perform our role as the regulator of GETS service providers in a fair and transparent manner.

Commerce, Industry and Technology Bureau
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