

**Extract of the minutes of meeting of the
LegCo Panel on Commerce and Industry held on 8 April 2002**

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IV Review of Hong Kong Productivity Council
(LC Paper No. CB(1) 1403/01-02)

5. The Commissioner for Innovation and Technology (CIT) briefed members on the findings and recommendations of the consultancy study to review the Hong Kong Productivity Council (HKPC). Details were set out in the information paper provided by the Administration (LC Paper No. CB(1) 1403/01-02). Members noted that the consultancy study was commissioned in June 2001 to assess the role, management and operation of HKPC to ensure that they remained relevant and competitive in the context of Hong Kong's economic development. HKPC accepted the report in May 2002 and agreed to make reference to the recommendations therein in re-positioning its role, focus and operation. The Administration would follow up on the recommendations of the report with HKPC.

Consultancy report

ITC 6. Mr SIN Chung-kai enquired whether HKPC/the Administration would release the entire consultancy report to the Panel and the public for information. Mrs Sophie LEUNG concurred that the report should be made public. CIT advised that in principle, he was willing to submit the report for members' reference. He also considered that releasing the report would help the Administration and HKPC in consulting the industry on its contents and ways to follow up on the recommendations concerned. He undertook to liaise with HKPC and submit the report to members after seeking its approval.

7. Mrs Sophie LEUNG enquired whether the Consultants had conducted any survey with the industry on the services currently provided by HKPC so as to gauge the actual situation. CIT replied that before the commencement of the consultancy study, HKPC had already set out its objectives and scope in detail. As far as he knew, the Consultants had organized a number of seminars and met with various industries for their views. Moreover, HKPC's staff had also been widely consulted.

Action

The business model and funding arrangements of HKPC

8. Mr CHAN Kam-lam acknowledged HKPC's contribution to Hong Kong's industries since its establishment in 1967. However, following the restructuring of Hong Kong's economy, production industries had lost its dominant position to the service and information technology (IT) industries. Mr CHAN opined that the scope of services provided by HKPC had changed as well. Apart from HKPC, there were other service providers in the market providing similar support services to small and medium enterprises (SMEs). As such, it was necessary for HKPC to review its role.

9. Mrs Sophie LEUNG also pointed out that the industries, particularly the IT industry, considered that HKPC, being a government-funded organization, in providing IT support services to SMEs would bring about unfair market competition and adversely affected the industries' interests.

10. In response, CIT advised that HKPC's existing IT services provided to SMEs mainly focused on system support and staff training. He stressed that since currently only a few IT support service providers were available to SMEs, HKPC still played an important role in this respect. On the level of service charges, he believed that it would be determined by market demand and supply.

11. On HKPC's support to the IT industry, CIT advised that the Consultants had recommended that HKPC should focus on improving the quality, capacity and productivity of IT service providers for further integration of IT support. He envisaged that HKPC would enhance communication and establish partnership with the IT industry to create a win-win situation in promoting the development of industrial production.

12. Mr CHAN Kam-lam expressed great disappointment that the Consultants had not examined the issue of corporatization of HKPC in detail. He commented that whether HKPC would be corporatized was directly related to its future role and work. He further enquired about the Administration's stance on this issue.

13. CIT emphasized that corporatization of HKPC was not the focus of the present review. The consultancy report had analyzed the pros and cons of corporatizing HKPC and concluded that through corporatization, HKPC could become more autonomous and more market driven. However, the Consultants pointed out that corporatization might affect HKPC's mission to serve the public, particularly in relation to addressing SME needs. The Consultants were also of the view that no matter whether HKPC would maintain its existing operation mode or be corporatized, the public service element of its mission should be retained, and that the Government should honour its long term commitment and support for

Action

HKPC. Although the Consultants' recommendation on corporatization had been carefully examined, the Administration considered that there was no urgency in resolving the issue at this stage. On the contrary, the focus should be placed on how to re-position HKPC's role and functions as well as improving its business model and funding arrangements, organization and management. Moreover, corporatization would inevitably involve the issue of funding source. CIT advised that as the smooth running of many projects related to HKPC's public service mission still relied on Government funding, it was difficult for HKPC to operate independently in the absence of Government funding at this stage. However, the Administration shared the Consultants' view that there should be greater financial accountability and programme control concerning HKPC's financial management and funding arrangements.

The way forward

14. Dr LUI Ming-wah acknowledged HKPC's contribution to the development of local industries between the 70s and 90s. He considered the Consultants' recommendation that HKPC's future service focus should be on providing integrated support to innovative and growth oriented Hong Kong firms across the value chain disputable. Given that integrated support might involve various non-production areas, such as financial management and marketing which HKPC did not have an edge at present, Dr LUI suggested that HKPC should re-position its role and focus on developing those areas in which it had expertise i.e. projects related to productivity enhancement, such as the introduction of new production technologies and the design of new products. On geographical focus of HKPC, Dr LUI suggested that HKPC should consider expanding its support services to the entire China, instead of restricting to local SMEs in the Pearl River Delta (PRD). In addition, he also shared Consultants' views that HKPC should focus on supporting the development of local industries including electronics, machinery, toys, plastics and textiles industries instead of the service industry. CIT remarked that Dr LUI's views would be taken into consideration. He further pointed out that the consultancy study also agreed that HKPC's core competencies were on enhancing the capabilities of the manufacturing industry in technological and product development.

15. On the Consultants' recommendation that the main geographical focus of HKPC should be the PRD, Mr CHAN Kam-lam pointed out that according to existing requirements, HKPC's spending on services provided outside Hong Kong should not exceed 10% of its overall expenditure. Unless the ratio was revised, the future expansion of HKPC's services to the PRD would be restricted. Moreover, Mr CHAN was concerned that HKPC, by allocating its resources to the PRD, might be misunderstood as utilizing local resources to subsidize industrial development outside Hong Kong.

Action

16. CIT agreed that HKPC should maintain a proper balance in utilizing its resources for providing support services to local industries and industries outside the territory. As regards the ceiling on HKPC's expenditure on provision of services outside Hong Kong, CIT advised that it was only an administrative indicator determined by the HKPC Council and did not carry legal effect. The HKPC Council might consider revising such indicator if necessary.

17. Mr HUI Cheung-ching asked whether the Consultants were aware of the high operating costs of HKPC during the review. In response, CIT said that due to historical reasons, the remuneration of HKPC's staff was linked to that of the civil service, resulting in HKPC's high operating costs. In view of this, the Consultants had recommended that the personnel principles for HKPC should include flexible employment terms; lean core of highly competent permanent staff supplemented by contract/temporary staff to ensure the optimal utilization of resources and reduce operating costs.

18. In view of the relocation of industries to the Mainland, Mr HUI Cheung-ching suggested that HKPC should consider subsidizing SMEs engaging in manufacturing industries in the Mainland to employ local experts to conduct scientific researches, so as to reduce the operating costs of enterprises. CIT said that he would take Mr HUI's views into consideration when following up on the Consultants' recommendations.

Conclusion

19. The Chairman welcomed HKPC's consultancy study to review its role, management and operation to ensure that they remain relevant in the context of Hong Kong's economic development. On the relocation of industries to the Mainland, he opined that local industries still regarded Hong Kong as their base notwithstanding the shift of their production or manufacturing processes to the PRD. Pointing out that the PRD was one of the most productive manufacturing base in the world, he suggested that HKPC should consider relaxing the ratio of expenditure incurred in providing services outside the territory to support Hong Kong enterprises operating in the region.

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Action

VI Role and mission of the Hong Kong Productivity Council
(LC Paper No. CB(1) 2146/01-02(06))

36. The Acting Commissioner for Innovation and Technology (CIT(Atg)) informed members of the progress of the follow-up actions concerning the consultancy report on the review of the role and mission of the Hong Kong Productivity Council (HKPC), and responded to members' concerns about HKPC's role conflict.

HKPC's role and modus operandi

37. Mrs Selina CHOW considered it contradictory for the Administration to expect HKPC to operate on a self-financing basis while avoiding business competition with the commercial sector. This would also bring confusion to HKPC's role. In this connection, she sought the Administration's views on how HKPC should discharge its functions and secure funding resources.

38. CIT(Atg) advised that HKPC provided a wide range of services, including consultancy, training and technology transfer, to assist in the development of the local business sector. The Administration hoped that HKPC could maintain these services because at present, those emerging markets where similar service providers were unavailable or whose low return rate had deterred service providers still had to rely on HKPC's services. If there was already adequate supply of service providers in the market, HKPC should consider cutting back such services. She stressed that economic development had changed the service requirements of local small and medium enterprises (SMEs). HKPC had to adapt to the changing circumstances by reviewing from time to time its scope of service.

39. On the concerns about HKPC's source of funding, CIT(Atg) advised that notwithstanding the revenue generated from its services provided to the industries, Government subsidy was still available to HKPC so that it could provide support service to local industries. Furthermore, HKPC also recovered the costs of its services, either in whole or in part, according to individual circumstances. Reasonable profit was even sought to finance some of its operation.

Action

40. Dr LUI wah-ming commended HKPC for its contribution to the development of local industries in the past. However, with the relocation of industries to the Mainland, HKPC's service target had changed as well. He commented that HKPC should review its role and the way forward. Moreover, the Administration should also set out clearly HKPC's subvention arrangements. CIT(Atg) said that the Administration would actively consider Dr LUI's views. Given the non-profit-making nature of its business, HKPC had formulated strict pricing policies to avoid competition with the market. In mature markets, HKPC had to achieve full cost recovery for the services provided to both SMEs and big firms, with the latter paying higher fees for HKPC to make a profit. In markets where services were inadequate, HKPC should at least recover its costs in part from SMEs and in full from big firms. The Consultant had already recommended that HKPC should consider the formation of spin out businesses to provide services to the commercial sector. Moreover, the Consultant also recommended that the Administration and HKPC should jointly review the subvention arrangements.

41. As the relocation of local industries to the North had created keen demand for HKPC's support services from Mainland enterprises, Mr HUI Cheung-ching enquired whether the Administration had considered opening up external market, particularly the Peal River Delta (PRD). CIT(Atg) responded that under the existing legislation, HKPC might provide services in places outside Hong Kong, including the Mainland, without prejudicing its services provided in Hong Kong. However, the implementation of such arrangements required HKPC's further consideration. In fact, HKPC had already set up a liaison office in PRD.

Complaints against HKPC

42. Mr MA Fung-kwok pointed out that the Complaints Division of the LegCo Secretariat had received complaints against HKPC from two SMEs. One of them complained that as the implementation agent of the Patent Application Grant (PAG) scheme, HKPC was suspected of developing and selling products similar to those being developed by a PAG applicant, which constituted a conflict of interest. The other complainant alleged that by forming partnership with a local company, HKPC had made use of the company's product concept and developed a similar product for sale in the market. Mr MA Fung-kwok considered that serious consequences might result if the above allegations were substantiated and HKPC's reputation would be directly affected. He was concerned about the follow-up actions taken by the Administration in respect of these complaints. Although HKPC had already put in place a mechanism under the PAG scheme to prevent the leakage of information provided by PAG applicants, he queried whether the mechanism could effectively avoid conflict of interest. Mr MA Fung-kwok further pointed out that in the past, HKPC had been criticized of seeking additional resources from the Administration to make up its own funding shortage on the pretext of forming

Action

partnerships with local companies. This would certainly aroused suspicion that HKPC had abused public money.

43. CIT(Atg) replied that the complaint cases mentioned by Mr MA mainly concerned the fulfilment and infringement of contracts HKPC signed with its partners and the PAG applicants. As legal liabilities and contract details might be involved, she advised that it was not appropriate to discuss the details and make any judgement at the meeting. Notwithstanding, she agreed that the Administration should review the scope of service provided by HKPC from the policy perspective. This would avoid HKPC from playing conflicting roles and competing with the business sector. Regarding the concerns about the implementation of PAG, given the considerable experience HKPC had accumulated as the implementation agent of the PAG scheme, a mechanism had already been in place to avoid possible role conflict, and ensure the confidentiality of the information obtained and the independence of the team set up to process patent applications when implementing the scheme. She said that HKPC would strengthen the mechanism where necessary. In order to avoid competition with the business sector, she pointed out that the Implementation Steering Committee (ISC) under HKPC had suggested that HKPC should focus on the research and development of products and reduce its involvement in manufacturing and marketing. For instance, technology transfer should be pursued so that the industry would be allowed to manufacture and market products developed by HKPC through licensing agreements.

44. Mr MA Fung-kwok enquired about the vetting criteria of various funding schemes to support business and industrial development. CIT(Atg) cited the Innovation and Technology Fund as an example and explained that in general, applications were vetted to see whether they were within the scope of the fund. The applicant's background was not a major consideration. HKPC could also submit joint applications with local companies. According to her observation, many HKPC research projects were conducted in collaboration with trade associations. While rendering professional service and advice, HKPC did not aim at obtaining funding support to finance its operation.

45. In view of the complaints lodged by affected companies and the media coverage on the issue, Mr MA Fung-kwok was concerned about whether the Administration had made an investigation. On the research projects jointly undertaken by HKPC and SMEs, Mr MA Fung-kwok was concerned that the contract terms of such projects usually focused on safeguarding HKPC's interest which would be unfair to SMEs.

46. In response, CIT(Atg) believed that as a usual practice, HKPC's Management would look into the complaint and take appropriate follow up actions. Furthermore, she pointed out that being a statutory organization, HKPC attached great importance

Action

to its ethical practice and conducted its business according to law.

47. The Executive Director of the Hong Kong Productivity Council (ED(HKPC)) added that HKPC had maintained close liaison with the business sector and played an active role in supporting the development of SMEs. HKPC was committed to promoting Government funding schemes among SMEs and would provide professional advice on their applications. He stressed that although SMEs might submit their applications to the relevant funding schemes in collaboration with HKPC, HKPC had not received any additional funding from the Government. Regarding the implementation of the funding schemes, he advised that strict vetting mechanism was in place and every project had to be scrutinized by the vetting committees under the relevant funding schemes. After an application had been approved, HKPC would report regularly the latest progress to its members. Notwithstanding, HKPC welcomed the views from different sectors so as to further refine the existing mechanism. On HKPC's role as the implementation agent of PAG, ED(HKPC) pointed out that funding applications were processed by a working group which operated independently. The working group was formed according to the strict principle of confidentiality. The principle and procedures concerned had been operated satisfactorily over the past years. However, HKPC would further review and strengthen the mechanism. Regarding those projects under application, HKPC would only make recommendations for projects which were deemed suitable for specific schemes. Whether the applications would be approved were subject to the decision of the vetting authorities concerned. For those applicants who fail to secure any funding support, HKPC was willing to explain the case to them and provide appropriate assistance.

48. Regarding the concern about HKPC's handling of external complaints, ED(HKPC) said that a mechanism was already in place. For more complicated complaint cases, especially when professional or legal issues were involved, HKPC would forward them to a special in-house ad hoc committee comprising senior management staff for follow-up. The committee might even seek professional advice on individual cases where necessary. He emphasized that HKPC dealt with each complaint seriously and maintained contact with the complainant with a view to improving the quality of its service.

49. Mr SIN Chung-kai opined that given the very serious nature of the allegations, it was necessary for the Administration to investigate into the matter and report its findings to the LegCo. In addition, he was concerned that HKPC's work would compete with the IT industry and urged the Administration to discuss with the industry for an expeditious solution. CIT(Atg) said that in April 2002, the ISC under the Council of HKPC reached in principle a consensus on HKPC's new role, working focus and mode of development, and was prepared to seek the views of the IT industry.

Action

50. For the sake of accountability, Mrs Selina CHOW urged the Administration/HKPC to complete the investigation of the complaints expeditiously and report the findings to the Panel. She suggested that a case conference should be convened when necessary. Mr MA Fung-kwok supported Mrs Selina CHOW's suggestion.

51. The Chairman concluded that the Panel requested the Administration to follow up with HKPC on the complaints expeditiously and report the outcome to members. CIT(Atg) said that she would discuss with HKPC further on following up the complaints and inform members of the outcome.

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