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Panel on Information Technology and Broadcasting

Minutes of special meeting
held on Monday, 13 January 2003, at 2:00 pm
in the Chamber of the Legislative Council Building

- Members present** : Hon SIN Chung-kai (Chairman)
Hon Howard YOUNG, JP (Deputy Chairman)
Dr Hon David CHU Yu-lin, JP
Hon CHAN Kwok-keung
Dr Hon LAW Chi-kwong, JP
Hon Timothy FOK Tsun-ting, SBS, JP
Hon MA Fung-kwok, JP
- Members absent** : Hon Eric LI Ka-cheung, JP
Dr Hon Philip WONG Yu-hong
Hon Emily LAU Wai-hing, JP
Hon Albert CHAN Wai-yip
Hon YEUNG Yiu-chung, BBS
- Non-Panel members attending** : Hon Martin LEE Chu-ming, SC, JP
Hon Henry WU King-cheong, BBS, JP
- Public officers attending** : Mr Henry TANG, GBS, JP
Secretary for Commerce, Information and
Technology
- Mr Francis HO, JP
Permanent Secretary for Commerce, Industry and
Technology (Information Technology and
Broadcasting)

Ms Eva CHENG, JP
Deputy Secretary for Commerce, Industry and
Technology
(Information Technology and Broadcasting) 1

Mr Alan SIU
Deputy Secretary for Commerce, Industry and
Technology
(Information Technology and Broadcasting) 2

Clerk in attendance : Miss Polly YEUNG
Chief Assistant Secretary (1)3

Staff in attendance : Ms Pauline NG
Assistant Secretary General 1

Ms Debbie YAU
Senior Assistant Secretary (1)1

Ms Sharon CHAN
Legislative Assistant 6

**I Briefing by Secretary for Commerce, Industry and Technology on
the Chief Executive's 2003 Policy Address**
(LC Paper No. CB(1)702/02-03(01))

The Chairman appreciated the effort of the Secretary for Commerce, Industry and Technology (SCIT) in providing members with a paper containing relevant information for the meeting. At the invitation of the Chairman, SCIT outlined the main tasks of the Commerce, Industry and Technology Bureau relating to information technology and broadcasting for 2003.

2. SCIT highlighted that according to a report of the Hong Kong Trade Development Council released in September 2002, creative industries had provided over 90 000 job opportunities in March 2002. They also contributed to about 2% (around HK\$25 billion) of Hong Kong's Gross Domestic Product (GDP). Notwithstanding that Hong Kong's creative industries accounted for a relatively smaller share of the overall economy as compared to the United Kingdom (7.9% of GDP), Australia (3.3 % of GDP) and New Zealand (3.1% of GDP), the Administration believed that creative industries had good potentials to thrive in Hong Kong and had set up two steering committees, one on the promotion of innovation and design and the other on digital

entertainment to oversee their development. Since the establishment of the two steering committees, product design (such as for toys, fashion, jewelries, watches and clocks), and the development of hi-tech products such as integrated circuits (IC) and Liquid Crystal Display (LCD) monitors had made good progress.

3. Noting that creative industries in Hong Kong were mainly undertaken by small and medium enterprises (SMEs), SCIT pointed out that the Government would need to strike the right balance in providing the necessary support but without intervening into the industries per se in order to preserve their creative potentials. On specific support measures, SCIT referred to the Digital Media Centre (DMC) to be set up in the Cyberport to provide the necessary hardware and software support for the development of the digital media industry, and the four SME funding schemes providing various forms of assistance to SMEs. He anticipated that the Closer Economic Partnership Arrangement with the Mainland, once secured, would facilitate SMEs to expand into the Mainland market.

4. On the film industry, SCIT remarked that Hong Kong was the world's second largest film exporter in 2001. In terms of per capita production, Hong Kong ranked first and produced 1.85 films per 100 000 people, as compared to 0.35 films per 100 000 people in France. Notwithstanding the challenges and difficulties faced by the film industry in the last few years, it should be noted that the recent film "Infernal Affairs" had recorded a very high box office receipt. In addition, about 30% of the location filming of "Tomb Raider 2" took place in Hong Kong earlier on. The attraction of Hong Kong would be showcased to the world when the film was released worldwide.

Creative industries

5. Mr MA Fung-kwok concurred that the Government should provide an environment conducive to the growth of creative industries but should not intervene into the development of the industries per se. Apart from the Closer Economic Partnership Arrangement, he enquired whether the Administration would take other measures to facilitate the access of Hong Kong films, musical programmes and publications into the Mainland market as they were subject to limited quota under the Mainland's import system. Mr MA further pointed out that the Mainland also stipulated a required proportion of Hong Kong and Mainland crew members to be employed for each Hong Kong film or television drama produced in the Mainland.

6. In response, SCIT appreciated the importance of the Mainland market to Hong Kong industries, including the creative industries. He informed members that following its accession to the World Trade Organization (WTO), the Mainland would increase the import of foreign films per year on a revenue-sharing basis from 10 to 20 films. The Administration would make the best

efforts to facilitate the industry to compete for the import quota. Besides, Hong Kong films could also be imported to the Mainland by one-off selling or by co-production on a revenue-sharing basis. He highlighted that arrangements to facilitate film importation to the Mainland were also included in the Closer Economic Partnership Arrangement. However, he did not have the relevant information relating to the labour requirements for Hong Kong films produced in the Mainland as referred to by Mr MA.

7. Mr MA Fung-kwok pointed out that it was quite common for Hollywood productions to take up all the quota in the import system each year, leaving very limited opportunities for Hong Kong productions. He said that notwithstanding the relevant requirements of WTO, Hong Kong shared the same cultural origin and language with the Mainland. He therefore urged the Administration to negotiate with the Mainland authority the feasibility of relaxing the restriction on importing Hong Kong films. As the slightest delay in the theatrical release of Hong Kong films in the Mainland would give rise to rampant piracy, he considered that the Administration should negotiate with the Mainland authority to set up a more effective mechanism in film importation and theatrical release.

8. On the piracy problem, SCIT said that a comprehensive set of legislation against piracy was in place in the Mainland but there might be discrepancies among provinces/cities in enforcing the legislation. Since the Hong Kong Government could not take enforcement actions against piracy cases in other jurisdictions, he urged the copyright owners of Hong Kong films to pursue with their Mainland counterparts in safeguarding the copyright of Hong Kong films to be released in the Mainland.

9. Mr MA Fung-kwok cautioned that certain proposed provisions under the Copyright (Amendment) Bill 2001 would in effect impede the development of creative industries such as films, music programmes and publications. In response, SCIT highlighted that the development of a knowledge-based economy was impossible without the necessary safeguards on intellectual property rights. He also stressed that the Administration would spare no effort in combating piracy in Hong Kong so as to enable the wholesome development of creative industries. The Administration planned to introduce further amendments to the Copyright Ordinance and in doing so, would strike a balance between the protection of intellectual property rights and community needs.

10. Mr Timothy FOK was pleased to note that the Government had decided to expedite economic integration with the Pearl River Delta. He opined that apart from promoting the development of different industries, the Administration should also promote the development of Hong Kong brands. Mr FOK also said that as there was inadequate supply of professionals in the film industry, the Administration should seriously consider allowing film

companies to recruit these professionals from overseas and providing training opportunities for local film workers.

11. To benefit from closer economic co-operation with the Mainland, SCIT remarked that Hong Kong should promote the development of sectors which had a competitive edge, such as the creative industries. For instance, giving the popularity of mobile phones and the forthcoming launch of Third Generation (3G) mobile services, Hong Kong companies could promote cross-border value-added services such as multi-media contents for mobile phones at reasonable prices. SCIT would look forward to working closely with the relevant steering committees, LegCo Members and industry players to capitalize on Hong Kong's strengths to boost the development of creative industries.

Information technology

12. Referring to the Panel's recent duty visit to the Republic of Korea, Mr CHAN Kowk-keung noted that the Korean government played a very active role in supporting the development of information technology (IT) in the country. He cited as examples the provision of rental-free offices to start-up games developers, the availability of expensive equipment and hardware for use by the IT and film industries. He enquired if the Government would consider taking a more active role in promoting the development of IT in Hong Kong.

13. In response, SCIT explained that with the forthcoming launch of 3G mobile services, there would be plentiful development opportunities in digital entertainment and multi-media contents. As it was anticipated that most of the content providers for computer games or background image displays for downloading to individual mobiles would be SMEs, the proposed DMC in the Cyberport would serve a useful function in providing the SMEs with the necessary hardware and software support, given that it might be too costly for SMEs to acquire such resources on their own.

14. Noting many Government IT projects had been outsourced, Mr CHAN Kowk-keung was concerned whether such outsourcing would result/had resulted in staff redundancies, particularly in the Information Technology Services Department (ITSD).

15. In response, SCIT pointed out that over the years, the Government's investment in IT projects had increased and this had brought about a corresponding increase in job opportunities. Notwithstanding that part of the increased work was taken up by Government departments, the Administration would continue to pursue an effective policy of outsourcing IT projects as this would help promote the development of the industry. In this connection, the Deputy Secretary for Commerce, Industry and Technology (Information

Technology and Broadcasting) 2 (DSCIT(ITB)2) added that the block vote allocation under the Capital Works Reserve Fund for computerization projects costing between \$150,001 and \$10 million had increased from some \$200 to \$300 million in the last few years to \$690 million as proposed for 2003-04. As such, the increase in IT projects would also require supervision by staff of ITSD. Moreover, ITSD staff were also required to take forward new initiatives such as the building of a digitally inclusive society. He further clarified that the reduction in headcount in ITSD was partly due to the transfer of officers to client departments to staff their respective Information Technology Management Unit.

Telecommunications

16. Mr CHAN Kwok-keung expressed reservation on the benefits of liberalizing the telecommunications market which, in his view, seemed to have aggravated the unemployment problem as a result of redundancies carried out by some operators.

17. In response, SCIT pointed out that consumers would ultimately benefit from the liberalization policy and advancement in technology, as evidenced in lower tariffs for mobile or fixed line services since the liberalization of the telecommunications market in 1995. SCIT said that while it might be difficult to comment on the overall employment situation of the industry, it was possible that the manpower made redundant by one company in the telecommunications market might have been absorbed by new entrants. He nevertheless assured members that in making policy decisions, the Administration would also take into consideration the implications of the policy on employment, in addition to factors such as consumers' interests and the business environment.

18. Noting that the Administration would conduct a public consultation on Type II interconnection, the Chairman asked if the review would also cover broadband interconnection. In response, SCIT advised that the telecommunications market had been liberalized for seven years and it was timely to review the interconnection regime to see if Type II interconnection could facilitate operators in making the right "build" or "buy" decision.

19. The Deputy Secretary for Commerce, Industry and Technology (Information Technology and Broadcasting) 1 (DSCIT(ITB)1) supplemented that in view of the rapidly changing market landscape in telecommunications and the advent of new or improved technologies, there was a growing trend for operators to self-provide their own networks by way of fibre-to-the-building instead of relying on Type II interconnection to access the users. As such, the role of Type II interconnection and the future of some 90 exchanges where interconnection arrangements were effected should be reviewed. The policy objective was to ensure that the interconnection regime would continue to facilitate effective competition, and at the same time promote investment

incentives by providing the right "build" or "buy" signal for business decisions.

Digital Terrestrial Television

20. As the Administration would issue a second consultative paper on licensing, regulatory and technical framework for the development of digital terrestrial television (DTT), the Chairman was concerned about the delay in launching DTT service and sought information on the compatibility or otherwise of the future Hong Kong DTT technical standard with that of the Mainland.

21. In response, DSCIT(ITB)¹ explained that the Administration was behind schedule on account of the need to take the project forward in a cautious manner. Overseas experience indicated that the investment climate, the availability of incentives for consumers to switch to digital services, the investment in providing attractive content etc were important factors for the successful introduction of DTT services. She said that todate, the Mainland had not formally announced the DTT technical standard to be adopted.

Cyberport

22. Referring to recent reports that some companies previously located in Quarry Bay had relocated their offices to the Cyberport on account of the latter's attractive leasing conditions aimed at boosting the take-up rate of office space, Mr Martin LEE was gravely concerned that such re-location would not benefit the economy in the long run and was not compatible with the objective of the Cyberport.

23. In response, SCIT stressed that the Cyberport was an IT infrastructure aimed at creating a strategic cluster of quality IT and IT related companies specialized in telecommunications, digital and multi-media contents. With the intake of tenants following completion of Phase CI, the clustering effect of the Cyberport had started to emerge. SCIT believed that the establishment of the DMC would provide further impetus to creating a critical mass of professionals in IT applications and multi-media content creation.

24. Regarding the admission of tenants, SCIT said that the Cyberport was not meant to cater for overseas companies only. Local companies were also welcomed to advance their business activities by becoming Cyberport tenants. He assured members that all applications for tenancy would be processed objectively in accordance with the selection criteria set by the Committee on Admission of Cyberport Office Tenants. SCIT also informed members that the superstructure construction of the Cyberport was in progress. Phases CI, CIA, CIB had been completed. Phase CII would be ready for occupation in February 2003 and Phase CIII would be completed in early 2004. So far, over 90% of office space in Phase CI had been taken up while application for

tenancy in Phase CII was underway.

25. Mr Martin LEE drew SCIT's attention to the controversy of the Cyberport project upon its inception and queried the appropriateness of awarding the project without competitive tendering. Mr LEE was of the view that the success or otherwise of the project should also be assessed with reference to the capital contributions made by the Government. He reiterated his view that it was unfair for the Government to compete with other landlords for office tenants by offering more attractive leasing terms.

26. In reply, SCIT said that it might not be possible to conduct a territory-wide comparison on office rent. Nevertheless, he advised that while the rental for office space in the Cyberport was lower than that of premium offices in Central, its leasing package, including rental and management fees, was in fact comparable to or even higher than that of some office premises in Quarry Bay where many IT companies were situated. SCIT further stressed that as an IT infrastructure, the Cyberport would attract prospective tenants by its state-of-art facilities, not by offering cheap rent. He nevertheless highlighted the need to secure a reasonable return on the public money invested in the project.

27. On whether the Cyberport could achieve a satisfactory tenancy take-up rate in due course, SCIT recalled that some 170 visits to the Cyberport had been arranged at the request of overseas participants of the International Telecommunication Union (ITU) TELECOM Asia 2002 held in Hong Kong in December 2002. In view of the high level of interest shown by these participants, SCIT was optimistic about the attractiveness of the Cyberport to industry leaders. He believed that the Cyberport would be able to attract a good mix of IT/IS companies without the need to offer concessionary leasing terms as an incentive.

28. The Chairman remarked that facilities similar to the proposed DMC in the Cyberport were currently available at the City University (CityU) and the Hong Kong Institute of Vocational Education (Tsing Yi) (HKIVE(TY)). He therefore expressed concern that the establishment of DMC in the Cyberport would lead to duplication of resources. If the DMC was to provide its facilities free of charge or at a low cost, there might be a pressure on the current providers of similar facilities to reduce their service charges at the expense of their viability. The Chairman reiterated his concern that the Government should not compete with the private sector for business opportunities.

29. In response, the Permanent Secretary for Commerce, Industry and Technology (Information Technology and Broadcasting) (PSCIT(ITB)) clarified that unlike the DMC in the Cyberport which would cater to the needs of the industry, the facilities now available at the CityU and HKIVE(TY)

mainly served academic purposes and not commercial applications. In fact, CityU had spinned off the service to an independent company. As there were only a few start-up companies specializing in animation softwares and games production in Hong Kong, a critical mass had not yet been formed and these companies might lack the necessary resources to take forward their business plans. The proposed DMC could provide the hardware and software support to facilitate the SMEs in starting their business without the onus of the high cost of expensive equipment, which would not be fully utilised for lack of operational scale. PSCIT(ITB) also confirmed that the use of the future DMC was not free of charge.

30. The Chairman said that he was aware of criticisms about the use of public resources to the detriment of the private sector as in the case of the company taking up the spinned off service from CityU but which could continue to use the facilities of CityU. In reply, PSCIT(ITB) advised that in the initial stage of spinning off, there might still be some connection between the independent company and CityU such as in the sharing of some resources. Nevertheless, such connection would eventually be phased out. As he understood, the new company had now moved out of the CityU campus and would operate on a self-financing basis.

31. The Chairman said that he supported the establishment of a DMC in the Cyberport but urged the Administration to take heed of the possible implications of its operation on the private sector. The Chairman also informed members that the Panel would review the progress of the Cyberport at its next meeting, probably to be re-scheduled on 28 January 2003.

II Any other business

32. There being no other business, the meeting ended at 3:00 pm.