

立法會
Legislative Council

LC Paper No. CB(1)2489/03-04
(These minutes have been seen by
the Administration and cleared by
the Chairman)

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Panel on Commerce and Industry

Minutes of meeting
held on Monday, 12 July 2004, at 4:30 pm
in Conference Room A of the Legislative Council Building

- Members present** : Dr Hon LUI Ming-wah, JP
Hon NG Leung-sing, SBS, JP
Hon CHAN Kam-lam, JP
Hon Mrs Selina CHOW LIANG Shuk-yee, GBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP
Hon SIN Chung-kai, JP
Hon Henry WU King-cheong, BBS, JP
Hon MA Fung-kwok, SBS, JP
- Members absent** : Hon Kenneth TING Woo-shou, SBS, JP (Chairman)
Hon HUI Cheung-ching, SBS, JP (Deputy Chairman)
Hon CHEUNG Man-kwong
- Public officers attending** : **Item III**

Miss Denise YUE, JP
Permanent Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mrs Philomena LEUNG
Principal Assistant Secretary for Commerce, Industry
and Technology (Commerce and Industry)

Miss Christine Chow
Principal Assistant Secretary for Housing, Planning
and Lands (Planning and Lands)

Dr LI Kui-wai
Director, APEC Study Center, City University of
Hong Kong

Mr LUI Ying-kin, Benny
Research Assistant, APEC Study Center, City
University of Hong Kong

Item IV

Mr Kevin HO, JP
Director-General of Trade and Industry

Mr Raymond YOUNG, JP
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Mr Clement LEUNG
Deputy Director-General of Trade and Industry

Miss Charmaine LEE
Assistant Director-General of Trade and Industry

Ms Florence LAU
Principal Trade Officer, Trade and Industry
Department

Item V

Mr John TSANG, JP
Secretary for Commerce, Industry and Technology

Miss Denise YUE, JP
Permanent Secretary for Commerce, Industry and
Technology (Commerce and Industry)

Miss Jacqueline WILLIS, JP
Commissioner for Economic and Trade Affairs, USA

Mr Joshua LAW, JP
Permanent Representative of the Hong Kong Special
Administrative Region of China to the World Trade
Organization

Mr Andrew WONG, JP
Special Representative for Hong Kong Economic and Trade Affairs to the European Communities, Brussels and Acting Director-General, Hong Kong Economic and Trade Affairs, London

Mr Alex FONG
Principal Hong Kong Economic and Trade Representative, Tokyo

Miss Sarah WU
Director, Hong Kong Economic and Trade Affairs, New York

Mrs Jenny WALLIS, JP
Director, Hong Kong Economic and Trade Affairs, Sydney

Miss Annie TANG, JP
Director, Hong Kong Economic and Trade Affairs, San Francisco

Mr Peter LEUNG
Director, Hong Kong Economic and Trade Affairs, Guangdong

Mr Bassanio SO
Director, Hong Kong Economic and Trade Affairs, Toronto

Mr Rex CHANG
Director, Hong Kong Economic and Trade Affairs, Singapore

Item VI

Mr Raymond YOUNG, JP
Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry)

Mr M J ROWSE, JP
Chairman
Hong Kong IEC Limited

**Attendance by
invitation : Item VI**

Mr Allen HA
Deputy Chief Executive Officer
AsiaWorld-Expo Management Limited

Mr Stanley CHU
Chairman
Hong Kong Exhibition and Convention Industry
Association

Mr Daniel CHEUNG
Vice-Chairman
Hong Kong Exhibition and Convention Industry
Association

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

Staff in attendance : Mr TSANG Siu-cheung
Senior Council Secretary (1)7

Ms Sharon CHAN
Legislative Assistant (1)6

Action

As the Chairman of the Panel was taken ill, he could not attend and chair the meeting. The Deputy Chairman also could not attend the meeting. Pursuant to Rule 77(5) of the Rules of Procedure and Rule 22(j) of the House Rules, the Panel might, in the event of the temporary absence of the Chairman or Deputy Chairman, elect a chairman to act during such absence. In this connection, members elected Dr LUI Ming-wah to act as Chairman and take over the chair of the meeting.

I Confirmation of minutes and matters arising

(LC Paper No. CB(1)2335/03-04 -- Minutes of meeting held on
10 May 2004)

2. The minutes of the meeting held on 10 May 2004 were confirmed.

II Papers issued since last meeting

(LC Paper No. CB(1)2325/03-04(01) -- Information note on Peer-to-Peer (P2P) File Sharing and Copyright Infringement prepared by the Research and Library Services Division of the Secretariat)

3. Members noted that the above paper had been issued for members' information since the last meeting.

III Border Industrial Zone

(LC Paper No. CB(1)2333/03-04(01) -- Information paper provided by the Administration

LC Paper No. CB(1)2165/03-04(02) -- A report on "Hong Kong Shenzhen Economic Cooperation and Border Industrial Zone" published by the APEC Study Center of the City University of Hong Kong (Chinese version only)

4. With the aid of PowerPoint, Dr LI Kui-wai, Director of APEC Study Center of the City University of Hong Kong, briefed members on the "Modelling Study on Hong Kong Shenzhen Border Industrial Zone" and its findings.

Proposal on the development of the Loop and factors for consideration

5. On the proposal to develop an industrial zone in the Lok Ma Chau (LMC) Loop, the Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (PSCI) pointed out that although there had been some discussion in the community about the subject, no consensus had yet been reached. PSCI advised that the Administration understood that environmentalists had reservation on the proposed development of a border industrial zone. They were particularly concerned about the impact of the development on the environment and on the ecological balance in the Loop and its vicinity. In fact, there were over four million cubic meters of mud in the area, of which one million cubic meters were contaminated. As such, the Administration had to tackle the problem of contaminated mud should it decide to develop an industrial zone in the area. Moreover, given the lack of infrastructure in the LMC Loop, there was a need to provide infrastructural facilities before any development could take place. This would inevitably impact on the natural environment in the area.

6. PSCI pointed out that those who supported the development of the Loop had diverse views on its usage. The various suggestions had been summarized in paragraph 3 of the paper. In exploring the feasibility of developing a border industrial zone, the main concerns of the community focused on the cost of the infrastructural facilities to be provided, environmental protection, the import of Mainland labour, etc. PSCI agreed that it was necessary to address these issues before a concrete proposal on the development of the Loop could be worked out.

7. PSCI stressed that at present, the Hong Kong Special Administrative Region Government (HKSARG) remained open on the proposal on the development of a border industrial zone. The Administration's preliminary views were set out in paragraph 7 of the paper. On the way forward, PSCI advised that HKSARG would continue to consider views from different sectors of the community on the development of a border industrial zone and would further communicate with the Shenzhen Municipal Government on the subject.

8. Mr CHAN Kam-lam said that the views quoted in paragraph 2 on page 28 of Appendix I to the Report on "Hong Kong Shenzhen Economic Cooperation and Border Industrial Zone" published by the APEC Study Center of the City University of Hong Kong (LC Paper CB(1)2165/03-04(02)) were too brief and could not adequately reflect his concern expressed in the seminar. Mr CHAN clarified that he was concerned about how the development of the four core industries in Hong Kong (namely financial services, producer services, logistics and tourism) as put forward by the Chief Executive could help tackle the unemployment problem in Hong Kong.

9. Mr CHAN Kam-lam further sought the views of the Director of APEC Study Center on the types of industries which were more suitable for development in the LMC Loop. Mr CHAN opined that in developing a border industrial zone, the Administration might consider offering incentives in terms of land and tax concessions as well as manpower support to the investors. Mr CHAN pointed out that a number of large-scale development zones had been established in the Mainland in order to attract foreign investment in new and high-tech projects. The Mainland authorities had also formulated various policies and measures to attract foreign investors. For instance, the Mainland authorities had combined four economic development zones in Guangzhou so as to pool the resources for the development of investment projects in the area of new and high technology. According to Mr CHAN's understanding, among the top 500 technology companies in the world, more than 80 of them had invested in new and high-tech projects in the development zone in Guangzhou. In this connection, Mr CHAN was concerned about the Administration's policies and measures to attract foreign investors to develop new and high-tech projects in Hong Kong.

10. Dr LI Kui-wai, Director of APEC Study Center, said that it would be more suitable for new and high-tech industries (such as diamond polishing) and other high value-added industries to develop business in the border industrial zone. As regards Mr CHAN's concern about the HKSARG's role in the development of

the border industrial zone, the Director of APEC Study Center considered that in general, HKSARG currently provided a favourable investment environment for foreign investors. As such, it was not necessary to formulate special policies and measures for developing the border industrial zone. Taking Singapore as an example, although the Singaporean Government offered tax incentives to foreign investors for their investments in the first few years, it could only attract short-term investments due to its high tax rate. On the contrary, given that Hong Kong's tax rate was relatively stable, it was easier to attract foreign investors to launch long-term investment projects. The Director of APEC Study Center suggested that the Administration might consider commissioning quasi-/non-government organizations to handle issues on the development of the border industrial zone, such as the direction and model of development. In developing the border industrial zone, the Administration should also explore ways to promote the local economy for the benefit of Hong Kong's long-term development. Since the community had not yet reached a consensus on the proposed development of the border industrial zone, the Director of APEC Study Center suggested that HKSARG should continue to consult different sectors of the community so that an appropriate decision could be made in due course.

11. Mr CHAN Kam-lam did not totally agree with the Director of APEC Study Center that it was unnecessary for HKSARG to formulate any special policies and measures for the development of the border industrial zone and to offer foreign investors certain investment incentives. He opined that in the absence of special policies and measures, nor any incentives for investors, the competitiveness of Hong Kong's border industrial zone vis-a-vis that of its Mainland counterparts would be undermined to a certain extent. In response, the Director of APEC Study Center advised that instead of competing with the Mainland, Hong Kong's border industrial zone would synergize the complementary advantages of both places in the development of new and high-tech industries. In fact, given Hong Kong's well-developed financial and legal systems and competent management personnel, the Director of APEC Study Center considered that it would be easier for Hong Kong to attract foreign investors to launch investment projects in the border industrial zone.

Issue on the import of Mainland labour

12. Mr NG Leung-sing was concerned whether the industrial and business sectors as well as the labour sector could reach a consensus on the development of the border industrial zone, particularly on issues relating to the import of Mainland labour. Although HKSARG had stressed repeatedly that it would follow the "Big Market, Small Government" principle, Mr NG was concerned how the Administration would adopt effective measures, including the provision of the necessary infrastructural facilities, to attract foreign investors and cater for their needs in launching investment projects in Hong Kong. In addition, Mr NG Leung-sing also expressed concern about the impact of the development of the border industrial zone on Hong Kong's capital market.

13. The Director of the APEC Study Center opined that HKSARG should focus on how to maximize Hong Kong's overall economic benefits and explore a new direction for the long-term development of the local economy through the implementation of the proposal on border industrial zone before considering the question on the import of Mainland labour. As far as the capital market was concerned, the Director of the APEC Study Center opined that HKSARG should regard the development of the border industrial zone as a means to broaden the basis of the local economy and a tool to facilitate its restructuring. He anticipated that the development of the border industrial zone would bring about sustainable momentum for economic development which would in turn enhance Hong Kong's competitive edge in the international market.

14. Mr NG Leung-sing enquired whether the Administration had discussed with the industrial and business sectors as well as the labour sector about the import of Mainland labour in relation to the development of the border industrial zone and if yes, the progress. PSCI responded that the Government had not discussed the issue raised by Mr NG with the industrial and business sectors, or the labour sector. However, according to her understanding, the Secretary for Economic Development and Labour had enquired about the stance of these sectors on the import of Mainland labour through unofficial contacts. The issue was still under consideration and discussion. In general, the labour sector was concerned about the impact of the import of Mainland labour on Hong Kong's employment situation. On the other hand, the industrial and business sectors were concerned about how the import of Mainland labour would facilitate them in establishing and expanding their businesses in Hong Kong in order to fully utilize the zero-tariff benefit under the Mainland and Hong Kong Closer Economic Partnership Arrangements (CEPA) for domestic exports to the Mainland market.

The developmental direction, time-table and major land use of the Loop

15. Mr SIN Chung-kai said that as far as he understood, many the Legislative Council Members supportive of the proposal on the development of a border industrial zone. Although HKSARG had been in communication with the Shenzhen Municipal Government on the proposal, Mr SIN was concerned whether both sides had worked out any specific direction, target and time-table for the development and the land use of the LMC Loop. Regarding the study "Hong Kong 2030: Planning Vision and Strategy" conducted by the Planning Department and the preliminary proposal to develop the LMC Loop into a trade expo, Mr SIN expressed reservation on the proposal. He pointed that large exhibition centres were at present available in major Mainland cities, such as Shenzhen, Guangzhou etc, for holding business promotion activities. The existing Hong Kong Convention and Exhibition Centre and the soon to be completed Asia World-Expo were expressed to meet the needs of Hong Kong manufacturers in marketing their products and services to overseas and Mainland buyers. As such, Mr SIN opined that it was not necessary to develop another trade expo in the LMC Loop.

16. In response, PSCI said that HKSARG and the Shenzhen Municipal Government had yet to work out the specific direction, target and time-table for the development of LMC loop. The major land use in the area was subject to further study and discussion between both sides.

Other concerns

17. Mrs Sophie Leung suggested that the APEC Study Center might consider conducting another modelling study in future to assess how Hong Kong's gross domestic product, industrial output and total amount of investment would be affected in the next 10 to 20 years on the assumption that the border industrial zone was established. She was also concerned how Hong Kong was being positioned in the process of economic integration with the Mainland.

18. The Director of APEC Study Center advised that the Center was prepared to consider Mrs Sophie LEUNG's suggestion. He pointed out that a comprehensive study and analysis on the restructuring of Hong Kong's economy would better serve the purpose of fully addressing, Mrs Sophie LEUNG's concern. Regarding Mrs Sophie LEUNG's concern about the role of Hong Kong and the Mainland in the economic integration of both places, the Director of the APEC Study Center pointed out that the most important issue was how to synchronize the economic development of Hong Kong with that of the Mainland while maintaining and giving full play to Hong Kong's advantages, in order to strike a balance as far as possible between competing and complementing with the Mainland.

19. Mrs Sophie LEUNG opined that it was necessary for Hong Kong to break through its role of complementing the Mainland economy in order to achieve full-scale economic restructuring through competition. The Director of the APEC Study Center considered that strengthening the development of demand-driven industries would enable HKSARG to facilitate the restructuring of Hong Kong's economy and provide momentum for long-term economic development in Hong Kong. In addition, the emergence of new industries resulting from economic restructuring would to a certain extent improve the employment situation in Hong Kong.

20. The Chairman stated his personal view that while exploring the feasibility of developing a border industrial zone, HKSARG should first tackle the issue on import of Mainland labour and examine how the establishment of a border industrial zone could make the best use of the zero-tariff benefit under CEPA for domestic exports to the Mainland market. However, Mrs Sophie LEUNG opined that the development of a border industrial zone was not purely a labour issue. Instead, it was mainly concerned with how the economies of Hong Kong and the Mainland would compete with and complement each other.

IV Hong Kong's Post-2004 Textiles Control Arrangement

(LC Paper No. CB(1)2327/03-04(01) -- Information paper provided by the Administration)

21. On the elimination of quota restrictions on textile and clothing (T&C) products by 1 January 2005 under the World Trade Organization Agreement on Textiles and Clothing (WTO ATC), the Director-General of Trade and Industry (DGTI) briefed members on the proposed changes to the textiles control system and the consequential legislative amendments to the Import and Export Ordinance (Cap. 60).

22. Referring to the modifications to the textiles control system and amendments to the relevant existing legislation to tie in with the elimination of quota restrictions on Hong Kong T&C exports by WTO, Mr NG Leung-sing was concerned whether the Administration had sufficient time to make the necessary arrangements. In particular, Mr NG was concerned whether the changes to the system concerned would have any implication on the operation of the T&C exporters in Hong Kong, such as any increase in operating costs. Mr NG further enquired whether the Administration would conduct a consultation exercise regarding the changes to the textiles control system and the legislative amendments and if so, the time-table for consultation should be provided for members' reference.

23. DGTI agreed that after the elimination of quota restrictions, exports of Hong Kong T&C products to different economies would face new challenges. The Trade and Industry Department would strive to complete the legislative amendments before 1 January 2005 as scheduled to tie in with the changes following the elimination of quota restrictions.

24. DGTI supplemented that the Administration had briefed the local textiles industry, including the Textiles Advisory Board, about the proposed changes to the textiles control system which would be further simplified after modifications were made. The Administration anticipated in July and August 2004, modification of the textiles and control system and legislative amendments would be in full swing. In the course of drafting the legislative amendments, the Administration would consult the relevant industries with a view to enhancing the latter's understanding of the new control system. DGTI advised that the Administration intended to introduce the proposed legislative amendments to the Legislative Council in its new term commencing October 2004.

25. Mr NG Leung-sing suggested that the Administration should assess the implications of revising Hong Kong's textiles control system, in particular on the capital of T&C exporters and local employment, and inform the relevant industries of the outcome of the assessment. DSTI advised that the Administration did not have sufficient information to make an assessment on the implications of the new control system at this stage. However, the

Administration would approach the relevant industries to brief them on the new system and collect their views in due course.

26. While commending the Administration for its contribution to WTO's elimination of quota restrictions on T&C products, Mrs Sophie LEUNG advised that she would continue to call on the Textiles Advisory Board to keep track of the development in this regard and in Hong Kong's textiles control system. Meanwhile, Mrs Sophie LEUNG hoped that the Administration could take appropriate measures to sustain the growth of Hong Kong T&C exports and to enhance Hong Kong's production standard.

27. The Chairman concluded that the Panel noted the Administration's proposal to modify the textiles control system and to amend the Import and Export Ordinance accordingly.

V Reports by Heads of Hong Kong Economic and Trade Offices

(LC Paper No. CB(1)2333/03-04(03) -- Information paper provided by the Administration)

28. The Secretary for Commerce, Industry and Technology (SCIT) said that it had been an ongoing practice for the various Heads of the Hong Kong Economic and Trade Offices (ETOs) to report their work to the Panel on their return to Hong Kong each year. SCIT then invited the Commissioner for Economic and Trade Affairs, USA (C, USA), the Permanent Representative of the Hong Kong Special Administrative Region of China to the World Trade Organization (PRG) and the Special Representative for Hong Kong Economic and Trade Affairs to the European Communities, Brussels (SREC) to brief the Panel on the major areas of work of the respective ETO and the latest development on economic and trade related matters under their purview. Members noted that the full set of reports in respect of the 11 ETOs had been provided to Panel members vide LC Paper No. CB(1)2333/03-04(03).

Report on major areas of work of ETOs

29. C, USA reported that Hong Kong was the focus of much attention in Washington. As this was also an election year in the US, the US ETOs were monitoring closely election politics and the US Administration's policies which might have implications for Hong Kong. The US Administration continued to be preoccupied by the war on terrorism, the war in Iraq and homeland security. There was strong appreciation of Hong Kong's cooperation with the US in the global fight against terrorism. That, together with other aspects of bilateral relations such as strategic trade controls and the Container Security Initiative, needed to be continually highlighted in the US. C, USA pointed out that there were people in Washington who had grave concerns over recent developments affecting the pace of constitutional developments in Hong Kong and there was a perception that Hong Kong's high degree of autonomy had been eroded. She

considered that it was a challenge briefing and educating them on the Basic Law and constitutional reforms. The Washington ETO would continue to reach out to update interlocutors on the work of the Constitutional Development Task Force and the latest developments in Hong Kong. In terms of investment promotion, all three US ETOs were promoting CEPA and this would remain a key element of their work.

30. On issues related to the World Trade Organization (WTO), PRG reported that while WTO had focused on pushing forward the Doha Development Agenda (DDA) during the past year, overall progress had been rather slow due to the collapse of the negotiations at the Fifth WTO Ministerial Conference in September 2003. The immediate task was to reach framework agreements on some key areas of the DDA negotiations by the end of July 2004. In the coming year, the Geneva ETO would liaise closely with the WTO Secretariat and members in preparation for the Sixth WTO Ministerial Conference which would likely be held in Hong Kong in 2005.

31. SREC informed members that following the accession of ten new member states to the EU with effect from 1 May 2004, the market size of the EU was larger than that of the US. He considered this a great opportunity for Hong Kong businesses to tap the EU market, especially the ten new member states. SREC further reported that the Brussels ETO would closely monitor the development in respect of the new European Constitution which would have potential impact not just on the EU but also on the world at large.

Business opportunities in the Pan-Pearl River Delta (Pan-PRD) Region

32. Mr Henry WU remarked that the Hong Kong market alone might be too small to attract ongoing foreign investment. However, in anticipation of the development of the Pan-PRD Region, Mr WU enquired on the strategies, if any, which ETOs would adopt in promoting the business opportunities in the Pan-PRD Region to overseas investors. In response, SCIT invited the various representatives to brief members.

33. C, USA said that to attract an audience, it was necessary to position Hong Kong in the broader context of the region. This was already the approach adopted by her ETOs to tap into the interest in the Mainland. The Pan-PRD represented a new level of regional cooperation which the ETOs would leverage in the promotion of Hong Kong. She then invited her Directors to elaborate on their inward investment activities.

34. The Director, Hong Kong Economic and Trade Affairs, New York (D(NY)) added that the New York ETO was responsible for promoting economic and trade relations between Hong Kong and 31 states in the East Coast region of the US. D(NY) reported that the American investors' interest in the China market had rebounded significantly after the Severe Acute Respiratory Syndrome (SARS) outbreak had subsided. The New York ETO had, in collaboration with relevant business associations, launched a series of business seminars and events in major

states to promote Hong Kong as a professional business services hub and a gateway to China. She pointed out that in addition to CEPA, the Pan-PRD concept would start to draw business attention. In its upcoming promotion, the New York ETO would follow up with the business sector and continue to highlight the importance of Hong Kong as a gateway to the Mainland market.

35. The Director, Hong Kong Economic and Trade Affairs, San Francisco (D(SF)) said that after China had joined the WTO, not just large US companies but also the smaller sized US companies were catching up in their interest in the China market. There was also a growing feeling that while they were concerned about risks involved, the time had come that they could not ignore the vast potentials of the China market. As such, the San Francisco ETO promoted Hong Kong as a partner for US companies when they explored the China market, and organized promotional activities like business seminars on Hong Kong and the PRD, CEPA, as well as electronic and media updates.

36. SREC remarked that small and medium enterprises (SMEs) in Europe were interested in the China market. In this connection, Hong Kong had an important role to play as SMEs in Europe could partner with SMEs in Hong Kong and benefit from the latter's familiarity with the Mainland market and the sharing of business risks. He stressed that Hong Kong's importance as a strategic partner for European businesses to access the Mainland market would be promoted.

37. The Principal Hong Kong Economic and Trade Representative, Tokyo (PRT) briefly explained that the activities of the ETO could be grouped into "visible" and "not visible" categories. On the "not visible" category, PRT said that the Tokyo ETO had disseminated information on the business opportunities arising from CEPA and Pan-PRD regional cooperation and development through day to day contacts, both official and unofficial, with the relevant ministries, the business sector and the media. On the "visible" category, he reported that the Tokyo ETO had arranged for a delegation comprising representatives from the public and private sectors in Japan to visit Hong Kong and PRD in December 2003 to study the business collaboration model amongst Japan, Hong Kong and the Mainland, especially the role played by CEPA. The Tokyo ETO was currently discussing with the Japanese Chamber of Commerce on how the report on the visit should be disseminated to the industrial and business sectors in Japan, in particular SMEs. Meanwhile, PRT had also contributed an article to the Japan Times which was published on 1 July 2004 highlighting the economic and trade development between Hong Kong and Japan in the light of CEPA and the Pan-PRD regional cooperation. A Japanese version of the article would also be prepared. In addition, PRT reported that he disseminated information on CEPA and Pan-PRD to think-tanks and research institutes. For example, the representatives of the Samsung Research Institute in South Korea had expressed great interest in this subject.

Provision and analysis of information

38. Mrs Sophie LEUNG noted that in accordance with the WTO Agreement on Textiles and Clothing, all quantitative restrictions on textiles and clothing products would be eliminated by 1 January 2005. In the run-up to the new era marked by the end of the textiles control arrangements, Mrs Sophie LEUNG expressed appreciation for the efforts made by ETOs throughout the years in promoting Hong Kong's economic and trade interests. She looked forward to ETOs' continued support in the new era.

39. Mrs Sophie LEUNG said that the people of Hong Kong had often been criticized as too "insulated" from the outside world. With the growing importance of "regionalization" and "globalization", she considered that it was necessary for Hong Kong people to broaden their perspective. As such, she suggested that various ETOs should be invited to collect information on the latest development of different places/regions and disseminate such information on a monthly basis together with an analysis to the Hong Kong community, in particular to the business sector, through the media.

40. Noting Mrs LEUNG's suggestion, SCIT remarked that information relating to the latest developments in the host countries where the ETOs were located might be obtained from the Internet. In this connection, PSCI pointed out that the mass media such as newspapers or magazines, which operated on a commercial basis, might wish to consider whether the publication of information assembled and provided by the ETOs on a periodic basis would be of interest to their readers before deciding whether or not to publish the materials. However, in the light of Mrs Sophie LEUNG's remark that the recipients she had in mind were those in the business sector, PSCI said that the Administration would need to give further consideration to Mrs Sophie LEUNG's suggestion to ascertain its feasibility and practicability.

Admin

Broadcast of the Harbour Fest video overseas

41. Referring to the one-hour television special on the highlights of the Harbour Fest to promote Hong Kong, Mr Henry WU asked whether ETOs could assist in arranging for the broadcast of the television special in overseas networks. In reply, PSCI explained that pursuant to the contract entered into between the American Chamber of Commerce in Hong Kong and the performing artistes, the broadcast of the television special was subject to certain conditions. For instance, the television special could only be broadcast thrice in the US. There was also a quantitative restriction on the number of times this special might be broadcast in Hong Kong, Australia, other parts of Asia, etc. In light of this restriction, PSCI advised that it would be more appropriate for the Administration to centrally coordinate and strive to secure the broadcast of this video in different places outside Hong Kong instead of requesting individual ETOs to do this work in their respective host countries. She understood that the Information Services Department and Invest Hong Kong were in the process of liaising with various overseas television networks to secure the wider broadcast of this television

special overseas. Mr WU opined that the broadcasting arrangement should be expedited in order to maximize the promotional effect of the television special.

VI Issues relating to the AsiaWorld-Expo

(LC Paper No. CB(1)2333/03-04(04)	--	Information paper provided by the Administration
LC Paper No. CB(1)2312/03-04(01)	--	Fax dated 30 June 2004 from Hon CHOY So-yuk
LC Paper No. CB(1)2334/03-04	--	Updated information note on the AsiaWorld-Expo prepared by the Secretariat
LC Paper No. CB(1)2357/03-04(01)	--	Submission from AsiaWorld-Expo Management Limited
LC Paper No. CB(1)2388/03-04(02)	--	Statement of Hong Kong Exhibition & Convention Industry Association)

42. The Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry) (DS(CI)) briefed members on the ownership and operation arrangements of the AsiaWorld-Expo (AWE) project, and the Government's participation, as well as the policy of the AWE operator, namely the AWE Management Ltd on allocating slots of AWE.

Meeting with deputations

AWE Management Ltd

43. As far as the management of AWE was concerned, the Deputy Chief Executive Officer of AWE Management Ltd stressed that the company operated AWE in accordance with prudent commercial principles and in the best interest of the AWE. The allocation of slots of the venue was also carried out in accordance with prudent commercial principles.

Hong Kong Exhibition and Convention Industry Association (HKECIA)

44. Referring to HKECIA's statement, the Chairman of HKECIA said that if the commercial principles adopted by AWE Management Ltd reflected industry standards and helped enhance Hong Kong's exhibition industry, HKECIA would be supportive. HKECIA would be prepared to discuss the subject further if its members considered it necessary.

Meeting with the Administration*Government's monitoring of the operation of AWE*

45. Mr Henry WU referred to the ownership and operation structure of the companies involved in implementing the AWE project as set out in the Annex to the Administration's paper. Given that neither the Government nor the Airport Authority (AA) was represented on the board of IEC Investments Ltd and AWE Management Ltd and neither of them had any equity holding in these two companies, Mr WU was concerned about the role of the Government in monitoring the performance of the AWE operator in managing AWE. To enhance the Government's participation and its monitoring role, Mr Henry WU suggested that consideration should be given to appointing Government representatives as non-executive directors on the board of AWE Management Ltd.

46. In explaining the ownership and operation structure of companies involved in implementing the AWE project, the Chairman of Hong Kong IEC Ltd informed members that IEC Holdings Ltd owned by the Government (88.5% equity) and AA (11.5% equity) owned 86.5% of Hong Kong IEC Ltd which was the joint venture company and owner of the AWE. IEC Investments Ltd, the private-sector partner selected through competitive international tendering, owned 13.5% of Hong Kong IEC Ltd. Since IEC Holdings Ltd had a majority equity holding, its chairman was also the chairman of the board of Hong Kong IEC Ltd. The joint venture company had been given a 25-year franchise to manage and operate AWE. At the end of the franchise period, the company would be dissolved and the Government and AA would share the reversionary value of AWE's facility in accordance with their equity stakes.

47. The Chairman of Hong Kong IEC Ltd explained that being appointed as the operator to manage, promote, operate and maintain AWE, AWE Management Ltd had a reporting relationship with Hong Kong IEC Ltd although the Government and AA had no equity holding in the management company itself. Pursuant to the Management and Operating Agreement (MOA) signed with the Hong Kong IEC Ltd, AWE Management Ltd was required to, inter alia, manage AWE on prudent commercial principles. While the Government would not participate in the day-to-day operation of AWE, AWE Management Ltd had to report to Hong Kong IEC Ltd regularly on the operation of AWE. The Chairman of Hong Kong IEC Ltd considered that the existing mechanism was adequate in enabling the Government to monitor and ensure that the management and operation of AWE were carried out in an appropriate manner.

48. The Chairman of Hong Kong IEC Ltd supplemented that apart from giving general advice on the operation of AWE, such as on the principles of allocating AWE slots, the Government represented on the board of Hong Kong IEC Ltd would keep an eye on how such principles were applied and would examine the reports submitted by AWE Management Ltd on the operation of AWE. As such, the Government would be in a position to monitor the performance of AWE Management Ltd. In the event that AWE Management Ltd's performance was

found to be unsatisfactory, Hong Kong IEC Ltd was entitled to terminate the former's service in accordance with the provisions in the MOA.

49. In this connection, Mr Henry WU noted that the Chairman of Hong Kong IEC Ltd was also involved in the recent controversy of the Harbour Fest in his position as the Director-General of Investment Promotion. Drawing on the lesson learned from the Harbour Fest, Mr WU stressed the need for the Administration to strengthen its monitoring role in projects which required the funding support of the Government.

50. In response to Mr MA Fung-kwok's concern about the indicators that the Government would use when assessing the performance of AWE Management Ltd, DS(CI) advised that factors such as the level of profits generated and the new shows to be staged at the AWE, etc would be relevant indicators for this purpose.

Returns for the AWE project

51. Having regard that the Government had injected a sum of \$2 billion to partly finance the construction cost of AWE, Mr Henry WU enquired on the target rate of return and the payback period of the project. Mr WU also enquired about the terms of the Joint Venture Agreement (JVA).

52. In response, the Chairman of Hong Kong IEC Ltd confirmed that the JVA signed between IEC Holdings Ltd and IEC Investments Ltd, which gave the latter a 25-year franchise to manage and operate AWE, did not stipulate a guaranteed rate of return for IEC Investments Ltd. Nevertheless, in the tendering exercise to select the private-sector consortium for the joint venture company, each bidder was required to indicate a preferred rate of return for the Government's consideration. Among other things being equal, the private-sector consortium which sought the lowest preferred rate of return would have a higher chance to secure the bid. As regards profit sharing, the Chairman of Hong Kong IEC Ltd advised that IEC Investments Ltd would obtain an income from the AWE project according to the preferred rate of return specified in its tender bid. Any surplus of income above the preferred rate of return would be distributed among the parties in the joint venture company according to their equity stakes. However, IEC Investments Ltd would have to re-distribute half of its share in this second slice to the Government and AA in accordance with their relative equity shareholding in the joint venture company.

53. Mr Henry WU was concerned that the AWE operator might have no incentive to perform its functions effectively after achieving the preferred rate of return. In response, the Chairman of Hong Kong IEC Ltd pointed out that under the MOA signed with Hong Kong IEC Ltd, AWE Management Ltd was duty-bound to operate AWE under prudent commercial principles and in the best interests of AWE at all times. The Deputy Chief Executive Officer of AWE Management Ltd re-affirmed this commitment on the part of the AWE operator.

54. In this connection, Mr Henry WU requested the Administration to inform the Panel of the preferred rate of return for IEC Investments Ltd. The Chairman of Hong Kong IEC Ltd said that the preferred rate of return was commercially

sensitive information and subject to the confidentiality clause of the JVA. Noting Mr WU's request, DS(CI) said that the Administration would seek the views from the companies concerned and the advice of the Department of Justice.

Admin

Management and Operating Agreement (MOA)

55. Mr MA Fung-kwok enquired whether the MOA had formed part of the tender document for inviting bids from potential private-sector consortia; or whether it was merely negotiated and signed after the consortium for the joint venture company had been selected. In reply, the Chairman of Hong Kong IEC Ltd advised that the parameters of the MOA drawn up on the basis of the feedback obtained from the expression of interest exercise conducted in 2002 were already set out in the tender document. The actual terms of the MOA were finalized by the Department of Justice with the selected private-sector partner after the tendering exercise. In this regard, members requested the Administration to provide a copy of the MOA entered into between Hong Kong IEC Ltd and AWE Management Ltd for reference. The Administration took note of the request for further consideration.

Admin

56. As regards the Government's participation, the Chairman of Hong Kong IEC Ltd advised that currently, there were four directors appointed by the Government (namely, the Director-General of Investment Promotion and representatives from the Commerce, Industry and Technology Bureau, the Economic Development and Labour Bureau and the Financial Services and the Treasury Bureau) and two directors appointed by AA sitting on the board of the Hong Kong IEC Ltd. In the Administration's view, the present arrangement was effective in enabling the Government to supervise and monitor the AWE project and AWE Management Ltd. Mr MA Fung-kwok however considered that the Government's participation through representation on the board of Hong Kong IEC Ltd might not be sufficient for the purpose of monitoring the performance of AWE Management Ltd unless specific conditions relating to the management of AWE were laid down in detail in the MOA.

57. The Chairman enquired about the role of NEC Group in the AWE project. In response, DS(CI) clarified that the purpose of engaging NEC Group as the operating partner of AWE Management Ltd in managing and operating the AWE was to tap the former's international expertise having regard to its being the leading exhibition centre operator in the United Kingdom. As regards the Chairman's concern about the participation of equity holders in managing and operating AWE, DS(CI) emphasized that while the day-to-day operation of AWE rested with the AWE Management Ltd, the Government would supervise and monitor the implementation of AWE project and the performance of AWE Management Ltd through representation of directors on the board of IEC Holdings Ltd and Hong Kong IEC Ltd.

58. Mr MA Fung-kwok suggested that the Panel should explore the subject further with the Administration in the next legislative session. Mr WU reiterated his earlier suggestion of appointing Government representatives to sit as non-executive directors on the board of AWE Management Ltd to enhance

Admin

monitoring.

59. The Chairman urged the Administration to note and consider members' views and suggestions in respect of the management and operation of AWE.

(Post-meeting note : The subject of "Measures in place for monitoring the operation of AWE" had been included into the Panel's list of outstanding items for further discussion with the Administration in due course.)

VII Any other business

60. There being no other business, the meeting ended at 7:15 pm.

Council Business Division 1
Legislative Council Secretariat
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