

**LegCo Motion Debate on
“Actively Improving the Business Environment
for Small and Medium Enterprises”**

**The Administration’s Progress Report
(up to 15 August 2005)**

Purpose

At the LegCo meeting of 8 June 2005, the above motion moved by Hon Vincent FANG Kang, as amended by Hon Fred LI Wah-ming and Hon CHAN Kam-lam, was carried. This paper serves to briefly report on the progress of the follow-up action taken by the Administration regarding the matters raised.

Business Facilitation

2. As a major measure to improve the business environment, the Administration has been conducting regulatory reviews to identify possible options to break down barriers to facilitate business. At present, the focus and priorities of work are to review the regulations relevant to the real estate, construction, retail and entertainment sectors, which have a major bearing on local employment.

3. Dedicated Task Forces have been established under the Economic and Employment Council (EEC) Subgroup on Business Facilitation in end last year. They were respectively tasked to review regulations impacting on the pre-construction stage of development projects and the retail trade. The Pre-construction Task Force (PCTF) has completed its review on land matters, making soiled recommendations on simplification of land lease conditions and improvise the lease modification process. The Administration is implementing the recommendations of the Task Force, including deleting or simplifying over 20 special conditions, where consensus has been reached. The Retail Task Force recently focused its attention on improving the process for setting up food retail business in Housing Authority commercial premises.

4. A task force to review the construction stage of the development process was also set up under the Provisional Construction Industry Co-ordination Board to examine current regulatory regimes governing the construction stage of the development process and to recommend measures aimed at speeding up the construction cycle and reducing the cost for compliance with prevailing statutory requirements. The task force is working closely with industry stakeholders as well as concerned government departments in formulating its recommendations.

5. Regarding entertainment, the Business Facilitation Division of the Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office has completed the review of cinema licensing and made recommendations for short-term and longer term measures for improvements, including a provisional licensing system. The recommendations and implementation plan have the support of the concerned industry and professional bodies. The Home Affairs Bureau is working on the draft legislative amendments for submission to LegCo for scrutiny in end 2005 so that the measures can be implemented as early as possible. Upon the launch of the provisional licensing regime, a saving of 4 to 5 months in processing time could be achieved for new applications and another 2 months' saving is possible when the long-term measures are put in place.

6. Apart from the above, the Administration has commenced a regulatory review for Theme Park and Family Amusement Centre under the Places of Public Entertainment Ordinance and Regulations, and has completed the Regulatory Impact Assessment (RIA) study on the proposed nutrition information labeling scheme. Regarding the RIA on the product responsibility scheme for waste tyres and rechargeable batteries, the Administration has taken into consideration possible options in launching a pilot scheme for waste rechargeable batteries and has already collected one tonne of batteries in the first two months of the scheme.

7. The EEC chaired by the Financial Secretary and its Subgroup on Business Facilitation will continue to review existing regulations impacting on the business comments, and make recommendations for improving the regulatory framework and simplifying procedures. Concerned bureaux and departments will closely collaborate in studying the feasibility of the recommendations and implement those accepted measures as early as possible.

Business Costs and Related Issues

8. Members have raised the issues concerning business registration costs, estate duty and government tenders. The Financial Services and the Treasury Bureau (FSTB) is the policy bureau for these matters. Under the existing rules for charging business registration fee and levy, small businesses with average monthly sales or receipts not exceeding the specified amounts (\$10,000 for businesses mainly deriving profits from the sale of services and \$30,000 for other businesses) are exempt from the registration fee and levy.

9. The existing system of flat fees is simple and efficient. The system would be complicated and the administration costs would increase if the charge is based on the number of employees. Besides, the criteria for determining the number of employees (e.g. whether temporary or part-time employees should be included) would also be controversial.

10. The Bill to implement the proposed abolition of estate duty is being considered by the Bills Committee.

11. The Administration proposes to apply the abolition of estate duty with retrospective effect (only a nominal duty of \$100 will be charged in respect of cases of death occurring on or after 15 July 2005 but before the commencement date of the legislation) to help send a clear signal to the international investment community, encouraging both local and foreign investors to make early preparation for the channeling of funds to Hong Kong, thus facilitating the achievement of our objective to promote investment.

12. In arranging for tender exercises, Government departments have to adhere to the fundamental procurement principles of openness, fairness, value-for-money and public accountability, and to follow established government procurement procedures. In drawing up the terms and conditions for inclusion in tender documents, departments should ensure that tender specifications which define the requirements of the contract are drawn up in a manner which meet not only their specific needs under individual contracts, but also adhere to the Government procurement principle of maintaining open and fair competition. When drawing up the terms and conditions to be included in the tender documents, departments would guard against unnecessary or over-prescribed requirements which would reduce the scope for innovative responses and may exclude some suppliers who would otherwise be capable of meeting the performance levels.

13. The Government does not base its award of works contracts solely on price consideration. Since mid 2002, the Government has introduced the formula approach and the marking scheme tender evaluation methods to assess tenders for works contracts. The methods have not only taken into account tenderers' price offers, but also their technical capability and past performance as the basis of consideration for the award of works contracts.

14. In respect of Members' concern relating to small works items, the Environmental, Transport and Works Bureau responded that the Administration has taken the following measures to facilitate the development of small and medium-sized engineering and professional consultancy companies -

- (a) Under the existing List of Approved Contractors for Public Works, contractors are divided into three groups according to their financial and technical capabilities. Contractors in each group (i.e. Group A, B or C) may tender for works contracts of different value. Group A contractors may bid for contracts up to \$20 million; Group B contractors may bid for contracts up to \$50 million; and Group C contractors may bid for contracts of any value exceeding \$50 million. This system can ensure that small and medium-sized companies have the opportunity to tender for works contracts in keeping with their capability;
- (b) To further encourage small and medium-sized contractors to bid for large projects, the Government allows them to form a joint venture company and submit a single tender on condition that the contractors involved can jointly satisfy the requirements listed on the tender documents and each of them has the technical know-how to carry out the part of the works for which it is responsible;
- (c) The Administration may also split a single contract into smaller ones as far as possible so as to encourage the participation of small and medium-sized contractors. In determining whether a contract should be split into smaller ones, various factors are considered, including feasibility, interface problems, access problems, land availability, various impacts (environmental, drainage etc.), availability of work areas, quality of works and economic benefits; and
- (d) For consultancy services, the procurement guidelines specify that only small consultancy firms with up to 10 professional staff are allowed to bid for small and simple consultancies with estimated consultancy fees not exceeding \$4 million, except for specialised projects. Architectural consultants are also divided into two groups according to their experience and staff size. Companies in each group may only bid for certain contracts. These arrangements can ensure an even distribution of work among consultancy firms of different scale.

15. As regards the requirement that professional consultancies for public works should be put out to tender, we must point out that the procurement policy of the Administration is guided by the fundamental principles as mentioned in paragraph 12 above. These principles equally apply to the procurement of professional engineering consultancy services.

16. As regards the Members' concern that the tendering system would lead to derogation of fees and services, in fact the current public works consultancy selection process requires tenderers to submit technical proposals and fee proposals in separate envelopes. The departmental assessment panel will first evaluate and mark every technical proposal according to pre-determined selection criteria, of which the past performance of the consultant is a major attribute. Only after a consultant has passed the technical assessment will its fee proposal be opened for overall comparison. The consultant who attains the highest combined technical/fee score will be awarded the contract. The relative weighting of the technical and fee scores is usually 8:2 or 7:3. The heavy weight that the technical score carries demonstrates that consultancy selection is mainly based on the assessment of technical proposals rather than fee proposals. In addition, the department concerned can reject any bids which are considered to be unreasonably low during the assessment process. The existing mechanism mentioned above can thus effectively prevent consultants from attempting to win a contract by lowering their fees at the expense of quality. This ensures that the Administration can obtain quality services while the consultants can at the same time receive reasonable fees.

17. We would also like to point out that the example cited by the Member, i.e. "the approval of a dozen departments and agencies is required to plant a single tree", is far from the truth. Actually, the Highways Department and the Leisure and Cultural Services Department have all along been working with the private sector in planting trees. The two departments welcome any proposals from the private sector for tree planting on the pavement.

Land Policy Issues

18. This issue is basically under the purview of the Housing, Planning and Lands Bureau. To facilitate industrial restructuring and to allow greater flexibility in the use of industrial premises, the scope of uses permitted in industrial buildings has been reviewed regularly and expanded over the years by the Administration and the Town Planning Board. Major efforts include the introduction of the "Other Specified Uses" annotated "Business" ("OU(B)") zone in October 2000 to allow maximum flexibility in the use of existing industrial and industrial-office buildings as well as in the development of new buildings for both commercial and clean industrial uses.

19. Where the relevant land leases need to be modified, they may be modified or temporary waiver may be issued to enable the change of use of the industrial units

concerned. In addition, the Lands Department has introduced a simplified procedure for the grant of temporary waivers with fees charged at standard rates. Owners could choose to pay waiver fee on an annual basis or on a lump sum basis for the lifetime of the concerned premises. This arrangement facilitates owners of industrial units to make better utilization of their premises.

20. The above measures will help improve the utilisation of industrial buildings. The Administration will continue to monitor the situation and further review the scope of uses permitted in the "I" and "OU(B)" zones when necessary.

21. Since the Secretary for Housing, Planning and Lands announced a statement on housing policy in November 2002, it has been our policy that supply of land should be market driven. To this end, as from 2004, supply of new Government land would only be triggered from the Application List. In addition, supply of land could also come from the private market, modification of lease condition for privately-owned land, railway property developments and Urban Renewal Authority project. As the supply of land is market-driven, there is no question of the Administration implementing a "high land price" policy. In respect of the level of rental and property prices, they are determined entirely by the property market, it would not be appropriate for the Administration to make any comments.

Competition Policy Issues

22. The Competition Policy Review Committee (CPRC) has commenced its work on the review of the Government's competition policy and the composition, terms of reference and operations of the Competition Policy Advisory Group (COMPAG) in June 2005. The CPRC is expected to complete its review in twelve months. We will inform Members of the outcome of the review.

23. With regard to the competition situation in certain sectors -

- (a) COMPAG commissioned in July 2005 a consultant to assess the competition situation in the auto-fuel market in Hong Kong, and examine whether the oil companies involved might have engaged in any anti-competitive practices. The study is expected to be completed around end 2005. The Government will inform Members of the outcome of the study;

- (b) As regards the electricity market, the existing Scheme of Control Agreements between the Government and the two power companies will expire in 2008. Following the conclusion of the first stage public consultation on 30 April 2005, we are working on the framework for the development of the post-2008 electricity market in the light of the views received, which we will put out for consultation under Stage II around end of the year;
- (c) As for the supermarket sector, the Commerce, Industry and Technology Bureau notes that competition in the retail market is fierce and that there is no need for Government intervention in the operation of the retail market. There are a large number of players in the market, including supermarket chains, supermarkets in department stores, convenience shops, food stores and household product stores.

In addition, competition exists in the form of price and non-price competition. To cater for the preference of consumers, apart from reducing the selling price of products, many retail market operators try to gain a competitive edge by providing longer operating hours, cleaner environment and the convenience of one-stop shopping. Others strive to maintain their niche by providing personal and flexible services to cater for the specific needs of their customers. As a result, consumers benefit from having a wider choice of goods and service which are of better quality and offered at more competitive prices; and

- (d) On bundling charges for other services with management fee, having considered the report of the Telecommunications Authority on the Banyan Garden case, –
 - (i) COMPAG was of the view that the issues identified in the Banyan Garden case were not general competition issues and a comprehensive competition law was not the answer to resolving the issues identified. It was a matter of availability of advance, comprehensive and comprehensible information on the types of services included in the management fee prior to the sale or occupation of the building; and
 - (ii) COMPAG therefore directed that, where building management services were provided by the real estate developer or management company before an Owners' Corporation (OC) could be formed, the real estate developer or management company should not enter into excessively long service contracts to deprive owners of the option to vary the type or choice of service later. The tenders should also be competitive, open and transparent.

24. To follow up on COMPAG's deliberations, the Legal Advisory and Conveyancing Office of the Lands Department (LACO) would, with regard to leases of communications network area (CNA) within a residential property, impose new requirements when giving approval for the sale of uncompleted residential properties including the term of the CNA lease, if any, should not exceed three years; and the sales brochures of the properties should include –

- (a) Description of the services to be provided under the CNA lease;
- (b) A clear definition and identification of the portions of the development affected by the CNA lease; and
- (c) The amount of monthly fee payable by the owner of each unit of the development for the services provided under the CNA lease, if known.

25. Meanwhile, Home Affairs Department (HAD) has introduced in April 2005 the Building Management (Amendment) Bill 2005 into the Legislative Council to propose further amendments to the Buildings Management Ordinance (BMO). One of the proposed amendments was to amend section 20A of BMO to tighten the procurement procedures of an OC. LACO would also incorporate a new requirement in the DMC Guidelines along the lines of the new section 20A of BMO.

Support for the Small and Medium Enterprises (SMEs)

SME support policy

26. The Commerce, Industry and Technology Bureau (CITB) is the lead bureau in coordinating the Administration's support measures for SMEs. The Administration believes that a fair and open business environment supplemented by supportive measures to strengthen SMEs' competitiveness should be most conducive to the dynamic and healthy development of SMEs. We attach great importance to SMEs. In addition to setting up the Small and Medium Enterprises Committee (SMEC) to solicit views of the business sector on support measures for SMEs, the Government also administers the SME funding schemes to help SMEs secure financing, expand export markets and enhance overall competitiveness. As SMEs cover different business sectors and they have diversified needs, CITB and the Trade and Industry Department (TID) have been working with various Government departments and business support organisations in providing a wide range of services and assistance for SMEs through a multi-faceted approach. The Administration will continue to work closely with SMEC and other relevant parties.

SME funding schemes

27. In end 2001/early 2002, the Government established the SME funding schemes, namely, SME Loan Guarantee Scheme (SGS), SME Export Marketing Fund (EMF), SME Development Fund (SDF) and SME Training Fund (STF) to address the needs of SMEs in the area of financing, export marketing, overall competitiveness and manpower training.

28. During the motion debate, a Member enquired how the EMF and the SDF could benefit SMEs in the architectural and surveying sector. Like other SMEs, eligible SMEs in this sector can apply for a cumulative amount of grant not exceeding \$80,000 from EMF to market their products or services overseas through participation in local and overseas export promotion activities. Since the introduction of EMF in end 2001, over 30,000 applications have been approved involving grants of over \$510 million. About 14,000 SMEs from various business sectors have benefited from the scheme. With respect to SDF, it provides financial support to projects which aim to enhance the overall competitiveness of SMEs, including those in the construction sector. With a view to facilitating the daily operation of small and medium construction contractors, SDF has provided some \$2 million to the University of Hong Kong to develop a web-based strategic information system, some smart decision support tools, workshops, and a self-learning package.

29. The SME funding schemes are widely known to the trade. For example, STF receives the most number of applications among the various schemes. As at end June 2005, some 96,300 applications have been received with over 27,600 SMEs benefited. Another example is the EMF, which now receives on average 300 applications per week. TID will continue to make use of various publicity channels to promote the schemes.

30. There was concern on the lapse of STF and the deployment of resources among the funding schemes. Due to considerable overlapping between STF and other Government funded initiatives (such as the Continuing Education Fund, Skills Upgrading Scheme, etc.), TID has ceased accepting new STF applications, since 1 July 2005. After the lapse of STF, the aforementioned Government funded initiatives will continue to cater for the needs of SME employers and employees. The Administration, with the approval of the Finance Committee, has lowered the assumed default rate for SGS and deployed resources to EMF and SDF. As a result, the total government loan guarantee commitment of SGS will increase from \$6.6 billion to \$10.6 billion and hence benefit more SMEs.

SME support measures

31. The Administration welcomes Members' suggestions of enhancing support services for SMEs. TID will maintain close liaison with various trade and industrial support organisations, with a view to enhancing our understanding of the needs of SMEs and helping us gauge their feedback on new policies or measures. The Support and Consultation Centre for SMEs (SUCCESS) of TID - the Government's flagship information and advisory centre for local SMEs will continue to serve as the first stop for local SMEs to obtain free, reliable and practical business information and consultation services. Since its establishment in December 2001, SUCCESS has served more than 120,000 visitors and answered 43,000 enquiries, mostly from SMEs targeting the local market. More resources will be allocated to SUCCESS to expand its information and advisory services.

32. To assist local manufacturers in complying with the green requirements set by the European Union (EU), the SDF has approved funding to the Federation of Hong Kong Industries and the Hong Kong Electrical Appliances Manufacturers Association to carry out two projects related to Waste Electrical and Electronic Equipment (WEEE) and Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (ROHS). The funding for these two projects amounts to \$2.29 million. Apart from funding support, TID, the Trade Development Council (TDC) and the Hong Kong Productivity Council also join forces to help the trade comply with the green requirements initiated by the EU.

Providing Assistance to HK Businessmen in the Mainland

33. The Beijing Office (BJO) has accumulated considerable experience in providing assistance to Hong Kong residents in distress in the Mainland. It has also established good liaison and strengthened communications and cooperation with relevant Mainland authorities to enable a better understanding of each other's policies and administrative measures. BJO will continue its best endeavour to assist Hong Kong residents through the established mechanism by maintaining and expanding its liaison network with the Mainland authorities at the Central and local levels.

34. The Guangdong Economic and Trade Office (GDETO) continues to keep close working relationship with the Guangdong Provincial People's Government, the municipal city governments and the authorities in charge of economic and trade affairs to maintain a smooth channel of providing help to Hong Kong people. We have also strengthened our communication with other Hong Kong business organisations as well as trade associations

in Guangdong so that concerted efforts can be made to provide assistance to Hong Kong people more effectively. Depending on the merits of each individual case, we will continue to offer appropriate assistance to Hong Kong people.

35. Since the implementation of CEPA, the SAR Government has organised various activities and seminars to promote CEPA in different Mainland provinces and cities through the efforts of BJO, GDETO, TDC etc. We have also been working closely with the Mainland authorities at the central, provincial and municipal levels to ensure the smooth implementation of CEPA. We have sought to provide assistance reflected the concerns of Hong Kong businessmen who encountered in operating business or expanding their business in the Mainland to the relevant Mainland authorities.

36. During the motion debate, a Member expressed the view that BJO and GDETO do not act on any cases of assistance requested by Hong Kong investors having disputes in the Mainland and detained. This does not reflect the actual situation. One of the major functions of BJO is to provide practical assistance to Hong Kong residents in distress in the Mainland. Upon receipt of a request for assistance from a Hong Kong resident in the Mainland, BJO processes and follows up the case having regard to its nature and circumstances, as well as the wish of the person seeking assistance. The actions we take for assistance cases include:

- (a) Making referrals to the relevant Mainland authorities and asking them to contact the person in need of assistance directly. Under the principle of "One Country, Two Systems", persons seeking assistance should follow the relevant Mainland procedures or regulations when dealing with their cases or problems. BJO cannot and should not interfere with the relevant Mainland administrative and legal procedures;
- (b) Making referrals to the relevant authorities in the HKSAR, and asking them to give a substantial reply directly, or through BJO, to the person requesting assistance;
- (c) Making referrals to the relevant non-official bodies in the HKSAR and asking them to contact the person requesting assistance directly; and
- (d) Mediating and following up the case directly with the relevant authorities in the Mainland and the HKSAR.

37. The breakdown of the requests for assistance not involving personal danger handled and followed up by the Economic Affairs, Trade and Liaison Section of the Beijing Office in the past three years, by the reasons for these requests, is –

Reason for the request	Number of requests		
	2002	2003	2004
Business and trade disputes	78 cases	64 cases	42 cases
Complaints relating to real property in the Mainland	82 cases	50 cases	35 cases
Complaints against administrative, law enforcement and judicial agencies in the Mainland	150 cases	139 cases	93 cases
Other cases	83 cases	68 cases	44 cases
Total	393 cases	321 cases	214 cases

38. The breakdown of the requests for assistance involving Hong Kong residents in distress or being detained in the Mainland handled and followed up by the Immigration Section of BJO in the past three years, by the reasons for these requests, is -

Reason for the request	Number of requests		
	2002	2003	2004
Loss of travel documents or monies	59 cases	54 cases	82 cases
In danger, involved in traffic accidents, injured or whose relatives had passed away	42 cases	69 cases	126 cases
Being detained	108 cases	96 cases	89 cases
Total	209 cases	219 cases	297 cases

Licensing Requirements and Regulatory Proposals Impacting on Individual Trades

39. Members raised concerns regarding licensing requirements and regulatory proposals impacting on the restaurant and other trades, such as the proposed anti-smoking legislation.

Proposed anti-smoking legislation

40. Regarding the anti-smoking legislation, the Health Welfare and Food Bureau understands the possible financial impact that the revocation of the exemption of the display of tobacco advertisement would have on licensed hawker stalls. At the same time, we

need to meet our obligations under the Framework Convention on Tobacco Control to further restrain the scale and scope of tobacco advertisement. We believe that a reasonable balance should be struck in this aspect. We have submitted to the Bills Committee a series of possible options in tightening up tobacco advertisement at licensed hawkers' stalls. We will carefully gauge the merits and disadvantages of all the options and report to the Bills Committee.

41. As regards whether certain sectors might be affected by the expansion of the smoking ban, we have taken into view the estimation of economists at the World Bank. They concluded in their estimation that the implementation of a total smoking ban in indoor workplaces may help employers achieve savings on a number of expenditures such as the cost arising from staff absence and sickness, staff medical expenses, life and fire insurance, maintenance fees and cleansing fees etc. The experience of many jurisdictions in Europe and America (including New York State, California, South Australia and Ireland) has shown that in the long run, the smoking ban should not have any adverse impact on the business of restaurants. In fact, indoor fresh air contributes to maintaining a comfortable environment for customers.

42. Indeed, a total smoking ban in all restaurants will help create a level playing field where no business will be diverted from smokefree restaurants to those that allow smoking. In an equitable environment, the pattern of competition in the restaurant sector will remain unchanged. Analyzed by objective data, over 85% of the people of Hong Kong are non-smokers, and a total smoking ban in restaurants may encourage them to eat out. With this offsetting effect, we believe that business turnover in restaurants will not be adversely affected when the new legislation comes into force.

43. Nevertheless, we understand that some proprietors of the catering and hospitality industries have doubts and worries about a total smoking ban in indoor places. In this connection, the Department of Health has set up a working group to maintain dialogue with them in order to understand their concerns and facilitate their transition to the new statutory framework. We will also keep in contact with various sectors to heed their views.

Voluntary surrender scheme for the live poultry trade, reducing the maximum licensing capacity of live chickens in local farms and regional slaughtering

44. To prevent the occurrence of avian influenza outbreaks in Hong Kong, we formulated and publicized our Comprehensive Plan of Action to Reduce the Risk of Avian

Influenza Outbreak (the Comprehensive Plan) in March 2005. Amongst other measures, the Comprehensive Plan proposed to introduce a voluntary surrender scheme for live poultry farmers/wholesalers/transporters to surrender their licenses/tenancies, reduce the maximum licensing capacity of live poultry in local farms and implement regional slaughtering.

45. In the consultation paper “Prevention of Avian Influenza: Consultation on Long Term Direction to Minimise the Risk of Human Infection” released in April 2004, the Administration has stated clearly that its major policy direction was to “separate humans from live poultry”. Since Hong Kong is a densely populated cosmopolitan city, the sale of live poultry in retail markets poses risks to public health and gives rise to environmental problems. The proposed regional slaughterhouse can significantly reduce human contact with live poultry in retail markets and, hence, better protect public health and ensure environmental hygiene.

46. As for the live poultry trade’s concern that they might lose their market, we believe that regional slaughterhouse can offer new services, such as the provision of chilled/frozen or freshly slaughtered chickens. Initially, the slaughterhouse may provide bulk service to the restaurant trade, thus ensuring a continuous supply of freshly slaughtered chickens to meet the demands of the public. It can also provide local retail outlets and supermarkets with chilled and frozen chickens to reduce our dependence on imported chilled and frozen chickens. In due course, the slaughterhouse can also create new business opportunities, such as sale of marinated chickens and sale to overseas markets.

47. The existing modus operandi of the live poultry trade will undergo fundamental change upon the implementation of regional slaughtering. Whilst live poultry farming and trading would continue to be allowed in Hong Kong, it would be appropriate to introduce a voluntary surrender scheme for live poultry farmers, wholesalers and transporters, as in the case of live poultry retailers, if they no longer wish to operate in a new environment. On 8 July 2005, the LegCo Finance Committee approved a \$380.1 million scheme to encourage live poultry farmers, wholesalers and transporters to voluntarily surrender their licences/tenancies and to cease their live poultry operation permanently. One-off grants will also be provided to assist affected local workers of the live poultry trade. We have launched the scheme on 5 August 2005 and the scheme will last for 12 months.

48. Furthermore, we would cap the maximum licensing capacity for local poultry farms so that the total number of live poultry reared in local farms would not exceed 2 million. We aim to reach this target via the voluntary surrender scheme for live poultry

farmers. If we are unable to reach the target reduction within the six month period of implementation, the Director of Agriculture, Fisheries and Conservation will exercise the power conferred by section 4 of the Public Health (Animal and Birds) (Licensing of Livestock Keeping) Regulation (Cap. 139L) to impose such licence condition relating to the keeping of livestock and public health to reduce the maximum licensing capacity of the remaining individual farms as he thinks fit.

49. Regarding the voluntary surrender scheme for live poultry retailers, the application deadline for this scheme was extended for 12 months to tally with the application deadline for the scheme for farmers, wholesalers and transporters. As at 28 July 2005, 244 live poultry retailers have surrendered their licences/market stall tenancies. According to these retailers, around 260 retail workers are affected. The Administration will continue to provide one-off grants to qualified workers who are rendered jobless by the scheme.

Demerit point system for pig farms

50. Hong Kong is a densely populated cosmopolitan city with limited land resources, which seriously restricted the development of the livestock industry. As traditional livestock farming practices pose risks to public health and give rise to environmental problems, its development potential in a densely populated city like Hong Kong is extremely limited. As livestock farms are located in close proximity to residential developments in some areas of Hong Kong, the Government must tighten the regulatory regime for livestock keeping licence to protect public health and ensure environmental hygiene. The proposed demerit point system for livestock farms will clearly set out offences to be included in the system. They are mainly offences under various existing Ordinances that have impact on public and animal health and environmental hygiene. The system will set out the number of demerit points to be assigned to the licensee upon conviction of any such offences and the number of demerit points that will entail revocation of livestock keeping licence. The objective of the system is to ensure that farmers would comply with the licensing conditions. We would like to stress that the proposed demerit point system only targets at farmers who breach the law. It will not affect the majority of farmers who comply with the licensing conditions. At present, the proposal is still in the conceptual stage. We will liaise with the relevant Bureaux/Departments to work out the details and consult the trade on the proposed system.

Food business licensing procedures, on-street Cooked Food Stalls (CFS), public markets and the Hygiene Manager and Hygiene Supervisor Scheme

51. Members also expressed concern over food business licensing procedures, on-street Cooked Food Stalls (CFS), issues relating to public markets under the purview of the Food and Environmental Hygiene Department (FEHD) and the implementation of the Hygiene Manager and Hygiene Supervisor Scheme.

52. During the meeting on 28 June 2005 of the Subcommittee to Study the Streamlining of Food Business Licensing Procedures (the Subcommittee), which is set up under the LegCo Panel on Food Safety and Environmental Hygiene, the Administration proposed short term and longer term improvement measures to streamline the food business licensing procedures. As for short-term improvement measures, the Administration will: -

- (a) Reduce the processing time of licence applications by the Buildings Department (BD), Fire Services Department (FSD), Hong Kong Police Force (HKPF), and Home Affairs Department (HAD);
- (b) Consider introducing a new type of composite food licence by the Food and Environmental Hygiene Department (FEHD) to cover the sale of different types of ready-to-eat food;
- (c) Relax certain licensing requirements which do not pose food hygiene problems; and
- (d) Review the existing requirements for change in applicants' food premises layout plans with a view to simplifying them where possible.

53. As for longer-term improvement measures, the Administration has agreed in principle to implement a new system whereby the licensing authority will accept the certification by authorised persons and/or registered professionals on the compliance with the various licence requirements. However, time will be needed for consultation with the trade and relevant stakeholders, establishment of the relevant professional registration regime and undergoing the necessary legislative amendments. We will keep in view the implementation of the improvement measures and work closely with the Subcommittee on this issue.

54. While on-street CFS have a long history in Hong Kong, there is considerable public concern on the environmental nuisances, public hygiene and food safety standards associated with them. Due to the environmental constraints of the on-street sites, most of these CFS lack proper sanitary facilities like toilets and sewage drains. Besides, they may cause disturbances such as excessive noise and oil mist to their surroundings when preparing and cooking their food.

55. The Administration considers it much desirable for on-street CFS to operate in cooked food centres in FEHD-managed wet markets and off-street cooked food hawker bazaars. This will not compromise the aim of preserving their culinary tradition because they can continue to operate with their characteristic cuisines, cooking and serving styles in a hygienic and purpose-built environment.

56. As regards public markets, FEHD will continue to take various measures to promote them so as to improve their occupancy rate. To attract new businesses, FEHD has been proactively approaching potential tenants and has identified a few markets for promotion to the service industry. FEHD will continue to publish quarterly newsletters to disseminate market and other related information to customers and tenants. To bring in more customers, FEHD has also been conducting various promotional activities such as the Lunar New Year festive promotions, lucky draw, competitions, workshops/talks and exhibitions in a number of suitable markets. After consulting the relevant market management consultative committees, FEHD has carried out improvement works including the addition of signs and customer-oriented facilities in some markets. In order to make the stalls more appealing to potential bidders, FEHD has identified a number of small stalls which have been vacant for a long time for conversion into larger ones if technically viable.

57. The objective of implementing the Hygiene Manager and Hygiene Supervisor Scheme is to strengthen supervision in food preparation process, so as to prevent food-borne disease. The posts of Hygiene Manager and Hygiene Supervisor could be assumed by existing staff of food premises. The FEHD has been providing sufficient free training places for Hygiene Supervisors. As at late June 2005, about 40 000 Hygiene Supervisors have completed the training and passed the test. FEHD has also recognized training courses for Hygiene Manager organized by 10 academic and vocational training institutions. About 10 000 Hygiene Managers have been trained and awarded a certificate as at late June 2005. We believe that it would not burden the trade in terms of operational costs.

Labelling Scheme on Nutrition Labelling and the labelling requirements for allergenic substances

58. During the motion debate, Members also expressed their views on the Labelling Scheme on Nutrition Labelling and the labelling requirements for allergenic substances.

59. To promote public health, the Administration proposed to introduce the Labelling Scheme on Nutrition Information (the scheme) in Hong Kong in two phases. The latest proposal requires the labelling of energy plus 5 core nutrients (instead of energy plus 9 core nutrients as in the original proposal) in Phase I. The coverage of Phase I would also be limited to prepackaged food with nutrient-related claims only. Prepackaged food without nutrient-related claims will not be affected in Phase I. Compared with the original proposal, the economic cost to the trade and the number of products affected in Phase I would be reduced by more than half. In Phase II, all prepackaged food, unless exempted, would require to be labelled with the information on energy plus 9 core nutrients. A two-year grace period each is allowed before the implementation of both Phase I and Phase II of the scheme.

60. On 8 June 2005, the LegCo passed a motion to, amongst other things, expedite the legislation on a mandatory nutrition labelling scheme. If there is general support from the community to implement the whole nutrition labelling scheme in one go, the Administration has no objection to making it mandatory to provide information on energy plus 9 core nutrients for all pre-packaged food in one go. However, the timeframe for implementation must be reasonable and practicable. At this stage, there is no plan to implement the scheme in one go.

61. The Administration will continue the dialogue with the trade and the professional sector over the implementation issues of the scheme, including finalizing the exemption list and drafting a set of implementation guidelines in consultation with the trade. FEHD had held another round of technical meetings with the trade in June to discuss details of the regulatory scheme, including exempted items, tolerance limits and rounding rules. The next round of technical meetings would be held in September. We would also strengthen our public education on nutrition. We aim to introduce the relevant legislative amendments to the Legislative Council in 2006.

62. The trade has raised comments and questions on the labelling requirements for allergenic substances. FEHD has taken into account the concerns of the trade and issued a set of draft guidelines to the trade for comments in mid April 2005. After receiving the

comments, a forum was conducted on 20 June 2005 to further discuss and address the concerns of the trade. FEHD will issue the revised guidelines in August after incorporating views and comments received at the forum.

Assistance to fishermen

63. During the motion debate, there was also concern among Members over our assistance to fishermen. The soaring petroleum price this year and the high consumption rate by trawling vessels (comprises more than 50% of the operational cost) have affected the livelihood of fishermen, in particular during the annual fishing moratorium in the South China Sea in June and July. The Administration has arranged a series of measures to assist the concerned fishermen group to tide over the difficult period, including making a special CSSA arrangement, approving the use of a special loan for fishing moratorium for buying petroleum, and increasing the loan ceiling from \$80,000 to \$120,000.

Facilitating Business in Housing Authority Premises

64. Members voiced concerns regarding doing business in Housing Authority premises. Responses from the Housing, Planning and Lands Bureau are set out below.

Business strategy of the Link Management Ltd

65. With effect from 1 March 2005, The Link Management Ltd (LML) acts as Housing Authority (HA)'s agent to run and manage the 180 retail and carpark facilities (RCF) under the divestment portfolio. In May, LML started to take over the leasing function. Before the Initial Public Offer, HA still owns the RCF which will be operated in accordance with HA's established policies.

Rent assessment

66. HA lets its commercial properties at market rent, normally for a three-year fixed term. Upon tenancy renewal, HA will assess the rent with reference to the location, pedestrian flow, trade, business environment of neighbouring retail premises and specific factors of respective premises etc to ensure that the rent level, which may be adjusted upwards or downwards, is reasonable and acceptable to both tenants and HA. At the moment, the same approach is being pursued by LML. In fact, rent increase is never LML's key business strategies. LML will take into account the market trend in

determining the rent levels on a commercial basis.

Free-parking scheme

67. The Free-parking Scheme was introduced in April 2002 to help stimulate retail business and attract shoppers during the then economic turmoil. The Scheme had extended four times, and on 29 December 2004 HA decided to extend the Scheme for the last time to end March 2005. As there are clear signs that the retail business is steadily recovering, HA should discontinue the scheme that incurred over billion dollars from the public coffers per year. In fact, the statistics revealed that the turnover of large retail tenants has dropped only slightly after the discontinuation of the Scheme.

68. With the introduction of the Parking Coupon Discount Scheme and a series of publicity and promotional activities such as the launching of a territory-wide ‘Summer Lucky Draw Programme’, more customer patronage and carpark usage at HA shopping centers will be stimulated, thereby bringing a ‘win-win’ situation to both the retail tenants and the HA.

Improvement works

69. On the other hand, LML will implement physical and other improvement works to enhance the attractiveness and competitiveness of the RCF and maximise tenants’ sales. These include installation of air-conditioning system at the wet market in five shopping centers, namely Tai Wo, Chuk Yuen South, Tsui Lam, Sha Kok and Mei Lam. LML will conduct detailed studies and plan the improvement works according to the feasibility and commercial viability with a view to creating a better shopping environment for both commercial tenants and shoppers.

Clearance of Housing Authority’s old factory estates

70. In 1989, HA reviewed the policy of flatted factory estates. Having regard to its core mission of providing subsidised rental housing to low-income families in need, HA decided to progressively absolve itself from the ownership and management of flatted factories in the long term. Given their substandard design and in light of the deteriorating building conditions as a result of ageing, HA decided to clear the remaining old-style factory estates in phases.

71. To minimise the impact of clearance on affected factory tenants, HA implements a number of measures to assist tenants in making removal arrangements. Advance notice will be given to affected tenants 18 months prior to clearance so that they have ample time to make suitable arrangements. Ex-gratia allowances will also be offered to meet part of tenants' cost of re-establishing or winding up their business.

72. For those tenants who wish to relocate to other newer factory estates, HA will assist them in finding suitable premises through open or restricted tenders. A three-month rent free period will be offered to tenants. Alternatively, they may opt for a cash sum in lieu of relocation. These measures should meet the needs of tenants affected by clearance of old factory estates.

Insurance Policy Issues

73. As regards the matter of employees insurance, it is EDLB's policy to require all employers to take out insurance cover from authorised insurers so as to ensure their ability to compensate their employees injured at work both under the Employees' Compensation Ordinance, Cap. 282, and common law.

74. Insurance is a risk assessing and pricing business and Hong Kong has an open insurance market. Employers who have invested in safety management for reducing risk of accidents at work should inform their insurers of the measures adopted when they take out or renew their employees' compensation insurance (ECI) policy. This would enable insurers to take into account such information when determining the premium level.

75. To address the problems faced by high-risk industries in taking out ECI, the Hong Kong Federation of Insurers (HKFI) has recently formed a Task Force for setting up a residual scheme. The HKFI would engage actuaries to work out the benchmark premium rate for high-risk groups. A premium loading mechanism would be set to apply to those employers with a history of poor claims experience. The premium rating system would be made transparent to the public. In situation where the rate quoted by insurers exceeds a certain percentage above the established benchmark, for example, the case in question can go into the residual scheme for proper assessment. According to the Federation, the earliest date when the residual scheme could be implemented would be the first quarter of 2006.

Environmental Protection Issues

The Plastic Bag Levy

76. Members have raised concerns on the impact of the proposed Plastic Bag Levy on wholesale, retail and the plastic bag manufacturing industry. This falls under the ambit of ETWB/Environmental Protection Department (EPD).

77. EPD estimates that about 1,000 tonnes of plastic bags were disposed of at landfills in 2004. Unnecessary consumption of plastic bags should be avoided to reduce waste and to conserve resources. Some countries and places have introduced economic tools (e.g. a plastic bag levy) to change behaviour. Such levies may be imposed voluntarily by some enterprises or mandated through legislative means. The Administration is considering various proposals with a view to finding one which is most appropriate for Hong Kong, taking into account the feasibility, cost-effectiveness and impacts to stakeholders. We will consult the public on the feasible options for plastic bag reduction.

Communication with the trade

78. Some Members suggested that the Administration should enhance its communication with the trade on various environmental issues. EPD has been actively building partnership with the industry and trade. In addition to distributing various promotional leaflets, posters, guidebooks and CD-ROM, EPD organizes seminars and workshops regularly to foster communication and cooperation with the industry and trade. This can not only assist the trade in improving their awareness of and compliance with environmental protection requirements but also help improve their competitiveness. In recognition of its importance, EPD, after restructuring on 1 April 2005, has set up a new Business Facilitation Office to strengthen work in this area.

79. For example, in December 2004 and January 2005, EPD tailor-made and launched support packages comprising user manuals, templates and work examples on Environmental Management Information and ISO 14001 Environmental Management System (EMS) for SMEs in the construction sector and electrical/electronic sector respectively. The purpose is to help the business sector understand the local and global environmental pressure from their stakeholders and stay competitive in the environmentally conscious world business market by developing and implementing their own EMS. EPD also produced publications and support packages to explain the green management concept

and to provide step-by-step procedures for developing an EMS in accordance with the ISO 14001 principles. These publications and support packages are distributed free of charge to the public as well as available on the Internet at EPD's website :

http://www.epd.gov.hk/epd/english/how_help/tools_ems/tools_ems.html.

80. EPD also operates a Helpdesk Service Hotline (2838 3111) providing a one-stop source of information for the business community, on environmental standards, legislation, and practical guides for reference.

Volatile Organic Compounds (VOC)

81. EPD has revised its original proposal of a mandatory labelling and registration scheme to be a scheme of direct limits controls on VOC-containing products. We are consulting the trade on the feasibility of appropriate limits.

Waste Recycling

82. Although as many as 2.4 million tonnes of municipal solid waste (MSW) are recovered annually as recyclable materials, over 90% of these materials are exported for recycling. Although the recovery rate of MSW increases steadily over the years, the proportion of recovered materials recycled locally has actually decreased from 15% in 1999 to 9% in 2004. As the Government actively promotes measures on source separation of waste and waste recovery, it is anticipated that the volume of the recovered materials would continue to rise. Therefore, it is essential to encourage recycling of local recyclables in the territory. We are developing a policy on promoting the recycling industry in Hong Kong. Apart from improving the collection network through source separation of waste, the Government has been allocating suitable land for the recycling trade by way of short term tenancies. So far, the Government has already allocated 29 sites totalling 5.6 hectares on short-term tenancies to recyclers, most of which are SMEs.

83. Moreover, the Government has set aside 20 hectares of land in Tuen Mun Area 38 for developing an EcoPark, which will be developed solely for use by the environmental and recycling industry, so as to encourage long term investments and provide incentives to establish high value-added industries and downstream services. The EcoPark will consider giving high priority to businesses that recycle local waste or wastes which are difficult to handle. It is estimated that about 750 new positions could be created by 2007, while 200 jobs will be created during the construction stage of the EcoPark.

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