

立法會
Legislative Council

LC Paper No. CB(1)1769/05-06
(These minutes have been seen
by the Administration)

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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 16 May 2006, at 2:30 pm
in Conference Room A of the Legislative Council Building

Members present : Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP (Chairman)
Hon Vincent FANG Kang, JP (Deputy Chairman)
Dr Hon LUI Ming-wah, SBS, JP
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung

Members absent : Hon Timothy FOK Tsun-ting, GBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP

Member attending : Hon WONG Kwok-hing, MH

Public officers attending : Agenda Item IV

Mr Philip YUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry) 1

Miss Viola CHAN
Principal Executive Officer (Administration),
Commerce and Industry Branch

Mr Arthur HO
Deputy Secretary for Constitutional Affairs 2

Mr Edwin LAU
Assistant Secretary (Constitutional Affairs) 2A

Agenda Item V

Mr Philip YUNG
Deputy Secretary for Commerce, Industry and
Technology (Commerce and Industry) 1

Mr Rex CHANG
Assistant Director-General of Trade and Industry

Ms Helen CHENG
Trade Officer
Trade and Industry Department

**Attendance by
Invitation** :

Agenda Item V

Hong Kong Rice Importers and Exporters Association

Mr Kenneth CHAN
Representative

Hong Kong Rice Suppliers' Association Limited

Mr LAM Tong
President

Mr T H HSU
Managing Director

The Rice Merchants' Association of Hong Kong
Limited

Mr James FOO Che-fuk
Chairman

Mr David TONG Tai-kam
Vice Chairman

Clerk in attendance :

Miss Polly YEUNG
Chief Council Secretary (1)3

Staff in attendance : Mr Paul WOO
Senior Council Secretary (1)3

Ms YUE Tin-po
Senior Council Secretary (1)5

Ms Sharon CHAN
Legislative Assistant (1)6

Action

I Confirmation of minutes and matters arising

LC Paper No. CB(1)1463/05-06 -- Minutes of meeting held on
18 April 2006

The minutes of the meeting held on 18 April 2006 were confirmed.

II Papers issued since last meeting

LC Paper No. CB(1)1451/05-06(01) -- A letter dated 8 May 2006 from
Commissioner for Innovation and
Technology regarding organization
chart of the Applied Science and
Technology Research Institute

LC Paper No. CB(1)1418/05-06(01) -- A letter dated 27 April 2006 from
the Applied Science and
Technology Research Institute
(ASTRI) in response to the recent
allegations against the management
of ASTRI lodged by anonymous
persons

2. Members noted that the above papers had been issued for the Panel's
information.

III Date and items for discussion for next meeting

LC Paper No. CB(1)1462/05-06(01) -- List of outstanding items for
discussion

LC Paper No. CB(1)1462/05-06(02) -- List of follow-up actions

3. Members agreed that the Panel would discuss the item on “Reports by Heads of Hong Kong Economic and Trade Offices” at the next meeting to be held on 20 June 2006.

4. Referring to the papers issued under agenda item II relating to the management of the Applied Science and Technology Research Institute (ASTRI), Mr SIN Chung-kai suggested that the Panel should discuss matters relating to the operation and management of ASTRI as and when appropriate. The Chairman agreed that the item should be included in the list of outstanding items for future discussion by the Panel.

IV Rent Allowance for officers posted to the Economic and Trade Offices in the Mainland and Europe

LC Paper No. CB(1)1462/05-06(03) -- Information paper provided by the Administration

5. Members noted that the proposal on the establishment of the two Mainland Economic and Trade Offices (ETOs) in Shanghai and Chengdu had been endorsed by the Establishment Subcommittee (ESC) and approved by the Finance Committee (FC). In addition, the proposals on the establishment of a new ETO in Berlin and the reorganization of ETOs in Europe to strengthen the HKSAR’s representation in Europe had been endorsed by ESC on 3 May 2006 and were scheduled for FC’s consideration on 19 May 2006.

6. At the invitation of the Chairman, the Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry) 1 (DSCIT(CI)1) briefly introduced the Administration’s paper on the proposed rates of rent allowance (RA) payable to officers to be posted to the three new ETOs to be set up in Shanghai, Chengdu and Berlin as well as the head of the London ETO following the re-structuring of the ETO, and the basis for determining the RA rates. He invited members’ support for the proposed RA rates specified in Annexes A and B of the Administration’s paper.

7. In response to Mr SIN Chung-kai’s enquiry about the arrangements for reimbursement of RA for Hong Kong-based officers posted to ETOs, DSCIT(CI)1 advised that RA would be reimbursed on an accountable basis and in the local currency of the country where the officers were posted. Supporting documents such as rental invoices and receipts had to be provided when applying for reimbursement. The RA rates represented the ceiling for reimbursement of the accommodation expenses and any amount in excess of the ceiling had to be borne by officers. If the actual rental payable by the officer concerned was lower than the specified ceiling, then he would only be reimbursed the lesser amount.

8. Summing up, the Chairman said that the Panel supported the Administration's proposals.

9. Members noted that the Administration would submit the relevant proposal to FC for approval in June 2006.

V Review of the existing Rice Control Scheme

LC Paper No. CB(1)1462/05-06(04) -- Information paper provided by the Administration

LC Paper No. CB(1)1462/05-06(05) -- Letter dated 21 April 2006 from Hon Vincent FANG Kang (Chinese version only)

LC Paper No. CB(1)2228/01-02 -- Information provided by the Administration in July 2002 on the progress of the liberalization of the rice trade

10. Members noted that the item was proposed by the Deputy Chairman. The Deputy Chairman said that after liberalization of the rice trade in January 2003, some rice traders had raised concerns over the need to maintain a reserve stock and the unfair competition which had arisen from the failure of a number of new stockholders in complying with the requirements of the Rice Control Scheme (RCS). They were also dissatisfied that the Administration had not taken effective measures against violations of the requirements under RCS.

Presentation by the deputations

11. The Chairman welcomed the deputations and invited them to present their views on the implementation arrangements of RCS.

Hong Kong Rice Suppliers' Association Limited
(LC Paper No. CB(1) 1486/05-06(01))

12. Mr LAM Tong, President of the Hong Kong Rice Suppliers' Association Ltd (HKRSAL), opined that it was desirable to keep a minimal reserve stock and that each rice stockholder should maintain 17% of his import quantity or sales volume as reserve stock for each import period. However, as some new stockholders had failed to comply with the requirements of RCS, HKRSAL urged the Administration to step up enforcement actions against non-compliance of conditions of registration and to monitor the operation of RCS in a more vigilant manner so as to maintain a fair market environment. Otherwise, the Administration should consider full liberalization of the rice trade to enhance competition.

Hong Kong Rice Importers and Exporters Association

13. Mr Kenneth CHAN, representative of the Hong Kong Rice Importers and Exporters Association (HKRIEA), called on the Administration to review the operation of RCS. He pointed out that some of HKRIEA's members were of the view that a stringent regulatory mechanism was required to monitor stockholders' compliance of the requirements of RCS. While some members of the Association opined that the rice trade should be fully liberalized without the need to maintain a reserve stock, some held the view that reserve stock should be maintained to cater for emergency situations or any short-term shortage of supply.

The Rice Merchants' Association of Hong Kong Limited

14. Mr James FOO, Chairman of the Rice Merchants' Association of Hong Kong Limited (RMAHKL), opined that if the Administration considered that there was a need to maintain the reserve stock system, a stringent regulatory mechanism was required for the operation of RCS to protect the interests of rice stockholders. Otherwise, the rice trade should be fully liberalized so as to allow stockholders to operate in a free market environment. RMAHKL also urged the Administration to consider the need for introducing an anti-trust law to prevent the possibility of monopolization upon full liberalization of the rice trade in the long term.

Submission from a rice merchant

15. The Chairman invited members to note a submission from a rice merchant which was tabled at the meeting. In gist, the rice merchant suggested that the Reserved Commodities Ordinance (the Ordinance) should be repealed and that the rice trade should be fully liberalized to lower the retail price of rice which would eventually benefit consumers.

Deputations 16. At the request of the Chairman, the deputations agreed to provide their written views to the Panel after the meeting if they had not already done so.

(Post-meeting note: The deputations' submissions were circulated to members vide LC Paper No. CB(1)1512/05-06(01), CB(1)1538/05-06(01) and CB(1)1562/05-06(01).)

Discussion with deputations and the Administration

Implementation arrangements since 2003

17. At the invitation of the Chairman, the Deputy Secretary for Commerce, Industry and Technology (Commerce and Industry) 1 (DSCIT(CI)1) briefed members on the implementation arrangements since liberalization of the rice

trade in January 2003. In gist, DSCIT(CI)¹ said that the registration criteria for rice importers under RCS had been relaxed: there was no more capital and financial requirements on rice importers, and no more import quota for rice. The Government only maintained the minimum control necessary to ensure a stable supply, and to keep a reserve stock at a level sufficient for local consumption for 15 days to cater for emergencies or any short-term shortage of supply. The statistics on actual imports and stock level through the licensing system and from registered stockholders were regularly disseminated to all stockholders to facilitate understanding of the market situation to enable prospective rice importers to make informed decisions. Since the review of RCS, the rice trade had been operating generally in a free market environment. The Assistant Director-General of Trade and Industry (ADGTI) supplemented that liberalization also helped to promote competition in the rice market by attracting new entrants. In fact, the number of registered stockholders substantially increased from 52 by end 2002 to 83 by end 2003 and further rose to 97 by end 2004. The number stabilized in 2005 following a surge in the preceding two years.

The requirement to maintain a reserve stock

18. Mr Jeffrey LAM recalled the public panic when a large number of people rushed to buy rice from supermarkets when Hong Kong was said to be declared as an infected area during the Severe Acute Respiratory Syndrome outbreak. In this connection, he considered that the local population still had a psychological reliance on rice as a staple food and hence there was still a need to maintain a reserve stock to ease public panic under exceptional circumstances. Instead of implementing full liberalization of the rice trade, Mr LAM urged the Administration to continue to review RCS and whether the level of reserve stock should be suitably reduced. Publicity and education should also be enhanced to strengthen the monitoring of the compliance of stockholders with the requirements of RCS.

19. DSCIT(CI) and ADGTI advised that the Administration had all along maintained close contact with representatives of the rice trade and members of the Rice Advisory Committee (RAC) on the progress of liberalization of the rice trade. There were arguments for and against the need to maintain a reserve stock but no consensus on the issue had been reached by the trade and RAC so far. The Administration considered that the general public still had psychological attachment to rice as a staple food and that a reserve stock should be maintained to cater for emergencies and short term shortage of supply. At the request of the Chairman, the Administration undertook to continue to consult the rice trade and RAC on how the operation of RCS could be further improved. The Chairman suggested that the Administration should also discuss the issue with RAC.

Admin

20. Mr SIN Chung-kai said that he was in favour of full liberalization of the rice trade. However, he reckoned that there might be public panic if there was

not an appropriate level of reserve stock. He agreed that the Administration should examine whether the rice trade had a consensus on the full liberalization of the rice trade, and discuss the issue with RAC before considering the way forward.

21. Mr WONG Ting-kwong expressed support for the existing operation of RCS and the maintenance of a reserve stock and urged for intensified enforcement actions against offenders, in particular those new stockholders which entered the market lately, so as to achieve a deterrent effect and provide a fair business environment in Hong Kong.

22. In this connection, the Chairman suggested that the Administration should make reference to the regulatory measures, if any, adopted by overseas countries to deal with in supply of the staple food, including the requirement or otherwise to maintain a reserve stock, and whether regulatory action was applied at the level of retailers, or importers, of staple food. DSCIT(CI)1 took note of her view and suggestion for consideration.

Admin

Enforcement actions

23. In response to the rice traders' concerns raised by the Deputy Chairman and the deputations, DSCIT(CI) advised that the Administration had implemented improvement measures to further strengthen RCS and adopted a targetted and risk management approach to step up checks and investigations which had resulted in more warnings issued and more cancellation of registrations.

24. Mr WONG Ting-kwong pointed out that as far as he knew, the number of inspections on the stockholders conducted by the Administration in 2003 and 2004 was 3214 and 3379 respectively. The number of prosecutions arising from such inspections was six, of which two offenders were arrested while one was summoned in 2003 and three were arrested in 2004. On top of written warnings issued by the Trade and Industry Department (TID), Mr WONG considered that prosecution action against offenders could achieve a higher deterrent effect.

25. DSCIT(CI) and ADGTI took note of Mr WONG's views. They advised that the Customs and Excise Department (C&ED) had conducted regular checks and inspections on the stockholders, storage places and consignments to uphold the integrity of RCS. C&ED had intensified enforcement actions since early 2003 following the increase in the number of rice stockholders and storage places. In 2005, there were 59 cases relating to breach of conditions of registration against which TID had issued written warnings to the concerned stockholders. Amongst these cases, five more serious ones had resulted in cancellation of their registration with TID. The Administration had also enhanced its guidelines on RCS to remind existing and prospective stockholders that contravention of the Ordinance and its subsidiary legislation was an offence and that the offender would be liable to legal and/or administrative actions. They assured members

that TID would, in collaboration with C&ED, make continuous efforts to step up administrative and enforcement actions.

26. In response to Mr WONG Ting-kwong's and Mr SIN Chung-kai's enquiry about the number of inspections conducted and the manpower involved as well as the details of the enforcement actions taken by the Administration, ADGTI advised that TID had briefed stockholders on the need to observe the guidelines on RCS, as well as the administrative actions against offenders. In addition, in the light of complaints reported by the rice trade, C&ED had since early 2005 conducted several inspections on stockholders suspected of violations of requirements under RCS. However, no irregularities or non-compliance with the requirements of the RCS had been detected by C&ED during the inspections. He further pointed out that in 2005 the numbers of inspections on stockholders and rice storage places conducted were 95 and 86 respectively, and over 2100 documentary checks were also made by C&ED officers. At present, each approved storage place was also required to submit monthly returns on storage of rice to TID for record keeping and statistical compilation.

27. Mr SIN Chung-kai remarked that the Administration should inspect each stockholder quarterly and should consider the feasibility of conducting joint inspections with representatives of the rice trade on stockholders for at least three to four times a year so as to uphold the integrity of RCS.

Latest market situation

28. Noting that Thailand continued to be Hong Kong's dominant source of supply accounting for about 90% of the total imports, Mr Jeffrey LAM enquired whether the Administration had any contingency arrangement in case of unexpected shortage of supply from Thailand.

29. In response, ADGTI advised that the requisite reserve level of 15 days' consumption was calculated on the basis of the time required for implementing contingency measures in case of a shortage of rice. It included the estimated time required for different processes, such as liaison with rice suppliers, transportation, clearance and sale of rice. When there was a shortage of supply of rice, the Administration might direct registered stockholders to dispose of the reserve stock to maintain sufficient supply of rice in the market.

30. Mr WONG Kwok-hing expressed grave concern over the possibility of monopolization of the import and retail sale of rice by the two major supermarket chains in Hong Kong. He considered that the Administration should keep in view the situation. In this connection, he enquired whether the supermarkets concerned were on the list of registered stockholders and whether they had any record of failure to comply with the requirements of RCS.

31. In reply, ADGTI confirmed that one of the major supermarket chains referred to by Mr WONG was a registered stockholder and so far, no breach of

conditions of registration under RCS had been recorded against it. He stressed that the operation of RCS aimed to ensure a stable supply of rice and to keep a reserve stock sufficient for local consumption for a reasonable period to cater for emergencies or any short-term shortage of supply. All along, the Administration had only imposed the minimum control necessary to achieve the above purposes. The objective of liberalization of the rice trade in January 2003 was to enhance competition and increase market efficiency. Interested parties joining the rice trade had to comply with the requirements of RCS and operate in accordance with the law. In response to Mr WONG Kwok-hing's enquiry about the latest market situation, ADGTI said that there had not been any major change in the level of consumption of rice in Hong Kong. The rice trade was generally operating in a free market environment and supply and demand were determined by market forces. DSCIT(CI) further reiterated that there was no evidence showing any monopolization of the rice market having regard to import figures of rice. While the question as to whether the supermarket chains had monopolized the retail market was outside the scope of the RCS, the Administration would monitor the development of the trade in the course of liberalization.

32. Mr SIN Chung-kai enquired whether the two major supermarkets had imposed any unfair treatment on rice stockholders, such as prohibiting any of them from doing business with their chain stores. In this regard, Mr James FOO said that RMAHKL had no information on such cases. Nevertheless, he highlighted that the rice trade had expressed dissatisfaction that the two major supermarket chains had engaged in anti-competitive practice, such as selling rice at a price below its cost for the sole purpose of drawing more customers to their stores. He said that the sales practice adopted by the supermarkets' had put pressure to drive the retail price of rice downwards.

33. Noting from the Administration's paper that at present, the total import of rice from the Mainland was only 3.8% of Hong Kong's source of supply, the Deputy Chairman considered that the Administration should liaise with the neighbouring provincial governments in the Mainland for more supply of rice to Hong Kong. With this additional source, he anticipated that it might be feasible to reduce the level of reserve stock from 15 days' to 10 days' consumption. This would help lower the operating costs of the rice trade and provide greater choice to consumers. In this connection, Mr LAM Tong informed members that the price of rice imported from Thailand was far cheaper than that from the Mainland. He further clarified that the supply of rice in the Mainland mainly catered for the consumption of its own population; and therefore only a very small amount of its rice production could be exported to Hong Kong.

Rice storage places

34. Mr WONG Kwok-hing drew members' attention to HKRSAL's suggestion on allowing only high standard godowns to be registered as approved rice storage places for storing the 17% reserve stock. HKRSAL was of the view that the

proposed arrangement would facilitate the Administration in monitoring stockholders' compliance with the requirement to maintain a reserve stock. General compliance by the trade would bring about a fair market environment.

35. ADGTI clarified that the existing arrangement on registration as rice storage places had not changed after the liberalisation in January 2003. Any person carrying on business in Hong Kong and duly registered under the law might apply for TID's approval for his godown as an approved rice storage place. He recalled that the number of approved rice storage places had also increased substantially after liberalization of rice trade in 2003 and the increase had provided more choices and flexibility to rice stockholders and reduced their operating costs.

36. In response to Mr WONG Kwok-hing's enquiry about the arrangements regarding rice storage places, Mr LAM Tong said that under the existing of RCS, each rice importer had to maintain 17% of his import quantity or sales volume as a reserve stock for an import period of three months and that stockholders had to ensure that the hygiene standards of their rice storage places met the relevant requirements. Mr James FOO declared that he was the Chairman of the Hong Kong Godowns Association. He supplemented that other than the conditions of approval set out by TID, stockholders had to fulfil certain financial requirements before they could apply for guarantee for business loans from lending institutions.

37. In response, ADGTI advised that the existing arrangement worked smoothly and allowing only some godowns to be registered as approved storage places for storing reserve stocks would deprive stockholders, particularly those newly registered ones, of their flexibility in managing their own rice storage places; and might also increase the operating costs of stockholders, in particular those small and medium-sized ones. To address HKRSAL's concern, the Administration considered it more cost-effective to focus on its efforts on intensifying enforcement action against offenders. DSCIT(CI)1 added that the Administration would continue to discuss with the rice trade on matters relating to rice storage places.

Admin

VI Any other business

38. There being no other business, the meeting ended at 4:00 pm.