

LEGISLATIVE COUNCIL

PANEL ON COMMERCE AND INDUSTRY

Establishment of a New Economic and Trade Office in Europe

Purpose

This paper briefs Members on the establishment of a new Economic and Trade Office (ETO) in Berlin and the related reorganisation of ETOs in Europe to strengthen the HKSAR's representation there. Members are invited to support the redeployment of an Administrative Officer Staff Grade C (AOSGC) (D2) post from the ETO in London to head the new ETO, and the re-ranking of the head of the ETO in London post from Administrative Officer Staff Grade A (AOSGA) (D6) to Administrative Officer Staff Grade B (AOSGB) (D3) level.

Background

2. Currently, the European Union (EU) is Hong Kong's third largest trading partner. Hong Kong is also a favoured destination of direct investment by foreign and Mainland enterprises. The 2005 United Nations Conference on Trade and Development report revealed that Hong Kong remained the second largest foreign direct investment recipient in Asia after the Mainland. Up to end of 2004, the cumulative stock of external direct investment in Hong Kong amounted to \$3,521.9 billion, of which \$425.1 billion were investments from 25 EU Member States (EU 25)¹. According to a survey by the Census and Statistics Department, as at 1 June 2005, 3 798 foreign companies have set up regional headquarters or regional offices in Hong Kong, of which 1 083 companies are by enterprises from EU 25.

¹ EU 25 includes 15 countries which joined the EU prior to 1 May 2004 (Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the UK) and 10 countries which joined the EU on 1 May 2004 (Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia).

3. Hong Kong's representation work in Europe is essentially being undertaken by the Brussels and London ETOs. The Geneva ETO, represents Hong Kong at the World Trade Organisation (WTO) and at the Trade Committee of the Organisation for Economic Cooperation and Development (OECD).

4. The geo-political and economic developments in Europe and in particular the enlargement of the EU from 15 to 25 Member States through accession of 10 new Member States (viz Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia) in May 2004 have brought about substantial business and trade opportunities for Hong Kong. The EU will be further expanded with the accession of Bulgaria and Romania in 2007, probably followed by Croatia and Turkey. We are seeing very rapid economic growth in the newer members of the EU and in many Eastern European countries. Many enterprises in that part of the world are keen to do business with the Mainland, but are hampered by lack of knowledge and experience. Hong Kong has much to offer to them. To assist Hong Kong businessmen in capitalising on these opportunities and to strengthen Hong Kong's representation in some 30 European countries, we plan to establish a new ETO in Europe to be responsible for promoting economic and trade relations in the eastern part of Europe, and to reorganise the deployment of resources in our ETOs in Europe.

5. There are 10 overseas ETOs located in major cities of economies which are Hong Kong's major trading partners, namely Washington DC, New York, San Francisco, Toronto, Brussels, London, Geneva, Tokyo, Sydney and Singapore. With the exception of the Geneva ETO, the ETOs seek to promote Hong Kong's economic and trade interests by enhancing understanding of the HKSAR among decision-makers and opinion-formers; monitoring developments that may affect Hong Kong; and liaising with the business and commercial sectors in the economies under their purview. They also organise events to promote the overall image of Hong Kong. In addition, they seek to attract direct investment into Hong Kong.

Strengthening HKSAR'S Representation in Europe

6. Hong Kong's representation work in Europe is currently undertaken by the two ETOs in Brussels and London. The Brussels ETO is responsible for representing Hong Kong's economic and trade interests in the EU, European Commission and European Parliament; and for the bilateral economic and trade relations with 14 of the 25 Member States of the EU. The London ETO is responsible for promoting Hong Kong's bilateral economic and trade interests with the United Kingdom (UK), the ten new EU-Member States and 6 non-EU countries. There is no 'head' ETO for Europe.

7. To tap the new business and trade potential in the European market following the expansion of the EU, we propose to reorganise our representation in Europe by transforming the Brussels ETO into the 'head' ETO for Europe, supported by a re-structured ETO in London and a new ETO to serve the eastern part of Europe. We consider the revised structure will strengthen Hong Kong's presence and representation in some 30 European countries, with each of the three ETOs responsible for the bilateral economic and trade relationships with a number of these countries. In addition, the revised structure will enhance co-ordination and effectiveness of the operations of the ETOs in Europe, and afford optimal deployment of resources through some organisational changes. Similar to all other overseas ETOs, these three ETOs will perform the following three major functions -

- (a) representing and promoting Hong Kong's trade and commercial interests in the host countries and countries under their purview;
- (b) promoting Hong Kong as a reliable trading partner and a premier location for doing business; and
- (c) encouraging and attracting investments to Hong Kong and promoting Hong Kong's many advantages as an investment and business hub in Asia.

Location of the New ETO in Europe

8. In deciding the location of the new ETO to serve the eastern part of Europe, we consider that due regard should be given to the economic significance of the host economy to Hong Kong as well as the strategic position of the host city in best serving the eastern part of Europe. Having reviewed the economies in the eastern part of Europe, we have come to the view that Berlin, the federal capital of Germany, is the most suitable city to set up our new ETO. Germany and Hong Kong have long and strong economic and trading ties. Germany is a major economic force in the world and is also a convenient gateway to reach out to countries in Eastern Europe. Berlin is of great political and economic significance in Germany. Locating our new ETO in Berlin would be conducive to sustaining a closer government-to-government relationship between the HKSAR and Germany.

Division of Responsibilities Among ETOs in Europe

9. The division of responsibilities among the three ETOs will be largely based on a geographical basis with regard also to the historical background and language similarities as appropriate. To commence with, we will divide the country-coverage of the three ETOs as follows -

- (a) Brussels ETO: coverage for 15 countries, namely Belgium, the Netherlands, Luxembourg, France, Italy, Ireland, Greece, Cyprus, Portugal, Spain and Malta, as well as the four EU candidate countries of Bulgaria, Croatia, Romania and Turkey.
- (b) London ETO: coverage for 9 countries, namely the United Kingdom, Russia, Denmark, Sweden, Norway, Finland, Latvia, Lithuania and Estonia.
- (c) Berlin ETO: coverage for 8 countries, namely Germany, Austria, Czech Republic, Hungary, Poland, Slovak Republic, Slovenia, and Switzerland.

10. In addition, the Brussels ETO will continue to be responsible for Hong Kong's relationship with the collective bodies of the European Commission, European Parliament and EU. We will fine-tune the

country coverage as necessary and keep under review the division of responsibilities among the three ETOs in the light of new developments in Europe. The role and organisation of the ETO in Geneva will remain unchanged, namely it will continue to be HKSARG's permanent mission to the WTO and represent Hong Kong as an observer on the Trade Committee of the OECD; and report direct to Hong Kong.

Alternative Options

11. An alternative to the proposed reorganisation is to retain the status quo. However, this will not work to the advantage of Hong Kong because the existing two ETOs in Brussels and London have difficulties to adequately cover some 30 countries which are spreaded over a wide geographical span and to effectively tap the economic opportunities in Europe brought about by the EU enlargement and the growing economic strength of the Eastern European countries. As a result, our competitiveness as Europe's trading partner will be adversely affected. We may also miss out the opportunity of leveraging on our unique position as a strategic two-way platform for business between the Mainland and the rest of the world.

Ranking of the Heads of ETOs in Brussels, London and Berlin

12. The three ETOs in Brussels, London and Berlin will play an important role in strengthening the HKSAR's presence in Europe to further our economic and investment interests. The heads of these ETOs will take on the role of HKSAR's principal representative on economic and trade issues in the countries under their purview. As heads of the ETOs, they will be working in close consultation with senior officials within the Administration, and it will be necessary for them to gain access to and liaise with senior officials of their respective host governments and governments of the countries under their purview in order to effectively discharge their duties. In addition, they will need to maintain an extensive network of liaison with the local business community. Given the scope of responsibilities attached to the posts and the level of liaison they need to maintain, it is necessary for the ETOs to be headed by a directorate officer with necessary administrative experience and ability at an appropriate directorate ranking to ensure that their functions are effectively executed.

13. We have reviewed the existing ranking of the heads of the ETOs in Brussels and London and examined the job requirements of the head of the new ETO in Berlin arising from the proposed reorganisation. In determining the ranking of the heads of ETOs posts, we consider that due regard should be given to the job requirements and operational need of the posts, the scope of work and the complexity of tasks involved, the extent and level of official liaison required, the span of control, the country-coverage, the operational and organisation needs of the concerned ETO and the internal relativity with our other ETOs overseas.

14. The Brussels ETO has been playing an important role in representing Hong Kong's economic and trade interests in dealings with the EU which is headquartered in Brussels. We would transform the Brussels ETO into the 'head' ETO for Europe to be headed by a Commissioner for Economic and Trade Affairs to take on a coordinating role among the work of the ETOs in Brussels, London and Berlin and to oversee the work of the ETOs in London and Berlin in their dealings with Member States of the EU. This is also in line with the central role of Brussels as the headquarters for the EU, where most of its key policies are discussed and decided. Accordingly, we propose -

- (a) to continue to pitch the head of the Brussels ETO at the AOSGB1 (D4) rank, and to redesignate the head of ETO from Special Representative for Hong Kong Economic and Trade Affairs to the European Communities to Commissioner for Economic and Trade Affairs, Europe (C, Europe) to reflect the expanded responsibility of the Brussels ETO as the 'head' ETO for Europe in overseeing the operation of the ETOs in London and Berlin in addition to the ETO in Brussels. In view of the nature of duties and the level of responsibilities attached to the post, and the new operational requirements to coordinate and oversee the work of three ETOs in Europe to further the economic and investment interests of Hong Kong, the C, Europe post should be pitched at AOSGB1 (D4). The C, Europe will continue to be supported by two directorate deputies in the Brussels ETO, pitched at AOSGC (D2) rank as at present;

- (b) the head of the re-structured London ETO be re-ranked from AOSGA (D6) to AOSGB (D3) level. The designation of the head of London ETO as Director-General, Hong Kong Economic and Trade Affairs, London (DGL) will remain unchanged. The ranking takes into account the proposed role of Commissioner, Europe to be performed by the head of the Brussels ETO and the reduced geographical coverage of the London ETO. The proposed AOSGB (D3) ranking which is one rank above the heads of the New York ETO and the San Francisco ETO is commensurate with the special relationship between the United Kingdom and Hong Kong and the close ties between the two economies. In addition, London is important in its own right as an international financial centre and a major media hub. Furthermore, we propose to redeploy the Deputy Director post of the London ETO (DDGL) currently pitched at AOSGC (D2) rank to head the new ETO in Berlin. London ETO in return would be provided with an additional Senior Administrative Officer (SAO); and
- (c) the head of the new ETO in Berlin be ranked at AOSGC (D2) level, to be redeployed from the ETO in London. He will be designated as Director, Hong Kong Economic and Trade Affairs, Berlin. The proposed ranking will be the same as the current head of the existing ETOs in New York, San Francisco, Sydney, Singapore and Toronto.

15. C, Europe as the head of the ETO in Brussels will be responsible to Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry). The heads of the ETOs in London and Berlin will be responsible to C, Europe. The proposed job descriptions of the heads of ETOs in Brussels, London and Berlin are set out at Annexes A to C.

Flexible Ranking System

16. In June 1991, the Finance Committee approved a flexible ranking system to facilitate the posting and retention of directorate heads and deputy heads of overseas offices. Under this system, in certain specified situations a supernumerary post at a pre-determined higher rank can be created and held against the permanent posts of the lower rank. ----- Details and rationale of the system are at Annex D. In line with this arrangement, we propose that the existing flexible ranking system be extended to the re-ranked head of the ETO in London and the head of the new ETO in Berlin such that the Secretary for the Civil Service may exercise delegated authority to create a supernumerary post of AOSGB1 (D4) to be held against the proposed permanent post of AOSGB (D3) to head the ETO in London and a supernumerary post of AOSGB (D3) to be held against the proposed permanent post of AOSGC (D2) to head the new ETO in Berlin if there is such a requirement to facilitate the posting or retention of the suitable officers.

Non-Directorate Staff

17. The new ETO in Berlin will be supported by 14 non-directorate staff. We intend to create three non-directorate posts to accommodate officers to be posted to the new ETO and engage 11 local staff to discharge various responsibilities for commercial relations, public relations, investment promotion and office support. The number of non-directorate staff for the ETO in Brussels will remain at the 2006-07 level and that for the ETO in London will be increased by one post of SAO to meet the operational requirements, as part of the re-structuring exercise. ----- The organisation charts of the ETOs in Brussels, London and Berlin are at Annexes E to G.

Implementation Timetable

18. We aim to implement the reorganisation of the HKSAR's representation in Europe with effect from 1 July 2006 and for the new ETO in Berlin to be operational in the third quarter in 2006.

Financial Implications

19. The set-up cost of the new ETO in Berlin is estimated to be \$9.5 million. The annual recurrent cost of Berlin ETO is estimated at \$22 million, \$5 million of which will be met by savings to be derived mainly from re-structuring the ETO in London and the reduced departmental expenses of ETOs in Brussels and London consequent upon the revision of country-coverage. We have included sufficient provision in the 2006-07 draft Estimates to meet the cost required for the coming financial year.

Allowances for Officers Posted Outside Hong Kong

20. Under the existing arrangements, all Hong Kong-based officers posted to ETOs will be subject to the terms and conditions of services applicable to officers posted outside Hong Kong. Eligible officers will receive a Rent Allowance (RA), which is payable on a reimbursement basis, to assist them to rent accommodation in the city of posting. The RA rates represent the ceiling for reimbursement of the accommodation expenses.

21. In addition to the setting up of the ETO in Berlin, the Administration has also decided to establish two ETOs in Shanghai and Chengdu in the Mainland in the latter half of 2006. While the overseas ETO in Berlin will come under the purview of Commerce, Industry and Technology Bureau, the two Mainland ETOs will be under the purview of the Constitutional Affairs Bureau (CAB). In relation to the establishment of the two Mainland ETOs in Shanghai and Chengdu, Members were briefed by CAB on 15 November 2005 vide Panel Paper CB(1)260/05-06(04) entitled 'Strengthening HKSAR's Representation in the Mainland'. The Administration will draw up the RA rates for three directorate officers (one at D3 level and two at D2 level) and 14 non-directorate Hong Kong-based officers of various level (MPS 28-49) to be posted to the three new ETOs (three officers for the Berlin ETO, six officers for the Shanghai ETO and five officers for the Chengdu ETO). In setting the RA rates, we will take into account the seniority and the family size of the officers, relevant findings of accommodation surveys,

and information on the prevailing rentals for residential units in appropriate areas normally taken up by expatriate executive/managerial personnel, where available.

Advice Sought

22. Members are requested to note and comment on our proposals. Subject to Members' views, we would submit the staffing proposals on the changes in directorate establishment to the LegCo Establishment Sub-Committee and Finance Committee for approval.

Commerce, Industry and Technology Bureau
February 2006

Proposed Job Description

- Post Title** : Commissioner for Economic and Trade Affairs, Europe
- Rank** : Administrative Officer Staff Grade B1 (D4)
- Responsible to** : Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry)

Main Duties and Responsibilities –

- (a) to undertake the role of the HKSAR's principal representative on matters relating to the economic and trade interests of Hong Kong in the European countries under the purview of the ETOs in Brussels, London and Berlin, and to help safeguard and promote the same;
- (b) to monitor commercial, economic and other related developments in Europe which are of interests to Hong Kong and to advise the HKSARG as necessary;
- (c) to establish and develop high level official contacts in Brussels and other capitals of the European countries including senior officials in the European Commission, the European Union (EU) Council of Ministers, Members of the European Parliament and senior officials in the economic/foreign affairs ministries of both EU Member States and non EU Member States;
- (d) to formulate comprehensive programmes of public relations activities to promote Hong Kong and to steer the same among a broad network of targets including European politicians, policy makers, media representatives, think-tanks, business corporations and potential investors;
- (e) to develop working relationships with business allies in Europe as well as senior officials of certain foreign missions in Brussels, particularly those whose economic and trade interests are compatible with those of Hong Kong;

- (f) to head the Brussels ETO and to give direction to and oversee the work of ETOs in London and Berlin;
- (g) to make regular visits to various European countries to establish working relationship in influential circles, to give key-note speeches and to disseminate the Hong Kong message;
- (h) to plan, direct and oversee the arrangements for the high-level visits of senior HKSARG officials to Europe; and
- (i) to oversee the co-ordination of the activities among the Hong Kong family in Europe, viz. the Hong Kong Trade Development Council and the Hong Kong Tourism Board.

Proposed Job Description

Post Title : Director-General, Hong Kong Economic and Trade Affairs, London

Rank : Administrative Officer Staff Grade B (D3)

Responsible to : Commissioner for Economic and Trade Affairs, Europe

Main Duties and Responsibilities –

- (a) to represent Hong Kong in commercial relations and other economic and trade matters in the United Kingdom and various countries under the purview of the ETO in London, namely Russia, Denmark, Sweden, Norway, Finland, Latvia, Lithuania and Estonia;
- (b) to keep under review commercial, economic and trade matters in the countries under the purview of the ETO and to advise the Commissioner for Economic and Trade Affairs, Europe as necessary;
- (c) to establish and develop contacts with the governments of the European countries under the purview of the ETO, politicians, academics, as well as with think-tanks, media representatives, trade organisations and business corporations to promote Hong Kong's trade interests and to promote inward investment;
- (d) to organise trade-related and public relations activities to promote Hong Kong's trade interests and overall image;
- (e) to head the London ETO and to oversee the day-to-day operations of the ETO;
- (f) to make regular visits to various European countries to establish senior working contacts among decision-makers and opinion-formers in the public sectors, business community and the media and to deliver speeches to disseminate the Hong Kong message; and
- (g) to make arrangements for high level visits of senior HKSARG officials to the European countries under the purview of the ETO.

Proposed Job Description

Post Title : Director, Hong Kong Economic and Trade Affairs, Berlin

Rank : Administrative Officer Staff Grade C (D2)

Responsible to : Commissioner for Economic and Trade Affairs, Europe

Main Duties and Responsibilities –

- (a) to represent Hong Kong in commercial relations and other economic and trade matters in Germany and various countries under the purview of the ETO in Berlin, namely Austria, the Czech Republic, Hungary, Poland, Slovak Republic, Slovenia and Switzerland;
- (b) to keep under review commercial, economic and trade matters in the countries under the purview of the ETO and to advise the Commissioner for Economic and Trade Affairs, Europe as necessary;
- (c) to establish and develop contacts with the governments of the European countries under the purview of the ETO, politicians, academics, as well as with think-tanks, media representatives, trade organisations and business corporations to promote Hong Kong's trade interests and to promote inward investment;
- (d) to organise trade-related and public relations activities to promote Hong Kong's trade interests and overall image;
- (e) to head the Berlin ETO and to oversee the day-to-day operations of the ETO;
- (f) to make regular visits to various European countries to establish senior working contacts among decision-makers and opinion-formers in the public sectors, business community and the media and to deliver speeches to disseminate the Hong Kong message; and
- (g) to make arrangements for high level visits of senior HKSARG officials to the European countries under the purview of the ETO.

Flexible Ranking System for HKETOs

In June 1991 and after considering EC 1991-92 Item 18, the Finance Committee approved a flexible ranking system to facilitate the posting and retention of directorate heads and directorate deputy heads of overseas offices. Owing to their representation role, the directorate heads and deputy heads of the overseas offices should be mature and experienced officers with well-honed skills in negotiation, lobbying and public relations. Based on past experience, it could be difficult to attract and retain suitable officers to fill these overseas posts because –

- (a) the pool of suitable candidates at the designated ranks of the senior overseas posts is relatively small in view of the special qualities required of them;
- (b) an overseas posting involves disruption to family and social life. In case of married officers, it could also involve loss of income and interruption to the career of working spouses; and
- (c) since the normal duration of an overseas posting is approximately three years, officers who are selected as directorate heads and deputy heads of overseas officers are often unwilling to accept such postings for fear that they will lose the opportunity to act in a higher rank which they might otherwise be given if they remained in Hong Kong. They also consider that their promotion prospects will be adversely affected if they are denied access to opportunities for acting appointment.

2. The flexible ranking system expanded the pool of potential candidates for overseas posts and removed a major disincentive for potential candidates by ensuring that officers in overseas posts receive the same opportunities for acting appointments and promotion as their counterparts in Hong Kong.

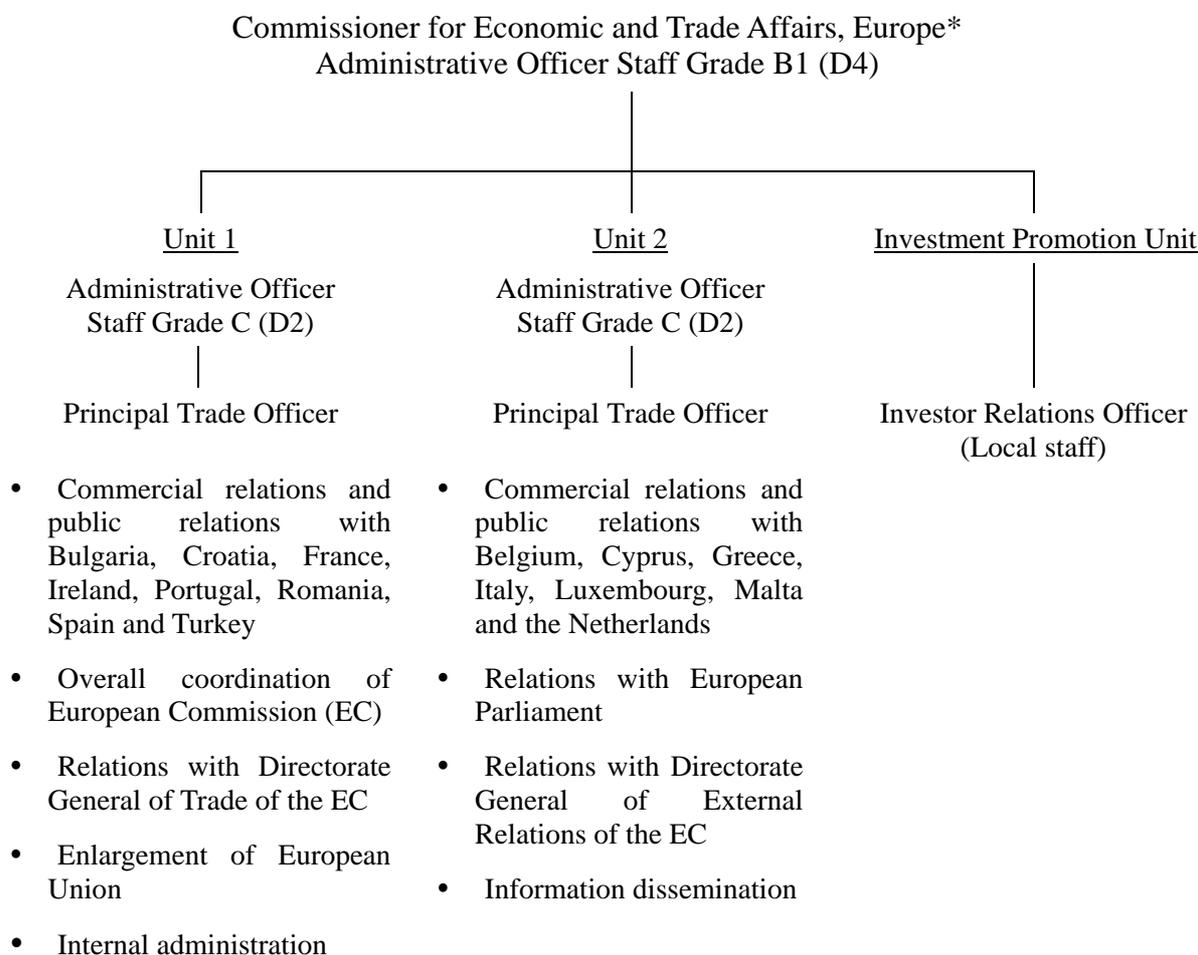
3. Under this system, the Secretary of Civil Service may exercise delegated authority in the following situations to create supernumerary posts at a pre-determined higher rank held against the permanent directorate head and deputy head posts of the lower rank in the following situations –

/(a)

- (a) the promotion of an officer during his overseas tour to a rank higher than the rank of the post he currently occupies;
- (b) the posting overseas of an officer whose substantive rank, at the time of posting, is already higher than the rank of the post in the overseas office to which he is posted;
- (c) the appointment of an officer to act in a rank higher than the rank of the post he occupies on being posted overseas, if it is considered that he would have been offered an acting appointment at that higher rank had he remained in Hong Kong; and
- (d) the appointment of an officer already serving overseas in his own substantive rank to act in the higher rank if, in all likelihood, he would have been offered an acting appointment at the higher rank had he remained in Hong Kong.

4. In June 1996, after considering EC(96-97)10 and the Supplementary Note, Finance Committee approved the extension of approved flexible ranking system to D6 Heads of overseas offices subject to a set of conditions as set out in the Supplementary Note.

**Revised Organisation Chart of the
Hong Kong Economic and Trade Office in Brussels
(with effect from 1 July 2006)**



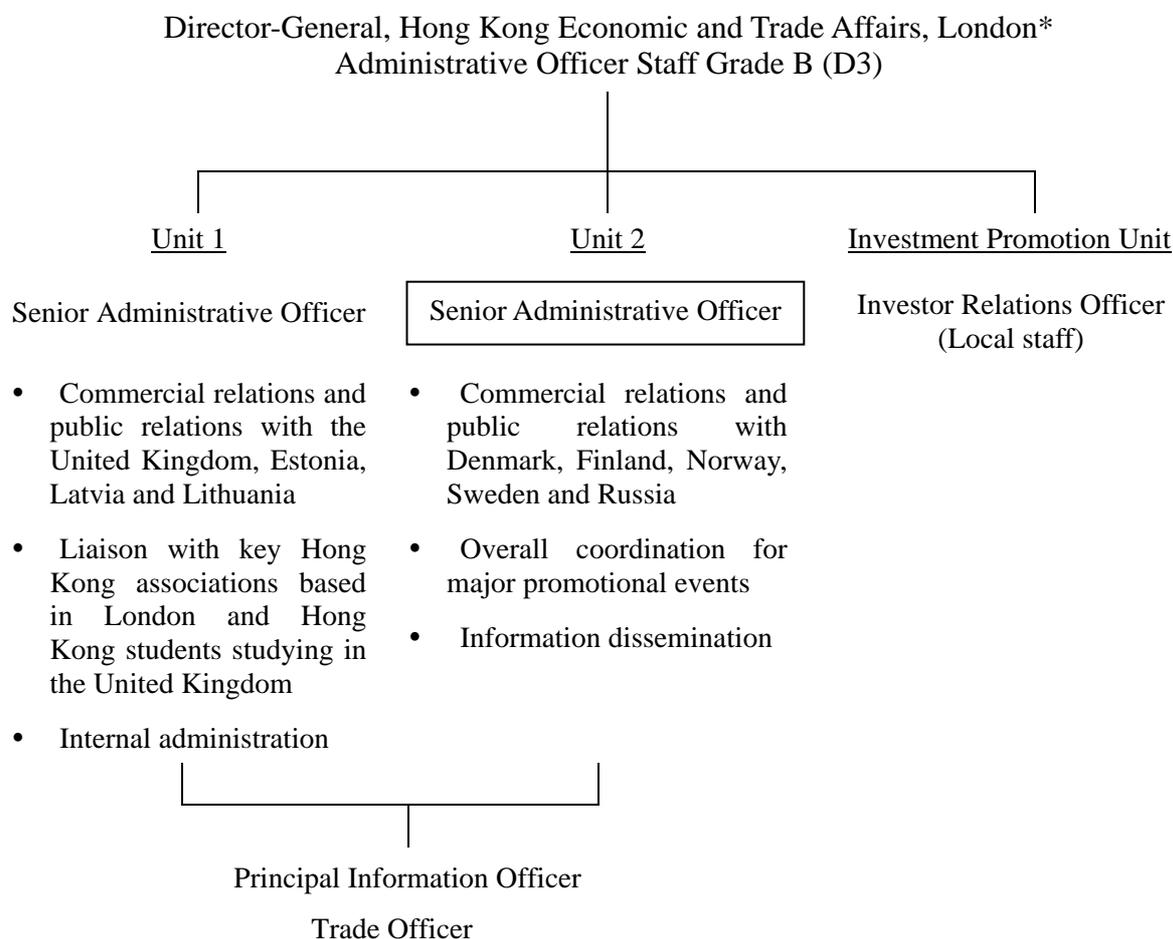
Notes

* After the reorganisation of ETOs in Europe, the Commissioner for Economic and Trade Affairs, Europe will be responsible for overseeing the operation of the ETOs in Brussels, London and Berlin.

(1) Brussels ETO covers 15 countries, namely Belgium, the Netherlands, Luxembourg, France, Italy, Ireland, Greece, Cyprus, Portugal, Spain and Malta, as well as the four EU candidate countries of Bulgaria, Croatia, Romania and Turkey.

(2) Brussels ETO will continue to engage 14 local staff to assist in commercial relations, public relations, investment promotion and office administration/support functions.

**Proposed Organisation Chart of the
Hong Kong Economic and Trade Office in London
(with effect from 1 July 2006)**



Notes

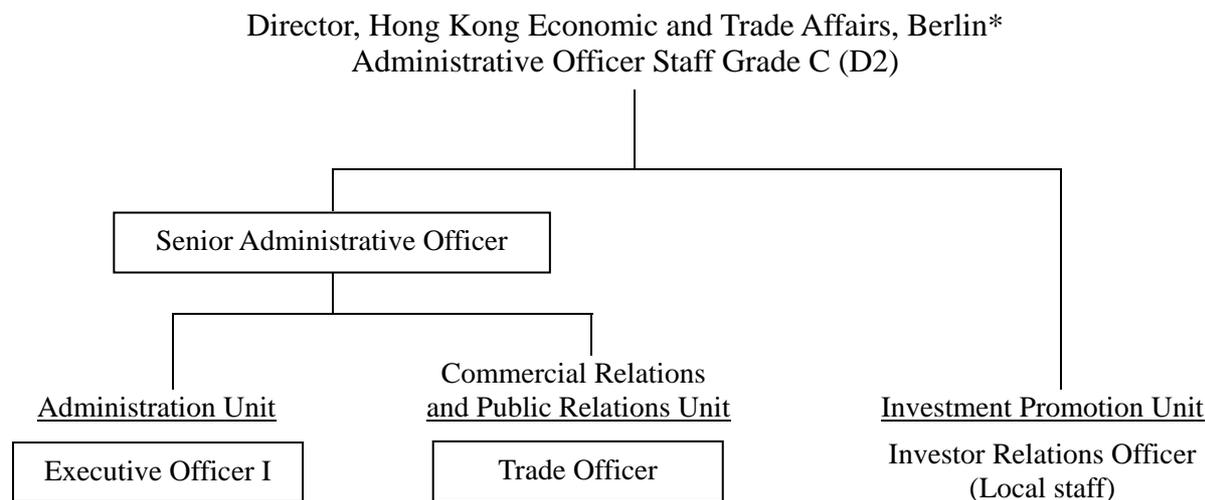
* Post to be re-ranked from Administrative Officer Staff Grade A (D6) to Administrative Officer Staff Grade B (D3).

Permanent non-directorate post to be created.

(1) London ETO covers 9 countries, namely the United Kingdom, Russia, Denmark, Sweden, Norway, Finland, Latvia, Lithuania and Estonia.

(2) London ETO will continue to engage 14 local staff to assist in commercial relations, public relations, investment promotion and office administration/support functions.

**Proposed Organisation Chart of the
Hong Kong Economic and Trade Office in Berlin**



Notes

* Post to be re-deployed from London ETO to the new Berlin ETO.

Permanent non-directorate posts to be created.

(1) Berlin ETO covers eight countries, namely Germany, Austria, Czech Republic, Hungary, Poland, Slovak Republic, Slovenia and Switzerland.

(2) Berlin ETO will engage 11 local staff to assist in commercial relations, public relations, investment promotion and office administration/support functions.
