

立法會
Legislative Council

LC Paper No. CB(1)332/08-09
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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 21 October 2008, at 2:30 pm
in the Chamber of the Legislative Council Building

- Members present** : Hon Vincent FANG Kang, SBS, JP (Chairman)
Hon WONG Ting-kwong, BBS (Deputy Chairman)
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
Hon Starry LEE Wai-king
Dr Hon LAM Tai-fai, BBS, JP
Hon Tanya CHAN
Dr Hon Samson TAM Wai-ho, JP
- Members attending** : Dr Hon Margaret NG
Hon James TO Kun-sun
Hon Albert CHAN Wai-yip
Hon WONG Kwok-hing, MH
- Members absent** : Hon Fred LI Wah-ming, JP
Hon Timothy FOK Tsun-ting, GBS, JP
- Public officers attending** : Mrs Rita LAU NG Wai-lan, JP
Secretary for Commerce and Economic Development

Mr Gregory SO, JP
Under Secretary for Commerce and Economic
Development

Miss Yvonne CHOI, JP
Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)

Ms Linda LAI, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)¹

Mr Christopher WONG, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)²

Ms Annie CHOI, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)³

Mr Joseph LAI Yee-tak, JP
Director-General of Trade and Industry

Miss Belinda KWAN
Assistant Director-General of Trade and Industry
(Industries Support)

Mr Eddy CHAN Yuk-tak, JP
Commissioner for Innovation and Technology

Clerk in attendance : Ms YUE Tin-po
Chief Council Secretary (1)³

Staff in attendance : Mrs Constance LI
Assistant Secretary General 1

Ms Annette LAM
Senior Council Secretary (1)³

Mr KWONG Kam-fai
Council Secretary (1)³

Ms May LEUNG
Legislative Assistant (1)⁶

I. Briefing by the Secretary for Commerce and Economic Development on relevant policy initiatives featuring in the Chief Executive's 2008-2009 Policy Address

(LC Paper No. CB(1)50/08-09(01) -- Administration's paper on policy agenda of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau

LC Paper No. CB(1)77/08-09(01) -- Administration's paper on proposed enhancement measures to the small and medium enterprise funding schemes

LC Paper No. CB(1)77/08-09(02) -- Press release on proposed enhancement measures to the small and medium enterprise funding schemes issued by the Administration on 18 October 2008

LC Paper No. CB(1)94/08-09(01) --- Paper on Funding Schemes for Small and Medium Enterprises prepared by the Legislative Council Secretariat (updated background brief)
(tabled at the meeting and subsequently issued on 22 October 2008)

LC Paper No. CB(1)94/08-09(02) -- Speaking note of the Secretary for Commerce and Economic Development)
(tabled at the meeting and subsequently issued on 22 October 2008)

Other relevant documents

(a) Address by the Chief Executive at the Legislative Council meeting on 15 October 2008 – "Embracing New Challenges" (*issued on 15 October 2008*); and

(b) The 2008-2009 Policy Address – "Policy Agenda" (*issued on 15 October 2008*).

Briefing by the Administration

Major policy initiatives

At the invitation of the Chairman, the Secretary for Commerce and Economic Development (SCED) highlighted the major initiatives relating to the Commerce, Industry and Tourism Branch as well as the Innovation and Technology Commission (ITC) of the Commerce and Economic Development Bureau under the 2008-2009 Policy Agenda. Details of the initiatives were set out in the Administration's Paper (LC Paper No. CB(1)50/08-09(01)) issued on 16 October 2008.

Proposed enhancement measures to the Small and Medium Enterprise (SME) Funding Schemes

2. SCED said that since the outbreak of the global financial turmoil, the Government was well aware that many SMEs, particularly those with operations in the Mainland, were suffering immense hardship in operating their business. There were calls on the Government to enhance the SME Funding Schemes administered by the Trade and Industry Department (TID) to provide greater support to the SMEs. Having reviewed the operation of the Funding Schemes and the requests put forth by the business community, the Administration proposed the following enhancement measures, with a view to strengthening support to the SMEs in the midst of the financial turmoil:

- (a) SME Loan Guarantee Scheme (SGS)
 - (i) Remove the sub-ceilings for Business Installations and Equipment Loan (BIE) and Working Capital Loan (WCL), while maintaining the overall maximum guarantee for each SME at \$6 million;
 - (ii) extend the maximum guarantee period for WCL from two years to five years;
 - (iii) increase the indicative ceiling of guarantee exposure for each participating lending institution (PLI) from the current \$1.25 billion to \$1.5 billion; and
 - (iv) allow each SME to recycle the guarantee once upon full repayment of the loan backed up by the guarantee.
- (b) Export Marketing Fund (EMF)
 - (i) Increase the overall grant ceiling for each SME from \$100,000 to \$150,000, and the sub-ceiling for each successful application from \$30,000 to \$50,000; and

- (ii) extend the list of reimbursable items to include expenditure on advertisements placed on the websites of exhibition organizers, as well as advertisements placed on printed trade publications targeting export markets.

3. SCED sought members' support for the proposed enhancement to ease the hardship of SMEs during this difficult time. She said that subject to the Panel's endorsement and the Finance Committee (FC)'s approval, the Administration intended to implement the enhancement measures as soon as possible upon completion of the necessary legal procedures with the PLIs.

Discussion

Assistance for SMEs and implementation of the proposed enhancement measures

4. Mr Andrew LEUNG welcomed the proposed enhancement measures to the SME Funding Schemes and commended the Administration for the rapid response to the industry's call for greater assistance. He however considered the proposed measures under the SME Funding Schemes insufficient to address the difficulties encountered by the SMEs arising from the financial turmoil, and the changing business environment due to policy adjustment in the Mainland and the prevailing poor business climate. He held the view that the Administration should continue to reflect the concerns of the trade to the Mainland authorities and maintain close dialogue with the trade to explore how best the Government could help SMEs get through the financial crisis. Pending consideration of further assistance for SMEs, Mr LEUNG called for an early implementation of the proposed measures to relieve the financial and operational difficulties of the SMEs

5. Concurring with Mr LEUNG, Mr Jeffrey LAM suggested that subject to the Panel's endorsement of the proposed improvement measures, FC's approval should be sought as early as possible so as to provide further support to the SMEs and help them reinvigorate their operations. He highlighted that given the spate of factory closures and corporations going bankrupt, there was a pressing need to provide timely assistance for healthy enterprises to maintain healthy growth. Mr LAM noted that in the past SMEs had always been the driving force in turning the battered economy around after each financial crisis in Hong Kong. It was therefore critically important that the Government should draw up concrete measures to bolster up SMEs which were the backbone of Hong Kong's economy. Noting that the Administration would hold an SME Summit on 23 October 2008, he urged the Administration to take heed of the views and the suggestions of the trade on how best to assist SMEs.

6. Dr LAM Tai-fai expressed his support for the interim relief measures as they could help alleviate the cash flow pressure on SMEs. He said that in view of the serious business downturn and bleak prospect ahead, the Administration should act expeditiously to revive the economy and restore public confidence. He also called on the Administration to provide a timetable for drawing up comprehensive long-term strategies to address SMEs' difficulties arising from the global financial

turmoil.

7. Mrs Sophie LEUNG welcomed the relief measures proposed by the Administration. Given that it was difficult to assess the full extent and the duration of the current financial turmoil, Mrs LEUNG was of the view that the proposed measures should be implemented as soon as possible in parallel with close collaboration between the Administration and the industry to develop longer-term relief measures to prevent further aggravation of the business environment. Moreover, she doubted whether the 50% guarantee by the Government would effectively boost PLIs' confidence in relaxing their credit grip amidst the global credit crunch. Referring to the FC's approval of a commitment of \$3.5 billion to provide a 100% guarantee for loans extended to industries significantly impacted by the Severe Acute Respiratory Syndrome (SARS) in 2003, Mrs LEUNG urged the Administration to consider adopting similar measures or increasing the current guarantee ratio of the SGS from 50% to at least 70%.

8. In response, SCED stressed that it was indeed the Government's intention to implement the proposed enhancement measures as soon as possible and the Administration had done the necessary preparation work to facilitate an early implementation of the proposal. In anticipation of the Panel's endorsement and the FC's approval, discussions were underway with PLIs on the terms of the draft agreement. It was expected that the proposed measures would encourage PLIs to be more flexible in extending loans to SMEs. She hoped that an early meeting of the FC would be convened to consider the proposals.

9. Regarding members' suggestions for comprehensive longer-term relief measures, SCED assured members that the Government was committed to providing as much support as possible for SMEs during this difficult time. She acknowledged that the proposed measures under the SME Funding Schemes alone could not adequately address all the problems faced by SMEs, and highlighted that the Government would continue to maintain close contact with the industry to jointly develop immediate, medium-term and long-term measures to help SMEs overcome the financial crisis. In this regard, the Administration, in collaboration with five major chambers of commerce, would convene an SME Summit on 23 October 2008 with Legislative Council Members, representatives of chambers of commerce and SME associations to understand better the needs of the industry and to discuss measures that might help address SMEs' difficulties.

10. On the "Loan Guarantee Scheme for Severe Acute Respiratory Syndrome Impacted Industries" SCED said that the scheme was an industry-specific and short-term arrangement for four SARS-impacted industries, namely the tourism, restaurant, retail and entertainment industries. Certain conditions were attached to the scheme such as loans under the scheme must be used for paying employees' salaries, and the applicants had to prove that they had suffered at least a 30% decline in business during the SARS period, and to provide personal guarantee for the loans concerned. A total of 1 560 applications were approved during the application period which lasted three months only.

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11. Regarding members' suggestion to raise the level of Government guarantee, SCED stressed that while it was open-minded on all options, the Administration had to exercise prudence to ensure the proper use of public money as the risks and costs of providing Government guarantees to SMEs would ultimately be transferred to taxpayers. In this connection, Ms Starry LEE enquired about the actual loan default rate for the loan guarantee scheme introduced during the SARS period. The Administration undertook to provide the information after the meeting.

(Post-meeting note: The information provided by the Administration was issued to members vide LC Paper No. CB(1)106/08-09(01) on 24 October 2008.)

Bank credit facilities

12. Dr LAM Tai-fai noted that the tightening of credit by local banks had made it difficult for SMEs to secure loans and obtain credits to do business and sustain economic growth. He cautioned that the credit squeeze by lending institutions would have a significant adverse impact on the business prospects and financial well being of healthy enterprises. Dr LAM called on the Administration and the Hong Kong Monetary Authority to step up communication with the financial institutions to restore their confidence in extending loans to SMEs, and to encourage them to relax their credit facilities to financially viable enterprises.

13. Sharing a similar view, Mr Andrew LEUNG said that the current global financial turmoil had brought about great challenges to many SMEs in Hong Kong. In particular, a number of SMEs were facing liquidity problems mainly due to poor business, banks' reluctance to provide loan, suppliers' unwillingness to grant credit, and lengthening of major buyers' repayment period. As a result of the credit squeeze, many companies were having difficulties paying their suppliers and staff. He suggested the Administration to liaise with the banking sector to consider extending the repayment deadline of loans and the provision of a revolving loan with a longer maturity period, say three to five years.

14. Mrs Sophie LEUNG referred to some cases recently brought to her attention in which lending institutions had either cut back on loans that had already been approved or withdrawn standby facilities. She was concerned that even enterprises with sound repayment record had difficulty securing loans, and lending institutions accorded low priority to processing loan applications from SMEs. While she appreciated that banks, due to their own liquidity considerations, would become more cautious in lending in the face of the global credit crunch, she urged the Administration to appeal to the financial institutions to expedite the processing of SME loan applications and to examine each business on its individual merit instead of tightening up the credit flow across the board. In this connection, Ms Emily LAU was worried that the banks' reluctance to extend loans to SMEs would lead to more business closing down, thus aggravating unemployment and undermining social stability. She called on the Administration to encourage the banks to suitably relax their credit lines to industries. Sharing a similar view, Ms Starry LEE hoped that the Administration would impress upon the financial

sector the urgency of resuming normal credit flow to financially viable enterprises.

15. In response, SCED said that the Administration had been in close dialogue with the banking sector and had been encouraging them to be flexible, within the bounds of prudent credit risk assessment, in approving loans to financially viable enterprises and to speed up the processing of SMEs' loan applications. She said that a number of existing PLIs had responded positively to the proposed enhancement measures and the Administration was confident that these measures would help boost PLIs' confidence in lending to SMEs. SCED however highlighted that the provision of credit to SMEs and the terms upon which it was provided were commercial decisions of PLIs. Given the general liquidity problem faced by the banking sector and having regard to the need to manage their credit risks, it was understandable that lending institutions would be cautious in approving loans in accordance with their credit assessment mechanism.

Concern about possible abuse of the SME schemes

16. Referring to an article (聞風筆動) published in Ming Pao on 21 October 2008, Dr Margaret NG cautioned that with the Government guarantee of up to 50% of the approved loans, the risk of default payment under the SGS would be passed onto taxpayers. While supporting the need to relieve the liquidity problems of SMEs, Dr NG urged the Administration to exercise care in assessing default risk to ensure proper use of public money. She noted from paragraph 10 of the Administration's Paper (LC Paper No. CB(1)77/08-09(01)) that with the injection of \$500 million approved by FC in January 2008, the total financial/guarantee commitment for the three schemes was \$14.35 billion (assuming a 7.5% default rate for the SGS) and that no further increase in financial commitment was required at the present stage. Dr NG however pointed out that with the implementation of the proposed enhancement measures and in view of the economic downturn, the existing funding commitment would likely be depleted at a quicker pace than expected. She requested the Administration to provide details on the projected maximum expenditure, the estimated utilization of the financial/guarantee commitment under the three funding schemes, and at what time the existing funding commitment would likely be used up following the implementation of the proposed measures and having regard to the possibility of a higher default rate amidst the financial turmoil.

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17. While supporting the proposed measures to help SMEs, Mr Ronny TONG raised concerns about the possible abuse of the loans to subsidize investment losses and sought elaboration on the regulatory framework, credit assessment criteria, and the mechanism for the Government and PLIs to vet and approve applications for loans and guarantees from the SMEs. Noting that with the proposed removal of sub-ceilings for BIE (for acquisition of equipment) and WCL (for working capital), SMEs could get up to \$12 million on loans backed by a 50% Government guarantee for either or both purposes, Mr TONG enquired about the definition and scope of working capital and whether investment in leveraged financial products would be regarded as working capital under the WCL. He was concerned about the possibility that public money intended for SME assistance might be used to fill

the deep pit of the investment market rather than helping more SMEs. Mr James TO shared a similar concern.

18. In response, SCED highlighted that the Government and the PLIs which each took up 50% of the loan guarantee would equally share the risk of default payment, if any. The PLIs therefore would not risk their businesses and would be prudent in their credit assessment in accordance with good banking practice. Considerations such as track record, business prospect and financial position of loan applicants would be taken into account when assessing credit worthiness and repayment ability. While the Administration would not directly involve itself in vetting loan applications, a mechanism was in place for the Government to monitor and manage default risks to ensure proper use of public money. On the scope of the SGS, SCED assured that there was an express provision in the deed signed between the Government and the PLIs that the borrower could not use the scheme for repaying, restructuring or repackaging other loans, such as those arising from investment losses in the financial market. At the request of Dr Margaret NG and Mr Ronny TONG, SCED undertook to provide the relevant information after the meeting.

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(Post-meeting note: The information provided by the Administration was issued to members vide LC Paper No. CB(1)106/08-09(01) on 24 October 2008.)

Export Marketing Fund (EMF)

19. On the proposed broadening of the scope of EMF reimbursable items to include advertisements placed on the websites of exhibition organizers, Miss Tanya CHAN enquired whether the Administration would consider further relaxing the restriction so that it would not be limited to the websites of exhibition organizers only. She said that such a further relaxation would give enterprises more flexibility and options. In reply, the Director-General of TID said that in view of the difficulty in ascertaining which websites were bona fide in promoting exports, only the websites of exhibition organizers were proposed to be included. At present, the Administration had no plans to further relax the requirement to include all websites.

Measures to assist Hong Kong-owned enterprises to regrade, restructure and relocate

20. Miss Tanya CHAN noted that Hong Kong-owned enterprises were facing tough challenges arising from the recent changes in the Mainland's policies and business environment, such as the policy adjustments relating to the processing trade, the implementation of the Labour Contract Law and Enterprise Income Tax Law, the appreciation of the Renminbi, and the tightening of environmental compliance standards. She sought information on measures put in place to facilitate these enterprises to adapt to the policy adjustments and to restructure, upgrade and relocate their operations.

21. SCED advised that the Government had been in close touch with the trade and also in continued liaison with the relevant Mainland authorities to reflect the trade's views and concerns. As a result, the Mainland authorities had subsequently introduced a series of measures to relieve the difficulties of the trade. These included allowing enterprises to fulfill the standing book deposit requirements by bank guarantees to alleviate their cash flow pressure; permitting enterprises to carry over their original imported equipment to new companies; adjusting the export tax rebate of products; and offering new measures to attract relocations. Multi-pronged measures had been undertaken to assist Hong Kong enterprises and promote technological development through financial and infrastructural support. The "Task Force to Support the Processing Trade" and the "Hong Kong/Guangdong Expert Group on the Restructuring and Upgrading of the Processing Trade" had been set up to facilitate Hong Kong-owned Mainland-based enterprises to upgrade, restructure and adapt to the Mainland's policy adjustments. New services and products to assist the trade to restructure, upgrade and relocate had been developed in collaboration with various organizations and chambers of commerce. Support bodies such as the Trade Development Council and the Hong Kong Productivity Council (HKPC) had also been actively assisting enterprises to develop new business opportunities, upgrade technological knowhow, and improve environmental performance to meet compliance standards. The Government had co-organized a "Transform, Upgrade and Relocate for a New Horizon" programme with HKPC to assist the trade through a series of industry-specific and cross-sector seminars, provision of on-site technical assessment and advice to factories. Seminars, workshops and other activities were organized regularly to help broaden SMEs' business knowledge, enhance their entrepreneurial skills, and keep the trade updated on the latest policy directions and measures at both central and provincial government levels.

22. SCED also supplemented that the Support and Consultation Centre for SMEs under TID had been providing free, reliable and practical information and consultation services for SMEs. Enterprises could obtain funding from TID's SME Funding Schemes and the "Innovation and Technology Fund" administered by ITC to acquire new equipment, develop new markets, expand business, promote their brands through participation in export promotion activities, and upgrade their technological capability. Under the strategic framework for innovation and technology development, five research and development centres were set up to promote applied research and development and technology transfer to the industry. Funding schemes under the Design Smart Initiative were implemented to promote wider use of design and innovation in industries to help them move up the value chain. Business delegations led by the Government and related organizations had also paid visits to a number of places designated for the relocation of the processing trade in the Mainland, with a view to encouraging enterprises to relocate their operations and explore new markets.

Implementation of ten major infrastructure projects for economic growth

23. Ms Starry LEE referred to the Chief Executive's undertaking in the 2008-2009 Policy Address to implement the 10 major infrastructure projects as soon as possible to stimulate economic growth and create employment opportunities. She enquired whether the Administration would consider making adjustment to its procurement and tendering policies, where practicable, to facilitate local SMEs in bidding for and securing procurement and construction contracts. SCED responded that the Government procurement policy and the award of contracts were subject to the World Trade Organization Agreement on Government Procurement and the tendering requirements of individual project. Where existing procurement and manpower policies so permitted, the Administration would seek to facilitate participation of local SMEs in the infrastructure projects. SCED undertook to relay member's view to the relevant bureaux/departments for consideration.

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Summing up

24. Referring to SCED's request to seek FC's early approval of the proposed measures, the Chairman reminded members that as agreed at the Panel meeting held on 14 October 2008, a special meeting would be held on Monday, 27 October 2008 to receive views from SME associations and relevant chambers of commerce on the issue. In this connection, Mr Andrew LEUNG and Mr Jeffrey LAM suggested to convene a special FC meeting as soon as possible, preferably on Friday, 24 October 2008, to consider the proposed measures. They were of the view that, subject to Panel's endorsement, the proposed measures which had the broad support of the industry should be implemented without further delay. Meanwhile, the Panel could exchange views with the Administration and the attending deputations on other support measures for SMEs at the meeting on 27 October 2008.

25. Ms Emily LAU noted that so far 13 deputations had registered to attend the Panel's meeting on 27 October 2008. While agreeing that timely assistance should be provided to SMEs, Ms LAU suggested that it would be more appropriate for FC to consider the proposal after the Panel had received deputations' views on 27 October 2008. Instead, a special FC meeting could be held on 28 October 2008 to discuss the matter. Mr Ronny TONG agreed with Ms LAU.

26. Mr Jeffrey LAM, Mr Andrew LEUNG, Mrs Sophie LEUNG, Ms Starry LEE, Dr LAM Tai-fai and Dr Samson TAM were in favour of early consideration of the proposal by FC on Friday, 24 October 2008. However, the Chairman, Ms Emily LAU, Mr Ronny TONG and Dr Margaret NG considered that the special FC meeting should be held on 28 October 2008. Ms Emily LAU, as FC Chairman, noted the Panel's view in this regard.

27. Summing up, the Chairman said that the Panel supported in principle early implementation of the proposed enhancement measures. He urged the Administration to continue to reflect the views and difficulties of the SMEs to the Mainland authorities and to develop, in collaboration with the industry, longer-term

support measures to ease the hardship of the SMEs.

(Post-meeting note: The proposed enhancement measures to the SME Funding Schemes were approved by FC at its meeting held on 28 October 2008.)

II. Any other business

28. There being no other business, the meeting ended at 3:40 pm.

Council Business Division 1
Legislative Council Secretariat
5 December 2008