

EXTRACT

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Legislative Council

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Panel on Commerce and Industry

Minutes of meeting

**held on Tuesday, 21 April 2009, at 2:30 pm
in Conference Room A of the Legislative Council Building**

- Members present** : Hon Vincent FANG Kang, SBS, JP (Chairman)
Hon WONG Ting-kwong, BBS (Deputy Chairman)
Hon Fred LI Wah-ming, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon Emily LAU Wai-hing, JP
Hon Tommy CHEUNG Yu-yan, SBS, JP
Hon Jeffrey LAM Kin-fung, 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** : Hon IP Wai-ming, MH
Hon Paul TSE Wai-chun
- Members absent** : Hon Timothy FOK Tsun-ting, GBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
- Public officers attending** : Agenda Item IV
Mrs Rita LAU NG Wai-lan, JP
Secretary for Commerce and Economic Development

Mr Duncan PESCOD, JP
Permanent Secretary for Commerce and Economic
Development (Communications and Technology)

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

Mr Andrew LAI Chi-wah
Deputy Commissioner for Innovation and Technology

Mr Davey CHUNG Pui-hong
Assistant Commissioner for Innovation and Technology

Dr YANG Ying
Chief Executive Officer (Acting)
The Hong Kong Automotive Parts and Accessory
Systems R&D Centre

Mr Haider BARMA, GBS, CBE, JP
Chief Executive Officer
The Hong Kong Research Institute of Textiles and
Apparel

Dr CHEUNG Nim
Chief Executive Officer
Hong Kong Applied Science and Technology Research
Institute

Professor C J TAN
Chief Executive Officer
Hong Kong R&D Centre for Logistics and Supply
Chain Management Enabling Technologies

Professor NG Ka-ming
Chief Executive Officer
Nano and Advanced Materials Institute

Agenda Item V

Miss Yvonne CHOI Ying-pik, JP
Permanent Secretary for Commerce & Economic
Development (Commerce, Industry & Tourism)

Ms Joey LAM Kam-ping
Deputy Commissioner for Tourism

Mr Howard LEE Man-sing
Principal Assistant Secretary for Commerce &
Economic Development (Commerce & Industry)¹

Ms Gilly WONG
General Manager (MICE & Cruise), Hong Kong
Tourism Board

Agenda Item VI

Miss Yvonne CHOI Ying-pik, JP
Permanent Secretary for Commerce & Economic
Development (Commerce, Industry & Tourism)

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

Miss Vivian LAU Lee-kwan
Deputy Director-General of Trade and Industry
(Commercial Relations, Controls and Support)

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

Staff in attendance : Ms Annette LAM
Senior Council Secretary (1)³

Mr Joey LO
Council Secretary (1)³

Ms May LEUNG
Legislative Assistant (1)⁶

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IV. Mid-term review of the Research and Development Centres
(LC Paper No. CB(1)1286/08-09(07) -- Administration's paper on
mid-term review of the Research
and Development Centres

LC Paper No. CB(1)1286/08-09(08) -- Paper on Research and Development Centres under the Innovation and Technology Fund prepared by the Legislative Council Secretariat (updated background brief)

LC Paper No. CB(1)1381/08-09 -- Administration's paper on mid-term review of the Research and Development Centres (Chinese version only) (power-point presentation material))
(tabled at the meeting and subsequently issued via e-mail on 22 April 2009)

Presentation by the Administration

1. At the invitation of the Chairman, the Secretary for Commerce and Economic Development (SCED) briefed members on the mid-term review of the operation of the Research and Development (R&D) Centres, as set out in the Administration Paper No. CB(1)1286/08-09(07). With the aid of power-point, Commissioner for Innovation and Technology (CIT) then briefed members on the key findings of the review.

2. Members noted that by the end of 2008, the Centres had undertaken a total of 316 projects with an estimated cost of \$1,344.6 million. The Centres had secured a total contribution of \$140.9 million from industry in support of 208 projects funded under the Innovation and Technology Fund (ITF), representing about 11% of the total project cost estimate. Among the 208 ITF-funded projects, 94 had been completed with the remaining due to be completed in 2009 and 2010. The total operating expenditure incurred by the Centres for this period (except for the R&D Centre for Information and Communications Technologies (ICT)) was \$112.9 million. From these 208 approved projects, the Centres had filed a total of 178 patent applications. Members also noted that the Administration was examining the future funding requirements of the R&D Centres with a view to submitting the funding proposal to the Finance Committee for consideration.

Discussion

Six economic areas

3. Ms Tanya CHAN noted that as announced by the Chief Executive at the meeting of the Task Force on Economic Challenges (TFEC) on 3 April 2009, the Administration would further develop the six economic areas, namely testing and certification, medical services, innovation and technology, cultural and creative industries, environmental industry and educational services. She enquired if the future funding proposal for the Centres would be geared towards supporting the development of the six economic areas. She also enquired if there would be any

forthcoming R&D initiatives on the environmental conservation.

4. In response, SCED advised that the Administration was committed to driving Hong Kong to become a knowledge-based economy through innovation and technology development. In this connection, the work of the five R&D Centres dovetailed the six economic areas to be developed by the Administration. To take TFEC's plan forward, the Central Policy Unit would arrange a series of focus group discussions with the stakeholders, with a view to drawing up an action plan to enhance the long-term competitiveness of Hong Kong and explore medium and long-term economic opportunities. The action plan would be put up for public consultation. On green R&D initiatives, SCED advised that the Financial Secretary would lead a steering committee to study the wider use of electric vehicles (EV) in Hong Kong. This would be an important step towards cleaner and more efficient transport technology. In this regard, the Automotive Parts and Accessory Systems R&D Centre would play a significant role in undertaking EV-related R&D projects. Other green R&D initiatives, such as renewable energy, were also being pursued by the Centres. However, as the Centres' R&D programme had only started rolling out for just over two years, it was still too early to comment on their performance in such areas. In this connection, she appealed to members to support the forthcoming funding proposal to sustain the R&D Centres. CIT added that a number of R&D initiatives on solar energy were already in the pipeline, and the results were due to be seen in the coming few years.

Industry support and cooperation

5. Mr Jeffrey LAM said that as he was aware, not many of the exhibitors and manufacturers had established a working relationship with the R&D Centres. In this connection, he suggested that the Administration should strengthen ties and network between the Centres and the industry through the trade shows. He noted that whilst it was the original target for the Centres to progressively generate up to 40% of their expenditure from the industry, the Centres had only been able to secure an industry contribution of 13% of their project cost. He was concerned about the effect of the low rate of industry contribution on the implementation of the R&D projects, and urged the Administration to step up promotional effort in this respect.

6. Mr WONG Ting-kwong said that there had been comments from industry associations that the Centres should more actively promote their R&D deliverables to the industry, and that more needed to be done by the Centres to facilitate the commercialization of R&D deliverables. He suggested that the Administration should review if the R&D projects underway matched with the needs of the industry and the actual difficulties faced by the Centres in promoting their R&D deliverables.

7. CIT advised that the R&D Centres had been reaching out to the industry and maintained close relationships with the local manufacturers. By holding regular meetings with the Federation of Hong Kong Industries, the Chinese

Manufacturers Association of Hong Kong, the Hong Kong General Chamber of Commerce and the Chinese General Chamber of Commerce, the Centres had promoted their research deliverables to local companies and built up a close partnership with the local industry. Moreover, they had set up members clubs to recruit members from the industry. For instance, e-news was sent by the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies to update its members on the latest research deliverables. On forging ties between the Centres and manufacturers through trade shows, the Administration would discuss the detailed arrangements with the Trade Development Council. CIT admitted that the level of industry contribution which the Centres had managed to secure would likely fall below the original target of 40% at the end of the first five-year period. Given the current financial climate, the Centres had genuine difficulties to increase the proportion of industry contribution substantially in the near future. As such, the Administration had undertaken to review the Centres' target of soliciting industry contributions.

8. Dr Samson TAM considered the level of industry contribution of \$171 million which the Centres had secured from the industry satisfactory. He opined that even overseas R&D centres such as those in Japan, Korea and Taiwan were not required to be self-financing. It would be unrealistic for the R&D Centres to continue operation beyond the five-year period on a self-financing basis. He urged the Administration to take up more responsibilities and suitably adjust the target level of industry contribution to below 20%.

9. In response, SCED maintained that the concept of the R&D Centres was based on applied research activities and the results could generate intellectual property rights. Moreover, the profits from commercialization of the research deliverables could be ploughed back to finance future projects of the Centres. Whilst reaffirming this overall approach, she assured members that the Administration would fine-tune the target level of industry contribution to tie in with the overall economic climate. Nevertheless, SCED stressed that in view of the prevailing economic restructuring, it was even more imperative for enterprises to increase investment in R&D to meet the changing needs of the market. In this regard, the Administration had been monitoring private sector investment in R&D projects since 1999, and had found that private sector investment constituted about 50% of the overall R&D investment, and was steadily rising.

10. Dr LAM Tai-fai expressed support for the continuous development of the five R&D Centres. He noted that whilst developing Hong Kong into a knowledge-based economy was a general consensus, it was timely for the Administration to review the performance of the Centres and consider their way forward since they had been in operation for some time. He urged the Administration to speed up the commercialization of R&D deliverables. On the industry contribution, he suggested that the threshold of 30% of the project cost in respect of collaborative projects should be lowered to, say 25%, in the wake of the financial tsunami. In response, CIT advised that other issues such as IP benefits sharing, etc. would need to be examined if the threshold of industry contribution

was lowered to a mere 25%. Nevertheless, the Administration would take Dr LAM's suggestion into consideration.

11. Mrs Sophie LEUNG expressed her support for the further development of the R&D Centres. However, she cautioned that too much Government intervention would thwart the flourishing of creativity and enterprising spirit. In this regard, she opined that the Administration should limit the level of its involvement in individual R&D projects and try to give a freehand to the enterprises. She also suggested that the Administration should reach out to small enterprises with creative ideas and provide them with opportunities for development.

R&D work conducted outside Hong Kong

12. Whilst welcoming the Administration's interim improvement measure to allow no more than 50% of the R&D work to be conducted by non-local universities or outside Hong Kong under the University-Industry Collaboration Programme (UICP), Dr Samson TAM was concerned about the R&D standards of the non-local universities which had entered into collaboration agreements with the Administration. In response, SCED advised that collaboration agreements would be reached with Mainland and overseas universities to provide fresh impetus to university-industry collaboration, whilst safeguards against abuse would be provided under the UICP. CIT added that six reputable non-local universities in the Mainland, United States, United Kingdom and Australia had entered into memoranda of understanding on technology research cooperation with the Administration and the Centres. Other overseas universities/institutions of comparable R&D capabilities would be considered in future.

Cooperation with enterprises in the Mainland

13. Mr WONG Ting-kwong advised that despite topping the ten most competitive Chinese cities in the recently unveiled edition of the Blue Book on Urban Competitiveness by the Chinese Academy of Social Sciences (CASS), Hong Kong's competitiveness in R&D lagged behind other Mainland cities. As such, he called on the Administration to strengthen cooperation with local and Mainland universities/institutions to fully leverage on their technical hardware and software. He opined that in view of the lack of production bases in Hong Kong, the Administration should help the Centres forge closer ties with the manufacturers in the Pearl River Delta (PRD) Region to leverage on their massive production capabilities.

14. SCED advised that the Mainland-based manufacturers were the target customers of the Centres in support services. In response to the "Outline of the Plan for the Reform and Development of the Pearl River Delta (2008-2020)" as announced recently, the Administration had undertaken to further develop Hong Kong's service industry in PRD Region and Guangdong. To further improve the communication between the Centres and the Mainland manufacturing industry,

more focused and dedicated promotion effort would be put in areas in which Hong Kong excelled, such as wireless communication and digital broadcasting as well as automotive parts. CIT added that the period of operation of the Centres was still short and most of the R&D projects were still underway. However, he envisaged that with about 20 to 30 projects due to be completed within this year and the next, the Centres would spare no effort in promoting their R&D deliverables to the Mainland manufacturers.

15. In concluding the discussion, the Chairman urged the Administration to take note of members' views and concerns. Whilst efforts should be directed towards expediting the commercialization of R&D deliverables, the market strategy of Hong Kong products should switch from competition in terms of price to competition in terms of creativity. In this regard, the R&D Centres should play a critical role in providing novel ideas to the enterprises.

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Council Business Division 1
Legislative Council Secretariat
13 May 2009