

LegCo Panel on Commerce and Industry

Policy Agenda of Commerce, Industry and Tourism Branch and Innovation and Technology Commission, Commerce and Economic Development Bureau

This paper outlines the initiatives related to the Commerce, Industry and Tourism Branch and Innovation and Technology Commission of the Commerce and Economic Development Bureau under the 2008-09 Policy Agenda.

Part I : Commerce, Industry and Tourism Branch

Undertaking Ten Major Infrastructure Projects for Economic Growth

New Initiatives

***Initiative:** Support the further development of wine trading and distribution businesses in Hong Kong, riding on the growing demand across Asia and the wine duty exemption. Measures being pursued cover areas including customs facilitation, trade and investment promotion, manpower training and education, use of heritage buildings for wine-related purposes, combating counterfeits, and teaming up with trading partners.*

2. To help our trade capitalise on the growing demand for wine across Asia, we further reduced our wine duty from 40% to zero in February this year, following a similar reduction in 2007. That makes Hong Kong the first free wine port among major economies. The market response is encouraging. Wine imports are increasing; trading and distribution businesses have grown; companies are expanding their storage facilities; auctions have been held with record-breaking sales and more auctions are being lined up. Jobs have been created and economic benefits are brought to the community.

3. Besides duty reduction, the Government has been working on various measures in support of the further development of wine-related

business in Hong Kong. These include :

- (a) ***customs facilitation*** : we have secured passage of the related legislative changes to remove all duty-related administrative controls for wine from June 2008. Besides, from July 2008, traders may ask for the customs inspection of fine wine to be conducted at their premises (with temperature and humidity controls), rather than at boundary control points;
- (b) ***multi-purpose wine-related facilities*** : we are identifying heritage sites for multiple uses related to wine, such as auction, education, appreciation, museum and fine dining etc. As a start, we would offer the Haw Par Mansion, with wine-related businesses as one of the possible uses;
- (c) ***promotion*** : we are synchronising the promotion work of the Hong Kong Trade Development Council (TDC), Invest Hong Kong (InvestHK) and Hong Kong Tourism Board (HKTB) to bolster economic activities that may have synergy with wine trading, such as tourism, catering and hospitality etc.
- (d) ***manpower training and wine education*** : with inputs from the trade, various training institutions are developing enhanced training programmes for personnel ranging from sommeliers to frontline staff involved in logistics and warehousing; and
- (e) ***enforcement actions against wine counterfeits*** : whilst Hong Kong has a clean record, we recognise the importance of vigilance. Customs and Excise Department (C&ED) is forming an alliance with the industry as well as strengthening liaison with overseas enforcement agents to promote exchange of intelligence etc.

4. For added impetus, we have signed a Memorandum of Understanding with France and the wine-producing region of Bordeaux covering co-operation in wine-related trade and tourism, investment and education. We welcome similar agreements with other trading partners.

Initiative: Further promote and expand trade, investment, tourism and other areas of economic co-operation between Hong Kong and Taiwan.

5. Taiwan is the fourth largest trading partner of Hong Kong. The Government and concerned statutory bodies are taking various measures to enhance trade and economic relations with Taiwan.

6. The TDC has applied to the relevant Taiwanese authorities to open a branch office in Taipei (which will take over its present consultant office) in order to further assist Hong Kong enterprises to seek business opportunities in Taiwan. The office is expected to come into operation in the near future after the necessary approvals have been given.

7. At the same time, to foster friendship and understanding between the business communities of Hong Kong and Taiwan, promote and expand trade, investment and tourism, and other areas of economic co-operation, as well as discuss and exchange information on issues affecting the economic activities of both places, we plan to follow the model of Hong Kong – United States and Hong Kong – Japan business co-operation committees etc. and will set up a non-governmental “Hong Kong - Taiwan Business Co-operation Committee”.

8. In addition, InvestHK will continue to promote Hong Kong as a prime investment destination for Taiwan enterprises. It will strengthen liaison with working partners and chambers of commerce in Taiwan and proactively attract Taiwan enterprises to establish regional headquarters and companies in Hong Kong, benefiting the economic development of Hong Kong and the entire Pearl River Delta region.

9. On tourism, the Government will continue to work with the trade and relevant organisations in attracting arrivals from Taiwan by promoting multi-destination itineraries, enhancing service quality and strengthening appeals of Hong Kong to Taiwan visitors.

10. The promotion of the multi-destination itineraries by the HKTB will feature Hong Kong as a must-stop destination for tourism traffic between the Mainland and Taiwan, capitalising on the extensive flight connections with Hong Kong. The HKTB will continue to explore new market segments from Taiwan and attract Taiwan investors and businessmen in the Pearl River Delta Region and Shanghai as well as their families to visit Hong Kong. The HKTB will also enhance marketing

activities in cities such as Kaohsiung and Taichung, and develop the MICE (meetings, incentive travels, conventions and exhibitions) market so as to draw high-yield business travellers to Hong Kong.

On-going initiative

Initiative: Building on our initial efforts to enhance economic ties with the emerging markets in Russia, India and the Middle East and helping our enterprises tap the growing business opportunities in these markets.

11. In recent years, emerging markets in Russia, India and the Middle East have seen significant economic growth, offering potential new business opportunities to Hong Kong traders and manufacturers. Together with the TDC, we have been helping local enterprises to promote their services and products in these markets by organising seminars, exhibitions and other events. Senior officials have led business delegations to these markets and have met key officials to discuss ways to enhance trade. Specifically, the Chief Executive, the Financial Secretary and the Secretary for Commerce and Economic Development have in recent months led high-level delegations to the Middle East, India and Russia respectively.

Initiative: Awaiting completion of legislative procedures by the German Government for the opening of the Economic and Trade Office (ETO) in Berlin.

12. The Berlin ETO will represent and promote Hong Kong's trade and commercial interests in central Europe. Over the past year, we have been liaising closely with the German Government on the arrangements for the setting up of the new ETO in Berlin. We shall open the Berlin Office once the German Government has completed the necessary legislative procedures. Since April 2007, a core team for the Berlin ETO has started operating from Brussels to prepare for the setting up of the Berlin ETO and commence networking with the countries under the new ETO's purview.

Initiative: Participating actively in the work of the World Trade Organization (WTO) to bring about continual trade liberalisation and to promote and protect the trade interest of Hong Kong.

13. The multilateral trading system is the cornerstone of Hong Kong's external trade policy. We successfully hosted the Sixth Ministerial Conference of the WTO in December 2005, providing a launching pad for the Doha Development Agenda negotiations to enter its final phase. However, due to the divergence of WTO Members over the key issues of agriculture and non-agricultural market access (NAMA), the negotiations have yet to attain major breakthrough so far.

14. The Director General of the WTO (DG/WTO) held an informal Ministerial meeting with selected economies (including Hong Kong) in July 2008. The purpose of the meeting was to allow Ministers to consider trade-off between difficult issues in agriculture and NAMA with a view to advancing the Doha negotiations. A Signalling Conference for making indications on services commitments that might be undertaken by economies on Services negotiations was also held alongside the informal Ministerial meeting. Although the nine days' intensive meetings did not result in a consensus, considerable progress was achieved in the areas of NAMA and Services.

15. In August 2008 the Chairmen of the negotiating groups of Agriculture and NAMA under the WTO issued reports respectively to capture the consensus reached/progress made during the Ministerial meetings. Following the issuance of reports, senior negotiators of seven key players (the US, the European Commission, India, Brazil, Australia, Japan and China) met in Geneva in September 2008 to consider the agricultural issue, but there was no breakthrough. In October, the Agriculture Chair resumed the multilateral process to discuss the outstanding issues.

16. Hong Kong has been participating actively in the negotiation process. For example, the Secretary for Commerce and Economic Development worked intensively with other WTO Members to bridge the gaps among different groups to work towards greater convergence on a number of key issues during the Ministerial meeting in July. Hong Kong together with other like-minded Members worked out a middle-grounders' proposal on NAMA which was largely adopted in the compromise proposal tabled by DG/WTO. We will continue to work closely with other WTO Members for an early conclusion of the Doha Round.

Initiative: Encouraging more Mainland and overseas enterprises to invest and set up regional headquarters or offices in Hong Kong; and undertaking joint promotional efforts with Mainland authorities to promote the combined competitive advantages offered by Hong Kong and the Mainland.

17. As at 2 June 2008, there are, in Hong Kong, 6 612 overseas and Mainland companies representing parent companies located outside Hong Kong. This represents an increase of 2.7% from 2007. Of these companies, 3 882 served as regional headquarters or offices. In 2007 and the first half of 2008 respectively, InvestHK completed 253 and 148 international and Mainland investment projects, and has established Investment Promotion Units or engaged consultants in 27 locations to attract overseas and Mainland companies to establish operations or expand their businesses in Hong Kong.

18. InvestHK has placed particular focus on encouraging Mainland enterprises to set up operations in Hong Kong and to use Hong Kong as a springboard to expand internationally, and operates InvestHK Service Centres in Beijing, Guangdong, Shanghai and Chengdu, to provide information and assistance to potential Mainland investors. In 2007 and the first half of 2008, InvestHK completed respectively 47 and 28 Mainland investment projects in Hong Kong, making a total of 211 such projects since the setting up of the department. By September 2008, the three-year investment promotion campaign, “On Your Marks, Get-set, Go!” targeting privately owned enterprises in seven high growth regions across the Mainland had completed its projects in Zhejiang and Shandong. The Fujian projects will be completed by the end of 2008.

19. InvestHK also continues to conduct joint promotion seminars with Mainland provincial and municipal authorities in key overseas markets, and during this year InvestHK has organised nine such seminars in collaboration with seven Mainland authorities in major cities overseas. Two more seminars will be held in the coming months including a large-scale event with Guangdong Province in Madrid, Spain on 28 October 2008.

Initiative : Working closely with the Mainland authorities to ensure the smooth and effective implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA); promoting greater

understanding of the opportunities under CEPA; and making use of the standing consultation mechanism of CEPA to seek further trade liberalisation.

20. Supplement V to CEPA (Supplement V) concluded in July 2008 further improves the market access opportunities of Hong Kong businesses in the Mainland. It encompasses 29 liberalisation measures in 17 services areas, and enhances co-operation in branding, protection of intellectual property, electronic business, as well as mutual recognition of professional qualifications.

21. The Government attaches great importance to the effective implementation of CEPA. We co-organised with the Mainland authorities a Business Forum on Supplement V in September 2008, inviting Central and Guangdong officials to brief in detail the implementation of the new services liberalisation measures as well as other Guangdong pilot measures. In addition, following the two CEPA Consultative Forums held last year, we will shortly organise the third Consultative Forum to gather views from the trade on CEPA implementation and liberalisation. We will continue to promote CEPA through various activities and maintain close liaison with the Mainland authorities to ensure effective implementation. We will also discuss in good time with the Mainland authorities further liberalisation measures.

Initiative: Continuing to support Hong Kong enterprises on the development and promotion of Hong Kong brands to enable them to better compete in the Mainland and overseas markets.

22. With intense competition for products and services in the global market, brand building is becoming increasingly important for Hong Kong. With this in mind, the Hong Kong ETOs, InvestHK, the TDC and the HKTb will continue to promote to a wide international audience our unique position as one of the world's most cosmopolitan and dynamic cities.

23. For individual enterprises, the Small and Medium Enterprises (SMEs) funding schemes managed by the Trade and Industry Department (see paragraph 25 below) can provide grants to facilitate SMEs in expanding their business and promoting their brands through participation in export promotion activities.

24. Meanwhile, we will strengthen co-operation and communication with relevant organisations, such as the TDC, and key stakeholders in the trade on ways to help Hong Kong enterprises develop and promote their brands. In April 2008, we organised a seminar on brand building to promote the importance of brand development. Further, in view of suggestions from the trade, we have included branding co-operation in CEPA, and we will discuss with relevant authorities ways to help local enterprises promote their brands on the Mainland.

Initiative: Continuing to strengthen support for SMEs including those operating in the Mainland.

25. We are committed to supporting the SMEs in Hong Kong, which are the backbone of our economy. We continue to assist SMEs to secure finance, expand export markets and enhance overall competitiveness through the SME funding schemes (which include the SME Loan Guarantee Scheme, the SME Export Marketing Fund, and the SME Development Fund). We have injected an additional funding of \$500 million into the three funding schemes in March this year, bringing their cumulative expenditure provision to \$2.7 billion. We have also extended the scope and raised the ceiling of funding.

26. We note that many SMEs (particularly those with operations in the Mainland) are facing challenges arising from the changing business environment, which is exacerbated by the current financial turmoil. We are now discussing with the trade and concerned parties (including the lending institutions) on ways to further enhance the flexibility of the funding schemes, with a view to benefitting more SMEs and assisting them to cope with the new challenges.

27. The Support and Consultation Centre for SMEs under the Trade and Industry Department continues to provide SMEs with free, reliable and practical information and consultation services. The Centre regularly organises seminars, workshops and other activities to help broaden SMEs' business knowledge and enhance their entrepreneurial skills.

Initiative: Working closely with the trade to facilitate the latter to adapt to the Mainland's policy adjustments, to support them to upgrade,

restructure and relocate their operation, to develop new markets, as well as to reflect their views to the Mainland authorities.

28. In recent years, the Mainland has been introducing policy adjustments in areas like processing trade, labour and taxation. Together with other factors such as the appreciation of Renminbi and rising costs of raw materials, these have caused considerable impact to Hong Kong-owned enterprises. The HKSAR Government has been staying in close communication with the trade, and liaising with the relevant Mainland authorities to reflect the trade's concerns. At the same time, we have been encouraging Hong Kong-owned enterprises in the Mainland to upgrade, restructure and relocate their operations, in tandem with the policy direction of the country.

29. We will continue to adopt a multi-pronged approach and facilitate Hong Kong-owned enterprises to upgrade and restructure through the "Task Force to Support the Processing Trade" and the "Hong Kong / Guangdong Expert Group on the Restructuring and Upgrading of the Processing Trade" etc. We will also continue to organise trade delegations to Mainland cities which are reception sites for the processing trade, with a view to encouraging relocation of industries and explore new markets.

30. In addition, we are co-operating with the Hong Kong Productivity Council in a programme to assist the trade to upgrade and restructure, through a series of industry-specific / cross-sector seminars, provision of on-site technical assessment and advice to factories, and setting up of support centre and web site etc. Enterprises may also obtain funding from the "SME funding schemes" under the Trade and Industry Department and the "Innovation and Technology Fund" (ITF) under the Innovation and Technology Commission to acquire new equipment, develop new markets and upgrade their technological capability. Support bodies such as the TDC and the Hong Kong Productivity Council also actively assist enterprises to develop business opportunities, upgrade technological knowhow and environmental performance.

Initiative: Closely monitoring demand and planning for additional facilities for convention and exhibition infrastructure.

31. The Government will continue to monitor demand and plan for additional convention and exhibition facilities. The atrium link extension of the Hong Kong Convention and Exhibition Centre (HKCEC) will commence operation next year to provide a significant increase of exhibition space for Hong Kong. However, it is expected that demands will continue to grow in the next decade. To meet these demands, the Government and the TDC are actively considering the HKCEC Phase 3 expansion project in the vicinity of HKCEC. Relevant detailed studies and public consultation will start as soon as possible. Moreover, we are exploring with the AsiaWorld-Expo its plan to expand the facility.

Initiative: Supporting the HKTB to launch a dedicated office “Meetings and Exhibitions Hong Kong” and continuing partnership with our local and overseas networks to promote Hong Kong as an international city, to attract large-scale MICE events to Hong Kong and assist the hosting of such events; and in liaison with the trade and training institutions, encouraging the supply and training of talent for the MICE tourism sectors.

32. The HKTB will officially launch its dedicated office, “Meetings and Exhibitions Hong Kong” (MEHK), in November 2008 to provide one-stop support for organisers of MICE events, step up overseas promotion of Hong Kong as a preferred MICE destination in the region, and enrich the travel experience of MICE participants in Hong Kong. We will continue to co-ordinate efforts of our local and overseas networks to promote Hong Kong as an international city, maximise the synergy of overseas promotion initiatives, and bidding efforts for individual MICE events. We have also commissioned a manpower survey to ascertain the manpower situation and training needs of the MICE tourism sector.

Initiative: Following through the preparation of subsidiary legislation underpinning the “business end-user copying/distribution offence” in the Copyright (Amendment) Ordinance 2007 as well as rolling out targeted public education programmes before bringing the offence into operation.

33. The Copyright (Amendment) Ordinance 2007, enacted in July 2007, introduces, among other things, a new criminal offence against the copying/distribution of infringing copies of printed works in business.

Before bringing the offence into operation, we have to enact a “safe harbour regulation” which sets out the scope within which the relevant act does not attract criminal liability. Following discussions with the relevant stakeholders, we consider that the enabling provision could be technically modified to make room for numeric limits that are easier to understand. We are working on the proposed revisions and would endeavour to introduce the Bill into the LegCo in the first half of 2009.

34. We will launch public education programmes before bringing the new offence into operation. For details, please see paragraph 37 below.

Initiative: Continuing to consult the public on the review of copyright protection in the digital environment with a view to firming up the legislative proposals in early 2009.

35. In April 2008, we released our preliminary proposals and sought public views on issues including the introduction of an all-embracing right of communication in electronic transmission with ancillary criminal sanctions, the role of online service providers in combating Internet piracy, and measures for facilitating the pursuit of civil actions against Internet piracy. We are engaging the stakeholders through various platforms including a Tripartite Forum comprising representatives from online service providers, copyright owners and users. Our current target is to firm up the legislative proposals by early 2009.

Initiative: Continuing to promote awareness of and respect for intellectual property rights in the business sector, and to assist business, in particular SMEs, to achieve compliance with intellectual property rules.

36. To further promote awareness in the business community, we launched the “Genuine Business Software Campaign” in 2006 to help enterprises, especially SMEs, better manage their software assets. Through the second phase of the Campaign (which was completed in July 2008), we have provided free consultancy services on software asset management to more than 600 enterprises. In the course of encouraging enrolment in the consultancy programme, we have put across, through seminars and telemarketing, messages to some 50 000 enterprises about the benefits offered by proper management of software assets as well as the importance of compliance with intellectual property rules.

37. We will continue to promote respect for intellectual property rights in the business sector through various channels and activities, including seminars, publication of leaflets and other reference materials. In disseminating information about the good practices that enterprises may adopt to help guard against copyright infringements, we will draw their attention to the new “business end-user copying / distribution offence” before the relevant provision is brought into operation.

Initiative: Working towards appointing, before end 2008, service providers for the provision of the post-2009 Government Electronic Trading Services (GETS) concerning submission of six commonly used trade documents by traders or carriers to the Government.

38. The provision of reliable and stable GETS¹ is vital to the further development of Hong Kong’s trade and business. These services are currently provided by two service providers appointed by the Government.

39. The contracts between the Government and the existing service providers will expire by the end of 2009. Following a review, we have in November 2007 obtained this Panel’s endorsement of the recommended arrangements for the provision of GETS post 2009. The relevant tender exercise is in progress and we hope to appoint the selected service providers before the end of 2008.

Initiative: Continuing to pursue measures to facilitate the movement of people and goods across the boundary, with a view to maintaining Hong Kong’s competitiveness. These include developing by the fourth quarter of 2009 a “Road Cargo System” (ROCARS) that provides the electronic infrastructure for facilitating customs clearance of road cargoes as well as the movement of transshipment cargoes that involve inter-modal transfer (e.g. from land to air).

¹ GETS refers to the front-end electronic services for submission of six commonly used trade documents by traders/carriers to the Government through service providers for the purposes of customs declaration, trade control and statistics compilation. These documents include trade declarations, dutiable commodities permits, electronic manifests, certificates of origin, production notifications, and notifications under the Textiles Trader Registration Scheme.

40. Upon introduction of the proposed ROCARS, we will have the necessary electronic infrastructure for customs clearance of cargoes carried by all modes of transport. We will soon complete the tender exercise for the development of the IT system related to ROCARS. We will introduce the relevant subsidiary legislation into LegCo in the first half of 2009. Our target is to roll out the ROCARS in the fourth quarter of 2009.

41. There will be an 18-month transitional period before electronic submission of cargo information in advance is made mandatory in 2011. C&ED will start to arrange seminars on the new workflow before system roll-out as well as provide hands-on training for the industry throughout the transitional period.

Part II : Innovation and Technology Commission

Undertaking Ten Major Infrastructure Projects for Economic Growth

Ongoing Initiatives

Initiative: Promoting applied research and development (R&D) and technology transfer to the industry through implementing the strategic framework for innovation and technology development.

42. The strategic framework has been implemented through the establishment of the R&D Centres. Following their establishment in mid-2006, the five R&D Centres have been undertaking R&D projects jointly with universities and industry as well as soliciting project proposals from interested parties. Up to end-August 2008, a total of 154 project proposals submitted by the R&D Centres have been approved with total ITF funding amounting to \$780 million. The Administration will conduct a mid-term review of the operations of the R&D Centres in 2009.

Initiative: Enhancing collaboration in science and technology with the Mainland at different levels and promoting interflow of technology talents with Mainland cities such as Beijing, Shanghai, Chongqing and Pan-Pearl River Delta Region.

43. The national 11th Five-Year Plan places strong emphasis on

“autonomous innovation” and the need to expedite the building up of the national innovation capability. Hong Kong possesses many favourable elements that are conducive to the development of innovation and technology and are positive facilitators in the promotion of national technological development. Working towards this goal, we have been strengthening our technology co-operation with the Mainland. In particular, the State Ministry of Science and Technology has agreed to set up a mechanism to process applications from local universities and research institutions for establishing state key laboratories in Hong Kong. Applications were invited in the fourth quarter of 2007 for the first time in Hong Kong. The vetting process is underway.

44. In respect of Guangdong/Hong Kong co-operation, the “Guangdong/Hong Kong Technology Co-operation Funding Scheme” has supported over 660 projects with a total funding of about \$1.61 billion in the past four years. Application for the new round of 2008 was just closed on 15 October 2008. We have also signed a co-operation agreement on “Shenzhen-Hong Kong Innovation Circle” with the Shenzhen Municipal Government, with a view to comprehensively strengthening technology co-operation between the two cities. In May 2008, the two governments successfully invited DuPont to set up its global photovoltaic business headquarters and R&D centre in Hong Kong, as well as a related downstream development and manufacturing base in Shenzhen. This is the first major project under the “Shenzhen Hong Kong Innovation Circle” framework. Both sides will continue to carry out more technological collaboration and exchanges in various areas.

Quality City and Quality Life

Ongoing Initiative

Initiative: Implementing the DesignSmart Initiative to promote wider use of design and innovation in industries to help them move up the value chain.

45. We launched the \$250 million DesignSmart Initiative in 2004 with the objectives of strengthening the support for design and innovation, and promoting the wider use of design and innovation in industries to help them move up the value chain. Four funding schemes are in operation to

support design research; design/business collaboration; design professional continuing education; as well as fostering the culture of design. As at end August 2008 we have approved 180 projects with funding support amounting to a total of \$105 million.

46. Under the DesignSmart Initiative, we also provide support to the Hong Kong Science and Technology Parks Corporation and the Hong Kong Design Centre for the joint development of the InnoCentre as a one-stop shop for providing support and services related to design. In full operation since November 2006, the InnoCentre has admitted 34 design companies as tenants and 40 as incubatees.

Optimising Our Demographic Structure And Attracting Talents

New Initiative

Initiative: Strengthen investment in our R&D personnel by extending the Internship Programme under the ITF to our R&D centres and expanding the pool of recruits to cover graduates of master or higher degree as well as to non-local graduates.

47. To strengthen our efforts in nurturing local R&D talents, we will extend the Internship Programme under the ITF to R&D Centres in addition to local universities to provide more opportunities for our graduates to take part in R&D projects supported by the Fund. This is a further impetus to our recent expansion of the Programme to cover graduates of master or higher degree as well as to students graduating from local universities of non-local origin (such as those from the Mainland), and increase of the monthly allowance for employing these graduates and the internship period from 12 to 24 months.