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Report of the Panel on Commerce and Industry for submission to the Legislative Council

Purpose

This report gives an account of the work of the Panel on Commerce and Industry during the 2009-2010 session of the Legislative Council. It will be tabled at the Council meeting on 14 July 2010 in accordance with Rule 77(14) of the Rules of Procedure of the Council.

The Panel

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purpose of monitoring and examining Government policies and issues of public concern relating to commerce and industry. The terms of reference of the Panel are in **Appendix I**.

3. The Panel comprises 16 members. Hon Vincent FANG Kang and Dr Hon LAM Tai-fai were elected Chairman and Deputy Chairman of the Panel respectively. The membership list of the Panel is in **Appendix II**.

Major work

Small and medium enterprises funding schemes

4. The Administration briefed the Panel on the latest progress of the support measures for small and medium enterprises (SMEs) arising from the global financial turmoil, in particular, the implementation of the enhancements to the Special Loan Guarantee Scheme (SpGS) which provided up to 80% guarantee to participating lending institutions in granting loans to eligible SMEs. Panel members expressed concern that the SMEs were still undergoing a critical period of recovery and could face another credit crisis in the near future. To help the SMEs tide over the difficult period, members suggested that for those SMEs facing genuine financial difficulty, they should be allowed to suspend repayment of loans obtained under SpGS for a further six months following the six-month grace period during which borrowers might only repay the loan

interests. The Administration advised that it was obliged to ensure the prudent use of taxpayers' money under the loan schemes. As the SpGS had been operating smoothly, the Administration saw no need to make adjustments to the risk assessment criteria and related procedures at this juncture.

5. Some Panel members expressed concern that the SMEs would face financial problems upon expiry of the six-month extension period of the SpGS on 30 June 2010. Members called on the Administration to extend the SpGS for a full year so that the SMEs could have better planning for the year ahead. They also urged the Administration to step up assistance to the SMEs in opening up new markets, such as by helping the SMEs participate in international exhibitions and trade fairs in collaboration with the Hong Kong Trade Development Council (HKTDC). The Administration assured members that it would keep a close watch on the situation and review the SpGS before the expiry of the extension period, and make suitable adjustments if necessary. The Administration would continue to help the SMEs expand their businesses by participating in export promotion activities through the SME Export Marketing Fund and the SME Development Fund. The Administration would also help the SMEs open up new markets in collaboration with the HKTDC.

6. The Government subsequently announced on 21 April 2010 its decision to extend the application period for the SpGS, for the last time, for six months until 31 December 2010. Other features of the SpGS would remain unchanged.

Trade relations between the Mainland and Hong Kong

7. The Panel discussed issues on trade and industries under the Framework Agreement on Hong Kong/Guangdong Co-operation (Framework Agreement) covering major initiatives and measures for both places, including assisting the Hong Kong-owned processing enterprises to upgrade and restructure and supporting the Hong Kong-invested enterprises in opening up the Mainland domestic market, in particular, Guangdong pilot measures for the service industries. The Panel was also briefed on the implementation and latest development of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), and the content of Supplement VII to CEPA.

8. Panel members welcomed the initiatives under the Framework Agreement and CEPA. They were keen to ensure that the Administration would continue its communication with relevant stakeholders, including local SMEs, on the implementation of the various measures under the Framework Agreement. Members also hoped that CEPA would take Mainland/Hong Kong co-operation to a new level and provide more opportunities for Hong Kong businesses to gain greater access to the vast Mainland market. On the liberalization of trade in services, members expressed concern that the service industry was still being confronted with various barriers of entry to the Mainland market with the associated access restrictions. Members urged the Administration to introduce more liberalization and facilitation measures by improving and streamlining the

relevant rules and procedures, so as to facilitate local enterprises operating on the Mainland.

9. Panel members were of the view that the Economic and Trade Offices in the Mainland should help local SMEs operating in the Pearl River Delta Region to upgrade and restructure in a bid to develop the Mainland domestic market. The Administration assured members that it would continue to liaise closely with the Mainland authorities and organize trade delegations to visit the Mainland with a view to exploring new business opportunities and new sites for relocations of production base for these SMEs.

Promotion of inward investment

10. The Administration briefed members on the work of Invest Hong Kong (InvestHK) in 2009 and the way forward for 2010. Panel members commended InvestHK for its efforts in promoting inward investment in 2009 which had been a very tough year, and hoped that it would continue to encourage and assist overseas, Mainland and Taiwan companies to set up and expand their operations in Hong Kong.

11. Noting that InvestHK had achieved a record result of completing 265 investment projects in 2009 which had been a very challenging year, Panel members considered the 2010 target of completing 270 projects against the background of anticipated global recovery too conservative. The Administration advised that a long lead time spanning up to 36 months was normally required for the completion of a project. With a manpower establishment of about 100 staff, the Administration considered it prudent to set a conservative target for InvestHK in 2010.

12. Some Panel members considered that Hong Kong's competitive advantages had been caught up gradually by its aggressive neighbouring economies such as Singapore, Shanghai and Tianjin. As such, members urged the Administration to conduct a study on the investment promotion strategies of Hong Kong's competitors. Some members suggested that the Administration should cooperate with overseas investment consultancies in promoting Hong Kong to overseas companies. Moreover, the Administration should provide policy incentives, such as concessions on tax or land premium, to encourage these companies to set up their operations in Hong Kong.

Work progress for the Hong Kong Council for Testing and Certification

13. The Administration briefed members on the work progress of the Hong Kong Council for Testing and Certification (HKCTC) and the proposed creation of a supernumerary Administrative Officer Staff Grade C post at Directorate 2 level designated as Secretary-General (Testing and Certification) in the Innovation and Technology Commission. Some Panel members considered that out of the six industries (namely educational services, medical services, testing and certification, innovation and technology, cultural and creative industries, and

environmental industry) to be developed by the Administration, testing and certification industry was the most worthy of support as it could create a large number of employment opportunities at different levels.

14. Whilst some Panel members echoed the industry's concern that HKCTC should in future refrain from competing with the private sector in the provision of direct services relating to testing and certification to avoid unfair competition, some members opined that HKCTC should serve as a platform for the promotion of the local industry without competing with the private sector. The Administration assured members that HKCTC was mindful of its role and would not provide any direct testing and certification services to the market.

15. Some Panel members considered that the emerging trades, including the software sector of the information and communications technologies (ICT) trade, should not be neglected. They called on the Administration to spearhead the development of software certification and to develop the ICT related industries, including certification of software and IT professionals, cloud computing, information storage and security software. The Administration assured members that HKCTC would press ahead with its work in relation to these selected trades and the relevant emerging trades, including ICT, for close monitoring of developments.

16. Some Panel members opined that the Administration should capitalize on its international status in testing and certification by expediting the development of the industry in Hong Kong and helping local enterprises tap the Mainland domestic market in view of its strong demand for testing and certification service. Interim measures and the long-term plan for grooming of talent should also be formulated for the testing and certification industry. Consideration should be given to recruiting hi-end professionals from overseas to cope with the demand.

17. Some Panel members also opined that Hong Kong should leverage on its advantage as China's gateway to the world and strive for the recognition of the testing reports from Hong Kong's accredited laboratories by all the Mainland cities and municipalities. They also urged the Administration to ensure that the standards adopted in Hong Kong should be in line with internationally recognized ones to avoid controversies.

18. Some Panel members suggested that as the Administration was exploring the feasibility of developing the Lok Ma Chau Loop with higher education as the leading land use, complemented with hi-tech research and development (R&D) as well as cultural and creative industries, consideration should be given to providing more land in the border area for the construction of laboratories for the testing of food and medicine from the Mainland to leverage on the locational advantage.

Hong Kong Special Administrative Region's participation in the World Exposition 2010 Shanghai China

19. The Administration briefed the Panel on the latest development on the Hong Kong Special Administrative Region's participation in the World Exposition 2010 Shanghai China (Shanghai Expo) held from 1 May to 31 October 2010. Some Panel members opined that the publicity of Hong Kong's participation in the Shanghai Expo should be enhanced in the face of fierce competition from other participating countries and cities. Members were assured that the Administration and relevant parties, such as the Hong Kong Tourism Board, would spare no efforts in promoting China's hosting of the Shanghai Expo through various promotional activities, including "single trip, multiple destinations" tours targeted for event participants to attract them to visit Hong Kong before or after the event.

20. On in-situ preservation of the Hong Kong Pavilion (HKP), the Panel noted that in accordance with the existing plan of the Shanghai Expo, the HKP would have to be demolished after the conclusion of the Shanghai Expo. Nevertheless, the Administration would, as far as possible, negotiate with the Bureau of Shanghai World Expo Co-ordination for its possible preservation after the event. In the event that the HKP could not be preserved in situ, consideration would be given to reprovisioning the HKP, in whole or in part, in Hong Kong.

Development of convention and exhibition industry

21. The Panel followed up closely on the provision of convention and exhibition facilities in Hong Kong to ensure that the availability of local facilities stayed ahead of the industry demand, with a view to maintaining Hong Kong's leadership as an international convention and exhibition centre.

22. The Panel also received views from representatives of trade associations, concern groups, political parties and SMEs as well as scholars. The deputations expressed divergent views on the promotion and development of the MICE industry (Meetings, Incentive Travels, Conventions and Exhibitions) in Hong Kong, the role and functions of HKTDC as to whether it had dominated the exhibition and convention market and competed for profits with private enterprises, and Phase 3 expansion of the Hong Kong Exhibition and Convention Centre (HKCEC). Whilst some deputations generally recognized the contribution of HKTDC to the development of Hong Kong's exhibition and convention industry, some deputations held opposing views that HKTDC had monopolized the exhibition market.

23. Some Panel members opined that in order for Hong Kong to stay internationally competitive in the MICE industry, it was necessary to tackle the internal unhealthy competition between HKCEC and the Asia World-Expo (AWE) which was not at present fully utilized. Some members considered that as both HKCEC and AWE were Government-funded and that HKCEC had been so

well-developed, it was time for the Government to provide more support to AWE. Nevertheless, some members expressed disagreement that HKCEC should be restrained from expanding for the benefit of AWE, and opined that both venues should be developed in order to let the market grow larger to achieve a win-win situation. At the Panel's request, HKTDC agreed to step up communication and co-operation with AWE and fair organizers in the private sector with a view to exploring the possibility of organizing more trade shows at AWE. The Administration would report the progress of the matter to the Panel in about six months' time.

Science Park Phase 3

24. The Administration briefed the Panel on the Government's development plan for Science Park Phase 3 and the proposed financing arrangements. Panel members in general supported the Administration's proposal. In view of the low rate of Government investment in R&D as compared to neighbouring economies such as Taiwan and Singapore, members urged the Administration to increase R&D expenditure. Some members expressed concern that the high development cost of Phase 3 would lead to high rentals and management fees charged to its tenants. They considered that there should be stringent control over the development cost of Phase 3. They also opined that more effort should be put in organizing activities to stimulate youngsters' interest in R&D.

25. On the long-term R&D development strategy, some Panel members opined that Hong Kong should seek closer cooperation with the Guangdong authorities in sectors in which Guangdong excelled such as biotechnology, pharmaceuticals and information technology. Noting that Phase 3 would be the final phase of the Science Park, members suggested that the Administration should identify land lots in North East New Territories New Development Areas and Lok Ma Chau Loop for the future development of innovative technology in Hong Kong, and for locating the associated industrial processes so that more local employment opportunities could be created. The Administration would explore whether the land lots were suitable for the development of high value-added industries.

Innovation and technology development

26. The Panel followed up the interim report on the comprehensive review of the R&D Centres set up under the Innovation and Technology Fund. Panel members welcomed the Administration's initiative to promote the R&D deliverables in the public sector. Members expected that with the wider use of such R&D deliverables as the radio frequency identification technology and the light-emitting diode lighting amongst Government departments and public bodies, the cost of development and production would be lowered to enable more popular use of such technologies in the private sector.

27. On the proposed implementation framework of the R&D Cash Rebate Scheme (the Scheme), the Panel noted that the Government would set aside \$200

million for launching the Scheme in April 2010, subject to the approval of the Finance Committee (FC). Panel members in general supported the Scheme which was well-received by the industry and would encourage the industry to step up investment in R&D.

28. Some Panel members opined that apart from providing direct financial support, the Administration should step up efforts in grooming talent and bringing in talent which was unavailable in Hong Kong. The Administration should also consider measures to encourage the commercialization of R&D deliverables in Hong Kong rather than allowing the technologies to be acquired by overseas companies, so as to create more job opportunities in Hong Kong. Moreover, the Administration should foster cooperation amongst the Government, the industry and the various stakeholders in this area, and formulate a forward-looking manpower plan for the R&D industry.

29. Some Panel members suggested that in addition to cash rebate, the Administration should provide incentives for enterprises to set aside a certain percentage of their profits for R&D purpose by means of tax concessions. The Administration advised that a 100% deduction for R&D expenditure from the business profits for the purpose of tax assessment was already provided for under section 16B of the Inland Revenue Ordinance (Cap. 112). The Scheme was designed to provide added incentives on top of the existing tax concession to further stimulate private investment in R&D, which would contribute to the overall Gross Domestic Product. The Administration would monitor the response to the Scheme and make suitable adjustments to the financial commitment as and when necessary.

30. Following consultation with the Panel, the relevant funding proposal was approved by FC on 29 January 2010.

Copyright protection in the digital environment

31. The Administration briefed the Panel on the Administration's refined proposals to strengthen copyright protection in the digital environment, taking into account the views that had been received regarding its preliminary proposals, and the latest developments in overseas jurisdictions.

32. Whilst Panel members in general welcomed the Administration's refined proposal for enhancing copyright protection in the digital environment, some members warned against the stifling of creativity and innovation by over-regulation, and opined that public education was equally important for the prevention of internet piracy. Some members opined that without specifying the kinds of technology used in the infringement activity, the proposal on recognizing copyright owners' right to communicate their works through any mode of electronic transmission, with criminal sanctions against infringement, might increase the risk of inadvertent breaches by members of the public. Members also urged the Administration to liaise with the Mainland and overseas authorities with a view to developing possible cooperative mechanism in

combating online copyright piracy. As regards the Administration's proposal to introduce a media shifting exception limited to sound recordings, some members opined that the exception should be extended to other types of works such as films or publications provided that it was limited to personal use.

33. The Panel also received views from stakeholders, including copyright owners association and copyright users, as well as members of the public on the Administration's refined proposal to strengthen copyright protection in the digital environment. Whilst some copyright owners opined that the refined proposals in Hong Kong had lagged behind global practices and was still insufficient for tackling online infringement, some copyright users considered that the proposals which curtailed the free flow of ideas and information should be carefully construed. Panel members called on the Administration to strike a reasonable balance between the interests of the copyright holders and the users before finalizing the legislative proposals. Members also called on the Administration to further engage the relevant stakeholders, especially the users and the young generation to discuss the refined proposals. The Administration advised that a Tripartite Forum meeting had been scheduled to further engage the stakeholders on the Government's package of refined proposals. The Administration was still receiving submissions on its website and would continue to organize various public forums to engage the copyright users and owners. It also monitored relevant comments made by internet users at various internet fora. The experience of the overseas countries in adopting similar copyright protection regimes would be taken into account before introducing the Copyright (Amendment) Bill into the Legislative Council in the second half of 2010.

34. From October 2009 to end June 2010, the Panel held a total of nine meetings and conducted a visit to China Sourcing Fair at AWE.

Panel on Commerce and Industry

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to commerce, industry, business and services promotion, innovation and technology, intellectual property protection and inward investment promotion.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Panel on Commerce and Industry

Membership list for 2009 - 2010 session

Chairman	Hon Vincent FANG Kang, SBS, JP
Deputy Chairman	Dr Hon LAM Tai-fai, BBS, JP
Members	Hon Fred LI Wah-ming, SBS, JP
	Hon Emily LAU Wai-hing, JP
	Hon Timothy FOK Tsun-ting, GBS, JP
	Hon Tommy CHEUNG Yu-yan, SBS, JP
	Hon Jeffrey LAM Kin-fung, SBS, JP
	Hon Andrew LEUNG Kwan-yuen, GBS, JP
	Hon WONG Ting-kwong, BBS, JP
	Hon Ronny TONG Ka-wah, SC
	Hon CHIM Pui-chung
	Hon Starry LEE Wai-king, JP
	Hon Mrs Regina IP LAU Suk-yee, GBS, JP
	Dr Hon Samson TAM Wai-ho, JP
	Hon Tanya CHAN (up to 28 January 2010) (rejoined on 18 May 2010)
	Hon Albert CHAN Wai-yip (up to 28 January 2010) (rejoined on 19 May 2010)
	(Total : 16 members)
Clerk	Ms YUE Tin-po
Legal Adviser	Mr Timothy TSO
Date	2 July 2010