

# 立法會

## *Legislative Council*

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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 2010-2011 session of the Legislative Council. It will be tabled at the Council meeting on 13 July 2011 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 17 members. Hon WONG Ting-kwong and Hon Vincent FANG Kang 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 Panel followed up closely the progress of the support measures for small and medium enterprises (SMEs), in particular the Special Loan Guarantee Scheme (SpGS), which was introduced in 2008 as a time-limited initiative to tackle the credit crunch problem arising from the global financial crisis. Panel members noted that the Government had repeatedly extended the application period for the SpGS in response to demand. As the economy had significantly improved and the problem of credit crunch

had been alleviated, the application period of the SpGS ended at 31 December 2010.

5. On 1 January 2011, SME Financing Guarantee Scheme (SFGS) was launched by the Hong Kong Mortgage Corporation (HKMC) to assist local enterprises in obtaining loans. The Hong Kong Export Credit Insurance Corporation also extended insurance coverage to contracts between Hong Kong enterprises' wholly owned subsidiaries and their buyers from early 2011, in order to offer Hong Kong enterprises better credit risk protection. The Panel welcomed the launching of the SFGS as the SpGS expired. Panel members were keen to ensure that the SFGS would provide timely assistance to SMEs in obtaining sustainable financing and that the processing of applications and interest rates charged under the SFGS should be as flexible as that of the SpGS. The Panel also urged the Administration to render more assistance to SMEs in tapping the Mainland domestic market.

6. Concerned about the impact of the earthquake and radiation leakage in Japan on Hong Kong SMEs, Panel members urged the Administration to provide relief measures to these SMEs which had difficulties in coping with the incidents. To address the concerns of members and the local trade, HKMC, following consultation with the Commerce and Economic Development Bureau and the Trade and Industry Department, announced on 30 May 2011 the introduction of a special arrangement under the SFGS to help local enterprises which were adversely affected by the crisis in Japan. Eligible enterprises would receive a waiver of three months' guarantee fee for loans with tenor of three years or less and a waiver of six months' guarantee fee for loans with tenor of more than three years. The special arrangement came into effect on 1 June 2011 and would last until 31 December 2011.

7. The Panel also supported the Administration's proposal to increase the financial commitment of the SME Export Marketing Fund and the SME Development Fund by \$1 billion, and the guarantee commitment of SME Loan Guarantee Scheme (SGS) by \$10 billion in the current financial year, in order to sustain the continued operation of the funding schemes.

#### Trade relations between the Mainland and Hong Kong

8. Following the Hong Kong/Shenzhen Co-operation Meeting held on 6 December 2010, the Panel discussed commerce and industry issues involving the two places, in particular the Overall Development Plan on Hong Kong/Shenzhen Co-operation on Modern Service Industries in Qianhai Area. Some Panel members opined that Hong Kong enterprises

should make the best use of the opportunities brought about by the mutual co-operation in modern service industries in Qianhai. These members considered that the Shenzhen Municipal Government and the HKSAR Government should consider putting in place measures of tax concessions to facilitate flows of trade, investment and people between Shenzhen and Hong Kong.

9. Regarding measures to promote the six priority industries, some Panel members were of the view that the Administration should strengthen effort to attract Shenzhen enterprises to invest in Hong Kong, and seek closer co-operation with the Shenzhen authorities in sectors in which Shenzhen excelled. Panel members also urged the Administration to encourage and assist high-tech enterprises in Shenzhen to set up their operations in Hong Kong, thereby promoting technological developments, creating more job opportunities and improving Hong Kong's economy in the long run. To address the concern of the local information technology (IT) sector that many Hong Kong enterprises might choose to relocate their logistics base and back office to Qianhai, thus affecting the job opportunities in the IT sector in Hong Kong, some Panel members suggested that the Administration should explore the possibilities of attracting international enterprises to set up data centres in Hong Kong and Qianhai. With the technical support of Hong Kong's IT professionals, both Hong Kong and Shenzhen could develop into the best data centre hub in the world. In this connection, the Administration advised that it would work closely with the Hong Kong Science and Technology Parks Corporation (HKSTPC) to promote Science Park Phase 3 and recruit potential tenants starting from 2011, with a view to attracting more overseas and Mainland companies, including Shenzhen enterprises, to establish research and development (R&D) bases in Hong Kong.

10. The Panel monitored closely the development of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). Panel members expressed concern whether the HKSAR Government, upon the new round of consultation with the Mainland authorities, had proposed further liberalization measures following the implementation of the Supplement VII to CEPA. The Administration assured members that it would continue to discuss with the Mainland authorities, so as to review the implementation of current measures and to broaden and enrich the scope of CEPA and its supplements through continuous liberalization in a gradual and orderly manner. The Administration would also continue to communicate with the local trade and professional communities, and reflect their views to the relevant Mainland authorities as appropriate. The Administration aimed to conclude the review in mid-2011.

11. The Panel was briefed on the Third Plenary Session of the Hong Kong/Beijing Economic and Trade Co-operation held on 25 November 2010. Some Panel members opined that the Administration should step up efforts in attracting overseas enterprises of internationally renowned goods, such as those in the red wine industry, to set up operations for post-processing arrangement in Hong Kong so as to gain access to the Mainland market by taking advantage of the tariff concessions applicable to Hong Kong products under CEPA. Such an arrangement would help create more employment opportunities for workers in Hong Kong. Panel members also urged the Administration to be more proactive in formulating concrete measures to assist these enterprises in tapping the Mainland market under CEPA.

12. As regards Hong Kong/Guangdong Co-operation Joint Conference, the Panel noted that many Hong Kong enterprises in Guangdong which had restructured into import processing operations were plagued by the taxation problem when struggling to establish their brands in the Mainland domestic market. These enterprises were also unable to claim the depreciation allowances in respect of their machinery or plants used in import processing operations in the Mainland. To address these concerns, some Panel members urged the Administration to provide assistance to these enterprises, in particular those with an intention to switch back to processing trade.

13. The Panel also noted that in complementing the National 12<sup>th</sup> Five-Year Plan, the HKSAR Government would proactively liaise with the Central Government ministries to secure their support to take forward the relevant work further. This included continuous implementation of CEPA, opening up of the Guangdong market under "early and pilot measures" to Hong Kong's service industries, and gradual extension of such measures to other regions.

#### Promotion of inward investment

14. During the session, the Administration briefed the Panel on the work of Invest Hong Kong (InvestHK) in 2010 and the way forward for 2011. Some Panel members considered it necessary to explore other markets (such as Israel) in attracting foreign direct investment (FDI) instead of over-relying on the Mainland. These members also considered it necessary to attract FDI in the IT sector including software development, cloud computing and the development of data centres. Noting that Singapore authorities had attracted some major companies to set up data centres in Singapore, whereas InvestHK could only attract relatively smaller ones to set up their centres in Hong Kong, these members urged the

Administration to step up effort in attracting large flagship companies to invest in Hong Kong by providing incentives such as the provision of land. These Panel members also suggested that Hong Kong should take a proactive role in forging ties with Shenzhen and Guangzhou in developing data centres to enhance Hong Kong's competitiveness in the region. The Administration advised that InvestHK had been reaching out to hi-technology companies in countries such as the United States and more recently in Israel where InvestHK had engaged a promotion consultant. InvestHK would continue to promote Hong Kong as a prime location for data centres in the Asia Pacific region, and to provide customized services to interested data centre investors from the Mainland and overseas. The Administration undertook to report to the Panel the progress in attracting FDI in the IT sector, in about six month's time.

15. Some members opined that different government bureaux/departments should cooperate to address issues which cut across different policy areas, such as the provision of affordable land for attracting FDI in the environmental industry. The Administration advised that InvestHK had been playing an increasing role of advocacy and worked with various government departments/bureaux to provide the various types of support to existing and potential investors. The Administration would provide information on such examples and its responses to proposals put forward by the international business community to attract FDI.

16. Some members urged the Administration to provide more incentives to attract FDI in green technology, especially waste recycling, and to explore the development of eco-technology such as water treatment technology. According to InvestHK, the focus of overseas promotional campaign for the coming year would be on green technology and a substantial part of the expansion of the Science Park would be devoted to the hosting of green technology companies. InvestHK also marketed the EcoPark as a project for FDI in the recycling and environmental industry.

#### Development of the testing and certification industry

17. On the latest development of testing and certification, the Panel noted that the Innovation and Technology Commission (ITC) had entered into agreements with the Shenzhen Entry-Exit Inspection and Quarantine Bureau and the Market Supervision Administration of Shenzhen Municipality respectively, to enhance mutual understanding of each other's systems and to strengthen exchanges and collaboration in testing and certification. The agreements would pave the way for Hong Kong's testing and certification industry to provide wider range of services for Shenzhen in future, facilitate trade between the two places and promote

development of the testing and certification industry in the region.

18. The Panel also noted that under Supplement VII to CEPA, testing laboratories in Hong Kong were allowed for the first time to co-operate with designated Mainland organizations in testing products for the China Compulsory Certification System on a pilot basis, for selected products processed in Hong Kong. These testing laboratories had to be accredited by the Hong Kong Accreditation Service as capable of performing tests for the relevant products. Panel members welcomed the new measures under CEPA as Hong Kong's testing laboratories would have more opportunities to provide testing services in the Mainland, thus promoting trade between the two places.

19. On the long term strategic development of testing and certification industry in Hong Kong, some members opined that the Administration should focus its effort to testing and certification services in the trades of Chinese medicines and food, in particular testing services on nutrition labels of pre-packaged food products. They urged Administration to step up efforts in attracting talents and enhancing the skills and professionalism of practitioners in the industry, so as to enhance Hong Kong's competitiveness in the region.

#### Development of convention and exhibition industry

20. The Panel followed up on the latest development of the exhibition industry in Hong Kong and the progress of cooperation between Hong Kong Trade Development Council (TDC) and AsiaWorld-Expo (AWE). Panel members opined that AWE should not confine itself to staging conventional trade fairs, but also other types of events. Some members suggested that staging exhibition at AWE with a tourism-oriented theme was a direction to be explored by the Administration in collaboration with tourism-related organizations. Suitable traffic arrangements should be made to bring tourists to the nearby scenic spots for the benefit of the local economy and the overall tourism development of Hong Kong. The Administration advised that in the light of the success of the exhibition entitled "River of Wisdom - Animated Version of Riverside Scene at Qingming Festival" (the Exhibition), it was decided that new arrangements on transportations would be introduced on days with events at AWE on a long term basis.

21. As the utilization rate of the Hong Kong Convention and Exhibition centre (HKCEC) was already very high, some Panel members opined that the Administration should provide a more level-playing field for AWE to compete with HKCEC on an equal footing, and help both

parties sort out their differences in this respect. Since AWE was built with public money and to ensure its viability, some members suggested that AWE should explore new exhibitions themes which had not been staged at HKCEC. However, some members cautioned that altering the schedule of events unilaterally in the hope of fully utilizing the exhibition space at AWE in the off season would not be viable, as the timing of holding major trade fairs was determined by the global event calendar adopted by the industry.

22. Panel members noted that AWE had proposed to employ the "one show, two locations" co-operation model for TDC's Hong Kong Electronics Fair and Hong Kong Gifts & Premium Fair, which were facing shortage of exhibition space, so as to fully utilize the available space at AWE and allow all SMEs to participate in the exhibitions. Some members opined that the success of the Exhibition had demonstrated that even an individual organization could handle an event of such a large scale at AWE, and that cooperation between two different exhibition organizers was not strictly necessary. Noting that Global Sources was an event organizer responsible for organizing the fairs on electronics and gifts held at AWE, some members expressed doubt whether TDC should be obligated to cooperate with this private organizer, since TDC had established its own foothold in the Hong Kong Electronics Fair and Hong Kong Gifts & Premium Fair.

23. The Panel requested the Administration to assess the economic benefits brought about by the enhanced cooperation between TDC and AWE to the overall economy of Hong Kong under the "one show, two locations" approach. To have a clear picture of the competitive situation, members asked that the relevant survey be conducted to collate both positive and negative views from the industry, and that the questionnaire and methodology used for the survey should also be provided to the Panel. The Panel would follow up the issue and invite stakeholders to present their views on the cooperation between TDC and AWE in end-2011.

### Industrial estates

24. The Administration briefed the Panel on the latest developments of Industrial Estates (IEs) managed by HKSTPC and the outcome of the consultancy study on revitalizing and repositioning of IEs. Panel members generally agreed that with the changes of the industry taking place in the last decade or so, it was necessary to review the situation of IEs taking into account various factors. Some Panel members were of the view that the revitalization and reposition of IEs should complement the National 12<sup>th</sup> Five-Year Plan and the development of the six industries where Hong Kong enjoyed clear advantages. Some other members urged

the Administration to improve the utilization of IEs and review the stringent admission criteria imposed by HKSTPC on applications for setting up a commercial data centre at an IE site.

25. Some members expressed concern about the availability of land suitable for setting up data centres. They urged the Administration to establish specific parks and formulate policies for the development of data centres. The Administration advised that it had been actively identifying sites of about 2 to 3 hectares each for high-tier data centre development, and would promote the incentive measures that facilitated the establishment of data centres in conventional industrial buildings. The Office of the Government Chief Information Officer would also launch a portal around mid-2011 to publicize the policies on data centre development and disseminate relevant information to potential developers and investors of data centres.

26. Some members opined that the Administration should set up the fourth IE to facilitate structural transformation of the economy of Hong Kong, thus creating more job opportunities for the front-line labour. Some other members considered it necessary to ascertain whether there was sufficient demand in the market to justify the fourth IE, given that land resources were extremely scarce and valuable in Hong Kong. Moreover, the vast majority of the manufacturing industry had already been relocated to the Pearl River Delta region.

27. Noting that six recycling projects had been admitted in IEs in the past few years, some Panel members considered it undesirable to accommodate concurrently in one IE the recycling, pharmaceutical and data centre industries which had incompatible uses. The Panel called on the Administration to consider carefully the scope of activities to be accommodated in the fourth IE. The Administration was requested to provide a progress report on the need for the fourth IE.

#### Innovation and technology development

28. The Panel was updated on the operation of the R&D Centres set up under the Innovation and Technology Fund (ITF) and the findings, and observations from the review of operating costs of these Centres. As the expenditure on administrative support of some R&D Centres in 2009-2010 was over 30% of the total operating cost, some members called on the reduction of operating costs of the R&D Centres through centralizing the supporting services.

29. The Panel also noted that amongst the five R&D Centres under review, only the Applied Science and Technology Research Institute (ASTRI) and the Nano and Advanced Materials Institute (NAMI) were able to meet the targeted level of industry contribution of 15%. Some members opined that the Administration should step up effort to enhance the level of industry contribution to the projects run by ASTRI and NAMI. Some other members however considered the current level of industry contribution of at least 10% for platform projects reasonable, given that the industry sponsors would not own the intellectual property of the projects. Since R&D was vital to the overall economic development of Hong Kong, some members considered that resources should be focused on NAMI and ASTRI to speed up commercialization. The Administration advised that with the completion of the comprehensive review in about one year's time, it would then be in a better position to determine the technology areas where resources should be focused.

30. The Panel noted the major proposed measures to be undertaken by the Administration in the review of the ITF. The refined ITF project vetting criteria to give greater emphasis to relevant factors apart from scientific/technical considerations had also been finalized and incorporated into the new round of application exercise of the Innovation and Technology Support Programme launched on 1 March 2011. In general, ITC aimed to complete the vetting process within four months after receipt of the applications. Panel members generally supported the improvement measures to refine the policy framework of the ITF and to speed up the ITF funding process which had been a major obstacle to industry participation in R&D projects. Some members were of the view that the ITF should benefit more local university graduates to inspire their interest in and commitment to innovation and technology. This would help nurture a new generation of innovators for the future economic and social development of Hong Kong. Some other members suggested that ITC should consider further extending the scope of funding to cover trial schemes in the public sector of the Mainland such as Shenzhen or Guangdong Province, where more references by the users for the products could be obtained, particularly for opening the vast market in the Mainland.

31. The Administration advised that in view of the rapidly changing global economic environment, the emergence of the Mainland as a major R&D investor and consumer, and the very robust technology advances, the Administration had refined the Government's policy framework for promoting innovation and technology development to ensure that it continued to support the policy direction, and provided the necessary impetus to meet the challenges ahead. The refined strategy included promoting collaboration among stakeholders for achieving greater synergy,

creating an ecological environment that was conducive to the development of innovation and technology, refining the funding mechanism to encourage and select projects with greater prospect of realization/commercialization, facilitating the trial of R&D products (especially in the public sector) so that researchers and product developers could gain actual experience to fine-tune their products, motivating the private sector to invest more in R&D activities in Hong Kong, fostering a stronger innovation and technology culture in Hong Kong, and enhancing co-operation with the governments, industry, and academic and research institutes in the Mainland.

32. Panel members generally supported the Administration's refined strategy to create a favourable ecological environment which was conducive to the realization of R&D results in Hong Kong. As the realization and commercialization of R&D deliverables could bring about wide economic and social benefits to the community, some Panel members called on the Administration to further promote the use of innovation and technology in Government departments/bureaux, and also in the commercial sector.

33. As regards the arrangements for providing funding support to Partner State Key Laboratories (SKLs) in Hong Kong through the ITF, the Panel noted that the Administration proposed to provide funding up to a ceiling of \$2 million each year, initially for 5 years, to each Partner SKL starting from 2011-2012 financial year. The funds could be used for manpower for research and purchase of equipment. The Panel generally supported the funding arrangements to provide a stable source of funding to enable Partner SKLs to map out a longer-term development plan. However, some Panel members expressed concern about the adequacy of the proposed funding ceiling of \$2 million as SKLs in the Mainland were receiving RMB 10 million each year from the Ministry of Science and Technology. These members opined that the proposed funding by ITF should not be used for undertaking basic research only, but for applied research leading to realization of R&D results in collaboration with the R&D Centres in Hong Kong. Noting the dwindling pool of post-doctorate local R&D graduates, with the majority of the researchers coming from the Mainland, some members urged the Administration to step up efforts to attract Mainland talents and Hong Kong's overseas graduates with post-doctorate R&D-related qualifications to return and join the ranks of R&D professionals in Hong Kong.

34. Some members considered that private enterprises should be eligible to apply for the Partner SKL status. These members urged the Administration to step up promotion on the R&D results to enhance the

public awareness of the R&D achievements made so as to cultivate an innovation and technology culture in Hong Kong. The Administration advised that the possibility of allowing applications from other institutions could be explored.

35. Following the issue of the consultancy report of the comprehensive review of the operation of the Hong Kong Jockey Club Institute of Chinese Medicine (HKJCICM), the Panel discussed the options explored and recommendations made by the Administration on the future direction of HKJCICM. Panel members noted that HKJCICM was established in May 2001 as a joint-venture limited company of ASTRI and the Hong Kong Jockey Club Charities Limited (HKJCCL), each having 50% share of HKJCICM. Despite some achievements made by HKJCICM in the past 10 years, its overall cost of effectiveness was not satisfactory. On project funding, HKJCICM had supported 18 projects with total funding amount of \$108 million over the last 10 years, which was equivalent to only about one-fifth of HKJCCL's \$500 million funding support to HKJCICM. There were also concerns about staff departure and mismanagement of HKJCICM. As there had been considerable new developments and changes in the Chinese medicine (CM) sector in the past decade, showing that more parties (e.g. local universities and Hong Kong Council for Testing and Certification) had become interested in and were capable of contributing to the development of CM in Hong Kong in various ways, the Administration considered that HKJCICM should be disbanded and that a new Government-led committee would be more effective in coordinating the collaboration of all parties in promoting R&D and testing of CM.

36. The Panel subsequently met with the relevant stakeholders in the CM sector to gauge their views on the future direction of HKJCICM in developing and promoting CM. The majority of the deputations raised objection to the disbandment of HKJCICM as it would hinder the development of CM in Hong Kong. The Panel also expressed reservation about the disbandment of HKJCICM and the proposed setting-up of a new Government-led committee, and passed a motion to this effect. Some members suggested that the Administration should revise the present roles, functions and modes of the operation of HKJCICM so that it could be revitalised to meet present day needs. The Board membership should also be enhanced to make it more representative and new staff of the right skill-set should be recruited. The Panel considered that the future of HKJCICM should be reviewed by the Administration at a later time.

#### Patent registration system

37. In May 2011, the Administration briefed the Panel on the proposed

scope of the review of the patent registration system in Hong Kong. The Panel welcomed the proposed scope and called on the Administration to take forward the review as soon as practicable. Some members suggested that the Administration should consider expanding the current standard patent system, which was known as a “re-registration” system, to recognize the patents granted by other jurisdictions, such as the United States and Japan. These members opined that having an original grant patent (OGP) system in Hong Kong would help develop the patent industry, create job opportunities for patent practitioners and foster the development of innovation and technology in Hong Kong.

38. Noting the current substantive examination did not form a prerequisite for the granting of a short-term patent in Hong Kong, some Panel members were of the view that the Administration should consider revamping the current short-term patent system with a view to providing better protection for the patent owners, in particular local inventors and SMEs in the event of patent disputes. The Administration advised that it would consider opinions from all fronts with a view to formulating the general direction for the further development of the system.

#### Adjustments to the Hong Kong textiles control arrangements

39. The Administration briefed the Panel on the proposed adjustments to the Hong Kong textiles control arrangements, and the consequential legislative amendments to the Import and Export (General) Regulations (CAP. 60 sub. leg. A) and the Import and Export (Fees) Regulations (CAP. 60 sub. leg. B). The proposed adjustments aimed to remove the licensing requirements for all textiles transshipment and for textiles import from/export to non-sensitive markets, so as to facilitate Hong Kong textiles trade in conducting business.

40. The Panel generally supported the Administration's proposal and the consequential legislative amendments. The Panel also urged the Administration to closely monitor developments in the importing economies and inform members should there be further necessary changes to the textiles control arrangements in the light of new developments.

41. From October 2010 to end June 2011, the Panel held a total of 11 meetings.

**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 2010 - 2011 session**

<b>Chairman</b>	Hon WONG Ting-kwong, BBS, JP
<b>Deputy Chairman</b>	Hon Vincent FANG Kang, SBS, JP
<b>Members</b>	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, GBS, JP
	Hon Andrew LEUNG Kwan-yuen, GBS, JP
	Hon Ronny TONG Ka-wah, SC
	Hon CHIM Pui-chung
	Hon Starry LEE Wai-king, JP
	Dr Hon LAM Tai-fai, BBS, JP
	Hon Paul CHAN Mo-po, MH, JP
	Hon Mrs Regina IP LAU Suk-ye, GBS, JP
	Dr Hon Samson TAM Wai-ho, JP
	Hon Tanya CHAN
	Hon Albert CHAN Wai-yip

(Total : 17 members)

**Clerk** Ms YUE Tin-po

**Legal Adviser** Ms Wendy KAN

**Date** 2 July 2011