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**Panel on Commerce and Industry**

**Meeting on 18 June 2012**

**Updated background brief on Research and Development Centres  
set up under the Innovation and Technology Fund**

**Purpose**

This paper provides background information on the review of the Research and Development (R&D) Centres set up under the Innovation and Technology Fund (ITF)<sup>1</sup>. It also summarizes the views and concerns expressed by the Panel on Commerce and Industry (the Panel) on the subject during previous discussions.

**Background**

2. Following public consultation in 2004, the Government promulgated a new strategic framework in early 2005 which aimed for a more focused approach to promote innovation and technology development.

3. After consulting the Panel on 17 May 2005 on the proposal to implement the new strategic framework, the Administration submitted a funding proposal to allocate \$358.7 million from the ITF to take forward the new strategic framework. The proposal was approved by the Finance

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<sup>1</sup> The ITF was set up as a statutory fund under the Public Finance Ordinance (Cap. 2) by resolution of the Legislative Council on 30 June 1999. On 9 July 1999, the Finance Committee approved the proposed injection of HK\$5 billion into ITF which came into operation on 1 November 1999. The ITF is currently administered by Innovation and Technology Commission (ITC) and comprises four programmes, namely the Innovation and Technology Support Programme, University-Industry Collaboration Programme, General Support Programme and Small Entrepreneur Research Assistance Programme.

Committee (FC) on 24 June 2005.

4. In April 2006, the Government set up the following five R&D Centres to drive and co-ordinate applied R&D in the selected focus areas and to promote commercialization of R&D results and technology transfer:

- (a) Automotive Parts and Accessory Systems R&D Centre (APAS);
- (b) R&D Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM);
- (c) Hong Kong Research Institute of Textiles and Apparel (HKRITA);
- (d) Nano and Advanced Materials Institute (NAMI); and
- (e) R&D Centre for Information and Communications Technologies (ICT)<sup>2</sup> under the Hong Kong Applied Science and Technology Research Institute (ASTRI).

### **Review of R&D Centres**

5. Apart from conducting regular annual reviews on the performance of the Centres and project review of individual R&D projects, all R&D Centres are required to conduct two major reviews (i.e. the mid-term review and the comprehensive review), one in 2007 and the other in 2011. The mid-term review should critically examine the following -

- (a) whether the R&D programme and direction could actually meet the industry demand as reflected by the industry contribution and participation; and
- (b) whether the planned R&D programme would need to be adjusted to ensure that adequate industry contribution and income could be generated to sustain the programme for the whole five-year period.

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<sup>2</sup> Unlike the other four R&D Centres which are established as independent legal entities, ICT is established within the existing operational infrastructure of ASTRI, which is a limited company wholly owned by the Government. The operating cost of ICT is funded separately by the Government's annual subvention to ASTRI.

The mid-term review aimed to provide input to the Administration to decide whether the R&D Centre should continue to exist and receive funding support from the ITF.

6. The comprehensive review should critically examine the following -
- (a) whether the R&D Centre would likely meet the objectives and target set at the beginning of its operation;
  - (b) whether it is necessary for the Centre to continue to operate after the five-year funding period;
  - (c) the funding source of the Centre beyond the five-year funding period if the Centre continues to operate; and
  - (d) the plan to wind down the Centre if it ceases operation.

7. According to the Administration, if an R&D Centre is to continue operation beyond the five-year period, it is expected to do so on a self-financing basis, counting on its ability to obtain adequate industry contribution and generate income to meet its operating cost. However, if the Centre has already completed its mission or for other reasons, ceases operation before or after the five-year funding period, all the residual funds and any surplus income generated from the ITF funding during the project period will be returned to the ITF.

### **Discussion by the Panel on Commerce and Industry**

8. Since 2006, the Administration has periodically updated the Panel on the income and expenditure of the R&D Centres and their progress since their establishment in April 2006. In general, Panel members supported the role of R&D Centres to spearhead the advancement of R&D of Hong Kong, and hoped that the R&D results could help the local industries in the long run.

#### *Mid-term review of the R&D Centres*

9. At the meetings on 21 April and 19 May 2009, the Panel followed up on the mid-term review of the operation of the R&D Centres and discussed the funding proposal to extend the operation of the four R&D Centres, namely APAS, HKRITA, LSCM and NAMI, up to 2013-2014. Panel members in general supported the continuous development of the R&D Centres, and welcomed the Administration's proposal to adjust the industry

contributions to platform projects from 40% to 15% in response to members' suggestions.

10. Following consultation with the Panel, the Administration obtained FC's approval on 19 June 2009 to further allocate a total of \$369 million from the ITF to support the continued operation of the four R&D Centres up to 31 March 2014. The Administration undertook to:

- (a) conduct a review in 2010 to look into the modus operandi and operating costs of the R&D Centres to see if there was any room for achieving greater savings and higher cost-effectiveness;
- (b) conduct a full review in 2011 on the R&D Centres' operation and overall performance for the first five-year period, taking full account of their experience in technology transfer and commercialization; and
- (c) review the targeted level of industry contributions (which was adjusted from 40% in the original 2005 proposal to 15% in the context of the 2009 mid-term review).

#### *Comprehensive review of the R&D Centres*

11. At the Panel meeting on 20 December 2011, the Administration briefed members on the findings and recommendations of the comprehensive review of the R&D Centres. Panel members noted the Administration's recommendations as follows:

- (a) to extend the operation of NAMI and APAS both beyond 31 March 2014 to allow them to plan their work on a longer horizon, and to merge APAS with the Hong Kong Productivity Council (HKPC) in around mid 2012;
- (b) to set key performance indicators (e.g. increase in industry contribution) for HKRITA and LSCM, observe their performance for another two years and make recommendations on their future before 31 March 2014. Possible options included maintaining the status quo, disbandment, merger with an appropriate organization, etc.; and
- (c) to continue to fund ASTRI under Government's annual recurrent subvention.

12. Noting that the Administration might consider disbanding HKRITA and LSCM, some Panel members expressed concern whether it would affect staff morale of the two R&D Centres. Some other members expressed concern about the autonomy of APAS in conducting R&D projects after the merger with HKPC. Members noted that the Administration saw a case to improve the performance of APAS and achieve higher cost-effectiveness by merging APAS with HKPC. It could facilitate closer collaboration between the two organizations in R&D projects while making greater use of HKPC's resources and experience in promoting commercialization (e.g. publicity and industry networking). APAS could then pool its resources to focus on R&D projects and technology matters, thus enhancing its R&D capacity. The Administration assured members that APAS could maintain its autonomy in conducting R&D projects since it would continue to be fully funded by the Administration after the merger.

*Funding proposals for extending the operation of the R&D Centres*

13. At the Panel meeting on 17 April 2012, the Administration briefed members on the funding proposals for extending the operation of NAMI and APAS up to 31 March 2017, and the operation of LSCM up to 31 March 2015. No additional funding was required for extending HKRITA's operation up to 31 March 2015. The majority of the Panel members supported in principle the Administration's funding proposals.

14. Some Panel members called on the Administration to take the lead to adopt more local R&D results in government departments. The Administration should further explore the co-operation between Hong Kong and the Mainland in innovation and technology under the Mainland and Hong Kong Closer Economic Partnership Agreement, and to increase the funding level and flexibility of the ITF to encourage R&D in the industry. These members considered that innovation and technology was important to the community, in particular the servicing industry and small and medium enterprises. Since enhancing R&D and innovation capability required long-term investment, the Administration should allocate more resources to R&D development and step up its efforts in promoting commercialization of R&D results and technology transfer. Some other Panel members opined that in addition to promoting R&D development, the Administration should also encourage local manufacturing of R&D deliverables, so as to create more job opportunities for grass root people.

15. Some Panel members expressed concern about the low number of collaborative projects undertaken by HKRITA and LSCM and the low level of industry contribution during their first five-year period respectively.

These members also expressed concern about the Administration's proposed arrangements for HKRITA and LSCM, i.e. to extend their operation beyond 31 March 2014 (viz. when their current approved funding commitment expired) for one year up to 31 March 2015 only.

16. The funding proposals were approved by the Finance Committee on 11 May 2012.

*Promotion of innovation and technology in Hong Kong*

17. At the Panel meeting on 15 May 2012, the Panel met with stakeholders from the industry, academia and research sector to give views on "Promotion of innovation and technology in Hong Kong", in particular on the Government's policy, commitment, strategy, direction and approach in promoting the development of innovation and technology. The majority of the deputations attended the meeting welcomed the proposed re-organization of the Government Secretariat to establish a new Technology and Communications Bureau. These deputations opined that the Administration should increase the ratio of the gross expenditure on R&D to gross domestic product, and provide more incentives, such as tax concession, for enterprises to further stimulate private investment in R&D. The Administration should also step up efforts in promoting commercialization of R&D results and technology transfer.

**Latest position**

18. The Administration will brief the Panel on 18 June 2012 on the operation of the R&D Centres for 2011-2012.

**Relevant papers**

Information papers provided by the Administration for the Commerce and Industry Panel meeting on 17 May 2005

<http://www.legco.gov.hk/yr04-05/english/panels/ci/papers/ci0517cb1-1496-3e.pdf>

Background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 17 May 2005

<http://www.legco.gov.hk/yr04-05/english/panels/ci/papers/ci0517cb1-1497e.pdf>

Minutes of the Commerce and Industry Panel meeting on 17 May 2005  
<http://www.legco.gov.hk/yr04-05/english/panels/ci/minutes/ci050517.pdf>

Information paper provided by the Administration for the Finance Committee meeting on 24 June 2005  
<http://www.legco.gov.hk/yr04-05/english/fc/fc/papers/f05-21e.pdf>

Minutes of the Finance Committee meeting on 24 June 2005  
<http://www.legco.gov.hk/yr04-05/english/fc/fc/minutes/fc050624.pdf>

Information paper provided by the Administration for the Commerce and Industry Panel meeting on 21 April 2009  
<http://www.legco.gov.hk/yr08-09/english/panels/ci/papers/ci0421cb1-1286-7-e.pdf>

Updated background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 21 April 2009  
<http://www.legco.gov.hk/yr08-09/english/panels/ci/papers/ci0421cb1-1286-8-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 21 April 2009  
<http://www.legco.gov.hk/yr08-09/english/panels/ci/minutes/ci20090421.pdf>

Information paper provided by the Administration for the Commerce and Industry Panel meeting on 19 May 2009  
<http://www.legco.gov.hk/yr08-09/english/panels/ci/papers/ci0519cb1-1551-5-e.pdf>

Updated background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 19 May 2009  
<http://www.legco.gov.hk/yr08-09/english/panels/ci/papers/ci0421cb1-1286-8-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 19 May 2009  
<http://www.legco.gov.hk/yr08-09/english/panels/ci/minutes/ci20090519.pdf>

Information paper provided by the Administration for the Finance Committee meeting on 19 June 2009  
<http://www.legco.gov.hk/yr08-09/english/fc/fc/papers/f09-27e.pdf>

Minutes of the Finance Committee meeting on 19 June 2009  
<http://www.legco.gov.hk/yr08-09/english/fc/fc/minutes/fc20090619a.pdf>

Information paper provided by the Administration for the Commerce and Industry Panel meeting on 20 December 2011

<http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci1220cb1-624-5-e.pdf>

Updated background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 20 December 2011

<http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci1220cb1-624-6-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 20 December 2011

<http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20111220.pdf>

Information paper provided by the Administration for the Commerce and Industry Panel meeting on 17 April 2012

<http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0417cb1-1549-3-e.pdf>

Updated background brief prepared by the Legislative Council Secretariat for the Commerce and Industry Panel meeting on 17 April 2012

<http://www.legco.gov.hk/yr11-12/english/panels/ci/papers/ci0417cb1-1549-4-e.pdf>

Minutes of the Commerce and Industry Panel meeting on 17 April 2012

<http://www.legco.gov.hk/yr11-12/english/panels/ci/minutes/ci20120417.pdf>

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