

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 2011-2012 session of the Legislative Council. It will be tabled at the Council meeting on 11 July 2012 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 15 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

Assistance to Hong Kong enterprises

4. The Panel was very concerned that in the light of the current uncertain external economic environment, local enterprises, in particular small and medium enterprises (SMEs), might face liquidity problem as a result of possible credit tightening. To tide enterprises over a potentially difficult period, the Panel held a meeting in March 2012 to discuss with the Administration on measures to facilitate SMEs in obtaining loans from the

commercial lending market so as to resolve their cashflow problems. Members in general supported the initiative to introduce special concessionary measures under the existing SME Financing Guarantee Scheme (SFGS) of The Hong Kong Mortgage Corporation Limited (HKMC) with a total loan guarantee commitment of \$100 billion. Under the special concessionary measures, a new 80% loan guarantee ratio at a low guarantee fee would be introduced for approved loans taken out by eligible enterprises from the participating lending institutions (PLIs). The expected maximum expenditure to be incurred by the Government under the measures was \$11 billion.

5. Some Panel members expressed concern whether the banks would be reluctant to offer loans to enterprises and whether the Administration would continue to provide assistance to SMEs in obtaining sustainable financing in view that the application period of the special concessionary measures would only last for nine months. The Administration advised that SFGS reduced the credit risks shouldered by PLIs and helped maintain the stability of the banking system. PLIs would be required to sign an agreement with HKMC confirming their participation in SFGS. The Administration would work closely with HKMC to monitor the changes in the economic environment and to review the special concessionary measures as and when necessary. The Panel also called on the Administration to step up publicity and speed up the application procedures for the benefit of SMEs. The proposed measures were subsequently approved by the Finance Committee (FC) on 20 April 2012.

6. To help Hong Kong enterprises capture the opportunities arising from the National 12th Five-Year Plan, the Chief Executive announced in the 2011-2012 Policy Address the proposal to set up a dedicated fund of \$1 billion to assist Hong Kong enterprises in exploring and developing the Mainland market through developing brands, restructuring and upgrading their operations and promoting domestic sales in the Mainland (the BUD Fund). The Panel discussed the BUD Fund in March and April 2012. Panel members generally supported the funding proposal as it would assist local SMEs to enhance their competitiveness, leading to an expansion of their businesses in Hong Kong which in turn would be conducive to the creation of more employment opportunities for local people.

7. Some Panel members opined that the Administration should simplify the application procedures for the BUD Fund, provide other non-financial support to help SMEs capture the business opportunities arising from the National 12th Five-Year Plan, and consider raising the cumulative funding ceiling of \$500,000 per enterprise. The Administration advised that the funding ceiling was revised from \$300,000

to \$500,000 having regard to the views of the concerned trades. The Administration would keep in view the response to the BUD Fund and review its operation as and when necessary. The funding proposal for the setting up of the BUD Fund was subsequently approved by FC on 11 May 2012.

Trade relations between the Mainland and Hong Kong

8. The Administration briefed members on the latest state of the enhancement of economic and trade co-operation and exchanges between the Hong Kong Special Administrative Region Government (HKSARG) and the Central People's Government (CPG) under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). Panel members welcomed the signing of Supplement VIII to CEPA which provided for a total of 32 services liberalization and trade and investment facilitation measures. As Hong Kong service industries were still being confronted with various barriers of entry to the Mainland market with the associated access restriction, members urged the Administration to push forward the implementation of the measures announced under Supplement VIII to CEPA.

9. Noting that the Federation of Hong Kong Industries had recently held a "2012 Hong Kong Shopping Festival in Chongqing" in a major shopping centre in Chongqing, showcasing the products of over 20 Hong Kong brands, some Panel members suggested that the Administration should consider setting up showcase centres in major cities in the Mainland for staging exhibition and product shows on a long-term basis, and subsequently leased out exhibition booths or divided units to Hong Kong enterprises to help them enter the Mainland market.

10. Some Panel members called on the Administration to continue liaising with the Mainland authorities on tax issues, with a view to introducing tax concessions for cross-border workers and putting in place measures in claiming depreciation allowances in respect of the machinery or plants used by Hong Kong enterprises in import processing operations in the Mainland. In this connection, members called on the Administration to formulate plans as soon as possible to upgrade the functions of the Economic and Trade Offices (ETOs) in the Mainland, so as to provide more suitable assistance to these enterprises and to reflect their views to the relevant Mainland authorities as appropriate.

Economic and trade co-operation between Hong Kong and Taiwan

11. The Panel was consulted on the proposed detailed arrangements for the establishment of the Hong Kong Economic, Trade and Cultural Office in Taiwan (HKETCO), including the creation of a directorate post to head HKETCO and the proposed rates of rent allowance payable to officers to be posted to HKETCO. The Panel supported in principle the Administration's proposal for the establishment of HKETCO.

12. Noting the signing of the Economic Co-operation Framework Agreement (ECFA) in June 2010 between the Mainland and Taiwan, Panel members called upon the Administration to pursue a more active role to participate in ECFA to enable Hong Kong to benefit from opportunities brought about by ECFA. The Administration advised that the Hong Kong-Taiwan Economic and Cultural Co-operation and Promotion Council and the Taiwan-Hong Kong Economic and Cultural Co-operation Council had reached consensus that both sides should commence an exploratory study on the possibility of discussing an economic co-operation framework agreement between Hong Kong and Taiwan, similar to ECFA between the Mainland and Taiwan. The Administration also planned to set up a dedicated liaison unit in Fujian under the Guangdong ETO to strengthen and deepen the multi-faceted co-operation with Fujian, and to capitalize on the opportunities in the Economic Zone on the West Coast of the Taiwan Strait.

13. Some Panel members opined that the Administration should consider merging the Taiwan Offices of the Hong Kong Trade Development Council (HKTDC) and the Hong Kong Tourism Board (HKTB) with HKETCO to better co-ordinate the various types of promotion work in Taiwan and for cost savings. The Administration advised that all overseas ETOs, the offices of HKTDC and HKTB in the relevant cities had all along operated independently while maintaining complementary and coordinated working relationships in promoting Hong Kong overseas.

14. Following consultation with the Panel, the relevant establishment proposal was approved by FC on 18 November 2011.

Promotion of inward investment

15. On the promotion of inward investment, some Panel members considered that helping senior executives of large multi-national firms posted in Hong Kong to find school places for their children was in some cases a critical factor for the corporation's decision on whether or not to

come to Hong Kong. As the problem of insufficient international school places in Hong Kong would discourage multinational companies from investing in Hong Kong, these members urged the Administration to put in place measures to address the problem. Some other members suggested that a high level committee to co-ordinate the work of different departments should be set up in dealing with issues raised by the international business community in Hong Kong.

16. The Administration advised that measures included allocating vacant school premises and greenfield sites as well as facilitating in-situ expansion of existing international schools would be implemented to address the problem of insufficient international school places. In addition, international schools being allocated vacant school premises and greenfield sites were required to reserve no less than 70% of their school places for non-local students after their expansion. The International Business Committee, chaired by the Chief Secretary for Administration, was also set up to maintain regular dialogue with major foreign chambers of commerce in Hong Kong to facilitate exchange between the Administration and the international business community on Government policies, latest economic developments and initiatives to strengthen Hong Kong's position as an international business and financial centre.

Development of the testing and certification industry

17. The Panel was briefed on the work of the Hong Kong Council for Testing and Certification (HKCTC) in promoting testing and certification services. Panel members noted the Administration's proposal to retain a supernumerary Administrative Officer Staff Grade C (AOSGC) (D2) post, designated as Secretary-General (Testing and Certification) (SG(TC)) in the Innovation and Technology Commission (ITC), from 16 March 2012 to 31 March 2014. Some members considered that the SG(TC) post should be retained on a permanent basis, so as to help step up HKCTC's effort in and increase the resources for promoting testing and certification services. The Administration advised that ITC would review the need for retaining the SG(TC) post for a longer period or on a permanent basis upon HKCTC's comprehensive review of its long term role.

18. On the liberalization measure to expand the scope of product testing that could be undertaken by testing organizations in Hong Kong for the China Compulsory Certification (CCC) System to all existing products processed in Hong Kong that required CCC, some Panel members called on HKSARG to strive for further expansion of the scope to cover all products manufactured by Hong Kong enterprises in the Mainland under Supplement VIII to CEPA. The Administration advised that HKCTC, the

Trade and Industry Department and the Hong Kong Accreditation Services would jointly organize a "Seminar on Supplement VIII to CEPA for Testing and Certification Industry" that focused on the new business opportunities arising from Supplement VIII to CEPA. The seminar aimed to update the industry on the new CEPA measures on CCC testing as well as the procedures and requirements for obtaining the accreditation to perform CCC testing. The Administration would continue to strive for further liberalization measures in relation to product testing under the CCC System.

19. Some Panel members expressed concern about the slow progress of development of the testing and certification services in the trade of Chinese medicines. The Administration advised that the Panel on Promoting Testing and Certification Services in Chinese Medicines Trade under HKCTC had been working with the industry to build up technical capability to authenticate Chinese herbal medicines by microscopic examination and physicochemical methods according to the Hong Kong Chinese Materia Medica Standards. At present, 60 types of Chinese herbal medicines had been developed. The number of types would reach about 200 by 2012.

Development of exhibition and convention industry

20. On the latest development of the exhibition and convention industry, some Panel members opined that the Asia World-Expo (AWE) should be put into more effective use. Apart from staging conventional trade fairs, members suggested that AWE could be used for exhibitions which required substantial space such as aviation and boat shows. Possibility should also be explored to develop part of the facilities of AWE into a retail outlet. Members also considered that the Administration had a duty to promote the utilization of both AWE and the Hong Kong Convention and Exhibition Center (HKCEC). The Administration advised that apart from the "one show, two locations" approach, Asia World-Expo Management Limited (AWEML) would continue to strengthen communication and step up co-operation with HKTDC in organizing trade fairs in AWE. The scheduled completion of nearby infrastructure projects such as the Hong Kong-Zhuhai-Macao Bridge, the Tuen Mun Western Bypass and the Tuen Mun-Chek Lap Kok Link would significantly reduce the travelling time for those AWE visitors coming from the Pearl River Delta region and Northwest New Territories. AWEML would grasp the opportunities arising from the enhanced connectivity and seek to host more events at AWE.

21. Some Panel members opined that HKCEC should not be restrained from expansion for the benefit of AWE as it would thwart the development of the exhibition industry in Hong Kong. They considered that both venues should further be developed in order to let the market grow larger to achieve a win-win situation. As such, the Administration should proceed the plan on the development of Phase 3 expansion of HKCEC to meet the strong demand from SMEs for more exhibition space. The Administration advised that while the feasibility study of the expansion of HKCEC was still underway, the Administration would continue to explore the possibilities of developing new convention and exhibition facilities at the West Kowloon Cultural District and New Cruise Terminal at Kai Tak.

22. On the promotion of Lantau Island as a MICE (Meetings, Incentive Travels, Conventions and Exhibitions) destination, some Panel members opined that suitable traffic arrangements should be made to enable tourists to travel between various tourist attractions, including AWE, on Lantau Island for the benefit of the local economy and the overall tourism development of Hong Kong. AWEML advised that with the joint efforts of the Administration, AWEML and public transport operators, a number of improvement measures had been put in place on days with events at AWE, with a view to enhancing the transportation arrangement of AWE.

Industrial Estates

23. When discussing the latest developments of the Industrial Estates (IEs) managed by the Hong Kong Science and Technology Parks Corporation (HKSTPC) and the Administration's effort in identifying new site for IEs, some Panel members expressed disappointment that the Administration failed to formulate an industrial policy and had made little effort in assisting the industrial sector. These members urged the Administration to promote and improve the local industrial landscape and pay heed to the views of the industry.

24. Some Panel members suggested that to promote the effective use of valuable land in IEs, the Administration should consider encouraging the grantees of IE sites to build more storeys for their projects, instead of occupying large horizontal space, thus accommodating more projects in smaller sites and releasing more land for other applicants. The Administration should also provide support or preferential measures to facilitate local SMEs to be admitted into existing or the new IEs. In view that the manufacturing costs in the Mainland had been increasing in recent years, these members also suggested that the Administration should consider revitalizing those idle multi-storey industrial buildings to attract Hong Kong manufacturing SMEs to move back their production base to

Hong Kong, thus creating more job opportunities for local people. The Administration advised that as land resources were extremely scarce and there were other competing priorities (e.g. housing and other public services), it would be a challenging task to identify suitable sites for the development of a potential fourth IE. While the development plan of the fourth IE had not yet been formulated, the Administration would seek the views of stakeholders in future as necessary.

Patent system

25. In October 2011, the Administration launched a review exercise seeking public views on the future positioning of the patent system in Hong Kong, including but not limited to issues on standard patents, short-term patents and regulation of patent agency services. Panel members welcomed the review of the patent system and called on the Administration to consider introducing an "original grant" patent (OGP) system, as it would complement the efforts being made to encourage more entrepreneurs to use Hong Kong as a launching pad for their research and development businesses. That might in turn help fortify the further development of Hong Kong as a regional innovation and technology hub. It might also stimulate the growth of patent agency business in Hong Kong, help build up local expertise in drafting and processing applications for patent, and offer added career opportunities for graduates with science and technical background. Some Panel members opined that in the short to medium term, the Administration should outsource the substantive examination to other examination authorities, and explore the possibility of developing in-house substantive examination in the long run. The Administration should also explore the possibilities of fostering mutual recognition of patents between Hong Kong and the Mainland, and sharing the work of substantive examination of patent applications between the two places, so as to help save costs for and facilitate the processing of applications for patent.

26. Some Panel members noted that an OGP system might involve higher registration fees compared with the current patent system. They expressed concern whether it would increase the business operating cost and hence affect the competitiveness of Hong Kong enterprises. Some other members opined that the current patent system should be retained alongside the OGP system as the dual system would give users the added choice of applying for a standard patent in Hong Kong to cater for the market and operational needs.

27. In June 2012, the Administration briefed the Panel on the outcome of the review of the patent system in Hong Kong. The Panel noted that while the views on whether to set up an OGP system were very diverse, the vast majority of respondents considered that the current patent system should be maintained. The Panel also noted the view that if an OGP system was to be set up in Hong Kong, recourse to domestic substantive examination would not be viable at the initial stage, considering the significant outlay involved. The Administration was in the process of gathering more information on possible options, including outsourcing possibilities, taking into account arrangements in other places. The Administration would follow up with the Advisory Committee, which was formed to advise on how the Administration should position the patent system and how best to implement changes to the system in the light of decisions made by the Administration on the way forward. The Panel would be briefed again on the progress of the matter by the end of 2012.

Innovation and Technology

28. On the comprehensive review of the five Research and Development (R&D) Centres, the Panel noted that the Administration would extend the operation of the Nano and Advanced Materials Institute (NAMI) and the Automotive Parts and Accessory Systems R&D Centre (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 in around mid 2012. The Administration would also set key performance indicators for the Hong Kong Research Institute of Textiles and Apparel (HKRITA) and the R&D Centre for Logistics and Supply Chain Management Enabling Technologies (LSCM), observe their performance for another two years before making recommendations on their future before 31 March 2014, and to continue to fund Hong Kong Applied Science and Technology Research Institute under the Government's annual recurrent subvention. Some Panel members expressed concern about the autonomy of APAS in conducting R&D projects after the merger with HKPC. 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.

29. The Panel further received the Administration's briefing 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. The Panel noted that no additional funding was required for extending HKRITA's operation up to 31 March 2015. Panel members generally supported the Administration's funding proposals. Some members considered that the

industry contribution level should not be taken as the sole performance target for the R&D Centres 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 members opined that the Administration should further explore the co-operation between Hong Kong and the Mainland in innovation and technology under CEPA and to increase the funding level and flexibility of the Innovation and Technology Fund (ITF) to encourage R&D in the industry. The funding proposals were subsequently approved by FC on 11 May 2012.

30. The Panel also welcomed the Administration's initiative to increase the level of cash rebate under the R&D Cash Rebate Scheme by three-fold, from 10% to 30%, so as to induce companies to invest more in R&D. Some Panel members urged the Administration to provide other non-financial support to encourage enterprises to partner with or engage local public research institutions to undertake R&D work. They also called on the Administration to take the lead to adopt more local R&D results. The Administration advised that it would be difficult to give priority to adopt local R&D results in the government procurement policy, as Hong Kong was a founding member of the World Trade Organization (WTO) and was bound by the WTO agreements. Nevertheless, the Administration would facilitate the trial of R&D products by Government departments and public organizations, so that researchers and product developers could gain actual experience to fine-tune their products, build up "reference" for subsequent marketing, and bring about wider economic and social benefits to the community. At Panel members' suggestion, the Administration would explore the possibility to extend the scope of ITF funding to cover the conducting of trial schemes of local R&D results in the Mainland, taking into account the need to ensure accountability and proper use of public funds.

31. As regards the review on the Small Entrepreneur Research Assistance Programme under ITF, which was specially designed to support SMEs in pursuing R&D activities, the Panel noted that the Administration had implemented enhancements in April 2012, including increasing the funding ceiling for each project from \$4 million to \$6 million, and expanding the funding scope to facilitate commercialization, covering industrial designs, testing and certification of prototypes, pre-clinical trials and etc.

32. The Panel also followed up on the latest initiatives in promoting R&D of Chinese medicines (CM) in Hong Kong, including the

disbandment of the Hong Kong Jockey Club Institute of Chinese Medicine and the setting up of the Committee on Research and Development of Chinese Medicines (the Committee). Panel members noted that the Committee aimed to act as a platform to gauge views from various stakeholders, formulate the broad direction in promoting R&D of CM in Hong Kong, identify key areas of work, monitor progress and recommend areas of improvement where necessary, and facilitate sharing of R&D outcomes and other collaboration among parties concerned. Its objectives were to create synergy in R&D of CM and to promote collaboration with organizations outside Hong Kong.

33. Some Panel members expressed disagreement with the setting up of the Committee which was chaired by a government official who did not have sufficient knowledge and experience in CM. Some other members considered that the Committee should be set up and chaired by a representative from the CM industry instead of a government official. The Administration should include representatives from the commerce and industry sector in the Committee to provide relevant knowledge and experience. These members also suggested that the Committee should include representative(s) of the Food and Health Bureau to facilitate the formulation of policy and inter-departmental co-ordination with respect to the development and promotion of CM. The Administration advised that the Committee included representatives from Government, CM and pharmaceutical industries, medical professionals of Chinese and Western medicine, relevant public organizations and advisory bodies, local universities with significant R&D of CM, and lay members. Among which there were Western medicine doctors, senior executives from large proprietary CM manufacturers and pharmaceutical companies, and a number of leaders of the CM trade associations and chambers of commerce. The Committee provided a good platform for universities, medical professionals, the CM industry and other stakeholders to identify R&D collaboration potential of Chinese and Western medicine. The Administration would review the membership of the Committee after completion of the current appointment term in two years' time.

34. Some Panel members suggested that indicators should be put in place for evaluating the performance and effectiveness of the Committee in supporting R&D and testing of CM and promoting the development of CM in Hong Kong. The Administration advised that it might consider setting indicators for evaluating the work of the Committee, including the number of R&D projects approved, promotional activities organized to enhance public awareness of R&D of CM, and measures to encourage the universities and industry to undertake R&D projects, etc. The Administration undertook to report to the Panel in late 2012 the progress of

the Committee work and the latest initiatives in promoting R&D of CM after the Committee had finalized its areas of focus and work plan.

Hong Kong Export Credit Insurance Corporation

35. The Panel was briefed on the outcome of the review conducted by the Commerce and Economic Development Bureau (CEDB) on the governance of the Hong Kong Export Credit Insurance Corporation (ECIC). Panel members noted that pursuant to the recommendations of the Director of Audit, the Administration had been working with ECIC to implement improvement measures and follow-up actions to enhance ECIC's governance and operation. The Administration had further stepped up the monitoring by requiring ECIC to submit its annual corporate plan/budget to the Secretary for Commerce and Economic Development for formal approval. The Administration would also continue to assess how effectively ECIC discharged its public mission through the annual corporate plan/budget and the regular liaison and housekeeping meetings with ECIC. Noting that CEDB met with ECIC on a half-yearly basis to review its performance as well as other management and operational matters including internal audit, human resource planning, reinsurance arrangement and plans for new services, Panel members considered that the existing governance structure of ECIC was appropriate as it allowed flexibility in ECIC's day to day operation.

36. Some Panel members expressed concern about the low attendance of members at the meetings of the Advisory Board or its sub-committees, and the high staff turnover of ECIC. The Administration advised that ECIC would arrange phone-in facilities for conference calls during meetings to facilitate members' participation in case they were away for business trips or had other engagements, and would invite these members to submit written comments. To address the staff turnover problem, ECIC had introduced some measures to enhance staff communication and training for new staff. Regular remuneration review exercise had also been conducted to ensure that staff compensation was in line with the market.

37. Panel members also noted that ECIC had launched three enhanced measures to assist Hong Kong exporters, especially SMEs, in coping with the upcoming challenges and exploring the emerging markets amidst current difficult trading environment. These measures included waiver of annual policy fee for one year, provision of three free credit assessments and consulting service for buyers, and shortening of the processing time for credit limit applications. Members welcomed the three enhancement measures and called on ECIC to provide further support to Hong Kong

exporters in view of the uncertain global trade prospects.

38. From October 2011 to end June 2012, the Panel held a total of 12 meetings, including two meetings held jointly with the Panel on Economic Development regarding the proposal to set up the new Commerce and Industries Bureau under the proposed re-organization of the Government Secretariat, and issues relating to the hotel accommodation arrangements for the Chief Executive's duty visits outside Hong Kong.

Council Business Division 1
Legislative Council Secretariat
5 July 2012

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 2011 - 2012 session

Chairman	Hon WONG Ting-kwong, SBS, JP
Deputy Chairman	Hon Vincent FANG Kang, SBS, JP
Members	Hon Fred LI Wah-ming, SBS, JP
	Hon Emily LAU Wai-hing, JP
	Hon Timothy FOK Tsun-ting, GBS, 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, SBS, 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 : 15 members)

Clerk	Ms YUE Tin-po
Legal Adviser	Ms Wendy KAN