

**LegCo Panel on Trade and Industry
Meeting on 8 June 2000**

**Policy and Charging Arrangement of the
Hong Kong Trade Development Council
in the Organization of Trade Exhibition**

Introduction

This note seeks to introduce the policy and charging arrangement of the Trade Development Council (“TDC”) in the organization of trade fairs and to respond to the concerns expressed by the Hong Kong Exhibition and Convention Organizers’ and Suppliers’ Association (“HKECOSA”) in relation to the Exhibition Services Unit (“ESU”) of the TDC.

A. Policy and charging arrangement of TDC

2. A paper submitted by the TDC on its policy and charging arrangement in the organization of trade fairs is at Annex A. In brief, TDC’s policy is based on the following principles –

- (a) exhibitions organized by the TDC must be helpful to the promotion of Hong Kong’s import and export trade;
- (b) they must be relevant to Hong Kong’s industries; and
- (c) they must produce economic benefits for Hong Kong.

3. In charging fees for participating in its trade fairs, the TDC has to take into account market price levels, market demand, cost-recovery under the user-pay principle, and the interests of local exhibitors. Price levels must also be conducive to ensuring the quality and effectiveness of trade fairs. Further details of TDC’s charging arrangement are set out in Annex A.

B. Response to the concerns of the HKECOSA

4. In its letter, the HKECOSA has lodged certain complaints against the ESU. The TDC has provided its detailed response in the paper at Annex A. It has also explained its position in a letter to the HKECOSA on 29 May 2000, a copy of which is attached at Annex B.

5. The following is our response to the HKECOSA’s concerns over

the stance and policies of the Government.

TDC's trade fairs and its statutory functions

6. TDC is a statutory body established under the Hong Kong TDC Ordinance (Chapter 1114), which provides that the TDC's functions are to –

- (a) promote, assist and develop Hong Kong's overseas trade, with particular reference to exports; and
- (b) make such recommendations to the Government as it sees fit in relation to any measures which it considers would achieve an increase in Hong Kong's trade.

7. The Government is of the view that organizing trade fairs is one of the most effective means to promote Hong Kong exported goods and services. Such activities are therefore consistent with TDC's statutory functions.

Is TDC's ESU subsidized by public money?

8. As Members are aware, the main source of TDC's funding is its business operations. For the past two financial years, government subvention only accounted for about one-quarter of TDC's recurrent expenditure.

9. When the TDC established the ESU in 1988, the Government provided an one-off subvention of \$48 million to the TDC for its acquisition of operating assets including exhibition and display materials for the ESU. Members may however wish to note that the TDC has not used the funding allocated by the Government to cover the recurrent expenditure of its ESU. In terms of accounting arrangements, the TDC has always maintained separate accounts for the income and expenditure of the ESU. There is no question of Government subsidising the operation of the ESU.

10. In addition, the ESU will refund the total subvention of \$48 million with interest to the TDC over the next few years beginning from 2000/01.

Is TDC's ESU anti-competitive?

11. The ESU of the TDC has been engaged primarily in providing services for exhibitions organized by the TDC. This has not caused any restriction to market accessibility or contestability of other exhibition services

companies. Furthermore, according to the TDC, the market share of its ESU is estimated at about 15-20%. The HKECOSA lodged a complaint against the ESU to the Competition Policy Advisory Group chaired by the Financial Secretary in 1999. Upon careful consideration and study of the complaint, the Advisory Group did not find any conclusive evidence proving that the TDC had engaged in anti-competitive practices. Indeed, it was found that the growth in number of local exhibition services companies has continued throughout the past decade. Allegations that TDC trade fairs have caused impediment to the growth of the local exhibition services industry is therefore unsubstantiated.

Looking Forward

12. The Government will continue to monitor closely the operation of the TDC to ensure that it is consistent with the legal requirement and in our economy's best interests. We will also encourage the TDC to continue to step up its communication with the local business community and further enhance the transparency of its policies.

Trade and Industry Bureau
June 2000

HONG KONG TRADE DEVELOPMENT COUNCIL

Brief Prepared for a Meeting of the Trade and Industry Panel
of the Legislative Council, 8 June 2000

TDC and Trade Fairs

1. The Hong Kong Trade Development Council (TDC) is set up by law to promote Hong Kong's external trade. Trade fairs and exhibitions are among the most powerful and cost-effective trade promotion tools. They are particularly suited to Hong Kong's small and medium-sized enterprises (SMEs), TDC's main client base. Organising fairs is therefore a fundamental part of TDC's work in carrying out our mandate. Indeed the Council was among the first to organise trade fairs in Hong Kong some three decades ago.
2. TDC's policy in organising trade fairs is very clear. They must be relevant to Hong Kong's industries and they must produce economic benefits for Hong Kong. Thus we only organise fairs which have a strong Hong Kong element and, unlike private fair organisers, we do not venture outside Hong Kong to organise international fairs.
3. To give coverage to Hong Kong's major industries TDC has created a portfolio of 20 trade fairs we stage locally and market globally. They are supported by relevant trade associations and more than 7,000 local companies who participate as exhibitors. In 1999/2000 our fairs attracted nearly 100,000 overseas buyers, generating billions of dollars in direct and indirect economic benefit for Hong Kong.
4. We charge fees for participation in our trade fairs to recover costs and control quality. The user-pay principle is generally accepted by the community as a fair and efficient way to help underwrite certain public services. Moreover people will not pay for services that are irrelevant or of little value. In the case of TDC trade fairs our firm view is that these are most effective for our customers and offer better value when run on a commercial basis. That is why we operate our exhibitions division as a business unit with full cost-accounting and subject to commercial disciplines.

5. In setting participation fees for our trade fairs we factor in the market, the track record of each event and strength of demand. That is why fees for participating in our most established, successful and popular fairs are higher than for some of our newer events. In general we follow a two-tier pricing system designed to benefit local participants. In some instances local companies who are also members of Hong Kong industry associations receive a further discount. Participation fees for fairs with a similar customer base, such as toys and gifts, are closely aligned. Finally we make reference to the local market and to other fairs in the region to ensure our participation fees are reasonable.

6. Even though we are satisfied that TDC's fees *are* reasonable vis a vis market prices and the value they deliver we nonetheless remain sensitised to the needs – and budgets – of SME customers. Particularly during the recession we heard concerns that TDC fairs are “too expensive”. In deference to the views of our customers and having frozen participation fees since April 1998, we announced in April this year an actual fee reduction of up to 20 per cent from the next trade fair cycle, which starts in April 2001. We also introduce local companies to other TDC promotional options that accommodate marketing budgets of all sizes. These options range from a free trade enquiry service to paid advertisements in our product catalogues or *Hong Kong Enterprise Internet*, TDC's on-line sourcing guide.

7. Because of the importance of TDC's fairs to Hong Kong's trade and the need to ensure they are reliably delivered to highest international standards two TDC units are dedicated to this work: Exhibitions Department, which is our fair organiser, and TDC Exhibition Services, a small unit that provides professional management of design, layout, construction and logistics for all TDC fairs in Hong Kong. More recently a third TDC department – Services Promotion – has also begun organising fairs of a different kind for Hong Kong's service industries in pursuit of TDC's expanded remit, since 1996, to promote Hong Kong's service exports.

8. The number and sheer scale of our fairs is a major reason for maintaining a dedicated in-house exhibition services capability. It facilitates an accumulation of knowledge and expertise that enables us to make continuous and consistent improvement in the presentation and quality of our fairs. It also allows greater efficiencies and economies of scale that produce real benefits for customers in terms of cost and time savings.

9. With only 34 full-time staff TDC Exhibition Services contracts to private firms the actual building of our fairs. Given the recent growth of TDC fairs we conservatively estimate this to be worth HK\$125 million in business for private contractors each year.

Delineating the issues

10. Some members of the Hong Kong Exhibition and Convention Organisers' and Suppliers' Association (ECOSA), of which TDC is also a member, take issue with TDC over our exhibition services. Their argument against the Council is longstanding and has no easy resolution for it ultimately rests on different views of what is in the overall public interest.

11. TDC's view is that by organising world-class trade fairs and ensuring they happen on time to world-class standards we are acting in the best interests of Hong Kong -- in particular tens of thousands of SMEs -- while at the same time strengthening Hong Kong as Asia's sourcing hub and promoting it as the region's trade fair capital.

12. Along these lines the Council has responded many times and in detail to specific issues raised under ECOSA's aegis. Some have already been aired in the Legislative Council. However we welcome the opportunity to provide further clarification.

13. We focus, this time, on the macro issues presented by ECOSA's Executive Committee in their letter of 5 May 2000, having already replied direct to complaints of a more specific nature. A copy of our letter is attached. The broader issues, as we see them, are: that TDC's exhibition services unit "competes unfairly" with private sector exhibition suppliers, using government subsidies to do so; that we waste resources, and that we do too little to promote Hong Kong's exhibitions industry.

Clarifications

TDC Exhibition Services "compete unfairly"

14. This is no factual basis for this view. TDC Exhibition Services handle only TDC's trade fairs, all of which are in Hong Kong. We do not seek or bid for other exhibitions services work. In fact we refer enquiries about non-

TDC assignments to the private sector. We publish a booklet with the names and contact details of 83 private exhibition service suppliers. This we proactively distribute to our raw space exhibitors and post on our Web site.

15. TDC's presence in Hong Kong's free and open market for exhibition services, albeit limited to servicing our own fairs, has actually helped to nurture competition among contractors and create more choice for customers. For example small private contractors who would otherwise not be in a position to bid for unusually complex booth construction work are able to do so because they have access to specialised machinery at our Exhibition Services and Logistics Centre at the Tseung Kwan O Industrial Estate.

16. Some members of ECOSA's Executive Committee raise as an issue that TDC Exhibition Services receives public funds. This is moot. Even though we do not compete in the open market we operate our exhibition services as a part of a business unit that adheres to commercial principles and full cost-accounting, as mentioned in paragraph four, above. We believe this is the surest way to secure optimum performance and greater efficiencies, to the benefit of customers. TDC Exhibition Services is, in fact, fully self-funded and generates a small surplus. Its internal accounts are kept totally separate – to the extent that TDC Exhibition Services is repaying with interest HK\$48 million the Council made available for its establishment in 1989, when Hong Kong faced a shortage of exhibition materials to equip and serve the new CEC. The repayment will start from 2000/01 and will be completed within 5 years. The restoration of these funds to TDC general revenues helps to offset recent steep reductions in TDC's subvention.

TDC "wastes resources"

17. This comment has been made in connection with the new TDC Exhibition Services and Logistics Centre, referred to above, which opened earlier this year replacing our smaller facility at Yuen Long.

18. Far from wasting resources we are confident the new centre will enable us to achieve greater efficiencies and economies of scale. These have already been factored into the fee reduction (referred to in paragraph six, above) for participation in our trade fairs. With the additional space at Tseung Kwan O we are able to offer exhibitors at TDC fairs more choice and better value in selecting exhibition booths, stand systems and furniture.

TDC “does not do enough” to promote the industry

19. Whether the Council does enough for the exhibitions industry – or any industry for that matter –inevitably depends on individual expectations and different points of view.

20. TDC operates within a policy framework that has been adopted by Hong Kong with widespread community support for many years, namely that it is the role of the public sector to provide the essential infrastructure and support services that enable individual businesses to flourish in Hong Kong. By that measure it is reasonable to say that TDC has delivered -- and continues to deliver.

21. It was through TDC’s persistence that the Convention and Exhibition Centre (CEC) was built, providing a modern infrastructure for Hong Kong’s exhibitions industry and establishing Hong Kong as Asia’s top venue for international trade events. Sixty-six major recurrent exhibitions were held there last year, along with 30 non-recurrent exhibitions and more than 3,100 other meetings, functions and events.

22. Since the Council opened the CEC in 1988 the number of exhibition service contractors in Hong Kong has grown 10-fold, to some 140. We spearheaded and built a HK\$4.8 billion Government-financed extension to the CEC in 1997, more than doubling capacity and providing the industry with much-needed room to grow - along with greater business opportunities.

23. The Council actively promotes Hong Kong as Asia’s exhibitions and sourcing hub. It is one of nine themes driving TDC’s efforts to promote Hong Kong’s diverse service exports. It may be recalled that TDC took on this expanded commitment in 1996 with no additional funds from Government. In fact TDC’s subvention from Government has fallen by more than 45 per cent since 1996, from HK\$588 million to HK\$320 million projected in 2000/01. It now accounts for less than 25 per cent of our total expenditure.

24. Specifically for the exhibitions industry we assist international fair organisers to expand the number of exhibitors and visitors at their existing events in Hong Kong. We also market Hong Kong to overseas fair organisers to encourage them to stage new exhibitions here.

25. These promotional activities include participation for Hong Kong in the world's leading industry events for exhibitions and conferences; international advertising campaigns in major publications such as *The Wall Street Journal*, *The Financial Times* and *BusinessWeek*; supplements, and a video presentation produced last year that ECOSA's then Chairman described as "terrific". We welcome organisers of international trade fairs in Hong Kong to distribute their promotional materials through our overseas offices and our Business InfoCentre in Hong Kong. We also maintain and distribute internationally and via the Council's Web site a calendar of exhibitions and conferences in Hong Kong.

26. Even within the limits of the promotional resources we have available for the exhibitions industry there is of course room for improvement in TDC's methods and activities. An important channel for feedback is our Trade-related Services Advisory Committee where a prominent member of the exhibitions industry sits. We will also continue to work closely with ECOSA and others in Hong Kong's exhibitions industry.

27. At the same time we acknowledge that for some in the exhibitions industry this will never be enough. At that end of the policy spectrum the thinking is that because the exhibitions industry generates significant visitor receipts for Hong Kong it should be publicly-assisted via direct subsidies. Whatever the merits of that particular argument -- or of the special case some make for the exhibitions business -- industry subsidies are beyond TDC's resources and remit to deliver.

Letterhead of Hong Kong Trade Development Council

Annex B

29th May, 2000

Mr. Louis Cheng,
Chairman,
H.K. Exhibition & Convention
Organisers' and Suppliers' Assn.,
c/o Pico HK Ltd.
Hong Kong.
(fax: 2664 2313)

Dear Mr. Cheng,

We have received a copy of the letter from the Executive Committee dated 5 May 2000 concerning questions and complaints about TDC Exhibition Services. As the matter is now before a panel of the Legislative Council (LegCo) we are in the process of responding through the Trade and Industry Bureau. In the meantime, there are several misperceptions in your letter which can be readily addressed. We are pleased to do so below.

Consistency of TDC figures

Data previously submitted by TDC in the form requested by Trade and Industry Bureau was for participation fees received from local exhibitions in calendar years 1996, 1997 and 1998. The data in TDC's Annual Report is for *total* income generated from *all* TDC-organised promotional events in Hong Kong — including trade fairs — and overseas for *fiscal* 1996/97, 1997/98 and 1998/99. This covers more than 200 events. Both sets of figures are correct.

Similarly, the apparent discrepancy between figures cited in your letter for the income of TDC Exhibition Services can be readily explained. The figure of HK\$78 million for 1998 referred, as requested, only to income from stand construction. Total income for TDC Exhibition Services in fiscal 1998/99 was HK\$151 million, as given in the Annual Report for that year.

29th May, 2000

Attn: Mr. Louis Cheng

TDC Exhibition Services accounts

We operate TDC Exhibition Services as a business unit. It adheres to commercial principles and full cost-accounting as a way of securing optimum performance and greater efficiencies for our customers. The unit is fully self-funded from its operations and receives no subsidy, direct or indirect, from any other part of the Council. In fact, it generates a small surplus. The internal accounts of TDC Exhibition Services are kept totally separate. TDC's overall accounts are prepared in accordance with accounting principles generally accepted in Hong Kong and are submitted to the Legislative Council.

Fees for TDC Exhibition Services

Because we outsource actual construction of all our Hong Kong fairs, these reflect prices obtained from private contractors by tender or competitive quotations. Contrary to your understanding, they are thus drawn up with close reference to the market in an open and fair manner.

Collection of industry statistics

The Census and Statistics Department is entrusted with Hong Kong's official economic and industry statistics. If specific resources are allocated to collect detailed statistics on the exhibitions industry, and if it were helpful, TDC would co-operate with Census and Statistics in such an endeavour. Meanwhile, as you know, TDC already has an agreement with ECOSA to half of the cost of a study you propose to conduct this year into the local exhibitions industry. We are happy to participate in similar studies in the future.

Releasing information on contractors

The 140 contractors to which you refer are suppliers to individual exhibitors at TDC fairs. The information we collect from them is for this specific purpose. In keeping with Hong Kong's data protection codes, we are not at liberty to provide this information to a third party for any other purpose without their consent. Last year we contacted all 140 companies inviting them to register in TDC's databank. Eighty-three responded by registering and the information is now available to the public.

29th May, 2000

Attn: Mr. Louis Cheng

Use of facilities at the TDC Exhibition Services and Logistics Centre

TDC would like to support more small and medium-sized exhibition contractors serving our fairs, especially those unable to purchase the most advanced equipment. We plan to allow them access to specialised equipment at our new exhibition services facility. As we do not lease out our factory premises, the question of breaching our lease at the Tseung Kwan O Industrial Estate therefore does not arise.

Containerisation at TDC's new logistics centre

Because of space constraints and great demand, especially during peak seasons, Hong Kong poses particular logistics challenges for exhibition organisers. Obviously, the faster and more efficiently exhibitions are mounted and dismantled, the lower the costs for exhibitors. TDC's move towards off-site prefabrication and containerised storage of stand systems is an experiment made possible by additional space at our new Exhibition Services and Logistics Centre. Our projection is that this approach will, indeed, deliver greater efficiencies and produce real savings for customers. Time will tell. In anticipation of a positive outcome, however, we have already committed to reduce participation fees at our trade fairs from 2001, thus passing benefits directly to customers.

Yours sincerely,

C.S. Lee

Director Exhibitions

cc: STI