

# **POSITION PAPER of Hong Kong Exhibition & Convention Organisers' and Suppliers' Association (HKECOSA) regarding the government's policy and mandate for the Hong Kong Trade Development Council (TDC)**

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## **INTRODUCTION**

According to an independent study, the exhibition industry makes a net contribution of over HK\$5.5 billion to the Hong Kong economy annually.

The exhibition industry has a strong 'multiplier' effect on the economy in that for every HK\$1 spent on exhibitions, a further HK\$5 are spent in Hong Kong hotels, transport, restaurants .....etc.

An exhibition visitor, like a convention visitor, stays longer and spends 2.5 times more than an average visitor.

Recognising our industry as one that has significant impact on the economy and one that possesses vast growth potential, the government has started talking about promoting Hong Kong as 'the trade fair capital of Asia'.

HKECOSA fully supports this goal and is keen to help making it a success. We are taking this opportunity to seek the assistance of LegCo to start a THOROUGH and RADICAL REVIEW of the mandate and policy for TDC which is the body entrusted by the government to promote Hong Kong as the trade fair capital of Asia.

In the past 2 years, HKECOSA had many dialogues with the government and TDC but we were disappointed with the results. The serious obstacles and problems faced by the industry are:

#### **A. Policy causing serious role conflict of TDC**

With its eagerness in expanding and protecting its various huge business interests, TDC is increasingly caught in their role conflict and is widely perceived by industry players as a competitor rather than a genuine service promoter of Hong Kong.

The vertical integration of TDC's business interests has reached a stage where its roles become unclear. According to the TDC Ordinance (Cap.1114), TDC has a statutory function to promote, assist and develop Hong Kong's overseas trade. In facilitating that, TDC not only organises exhibitions, it also spent huge efforts and encumbered public funds to operate their in-house exhibition contractor known as 'Exhibition Service Department (ES).

Instead of developing, promoting, facilitating or assisting the private sectors' businesses, TDC is operating its own businesses and had often taken advantage of their official status as trade promoter to create barriers for the private enterprises in our industry.

Examples of TDC's role conflict:

- (a) At the LegCo Q & A on 19 May 1999, the government informed LegCo that TDC fairs are all export promoting and in 1998 only 'a very small number' of TDC fairs were promoting import trade. However, as captured in the LegCo minutes, 6 out of the total of 21 TDC fairs were not relevant to promotion of export trade. In other words, TDC is operating exhibitions as a business while claiming exhibition is a tool for promotion of export trade.
- (b) Before HKECOSA's 10 December 1998 complaint lodged with COMPAG, TDC had used the 'Privacy Ordinance' as an excuse to deny contractor members of HKECOSA access to current exhibitor list of all TDC local fairs. After COMPAG's intervention, such list

began to appear on the TDC website.

As at today, HKECOSA is still denied access to the full list of the over 140 exhibition contractors TDC claimed existed in Hong Kong in 1998. The reason cited this time was " Hong Kong's data protection codes " which sounded like another excuse to withhold/block trade information.

TDC's statutory role in both the above cases should be to provide accurate trade information. Their eagerness to protect their business interests, however, drove them to withhold information.

- (c) As the official trade promoter of Hong Kong, TDC 's promotional efforts were often focused on TDC's own businesses and not Hong Kong's businesses. Not long ago, it was found that TDC's Frankfurt office, featured only TDC's fairs, TDC publications and TDC Galleries on the permanent wall display in the reception area. There was not mention of Hong Kong private sector's products/services.
- (d) TDC advertised in a Guangzhou local daily newspaper on 28 June 1999 offering services to 'assist exports of local mainland Chinese manufacturers'.

## **B. Policy causing dominant market position of the public sector**

As a heavily capitalized and sub-vented statutory body, the TDC has carried out very well the mandate to promote Hong Kong's export trade. However, in the mean time, TDC has been allowed to expand itself into a huge business conglomerate commanding dominant market position in a number of related businesses.

- TDC is the owner of Hong Kong's largest exhibition centre
- TDC is Hong Kong's largest exhibition organiser (about 38% market share)
- TDC is Hong Kong's largest exhibition contractor
- TDC is one of Hong Kong's largest trade publishers

In the exhibition industry, undoubtedly, TDC is a vertically integrated 'super-power'. This situation is certainly not conducive for the growth of indigenous small and medium size private enterprises. It is also less attractive for foreign exhibition companies to set up a base here or launch new events here.

Anywhere in the free world, the diversity of private sector participation is a necessary ingredient for the healthy and sustainable growth of any industry. More so if the government is serious with the goal of 'trade fair capital'.

### **C. Government has no economic statistics on the exhibition industry**

At the LegCo Q & A on 19 May 1999, the secretary for Trade & Industry claimed 'neither the government nor the TDC has statistics on the total revenue of the exhibition industry in Hong Kong'.

For years, HKECOSA initiated and funded our own 'economic impact study' to determine the contribution of our industry to the Hong Kong economy. This year, at the Association's request, TDC had conditionally agreed to fund half of the cost of the current study.

We would like the government or TDC to be initiating such statistical works in the future and fully fund the cost involved.

### **D. Supply of unclear / incomplete trade information by the Government/ TDC**

- (a) At the LegCo Q & A on 19 May 1999, the government claimed that 'the total income of TDC's in-house contractor - 'ES' was \$78 million for 1998. However, in page 83 of TDC's Annual Report 98/99, under Exhibition Services Fund, 'Income generated during the year' was HK\$151 million. The government should explain this huge inconsistency of information.
- (b) In the same TDC Annual Report 98/99, page 75, under 'Income generated from the Council's operational activities', income for its 'HKCEC Operation' was HK\$45.7million. As TDC claims it does not operate the HKCEC, and as the HKCEC was built entirely with

government grant for Phase two and premium-free land for Phase one, we are of the view this income is a form of subvention and should have been put together with sub-vented income such as the Trade Declaration Charge. It is misleading to categorize this income under 'TDC's operational activities'.

- (c) In the same TDC Annual Report, pages 75 and 83, the overhead costs such as personnel, accounting and project costs of its in-house contractor ES were not separately shown. It is therefore unclear whether ES is receiving subsidy or operating on a "full cost-recovery" and "cost accounting basis".

### **E. Policy caused high exhibition hall rental rates**

With the government's grant of premium-free land, TDC developed the HKCEC phase one in the 80's. The HKCEC extension was built entirely with government grant in the 90's. Despite such tremendous cost advantage, HKCEC rental rates are still among the world's highest which are formidable entry barriers for new organisers and new exhibitions.

As the owner of HKCEC, TDC is receiving about 5% 'management fee' from the HKCEC management company, based on all HKCEC rental revenues. This amounted to HK\$45.7 million in 1998. With such huge 'vested' interest, it is not practical to expect TDC would address this high rental cost issue which the industry players have repeatedly raised in the past.

The government has conducted an industry survey and the government had accepted the conclusion that Hong Kong needs another large scale exhibition centre. However, because of apparent conflict of interests, it would not be practical to expect TDC would push hard for such a facility to be completed in the shortest possible time frame.

We are very concerned that after the Chek Lap Kok site for the proposed new exhibition centre was identified, the government seems to be dragging its feet, passing the responsibility to the Airport Authority which has plenty of land but apparently has no allocation of financial resources and priority for this project. It also worries us that the TDC Chairman is also the Airport Authority Chairman.

For the future healthy development of the exhibition industry, HKECOSA would strongly suggest to the government that the second large scale exhibition centre should not be owned and operated by TDC.

#### **F. Waste of public resources**

The government had injected a grant of HK\$40 million around 1988 for TDC to start operate 'ES' - TDC's in-house contractor. In 1998, TDC took out HK\$180 million from its reserve to build a new Logistics Centre which is by far the largest and the most expensive of its kind in Hong Kong and in Asia. We consider this a blatant waste of public resources to do something the private sector can do better and cheaper.

TDC's newly opened Logistics Centre was designed to operate like a small 'container port' with custom-built containers which strangely are not of standard sizes. Industry players became doubtful this unique idea would work because the containers were not activated at all for the recent Premium Fair which was Hong Kong's largest fair this year.

TDC's decision for this HK\$180m hardware investment happened at a time when most government departments are down-sizing, out-sourcing or privatize to save costs and raise efficiency. The Secretary for Trade and Industry claimed 'whether ES should be privatised or not is a matter for TDC to decide, and is a separate issue from the Government initiative of privatising some Government departments.'

Before the ground opening ceremony of TDC's 12,000 sq.m. Logistics Centre in Cheung Kwan O, five major exhibition contractors in Hong Kong initiated a dialogue with TDC's officials and a complaint was lodged. However, TDC ignored contractors' plight and went ahead to complete this Logistics Centre.

The government informed LegCo at the 19 May 1999 Q & A that 'the TDC will consider renting the facilities in the new Centre to private exhibition services companies'. This was viewed as an admission that TDC's Logistics Centre was built with far too much capacity. The Hong Kong Industrial Estates regulation does not allow grantees to rent out their premises. The government should need to clarify whether TDC is

enjoying special treatment from another government-related body.

ES' income, according to TDC Annual Reports, jumped from HK\$88m in 1995 to HK\$151m in 1988. ES as the 'in-house contractor' of TDC faces no competition when serving as the 'Official Contractor' of all TDC organised exhibitions in Hong Kong. The majority of ES' income is from its internal customer - Trade Fairs Division. It was widely understood in the industry that ES' prices to its internal customer are often higher than prices offered by outside private contractors. At the end, to support ES' overhead costs, Trade Fairs Division still has to award the jobs to the in-house ES. This resulted in cost increase in the Trade Fairs Division.

The government told LegCo at the 1999 Q & A session that the purpose of TDC building this new Logistics Centre was to raised standards and quality of their stands. HKECOSA does not share this view. TDC had cited 'the market lack sufficient high quality stand materials' as the justification for spending part of the HK\$40m government grant investing in stand systems. The fact was that there was no such shortage of materials in the market. These were excuses TDC used to encroach into the private exhibition contractors' turf. The real issue was that these were achieved using public resources i.e.government grant.

The Association urges the government to investigate whether it is justifiable to spent this HK\$180 million of public resources in a business which the private sector can handle better.

#### **G. No allocation of budget for promotion of the exhibition industry**

HKECOSA was told by TDC that TDC has no resources to assist private enterprises in the exhibition industry and claimed the government had not given TDC any funding to do so.

TDC had also specifically turned down HKECOSA's suggestion to use the HK\$40m government grant that ES will 'return' to TDC's main treasury (arranged by the Trade & Industry Bureau) for the purpose of promoting the exhibition industry.

Against the back drop of TDC's recent investment of HK\$180 million to build its Logistics Centre, it becomes obvious that TDC is more keen to use its resources to expand its business interest rather than to promote Hong Kong's trade and services.

#### **H. Policy causing unfair competition posed by TDC**

- (a) Being a quasi-government body and a major channel for the government in trade and commerce promotion, the perceived credibility of TDC is a definite and obvious advantage in recruiting exhibitors for fairs. Besides, being a government trade body, it is much easier for TDC to rally other national trade boards for their support of TDC-organised fairs.

The about 50 TDC offices overseas enhance the competitive advantage of TDC fairs. The HK\$400 million subvention is substantial income for TDC to further its business interests.

- (b) A good number of exhibition and event contracts (below HK\$1.3m) from government and semi-government bodies were awarded to ES, TDC's in-house contractor without calling for competitive bids from qualified private contractors. Apparently, some officials have the idea that ES belongs to the government and it is safe to use ES without tender.

HKECOSA would like to urge the government to correct the misconception and stop this practice of some government departments.

- (c) For large exhibition stands, TDC has many combination packages to secure exhibition contracts for ES. E.g. offer of 3-year free storage for exhibitors' custom-built stands (as ES' premises was cost free, built with government grant). This situation makes it very difficult for smaller exhibition contractors to compete with ES.
- (d) There have been no written policy/guidelines for ES' staff regarding TDC's undertaking that ES will serve only TDC's own events. This led to ES staff persuing exhibition contracts totally unrelated to TDC fairs e.g. Hong Kong Products Expo (for consumers)

in Tamar Site. ES staff even went as far as Shanghai, Guangzhou and Shenzhen to carry out stand-fitting works in direct competition with Hong Kong based private exhibition contractors.

### **Conclusion and proposed solution**

It is important that both the government and TDC recognise the issues raised and seek solution hand in hand with the private sector. The goal of making Hong Kong the trade fair capital of Asia will not be achieved without the diversity of active participation of the private sector, including local indigenous organisers and suppliers and international players.

1. The government should radically review the mandate and policy for TDC to ensure it suits Hong Kong's business environment today and the goal of making HK the 'trade fair capital of Asia'.
2. TDC has indirect sub-vented income in the form of 5% 'commission' on all rental income of HKCEC amounting to HK\$45.7 million in 1998. This is the contribution of exhibition and convention organizers who are represented by HKECOSA. Therefore, the government should allocate HKECOSA a rightful seat in the TDC Council or Committees, just like the exporters who are paying Export Declaration Charge.
3. In view of the fact that TDC has such substantial sub-vented income mentioned above, TDC should allocate a significant part of this income annually for the promotion of the exhibition industry. If TDC is the body government appoint to promote the goal of trade fair capital, HKECOSA will be happy to work out a strategy and plan with TDC.
4. The high hall rental rates must be addressed quickly to maintain the competitiveness of Hong Kong against the stiff competition in the region. In the meantime, a non-TDC owned and managed large scale exhibition centre should be built in the shortest possible time frame to facilitate/stimulate growth of this industry and provide healthy competition to HKCEC.

5. The government and /or the TDC should take up the task and total cost of compiling statistics for the exhibition industry.
6. The Government and / or the TDC should prepare our human resources through training at different levels if the goal of making HK the 'trade fair capital of Asia' is a serious one.
7. About half the number of indigenous exhibition organizers organize exhibitions outside Hong Kong, mostly in mainland China and other cities in the region. Many of them claim there is no room for them to operate in Hong Kong. These indigenous small and medium size enterprises deserve government's attention and help because they are Hong Kong based and employ local management talents to export high-value added export of services.

These enterprises and management talents are indeed an important element of a 'trade fair capital'

8. The government should decisively compel TDC and its ES, the government-funded in-house contractor to :
  - (a) immediately stop seeking stand-building, event promotion and display contracts unrelated to TDC's own fairs.
  - (b) stop seeking stand-building contracts from exhibitors taking only raw space even in TDC's own fairs. These custom-built stand contracts should be left to the '140' private contractors which are small and medium size enterprises(SME), not TDC, to sign directly with individual exhibitors. These SME are exhibition contractors in their own right. TDC should assist them to secure such raw space contracts and not to compete with them for the same.
  - (c) contract out all TDC's exhibition requirements to qualified private contractors. I.e. TDC Stops operating as a contractor. ES could become the 'Technical Department' to administer exhibition contracts and control quality.

9. The government should encourage TDC to tender out the management of TDC fairs to qualified private fair organisers and/or show management companies. TDC remains the owner of these shows
  
10. In the longer term, the government should encourage and help TDC to privatise ES and some of its businesses in order to separate the functions and cost accounting between TDC's trade promotion efforts and TDC's business operations. This should gradually improve the industry's negative perception that TDC is a competitor rather than the promoter of Hong Kong 's businesses.

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