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Legislative Council

LC Paper No. CB(1)2085/06-07
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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 12 June 2007, at 4:30 pm
in Conference Room A of the Legislative Council Building

Members present	:	Hon Vincent FANG Kang, JP (Chairman) Hon WONG Ting-kwong, BBS (Deputy Chairman) Hon CHAN Kam-lam, SBS, JP Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP Hon SIN Chung-kai, JP Hon Timothy FOK Tsun-ting, GBS, JP Hon Jeffrey LAM Kin-fung, SBS, JP Hon Andrew LEUNG Kwan-yuen, SBS, JP Hon Ronny TONG Ka-wah, SC
Members absent	:	Dr Hon LUI Ming-wah, SBS, JP Hon CHIM Pui-chung
Public officers attending	:	Agenda Item IV Miss Yvonne CHOI Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) Mr NGAI Wing-chit Acting Deputy Director – General of Trade and Industry (Commercial Relations, Controls & Support)

Mrs Philomena LEUNG
Principal Assistant Secretary for Commerce, Industry and Technology (Commerce & Industry) 2

Agenda Item V

Miss Yvonne CHOI
Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry)

Ms Joyce TAM
Assistant Director (Mainland)
Trade and Industry Department

Miss Elley MAO
Principal Economist
Economic Analysis and Business Facilitation Unit
Financial Secretary's Office

Ms Amy CHEUNG
Principal Trade Officer
Commerce, Industry and Technology Bureau
(Commerce and Industry Branch)

Clerk in attendance : Miss Erin TSANG
Chief Council Secretary (1)3

Staff in attendance : Ms YUE Tin-po
Senior Council Secretary (1)5

Ms Guy YIP
Council Secretary (1)1

Ms May LEUNG
Legislative Assistant (1)6

Action

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)1644/06-07 -- Minutes of meeting held on 17 April 2007)

The minutes of the meeting held on 17 April 2007 were confirmed.

II. Information paper issued since last meeting

2. Members noted that no paper had been issued since the last meeting held on 17 April 2007.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)1849/06-07(01) -- List of outstanding items for discussion

LC Paper No. CB(1)1849/06-07(02) -- List of follow-up actions)

3. Members agreed that the following items would be discussed at the next meeting scheduled for 17 July 2007 –

(a) Progress and impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement - further liberalization measures;

(b) Progress in Asia Pacific Economic Cooperation 2007; and

(c) New strategic framework for innovation and technology development.

(*Post-meeting note:* At the request of the Administration and with the concurrence of the Panel Chairman, the item of "Improvements to the Small Entrepreneur Research Assistance Programme and the University-Industry Collaboration Programme under the Innovation and Technology Fund" had been added to the agenda for the next meeting.)

IV. Review of small and medium enterprise funding schemes

(LC Paper No. CB(1)1849/06-07(03) -- Paper provided by the Administration

LC Paper No. CB(1)1873/06-07(01) -- Summary on four small and medium enterprise funding schemes from the Director of Audit's Report on the results of value for money audits (Report No. 47)

LC Paper No. CB(1)1873/06-07(02) -- Chapter 4 of Part 7 of the Public Accounts Committee's Report No. 47 on four small and medium enterprise funding schemes

LC Paper No. CB(1)1873/06-07(03) -- Background brief prepared by the Legislative Council Secretariat)

Briefing by the Administration

4. At the invitation of the Chairman, the Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (PSCI) updated the Panel on the operation of the small and medium enterprise (SME) funding schemes. In gist, she said that the Administration had set up four SME funding schemes (namely, SME Loan Guarantee Scheme (SGS), SME Export Marketing Fund (EMF), SME Development Fund (SDF) and SME Training Fund) in December 2001/January 2002 to help SMEs secure finance, expand export markets, upgrade human resources and enhance their competitiveness. The funding schemes were well received by SMEs. As at 31 May 2007, about 133,300 applications were approved, involving over $10 billion of Government guarantee or grant. Over 48,300 SMEs had directly benefited from the funding schemes. Since the implementation of the funding schemes, various improvement measures had been introduced, such as increasing the maximum amount of loan guarantee and grant per application under SGS and EMF respectively, and simplifying the EMF application procedures. In 2005, additional funding was also injected into SGS, EMF and SDF in order to benefit more SMEs. In 2006, the Director of Audit had conducted a value-for-money audit of the funding schemes and made a number of recommendations. The Trade and Industry Department (TID) had accepted the audit recommendations and started to implement them. It was estimated that the Government's maximum guarantee commitment for SGS would be exhausted by late 2008, and the funding provision for EMF and SDF by early 2009. In this connection, the Administration was conducting a review on the funding schemes and would solicit views of stakeholders before consulting the Small and Medium Enterprises Committee (SMEC) on the way forward.

Discussion

SMEs in the service sector

5. Referring to paragraph 13 of Chapter 4 of Report No. 47 of the Director of Audit, Mr Jeffrey LAM noted that as at 31 March 2006, SMEs in the manufacturing sector had obtained guarantees representing 81% of the total guarantees under SGS. He pointed out that SMEs in the service sector constituted about 81% of the business establishments and was the backbone of the economy after the industrial restructuring in Hong Kong in the past few years. However, the guarantees granted to SMEs in service sector was very limited as compared with those in the manufacturing sector. As such, he enquired whether it was because of the application and vetting procedures which did not facilitate applications in the service sector that resulted in the present phenomenon (i.e. more applications from and hence guarantees granted to SMEs in the manufacturing sector than those in the service sector).

6. In response, PSCI stressed that the establishment of the four funding schemes aimed to address the needs of SMEs, irrespective of whether they were in the manufacturing sector or service sector. For instance, the maximum amount of guarantee available for an SME under SGS was $4 million, within which $2 million was for Business Installations and Equipment Loans, $1 million for Associated Working Capital Loans and $1 million for Accounts Receivable Loans (ARLs). She stressed that SMEs in the service sector could also secure loans and obtain guarantees under SGS and hence benefit from the scheme. The Acting Deputy Director – General of Trade and Industry (Commercial Relations, Controls & Support) (DDGTI(Atg)) also highlighted that the scope of SGS was applicable to SMEs in all sectors. For instance, SMEs in the service sector, such as restaurants, could apply Business Installations and Equipments Loans under SGS for acquiring kitchen equipment. Nevertheless, he pointed out that applications put up by participating lending institutions (PLIs) normally involved loans of greater amount. In this regard, he shared with members that under EMF which supported SMEs' participation in export promotion activities such as trade fairs and study missions, more SMEs (60% of the total number of beneficiaries) were from the service sector. In the case of SDF, it supported non-profit-distributing organizations to carry out projects to enhance the competitiveness of SMEs in general or in specific sectors, irrespective of whether they were in the manufacturing sector or the service sector. Nevertheless, PSCI said that the Administration would take into consideration Mr LAM's concern when reviewing the funding schemes with a view to assisting more SMEs in the service sector.

SGS

7. Noting that the loan default rate of SGS was as low as 2.5%, Mr WONG Ting-kwong commended that it might be attributable to the effective monitoring of the scheme by the Government. Nevertheless, he sought information on the reason which had resulted in the 2.5% loan default rate. DDGTI(ATG) advised that analysis had been made on cases involving default loans, and it was noted that the default pattern was similar to that of the open market. To illustrate, many of the loans secured under SGS were for acquiring machineries for SMEs in the printing and electronics sectors, and it was also in these sectors where many default cases occurred. As such, default loans under SGS did not restrict to a particular industry or a specific type of SMEs. He remarked further that notwithstanding the low loan default rate which currently stood at 2.5%, the Administration would be mindful that the business capabilities of SMEs could be affected swiftly in case of economic downturn. Hence, the Government would continue to be vigilant in monitoring the scheme. In this connection, the Chairman asked and DDGTI(ATG) remarked that the Government would, in general, rely on PLIs to exercise prudent professional judgment in assessing applicants' creditworthiness, and it would not impose any administrative charge on SMEs for obtaining guarantees under SGS.

8. In this respect, Mr WONG Ting-kwong enquired as to whether there were any SMEs which had once secured loans under SGS and were now financially viable and hence no longer required further financial assistance under the scheme. DDGTI(Atg) advised that as SGS commenced operation in end 2001, most of the

loans were still under the guarantee period. Moreover, since some SMEs might have already established relationship with PLIs through securing loans under SGS before, they might be able to secure loans directly from PLIs without government guarantee. The Administration did not have statistics relating to the financial viability of SMEs after their participation in SGS.

9. Highlighting that SGS provided the most direct form of assistance to SMEs as they could secure loans for acquiring installations and equipment to develop their businesses, Mr SIN Chung-kai considered that the Government should continue to operate SGS but might be with a new approach under which the government guarantee could be recycled so that the scheme could continue to run on a self-sustaining basis.

10. In response, DDGTI(Atg) said that the approval from the Finance Committee did not allow guarantee to be recycled. Under the existing modus operandi, the Government acted as guarantor for up to 50% of the loans. Based on an assumed default rate of 7.5%, the maximum loan guarantee amount that the Government might approve under SGS was $10.6 billion. Once this maximum guarantee amount had been used up, no more new guarantee would be issued to PLIs. In further response to Mr SIN, he advised that the average guarantee commitment issued was about some $100 million per month. Noting that a review was being made on the funding schemes including SGS and that SMEs could benefit more directly from SGS, Mr SIN reiterated his call on the Administration to explore ways to continue the operation of the funding scheme. PSCI took note of Mr SIN's concern and suggestion for further consideration.

11. In this connection, while declaring that he was the director of the Hong Kong Mortgage Corporation Limited (HKMC), Mr Andrew LEUNG remarked that HKMC was interested in purchasing from PLIs loans under SGS. He suggested the Administration to contact HKMC for discussion of the matter. He opined further that consideration could also be given for the Government to joining hands with HKMC and PLIs in helping SMEs to secure loans for their business operation.

12. Mr Jeffrey LAM noted that SMEs in the manufacturing and service sectors could secure loans under SGS to enhance their facilities and equipments to address environmental issues such as air pollution. However, he was of the impression that there seemed to be not many applications lodged under SGS for such purpose. In response, PSCI affirmed that SMEs could secure loans from PLIs for acquiring environmental equipments to tackle related problems. In view of Mr LAM's concern, the Administration would step up publicity in this regard. In this connection, the Chairman opined that consideration should also be given to providing more incentives for SMEs to engage in environmental and recycling industries.

EMF

13. Mr Andrew LEUNG pointed out that certain corporations such as "Pak Fah Yeow", "Lee Kum Kee" and "Eu Yan Sang", had invested significant amount of money in order to build up their brand names. Since the Government's policy was also to promote brand names for added value to local goods and services, he opined that the funding assistance provided for SMEs to participate in export promotion activities under EMF, i.e. $80,000 ($30,000 for each application or 50% of approved expenditure, whichever was the less) might not be enough. He suggested that consideration should be given to increasing the maximum amount of grant to, say, $150,000 for a period of two years, so that SMEs could have more resources to make longer term planning for brand building their products in export promotion activities. He added that although SMEs had to share the cost for participation in export promotion activities on a dollar-for-dollar matching basis, such a proposed improvement measure could nevertheless provide incentive for SMEs to promote their brand names in the Mainland and overseas markets.

14. In response, PSCI said that various improvement measures had been made to EMF since its implementation. For instance, when EMF was first introduced in December 2001, the maximum amount of grant for an SME was only $10,000 (or 50% of approved expenditure, whichever was the less). In February 2003 the ceiling amount of grant was raised to $40,000 ($20,000 for each application or 50% of approved expenditure, whichever was the less). In June 2003, the ceiling amount was raised further to $80,000 ($30,000 for each application or 50% of approved expenditure, whichever was the less). As the Mainland was now putting great emphasis on expanding domestic consumption which provided an opportune time for Hong Kong's SMEs to promote their products in the Mainland market, PSCI took note of Mr Andrew LEUNG's view and suggestion for further consideration during the review. In this connection, she added that SME trade associations could also apply for grants under SDF to subsidize projects on brand development for SMEs. In addition, the Government had set up the Design Smart Initiative with a funding commitment of $250 million to promote the use of design, which was another avenue where SMEs could obtain financial assistance.

15. In this connection, Mr Andrew LEUNG remarked that apart from reserving part of the receipts from the total Trade Declaration Charge (the Charge) on imports, domestic exports and re-exports for subventing the Trade Development Council (TDC), the Administration could consider using the rest of the receipts to help local SMEs promote their brand names with a view to developing Hong Kong into a brand name management centre. He also considered that the Government should work closely with TDC and other trade organizations to actively promote Hong Kong designs and brand names at a much higher level so as to tie in with the policy initiatives of the Government in this respect. In reply, PSCI advised that except for a certain portion which was used for financing the operation of TDC, the rest of the receipts from the Charge was spent on activities relating to economic and trade promotion. On the promotion of Hong Kong brand names in both the Mainland and overseas markets, she assured members that the Administration would strengthen its co-ordination with TDC and other trade associations on this front.

16. The Chairman remarked that as the domestic consumption in both the local and Mainland markets were expanding, consideration should also be given to expanding the scope of EMF to help local SMEs promote their brand name products in the domestic markets, apart from providing funding assistance for them to participate in export promotion activities.

SDF

17. Noting that TID had approved 87 SDF projects up to the end of March 2006 involving total grants of $99 million, Mr Jeffrey LAM enquired whether TID had assessed the effectiveness and possible economic benefits brought about by those completed projects to Hong Kong. In response, DDGTI(Atg) advised that TID had kept monitoring the effectiveness of the approved projects to ensure the targets set by the successful applicants had been achieved. Having taken into account the audit recommendation , TID had already started to request successful SDF applicants to provide feedback from SMEs on the adoption of project deliverables (e.g. whether books or manuals compiled by the applicants were used by SMEs). The information collected would help assess the effectiveness of individual projects.

Funding provision and utilization position of the funding schemes

18. Mr WONG Ting-kwong declared that he was a member of SMEC. He commended that the various funding schemes had been providing immense assistance to SMEs. In this respect, noting that the Government's maximum guarantee commitment for SGS and the funding provision for EMF and SDF would be exhausted by late 2008 and early 2009 respectively, he enquired when the Administration would consult SMEC on the future arrangement of the funding schemes. He also sought information on whether the Government intended to seek the Finance Committee's approval for providing further funding provision and government commitment for continuation of those schemes. PSCI advised that the Administration was conducting a review on the three funding schemes (i.e. SGS, EMF and SDF) and would consult Panel members and SMEC on the way forward in due course.

Way forward

19. Noting that the Commerce, Industry and Technology Bureau would be retitled as the Commerce and Economic Development Bureau following the re-organization of the policy bureaux of the Government Secretariat on 1 July 2007, Mr Andrew LEUNG sought confirmation as to whether assistance would continue to be provided to SMEs in the commercial and industrial sectors, including those engaging in manufacturing and high technology industries. PSCI stressed that as affirmed by the Secretary for Constitutional Affairs when responding to a motion debate on behalf of Secretary for Commerce, Industry and Technology earlier, the new policy bureau would continue to attach great importance to SMEs and that the on-going review on the schemes was conducted with a view to better addressing the

needs of SMEs.

20. Summing up the discussion, the Chairman said that the Panel supported the funding schemes as they could help strengthen the competitiveness of SMEs which constituted 98% of business establishments in Hong Kong.

V. Progress and impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) – Study on the Economic Impact Assessment of CEPA on Hong Kong's economy

(LC Paper No. CB(1)1849/06-07(04) -- Paper provided by the Administration

LC Paper No. CB(1)1873/06-07(04) -- Background brief prepared by the Legislative Council Secretariat)

21. At the invitation of the Chairman, the Permanent Secretary for Commerce, Industry and Technology (Commerce and Industry) (PSCI) briefed members on the recent study conducted by the Administration on the impact of the first three phases of CEPA on Hong Kong's economy as detailed in the Administration's paper (LC Paper No. CB(1)1849/06-07(04). In gist, she said that at the meetings of the Panel on 15 February and 19 April 2005, the Administration had already reported respectively to the Panel the preliminary and final findings of a study conducted on the economic impact of the first phase of CEPA. Since then, CEPA had further expanded to allow zero tariff treatment for imports of all Hong Kong products which met the CEPA rules of origin (ROOs) criteria starting from 1 January 2006, and to provide new preferential treatments for Hong Kong service suppliers in 27 services areas. Pursuant to further liberalization under CEPA, and in line with a recommendation made by the Focus Group on Trade and Business (the Focus Group) established under the Economic Summit on "China's 11th Five-year Plan and the Development of Hong Kong" that the Administration should carry out researches on the economic benefits of CEPA to Hong Kong so as to facilitate CEPA promotional work, the Administration decided in the third quarter of 2006 to update the impact of CEPA on Hong Kong's economy. She advised that the latest study was conducted by the Commerce, Industry and Technology Bureau (CITB), in collaboration with the Trade and Industry Department (TID), the Economic Analysis and Business Facilitation Unit and the Census and Statistics Department. The Hong Kong Tourism Board also provided inputs to the study. Data collection and analysis took place in the fourth quarter of 2006 and the first quarter of 2007. The study mainly covered three areas of CEPA, namely trade in goods, trade in services, and the Individual Visit Scheme (IVS). Apart from findings on the economic impact of the first three phases of CEPA between 2004 and 2006, the study also provided a forecast of its impact on Hong Kong's economy in 2007 and beyond. In this respect, PSCI remarked that although trade and investment facilitation was not covered in the quantitative study, the Administration had attempted to gather the effect so far of the trade and investment facilitation

measures under CEPA on attracting foreign investments to Hong Kong.

22. With the aid of power-point presentation, the Principal Economist, Economic Analysis and Business Facilitation Unit of the Financial Secretary's Office (PE/FSO) highlighted to members the key findings of the study as detailed in the power-point presentation materials (LC Paper No. CB(1)1896/06-07). PE/FSO said that CEPA was distinct from other economic/trade agreements in that CEPA was implemented by phased approach, so that the content could be expanded to reflect the change in Mainland-Hong Kong economic/trade relations as the Mainland economy grew and developed over time. She then pointed out that the economic impact assessment was made in two parts. The first part was based on survey findings that quantified the economic benefits of market opening by industry as laid down in the different phases of CEPA. The second part was however qualitative, highlighting the influences of CEPA on the macro-economic environment that tended to have more in-depth impact on the longer term development of Mainland-Hong Kong economic/trade relations. The findings were summarized below:

(a) Trade in goods

As at 1 January 2007, CEPA ROOs were developed for 1 448 goods. The utilization of CEPA increased steadily over time. As at 31 May 2007, 23 315 CEPA certificates of origin were issued. Products with a total value of over HK$8.3 billion were entitled for tariff free treatment upon importation into the Mainland. The most commonly exported products included pharmaceutical products, plastics and plastics articles, and textiles and clothing. Between 2004 and 2006, a total of 3 319 new local jobs were created in the trade/manufacturing industries. For 2007 and beyond, another 1 562 new posts were planned. Most of the jobs created were involved in either the manufacturing or trading of pharmaceutical products. Moreover, traders/manufacturers in the pharmaceutical, and food and beverage industries were generally more positive about CEPA's benefits than those in the other industries.

(b) Trade in services

At present, 27 services areas were covered under CEPA. As at 31 May 2007, 1 078 Hong Kong Service Supplier (HKSS) applications had been approved with 1 776 HKSS certificates issued. The survey revealed that more than 90% of the respondents considered CEPA beneficial to their establishments. The survey also revealed that for respondents with business in the Mainland, nearly all of them perceived CEPA having a beneficial impact on their business. The cumulative amount of additional capital investment as induced by CEPA in the services sector amounted to HK$4.8 billion by 2006, representing an increase of 380% over two years. The expected capital investment in 2007 and beyond totalled

HK$2.4 billion. The number of new jobs created in Hong Kong due to CEPA in the services industry was 5 877, and this was expected to further increase by about 2 000 in 2007 and beyond.

(c) Individual Visit Scheme (IVS)

Between 2004 and 2006, the total number of incremental Mainland visitor arrivals as induced by the IVS was 8.5 million, and the additional tourist spending generated was HK$22.7 billion. The net incremental spending by IVS visitors had raised Hong Kong's Gross Domestic Product (GDP) by HK$15.9 billion and generated employment for more than 25 000 persons during the same period.

(d) Benefits to the Mainland

Between 2004 and 2006, CEPA induced HK$9.2 billion additional investment by Hong Kong companies in the services industry in the Mainland. As at end 2006, CEPA created almost 17 000 new jobs in the Mainland, among which about 1 000 were filled by Hong Kong residents.

(e) Trade and investment facilitation

Trade and investment facilitation was crucial in advancing the importance and enhancing the utilization of CEPA to the fullest mutual benefits of both Hong Kong and the Mainland. Through the trade and investment facilitation measures, Hong Kong had become more attractive to both Mainland and foreign investment, as witnessed by the rising number of regional headquarters and regional offices in Hong Kong, as well as the rising number of Mainland enterprises investing in Hong Kong.

(f) Qualitative assessment

CEPA provided a new economic platform for Hong Kong to further develop its business relation with the Mainland in the long term. With the Mainland shifting its development focus from manufacturing to services, from "quantity" to "quality" growth, and from external trade to domestic demand driven growth, PE/FSO pointed out that Hong Kong needed to re-orientate its role to meet the changing needs of the Mainland economy. At present, it was necessary for the Mainland to amass knowledge, invent technology and apply modern management skills quickly enough so as to catch up with the advanced economies, to gain in international competitiveness and to achieve "quality" growth. CEPA had helped strengthened Hong Kong's service provider and conduit roles for the effective channeling of "quality" capital and management know-how into the Mainland. As a two-way platform, Hong Kong had also helped Mainland enterprises and investments reach out to the global market through investing/listing in Hong Kong, as well as bringing foreign investments into the Mainland, thereby further strengthening Hong Kong's key intermediary role. Furthermore, the potential for mutual co-operation in services trade between the Mainland and Hong Kong was enormous. According to the Mainland's "11th Five-Year Plan", the services sector was targeted to raise its share of GDP by 3% from its present level in five years' time. The share of the services sector in GDP would likely rise even further over the longer term. In many advanced economies, their current services sector share was close to 70% or more, while the Mainland's services sector share was only around 40% at present. As such, the scope for services sector expansion in the Mainland was substantial. Reflecting this, the macro-economic data showed strong rebound in consumption, investment and overall economic growth. The rise in prices in the financial and asset markets, and especially the successive new highs of the Hang Seng Index, demonstrated a general perceived rise in long-term income and profits potential of companies in Hong Kong.

23. PSCI concluded that the study re-affirmed that CEPA was a mutually beneficial arrangement both to Hong Kong and the Mainland economies. In this respect, she pointed out that as the CEPA benefits were often so entwined with the general macro environment, it was difficult to disentangle and quantify them from the findings. The usefulness of conducting an opinion survey to quantify the economic significance of CEPA also tended to diminish over time, as the survey relied on the respondents' perception of the effects of CEPA on them and these perceptions would vary and fade with time. Nevertheless, she stressed that the Administration would join hands with the Mainland municipal and provincial authorities to further broaden and deepen the liberalization measures of CEPA. In this connection, PSCI advised that in response to another recommendation made by the Focus Group, the Secretary for Commerce, Industry and Technology (SCIT) chaired the first CEPA Consultative Forum on 30 March 2007 to gather views of the business and professional bodies on CEPA implementation and liberalization. A new package of CEPA liberalization measures would also be announced towards the end of June 2007.

Discussion

Economic impact of CEPA and its future framework

24. Mr CHAN Kam-lam acknowledged that CEPA had brought about considerable economic benefits to Hong Kong, and concurred that it provided a new platform for Hong Kong to capitalize on the robust growth of the Mainland's economic development. CEPA had given Hong Kong investors the "first mover" advantage in establishing their businesses in the Mainland market and had substantially contributed to the revival of the local economy. Noting the findings of the study, he remarked that the Government should continue its efforts to further

broaden and deepen the CEPA liberalization measures on all fronts.

25. The Chairman also remarked that although some of CEPA's impacts could not be quantified, it was indisputable that CEPA had brought about enormous economic benefits to Hong Kong, with particular respect to the retail, food and beverage, and tourism industries.

26. Mr Andrew LEUNG relayed the appreciation of and support from the Federation of Hong Kong Industries (FHKI) on the implementation of CEPA. He said that FHKI looked forward to a new package of CEPA liberalization measures to be announced towards the end of June 2007. In this respect, noting that CEPA was a working document which would be further developed based on the implementation experience, he sought information on the future development framework of CEPA.

27. In reply, PSCI said that CEPA adopted a building block approach. Since the signing of the main text of CEPA on 29 June 2003 followed by the signing of its Annexes on 29 September 2003, new packages of liberalization measures were introduced every year, resulting in the signing of three Supplements so far. On the future development framework of CEPA in respect of trade in goods, she remarked that while all products of Hong Kong origin would be given tariff-free treatment upon CEPA ROOs being agreed and met, further facilitation measures could be taken to help promote and distribute Hong Kong products in the Mainland market. On trade in services, the Government would strive to help the 27 services areas make full use of their preferential market access to tap into the Mainland market. On trade and investment facilitation, as the Mainland and Hong Kong had agreed to enhance co-operation in altogether eight areas, efforts would be made to enhance co-operation between the two sides in areas such as customs clearance facilitation and exchange of trade-facilitating information, etc.

Individual Visit Scheme (IVS)

28. Among the various liberalization measures, Mr CHAN Kam-lam commented that IVS had brought the largest and most direct economic benefits to Hong Kong. He therefore considered that IVS should be further broadened and deepened so that Hong Kong could reap maximum benefits from it. In this connection, he noted that the Guangdong Province had recently tightened up control measures on the issue of IVS permits which might have certain impact on Hong Kong's tourism receipts. Despite that such impact might be lessened by expanding IVS coverage to more Mainland cities, he considered that improvement had to be made on this front in order to sustain and boost IVS visitation. He also pointed out that at present, Mainlanders were required to apply for different permits to visit Hong Kong according to the purpose of their visits, including two-way exit permits for doing business and visiting relatives, and IVS permits for leisure tours made in individual capacity, etc. Since Hong Kong citizens were issued multi-purpose Home Visit Permits to visit the Mainland, he suggested that consideration be given to exploring with the Mainland authorities the possibility of issuing multi-purpose permits for Mainlanders to visit Hong Kong so as to provide

greater facilitation to those visitors, thereby increasing their traveling frequency.

29. In reply, PSCI noted that the immediate economic impact of IVS and its induced additional employment were the most significant among all CEPA liberalization measures. It was envisaged that IVS would become the major mode of travel for Mainlanders to visit Hong Kong. She advised further that while IVS presently covered 49 cities, the Mainland authorities would further extend its coverage and enhance the relevant implementation measures. On the issue of IVS permits, she pointed out that suitable adjustments had already been made when IVS was first introduced in July 2003. Nevertheless, to capitalize on IVS, the Financial Secretary (FS) had recently announced that to improve the current arrangement in which two different IVS permits were issued to Mainlanders for visiting Hong Kong and Macau, the Government had taken up with the Central People's Government (CPG) for consideration of issuing a single IVS permit for Mainland visitors to visit both Hong Kong and Macao. She assured members that the Administration would continue to follow up the matter with the Mainland authorities.

30. Noting the Administration's advice, Mr Andrew LEUNG enquired when the proposal as to issue a single IVS permit for visiting both Hong Kong and Macao would be implemented, and whether it would be one of the new CEPA liberalization measures to be announced towards the end of June 2007. In this connection, he remarked that the Greater Pearl River Delta Business Council had discussed numerous times about the existing unfair arrangement whereby Mainland visitors issued with IVS permits to Macao could also visit Hong Kong but not vice versa. He considered that such an arrangement was not conducive to Hong Kong as IVS visitors issued with permits to Hong Kong were not provided with the greatest facilitation. He therefore called on the Administration to seek improvement in this respect without delay.

31. PSCI responded that as the Administration was still negotiating with the Mainland on the new package of liberalization measures to be announced by the end of June 2007, she could not advise at the present stage as to whether the new package would include the proposal to issue a single IVS permit for visiting both Hong Kong and Macao. Nevertheless, she assured members that every effort would be made to broaden and deepen IVS including improvement measures to be introduced with respect to IVS permits.

32. In this connection, Mr CHAN Kam-lam noted with concern that IVS visitors tended to shorten their length of stay in Hong Kong. He considered that this might be due to the inadequate supply of hotel rooms at affordable charges for those visitors. He pointed out further that while some IVS visitors came from the Guangdong Province might not have the need to stay overnight in Hong Kong due to the close proximity to their home cities, there were IVS visitors who came from cities farther from Hong Kong and hence their need for accommodation. As such, he urged the Administration to conduct a thorough study with a view to identifying the reasons which led to IVS visitors shortening their length of stay in Hong Kong, and to workout suitable solutions, such as providing hotel rooms with charges

commensurate with the consumption pattern and affordability of Mainland visitors. Sharing Mr CHAN's concern, the Chairman also considered that the rates of hotel rooms were probably the major cause which resulted in the shortened length of stay of IVS visitors. He remarked that as Mainland visitors generally had a lower spending power than visitors from advanced economies, consideration should be given to increasing the supply of hotel rooms at cheaper-rate hotels to meet the demand of Mainland visitors.

33. Noting members' concerns, PE/FSO explained that the increased convenience of IVS had increased the frequency of travel while shortening the length of stay of some of the Mainland visitors. As such, their spending pattern had also changed. In this respect, while hotel and catering sector did not get as much business from Mainland visitors as before, the retail sector had benefited a lot as shopping expenses of IVS visitors had increased substantially.

Trade and investment facilitation

34. Mr Jeffrey LAM said that while most of the companies under survey considered CEPA beneficial to their businesses, some did not and they even highlighted the difficulties they had encountered. As such, he enquired whether and if so, how the Administration would improve the situation and help those companies overcome their difficulties.

35. PSCI remarked that while the Administration would endeavour to help Hong Kong companies overcome their difficulties encountered under CEPA, some of the difficulties raised by them could not be easily resolved as these were related to the commercial decisions of those companies. By way of illustration, she said that for the sake of cost saving, some manufacturers decided not to complete certain production processes in Hong Kong. Thus, their goods could not meet the CEPA ROOs for tariff-free treatment. In this connection, she pointed out that the CEPA ROOs, which were agreed by both sides, had been drawn up after consultation with the relevant industries on the production process that could be undertaken in Hong Kong as well as the economic benefits that such ROOs would bring to Hong Kong. The Assistant Director (Mainland) of TID (AD/TID (C)) added that while some goods were not eligible for tariff-free treatment under CEPA due to their non-compliance with the required production process, some failed due to the manufacturers not undertaking factory registration, etc. All these involved the commercial considerations of the manufacturers concerned. Nevertheless, under special circumstances and upon requests by manufacturers, the Administration would discuss with the Mainland authorities the feasibility of relaxing the agreed CEPA ROOs, so as to further facilitate manufacturers to obtain tariff free treatment. In pursuing such negotiations, however, the Administration would take into account of the international practices on ROOs which provided that in general, goods should either be wholly obtained or have undergone substantial transformation in the place of origin.

36. For other difficulties, such as lengthy processing time and cumbersome application procedures, etc, PSCI advised that the Administration had been

pursuing vigorously with the Mainland authorities with a view to improving the situation, such as by simplifying application procedures and requesting the delegation of approval authority from the central government to the municipal and provincial levels, etc. TID would also work closely with the private sector and keep it informed of the latest information on the Mainland laws, rules and regulations, as well as policies via its website and trade circulars as quickly as possible. AD (TID) (C) added that to facilitate trade and investment, the Administration had also taken up with the Mainland authorities the difficulties encountered by Hong Kong companies with a view to exploring the feasibility of streamlining the concerned application procedures, shortening the time taken for processing applications, enhancing transparency in policies and regulations, etc. She assured members that the Administration would continue its efforts in these regards.

37. On the findings of the study that the pharmaceutical industry was one of the industries that benefited most from CEPA, the Chairman commented that it might be due to the good reputation of Hong Kong products established among Mainland consumers. Nevertheless, he pointed out that there were difficulties encountered particularly by small-scale manufacturers in the sale and distribution of pharmaceutical products in the Mainland market, such as in the areas of fulfilling Good Manufacturing Practice (GMP) as required by the Mainland authorities and applying for batch references with relevant Mainland regulators, etc. To help the pharmaceutical industry tap on the opportunities of and benefit fully from CEPA, he urged the Administration to liaise with the Mainland authorities to work out measures to provide greater facilitation to the industry, such as relaxing control on the issue of batch references, etc.

38. In response, PSCI said that she would solicit more information from the pharmaceutical industry in this regard and follow up the matter with the Mainland authorities.

Strengthening ties with the trades and industries

39. Mr Jeffrey LAM reflected that trades and industries had from time to time encountered teething problems when new CEPA liberalization measures were introduced. While expressing appreciation to the prompt actions taken by TID in rectifying the concerned situation, he considered that the Administration should try to conduct more extensive consultations with the relevant trades and industries at the preparatory stage so as to ensure a smooth implementation of new liberalization measures.

40. PSCI replied that CITB, TID as well as other relevant bureaux and departments (B/Ds) had all along strived to maintain close liaison with the private sector on matters under their respective portfolios and paid heed to views of stakeholders. She cited the first CEPA Consultative Forum chaired by SCIT on 30 March 2007 to demonstrate the Administration's on-going effort to maintain effective communication with the private sector. Nothing members' concern, she remarked that in future, more regular forums would be organized to enhance further

the communication between the Government and various business sectors.

Impact of other free trade agreements (FTAs) on Hong Kong

41. Mr Andrew LEUNG remarked that bilateral trade agreements were conducive to promoting trade between the signatory parties. He however noted with concern that there was an increasing number of FTAs concluded by the international community including the United States and the Mainland, etc. Among the FTAs, those signed by the Mainland were of particular significance to Hong Kong, such as the one concluded with the Association of South East Asian Nations (ASEAN) and those under negotiation with Japan and Korea. As for Hong Kong, apart from CEPA, there was only one FTA under negotiation with New Zealand. Since FTAs signed among other economies might jeopardize the interests of Hong Kong, he was of the view that Hong Kong should strive to join the China-ASEAN FTA as well as to negotiate with other economies in order to bring more material benefits to Hong Kong in this regard.

42. In response, PSCI assured that the Government had been watching closely the development of FTAs in the international community, as well as the negotiation and conclusion of FTAs by Hong Kong's trading partners who had close trade and economic ties with Hong Kong. Tthe China-ASEAN FTA was of most importance among all FTAs formed by the Mainland with its trading partners. She explained that as Hong Kong was not a signatory party to the China-ASEAN FTA when it was concluded, it was difficult for Hong Kong to take part in it at this stage. Nevertheless, the Administration had been monitoring closely the implications of the measures implemented under China-ASEAN FTA and taking appropriate measures to forestall any possible threats that might arise. So far, the China-ASEAN FTA covered trade in goods and trade in services. On trade in goods, she stressed that since the implementation of the agreement on tariff reduction or elimination between China and ASEAN in July 2005, no significant changes had been observed in relation to Hong Kong's re-export trade with the Mainland and ASEAN. On trade in services, as some services areas covered under China-ASEAN FTA were not covered by CEPA, in the new round of CEPA negotiation with the CPG, the Government had already put up the request for including those services areas under CEPA for consideration by the Mainland authorities.

43. Concluding the discussion, the Chairman said that the Panel looked forward to receiving good news on the new package of CEPA liberalization measures to be announced by the end of June 2007, and he noted that the Administration would brief the Panel on the new package at the July meeting.

VI. Any other business

Proposed overseas duty visit

44. In view of the Government's initiative to promote Hong Kong as the world's events capital and the intensifying competition from the neigbouring regions such as Macau and the Mainland in this area, Mr Andrew LEUNG and Mr Jeffrey LAM suggested that an overseas duty visit be conducted during the summer recess, say, in September 2007 for about 10 days, so as to obtain first-hand information on convention and exhibition facilities. They considered that such a visit could also provide useful reference for members in their discussion with the Administration on the development of new exhibition venues in Hong Kong. In this connection, as the Government had announced its plan for the development of a new cruise terminal at Kai Tak through an open land tender, Mr Jeffrey LAM remarked that consideration could be given to conducting the visit together with the Economic Services Panel so as to study overseas cruise terminal facilities as well. Suggested cities to be visited included Los Angeles and Las Vegas of the United States, Barcelona of Spain, Hanover of Germany, and Dubai of the United Arab Emirates. After discussion, members agreed that the proposal would be further discussed.

> (*Post-meeting note:* With the concurrence of the Panel Chairman, a special meeting was held on 25 June 2007 to discuss the proposed overseas duty visit programme.)

45. There being no other business, the meeting ended at 6:25 pm.

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