

立法會
Legislative Council

LC Paper No. CB(1)120/07-08
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by the Administration)

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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 17 July 2007, at 2:30 pm
in Conference Room A of the Legislative Council Building

- Members present** : Hon WONG Ting-kwong, BBS (Deputy Chairman)
Hon CHAN Kam-lam, SBS, JP
Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP
Hon SIN Chung-kai, SBS, JP
Hon Timothy FOK Tsun-ting, GBS, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
- Members attending** : Hon Howard YOUNG, SBS, JP
Hon WONG Kwok-hing, MH
Hon TAM Heung-man
- Members absent** : Hon Vincent FANG Kang, JP (Chairman)
Dr Hon LUI Ming-wah, SBS, JP
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung
- Public officers attending** : Agenda Item III
Commerce and Economic Development Bureau
Mr Frederick MA, JP
Secretary for Commerce and Economic Development

Miss Yvonne CHOI, JP
Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)

Ms Annie CHOI, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)

Trade and Industry Department

Mr Joseph LAI, JP
Director General of Trade and Industry

Agenda Item IV

Commerce and Economic Development Bureau

Miss Yvonne CHOI, JP
Permanent Secretary for Commerce and Economic
Development (Commerce, Industry and Tourism)

Ms Annie CHOI, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)

Trade and Industry Department

Mr Joseph LAI, JP
Director General of Trade and Industry

Mr NGAI Wing-chit
Deputy Director General of Trade and Industry
(Commercial Relations, Controls and Support) (Acting)

Agenda Item V

Commerce and Economic Development Bureau

Ms Annie CHOI, JP
Deputy Secretary for Commerce and Economic
Development (Commerce and Industry)

Trade and Industry Department

Mr Joseph LAI, JP
Director General of Trade and Industry

Miss Petty LAI
Assistant Director General (Regional Cooperation)

Agenda Item VI

Innovation and Technology Commission

Mr Anthony WONG, JP
Commissioner for Innovation and Technology

Miss Clara TANG
Assistant Commissioner for Innovation and Technology
(Funding Schemes)

Agenda Item VII

Innovation and Technology Commission

Mr Anthony WONG, JP
Commissioner for Innovation and Technology

Miss Clara TANG
Assistant Commissioner for Innovation and Technology
(Funding Schemes)

Mr Alan Y W HO
Senior Manager (Technopreneurial Funding)

**Attendance by
invitation**

: Agenda Item VI

Automotive Parts and Accessory Systems R&D Centres

Dr Jack XU
Director (Business Development and
Commercialization)

Hong Kong Research Institute of Textiles and Apparel

Dr K C HO
Director, Research and Development

Nano and Advanced Materials Institute Limited

Professor NG Ka-ming
Chief Executive Officer

Hong Kong R&D Centre for Logistics and Supply
Chain Management Enabling Technology

Professor C J TAN
Chief Executive Officer

Hong Kong Applied Science and Technology Research
Institute Company Limited

Professor Edward S YANG
Interim Chief Executive Officer

Dr Manuel F COSTA
Chief Operations Officer

Mr Ernest WONG
Chief Financial Officer

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

Since the Chairman was out of town, the Deputy Chairman took the chair of the meeting

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)2085/06-07 -- Minutes of meeting held on
12 June 2007

LC Paper No. CB(1)2088/06-07(01) -- List of outstanding items for
discussion

LC Paper No. CB(1)2088/06-07(02) -- List of follow-up actions)

2. The minutes of the meeting held on 12 June 2007 were confirmed.

II. Information paper issued since last meeting

(LC Paper No. CB(1)2024/06-07(01) -- Information on the financial position of the Applied Research Fund for the period of 1 March 2007 to 31 May 2007)

3. Members noted that the above paper had been issued for the Panel's information since the last meeting held on 12 June 2007.

III. Briefing by the Secretary for Commerce and Economic Development

4. The Secretary for Commerce and Economic Development (SCED) thanked the Panel for inviting him to attend the meeting to exchange views with members on issues under his policy purview. SCED stressed that he attached great importance to the communication and co-operation with Legislative Council Members. Noting members' concern about the exclusion of "Industry" and "Technology" from the name of the new policy bureau, he assured the Panel that the Government and the Commerce and Economic Development Bureau would continue to attach great importance to members' views, as well as the development of industries and technological innovations in Hong Kong. He also assured members that the resources to be allocated to these areas would not be less than those allocated in the past.

Implementation of the Mainland and Hong Kong Closer Economic Partnership Arrangement

5. The Deputy Chairman remarked that although Hong Kong had signed with the Mainland Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA), Hong Kong failed to make the best use of the opportunities brought about by CEPA. As far as processing trade was concerned, he opined that the Administration should step up its efforts in attracting overseas manufacturers of international brand-name goods to set up operations in Hong Kong so as to gain access to the Mainland market by taking advantage of the zero-tariff preferential treatment applicable to Hong Kong products under CEPA. He considered that such an arrangement would help create more employment opportunities for local workers.

6. Concurring that the liberalization measures under CEPA were mutually beneficial to both the Mainland and Hong Kong, SCED agreed with the Deputy Chairman that manufacturers of internationally renowned goods could make use of the zero-tariff preferential treatment by setting up operations in Hong Kong. In this connection, he stressed that when delivering speeches at trade associations, etc, he had often highlighted such an advantage available under CEPA with a view to attracting interested parties such as overseas manufacturers to operate in Hong Kong. The Permanent Secretary for Commerce and Economic Development

(Commerce, Industry and Tourism) (PSCIT) added that the Government had been promoting through its overseas Economic and Trade Offices (ETOs), overseas visits conducted by the Chief Executive and SCED, etc., to overseas investors and brand-name product manufacturers the advantages available under CEPA for access to the Mainland market via Hong Kong. Such promotion efforts would continue. The Administration would also join hands with local trade associations to organize promotion activities such as seminars and exchange forums to help overseas enterprises better understand and hence grasp the business opportunities as provided by CEPA. SCED assured that he would make use of all available opportunities to step up the publicity on CEPA, though he could not commit on a timetable as to when the Administration's promotional efforts would come to fruition as it depended on when and how foreign investors would leverage on CEPA to gain access to the Mainland market via Hong Kong. Noting the Administration's response, the Deputy Chairman expressed his appreciation of the proactive measures adopted by the Administration to promote CEPA.

Providing assistance to Hong Kong-owned factories in the Mainland

7. Mrs Sophie LEUNG said that there had been rapid development in the textile and clothing industry, watch manufacturing industry and diamond cutting industry in the Pearl River Delta (PRD) region and the southern part of the Mainland. She remarked that those industries had in the past enjoyed concessionary treatment. However, as the Mainland had recently implemented tightened control on those industries, such as cancellation of tax rebates, etc, Hong Kong-owned factories engaging in those trades in the Mainland had been facing a lot of difficulties. As such, she urged the Administration to provide the necessary assistance to those factories. In response, SCED advised that the Administration had all along been maintaining close contact with the Mainland authorities at ministerial, provincial and municipal level. He assured the Panel that the Administration would keep in view the matter and follow up where necessary with the relevant Mainland authorities with a view to providing every possible assistance to those factories.

8. Mr Andrew LEUNG remarked that there were some 60 000 Hong Kong-owned factories operating in the Mainland. The majority of them were small and medium-sized enterprises (SMEs) with limited resources and hence were vulnerable to the changes brought about by China's 11th Five-Year Plan. Noting that the Hong Kong Productivity Council (HKPC) could help those factories upgrade their technology to meet with the challenges while the Trade Development Council (TDC) could help them promote their design and brand names, he sought information on the Administration's concrete plan in collaborating with these two organizations in providing assistance to those factories in these respects.

9. SCED responded that as stated in the speech delivered by the Chief Executive at the fourth PRD Regional Cooperation and Development Forum held in June 2007, the Government would take forward specific initiatives to enhance information exchange between the relevant sectors in Hong Kong and the PRD

provinces so as to facilitate industrial upgrading, restructuring and relocation. He also assured members that apart from HKPC and TDC, the Administration would continue to strengthen its co-ordination with the relevant trade associations and deploy resources to provide the necessary assistance to Hong Kong-owned factories operating locally and in the Mainland.

10. Mr Jeffrey LAM noted that the Mainland was in the second stage of industrial restructuring and had implemented new measures on the processing trade and environmental protection in September 2006. Under such circumstances, Hong Kong-owned factories operating in the Mainland, such as those engaging in the processing trade in the PRD region, might have to relocate their production base to other parts of the Mainland in order to continue with their operation. Some of them might even be interested in relocating their production base back to Hong Kong and hence were looking for vacant factory premises, such as those in Industrial Estates (IEs) at Tai Po, Yuen Long and Tseung Kwan O, to continue their businesses. As such, he enquired about the Administration's concrete measures in assisting those manufacturers.

11. SCED and PSCIT advised that there was still leasable area available in the IEs and the Science Park for companies wishing to set up their business operations in creative and high-end activities in Hong Kong. The Administration would step up communication with Hong Kong-owned factories in the Mainland that wished to relocate their production base to Hong Kong in order to understand their needs. The Administration would also work closely with HKPC so as to provide training programmes and technical assistance to those factories in upgrading their technological capabilities. In this connection, a review on SME Funding Schemes was being conducted with a view to better addressing the needs of SMEs and the trades, and helping them cope with the challenges ahead.

12. The Deputy Chairman remarked that as far as he knew, current planning and land mechanism had already allowed the change of use of industrial buildings by way of regnant premium payment. However, such mechanism did not apply to an industrial building with split ownership. In this connection, the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) had conducted a study on the relaxation of user restrictions on industrial buildings, the findings of which would be forwarded to SCED for consideration in due course. The Deputy Chairman was of the view that the definition of "industrial use" should be relaxed such that other than manufacturing, promotion activities could also be carried out in industrial buildings so as to provide greater convenience to users. He pointed out further that in view of the high rental cost of commercial buildings, such an arrangement, i.e. allowing industrial units to be used for promotion and exhibition of products, would also assist local enterprises, which had moved their production base to the Mainland, in utilizing their vacant factory premises for staging exhibition and product shows. SCED noted the Deputy Chairman's view.

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13. Mr WONG Kwok-hing said that many local manufacturers had vacated their local industrial units and moved to the Mainland in the 90's. As such, he enquired whether the Administration had conducted any survey, in particular the vacancy rate of factory premises in Hong Kong, and if so, the result. SCED undertook to provide after the meeting the requisite information for Members' reference.

(Post-meeting note: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)66/07-08 dated 15 October 2007.)

Role of the Office of the HKSAR Government in Beijing and the Economic and Trade Offices

14. Mr Jeffrey LAM appreciated the enhanced effort of the Office of the HKSAR Government in Beijing (BJO) and the three ETOs in Guangdong, Shanghai and Chengdu in promoting business and trade links between Hong Kong and various authorities in the Mainland. In this connection, he expressed concern about the wide geographical coverage of BJO and the three ETOs in the Mainland. In view of the increased workload of BJO and ETOs in assisting Hong Kong businessmen, in particular those who wished to relocate their production base from PRD region to other provinces, he sought information on the future work plan of BJO and ETOs in this respect.

15. In response, SCED advised that with the establishment of the two ETOs in the Mainland last year, the Government had already strengthened its work in providing assistance to Hong Kong-owned factories in the Mainland. The ETOs concerned had also taken on a variety of promotion activities. Whilst the Constitutional and Mainland Affairs Bureau was responsible for overseeing the resource management, personnel arrangements and administrative work of ETOs, the Commerce and the Economic Development Bureau would continue to actively oversee the work of ETOs regarding economic and trade relations and investment promotion.

16. Mr Jeffrey LAM was also concerned that those Hong Kong-owned factories which had relocated their production base from the PRD region to other provinces might have difficulty in obtaining information on relevant Mainland laws and regulations from the relevant authorities. He considered that the ETOs concerned should strengthen their efforts in collating and disseminating such information to those manufacturers for reference.

17. SCED responded that the geographical coverage of the BJO and ETOs concerned had been expanded to include many of the provinces in the Mainland so as to provide support to Hong Kong enterprises, including the dissemination of information, etc. Moreover, closer contacts had also been made with provinces where there were comparatively less investment activities from Hong Kong

enterprises, so as to foster economic cooperation and promote all possible business and trade links between Hong Kong and these places.

Formulating policies on commerce and industry

18. While expressing appreciation of his achievements made during the time when he had served as the Secretary for Financial Services and the Treasury, Mrs Sophie LEUNG hoped that SCED could similarly achieve good results in the areas of commerce and industry. She remarked that although the financial industry was the cornerstone of Hong Kong's economy, consideration should also be given to formulating new and practical policies on commerce and industry to sustain the success of the local economy. She opined that SCED should gauge the views of stakeholders before deciding on the way forward in this respect.

19. Sharing Mrs Sophie LEUNG's view that Hong Kong's economy should be developed in a more diversified manner, and that the development of industry and technology was equally important to the success of the local economy, SCED assured that he would step up communication with the trades and academia alike for formulation of strategies and policies for the promotion of the development of commerce and industry in Hong Kong.

20. In this connection, Mr Jeffrey LAM expressed concern about the shortage of local professionals engaging in high-end and research and development activities in Hong Kong. He called on the Administration to exercise flexibility in allowing the trades to recruit sufficient professionals from overseas countries so as to facilitate the local development of high value-added and high technology industries. SCED noted Mr LAM's view.

Providing assistance to ice cream vendors

21. Mr WONG Kwok-hing was concerned that there had been about 300 vendors selling ice cream on streets in the past but there were only 36 left at present. As far as he knew, ice cream wholesalers had been looking for more vendors to boost their sale other than distributing their products to convenient stores and supermarkets. However, ice cream vendors had been facing difficulties in obtaining licences due to the outdated policy and stringent requirements imposed upon them by various government departments. Despite that he had referred the matter to the Administration for follow up earlier this year, he had not received any concrete response yet. In view of the contribution made by ice cream vendors, and the historical value of such trade which formed part of the collective memory of Hong Kong, he considered that the Administration should actively review the concerned licensing policy through inter-departmental collaboration with a view to relaxing the relevant requirements so as to provide more business opportunities for ice cream vendors, thereby creating more employment opportunities for local workers. SCED remarked that the decrease in the number of ice cream vendors might be attributable to the economic restructuring in Hong Kong. Nevertheless, he undertook to refer Mr WONG's concern about the licensing requirements for ice

cream vendors to the departments concerned for follow up and provide a response for Members' information.

(Post-meeting note: The Administration's response was circulated to members vide LC Paper No. CB(1)66/07-08 dated 15 October 2007.)

22. The Deputy Chairman thanked SCED for attending the meeting.

IV. Progress and impact of the Mainland and Hong Kong Closer Economic Partnership Arrangement - further liberalization measures

(LC Paper No. CB(1)2012/06-07(01) -- Paper provided by the Administration

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

Briefing by the Administration

23. At the invitation of the Deputy Chairman, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) briefed members on the further liberalization measures concluded under the Supplement IV to the Mainland and Hong Kong Closer Economic Partnership Arrangement (Supplement IV) signed between the two sides on 29 June 2007 which would take effect from 1 January 2008 as detailed in the Administration's paper (LC Paper No. CB(1)2012/06-07(01)). In gist, the liberalization measures were as follows:

(a) Services liberalization measures

Under Supplement IV, a total of 40 liberalization measures relating to 28 services areas (i.e. 17 existing CEPA services areas such as convention and exhibition services, banking services, tourism services and cultural services, and 11 new services areas such as environmental services, social services for the elderly, public utility services and services areas offered under the ASEAN-China Free Trade Agreement (ACFTA)) but not yet covered by CEPA were included). In general, these measures introduced preferential treatment in various forms, including relaxation in equity share restrictions, reduction in the investment entry thresholds, and relaxation in restrictions over geographical location and business scope. Hong Kong service suppliers (HKSS) would be eligible for the preferential treatment offered by the Mainland if they could meet the qualifying criteria as set out in Annex 5 of CEPA. Some measures would be implemented on a pilot basis with a view to further expansion in future.

(b) Related liberalization measures

The first round of discussion on CEPA rules of origin (ROOs) in 2007 was completed in June 2007 with ROOs on 17 products agreed. These products would be eligible for zero tariff as from 1 July 2007 subject to fulfillment of the corresponding origin criteria.

(c) Further liberalization

The new liberalization package represented an active response to a number of recommendations on further liberalization under CEPA as made in the Final Report of the Economic Summit on "China's 11th Five-Year Plan and the Development of Hong Kong" (the Economic Summit). These measures would support the development of the services industries in Hong Kong, such as financial services, logistics, tourism and information services, etc.

(d) Measures to enhance CEPA implementation

The Administration would make full use of the established mechanism between the HKSAR Government and the Mainland municipal and provincial authorities to speed up the effective implementation of CEPA liberalization measures. For instance, four liberalization measures would be implemented in the Guangdong Province on a pilot basis; discussion on the implementation details of these measures was underway between the two sides through the Guangdong/Hong Kong Expert Group on Implementing CEPA Services Measures. Moreover, publicity and promotional activities would be stepped up to help Hong Kong stakeholders familiarize with CEPA's liberalization measures. A Forum on CEPA would also be organized on 19 September 2007 with a view to helping Hong Kong businesses make full use of the opportunities brought about by the new liberalization package. Representatives of the central ministries and provincial/municipal governments would be invited to provide briefing on key areas of liberalization under Supplement IV.

Discussion

Liberalization measures under CEPA

24. While expressing appreciation on the liberalization measures to allow HKSS set up wholly-owned enterprises in the Mainland to provide software implementation and data processing services with effect from 1 January 2008, Mr SIN Chung-kai sought information on the implementation details.

25. The Director General of Trade and Industry (DGTI) advised that the opening up of software implementation and data processing services for HKSS under Supplement IV were services codified as "CPC842" and "CPC843" respectively under the Central Product Classification (CPC), an international standard of classification of goods and services published by the United Nations. It was expected that the Mainland authorities would promulgate the relevant implementation details in the next few months. The Trade and Industry Department (TID) would disseminate the details once available via its dedicated CEPA website (cepa@tid.gov.hk). TID's services hotline at 2398 5667 would handle enquiries relating to implementation. Promotion and publicity activities would also be conducted for such purpose. In this regard, PSCIT supplemented that HKSS had to fulfill the relevant requirements before they were eligible for the preferential treatment. She remarked that while the respective central authorities of the Mainland would notify the provincial governments of the implementation details as well as rules and regulations in due course, HKSS who came across any difficulties on obtaining preferential treatment offered by CEPA could approach the Economic and Trade Offices (ETOs) located in the Mainland, the Beijing Office of the HKSAR Government (BJO) and TID for necessary assistance.

26. Mr WONG Kwok-hing sought information on the number of individually owned stores operated by Hong Kong citizens in the Mainland since the inception of CEPA. DGTI advised that as at December 2006, there were around 2 500 individually owned stores operated by Hong Kong people in 24 Mainland provinces; the total registered capital was around RMB 140 million. The majority of the individually owned stores, i.e. over 2 000, were operated in the Guangdong Province; most were in the retail and catering sectors.

27. Noting that HKSS would be allowed to operate elderly service agencies in the form of wholly-owned private non-government enterprises to provide elderly services in the Guangdong Province on a pilot basis under Supplement IV, Mr WONG Kwok-hing opined that the Administration should enhance its welfare portability policies such that local elderly could enjoy their retirement in the Mainland and benefit from the said liberalization measure. PSCIT replied that as welfare policies were not within her purview, she would relay Mr WONG's concern to the relevant bureau for consideration.

Measures to widen and deepen CEPA

28. Mr Jeffrey LAM expressed appreciation on the economic benefits that CEPA had brought to Hong Kong, in particular that more than 30 000 CEPA-related jobs were created since its inception in 2003 and zero tariff was granted to Hong Kong products meeting CEPA ROOs. Noting that HKSS would be allowed to organize exhibitions in the Guangdong Province and the Shanghai Municipality on a pilot basis through cross-border supply under Supplement IV, he pointed out that there were in fact a lot of exhibitions organized all over the Mainland. To help HKSS obtain more business opportunities in this regard, he opined that consideration should be given to extending further such a pilot

arrangement to cover more Mainland provinces and municipalities other than the Guangdong Province and the Shanghai Municipality.

29. PSCIT noted Mr. LAM's suggestion and remarked that under Supplement IV, the Guangdong Province and the Shanghai Municipality had been chosen as the two places where HKSS were allowed to organize exhibitions on a pilot basis first. Preliminary exchange of views had been made with the Guangdong Province with a view to enhancing the dissemination of information on large scale trade fairs in the Mainland to HKSS to facilitate the latter's participation whereas similar discussion with the Shanghai Municipality would be conducted in July/August 2007. She added that progress made in this regard would be reported to the Panel in due course.

30. As regards tourism, Mr Jeffrey LAM noted that under the current liberalization measure of Supplement IV, travel agents would only be allowed to apply for the operation of group tours to Hong Kong and Macao for the permanent residents in provinces like Guizhou and Sichuan which were not major provinces. Major cities such as Beijing and Shanghai, however, were not covered under such liberalization measure. As such, he opined that the Administration should take up with the Mainland authorities as soon as possible as to open up more major cities for inclusion under such measure to facilitate local travel enterprises' expansion of business in the Mainland.

31. PSCIT advised that from January 2007, Hong Kong travel agents had already been allowed to, on a pilot basis, operate group tours to Hong Kong and Macao for residents of the Guangdong Province which was a major province in the Mainland. Under the current round of CEPA, the measure was further extended to cover provinces within the Pan-Pearl River Delta region. On the part of travel agents, she pointed out that they had to establish their local presence in the relevant places first before they were allowed to apply for the operation of group tours to Hong Kong and Macao for the permanent residents in those provinces. Since not many local travel agents had established offices in those provinces currently, the Tourism Commission was actively liaising with local travel agents so that they would be aware of such a requirement and hence fully benefit from the relevant liberalization measure. She also believed that liberalization measures in respect of tourism would be further widened in future.

32. Miss TAM Heung-man pointed out that while there were 70 000 professionals currently practicing accounting in the Mainland, there was still a strong demand for more accountants. She however noted with concern that not much liberalization in this respect had been achieved under Supplement IV. She therefore called on the Administration to take up vigorously with the Mainland authorities the strong plea made by the accounting sector as to lower the entry threshold for setting up wholly or jointly owned accounting firms in the Mainland.

33. PSCIT replied that under CEPA, liberalization measures would be deepened and widened in a progressive manner. She assured members that the Administration would actively listen to the views expressed by various sectors, including the accounting sector, and take up their concerns and requests with the Mainland authorities accordingly.

Assistance provided to Hong Kong enterprises/individuals in the Mainland

34. Mr SIN Chung-kai expressed concern on the assistance provided by the Administration to Hong Kong enterprises which encountered difficulties when conducting business in the Mainland. He sought information on the division of responsibility among various Government bodies in providing such assistance. In this connection, Miss TAM Heung-man referred to the results of an opinion poll conducted by herself which targeted at the accounting sector and Hong Kong residents working in the Mainland and revealed that Hong Kong citizens might require help due to mishaps such as robbery or illness, etc, in the Mainland. As such, she called on the Administration to take the initiative to provide appropriate assistance to the Hong Kong citizens in distress, for example, by providing immediate cash to help them tide over the difficulties.

35. In reply, PSCIT assured that the Administration would spare no efforts in providing assistance to HKSS and Hong Kong residents in need of help. She elaborated that as far as the implementation of CEPA was concerned and subject to the nature of the problems, assistance would be provided by the Commerce and Economic Development Bureau or the BJO at the central level together with the relevant Mainland authorities such as the Ministry of Commerce, or by the four ETOs located in the Mainland at the provincial and local levels. As for cases concerning individual Hong Kong residents, they would be dealt with by the respective ETOs. She stressed that the Administration would make its best efforts to provide necessary assistance to Hong Kong residents in distress in the Mainland, and help Hong Kong enterprises capitalize on the business opportunities provided by CEPA.

V. Progress in Asia Pacific Economic Cooperation 2007

(LC Paper No. CB(1)2088/06-07(03) -- Paper provided by the Administration)

Briefing by the Administration

36. At the invitation of the Deputy Chairman, the Director General of Trade and Industry (DGTI) briefed members on the background of Asia-Pacific Economic Cooperation (APEC), Hong Kong's participation in APEC and its importance to Hong Kong, as well as some current APEC issues which were of relevance to Hong Kong:

(a) Background of APEC

APEC was established in 1989 which focused on trade and investment liberalization, business facilitation, and economic and technical cooperation. It operated on the basis of non-binding commitments, open dialogue and equal respect for the views of all participants, and required no treaty obligations of its members.

(b) Hong Kong's participation in APEC and its importance to Hong Kong

Hong Kong was admitted to APEC in November 1991 and had been taking an active role in a range of major activities of APEC. It provided Hong Kong with an international platform to cooperate with the some 20 APEC economies on a wide range of important economic and trade issues, such as trade facilitation, intellectual property protection and transparency of government operation, etc.

(c) Current APEC issues

An Economic Leaders' Meeting was held annually which provided a forum for economic leaders of all APEC economies to exchange views on important strategies and issues. Australia was the host economy for APEC 2007, to be held in September 2007 in Sydney. The theme was "*Strengthening our Community, Building a Sustainable Future*". Economic leaders would discuss and exchange views on areas including strengthening the multilateral trading system, regional economic integration, structural reform and trade facilitation, clean energy development and climate change, and APEC reform.

Discussion

APEC's role in advancing World Trade Organization's negotiations

37. Expressing concern on the limited progress of the World Trade Organization (WTO)'s Doha Development Agenda (DDA) negotiations to-date, the Deputy Chairman enquired whether and if so, how APEC had helped advance the progress of the DDA negotiations.

38. In reply, DGTI said that key players of APEC, such as the United States, Canada, Australia, China and some developing economies belonging to the Association of Southeast Asian Nations (ASEAN) were also WTO members. They had all along advocated, through various channels (including the APEC platform), bringing the Doha Round to an early and successful conclusion. For instance, the subject was discussed at length at the Meeting of APEC Ministers Responsible for Trade (MRTs) held in July 2007. After the meeting, a statement was issued, reaffirming MRTs' strong commitment to an open, rules-based,

multilateral trading system under WTO, the importance of the DDA to global economic growth and development, and the importance of advancing the DDA negotiations. He added that the issue would very likely be discussed at the APEC Economic Leaders' Meeting scheduled for September 2007.

39. The Deputy Chairman sought information on the obstacles which impeded the progress of the DDA negotiations. DGTI replied that the DDA negotiations mainly focused on four core issues, namely agriculture (i.e. domestic farm support and market access for agriculture); non-agricultural market access (NAMA); trade in services; and rules. He remarked that as the results of discussions would bring about enormous economic impact on a large number of economies, negotiations had progressed slowly and not much had been achieved to-date. He elaborated further that for the former two issues, there had actually been expectation that the Group of Four (G4) - i.e. the United States, the European Union, Brazil and India would bring about a breakthrough in the DDA negotiations by hammering out their differences through meetings held among themselves in early 2007. However, the discussions among the G4 broke down in late June 2007. The two issues would therefore be brought back to the WTO for discussion among its 150 members. For the latter two issues which were of prime concern to Hong Kong, he said that, in spite of the on-going negotiations, it was unlikely that a deal could be reached before the differences on key players over the issues of agriculture and NAMA were satisfactorily resolved. He stressed that Hong Kong had been taking, and would continue to take, an active role in the negotiations on trade in services and rules with a view to facilitating and fostering an open multilateral trading system. The Administration was still optimistic on the way forward as most WTO members were keen to conclude the Doha Round as soon as possible.

VI. Strategic framework for Innovation and Technology Development
(LC Paper No. CB(1)2088/06-07(04) -- Paper provided by the Administration)

Presentation by the Administration

40. At the invitation of the Deputy Chairman, the Commissioner for Innovation and Technology (C(IT)) updated members on the progress achieved by the five Research and Development (R&D) Centres since their establishment in April 2006 to June 2007. In gist, C(IT) said that there were a total of 80 R&D projects endorsed by the Innovation and Technology Commission (ITC), of which the total approved project cost and the approved amount under the Innovation and Technology Fund (ITF) were about \$288.8 m and \$252.3m respectively. With respect to the platform projects, the R&D Centres were able to secure the industry to contribute 10% of the total project cost. As for the collaboration projects, industry contribution to the total project cost was more than 30%. The level of industry contribution for the R&D projects might serve as an indicator for the level of industry support for the projects. It was anticipated that industry contribution to total project cost would increase in the coming years. On the operation and

general administration, the R&D Centres had generally completed the setting up of the office and recruitment of staff. They had also established corporate policies and guidelines as well as R&D project vetting mechanism and procedures. In general, the actual expenditure on the operation of the R&D Centres for 2006-2007 were less than the original estimates as stated in Table 2 of the Administration's paper ((LC Paper No. CB(1)2088/06-07(04)). C(IT) explained that this was mainly attributable to the lead time taken to set up the R&D Centres. As for the financial return, he pointed out that as the R&D Centres had just started their operation for a year or so, the financial return for their first year of operation was not significant. Nevertheless, each of the R&D Centres had since established the groundwork necessary for the furtherance of its objectives in, for example, providing a focal point for conducting applied R&D for application in the relevant industries. He invited members to note the reports in respect of the R&D Centres (Annexes of the Administration's paper) on their R&D programmes, promotion and marketing activities, administration and future work. C(IT) stressed that the aim of establishing the R&D Centres was to provide assistance to, inter alia, Hong Kong-owned factories in the Pearl River Delta Region in upgrading their technology and capabilities as well as in enhancing their protection of intellectual property rights.

Discussion

R&D projects and expenditure on the operation of the R&D Centres

41. Referring to the reports of the R&D Centres (i.e. Annexes of the Administration's paper) which provided great details on the promotion and marketing activities undertaken/planned by each Centre in 2006-2007 and 2007-2008, Mr SIN Chung-kai remarked that although such activities were crucial for building up the Centres' connections and network, they were not the prime concern of the Panel. Instead, Panel members would be more concerned about how the financial resources allocated to the Centres were used and the level of industry contribution secured by the Centres in undertaking each of their projects.

42. Acknowledging Mr SIN Chung-kai's concern, C(IT) advised that the Centres had just commenced the approved R&D projects following the completion of the setting up of their offices and recruitment of staff in the past six months since their establishment in April 2006. He stressed that during the initial set up, it was important for the Centres to establish network with the industries through promotion and marketing activities in order to ascertain the practical needs of the industries and hence devise R&D projects to address the concerned needs. As for information on the R&D results such as project deliverables adopted by the industries, it would only be available upon completion of the projects.

43. Mr SIN Chung-kai remarked further that by way of illustration, the Table in paragraph 2 of Annex IV of the Administration's paper only set out general information of the four R&D projects undertaken by the R&D Centre on Automotive Parts and Accessory Systems, such as the duration of the projects and

the organizations collaborating with the Centre in taking forward the projects. However, crucial information, such as the total cost of each project, the actual level of industry contribution secured by the Centre for each project, and the administrative cost involved for each project, was not provided. He highlighted that since it was expected that the five R&D Centres could generate up to 40% of R&D expenditure from industry contribution when they ramped up to the fifth year of operation in 2010-2011, the aforementioned information would not only equip members with useful project details but also help them assess whether the Centres could meet the above objective in the course of their operation.

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44. In response, C(IT) advised that for platform type of projects undertaken by the respective Centres, at least 10% of the project costs had to be obtained by means of industry contribution before the project would be taken forward by the Centres. Noting Mr SIN's concerns, he undertook to provide the requisite information in the future progress reports. For the sake of transparency, he would also request the R&D Centres to make public such information via their respective websites. At the request of the Deputy Chairman, C(IT) also undertook to provide after the meeting supplementary project information as requested by Mr SIN for the projects already undertaken by the R&D Centres.

(Post-meeting note: The information provided by the Administration was circulated to members vide LC Paper No. CB(1)2383/06-07 dated 24 September 2007.)

45. In further response to the Deputy Chairman, C(IT) assured the Panel that the Administration had confidence that the R&D Centres could meet the objective of generating up to 40% of R&D expenditure from industry contribution when the Centres ramped up to the fifth year of their operation in 2010-2011. In this connection, he advised that the Administration would conduct a review on whether the R&D Centres should continue to exist or otherwise in the fourth year of their operation during the five-year funding period.

46. Regarding the expenditure on the operation of the respective five R&D Centres as set out in Table 2 of the Administration's paper, the Deputy Chairman noted that there was underspending in 2006-2007. By way of illustration, he pointed out that the actual expenditure incurred by the R&D Centre on Information and Communications Technologies (ICT) was \$105.6 million, representing 94.5% of the estimated expenditure for 2006-2007, while that of the Hong Kong Research Institute of Textiles and Apparel was only \$5.7 m which was around 52.8% of the estimated expenditure for 2006-2007. He queried whether it was due to ineffective operation that had resulted in the underspending of the R&D Centres. In this connection, he also noted that despite the underspending situation in 2006-2007, there was a sharp increase in the estimated expenditure of the four R&D Centres (except the R&D Centre on ICT whose estimated expenditure in 2006-2007 and 2007-2008 maintained at the same level, i.e. \$111.7 million). The Deputy Chairman considered that the public might find such an increase in the estimated expenditure of the four R&D Centres unconvincing and unacceptable.

As such, he sought the Administration's explanation in this regard.

47. In reply, C(IT) explained that the estimates of the operation of R&D Centre on ICT, which was hosted by the Applied Science and Technology Research Institute (ASTRI), was far more accurate than the other four R&D Centres because it could project its expenditure on the basis of its operating expenses in the past few years since its establishment in 2000. As for the other four Centres which were only established in April 2006, he remarked that lead time was required for the setting up of their boards of directors, hiring of office accommodation and recruitment of staff before they could come into full operation. Moreover, there was also some delay in those Centres' operation due to recruitment of senior staff from overseas. As a result, the R&D Centres had underspent in 2006-2007. He pointed out further that following the full operation of the Centres, more financial resources had to be allocated to them to finance their operation, and hence the increase in the estimated expenditure of the Centres in 2007-2008.

R&D Centre on ICT hosted by ASTRI

48. Referring to Appendix I to Annex V of the Administration's paper, Mr SIN Chung-kai sought elaboration on the mechanism of technology transfers from ASTRI to the industry between April 2006 and June 2007. In response, Mr Ernest WONG, Chief Financial Officer of ASTRI explained that the information contained in Appendix I were paid transfers of technology through licence contracts signed between ASTRI and the concerned industry customers, the names of which could not be disclosed as they were commercial confidential information under the licence agreements. According to the existing mechanism, ASTRI would upload the proposals on transfer of technology onto its website to invite interested parties to submit expressions of interest to ASTRI for consideration. Non-exclusive licences would generally be granted to interested parties unless directed otherwise by ASTRI's Board of Directors (the Board). The monetary terms for the assignment of non-exclusive licences were subject to negotiations between ASTRI and the parties concerned on a commercial basis, and the granting of such licences was subject to the assessment of and approval by the Board.

49. Regarding the administration of ASTRI, Mr SIN Chung-kai called on the Administration to take seriously follow-up actions on the Public Accounts Committee's recommendations as listed in paragraph 91 of Chapter 2 of Part 4 of its report (Report No.48 of the Director of Audit on the Results of Value for Money Audits). The Administration took note of Mr SIN's concern.

Summing up

50. Noting that a substantial amount of funding from ITF had to be provided for maintaining the operation of the R&D Centres and supporting part of their R&D projects for a long period of time before the applied R&D could be proven for application in the relevant industries, the Deputy Chairman looked forward to the R&D results which could be applied by the industries concerned and benefit the

society as a whole.

VII. Improvements to the Small Entrepreneur Research Assistance Programme and the University-Industry Collaboration Programme under the Innovation and Technology Fund

(LC Paper No. CB(1)2088/06-07(05) -- Paper provided by the Administration)

Briefing by the Administration

51. At the invitation of the Deputy Chairman, the Commissioner for Innovation and Technology (C(IT)) briefed members on the Administration's proposals to improve the Small Entrepreneur Research Assistance Programme (SERAP) and the University-Industry Collaboration Programme (UICP) under the Innovation and Technology Fund (ITF) to provide further impetus to the development of applied scientific research which were the initiatives announced by the Financial Secretary in his 2007 Budget. In gist, the proposals were as follows:

(a) Small Entrepreneur Research Assistance Programme (SERAP)

At present, local companies with less than 20 employees were eligible to apply for a maximum funding up to \$2 million on a dollar-for-dollar matching basis under SERAP. The funds would be provided in two phases - at a maximum limit of \$0.4 million for a trial period of six months or less in Phase I, and \$1.6 million for a period of no longer than 18 months in Phase II. The disbursement of the Phase II funding would be subject to deliverables of Phase I of the respective projects, and a separate application had to be submitted again for Phase II after completion of Phase I. SERAP funding would be fully recouped from the recipient companies, for an indefinite period, if the SERAP project was commercially successful, i.e. the project was able to attract follow-on investment by other investors or generate revenue.

The Administration proposed to relax the eligibility criterion of company size to such an extent that companies with less than 100 employees could apply for SERAP funding. By so doing, SERAP would cover about 99% of the total number of establishments in Hong Kong and hence more companies could benefit from the Programme. With respect to funding, while the matching basis up to a maximum of \$2 million would remain, the Administration proposed to streamline the application process and minimize the documentations required for applying the SERAP funding by adopting a single-phase system. To ensure the prudent use of public funds, there would be well-defined milestones, and the required funding at different stages during the project period would be agreed

at the outset of the project. The Administration also proposed to simplify the recoupment of SERAP funding from project-based to company-based and to introduce a six-year cut-off period for the recoupment.

(b) University-Industry Collaboration Programme (UICP)

The current mode of operation of UICP was to provide grants for a private company incorporated in Hong Kong and with substantive connections with Hong Kong to collaborate with local universities to undertake commercial research and development (R&D) on a dollar-for-dollar matching basis. To encourage competition and industry stakeholders to engage in R&D, the Administration proposed to relax the geographical requirement by allowing a non-local university to undertake the major part or the whole of the R&D work of a project as well as allowing a major part or the whole of the R&D work of a project to be conducted outside Hong Kong.

Discussion

Proposed recoupment arrangements of SERAP funding

52. On the Administration's proposal to recoup SERAP funding on company basis for a period of six year, the Deputy Chairman doubted if the cut-off period of six years would provide opportunities for irresponsible recipient companies to evade from their liability of repaying the public coffers even though the SERAP projects were commercially successful. To avoid mixing up with the profit or loss of other activities of the recipient companies, he was of the view that the recoupment of SERAP funding should not be made on company basis but should be strictly in accordance to the commercial viability or otherwise of the SERAP projects.

53. In reply, C(IT) explained that during the project span, recipient companies were required to maintain separate accounts of the SERAP projects which would be duly audited upon completion of the projects. However, these accounts would normally be discontinued afterwards. As the follow-on investment and revenue generated by SERAP funding would subsequently be integrated into other activities of the company, the Administration therefore proposed to recoup SERAP funding on a company basis.

54. The Deputy Chairman remained concerned that the proposed recoupment method was not only a departure from the existing practice but also an in-principle change to the policy. As such, he requested the Administration to provide an information paper to the Panel after the meeting detailing the objective of SERAP, the rationale for introducing a six-year cut-off period for the recoupment of SERAP funding, etc.

(*Post-meeting note*: The Administration's response was circulated to members vide LC Paper No. CB(1)5/07-08 dated 8 October 2007.)

Proposed relaxation of geographical requirements of UICP

55. Mr SIN Chung-kai objected to the Administration's proposal as to relax geographic requirements of UICP. He pointed that while Hong Kong adopted a low threshold for foreign capital to set up registered companies in Hong Kong, the proposed relaxation would open up opportunities for foreign-capital-owned-local-companies to apply for public funding under UICP to engage non-local universities to undertake the R&D work. He was concerned that such an arrangement would lead to abuse of the Programme and defeat the purpose of the Programme, i.e. to encourage a stronger culture of R&D in Hong Kong and to accumulate human capital for the territory through the process. He opined that while local universities should remain to be the major stakeholders of UICP projects, consideration could be given to relaxing the existing arrangement such that local universities could collaborate with non-local universities by engaging the latter to undertake part of the R&D work, say about 30%, of UICP projects outside Hong Kong.

56. In reply, C(IT) explained that while local universities could apply for funding to conduct applied research from the University Grants Committee, the Research Grants Council as well as through other funding schemes under the ITF, the aim of UICP was to fund private companies incorporated in Hong Kong to conduct commercial R&D. Under the proposed relaxation, private companies could solicit non-local resources such as skills, expertise and equipments, etc., required for taking forward their R&D projects which were not available locally. He stressed that to ensure the prudent use of public money, a set of well-defined assessment criteria had been adopted to guard against abuses of the Programme. All UICP applications were subject to stringent assessment which included whether the proponent had maintained substantial operation in Hong Kong instead of just being a shell company, the technical and project management capability of the project team, job opportunities to be created under the proposed project, the potential for commercialization, the likely pathways to the market, and the potential of the project to contribute to innovation and technology upgrading of Hong Kong's economy, etc.

57. Mr SIN Chung-kai was not convinced of the Administration's explanation. He remained concerned that as UICP applications were scrutinized by government officials who, under the proposed measures, would be given the power to allow the whole of the R&D work of a project to be conducted outside Hong Kong, this could give rise to the possibility that UICP might be abused by foreign-capital-owned-local-companies. In this regard, the Deputy Chairman considered that the proposed relaxation was a change of the policy. He enquired whether approval had to be sought from the approving authority, i.e. the Finance Committee (FC) in this particular case. Mr SIN Chung-kai expressed similar concern. He also doubted whether "local universities" had been specified as one

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of the assessment criteria of UICP projects when the relevant financial proposal was then approved by the FC. He remarked further that he would not give his support to the present proposed relaxation if it was submitted to the FC for approval in future. In response, C(IT) advised that the relevant financial proposal was approved by the FC at its meeting held on 9 July 1999. He undertook to revert to the Panel on whether the FC's approval should be sought on the current proposed relaxation. The Deputy Chairman also requested the Administration to provide a written reply in this regard to the Panel after the meeting, in particular that if the Administration arrived at a conclusion that there was no need to seek the FC's approval on the proposed relaxation, relevant justifications had to be provided.

(Post-meeting note: The paper provided by the Administration was circulated to members vide LC Paper No. CB(1)2384/06-07 on 24 September 2007.)

The way forward

58. Noting members' concerns raised at the meeting, C(IT) proposed and members agreed that the proposed changes to widen the scope of SERAP to cover companies with 20-99 employees and the introduction of a single-phase system of SERAP be implemented within 2007, while the proposal to modify recoupment method of SERAP and those in respect of UICP be withheld subject to future discussion of the Panel.

VIII. Any other business

59. On behalf of the Chairman, the Deputy Chairman thanked members and representatives of the Administration for attending this last meeting of the 2006-2007 legislative session and their contribution in past meetings.

60. There being no other business, the meeting ended at 4:40 pm.