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Legislative Council

LC Paper No. CB(1)780/07-08
(These minutes have been seen by the Administration)

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Panel on Commerce and Industry

Minutes of meeting
held on Tuesday, 18 December 2007, at 2:15 pm
in Conference Room A of the Legislative Council Building

Members present : Hon Vincent FANG Kang, JP (Chairman)
Dr Hon LUI Ming-wah, SBS, JP
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 absent : Hon WONG Ting-kwong, BBS (Deputy Chairman)
Hon Ronny TONG Ka-wah, SC
Hon CHIM Pui-chung

Public officers attending : Agenda Item IV

Commerce and Economic Development Bureau

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

Mr Jonathan MCKINLEY
Principal Assistant Secretary for Commerce and Economic Development (Commerce and Industry)

Invest Hong Kong

Mr Mike ROWSE
Director-General of Investment Promotion

Miss Charmaine WONG
Associate Director-General of Investment Promotion

Agenda Item V

Commerce and Economic Development Bureau

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

Trade and Industry Department

Mr NGAI Wing-chit
Deputy Director-General of Trade and Industry

Agenda Item VI

Commerce and Economic Development Bureau

Mr Jonathan MCKINLEY
Principal Assistant Secretary for Commerce and Economic Development (Commerce and Industry)

Trade and Industry Department

Mr Joseph LAI
Director-General of Trade and Industry

Miss Belinda Kwan
Assistant Director-General of Trade and Industry

Census and Statistics Department

Mr Leslie TANG
Assistant Commissioner for Census and Statistics

Agenda Item VII

Constitutional and Mainland Affairs Bureau

Mr Joshua LAW
Permanent Secretary for Constitutional and Mainland

Affairs

Mr Ivan K B LEE
Principal Assistant Secretary (Constitutional and Mainland Affairs) 7

Mr Patrick CHAN Chi-king
Director, Hong Kong Economic and Trade Affairs, Shanghai

Commerce and Economic Development Bureau

Mr Alan SIU Yu-bun
Deputy Secretary for Commerce and Economic Development (Communications and Technology)

Ms Annie CHOI Suk-han
Deputy Secretary for Commerce and Economic Development (Commerce and Industry) 3

Information Services Department

Mrs Ella TAM LO Nam-wah
Deputy Director of Information Services (2)

Financial Secretary's Office
Economic Analysis and Business Facilitation Unit

Miss Elley MAO
Principal Economist (3)

Architectural Services Department

Mr Peter YUEN Ka-tat
Project Director 1

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)366/07-08 -- Minutes of meeting held on 16 October 2007)

The minutes of the meeting held on 16 October 2007 were confirmed.

II. Information paper issued since last meeting

(LC Paper No. CB(1)365/07-08(01) -- Administration's response regarding passing on of duty savings to consumers by the wine/beer trades)

2. Members noted that the above paper had been issued for the Panel's information.

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)435/07-08(01) -- List of outstanding items for discussion

LC Paper No. CB(1)435/07-08(02) -- List of follow-up actions)

3. Members agreed to discuss the item "Improvements to the University-Industry Collaboration Programme under the Innovation and Technology Fund", as proposed by the Administration, at the next Panel meeting scheduled for 15 January 2008.

4. Mr SIN Chung-kai referred to his letter dated 15 October 2007 requesting the Panel to conduct a public hearing on protection of interests of Hong Kong businessmen operating in the Mainland and said that although the issue had been touched upon at the meeting on 20 November 2007 when the Hong Kong Economic and Trade Offices (ETOs) and the Beijing Office (BJO) reported their work to the Panel, he continued to receive requests from the public urging for a hearing on the difficulties encountered by businessmen concerned as well as assistance that the Mainland ETOs and BJO might render to them. As such, he suggested that consideration be given to conducting the public hearing at the January meeting.

5. Since the Panel would discuss a relevant item on "Furthering of trade relations between the Mainland and Hong Kong" at the meeting to be held on 20 May 2008, the Chairman suggested and members agreed that the public hearing for Hong Kong businessmen to exchange views with the Panel on difficulties they encountered in operating in the Mainland be held at the same meeting. After

Clerk

discussion, Mr SIN Chung-kai suggested that an open invitation should be posted onto the Legislative Council website inviting members of the public to join the meeting. Members agreed that deputations and individuals joining the meeting should however be reminded that the purpose of the meeting would be to discuss the implications of the Mainland's laws and regulations and its policies on Hong Kong businessmen operating in the Mainland instead of dealing with particular cases.

IV. Promotion of inward investment

(LC Paper No. CB(1)435/07-08(03) -- Paper provided by the Administration

LC Paper No. CB(1)435/07-08(04) -- Background brief prepared by the Legislative Council Secretariat)

Briefing by the Administration

6. At the invitation of the Chairman, the Permanent Secretary for Commerce and Economic Development (Commerce, Industry and Tourism) (PSCIT) briefed members on the Administration's proposal for a further allocation of $100 million to Invest Hong Kong (InvestHK). In gist, PSCIT said that on 3 June 2003, the Finance Committee (FC) approved a new commitment of $200 million to enable InvestHK to strengthen its investment promotion (IP) efforts over five years starting from 2003-2004. The work of InvestHK was last reported to members at the meeting on 13 February 2007. Since there would only be a remaining balance of $9.5 million in 2008-2009 which would be insufficient for supporting InvestHK's future work, members' support was sought to increase the non-recurrent commitment for Item 009 Boosting Investment Promotion Work under Head 79 InvestHK Subhead 700 General Non-recurrent by $100 million for the department to continue its IP efforts and to fund additional IP activities for three years starting from 2008-2009.

Discussion

Manpower resources required by InvestHK

7. Noting that part of the additional funding was being sought by InvestHK to employ additional staff, Mr Jeffrey LAM enquired about the number and duties of these additional staff and whether they would be deployed to work in the local or overseas offices of InvestHK.

8. In response, the Director-General of Investment Promotion (DGIP) explained that the department had used the additional funds provided in 2003 both to expand the sector teams in head office and to boost representation overseas. He advised that $14 million was being sought so as to permit the continued employment of additional staff on non-civil service terms to assist companies to establish their presence in Hong Kong. They were also providing a host of aftercare services to the companies concerned. He advised that while these staff had been deployed to work in InvestHK's head office in Hong Kong, additional

provisions of $4 million and $2.5 million were being sought to continue to engage overseas consultants to cover new markets and to strengthen InvestHK's presence in existing overseas markets respectively.

IP efforts made by InvestHK

9. While commending that IP efforts made by InvestHK was conducive to sustaining Hong Kong's competitive edge vis-à-vis its competitors in the region, Mr Jeffrey LAM noted that an additional funding of $5 million was being sought to conduct joint promotional efforts overseas with Mainland provinces and municipalities. Commenting that the Mainland was a huge market, he sought information on how the joint promotional efforts with the many Mainland provinces and municipalities were prioritized.

10. In reply, DGIP advised that the item on joint promotional efforts referred to activities conducted in overseas markets in Europe, North America, Japan, etc., in collaboration with Mainland provinces and municipalities such as Fujian Province, Guangdong Province as well as cities located in the Pearl River Delta (PRD) region such as Shenzhen, Dongguan, Foshan, Zhuhai, etc. These activities aimed to explain to international companies the advantages of setting up in both places (e.g. factory in the Mainland, office in Hong Kong). Investment promotion within the Mainland was a separate matter for which additional funding of $4.5 million was being sought for conducting promotional efforts in the seven most economically advanced provinces of the Mainland, such as Sichuan, Shandong and Fujian Provinces, etc. He elaborated that promotional campaigns would be focused in one of these provinces at one time and would be implemented in three phases. The first phase was a high-level launching ceremony officiated by senior government officials; the second phase were working-level seminars and workshops delivered by professionals from Hong Kong covering accounting, legal and immigration matters, etc., and the third phase were visits by delegations from these provinces to explore potential business opportunities in Hong Kong. PSCIT remarked that apart from working with these provinces, InvestHK and the 10 overseas ETOs and the Mainland ETOs would closely monitor global market trends with a view to ensuring the timely adjustment of the IP strategy where appropriate.

11. Mr Jeffrey LAM said that the recent changes in the Mainland's policy had brought about implications on the business operation of Hong Kong businessmen operating in the Mainland, in particular those engaging in the processing industry. While appreciating that senior officials including the Chief Executive, the Secretary for Commerce and Economic Development and DGIP, etc., had taken lead in facilitating dialogues between Hong Kong and the Mainland, he urged that business opportunities beyond the seven most economically advanced provinces be actively explored for the Hong Kong business sector.

12. While the seven most economically advanced provinces of the Mainland would provide good business opportunities for Hong Kong businessmen and hence IP efforts of InvestHK were targeted at these provinces, PSCIT explained that the Hong Kong Trade Development Council (HKTDC) had also provided assistance in

tapping business opportunities in other provinces, in particular those in the Central and Western regions which might be considered by the processing industry for relocation of their business operation. Despite geographical disparity, she assured members that, if required, the Government would provide assistance to Hong Kong businessmen venturing their business in places beyond the seven most economically advanced provinces of the Mainland.

13. The Chairman sought information on the delineation of responsibilities between Hong Kong and the Mainland provinces and municipalities, such as their respective contribution of costs, in the joint promotional efforts to overseas countries and the effectiveness of Hong Kong's IP efforts in this regard.

14. DGIP advised that apart from the Guangdong Province, both sides of the joint promotional campaigns shared the costs on an equal basis. As for the Guangdong Province, Hong Kong contributed one-third of the promotional costs while the partner paid for the remaining two-thirds. On the effectiveness of the joint promotional efforts, he explained that as IP efforts were made through multi-channels, it was quite difficult to evaluate the effectiveness of the joint promotional campaigns on an individual basis. Nevertheless, based on InvestHK's evaluation of the joint promotional campaigns conducted in the past, the most productive ones, in terms of partnership, were those conducted in collaboration with PRD cities; and in terms of markets, the Asian countries especially Japan and Korea were most productive.

Resources allocated to InvestHK and other Government/public bodies promoting Hong Kong

15. Pointing out that InvestHK was set up in 2000 and had operated for a number of years, Mr SIN Chung-kai commented that rather than seeking additional funds separately from FC from time to time, consideration should be given to putting its financial requirements under the Government's annual Budget Estimate.

16. In response, PSCIT explained that in February 2006, the Government's Efficiency Unit commissioned a review of the cost-effectiveness of the work of InvestHK. While the review had concluded that InvestHK was performing well in a cost-effective manner, it had also identified a number of priority areas for further study with a view to enhancing InvestHK's performance. These included a review of the relevance of InvestHK's nine priority sectors, its major activities and target markets, as well as the governance arrangement and performance measures for maximizing the value generated from InvestHK. As such, the Government had commissioned a follow-up study in October 2007. The key findings of the study were expected to be available in the second quarter of 2008. She said that subject to the outcome of this follow-up study, the Administration would formulate its long-term IP policy and work out relevant implementation details. If it was decided that InvestHK should maintain its existing level of services on a long term basis, the non-recurrent resources should become an integral part of the department's recurrent provision. Such provision would be sought under the annual appropriation cycle according to the established mechanism. Meanwhile,

additional resources were being sought for InvestHK to continue its IP efforts in the coming three years. If an early decision could be made for making permanent the non-recurrent additional funding to InvestHK, any unspent balance of the $100 million being sought under the current proposal would be returned to the Treasury according to the existing mechanism.

17. Mr SIN Chung-kai said that as InvestHK had been in operation for seven years, it was high time for the Administration to formulate its long-term IP policy. He commented that while other Government/public bodies such as the ETOs were also promoting Hong Kong to the Mainland and overseas countries, consideration should be given to merging InvestHK with these Government/public bodies for cost savings.

18. In summing up, the Chairman said that the Panel was, in principle, supportive of the Administration's proposal to inject an additional $100 million to InvestHK. He remarked that while some members were appreciative of the work accomplished by InvestHK, there were also concerns that resources of InvestHK should be pooled together with other bodies that were also promoting Hong Kong. Since a follow-up study was being commissioned by the Administration, the outcome of which was expected to be available in the second quarter of 2008, he reminded the Administration to report to the Panel on the key findings of the study to facilitate discussion on the future development of InvestHK. While emphasizing that the follow-up study would comprehensively review Hong Kong's
Admin IP policy and agreeing that the outcome of which would be reported to the Panel in due course, PSCIT assured members that constant review had been conducted to ascertain that resources provided for Government/public bodies promoting Hong Kong, such as InvestHK, HKTDC, ETOs and the overseas offices of the Hong Kong Tourism Board (HKTB), etc., had been put to good use to maximize the synergy of these bodies. She also remarked that the Administration would strive to enhance its work in this regard.

V. Small and medium enterprise funding schemes

(LC Paper No. CB(1)435/07-08(05) -- Paper provided by the Administration

LC Paper No. CB(1)435/07-08(06) -- Background brief prepared by the Legislative Council Secretariat)

Briefing by the Administration

19. At the invitation of the Chairman, PSCIT briefed the Panel on the latest position and the future development of the small and medium enterprise (SME) funding schemes. In gist, PSCIT said that about 137 800 applications were approved, involving $10.6 billion of Government guarantee or grant. Over 48 500 SMEs had directly benefited from the funding schemes. In view of the challenges faced by SMEs (particularly those with operations in the Mainland) arising from

industrial upgrading, environmental protection and energy conservation as set out in the Mainland's 11th Five Year Plan, the Administration, on the recommendation of the Small and Medium Enterprises Committee, proposed to raise the guarantee ceiling of the Business Installations and Equipment Loan (BIE) under the SME Loan Guarantee Scheme (SGS) from $2 million to $5 million for each SME, or 50% of the approved loan, whichever was the less. PSCIT remarked that with the increased guarantee ceiling, SMEs should be able to better utilize BIE to acquire the necessary equipment for upgrading at both operational and technological levels, and for restructuring or relocating their operations. She added that in view of the Panel's previous recommendation, the Administration proposed to enhance the flexibility and effectiveness of the SGS by replacing the Associated Working Capital Loans (AWCLs) and Accounts Receivable Loans (ARLs) with a new Working Capital Loans (WCLs) with guarantee ceiling at $1 million. WCLs, which would be for general business uses, would provide greater flexibility for and could better address the needs of SMEs, particularly those in the service sector. Having considered the Panel's view, the Administration also proposed to raise the grant ceiling of SME Export Marketing Fund (EMF) for each SME from $80,000 to $100,000. PSCIT pointed out that since the approved commitment for SGS and the approved provisions for EMF and the SME Development Fund (SDF) would be exhausted by early 2009, the Administration intended to inject additional funding of $500 million into the three SME funding schemes (i.e. $150 million for SGS and $350 million for EMF and SDF). On the basis of the current rate of utilization, this should allow continuation of the operation of the three funding schemes until 2011.

Discussion

20. In response to Mr Jeffrey LAM's enquiry about the benefits to be brought about by the Administration's proposals, PSCIT said that the additional funding of $500 million was expected to entertain about 21 000 additional applications under SGS, EMF and SDF. The Deputy Director-General of Trade and Industry (DDGTI) added that 75% of the successful SGS cases involved loans for business installations and equipment located in the Mainland. Under EMF, 60% and 40% of the successful applications related to participation of overseas (including those of the Mainland market) and local market promotion activities respectively.

Funding provision of the schemes

21. While noting the Administration's proposals, the Chairman was of the view that consideration could be given to pooling together the additional funding of $500 million so as to provide greater flexibility in the use of and hence the effectiveness of the three funding schemes. In this connection, he sought the Administration's explanation on the proposed funding provision of the schemes (i.e. $150 million for SGS and $350 million for EMF and SDF).

22. In response, PSCIT and DDGTI explained that following the approval from FC in May 2005, the assumed default rate under SGS was lowered from 15% to 7.5% with the maximum expenditure provision reduced from $1 billion to $800

million. FC also approved the Administration's proposal to re-deploy $200 million from the original expenditure earmarked under SGS to EMF and SDF. With the injection of an additional expenditure provision of $150 million to SGS, this would translate into an additional guarantee commitment of $2 billion, which could allow new loan guarantees to be approved until early 2011. The additional $350 million would also allow the EMF and SDF to run until mid 2011.

SGS

23. As regards SGS, DDGTI further explained that under the existing arrangements, the maximum amount of guarantee available for an SME was $4 million, within which $2 million was for business installations and equipment loans, $1 million for AWCLs and $1 million for ARLs. At present, AWCLs could only be used to meet an SME's additional operational expenses arising from or in relation to the business installations and equipment acquired under SGS, while ARLs could only be used for meeting the working capital needs of SMEs arising from the provision of credit terms to their customers. The relatively restricted scope of these loans might not be able to meet the funding needs of some SMEs. As such, the Administration proposed to enhance the flexibility and effectiveness of the SGS by raising the guarantee ceiling of BIE from $2 million to $5 million for each SME, or 50% of the approved loan, whichever was the less; and replacing AWCLs and ARLs with a new WCLs with guarantee ceiling at $1 million, thus increasing the maximum amount of loan guarantee to $6 million for an SME under the enhanced measures.

24. In this regard, the Chairman enquired whether SME beneficiaries, in particular those with operations in the Mainland and had not used up the maximum amount of guarantee under the guarantee period of the existing SGS, could continue to secure new loans from participating lending institutions (PLIs) under the enhanced measures so as to upgrade, restructure or relocate their operations arising from the recent changes in the Mainland's policy on processing trade.

25. In response, PSCIT and DDGTI advised that the loans were provided to individual SMEs by PLIs, the Government only acted as guarantor to PLIs for up to 50% of the loans in case of default by SMEs concerned. It would be up to PLIs to decide the actual amount of loans to be provided to SMEs concerned. Nevertheless, the Trade and Industry Department (TID) would liaise with PLIs to encourage them in providing more assistance to SMEs such that SMEs could benefit more directly from the enhanced measures in order to, say, secure loans for relocating their operations, building up their brand names and paying standing book deposit, etc.

26. In response to the Chairman's enquiry on how WCLs could address the needs of SMEs in the service sector, PSCIT advised that other than machinery and equipment, SMEs concerned could apply new WCLs for acquiring computer software and hardware, telecommunication system, furniture and fixtures, and for general cash flow purposes.

EMF

27. In response to Mr Jeffrey LAM's enquiry on the effectiveness and possible economic benefits brought about by EMF, DDGTI advised that TID had engaged the Hong Kong Polytechnic University to conduct a survey among some 20 000 SME beneficiaries recently. The survey revealed that about 78% of the respondents considered the EMF as having a beneficial impact on their business. Since the introduction of EMF in 2001, some 20% of SME beneficiaries had employed additional staff (with one to two headcounts) as a result of the increase in business turnover, thus creating about 7 000 new jobs in Hong Kong.

28. Mr Jeffrey LAM expressed his support, in principle, for the Administration's proposals as they could enhance the assistance provided to SMEs, particularly Hong Kong-owned enterprises in the Mainland, so as to get them prepared for upgrading, restructuring or relocating their operations arising from the Mainland's new policy as set out in the Mainland's 11^{th} Five Year Plan. He also considered EMF useful for helping local SMEs promote their brand name products, thus saving them from exposing to market fluctuations. In addition, he was of the view that the Administration should also step up the publicity of EMF so that more SMEs could benefit from the scheme and more employment opportunities could be created for the local workforce, thus benefitting the economic development of Hong Kong as a whole.

29. Summing up the discussion, the Chairman said that the Panel was, in principle, supportive of the Administration's proposals as it was timely to introduce enhanced measures to the schemes so as to help strengthen the business operation of local SMEs as well as help them build up their brand names.

VI. Proposed revision to fees and charges under Import and Export (Fees) Regulations and Chemical Weapons (Convention) Ordinance

(LC Paper No. CB(1)435/07-08(07) -- Paper provided by the Administration)

Briefing by the Administration

30. At the invitation of the Chairman, the Principal Assistant Secretary for Commerce and Economic Development (Commerce and Industry) (PASCI) briefed the Panel on the Administration's proposals to adjust fees and charges related to miscellaneous import and export certification and administration services under the purview of TID and the Census and Statistics Department. The relevant fee items were set out in Annexes A and B to the Administration's paper (LC Paper No. CB(1)435/07-08(07)). In gist, PASCI said that the Government had, since 1998, frozen many fees and charges in order to alleviate financial pressure on the public and the business sector. In order to resume adjustments to Government fees and charges to reflect the established policy that such charges should in general be set at a level sufficient to cover the full cost of providing the services, the Administration had conducted a review and accordingly proposed a number of fee

adjustments. The Director-General of Trade and Industry (DGTI) added that the proposed adjustments under the purview of TID would involve increases in fees for 10 items, reductions for five items and the introduction of two new fees. The Administration did not propose to make adjustments for 6 items. Various stakeholders had been consulted and had not raised any major objection to the proposals. Subject to members' views, the Administration intended to introduce legislative proposal to implement the adjustments for the statutory fees into the Legislative Council for negative vetting in the first half of 2008, and aimed to bring the adjustments into effect as soon as practicable. DGTI advised that in view of the many challenges faced by the textiles and garment industry arising from recent changes to the relevant policy in the Mainland, the Administration had proposed that the fee adjustments for the Certificate of Origin (Certificate), for which the key applicants were from the industry concerned, would be implemented with effect from 1 July 2008 subject to the enactment of the amended Regulations.

Discussion

Proposed adjustment to fees on the Certificate of Origin and the Production Notification for Cut and Sewn Garments

31. The Chairman thanked the Administration for appreciating the difficulties encountered by the textiles and garment industry. In this connection, he asked whether the adjustment to fees on the Production Notification for Cut and Sewn Garments (Notification), which also formed part of the production cost of the industry concerned, could also be implemented with effect from 1 July 2008.

32. In response, DGTI advised that fees and charges related to miscellaneous import and export certification and administration services under the purview of TID had remained unchanged for nearly 10 years in the light of the economic difficulties in Hong Kong. Following the recovery of the local economy in 2004, the Financial Secretary announced in his Budget Speech that there was a need to resume adjustments to Government fees and charges as soon as possible so as to reflect the established policy that such charges in general be set at a level sufficient to cover the full cost of providing the services. As the textiles quota regime was undergoing fundamental changes at that time, it was considered that the full costing exercise for various fees under the purview of TID should be carried out later. Following its process of re-engineering of operations and staff redeployment, TID had subsequently conducted in this financial year a review of the cost of providing the relevant services. In the light of the abovementioned background, he said that TID would have difficulty in acceding to the Chairman's request as to carry out fee adjustments on the Notification at a later date. In fact, the proposed amount of increase for the Notification (submitted electronically through a service provider) was only $7 per application, and the average number of applications for the Notification submitted by each enterprise in 2007 was only about 190, totaling an average of about $1,400 per enterprise per annum. He considered that in view of the small amount of the proposed increase, the impact on the industry concerned should be minor.

33. In response to Mr Jeffrey LAM's remark that the proposed amount of fee increases for the Certificate and the Notification submitted electronically were higher than those of the same items submitted on paper, DGTI advised that the existing and new fee levels for the Certificate and Notification submitted on paper were and would be actually higher than those submitted electronically. For example, the existing fee level for the Certificate (per application) submitted electronically was $95 whereas the one submitted on paper was $110. After the implementation of the proposed adjustments, the new fee level for the Certificate submitted electronically would be $110 whereas the one submitted on paper would be $125. The Assistant Director-General of Trade and Industry supplemented that the total fees payable for the Certificate submitted in paper or electronic mode were the same under the current fee structure. The $15 message fee charged by the electronic service provider had been subsumed into the application fee for paper mode. At present, all applications for the Certificate (other than Form A) and the Notification were submitted electronically. The fee for the paper mode was retained for contingency situations (e.g. computer breakdown) only.

34. Mr Jeffrey LAM remained concerned about the proposed increase in rates of the items concerned, which ranged from 15.8% to 20.6%. Pointing out that the promotion of electronic submission was to improve efficiency and to reduce the cost of operation and the use of paper, the Chairman and Mr Jeffrey LAM were of the view that the Administration should consider lowering the proposed amount of increase for the Certificate and the Notification submitted electronically.

35. In response, DGTI advised that as the fees for the Certificate and the Notification had remained unchanged for eight years, it was necessary for the Government to adjust the fees concerned in accordance with the "user pay" principle. In fact, the fee items had already been set at a low level following the enhancement of the operation under TID. He further pointed out that the amount of fees involved would only constitute a very small percentage of the total FOB (Freight On Board) value of the goods covered by the Certificates issued, which was about $25.4 billion as recorded in 2007. The Chairman did not subscribe fully to the Administration's view and suggested that the Administration should consider lowering the proposed amount of increase for the Certificate and the Notification submitted electronically.

Fee adjustment proposals

36. In response to Mr Jeffrey LAM's enquiry about the financial implications on the proposals, DGTI advised that if the proposed fees and charges adjustments under the purview of TID were implemented, the Government's total revenue would be about $7.5 million per annum. There would be an increase and decrease of revenue of about $1.8 million and $0.4 million respectively for the proposed adjustments involving increases in the fees and reductions for the items concerned as a whole, resulting in a net increase of around $1.4 million in revenue per annum.

37. Noting that the fee items covered by the Administration's proposal had not been adjusted for nearly 10 years, Mr Jeffrey LAM emphasized that there was also no change in the price of export goods despite the recovery of the local economy in the past years. However, the proposed adjustments would incur additional expenditure in the light of the increasing cost of production in the textiles and garment industry. In addition, as some of the fee items were frequently paid items by the industry concerned, it was desirable to put on hold the proposed adjustments in view of the recent rises in fees and charges by public and private organizations as well as the possible slow-down of the local economy in the coming year.

38. In response, DGTI stressed that the Government had all along been upholding the principles of "user pay" and "cost recovery" in adjusting its fees and charges so as to avoid cross-subsidy by public fund. On financial implications, the proposed fee adjustments would result in a net increase of around $1.4 million in revenue per annum, which would only create a small impact on individual enterprises in the industry concerned.

39. In response to the Chairman's concern about the existing cost recovery level on the fee items, which ranged from 26% to 155.6%, as set out in Annex A of the Administration's paper, DGTI further explained that it had all along been the usual practice for the relevant policy bureaux/government departments (B/Ds) to conduct reviews of fees and charges for services at regular interval in accordance with the Government's established guidelines. As a result of the implementation of efficiency initiatives, such as the redeployment of resources, the introduction of new measures for cost savings and the use of new equipments, certain B/Ds were able to reduce fees for certain items if such fees were recovering at a rate above the full cost level. On the other hand, the proposed increases in fees were to achieve recovery of costs for provision of the services. However, the Administration had not proposed any adjustments for fee items which had been set at a level sufficient to cover the full cost of providing the services. He advised that all proposed adjustments were subject to scrutiny by the Financial Services and the Treasury Bureau as well as the Treasury before they were presented to the relevant Panels for consideration.

40. While agreeing that it was necessary to resume adjustments to the fees and charges concerned such that they should be set at a level sufficient to cover the full cost of providing the services, Mr CHAN Kam-lam sought information on whether TID had undertaken any review to streamline its work procedures with a view to improving the services so as to provide greater facilitation to members of the public.

41. In response, DGTI advised that TID had undertaken timely review for corresponding changes to the established measures in view of the changes in the textiles trading environment in recent years. TID had also consulted the Textiles Advisory Board on this front. He added that new measures to switch from paper to electronic mode of submission of application had been introduced for the import and export of strategic commodities to facilitate the industry concerned and for cost savings.

42. Noting the Administration's explanation, Dr LUI Ming-wah was of the view that the commerce and industry sector would be in opposition to the proposed adjustments which were far from being convincing or acceptable given that the Government was recording a fiscal surplus range from about $50 billion to $80 billion generated mostly from the business carried on in the sector concerned in the 2007-2008 financial year. He also expressed dissatisfaction with the proposed fee increases for the concerned items, the increase rate of which was over 20%. Sharing Dr LUI's concern about the proposed fee increases, the Chairman remarked that the prevailing operation of business for industrial sector became very difficult.

43. While acknowledging members' views, DGTI reiterated that it was the Government's policy to conduct timely review on fees and charges for public services so as to reflect that such charges should in general be set at a level sufficient to cover the full cost of providing the services. All revenue received would be returned to the Treasury for further reallocation. While understanding the difficulty faced by industries, he said that the Government had all along been providing assistance, such as through the SME funding schemes established in 2001, to SMEs. Indeed, the Government had announced plan to inject an additional funding of $500 million into the SME funding schemes so as to enhance its assistance provided to SMEs and to further address the needs of SMEs.

44. While understanding that the Government had been upholding the principles of "user pay" and "cost recovery" in adjusting its fees and charges, Dr LUI Ming-wah raised objection to the proposed fee increases as this would have a negative impact on the commerce and industry sector.

45. Summing up the discussion, the Chairman said that the majority of Panel members were, in principle, supportive of the Administration's proposed adjustments to fees and charges as set out in Annexes A and B to the Administration's paper. In view of Dr LUI's concern, he urged the Administration to further review the proposals and consider lowering the proposed amount of increase for fee items, in particular those with increase rate over 20%.

VII. Hong Kong Special Administrative Region's participation in the World Exposition 2010 Shanghai China

(LC Paper No. CB(1)435/07-08(08) -- Paper provided by the Administration)

Briefing by the Administration

46. At the invitation of the Chairman, the Permanent Secretary for Constitutional and Mainland Affairs (PSCMA) briefed members on the Hong Kong Special Administrative Region Government (HKSARG)'s preparation for participating in the World Exposition 2010 Shanghai China (World Expo 2010 Shanghai) and the overall approach in taking forward the project with the aid of a

short promotional video provided by the organizer of World Expo 2010 Shanghai (the Organizer). In gist, PSCMA said that in August 2007, HKSARG received a proposal from the Organizer inviting HKSAR's participation in the event. In the past few months, the Government had closely liaised with the Organizer and paid a number of visits to Shanghai to obtain essential information of the Expo. He advised that based on the information gathered so far, HKSARG intended to make full use of the opportunity by participating in two exhibitions, namely the construction of a stand-alone Hong Kong Pavilion (HK Pavilion) within the China Exhibition Area at Zone A and the submission of a bid for participating in the "Urban Best Practices Area" Scheme (UBPA Scheme) at Zone E, as well as other related activities to be held during the Expo such as seminars, "Internet World Expo", "Hong Kong Day/Week", parades and cultural performances. In addition, in response to the Organizer's suggestion for HKSARG to assist in encouraging renowned international brand name enterprises of Hong Kong to participate in the Enterprise Pavilion exhibition in accordance with the relevant scheme, the Administration was gathering the related information and studying how to take forward the initiative.

Discussion

Theme and design of the HK Pavilion

47. Mr CHAN Kam-lam expressed support to HKSAR's participation in the World Expo 2010 Shanghai which he considered an excellent opportunity to exhibit Hong Kong's quality city life. Noting that the Administration proposed the theme of "Hong Kong – A City With Unlimited Potential (「無限城市—香港」)", he said that while he found the English term acceptable, he considered the Chinese term, in particular the words "無限", too abstract for comprehension. He therefore urged the Administration to consider changing the Chinese term of the theme. Moreover, noting that HKSARG considered World Expo 2010 Shanghai an excellent opportunity for Hong Kong to publicize its quality city life and position itself as a creative capital, he enquired how these pursuits could be achieved. In this connection, he reminded the Administration that efforts should be made to distinguish Hong Kong from its counterparts in the China Exhibition Area at Zone A, as well as to emphasize Hong Kong's role as an important city connecting the Mainland and the rest of the world.

48. In reply, PSCMA and the Deputy Director of Information Services (2) advised that before putting up the current proposal, internal discussions had been made within the Government for choosing a theme of the HK Pavilion among a number of proposed themes. Having duly considered the theme of World Expo 2010 Shanghai, i.e. "Better City, Better Life" and its five sub-themes, namely blending of diverse cultures in the city; economic prosperity in the city; innovation of science and technology in the city; remodeling of urban communities; and rural-urban interaction, the Administration considered the current proposed theme, i.e. "Hong Kong — A City With Unlimited Potential", most appropriate to highlight Hong Kong's unique strength as a quality city with room for further growth.

Under this theme, six thematic components would be covered, namely excellent infrastructure and connectivity with the Mainland and the world; well-connected and highly efficient domestic transportation network and services; advanced and seamless information technology and telecommunications infrastructure; free flow of money, goods and information; cultural diversity, harmony and creativity; and sustainable and quality city life. While noting Mr CHAN's views on the Chinese term of the theme, PSCMA stressed that the theme had to be finalized shortly as the deadline for submission of Hong Kong's relevant application proposal to the Organizer was approaching.

49. Mr LUI Ming-wah considered that the World Expo 2010 Shanghai an important event for China, as well as Shanghai and Hong Kong, to showcase their vitality to the world. He was therefore of the view that it would be worthwhile for Hong Kong to spend more on the best design, quality, construction and presentation of its exhibits. He shared Mr CHAN Kam-lam's concern about the Chinese term of the theme of the HK Pavilion and remarked that the concept of "unlimited potential" would be inconceivable to exhibit. In this connection, he suggested that the Administration should consider tapping on the talents of the design industry through an open invitation before formulating Hong Kong's overall strategy towards its participation in the event.

50. In reply, PSCMA re-iterated that the theme of the HK Pavilion would need to complement the main themes of the World Expo 2010 Shanghai. He assured members that the most effective exhibition modes, such as multi-media and interactive elements, would be adopted to bring out the theme and key messages. Other related activities would be organized to complement the exhibitions and to highlight individual thematic components. On public participation, he advised that to tap the best creative ideas of local professionals, the Administration planned to launch in January to March 2008 a concept design competition for the HK Pavilion, which would be open to all Hong Kong professionals with the required qualifications in the relevant areas of architecture, planning and design, etc. The Hong Kong Institute of Architects would be invited to act as the sponsoring organization for the concept design competition. The winning design of the competition would be novated to a design and build contractor for detailed design and construction at a later stage. He added that other ways to promote public participation, such as photo/video competitions, were also being considered and consideration might be given to uploading the winning entries onto the Internet or exhibiting them at the event, if appropriate.

51. Mr LUI Ming-wah remained concerned that it could be impractical to exhibit the concept of "unlimited potential". While stressing that Hong Kong should strive to distinguish itself from other cities, such as Singapore, he considered the HK Pavilion project a marketing task and therefore it would be desirable to involve marketing professionals in the project.

52. Acknowledging Mr LUI's suggestion, PSCMA advised that the Administration had conducted and would continue to conduct focus group discussions with representatives of relevant stakeholders, including the commerce

and industry sector, creative industry, tourism and the relevant professional bodies in Hong Kong to solicit their views on the World Expo 2010 Shanghai. The first of such sessions had been held with representatives from the major chambers of commerce, HKTDC and HKTB, etc. before drawing up the current proposal. He remarked that the Administration would strive to demonstrate HKSAR's best practices to the world in the World Expo 2010 Shanghai.

Financial implications

53. The Chairman expressed support for Hong Kong's participation in the World Expo 2010 Shanghai as he considered the event a precious opportunity for Hong Kong to showcase its strength as a quality city to the world. Noting that the preliminary estimated capital cost for the design and construction of the HK Pavilion was $62.7 million (in September 2007 prices), he questioned whether inflation, which was noticeable in the Mainland in recent years, had been taken into account. He also sought information on the cost implications for participating in the UBPA Scheme at Zone E.

54. PSCMA advised that the said amount for the design and construction of the HK Pavilion was only a very preliminary estimation. Apart from this amount, additional expenditure would also be incurred for the software components, various exhibition activities, and the running of the HK Pavilion at Zone A. As regards the UBPA Scheme at Zone E, he advised that the competition was likely to be keen as only 45 lots would be provided, but so far, over 130 proposals had been received. He said that at the moment, the Administration had deployed internal resources to prepare for Hong Kong's application of the UBPA Scheme. The detailed financial implications of Hong Kong's participation in the World Expo 2010 Shanghai at both Zones A and E would be worked out in due course, taking into account various relevant factors including inflation, for submission to the Public Works Subcommittee (PWSC) and FC for approval in April/May 2008.

55. In summing up, the Chairman said that members were, in principle, supportive of the Administration's proposal for Hong Kong to participate in the World Expo 2010 Shanghai. He echoed members' suggestion that design and marketing expertise, both locally and from overseas, should be actively involved so that Hong Kong could make use of this precious opportunity to demonstrate its strength as a world quality city. While noting that the design and construction works of the HK Pavilion from the phase of concept design would take about 22 months to complete, and the exhibits installation, testing and commissioning works would take another five months, he reminded the Administration to submit its
Admin financial proposal to PWSC and FC in a timely manner. Mr LUI Ming-wah requested that the progress of each phase of HK's participation in the World Expo 2010 Shanghai be reported to the Panel in due course.

Action

VIII. Any other business

56. There being no other business, the meeting ended at 4:30 pm.

Council Business Division 1
Legislative Council Secretariat
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