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Panel on Financial Affairs

Meeting on 28 February 2008

**Background Brief on the Review of
the Personalized Vehicle Registration Marks Scheme**

Purpose

This paper sets out the background of the implementation of the Personalized Vehicle Registration Marks Scheme (PVRMs Scheme) and summarizes the major concerns raised by Members during past discussions of the subject.

Implementation of the PVRMs Scheme

Background

2. In the 2004-05 Budget, the Financial Secretary announced the proposal to introduce a PVRMs Scheme, as a revenue-raising measure in addition to the existing arrangements for allocating and auctioning ordinary and special vehicle registration marks (VRMs). Under the PVRMs Scheme, vehicle owners may choose their preferred VRMs and use them upon approval of their applications and following a bidding exercise. The Administration introduced the Revenue (Personalized Vehicle Registration Marks) Bill 2005 (the Bill) into the Legislative Council (LegCo) on 4 May 2005 and a Bills Committee was formed to study the Bill. The Bill was passed on 14 December 2005 and the first PVRM auction was held on 16 September 2006. By September 2007, nine auctions had been held with 2 058 PVRMs sold.

Applications for PVRMs

3. Under the PVRMs Scheme, the Transport Department (TD) invites applications for PVRMs and processes the applications in batches, subject to a limit set for processing the applications received in each exercise. If the number of applications received exceeds the pre-set limit, TD will select applications for vetting by drawing lots. Selected applications will then be checked against the basic combination requirements stipulated under the law.¹ Applicants of the selected PVRMs that have passed the basic checking are required to pay a deposit of \$5,000 and applications with deposit duly paid will be vetted by the Commissioner for Transport (C for T) as to whether the proposed PVRMs are suitable for allocation in accordance with the vetting criteria.² A Vetting Committee comprising both official (mainly representatives from the Hong Kong Police Force and TD) and non-official members (a pool of 78 persons from different sectors of the community) assists C for T in vetting the applications. Accepted applications will then be arranged for sale by auction in batches, and allocated to successful bidders.

Use of proceeds from the sale of PVRMs

4. In introducing the PVRMs Scheme, the Administration has undertaken to set aside an annual amount equivalent to the estimated net proceeds from the sale of PVRMs in the next five years starting from 2006-2007 to fund poverty alleviation work. The estimated net proceeds are \$60 million per annum (after deducting the administrative cost from the estimated sale proceeds of \$70 million).

Views on the PVRMs Scheme

5. During the scrutiny of the Bill, concerns had been raised on the implementation arrangements of the PVRMs Scheme, its impact on law enforcement and intellectual property right protection, and the revenue implications of the Scheme. At the request of the Bills Committee, the Administration has undertaken to conduct an overall review of the PVRMs Scheme one year after its implementation and to provide a report to LegCo on the outcome of the review. Questions on the implementation of the Scheme had also been raised at the Council meetings held on 10 May 2006 and 18 October 2006 respectively. The major concerns expressed by Members and the Administration's responses are summarized in the ensuing paragraphs.

¹ A list of the basic combination requirements is at Annex A to the Administration's review report (LC Paper No. CB(1)590/07-08(01)).

² A copy of the relevant regulation setting out the vetting criteria is at Annex B to the Administration's review report (LC Paper No. CB(1)590/07-08(01)).

Concern about law enforcement

6. During the scrutiny of the Bill, one of the major concerns about the PVRMs Scheme was whether its implementation would give rise to enforcement problems and affect the safety of road users. Given the many possible combinations of up to eight letters/numerals/blank spaces in a PVRM, some members of the Bills Committee were gravely concerned about the possible difficulty for frontline law enforcement officers and the general public who were not conversant with the English language to read and remember PVRMs made up of such combinations, particularly in hit-and-run traffic accidents.

7. The Administration's view was that any difficulty in reading or remembering would apply to existing VRMs and the proposed PVRMs alike as the former are also made up of letters and numerals. The Bills Committee was also advised by the Hong Kong Police Force that the PVRMs Scheme would not give rise to concerns about law enforcement as adequate training was provided for frontline police officers to carry out the necessary enforcement duties. Moreover, the VRM of a vehicle was not the only point of reference for law enforcement purposes.

Revenue implications

8. Members have expressed concern about the possible impact of the PVRMs Scheme on the auction prices of ordinary and special VRMs, particularly if people have a greater interest in the PVRMs Scheme under which they can apply for their preferred PVRMs. Given that the proceeds from the auctions of ordinary and special VRMs are paid into the Lotteries Fund (LF), Members are concerned that the income of LF and the financial support available for charity or welfare bodies may be reduced after the implementation of the PVRMs Scheme. The Administration however considers that the existing arrangements for auctioning ordinary and special VRMs will not be affected by the PVRMs Scheme as each of the three schemes has its respective market and will appeal to different users.

9. Members note that the PVRMs Scheme has been introduced as one of the revenue-raising measures. The Administration has undertaken to use the net proceeds from the sale of PVRMs (estimated at \$60 million per annum) totalling \$300 million for poverty alleviation initiatives for the five years of 2006-2007 to 2010-2011. In October 2006, shortly after the implementation of the PVRMs Scheme, Members sought information on the use of auction proceeds. In response, the Administration advised that out of the \$300 million, \$150 million has been earmarked to strengthen district-based poverty alleviation work, including support for social enterprises, with a view to helping the disadvantaged to achieve self-reliance. The "Enhancing Self-Reliance Through District Partnership Programme" has been established under the Home Affairs Department. The Administration has further assured Members that even if the annual net proceeds of the PVRMs Scheme are less than \$60 million, the funding allocated for poverty alleviation work will not be reduced. If the annual net proceeds exceed \$60

million, the Administration will review the funding in three years.

Intellectual property concerns

10. On whether the PVRMs Scheme will give rise to intellectual property concerns, the Administration has confirmed that according to its legal advice, there is generally no copyright in single words and short phrases. Moreover, as PVRMs do not include symbols, no question of copyright should arise. As trademark infringement refers to the unauthorized use of a trademark in the course of trade or business in relation to goods and services, and PVRMs are not used as trademarks for goods and services, the Administration considers it unlikely that the use of a PVRM would constitute a trademark infringement.

Other implementation arrangements

11. Some Members have queried the need for the pre-set limit (formerly 1 000 and subsequently increased to 1 500 applications) on the number of applications for vetting during each application exercise. In clarification, the Administration has advised that all applications received by TD will be examined. It is only that 1 000 or 1 500 applications will be selected through drawing lot for further processing. In view of the relatively more complicated checking and vetting procedures and the administrative work involved, the Administration considers it necessary to process the PVRM applications in batches with the total not exceeding the pre-set limit on each occasion.

12. Concern has been raised on whether the auctions of PVRMs will be monopolized by vehicle registration mark dealers who acquire a large number of PVRMs with a view to re-selling them later at higher prices. Their "monopolization" may result in "price boosting" at the auctions of PVRMs. In this regard, Members note the Administration's advice that the auctioning of PVRMs based on the principle of the items going to the highest bids is consistent with the existing practice of auctioning ordinary and special VRMs. Any interested persons can bid for their preferred PVRMs in an open and fair auction.

13. To enhance the attractiveness of the PVRMs Scheme, some Members have suggested that the Administration should consider allowing Chinese characters in PVRMs and giving awards to applicants who have proposed creative PVRMs. The Administration has agreed to consider these suggestions in the review of the PVRMs Scheme. Members may therefore follow up the Administration's latest decision, if any, on the suggestions.

Latest position

14. The Administration has completed a review of the PVRMs Scheme and provided a report on the outcome of the review (LC Paper No. CB(1)590/07-08(01)) which includes findings on the following key aspects:

- (a) main procedures of the PVRMs Scheme starting from invitation and submission of applications to allocation by auctions;
- (b) implications of the PVRMs Scheme on traditional VRMs auctions;
- (c) use of proceeds for poverty alleviation;
- (d) law enforcement; and
- (e) intellectual property issues

15. The Administration generally considers the operation of the PVRMs Scheme smooth and effective. It will brief the Panel on Financial Affairs at the meeting on 28 February 2008. In this connection, members may wish to follow up the Administration's views, if any, on suggestions highlighted in paragraph 13 and any other related issues; as well as put up further suggestions for the Administration's consideration.

Relevant papers

16. A list of relevant papers is at **Appendix**.

Council Business Division 1
Legislative Council Secretariat
22 February 2008

Appendix

| Meeting | Paper | LC Paper No. |
|--|---|---------------------------|
| <p>Council Meeting on 14 December 2005</p> | <p>Report of the Bills Committee on Revenue (Personalized Vehicle Registration Marks) Bill 2005</p> <p>http://www.legco.gov.hk/yr04-05/english/bc/bc09/reports/bc091214cb1-474e.pdf</p> <p>Hansard of Council meeting on 14 December 2005</p> <p>http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm1214ti-translate-e.pdf (Page 107 to 118)</p> | <p>CB(1)474/05-06</p> |
| <p>Council Meeting on 10 May 2006</p> | <p>Hansard of Hon Jeffrey LAM's question on "Personalized Vehicle Registration Marks Scheme"</p> <p>http://www.legco.gov.hk/yr05-06/english/counmtg/hansard/cm0510ti-translate-e.pdf (Page 68 to 75)</p> | <p>--</p> |
| <p>Council Meeting on 18 October 2006</p> | <p>Hansard of Hon Jeffrey LAM's question on "Auction of Personalized Vehicle Registration Marks "</p> <p>http://www.legco.gov.hk/yr06-07/english/counmtg/hansard/cm1018-translate-e.pdf (Page 18 to 25)</p> | <p>--</p> |
| <p>Meeting of the Panel on Financial Affairs on 28 February 2008</p> | <p>Administration's paper on "Review of the Personalized Vehicle Registration Marks Scheme"</p> <p>http://www.legco.gov.hk/yr07-08/english/panels/fa/papers/facb1-590-1-e.pdf</p> | <p>CB(1)590/07-08(01)</p> |