# 立法會 Legislative Council

LC Paper No.CB(1)2004/10-11 (These minutes have been seen by the Administration)

Ref: CB1/BC/12/09

### **Bills Committee on Competition Bill**

## Minutes of tenth meeting on Tuesday, 15 March 2011, at 4:30 pm in Conference Room A of the Legislative Council Building

**Members present**: Hon Andrew LEUNG Kwan-yuen, GBS, JP (Chairman)

Hon Ronny TONG Ka-wah, SC (Deputy Chairman) Ir Dr Hon Raymond HO Chung-tai, SBS, S.B.St.J., JP

Hon LEE Cheuk-yan Dr Hon Margaret NG Hon James TO Kun-sun

Hon CHAN Kam-lam, SBS, JP

Hon Mrs Sophie LEUNG LAU Yau-fun, GBS, JP

Hon Miriam LAU Kin-yee, GBS, JP

Hon Emily LAU Wai-hing, JP

Hon Abraham SHEK Lai-him, SBS, JP

Hon Audrey EU Yuet-mee, SC, JP

Hon Vincent FANG Kang, SBS, JP

Hon WONG Kwok-hing, MH

Hon Jeffrey LAM Kin-fung, SBS, JP Hon WONG Ting-kwong, BBS, JP

Hon CHIM Pui-chung

Prof Hon Patrick LAU Sau-shing, SBS, JP

Hon Starry LEE Wai-king, JP Dr Hon LAM Tai-fai, BBS, JP Hon Paul CHAN Mo-po, MH, JP

Hon CHAN Kin-por, JP

Dr Hon LEUNG Ka-lau

Hon CHEUNG Kwok-che

Hon WONG Kwok-kin, BBS

Hon IP Kwok-him, GBS, JP

Hon Mrs Regina IP LAU Suk-yee, GBS, JP

Hon Paul TSE Wai-chun

Dr Hon Samson TAM Wai-ho, JP Hon Alan LEONG Kah-kit, SC Hon LEUNG Kwok-hung Hon WONG Yuk-man

**Members absent** : Hon Albert HO Chun-yan

Hon Fred LI Wah-ming, SBS, JP Dr Hon Philip WONG Yu-hong, GBS

Hon Cyd HO Sau-lan Hon CHAN Hak-kan Hon Tanya CHAN

**Public Officers** attending

Agenda item II

Ms Linda LAI Wai-ming, JP

Deputy Secretary for Commerce and Economic

Development (Commerce and Industry)

Mr Raymond WU Wai-man

Principal Assistant Secretary for Commerce & Economic Development (Commerce & Industry)

Mr Michael LAM Siu-chung Senior Assistant Law Draftsman

Department of Justice

Ms Phyllis POON Hon-ying Senior Government Counsel

Department of Justice

Mr David Alan GROVER Senior Government Counsel

Department of Justice

**Clerk in attendance:** Ms Debbie YAU

Chief Council Secretary (1)6

**Staff in attendance:** Mr Timothy TSO

Assistant Legal Adviser 2

Miss Lilian MOK Council Secretary (1)7

#### <u>Action</u>

#### I Confirmation of minutes

(LC Paper No. CB(1)1504/10-11

-- Minutes of meeting held on 25 January 2011)

The minutes of the meeting held on 25 January 2011 was confirmed.

## II Meeting with the Administration

#### Matters arising from previous two meetings

(LC Paper No. CB(1)1523/10-11(01)	List of follow-up actions arising			sing		
	fı	rom	the	discussion	at	the
	meeting on 22 February 2011			1		

# Institutional arrangement

(LC Paper No. CB(1)1523/10-11(03) -- Administration's paper on institutional arrangement of the Bill (Chinese version only)

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LC Paper No. CB(1)320/10-11(02)

- -- Administration's information paper on overview of major components of the Competition Bill (paragraphs 3 to 14 on institutional arrangement)
- LC Paper No. CB(1)1355/10-11(03)
- -- Summary of views expressed by deputations on the institutional arrangement of the Bill, and the Administration's response

LC Paper No. CB(1)1523/10-11(04)

-- Supplementary summary of views expressed by deputations on the institutional arrangement of the Bill, and the Administration's response

LC Paper No. CB(1)320/10-11(03)

-- Assistant Legal Adviser's letter dated 26 October 2010 to the Administration (clause 143, Part 11 and Schedule 6)

LC Paper No. CB(1)1034/10-11(05)

- -- Administration's response to CB(1)320/10-11(03) (paragraphs 15 and 16))
- 2. <u>The Bills Committee</u> deliberated (Index of proceedings attached at **Appendix**).
- 3. <u>The Bills Committee</u> requested the Administration to provide written responses to the following concerns/requests
  - (a) conduct a research to study whether it would be conducive for Hong Kong to adopt the Herfindahl-Hirschman Index, which is a commonly accepted measure of market concentration in the United States, to calculate the market share of an undertaking;
  - (b) in view of the difference between "not having appreciable adverse effect" and "de minimis", address the concern whether the conduct of an undertaking, the threshold of which exceeded the "de minimis" level but such conduct did not have an appreciable adverse effect on competition, would be exempted from or caught by the Bill;

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- (c) provide information on the mechanisms adopted by other competition jurisdictions in making appointment of members to the regulatory authorities set up under their competition laws;
- (d) in relation to the proposed section 3(1) of Schedule 5 to the Bill concerning the terms of appointment of members of the Competition Commission (the Commission), consider changing the term of "remuneration" to "honorarium", and provide details of the amount of payment to be made to the chairperson and members of the Commission with reference to the current levels payable to chairmen and members of other similar statutory bodies in Hong Kong;
- (e) in relation to the proposed section 5(3) of Schedule 5 to the Bill concerning the definition of "officer", consider not regarding an independent non-executive director of an undertaking as an officer of the corporation; and
- (f) in view of the discrepancy between the Chinese and English texts of the proposed section 5(1)(d) of Schedule 5 to the Bill, consider amending the proposed section to achieve consistency.
- 4. <u>The Chairman</u> reminded members that the next meeting of the Bills Committee would be held on 29 March 2011 at 4:30 pm.

## III Any other business

5. There being no other business, the meeting ended at 6:30 pm.

Council Business Division 1
<a href="Legislative Council Secretariat"><u>Legislative Council Secretariat</u></a>
21 April 2011

## Proceedings of the tenth meeting of Bills Committee on Competition Bill on Tuesday, 15 March 2011, at 4:30 pm in Conference Room A of the Legislative Council Building

Time marker	Speaker	Subject(s)	Action required
000425 – 000503	Chairman	<ul> <li>(a) Opening remarks by the Chairman.</li> <li>(b) Confirmation of minutes of the meeting on 25 January 2011 (CB(1)1504/10-11).</li> </ul>	
000504 – 001455	Chairman Administration	The Administration outlined its response to members' views and concerns raised at the meeting of the Bills Committee on 22 February 2011 (CB(1)1523/10-11(02)).	
001456 - 002030	Chairman Mr Jeffrey LAM Administration	Mr Jeffrey LAM made the following enquiries —  (a) criteria that the Administration would base on in determining the threshold under the "de minimis" approach;  (b) whether the Administration would make reference to other competition jurisdictions to categorize undertakings as "competing" or "non-competing" and applied different thresholds on them; and  (c) whether there would be a mechanism in place for the future Competition Commission (the Commission) to review and adjust the threshold in tandem with market changes.  Noting that the Bill sought to prohibit agreements, concerted practices or decisions if its object or effect was to prevent, restrict or distort competition in Hong Kong, Mr LAM also expressed concern about the lack of clarity of the phrase "prevent, restrict or distort competition". In his view, day-to-day decisions and agreements made by the business sector often involved matters that might restrict counterparts' behaviours and hence, the business sector might fall foul of the conduct rules easily. As such, Mr LAM suggested revising the wording of the phrase to "substantially lessen competition".	
		The Administration responded that —  (a) the Government adopted an open attitude towards any suggested arrangements under the "de minimis" approach. While the application of different thresholds for undertakings categorized as "competing" or "non-competing" might involve complex issues, the Administration would decide on the way forward having regard to the local context and public views;	

Time marker	Speaker	Subject(s)	Action required
		(b) any behaviour with the object or effect to prevent, restrict or distort competition was improper and should be regulated by the competition law. Whilst enhancing one's competitiveness in the market would not be regarded as anti-competitive conduct, preventing others from entering into the market or restricting their business operation would fall within the scope of the Bill.	
002031 – 002148	Chairman Mrs Regina IP Administration	Mrs Regina IP noted the Administration's earlier view that market definition was essentially an economic test and had to be dealt with specifically on a case-by-case basis. She referred to the Herfindahl-Hirschman Index, which was a commonly accepted measure of market concentration in the United States, and requested the Administration to conduct a research to study whether it would be conducive for Hong Kong to adopt it to calculate the market share of an undertaking.  The Administration responded that they would study the	The Administration to provide information as requested in paragraph 3(a) of the minutes.
		Index and revert to the Bills Committee.	
002149 – 002742	Chairman Administration	The Chairman was pleased to note that the Administration was more forthcoming to the proposal of the Bills Committee to set out details of the "de minimis" approach in the Bill to allay worries of the Small and Medium Enterprises (SMEs).	
		The Chairman expressed his view on the "de minimis" or similar arrangements under the competition laws of selected jurisdictions. He asked whether the Administration would follow the practice of a particular competition jurisdiction or devise a framework that best fit Hong Kong after drawing reference to these jurisdictions.	
		The Administration reiterated that the Government adopted an open attitude towards the matter, i.e. whether to set out the threshold under the "de minimis" approach in the guidelines or in the law. Whilst the practice of the European Union (EU) of setting out the arrangements in the guidelines would provide sufficient flexibility to cater for variations over time, the guidelines were however non-binding on the courts. While providing a concrete threshold would help enhance legal certainty, an undertaking might take advantage of it by lowering the market share or turnover of the undertaking by setting up more undertakings. To address the possibility of circumventions adopted by undertakings, the "small agreement" approach of the United Kingdom under which the Office of Fair Trading might make a decision to withdraw the immunity if as a result of its investigation if	
		withdraw the immunity if, as a result of its investigation, it considered that the agreement was likely to infringe the competition law, would be a useful reference.	

Time marker	Speaker	Subject(s)	Action required
		The Chairman remarked that based on previous discussion of the Bills Committee, members preferred to set out the "de minimis" threshold in the principal Ordinance or its subsidiary legislation to provide more certainty.  The Administration assured members that they would take	
		into account members' views and brief the Bills Committee on the proposed "de minimis" arrangements once ready.	
002743 – 003518	Chairman Mr CHAN Kam-lam Administration	Mr CHAN Kam-lam welcomed the arrangement of setting out the "de minimis" threshold in the legislation and sought clarification whether hard-core conduct of an undertaking would also be exempted from the Bill if it did not exceed the threshold laid down in the "de minimis" approach.	
		The Administration clarified that the following "hard core" anti-competitive agreements, which were considered always to have an appreciable adverse effect on competition, were not protected by the competition law in the jurisdictions below:	
		(a) price-fixing, market allocation or output restriction in EU;	
		(b) price-fixing, bid-rigging, market sharing or output restriction in Singapore; and	
		(c) price-fixing in the United Kingdom (UK).	
		Mr CHAN stressed the need to spell this out clearly as SMEs might have an erroneous impression that having met the "de minimis" threshold, their behaviours would not be regulated by the Bill. To address the possible confusions that might arise after the enactment of the law, he urged the Administration to make it clear that even under the "de minimis" approach, "hard core" conduct would still be subject to regulation.	
		The Chairman echoed the observation of Mr CHAN and requested the Administration to take note of this observation.	
003519 – 003809	Chairman Ms Emily LAU Administration	Ms Emily LAU said that she also preferred to set out the threshold in the law instead of providing the future Commission the discretion to determine the level, as this would allay worries of SMEs. She requested the Administration to seek to brief SMEs on the key elements of the Bill, including the "de minimis" arrangements.	
		Ms LAU referred to the open letter entitled "Response to Objections to the Hong Kong Competition Bill" (LC Paper No. CB(1)1506/10-11(01)) from 22 scholars and academics in Hong Kong and other places, and urged the	

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		Administration to consult them should there be any proposed amendments to the Bill. The Administration indicated that it had maintained regular contacts with some of the scholars.	
003810 – 004411	Chairman Ms Miriam LAU Administration	Ms Miriam LAU considered the "de minimis" approach a reasonable arrangement to provide immunity to the conduct of those undertakings which did not have an appreciable adverse effect on competition. Citing the case in which there might be few small-scale undertakings in the market of a rare industry but the market share of individual undertakings would have exceeded the "de minimis" threshold, she asked whether these undertakings would be exempted from the first conduct rule.	
		The Administration explained that apart from measuring the undertaking's market share, there were other arrangements under the "de minimis" or similar approach. For instance, under the UK Competition Act, , if the combined applicable turnover of "small agreements" between undertakings did not exceed a certain amount, they would be immune from pecuniary penalty. The Administration also supplemented that the future Commission might consider granting block exemption to an industry for a certain period of time if that particular industry proved to bring economic benefit to the community.	
004412 – 005331	Chairman Ms Audrey EU Administration Assistant Legal Adviser (ALA)	Ms Audrey EU expressed concern about the meaning of "de minimis" and the difference between "not having appreciable adverse effect" and "de minimis".  The Administration advised that the term "de minimis" was commonly used in other competition jurisdictions and the notion of "appreciable effect" formed part and parcel of the "de minimis" arrangements under their competition laws. At this point, ALA expressed his view that the two notions might not be exactly the same.  In view of the difference between "not having appreciable adverse effect" and "de minimis", Ms EU requested the Administration to address the concern whether the conduct of an undertaking, the threshold of which exceeded the "de minimis" level but such conduct did not have an appreciable adverse effect on competition, would be exempted from or caught by the Bill. She also opined that the Chinese translation of "de minimis" should be "微不足"	The Administration to provide information as requested in paragraph 3(b) of the minutes.
005332 – 005603	Chairman Mr Ronny TONG	道".  Mr Ronny TONG expressed concern that it might not be appropriate if the market share of an undertaking was a	
	Administration	criterion for the future Commission to consider granting exemption. He said that there might be cases in which an undertaking, whose market share level, while insignificant	

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		territory-wide speaking, was quite substantial at the district level, would engage in hard-core anti-competitive practices. In this connection, Mr TONG held the view that it might not be comprehensive enough if only the market share or business turnover of an undertaking would be taken into account during consideration of granting immunity.	
		Noting this observation, the Administration reiterated that "hard core" anti-competitive conducts such as price-fixing were not exempted by other competition jurisdictions.	
005604 – 010218	Chairman Mr LEUNG Kwok-hung Administration	Sharing similar view of Mr Ronny TONG, Mr LEUNG Kwok-hung gave vivid examples to further elaborate how an undertaking, which did not have substantial market share, might still exercise great influence on market competition at district level.	
		Addressing the concern of Mr LEUNG, the Administration reiterated that any anti-competitive conduct would be prohibited if the object or effect of it was to prevent, restrict or distort competition in Hong Kong. In case a contravention of the conduct rule had occurred, the Commission might issue an infringement notice or apply to the Tribunal to require the infringing undertaking to, amongst others, refrain from or take any specified action that the Commission considered appropriate.	
010219 – 010801	Chairman Mrs Regina IP Administration	Referring to the block exemption for ocean shipping conferences in Singapore, Mrs Regina IP requested the Administration to consider whether block exemption order would be given to a particular industry. The Administration advised that according to clause 15 of the Bill, the future Commission might issue a block exemption order if it was satisfied that a particular category of agreement was an excluded agreement.	
		Mrs IP considered it not desirable to give general blanket exemption to all statutory bodies from the purview of the Bill as some of them were heavily engaged in economic activities. She also relayed the view of the Law Society on the Bill that rather than exempting all statutory bodies from the conduct rules (with regulations used to "opt-in" those that were engaging in economic activities), it would be preferable to have an agreed list of statutory bodies which were subject to the conduct rules or an agreed listing of statutory bodies which were exempt from the conduct rules annexed to the Bill.	
		The Administration responded that as activities of many statutory bodies were non-economic and regulatory in nature or involved provision of essential public services, the Administration considered it appropriate that exemptions should be given to them first to ensure the	

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		efficient implementation of public policies while working on the list of proposed statutory bodies or their activities which would be brought under the purview of the Bill.	
010802 – 011354	Chairman Mr LEUNG Kwok-hung Administration	Mr LEUNG Kwok-hung quoted "The Link" as an example and commented that it had been engaging in market allocation by inviting large consortia to operate business in public housing estates while pricing out SMEs from the market.	
		The Administration emphasized that some but not all market problems could be resolved by the competition law. Any undertaking which abused its market power by engaging in conduct that had as its object or effect the prevention, restriction or distortion of competition in Hong Kong would be regulated by the Bill. Nevertheless, Hong Kong was a free economy and property owners had full autonomy to select their tenants. It is important to have legal provisions to enable investigation into conducts that might contravene the competition rules.	
011355 - 011800	Chairman Administration	Continuation of clause-by-clause examination Clauses 130 to 132	
		Members did not raise any queries.	
011811 – 012333	Chairman Administration Ms Emily LAU ALA	Schedule 5 - Proposed section 2 - Composition of Commission  Addressing Ms Emily LAU's concern, the Administration advised that in line with the existing practice, members of the Commission would be appointed by the Chief Executive. ALA advised that apart from this, for some other statutory bodies, members would be appointed by the Chief Executive upon nomination made within a certain sector. Ms LAU requested the Administration to provide information on the mechanisms adopted by other competition jurisdictions in making appointment of members to the regulatory authorities set up under their competition laws.  The Administration remarked that the proposal for the Commission to consist of not less than 5 members would help ensure that sufficient number of members could be appointed to effectively discharge the statutory duties of the Commission. ALA advised that it was also one of the usual practices for statutory bodies to consist of not less than a certain number of members.	The Administration to provide information as requested in paragraph 3(c) of the minutes.
012334 – 013114	Chairman Administration Mrs Regina IP	Schedule 5 - proposed section 2 - Composition of Commission  Mrs Regina IP held the view that it might not be appropriate for the Commission to consist of not less than a	

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		certain number of members because specialist knowledge in competition regulation in Hong Kong was limited, as pointed out by PCCW Limited (PCCW) in its submission (CB(1)1355/10-11(04)). According to PCCW, the Broadcasting Authority (BA) had reviewed very few competition matters since the Broadcasting Ordinance (Cap. 562) was adopted in 2000 and outside consultants were ordinarily hired for reviewing the matters. She cited a professor's comments in PCCW's submission about the deficiencies of the BA's approach and analysis, and hence decisions about the cases, and highlighted PCCW's objection to the proposed concurrent jurisdiction mechanism under the Bill which, in PCCW's view, was not global best practice. Mrs IP said that one of the reasons for her objection to the Bill was the lack of competition expertise in Hong Kong. She asked whether outside consultants would be engaged to advise the Commission on competition matters.  The Administration responded that in considering the appointment of a person as a member of the Commission, the Chief Executive might have regard to that person's expertise or experience in, inter alia, economics and law. It was common for overseas competition authorities to be	
		made up by legal and accounting professionals and scholars. Moreover, it was proposed that the Commission would be underpinned by an executive arm comprising experts with legal, accounting and economics background. The proposed concurrent jurisdiction mechanism was intended to retain the specialist knowledge of the Telecommunications Authority and BA in competition regulation and they could share the workload of the Commission at the initial stage. As regards the engagement of outside consultants, the Administration advised that the Competition Tribunal might appoint specialized experts to act as assessors to assist in proceedings and provide relevant expertise.  Mrs IP expressed concern that experts engaged from overseas might have difficulties in adapting to the local	
013115 – 013227	Chairman Administration Ms Emily LAU	Schedule 5 - Proposed section 2 - Composition of Commission  Mo. Emily, I.A.H. noted that according to the proposed.	
		Ms Emily LAU noted that according to the proposed section 2(3), a Commission member who held office for a period of not exceeding 3 years was eligible for re-appointment, and asked about the number of re-appointment that could be made.	
		The Administration advised that while the Government's internal policy was to appoint the same member to serve in the same committee for a maximum of six years, the	

Time marker	Speaker	Subject(s)	Action required
		present drafting provided flexibility for appointing the same member to serve in the Commission for more than six years should circumstances so require.	
013228 – 014437	Chairman Administration Mrs Regina IP Ms Emily LAU Ms Miriam LAU Mr LEUNG Kwok-hung	Schedule 5 - Proposed section 3 – Terms of appointment  Mrs Regina IP noted that members of the Commission were entitled to, inter alia, remuneration and allowances. Pointing out that it was common for the Government to provide honorarium and/or allowance to members of statutory committees, Mrs IP requested the Administration to consider changing "remuneration" to "honorarium".  Ms Emily LAU considered it not appropriate to use "remuneration" unless being a Commission member was a full-time job. She also enquired about the rough amount	The Administration to provide information as requested in paragraph 3(d) of the minutes.
		payable to them per month. Ms Miriam LAU opined that remuneration implied employment relationship and urged the use of the term should be consistent with the one used in other ordinances.	
		The Administration advised that while being the chairperson or a member of the Commission was not a full-time job, remuneration, which was applicable to both full-time and non full-time positions, was broadly similar to honorarium. The levels of payment were yet to be decided having regard to the estimated workload and with reference to the current levels payable to the chairperson of the Securities and Futures Commission (about \$50,000 to \$60,000 per month) and to the chairperson and members of the Independent Police Complaints Council (about \$40,000 and \$20,000 per month respectively).	
		Mr LEUNG Kwok-hung considered that the Commission would be embarking a new endeavour and should be provided with higher levels of payment.	
014438 – 014811	Chairman Administration Mr Jeffrey LAM ALA	Schedule 5 - Proposed section 2 - Composition of Commission  Mr Jeffrey LAM requested the Administration to undertake to appoint person(s) from the business sector as a member of the Commission. Taking note of Mr LAM's request, the Administration said that before making the relevant appointment, the Chief Executive might have regard to that person's expertise or experience in, amongst others, commerce.	
		Noting ALA's advice that notices concerning statutory appointments were in general not subsidiary legislation, Ms Emily LAU requested the Administration to consider making the notice published by the Chief Executive of all appointments to the Commission subsidiary legislation so that the list could be scrutinized by the Legislative Council.	

Time marker	Speaker	Subject(s)	Action required
		In response, the Administration considered the present arrangement appropriate.	
014812 – 014953	Chairman Administration Mr CHAN Kam-lam	Schedule 5 - Proposed section 4 – Resignation of member  In reply to Mr CHAN Kam-lam's question, the Administration advised that a notice of resignation took effect on the date on which the notice was received by the Chief Executive.	
014954 – 015917	Chairman Administration Mr Jeffrey LAM Mrs Regina IP Ms Emily LAU ALA	Schedule 5 - Proposed section 5 – Removal from office  Mr Jeffrey LAM considered that an undertaking's independent non-executive director(s) who did not participate in the daily management of the corporation should not be considered as an officer, which meant in relation to a corporation, a director etc, under the proposed section.	The Administration to provide information as requested in paragraph 3(e) of the minutes.
		The Administration referred to the definition of "director" in clause 2 which included any person occupying the position of director irrespective whether he/she was involved in the management of the company. It assured members that even an undertaking had been found to have contravened a competition rule (proposed section 5(1)(e)) or had made a commitment with the Commission (proposed section 5(1)(g)), the Chief Executive had a discretion whether or not to remove the member who was an independent non-executive director of the undertaking in question from office. Mr LAM requested the Administration to consider not regarding an independent non-executive director of an undertaking as an officer of the corporation.	
		Mrs Regina IP enquired whether a Commission member would be removed from office if his/her company was being investigated for possible contravention of a competition rule. The Administration responded that while the proposed section 5(1)(f) would not apply unless the undertaking had been found to have contravened a competition rule, the member concerned should comply with a conflict of interest disclosure obligation made pursuant to the section 32 of Schedule 6.	
		In reply to Ms Emily LAU's enquiry, the Administration said that the power of removal from office rested with the Chief Executive. ALA advised that while the Bill did not provide any appeal or review mechanism, the member concerned might –apply for judicial review against the decision of the Chief Executive in appropriate circumstances.	
		In response to ALA's concern about the discrepancy between the Chinese and English texts of the proposed	

Time marker	Speaker	Subject(s)	Action required
		section 5(1)(d), the Administration agreed to consider amending the proposed section to achieve consistency.	
015918 – 015930	Chairman	Date of next meeting.	

Council Business Division 1 Legislative Council Secretariat 21 April 2011