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Report of the Panel on Commerce and Industry for submission to the Legislative Council

Purpose

This report gives an account of the work of the Panel on Commerce and Industry ("the Panel") during the 2018-2019 session of the Legislative Council ("LegCo"). It will be tabled at the Council meeting of 3 July 2019 in accordance with Rule 77(14) of the Rules of Procedure.

The Panel

2. The Panel was formed by a resolution passed by the Council on 8 July 1998 and as amended on 20 December 2000, 9 October 2002, 11 July 2007 and 2 July 2008 for the purpose of monitoring and examining Government policies and issues of public concern relating to commerce and industry. The terms of reference of the Panel are in **Appendix I**.

3. The Panel comprises 20 members, with Hon YIU Si-wing and Hon Alvin YEUNG elected as Chairman and Deputy Chairman respectively. The membership list of the Panel is in **Appendix II**.

Major work

Trade measures

4. With the latest ever-changing developments of the trade conflict between the Mainland and the United States ("US"), the Panel discussed with the Administration various related issues in the session. The Panel noted that the Administration would continue to adopt a multipronged strategy to assist the trade in diversifying business activities and capitalizing on the opportunities offered by the Guangdong-Hong

Kong-Macao Greater Bay Area ("Greater Bay Area") Development and the Belt and Road Initiative. In addition to cooperating with other member economies in the World Trade Organization ("WTO") and Asia-Pacific Economic Cooperation ("APEC") to advance trade facilitation, the Administration would seek to establish stronger bilateral ties with like-minded trading partners and deepen Hong Kong's economic integration with different parts of the world through negotiating and forging Free Trade Agreements ("FTAs") and investment agreements ("IAs"), strengthen promotion of inward investment, seek to enhance and enrich the content of the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA"), enhance the support for Hong Kong enterprises, and leverage the Belt and Road Initiative and the Greater Bay Area Development.

Trade facilitation work in the World Trade Organization and Asia-Pacific Economic Cooperation

5. When discussing with the Administration on Hong Kong's trade facilitation initiatives in WTO and APEC in the past two years, members opined that it was important to enhance the competitiveness and internationalization of micro, small and medium sized enterprises ("MSMEs") in the digital era through spearheading the development of the APEC-wide cooperative online dispute resolution framework, and suggested that effort should be made to promote the use of digital technology to enhance the competitiveness of MSMEs. Members also considered it important that Hong Kong, as a founding member of WTO, should continue to strive for the promotion of free trade and reduction of trade barriers, and agreed with the Administration's direction to actively participate in the reform of the multilateral trading system. In view of the US's withdrawal from the Trans-Pacific Partnership in 2017 in pursuit of other bilateral or regional trade agreements, including the United States-Mexico-Canada Agreement signed in November 2018, members expressed concern about the possible negative impacts on Hong Kong's international trade policies. On this, the Administration advised that despite the recent changes in the US trade policies which had created uncertainties in the global trade environment, the US was still a signatory to the WTO Agreement on Trade Facilitation, which reflected that all WTO Members, including the US, had attached great importance to trade facilitation.

Expanding Hong Kong's network of Free Trade Agreements

6. Hong Kong has been adopting a comprehensive strategy to leverage the advantages under "one country, two systems" and the unique

status on external, economic and trade relations conferred on Hong Kong by the Basic Law,¹ thereby further strengthening Hong Kong's economic and trade position. The signing of FTAs and IAs with trading partners helps secure favourable conditions for exports of goods and services from Hong Kong to the Mainland and international markets. So far, Hong Kong has signed eight FTAs with 20 economies² and 20 IAs with 29 economies.³

7. During the session, the Panel gave views on the Administration's plan to expand Hong Kong's network of FTAs and received a briefing on 16 April 2019 from the Administration on the FTA and IA which was newly signed between Hong Kong and Australia on 26 March 2019. Members appreciated the efforts made by the Administration in concluding the FTA and IA with Australia which are comprehensive in scope and are modern and of high standard. Members were pleased to note that the overall commitments go beyond those undertaken by Hong Kong and Australia respectively under WTO, providing legal certainty to more favourable market access and treatment to each other. Against the prevailing uncertainties in the global economy, the FTA with Australia provided enhanced transparency and predictability for trade and investment and contributed to the rules-based trading system. Members also noted that according to the most-favoured-nation treatment under the FTA with Australia, service providers of each side are enabled to enjoy the other side's additional service commitments in its future FTAs.

8. Noting that Australia would be committed to liberalizing full range of its arbitration, conciliation and mediation services and certain rail transport services, which Australia had not offered to its other FTA partners (except New Zealand), members considered that the Administration should

¹ In accordance with Articles 116 and 151 of the Basic Law, the Hong Kong Special Administrative Region, as a separate customs territory, may, using the name "Hong Kong, China", sign and implement agreements with its trading partners in fields including the economic, trade, etc.

² The 20 economies are Mainland China (i.e. the Mainland and Hong Kong Closer Economic Partnership Arrangement), New Zealand, the four member states of the European Free Trade Association (i.e. Iceland, Lichtenstein, Norway and Switzerland), Chile, Macao, the ten member states of the Association of Southeast Asian Nations ("ASEAN"), Georgia, and Australia.

³ The 29 economies are the Netherlands, Australia (Hong Kong signed the Investment Promotion and Protection Agreement with Australia in 1993), Denmark, Sweden, Switzerland, New Zealand, Italy, France, Germany, Belgo-Luxembourg Economic Union, Austria, Japan, Republic of Korea, the United Kingdom, Finland, Kuwait, Canada, Chile and the ten member states of ASEAN.

make good use of the preferential treatment and capitalize on the opportunities arising from the Belt and Road Initiative by promoting Hong Kong's strength in arbitration services. In the course of discussion, members also expressed concern about the provisions in relation to the non-discriminatory treatment in compensation for investment losses attributed to armed conflict or civil strife, and Australia's commitments relating to tourism and air transport services.

9. On the other hand, members sought details of the implementation progress of the FTA between Hong Kong and the Association of Southeast Asian Nations ("ASEAN") which was signed in 2017. The Administration advised that the FTA with ASEAN came into force on 11 June 2019. In view of the notable increase in the total trade volume between Hong Kong and ASEAN (particularly Singapore and Malaysia) in 2018, the Administration considered that the FTA with ASEAN had a stimulus effect on the trading activities between the two parties. Noting that the industry had started to relocate the manufacturing lines to Vietnam and other ASEAN Member States due to the trade conflicts between the Mainland and the US, members urged the Administration to study the trend and destinations for relocation and accordingly set up additional Hong Kong Economic and Trade Offices in other parts of ASEAN.

10. As regards the Administration's work to expand Hong Kong's FTA network, members suggested that Hong Kong should explore the possibility of Hong Kong's accession to the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership. They were also concerned about the progress of Hong Kong's accession to the Regional Comprehensive Economic Partnership⁴ and the progress of the negotiation for an FTA with the Pacific Alliance.⁵ Taking note of the special features of the FTA with Australia, members urged the Administration to seek to enhance the existing FTAs and to sign more new FTAs of high standards comparable to the one with Australia.

Promotion of inward investment

11. Another area of concern of the Panel in the session was the Administration's work in promoting inward investment. At its meetings on 19 February and 21 May 2019, the Panel respectively received a briefing by the Administration on the findings of the survey of companies in Hong Kong with parent companies located outside Hong Kong and the

⁴ Participating economies include the 10 member states of ASEAN, Australia, Mainland China, India, Japan, Korea and New Zealand.

⁵ Members include Chile, Colombia, Mexico and Peru.

survey of start-ups in Hong Kong ("the two surveys"), and an update on the latest progress and results of the work of the Invest Hong Kong ("InvestHK") and the work plan for the coming year.

12. Members agreed that the two surveys conducted annually not only could help InvestHK better understand the needs of foreign companies in Hong Kong and tailor its promotion of Hong Kong as a leading destination for foreign direct investment, but could also help keep track of the start-up scene with a view to creating a more robust start-up ecosystem in Hong Kong.

13. Members expressed concern on whether Hong Kong had been overly dependent upon Mainland China as the source of inward investment. Given that companies would be seizing business opportunities arising from the Greater Bay Area development, members urged the Administration to maintain Hong Kong's comparative advantages as a major hub for start-ups. The Administration advised that Mainland China's top ranking as the source for inward investment could be explained by the Mainland enterprises' penchant for choosing Hong Kong as a destination for public listing and financing. There were also comparable numbers of companies from other markets (e.g. Japan and the US) that used Hong Kong as a base for business expansion. As regards the comparative advantages of Hong Kong's start-ups, it was evident from the findings of the 2018 survey of start-ups that the start-up community in Hong Kong was highly international in composition.

14. Members urged the Administration to attract more enterprises including innovation and technology ("I&T") start-ups from the ASEAN region to set foot in Hong Kong. There was also a concern about the impact of other factors, such as press freedom, on Hong Kong's attractiveness for overseas companies as a destination for foreign direct investment. The Administration advised that it was committed to enhancing Hong Kong's global competitiveness, and would keep in view the ranking surveys regarding various factors carried out by global think-tanks and similar organizations.

15. Members in general appraised the good results of InvestHK's work in 2018, which had completed a record number of 436 projects, involving direct investment of more than HK\$22.9 billion and creating 5 268 jobs within the first year of operation or expansion. Looking ahead, members urged InvestHK to promote the free flow of talent, capital and goods and services across the Greater Bay Area so as to bolster Hong Kong's inward investment environment.

16. While InvestHK achieved good results in 2018, members urged InvestHK to adjust its promotion strategy in response to the unstable global trade condition and the trade conflict between the Mainland and the US. The Administration advised that most of the investors as approached by InvestHK still saw Asia as the engine of global economic growth. In the face of the rise of protectionism at the international level, InvestHK would continue to diversify its work on the global scale.

17. There was also a call for InvestHK to invite representatives from the tourism and hospitality industry to join its promotional delegations to reap direct benefits. Some members suggested that InvestHK should promote Hong Kong as an international maritime hub in the face of keen competition from neighbouring countries such as Singapore. Noting that Hong Kong had a robust regulatory regime for pharmaceutical products and well-established pharmaceutical as well as testing and certification industries, members urged InvestHK to attract pharmaceutical companies from the Mainland and overseas to set up production lines in Hong Kong.

Enhancing and enriching the content of the Mainland and Hong Kong Closer Economic Partnership Arrangement

18. The Mainland and Hong Kong signed CEPA in 2003. Thereafter, pursuant to Article 3 of CEPA, the two sides have broadened and enriched the content of CEPA and signed ten Supplements and a number of subsidiary agreements. On 14 December 2018, the Mainland and Hong Kong signed the Agreement on Trade in Goods ("the Agreement"), consolidating and updating the commitments on liberalization and facilitation of trade in goods under CEPA. The Panel received a briefing from the Administration on the salient points of the Agreement at the December regular meeting.

19. Members in general welcomed the signing of the Agreement to further enhance the level of trade exchanges between the Mainland and Hong Kong, in particular, the flow of goods within the Greater Bay Area. To complement and strengthen Hong Kong's competitiveness in trade in goods and position as a logistics hub, members urged the Administration to formulate trade facilitation measures under the Agreement to facilitate the interconnectivity of the single windows among the nine Pearl River Delta municipalities and Hong Kong's Trade Single Window. Members also considered it important for the Administration to work out with the Mainland authorities an implementation timetable for the trade facilitation measures to expedite customs clearance of goods to facilitate movement of goods in the Greater Bay Area. There was a view that the Administration should step up promotion overseas to attract more high value added

industries such as pharmaceutical and biotechnology companies to set up bases in Hong Kong by leveraging the zero tariff preference under the Agreement, and to continue to strive for national treatment and facilitation measures under CEPA in respect of cultural and creative industries, as well as professional services.

20. Members also called on the Administration to leverage the Agreement to attract Hong Kong enterprises to relocate their production lines from the Mainland back to Hong Kong, and to strive for the allocation of more land for the development of Hong Kong's logistics industry in the face of keen competition from neighbouring Mainland cities. While appreciating that with the introduction of the General Rule for calculation of the value added to the products, the number of items covered under CEPA would be increased by about 6 000 items, members urged the Administration to consider striving for a much wider scope of products to be covered under CEPA.

Further enhancements to the Dedicated Fund on Branding, Upgrading and Domestic Sales

21. Amid the trade conflict between the Mainland and the US, the Administration advanced the launch of the enhancement measures to the Dedicated Fund on Branding, Upgrading and Domestic Sales ("BUD Fund") to 1 August 2018 to assist the trade in developing new markets and diversifying risks, including the launch of the ASEAN Programme under the BUD Fund to provide funding support to eligible Hong Kong enterprises in carrying out projects that aimed to enhance their competitiveness and further business development in the ASEAN markets. At its meeting on 16 April 2019, the Panel was briefed on the progress of implementation of the measures introduced in August 2018 to enhance the BUD Fund, and gave views on the 2019-2020 Budget initiative of a further injection of HK\$1 billion into the BUD Fund with further proposed enhancement measures.

22. Whilst supporting in principle the proposed further injection to support Hong Kong enterprises, members called on the Administration to provide quantitative data on the contributions of the BUD Fund to Hong Kong's economy and/or employment situation to substantiate solidly the further capital injection into the BUD Fund. They were of the view that the BUD Fund grantees should be required to meet certain quantitative performance requirements. Concern was also raised about the low success rate for the Trade and Industrial Organisation Support Fund

("TSF")⁶ under the BUD Fund that only a few applications were approved between October 2018 and March 2019. To help raise the success rate of the funding applications, members suggested that a platform be established for applicants to share application-related experience. The Administration advised that it had further simplified the application procedures and had organized sharing sessions for applicants to share their experience in applying for the BUD Fund. The respective success rates of the various funding schemes for enterprises had as a result been substantially improved. The Administration also advised that the seemingly small number of applications approved under TSF could be attributed to the fact that a number of applications were still being processed.

23. Members also took the opportunity to urge the Administration to assist Hong Kong enterprises in resolving the problems they encountered in opening bank accounts. The Administration advised that it had engaged the Hong Kong Monetary Authority ("HKMA") and the banking industry through direct dialogue to help small and medium enterprises ("SMEs") overcome such difficulties. HKMA had issued a circular to local banks emphasizing the need to apply customer due diligence in a balanced manner.

Guangdong-Hong Kong-Macao Greater Bay Area Development

Outline Development Plan for the Greater Bay Area

24. The Greater Bay Area Development is a key national development strategy. In the past year, relevant central ministries and the governments of Guangdong and Macao and the Hong Kong Special Administrative Region Government ("HKSARG") continued to proactively take forward work relating to the Greater Bay Area Development and achieved good progress. Following a three-day Joint-Panel duty visit with the Panel on Economic Development, the Panel on Financial Affairs, and the Panel on Information Technology and Broadcasting to five cities⁷ in the Greater Bay Area from 20 to 22 April 2018 to better understand the development plan, the Panel held a joint meeting in March 2019 with the other three Panels for the Administration to brief members on the Outline Development Plan

⁶ The Dedicated Fund on Branding, Upgrading and Domestic Sales originally comprised the Enterprise Support Programme and the Organisation Support Programme ("OSP"), providing funding support to non-listed Hong Kong enterprises and non-profit-distributing organisations respectively. OSP was merged with the former SME Development Fund to form the Trade and Industrial Organisation Support Fund in October 2018.

⁷ The five cities are Guangzhou, Shenzhen, Foshan, Dongguan and Zhongshan.

for the Greater Bay Area ("Outline Development Plan") promulgated by the Central Government on 18 February 2019 and the related work of HKSARG in taking forward the Outline Development Plan.

25. In the course of discussion, some members expressed concern that in focusing its efforts on formulating policies and measures pertaining to the Outline Development Plan, the Administration would become lax in taking forward other initiatives which could be equally important to the development of Hong Kong. Some members were also concerned that the Outline Development Plan could cause a brain drain of Hong Kong's talents who might choose to pursue a career in other places of the Greater Bay Area. The Administration advised that the Outline Development Plan had set out the respective positioning of the cities concerned with a view to avoiding vicious competition and homogenization. A number of measures were in place for attracting and retaining talents and the Administration would regularly review such measures to ensure effectiveness.

26. Members called on the Administration to formulate an I&T industrial policy to facilitate the commercialization of research and development ("R&D") outcomes, and to include artificial intelligence ("AI") coding in the regular science, technology, engineering and mathematics curricula of primary schools in order to groom local I&T talents at an early age, so that they could embrace the opportunities offered by the Greater Bay Area Development.

27. Concerning the channels for Mainland and Hong Kong residents to invest in financial products in each other's market, members suggested that the Administration should consider establishing a cross-boundary financial channel with a closed-loop system to address the Mainland authorities' concern about the outflow of funds. There was a view that help desks should be set up in Hong Kong to provide one-stop service to overseas entrepreneurs looking for trade and investment opportunities in the Greater Bay Area. Moreover, the Administration should widen the scope of use of Hong Kong's e-wallets in the Mainland, and help Hong Kong and Macao residents who sought to purchase properties in the Greater Bay Area take out mortgages in Hong Kong. There was also a view that the Administration should strive for relaxation of the restrictions on the issuance of cross-boundary vehicle licences to facilitate businessmen to travel to and from the Mainland, and to introduce measures to better protect Hong Kong enterprises' interests in patent, trademarks and intellectual property ("IP"). In addition, the Administration was urged to map out the strategies for collaborations among the 11 Greater Bay Area cities in tourism promotion.

28. The Administration advised that the eight policy measures, which included the method for calculating the 183 days for paying individual income tax on the Mainland, and the tax relief offered by municipal governments to non-Mainland high-end talents, introduced by the Central Government for taking forward the Greater Bay Area Development aimed to facilitate Hong Kong residents to develop, work and reside in the Mainland cities of the Greater Bay Area, as well as strengthen the convenient flow of people and goods within the Greater Bay Area. As regards the effort to promote tourism in the Greater Bay Area, the Administration advised that it had been pursuing development strategies to formulate different tourism initiatives and measures so as to develop Hong Kong into a world-class premier tourism destination, and would continue to strengthen exchanges and collaborations with the Mainland tourism authorities to facilitate the trade in developing more multi-destination tourism products and itineraries.

Creation of directorate posts for the new Greater Bay Area Development Office

29. The Panel was briefed on the role and functions of the Greater Bay Area Development Office and was consulted on the Administration's proposed directorate establishment at the Office, which included the creation of two supernumerary directorate posts, namely the Commissioner for the Development of the Greater Bay Area ("CGBA") to head the Greater Bay Area Development Office, and an Assistant Commissioner for the Development of Greater Bay Area for four years, as well as 17 additional non-directorate time-limited posts for four years to implement the relevant work. Members in general supported the staffing proposal.⁸

30. Given that the development of the Greater Bay Area would be a long term national strategy, members enquired about the rationale for not creating the proposed directorate and non-directorate posts on a permanent basis. The Administration explained that it had taken a prudent approach by first creating supernumerary directorate posts and time-limited non-directorate posts. The long term need of manpower and a dedicated Office would be reviewed nearer the time having regard to the work arising from the progress and development of the Greater Bay Area. Members also enquired about the performance measurements to be taken for the proposed CGBA. The Administration advised that it might not be practical to set specific targets for the proposed CGBA. The key was his/her work in securing the required policy breakthrough and innovation in

⁸ The Establishment Subcommittee approved the relevant staffing proposal on 15 May 2019.

taking forward the development of the Greater Bay Area.

31. There was a view that the proposed CGBA should provide comprehensive information to Hong Kong people on matters about investing, living, working and travelling in the Greater Bay Area. Members called on the Administration to gauge public views on the Outline Development Plan and to consult the public extensively when formulating concrete policies and measures to implement the Outline Development Plan.

32. During the discussion of the staffing proposal, some members expressed reservation on the setting up of the Greater Bay Area Development Office as they were worried that the development of the Greater Bay Area would lead to economic restructuring in Hong Kong and bring negative impacts on Hong Kong's overall economic growth. They were also worried that HKSARG's active participation in the development of the Greater Bay Area would eventually prompt foreign investments and I&T talents from settling in other cities in the Greater Bay Area. On this, the Administration had been urged to safeguard Hong Kong's interests and prepare for the challenges ahead.

33. There was also a suggestion that in order to consolidate Hong Kong's role as the southern gateway for the Mainland and attract foreign investments to enter the Greater Bay Area through Hong Kong, the Administration should identify and assist major Mainland institutions, such as the China National Intellectual Property Administration, to set up branch offices in Hong Kong. The Administration replied that the Greater Bay Area Development Office would act as the focal point of liaison with Mainland authorities and the Macao Special Administrative Region Government.

Promotion of intellectual property trading

34. The Administration has been taking a wide range of measures to promote IP commercialisation and IP trading in Hong Kong, and to strengthen Hong Kong's role as an IP trading hub in the Asia-Pacific region. In the session, the Panel received an update by the Administration on the major progress made so far and gave views on the Administration's work plans in the pipeline for the promotion of IP trading in Hong Kong.

35. Members noted that as stated in the Outline Development Plan, one of the strategies to develop the Greater Bay Area into an international I&T hub was to fully leverage the advantages of Hong Kong in IP protection and related professional services, and to support the

development of Hong Kong as a regional IP trading centre. While some members urged the Administration to promote Hong Kong's competitive edge on IP protection in the Mainland, some other members expressed concern that Guangdong-Hong Kong-Macao cooperation might bring negative impacts on Hong Kong's international reputation on IP protection. The concerned members urged the Administration to assist Hong Kong companies in protecting their IP when doing businesses in the Mainland.

36. The Administration advised that the deepened cooperation as stated in the Outline Development Plan would facilitate the realization of economic values of I&T inventions and assist businesses in the Greater Bay Area to open to new markets. The Administration also advised that, as IP rights were territorial in nature, Hong Kong companies might take legal actions in the Mainland or seek help from the local enforcement agencies, if their IP rights were infringed there. The IP authorities of Guangdong and Hong Kong had set up the Guangdong/Hong Kong Expert Group on the Protection of Intellectual Property Rights to foster cooperation in IP protection.

37. Members took the opportunity to call on the Administration to conduct afresh the legislative exercise to amend the Copyright Ordinance (Cap. 528) ("CO") as they considered that the existing CO could not keep pace with technological and international developments to enhance copyright protection in the digital environment. On the other hand, there was a view that the Administration should first consider how CO should be amended in the light of the latest international development of the copyright law.

38. The Administration did not envisage that it was possible to come up with proposals acceptable to various stakeholders as the positions of major stakeholders on the copyright regime still remained very diverse. That said, the Administration would continue to enhance the IP regime to meet Hong Kong's socio-economic needs. Law enforcement agencies would continue to take vigorous enforcement action against infringing activities.

Innovation and Technology

39. I&T has been a key policy agenda of the current-term Government. The 2018 Policy Address announced by the Chief Executive on 10 October 2018 proposed a number of policies and measures to further promote I&T development.

The Innovation and Technology Fund

40. During the session, the Panel discussed with the Administration the latest progress of the funding schemes under the Innovation and Technology Fund ("ITF"), and gave views on the Administration's proposal to continue and increase the funding support through ITF for State Key Laboratories ("SKLs"), Hong Kong Branches of Chinese National Engineering Research Centres ("CNERCs"), Technology Transfer Offices ("TTOs") of designated local universities, and the Technology Start-up Support Scheme for Universities ("TSSSU"), as well as the related enhancement measures. Members in general supported the Administration's proposal but raised concern over the effectiveness of ITF and achievements of the ITF funded projects. Some members considered that the Panel should not evaluate ITF by simply studying ITF's total expenditure and the number of successful projects. To better understand the effectiveness of various funding schemes under ITF, members urged the Administration to consider including in its future reports to the Panel information on the achievements of ITF in terms of number and education level of the R&D talent funded by the various schemes under ITF, as well as the commercial value of the technology products/services realized from ITF funded R&D projects.

41. As regards the vetting and approval procedures of funding applications under ITF, members relayed the comments from I&T start-ups and SMEs that they found it difficult to handle the administrative work associated with their ITF funding application due to the lack of experience and resources. Members called on the Administration to speed up the processing time for ITF applications. Noting that applicant enterprises might apply for support from more than one funding scheme for the same R&D project, members urged the Administration to further consider consolidating funding schemes of similar nature so as to make the application procedures more user-friendly, and called on the Administration to remind ITF applicants to consider applying for additional funds from other applicable funding schemes.

42. Members also suggested that: (a) ITF's annual expenditure be increased to a level equivalent to 2% of Hong Kong's Gross Domestic Product ("GDP") and funding be granted on the condition that GDP growth could be boosted as a result; (b) ITF's resources be concentrated on encouraging enterprises to undertake more R&D projects instead of subsidizing enterprises in hiring R&D talents; and (c) trade-specific programmes be established to facilitate the development of particular trades like financial technology or e-commerce.

43. The Panel passed a motion urging the Administration to consider, in addition to the suggestions in paragraph 42 above, simplifying the application procedures and setting up a centralized frontline office to provide one-stop services to assist enterprises in their submission of applications.

State Key Laboratories, Hong Kong Branches of Chinese National Engineering Research Centres and Technology Transfer Offices of designated local universities

44. Noting that the Administration had imposed no requirement on TTOs and their hosting universities on the use of the profits generated from the commercialization of R&D results, members pointed out that the ITF funding to TTOs was public money and they preferred requesting the universities to use such profits only on their future R&D activities and technology transfer so that the annual funding to TTOs could gradually be reduced and the amount saved could be used to fund other funding schemes. The Administration advised that while the use of such profits varied among universities, the profits were mainly used for incentivizing the relevant R&D personnel and funding R&D and technology transfer work of the universities. As the universities had established their own mechanisms for proper use of such profits, the Administration considered that the existing arrangement was effective in striking a balance between administrative efficiency and prudent use of public money.

45. Noting that each of the 16 SKLs and the 6 Hong Kong Branches of CNERCs was provided with the same amount of annual funding although they focused on different research areas and had different levels of R&D expenditure, members urged the Administration to consider providing SKLs and Hong Kong Branches of CNERCs with additional funding when they undertook costly R&D projects. The Administration advised that it had been providing SKLs and Hong Kong Branches of CNERCs with annual funding to meet the expenditure on manpower, equipment and consumables and not on a project-by-project basis to minimize the administrative burden of the Innovation and Technology Commission and the hosting universities. Any shortfall in the expenditure of SKLs, Hong Kong Branches of CNERCs and TTOs would be met by their hosting universities.

New measures to promote re-industrialization

46. The Administration has been actively promoting re-industrialization in recent years to develop advanced manufacturing

industries that are based on new technologies and smart production, so as to identify new growth points for Hong Kong's economic development. In the session, the Panel gave views on the Administration's financial proposals to promote re-industrialization, including the proposed injection of HK\$2 billion into ITF for launching the Re-industrialisation Funding Scheme ("RFS") and the proposed allocation of an additional HK\$2 billion for the Hong Kong Science and Technology Parks Corporation ("HKSTPC") to develop the Microelectronics Centre at Yuen Long Industrial Estate ("IE").

47. Members in general supported the above proposals but were concerned that the shortage of R&D talents had been a major obstacle to Hong Kong's development of I&T in the face of fierce regional competition. They urged the Administration to allocate more resources to help enterprises recruit more R&D talents, and to raise the level of R&D expenditure as a percentage of GDP to stay competitive in R&D intensive environment. Noting that currently there were not many microelectronics-related businesses located in the vicinity of Yuen Long IE, some members were concerned whether the proposed development of the Microelectronics Centre would be an effective measure to help create synergistic effects and provide ancillary support to the interested enterprises to establish microelectronics and related production lines. Members urged the Administration to keep abreast with the changing trends of the microelectronics industry so as to devise tailor-made support measures to assist the growth of the sectors, and to leverage the proposed Microelectronics Centre to nurture, attract and retain talents for the microelectronics industry.

48. Members were concerned that with a low government financing ratio, the creation of a legal charge in respect of the relevant production line would lessen the attractiveness of RFS. The Administration advised that although it would impose a legal charge in respect of the production line, it would provide flexibility for the funded projects by allowing the transfer of shareholding rights (rather than a transfer of the whole production line) and addition of new investors. Funding under RFS would be grants rather than loans, and would effectively reduce the funded enterprise's investment risk by one-third. As explained by the Administration, the aim of the legal charge, which would take effect over a few years, was to retain the funded production line in Hong Kong for a reasonable period in order to bring substantive economic benefits to Hong Kong.

City Innovation and Technology Grand Challenge

49. It was announced in the Chief Executive's 2018 Policy Address

that in order to step up efforts to create a fervid I&T atmosphere and promote the use of I&T to tackle problems encountered in daily lives, the Administration would allocate HK\$500 million⁹ to organize the annual City Innovation and Technology Grand Challenge ("the Challenge") in the next five years. Members in general supported the proposal and gave the following views for consideration by the Administration.

50. Members were of the view that the Administration should consider providing sufficient financial incentives to winners and perhaps also the finalists of the competition so as to encourage students and members of the public to join the competition. Members also held the view that the Administration should, in the long run, attract young talents to pursue their career in I&T by facilitating the creation of more high-income jobs in the I&T industry.

51. Some members urged the Administration to ensure that the proposed allocation of HK\$500 million would be spent mostly on cash prizes and further product development of the winning entries instead of on supervising the implementation and effectiveness of the Challenge. The members requested the Administration to provide concrete information on the implementation details and the budget for the Challenge to facilitate LegCo to monitor the public expenditure. Some members raised concern that HKSTPC, as a key partner to assist in organizing the Challenge, might have to spend too much on hiring additional staff to cope with the extra workload.

52. The Administration advised that it was difficult to submit a concrete estimate at this stage as the amount of expenditure would depend on the theme of the competition, the number of solutions to be funded and their specific content. In view of uncertainties, the Administration proposed to earmark HK\$500 million for the competition so as to give more flexibility in selecting solutions for further development and realization. A more accurate estimate would be available after completion of the first Challenge to be organized in the second half of 2019. That said, the Administration assured members that the majority of the funding resources would be used to support the realization, refinement and trial of the selected entries. The Administration would also discuss with HKSTPC on the necessary extra manpower and whether HKSTPC would be able to organize the Challenge with its existing resources.

⁹ According to the Administration, it would include sufficient provisions in the draft Estimates of the relevant years to meet the cost of the City Innovation and Technology Grand Challenge.

53. To facilitate the commercialization of winning entries, members suggested the Administration to invite investors, manufacturers, venture capital funds, and major chambers of commerce to be sponsors or co-organizers of the Challenge. Some members requested the Administration to widely promote the Challenge by engaging media such as the Radio Television Hong Kong and major television networks. In response to members' concern on the potential conflict of interests between participants and members of the assessment panel, in particular the investors, the Administration advised that it would establish a declaration mechanism to safeguard against any real, potential or perceived conflict of interests.

54. There was a view that the Administration should step up its efforts to support product development and implementation of the winning entries. There was also a view that the Administration could consider adopting a market-led approach and offering a matching fund to encourage the private sector to invest in technology solutions.

Other issues

55. During the session, the Panel also received briefings by the Administration on the work of the overseas Hong Kong Economic and Trade Offices and the Offices of HKSARG in the Mainland and Taiwan in 2017-2018; and the legislative proposal to amend the Trade Marks Ordinance (Cap. 559).

Joint Subcommittee on Issues Relating to the Regulation of Devices and Development of the Beauty Industry

56. Under the chairmanship of Hon Tommy CHEUNG Yu-yan, the Joint Subcommittee established with the Panel and the Panel on Health Services commenced its work in December 2018 to study the issues relating to the regulation of devices and development of the beauty industry and make timely recommendations. Up to May 2019, the Joint Subcommittee held a total of five meetings to discuss with the Administration various issues including the Administration's measures and initiatives to regulate beauty devices and develop beauty industry, the regulation and use of beauty devices, and the implementation of Qualifications Framework in the beauty industry, including one meeting to receive public views on the related issues. The Joint Subcommittee has scheduled a meeting for 2 July 2019 to continue the discussion with the Administration on the related issues.

Meetings held

57. From October 2018 to May 2019, the Panel held a total of 12 meetings, including three joint meetings with other Panels. The Panel has scheduled meetings in June and July 2019 to discuss a number of subjects, including the Single E-Lock Scheme and the extension of its applicability in the Greater Bay Area, the latest development of the Hong Kong Authorized Economic Operator Programme operated by the Customs and Excise Department, Hong Kong's participation in the Belt and Road Initiative, and the latest development of the Hong Kong Science Park and IEs.

Visit outside Hong Kong

58. The Panel together with the Panel on Economic Development, the Panel on Financial Affairs and the Panel on Information Technology and Broadcasting conducted a duty visit to the major cities in the Yangtze River Delta Region from 21 to 24 April 2019.

Council Business Division 1
Legislative Council Secretariat
24 June 2019

Panel on Commerce and Industry

Terms of Reference

1. To monitor and examine Government policies and issues of public concern relating to commerce, industry, business and services promotion, innovation and technology, intellectual property protection and inward investment promotion.
2. To provide a forum for the exchange and dissemination of views on the above policy matters.
3. To receive briefings and to formulate views on any major legislative or financial proposals in respect of the above policy areas prior to their formal introduction to the Council or Finance Committee.
4. To monitor and examine, to the extent it considers necessary, the above policy matters referred to it by a member of the Panel or by the House Committee.
5. To make reports to the Council or to the House Committee as required by the Rules of Procedure.

Panel on Commerce and Industry

Membership list for 2018 - 2019 session*

Chairman	Hon YIU Si-wing, BBS
Deputy Chairman	Hon Alvin YEUNG
Members	Hon Jeffrey LAM Kin-fung, GBS, JP Hon WONG Ting-kwong, GBS, JP Hon Steven HO Chun-yin, BBS Hon WU Chi-wai, MH Hon MA Fung-kwok, SBS, JP Hon Charles Peter MOK, JP Hon CHAN Chi-chuen Hon Dennis KWOK Wing-hang Hon Christopher CHEUNG Wah-fung, SBS, JP Hon Martin LIAO Cheung-kong, SBS, JP Dr Hon CHIANG Lai-wan, SBS, JP Ir Dr Hon LO Wai-kwok, SBS, MH, JP Hon CHUNG Kwok-pan Hon CHU Hoi-dick Hon Jimmy NG Wing-ka, JP Hon SHIU Ka-fai Hon CHAN Chun-ying, JP Hon LAU Kwok-fan, MH (Total : 20 members)
Clerk	Mr Desmond LAM
Legal Adviser	Miss Rachel DAI

* Changes in membership are shown in **Annex**.

Panel on Commerce and Industry

Changes in membership

Member	Relevant date
Hon Holden CHOW Ho-ding	Up to 14 October 2018
Hon Wilson OR Chong-shing, MH	Up to 14 October 2018
Hon Vincent CHENG Wing-shun, MH	Up to 15 October 2018
Hon Tommy CHEUNG Yu-yan, GBS, JP	Up to 15 October 2018
Hon Mrs Regina IP LAU Suk-yee	Up to 15 October 2018
Dr Hon Junius HO Kwan-yiu, JP	Up to 15 October 2018
Hon YUNG Hoi-yan	Up to 15 October 2018
Hon CHEUNG Kwok-kwan, JP	Up to 17 October 2018
Hon Kenneth LAU Ip-keung, BBS, MH, JP	Up to 17 October 2018
Hon Frankie YICK Chi-ming, SBS, JP	Up to 18 October 2018
Hon Alice MAK Mei-kuen, BBS, JP	Up to 18 October 2018
Hon KWOK Wai-keung, JP	Up to 18 October 2018
Hon LUK Chung-hung, JP	Up to 18 October 2018
Dr Hon Priscilla LEUNG Mei-fun, SBS, JP	Up to 25 October 2018
Hon Starry LEE Wai-king, SBS, JP	Up to 23 January 2019