

Head 181 — TRADE AND INDUSTRY DEPARTMENT

Controlling officer: the Director-General of Trade and Industry will account for expenditure under this Head.

Estimate 2006–07 **\$689.7m**

Establishment ceiling 2006–07 (notional annual mid-point salary value) representing an estimated 506 non-directorate posts as at 31 March 2006 reducing by two posts to 504 posts as at 31 March 2007 **\$160.6m**

In addition, there will be an estimated 11 directorate posts as at 31 March 2006 and as at 31 March 2007.

Commitment balance **\$11,005.2m**

Controlling Officer's Report

Programmes

Programme (1) Commercial Relations	These programmes contribute to Policy Area 6: Commerce and Industry (Secretary for Commerce, Industry and Technology).
Programme (2) Trade Support and Facilitation	
Programme (3) Support for Small and Medium Enterprises and Industries	

Detail

Programme (1): Commercial Relations

	2004–05 (Actual)	2005–06 (Original)	2005–06 (Revised)	2006–07 (Estimate)
Financial provision (\$m)	78.8	255.3	323.5 (+26.7%)	89.1 (–72.5%)
				(or –65.1% on 2005–06 Original)

Aim

2 The aim is to secure and preserve maximum access and fair treatment for exports from Hong Kong to international markets.

Brief Description

3 The Department, through its Multilateral Division, Regional Co-operation Division and respective geographical divisions, is responsible for the commercial relations of Hong Kong. It seeks to protect Hong Kong's rights and trade interests by monitoring and responding to trade policies and measures of trading partners through multilateral and bilateral negotiations and other channels. It also promotes Hong Kong's status as a separate customs territory and a model for international free trade by actively participating in multilateral and regional trade fora. To this end, Hong Kong relies on the multilateral trading system under the auspices of the World Trade Organization (WTO) as the cornerstone of its commercial policy.

4 The Department has helped achieve significant results on the commercial relations front. Hong Kong is a founding member of the WTO. This separate membership has continued since 1 July 1997 under the name "Hong Kong, China". Hong Kong was ranked the 11th largest trading economy in the world in 2004 by the WTO. It came first in the 2006 Index of Economic Freedom published by the Heritage Foundation of the United States (US) in January 2006. Within the region, the Department continues to expand its links and participates actively in the Asia-Pacific Economic Cooperation (APEC) forum whose member economies account for some 80% of Hong Kong's total external trade. The Department will continue to advance and safeguard Hong Kong's trade interests and rights.

5 The Department has actively participated in the discussions with the Mainland on further trade liberalisation under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA). The Supplement II to CEPA was signed on 18 October 2005.

6 The key performance measures are:

Indicators

- provide early warning on import restrictions and regulations by importing economies;
- disseminate promptly information to traders where appropriate;
- make timely representations as appropriate to safeguard Hong Kong's trade interests;
- participate in and contribute to discussions in international economic and trade fora;
- secure and preserve market access for both goods and services; and
- uphold the integrity of the multilateral trading system.

7 In 2005, the Department's key activities included the following:

- active participation in the WTO bodies to monitor and evaluate the implementation of the Uruguay Round agreements, as well as the work programmes adopted at the WTO Ministerial Conferences. These included the work programme on harmonising rules of origin and the faithful termination of the Agreement on Textiles and Clothing (ATC);
- active and constructive participation in the new round of multilateral trade negotiations and work programme mandated by the Doha Ministerial Declaration, the decisions adopted at the Fifth WTO Ministerial Conference held in Cancun in September 2003, as well as the package of framework (the 'July Package') adopted at the WTO General Council Meeting on 1 August 2004 for further negotiations. These include close monitoring of, and submission of proposals, on key negotiating areas such as agriculture, services, non-agricultural market access, development issues, rules and trade facilitation, etc. The Department also intensified its co-operation with key WTO Members and relevant parties in preparing for a meaningful outcome at the Sixth WTO Ministerial Conference (MC6) held in Hong Kong from 13 to 18 December 2005. It has worked closely with relevant departments in the Government in hosting the MC6. The Conference, attended by over 10 000 delegates from WTO Members, non-governmental and media organisations, helped to lift Hong Kong's international profile and was a testament to Hong Kong's competence as Asia's world city;
- active and constructive participation in the WTO negotiations on services which have entered the stage of members' tabling of revised offers for specific commitments. In this connection, public consultation was conducted for the formulation of Hong Kong's negotiating positions;
- close monitoring of the implementation of China's WTO accession commitments and keeping the business community informed of changes in the Mainland's trade/business/investment laws and regulations through various channels, including issue of circulars and dissemination of information on the departmental web portal;
- close monitoring of negotiations for accession to the WTO by important trading partners;
- active participation in various APEC fora, including the Economic Leaders' Meeting, Ministerial Meetings and Senior Officials' Meetings, and serving as the Vice-Chair of the Committee on Trade and Investment as well as the Convenor of the Group on Services. The Department was actively involved in the discussion on APEC's support for the multilateral trading system, in particular, the negotiations under the Doha Development Agenda and the implementation of the APEC Trade Facilitation Action Plan. The Department played an important role in formulating initiatives for achieving APEC's goal of free and open trade and investment. In addition, it participated constructively in APEC's work concerning economic and technical co-operation, support for small and medium enterprises (SMEs), electronic commerce, counter-terrorism, promoting human security, financial co-operation, and implementation of the APEC Shanghai Accord;
- active participation in regional bodies, including the Pacific Economic Cooperation Council (PECC);
- participation in the United Nations Development Programme (UNDP) projects;
- signing of an Investment Promotion and Protection Agreement (IPPA) with Thailand, and continuation of negotiations for an IPPA with Finland;
- discussion with the Mainland on further trade liberalisation under CEPA;
- working on the continuation of tariff preferences for Hong Kong's exports to Canada and Norway under their respective Generalised Systems of Preferences Schemes;
- advising local companies on importing economies' anti-dumping legislation and procedures, and making representations against any unfair and unjustifiable allegations and practices in anti-dumping cases. This included making representations to the European Commission urging for the termination of the two separate anti-dumping proceedings against imports of recordable compact disks and recordable digital versatile discs originating in Hong Kong;
- close monitoring of, and advising the trade on, changes in the origin rules and other import regulations of our trading partners;

- co-operating with trading partners in a manner consistent with our domestic law to enhance the effectiveness in combating illegal textiles transshipment;
- close monitoring of developments in the new textiles trade regime in overseas markets after quota restraints on textiles and clothing products have been eliminated under the WTO Agreement on Textiles and Clothing (ATC) since 1 January 2005; and
- enhanced liaison with relevant Mainland authorities to discuss bilateral trade issues including matters related to CEPA implementation, and to reflect the views of Hong Kong traders regarding the trading environment in the Mainland.

Matters Requiring Special Attention in 2006–07

8 During 2006–07, the Department will continue to:

- monitor the implications of the various WTO agreements for Hong Kong as well as the implementation of these agreements by trading partners;
- participate actively in the WTO negotiations under the Doha Ministerial Declaration. In doing so, Hong Kong will build alliance with like-minded WTO members to take forward the negotiations while at the same time advancing Hong Kong's interests, particularly in the areas of market access for non-agricultural products and for services, and in the clarification and improvement of WTO rules to ensure that they remain relevant and conducive to trade and investment;
- participate actively and constructively in the WTO negotiations on services and consult the trade in formulating Hong Kong's negotiating positions;
- enhance liaison with the Mainland authorities to discuss bilateral issues of mutual interest, and to continue discussions with the Mainland on further trade liberalisation and facilitation measures under CEPA. It will continue to consult the concerned sectors and reflect their views to the Mainland in the process;
- contribute to multilateral and regional efforts in trade liberalisation and rule-making such as reforms of anti-competitive governmental restraints (e.g. anti-dumping), regional trade agreements, trade facilitation, rules of origin (ROOs) and government procurement;
- monitor closely and participate actively in discussions on issues mandated by the Doha Work Programme including electronic commerce, trade and environment, as well as trade-related aspects of intellectual property rights to safeguard Hong Kong's trade and economic interests and to uphold the integrity of the multilateral trading system;
- participate actively in the International Textiles and Clothing Bureau (ITCB), which was established in 1985 to safeguard members' interests in the textiles and clothing trade. The Department will work closely with other ITCB members, among others, to prevent, as far as possible, alternate methods of protection and discrimination being employed by importing countries against textiles and clothing exports from Hong Kong and other developing economies after termination of the ATC, and also on other textiles-related issues under the WTO;
- participate actively in the APEC, PECC and other regional bodies. It will work closely with other APEC members in areas such as APEC's contribution to the WTO, implementation of the APEC Trade Facilitation Principles and capacity building through economic and technical co-operation;
- contribute to Hong Kong's participation, as an observer of the Trade Committee of the Organisation for Economic Cooperation and Development (OECD), in the meetings of the Trade Committee, its Working Party and its joint groups/sessions, given that the OECD is an important forum for the formulation of trade policy initiatives of developed countries;
- monitor closely the developments on the discussions on trade and competition policy and trade and investment in the multilateral and regional fora to safeguard Hong Kong's trade and economic interests;
- monitor the developments of regional economic integration and assess their impact on Hong Kong, and explore with interested trading partners possible means of enhancing economic co-operation;
- monitor the developments in the new textiles trade regime in overseas markets and defend Hong Kong's trade interests against any potential discriminatory import measures imposed by overseas markets on Hong Kong's textiles and clothing exports;
- strengthen Hong Kong's trading ties with the Mainland through enhanced communication with the trade authorities at the central government and provincial levels;
- defend Hong Kong's interests against anti-dumping actions through bilateral and multilateral means and give advice to local industries;
- monitor any changes in major trading partners' origin rules and review domestic origin rules in consultation with local industries;

- monitor any changes in major trading partners' trade laws and regulations and promptly provide information to traders as appropriate; and
- monitor the progress of accession to the European Union (EU) by Bulgaria and Romania scheduled for January 2007 and the related institutional reforms to ensure that Hong Kong's trade interests and market access to the enlarged EU will not be adversely affected.

Programme (2): Trade Support and Facilitation

	2004-05 (Actual)	2005-06 (Original)	2005-06 (Revised)	2006-07 (Estimate)
Financial provision (\$m)	164.5	147.6	118.1 (-20.0%)	128.6 (+8.9%)
				(or -12.9% on 2005-06 Original)

Aim

- 9 The aim is to:
- fulfil Hong Kong's obligations under international, multilateral and bilateral trade agreements and optimise the benefits to Hong Kong flowing from such agreements;
 - provide certification and licensing services in order to facilitate trade and supplement controls imposed for reasons other than trade; and
 - enhance Hong Kong's role as a regional trading and distribution centre.

Brief Description

10 The Systems Division, Americas Division, Mainland Division and Europe Division provide various licensing facilities and certification services, including by electronic means, for different commodities such as textiles and clothing, strategic commodities, rough diamonds and reserved commodities so as to fulfil Hong Kong's international and bilateral obligations as well as to meet other requirements of public health, safety and security.

11 Since 2 October 2003, the Mainland Division has implemented a one-stop Hong Kong Service Supplier (HKSS) Certification Scheme for all service sectors under CEPA I and II. In August 2005, TID introduced voluntary renewal services to facilitate eligible HKSS to extend the validity of their HKSS certificates after the initial 2-year period. Pursuant to the conclusion of further trade liberalisation in October 2005, the Mainland Division extended the certification services on 12 December 2005 to cover the new commitments under CEPA III.

12 Apart from providing one-stop certification services, the Mainland Division also handles enquiries on CEPA, and disseminates CEPA-related information, including application procedures for provision of services in the Mainland through the Department's CEPA website. In order to promote the business opportunities offered by CEPA and to facilitate traders and service suppliers to reap the benefits of CEPA, the Department also participates in various promotional and publicity activities, and handles request for assistance from Hong Kong service suppliers who have encountered difficulties when applying for provision of services in the Mainland under CEPA.

13 Following the introduction of full electronic service for sending Production Notification as from February 2000 and Certificate of Origin applications as from September 2000, electronic services for sending manifests and textiles notifications were launched in April and May 2003 respectively. In collaboration with other departments and under the lead of the Commerce, Industry and Technology Bureau, the Department will continue to help promote the electronic mode of submission for official trade documents.

14 In 2005, the Department continued to maintain the integrity of the textiles control system vigilantly through monitoring the production and import/export activities of textiles traders. These policing efforts along with vigorous enforcement actions by the Customs and Excise Department have served an effective deterrence against textiles-related malpractices.

15 With the global elimination of quantitative restrictions on textiles and clothing products from 1 January 2005 under the WTO ATC, the Department has suitably streamlined the textiles control arrangements to provide greater facilitation to the trade while maintaining necessary control to safeguard the interests of Hong Kong's textiles exports.

16 Following the signing of the main text and the Annexes of CEPA on 29 June 2003 and 29 September 2003 respectively, the Mainland commenced to apply zero import tariff for imported goods of Hong Kong origin by phases. Starting from 1 January 2006, all products of Hong Kong origin will enjoy zero tariff preference, upon applications by local manufacturers and upon the CEPA ROOs being agreed and met. So far, both sides have reached agreements on the CEPA ROOs for 1 370 products, including the CEPA ROOs agreed for 262 products this year. For products that have no agreed ROOs for the time being, their relevant ROOs will be jointly worked out twice a year on application by the trade after 2005.

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17 Rice trade has been liberalised as from 1 January 2003. Import quota was removed and any interested parties can register as rice stockholders to import rice for local consumption subject to compliance with a reserve stock requirement. Since 2004, the Department has reviewed the operation of the liberalised Rice Control Scheme and has implemented measures to further facilitate the rice trade.

18 In 2005, the Department continued its efforts to ensure the smooth implementation of the Kimberley Process Certification Scheme for rough diamonds, which was launched in January 2003 to safeguard the interests of traders in rough diamonds in Hong Kong. The Kimberley Process Certification Scheme is an international certification scheme which aims at stopping trade in “conflict diamonds” from fuelling armed conflicts, activities of rebel movements and illicit proliferation of armament.

19 In 2005, the Department continued to maintain a robust control system on strategic commodities, and participated actively in international export control conferences and seminars. It also continued to administer the permit system under the Chemical Weapons (Convention) Ordinance, and compile annual reports for submission to the Organisation for the Prohibition of Chemical Weapons through the Central People’s Government.

20 The Department met all of its performance targets in 2005.

21 The key performance measures are:

Targets

	Target processing time (working days or as specified)	2004 (Actual)	2005 (Actual)	2006 (Plan)
consignment-specific textiles licence				
import	2	N.A. ^(a)	2	2
export	2	N.A. ^(a)	2	2
re-export	2	N.A. ^(a)	2	2
amendment and cancellation of				
consignment-specific textiles licence	2	N.A. ^(a)	2	2
textiles import licence	N.A. ^(b)	1	N.A. ^(b)	N.A. ^(b)
textiles re-export licence	N.A. ^(b)	1	N.A. ^(b)	N.A. ^(b)
textiles export licence to all restrained markets (except those for samples and personal effects)	N.A. ^(b)	2	N.A. ^(b)	N.A. ^(b)
textiles export licence to all non- restrained markets (except those for samples and personal effects)	N.A. ^(b)	1	N.A. ^(b)	N.A. ^(b)
textiles export licence for samples and personal effects to all markets	N.A. ^(b)	20 mins	N.A. ^(b)	N.A. ^(b)
special export licence (textiles) Form 8a under the Special Export and Import Licensing (Textiles) Scheme	N.A. ^(b)	1	N.A. ^(b)	N.A. ^(b)
special import/export licence (textiles) Forms 8b, 8c, 8d and 8e under the Special Export and Import Licensing (Textiles) Scheme	1 ^(c)	30 mins ^(d)	1	N.A. ^(b)
amendment and cancellation of textiles licence for import, re-export and export to non-restrained markets				
amendment	N.A. ^(b)	30 mins	N.A. ^(b)	N.A. ^(b)
cancellation	N.A. ^(b)	15 mins	N.A. ^(b)	N.A. ^(b)
amendment and cancellation of other				
textiles licence	N.A. ^(b)	2	N.A. ^(b)	N.A. ^(b)
expeditious issue of textiles licence	N.A. ^(b)	24 hrs	N.A. ^(b)	N.A. ^(b)
transfer of quota	N.A. ^(b)	5	N.A. ^(b)	N.A. ^(b)
enquiry on quota balance	N.A. ^(b)	2	N.A. ^(b)	N.A. ^(b)
certificate of registration for Textiles Trader Registration	3 ^(e)	3	3	3
amendment of textiles notification under the Textiles Trader Registration Scheme (TTRS)	2 ^(b)	1	2 ^(b)	2 ^(b)
textiles controls registration	N.A. ^(b)	25 mins	N.A. ^(b)	N.A. ^(b)
registration of local appointed agent	N.A. ^(b)	1	N.A. ^(b)	N.A. ^(b)
replacement licence for import customs clearance	N.A. ^(b)	1	N.A. ^(b)	N.A. ^(b)

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	Target processing time (working days or as specified)	2004 (Actual)	2005 (Actual)	2006 (Plan)
enquiry on classification of textiles products				
restrained markets	N.A. ^(b)	5 ^(f)	N.A. ^(b)	N.A. ^(b)
non-restrained markets	N.A. ^(b)	30 mins	N.A. ^(b)	N.A. ^(b)
certificate of Hong Kong origin, certificate of origin-processing and CO(CEPA).....	1.5	1.5	1.5	1.5
certificate of origin (Form A).....	2	2	2	2
expeditious issue of certificate of Hong Kong origin/Form A/CO(CEPA).....	24 hrs	24 hrs	24 hrs	24 hrs
production notification for cut and sewn garments (PN).....	1.5	1.5	1.5	1.5
enquiry on PN : classification ^(g)				
simple enquiry.....	N.A.	1	N.A.	N.A.
complicated enquiry	N.A.	4	N.A.	N.A.
enquiry on PN : permissible limits for component parts ^(g)				
simple enquiry.....	N.A.	1	N.A.	N.A.
complicated enquiry	N.A.	4	N.A.	N.A.
enquiry on PN : permissible limits for component parts or classification enquiry ^(g)				
simple enquiry.....	1	N.A. ^(a)	1	1
complicated enquiry	5	N.A. ^(a)	5 ^(f)	5
application for factory registration.....	14	14	14	14
amendment of factory registration particulars				
if factory inspection is necessary	14	14	14	14
if factory inspection is not necessary.....	5	5	5	3
local sub-contracting arrangement registration.....	1	1	1	1
outward processing arrangement (OPA) registration.....	3	3	3	3
enquiry on OPA : manufacturing processes allowed to be subcontracted outside Hong Kong				
simple enquiry.....	1	1	1	1
complicated enquiry	4	4	4	4
import and export licence for reserved commodities	1	1	1	1
import and export licence for ozone depleting substances	2	2	2	2
import and export licence for strategic commodities	2.5	2.5	2.5	2.5
import licence for radioactive substances and irradiating apparatus	1	1	1	1
Kimberley Process Certificate (Import) for rough diamonds	20 mins	20 mins	20 mins	20 mins
Kimberley Process Certificate (Export) for rough diamonds	24 hrs	24 hrs	24 hrs	24 hrs
registration for rough diamond traders.....	1	1	1	1
certified true copy	1	1	1	1
registration for Transshipment Cargo Exemption Scheme.....	14	14	14	14
HKSS certificate				
fresh application.....	14	14	14	14
amendment, replacement and cancellation ^(h)	5	5	5	5
renewal ⁽ⁱ⁾	5	N.A.	5	5
other written enquiries	10	10	10	10

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- (a) New/modified services being provided starting 1 January 2005.
- (b) With the abolition of textiles quotas starting 1 January 2005, textiles licensing and notification services are either discontinued or restructured. Given the different scope of licensing and notification services in 2005, the previous processing time is not applicable after 31 December 2004.
- (c) As a transitional arrangement, Form 8b was issued until 30 April 2005 and the target processing time was revised from 30 minutes to one working day. Forms 8c, d and e have been discontinued starting 1 January 2005.
- (d) 90% of the applications can be handled in 25 minutes.
- (e) 70% of the applications can be handled in two days.
- (f) 50% of the enquiries can be handled in four days.
- (g) PN enquiry services have been combined with an expansion in scope starting 1 January 2005. Revised target processing times are set out in "enquiry on PN: permissible limits for component parts or classification enquiry".
- (h) The Department started to provide services on the amendment, replacement and cancellation of HKSS certificate on 8 March 2004.
- (i) Voluntary renewal services for HKSS certificate was introduced in August 2005.

Indicators

	2004 (Actual)	2005 (Actual)	2006 (Estimate)
<i>Licence issued</i>			
textiles export licence (restrained).....	428 533	N.A. ^(j)	N.A. ^(j)
textiles export licence (non-restrained)	307 947	N.A. ^(j)	N.A. ^(j)
textiles import licence.....	41 158	N.A. ^(j)	N.A. ^(j)
consignment-specific textiles import licence.....	N.A. ^(a)	41 182	42 000
consignment-specific textiles export licence	N.A. ^(a)	53 884	55 000
comprehensive import licence (textiles)	N.A. ^(a)	613 173	625 000
comprehensive export licence (textiles)	N.A. ^(a)	2 673 704	2 727 000 ^(k)
exports notification I.....	685 320	755 047 ^(k)	770 000 ^(k)
exports notification II	3 714 760	1 889 555 ^(k)	1 927 000 ^(k)
exports notification III.....	117 900	N.A. ^(j)	N.A. ^(j)
exports notification IV.....	116 860	N.A. ^(j)	N.A. ^(j)
import notification	2 770 040	2 392 543 ^(k)	2 440 000
transshipment notification	425 720	510 807	544 000
textiles trader registration	19 909	18 569	18 600
textiles controls registration.....	4 759	N.A. ^(j)	N.A. ^(j)
certificate of Hong Kong origin and certificate of origin - processing.....	2 217	1 971	2 000
certificate of origin (Form A)	3	1	1
CO(CEPA) ^(l)	146	439	700
factory registration.....	2 761	2 386	2 000
OPA registration.....	1 157	1 091	950
local sub-contracting arrangement registration.....	545	1 191 ^(m)	1 050
PN.....	222 996	110 104 ^(k)	112 000 ^(k)
statutory declarations of antique.....	15	13	13
reserved commodities licence.....	6 988	7 589	8 240
registration of reserved commodity stockholder	97	94	94
ozone depleting substances licence	350	244	260
strategic commodities licence.....	74 907	72 462	72 460
delivery verification certificate.....	28	18	20
international import certificate	58	69	70
other non-textiles licence.....	2 544	2 080	1 920
Kimberley Process Certificate	4 913	4 834	4 670
registration of rough diamond traders ⁽ⁿ⁾	58	264	90
HKSS certificate ^(o)	1 164	391	400
permit under the Chemical Weapons (Convention) Ordinance	0	0	3
<i>Textiles export quota utilisation (%)</i>			
US.....	56.3	N.A. ^(j)	N.A. ^(j)
Canada	21.8	N.A. ^(j)	N.A. ^(j)
EU.....	51.1	N.A. ^(j)	N.A. ^(j)
<i>CEPA</i>			
enquiries	30 523	18 671	18 700
visitors to the Department's CEPA website	373 602	251 183	251 000

- (j) With the discontinuation or restructuring of textiles licensing services and the significant change in the scope of the TTRS upon the elimination of textiles quotas on 1 January 2005, these indicators are no longer applicable as from 2005.
- (k) Due to the significant change in the scope of the TTRS and the PN arrangement, the number of textiles notifications and PNs issued in 2004 and 2005 are not directly comparable. The 2006 estimated figures have not taken into account any possible change of the scope of PN and TTRS in 2006.
- (l) The number of products enjoying CEPA zero import tariff preference has increased on 1 January 2005 and 1 January 2006 respectively.
- (m) As a result of the introduction of revised origin rules for piece-knitted garments starting January 2005, there has been an increase in the number of factories applying for local sub-contracting arrangement registration in 2005. It is anticipated that the effect, and hence the change to the registration number, will level off in 2006.
- (n) Under the biennial registration system introduced on 2 January 2003, most of the rough diamond traders were registered in 2003 when the system was first launched and renewal of the registrations only takes place every two years starting from 2005. Hence, the 2004 figure included only new registrations while the figure for 2005 has included both new registrations and registration renewals.
- (o) The Department has implemented the HKSS Certification Scheme for the telecommunications sector as from 2 October 2003 and for the remaining service sectors covered by CEPA I as from 17 November 2003. The Scheme was further expanded to include new service sectors covered by CEPA II as from 30 November 2004, and CEPA III as from 12 December 2005.

Matters Requiring Special Attention in 2006–07

22 During 2006–07, the Department will:

- continue its efforts to safeguard the integrity and credibility of Hong Kong's trade control arrangements over textiles and clothing exports by maintaining close co-operation with the Customs and Excise Department to implement an integrated and targeted approach of inspections and investigations, reviewing constantly the textiles control arrangements especially its effectiveness in deterring textiles-related malpractices, maintaining an effective origin certification system to accredit Hong Kong origin to products manufactured in Hong Kong, and applying legal and administrative actions against offending parties;
- continue to review the textiles licensing arrangements taking into account the development of the textiles trade regime in overseas markets after the elimination of textiles quotas, the extent of safeguard measures and other quantitative restrictions invoked by WTO Members and the local manufacturing scene. Necessary adjustments to the textiles control arrangements will be made to ensure a proper balance between trade facilitation and regulation so that Hong Kong-origin textiles and clothing exports can enjoy continued access to the world markets;
- continue to review textiles licensing and certification procedures and requirements with a view to removing unnecessary formalities and introducing further electronic delivery services;
- review the certification procedures and conditions of issuing the CO(CEPA) with a view to facilitating the trade to benefit from the tariff preference under CEPA, as well as prepare for further consultations with the Mainland authorities on rules of origin for goods under CEPA;
- continue to maintain an effective strategic trade control system, and to administer the permit system under the Chemical Weapons (Convention) Ordinance and compile annual reports for submission to the Organisation for the Prohibition of Chemical Weapons through the Central People's Government;
- keep under review the liberalised Rice Control Scheme to ensure a stable supply and a sufficient reserve stock, and to further facilitate the rice trade as appropriate;
- continue to monitor the implementation of the Kimberly Process Certification Scheme closely;
- monitor closely and review the implementation of the HKSS Certification Scheme and liaise with other relevant bureaux/departments to facilitate the service suppliers in Hong Kong to gain the greatest benefits from CEPA. The Department will also continue to strengthen the public's understanding on the liberalisation measures and implementation details of CEPA through the provision of user-friendly enquiry services as well as active organisation of or participation in various promotional and publicity activities;
- continue to disseminate timely information on CEPA implementation concerning individual service sectors as promulgated by the Mainland authorities, and build up a database of research materials on Mainland rules and regulations on specific service sectors for reference by Hong Kong service suppliers; and
- continue to provide assistance for Hong Kong service suppliers who have encountered difficulties in their applications for provision of services in the Mainland under CEPA.

Programme (3): Support for Small and Medium Enterprises and Industries

	2004–05 (Actual)	2005–06 (Original)	2005–06 (Revised)	2006–07 (Estimate)
Financial provision (\$m)	354.1	274.0	414.9 (+51.4%)	472.0 (+13.8%)
				(or +72.3% on 2005–06 Original)

Aim

- 23 The aim is to support and facilitate the development of Hong Kong's SMEs and industries.

Brief Description

24 The Industrial Support Division develops policy initiatives and implements programmes to enhance the competitiveness of SMEs and their long term development. The Division provides information and advisory services for SMEs through its Support and Consultation Centre for SMEs (SUCCESS). It administers four SME funding schemes. It also provides secretariat support to the Small and Medium Enterprises Committee (SMEC), an appointed body to advise the Chief Executive on issues affecting the development of SMEs in Hong Kong and suggest measures to support and facilitate their development and growth. On the regional front, the Division participates in the SME-related activities of the APEC and assists in the implementation of bilateral agreements on SME co-operation between Hong Kong and other economies.

25 In support of the development of Hong Kong's industries, the Division maintains liaison with local industries and trade and industrial organisations and collects information on Hong Kong's industrial development. It also participates in the formulation and implementation of policies by other government bureaux and departments which impinge on industrial development in Hong Kong. It is represented on the governing bodies of various support organisations whose work has an impact on industrial development. These organisations include the Hong Kong Productivity Council, the Vocational Training Council, the Hong Kong Quality Assurance Agency, and the Clothing Industry Training Authority. To recognise and encourage excellence in different aspects, it provides steer on the organisation of the Hong Kong Awards for Industries which has replaced the former Hong Kong Awards for Industry and the Hong Kong Awards for Services.

26 The Division administers the SME Loan Guarantee Scheme (SGS), the SME Training Fund (STF), the SME Export Marketing Fund (EMF) and the SME Development Fund (SDF). In May 2005, the Legislative Council Finance Committee approved an additional funding of \$300 million to extend the operation of the SGS, EMF and SDF.

27 SUCCESS serves as SME entrepreneurs' first-stop for free and reliable business information and consultation services. Being a neutral entity, SUCCESS recruits other government departments, trade and industrial organisations, support organisations and professional bodies as partners to provide diversified free services. One of SUCCESS' most popular services is the free business advisory service for SME entrepreneurs or business start-ups to seek advice from experts on aspects relating to starting, running and expanding businesses. Facilities at SUCCESS include a reference library and computer workstations which provide free access to the internet and electronic databases. To help SME entrepreneurs keep pace with the ever changing business environment, SUCCESS organises seminars, workshops and company visits, issues regular E-newsletters and E-mail Alerts and publishes an SME newsletter - "SME Pulse" on a half-yearly basis. In 2005, SUCCESS enhanced its business start-up information services to provide more support to potential business start-ups.

28 The Division launched the 2005–06 SME Mentorship Programme in May 2005. The Mentorship Programme aims at helping SME entrepreneurs who are at their early stage of business build entrepreneurial and leadership skills. SME participants will receive one-on-one free counselling during a period of nine months from mentors, who are accomplished entrepreneurs, senior executives and professionals, nominated by the Programme co-organisers (mainly trade and industrial organisations and professional bodies). For experience sharing and business networking purposes, the Division organises group activities, such as seminars, workshops and company visits for the Mentorship Programme participants.

29 The Division also participated in the meetings of the APEC SME Working Group, the meeting of APEC SME Ministers and various seminars/fora organised by other APEC economies.

30 The Department collaborates with various supporting agencies to enhance industrial support services for the fashion industry.

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31 The key performance measures are:

Targets

	Target %	2004 (Actual) %	2005 (Actual) %	2006 (Plan) %
SUCCESS				
confirmation of consultation meeting with applicants of Business Advisory Service (BAS) within ten working days.....	100	98.1	99.5	100
replies to simple enquiries on licensing requirements within one working day	100	100	100	100
replies to complicated enquiries on licensing requirements within three working days	100	100	100	100
replies to simple enquiries on SME support services and facilities within one working day	100	100	100	100
replies to complicated enquiries on SME support services and facilities within three working days.....	100	100	100	100
SME Loan Guarantee Scheme (previously known as SME Business Installations and Equipment Loan Guarantee Scheme)				
processing applications for guarantee within three working days (after receipt of complete applications from participating lending institutions)	100	99.6	99.5	100
SME Development Fund				
processing applications for grant within 70 working days (after closing date for submission of applications) ^(p)	100	100	100	100
SME Export Marketing Fund				
processing applications for grant within seven working days	100	91	92 ^(q)	N.A. ^(q)
reimbursement of grant within 30 working days	100	90	91 ^(q)	N.A. ^(q)
processing applications for grant within 30 working days	100	N.A.	98 ^(r)	100 ^(r)
SME Training Fund				
processing applications for grant within 12 working days	100	71	N.A. ^(s)	N.A. ^(s)
reimbursement of grant within 30 working days	100	63	N.A. ^(s)	N.A. ^(s)

Indicators

	2004 (Actual)	2005 (Actual)	2006 (Estimate)
SUCCESS			
enquiries	11 547	19 539	20 000
visitors to SUCCESS	43 148	38 822	39 000
visitors to SUCCESS website (i.e. Virtual SME Information Centre).....	377 678	447 349	530 000 ^(t)
visitors to Business Licence Information Service website	128 743	140 943	N.A. ^(t)
seminars and other activities.....	113	88	100
publications relating to local industries and SMEs.....	2	2	2

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	2004 (Actual)	2005 (Actual)	2006 (Estimate)
SME Loan Guarantee Scheme (previously known as SME Business Installations and Equipment Loan Guarantee Scheme)			
amount of government guarantees issued (\$m)	2,153	1,908	1,910
SME Development Fund			
applications received and processed	74	134	150
SME Export Marketing Fund			
applications received and processed	15 075	10 110 ^(u)	10 000
SME Training Fund			
applications received and processed	33 149	27 194 ^(s)	N.A. ^(s)

- (p) The processing time refers to the time taken by the Secretariat of the SME Development Fund to conduct initial assessments on applications and submit recommendations to the Vetting Committee for decision. With effect from 1 January 2006, the Fund has been open to applications all year round and the vetting procedure will be conducted on a quarterly basis. The performance pledge for processing applications for grant has correspondingly been revised to be within 70 working days after end of each quarter of calendar year.
- (q) Figures were up to 30 June 2005 only. Simplified application procedure took effect on 1 July 2005 whereby SMEs need only to submit single applications for grant within 60 calendar days after their participation in export promotion activities.
- (r) Figures since 1 July 2005 upon implementation of the simplified application procedure.
- (s) Ceased accepting applications as from 1 July 2005. Over 15 000 applications were received in June 2005, representing a drastic increase of 600% against the average figure in the previous five months. We have notified concerned applicants that a much longer processing time is required for this last batch of applications. We expect that all applications would be processed by first quarter 2006.
- (t) The Virtual SME Information Centre and Business Licence Information Service website will be merged in one new SUCCESS website in around mid-2006.
- (u) The decrease in the number of applications is due to the introduction of simplified application procedure on 1 July 2005, whereby application seeking prior in-principle funding approval for future events was no longer accepted.

Matters Requiring Special Attention in 2006–07

32 During 2006–07, the Department will continue to:

- implement the SME funding schemes and closely monitor their effectiveness;
- work closely with the SMEC to facilitate the development of SMEs;
- develop and strengthen the services of SUCCESS;
- re-develop the Virtual SME Information Centre and the Business Licence Information Service;
- organise the SME Mentorship Programme;
- issue the SME newsletter “SME Pulse” on a half-yearly basis;
- monitor Hong Kong’s industrial development and maintain liaison with industries and related organisations;
- participate in the APEC SME Working Group meetings, Ministerial Meeting and seminars/fora organised by other APEC economies; and
- work closely with our trading partners to foster co-operation on support for SMEs, and facilitate exchanges among SMEs.

33 The Department will provide steer to the organisation of the Hong Kong Awards for Industries.

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ANALYSIS OF FINANCIAL PROVISION

Programme	2004–05 (Actual) (\$m)	2005–06 (Original) (\$m)	2005–06 (Revised) (\$m)	2006–07 (Estimate) (\$m)
(1) Commercial Relations	78.8	255.3	323.5	89.1
(2) Trade Support and Facilitation	164.5	147.6	118.1	128.6
(3) Support for Small and Medium Enterprises and Industries	354.1	274.0	414.9	472.0
	<u>597.4</u>	<u>676.9</u>	<u>856.5</u> (+26.5%)	<u>689.7</u> (–19.5%)
				(or +1.9% on 2005–06 Original)

Analysis of Financial and Staffing Provision

Programme (1)

Provision for 2006–07 is \$234.4 million (72.5%) lower than the revised estimate for 2005–06. This is mainly due to the reduced cash flow requirements for the hosting of the MC6 in December 2005.

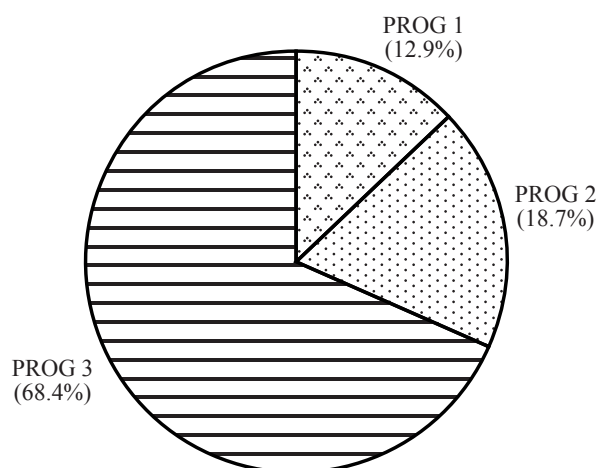
Programme (2)

Provision for 2006–07 is \$10.5 million (8.9%) higher than the revised estimate for 2005–06. This is mainly due to the increase in departmental expenses for improvements to customer service points and enhancement of computer systems.

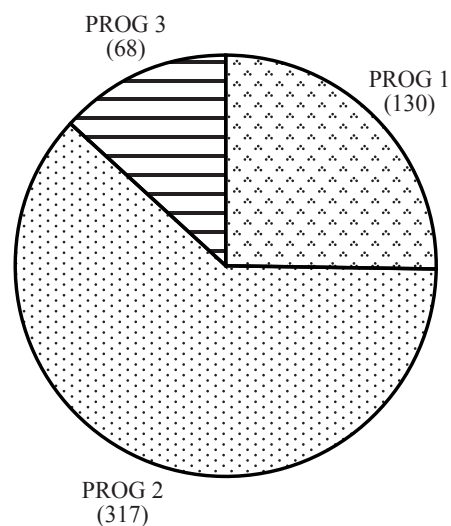
Programme (3)

Provision for 2006–07 is \$57.1 million (13.8%) higher than the revised estimate for 2005–06. This is mainly due to an increase in cash flow for the SME funding schemes.

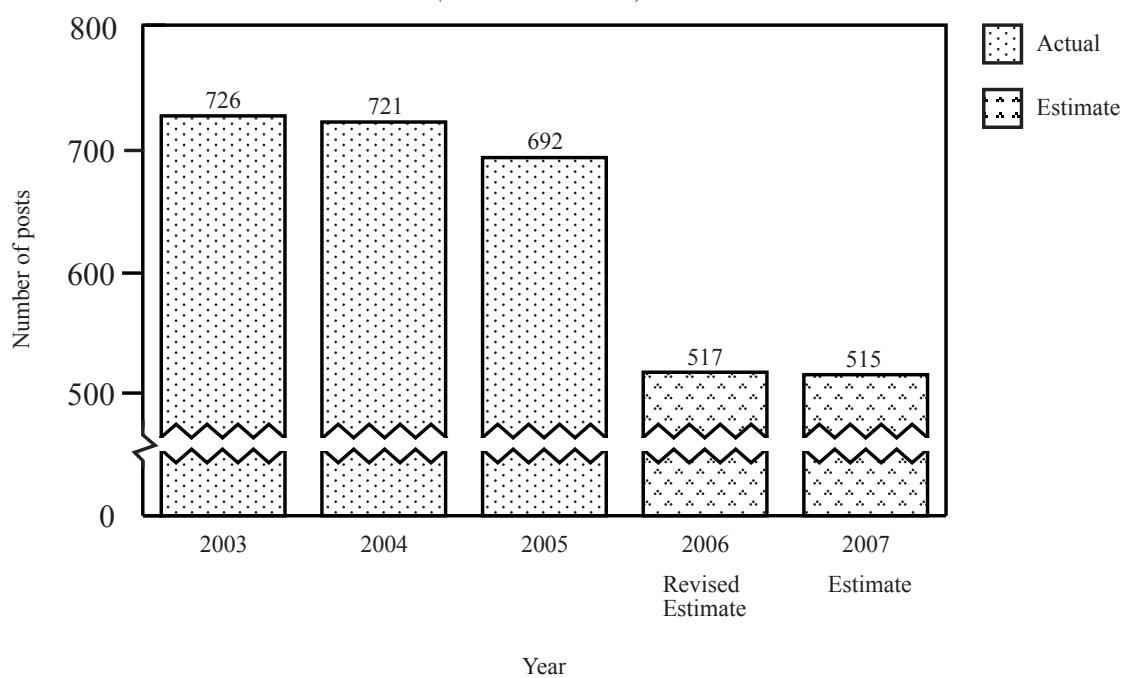
*Allocation of provision
to programmes
(2006-07)*



*Staff by programme
(as at 31 March 2007)*



*Changes in the size of the establishment
(as at 31 March)*



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Sub-head (Code)	Actual expenditure 2004-05	Approved estimate 2005-06	Revised estimate 2005-06	Estimate 2006-07
	\$'000	\$'000	\$'000	\$'000
Operating Account				
Recurrent				
000 Operational expenses	284,075	288,524	262,508	269,296
Total, Recurrent.....	284,075	288,524	262,508	269,296
Non-Recurrent				
700 General non-recurrent.....	313,014	388,248	593,942	420,340
Total, Non-Recurrent.....	313,014	388,248	593,942	420,340
Total, Operating Account.....	597,089	676,772	856,450	689,636
Capital Account				
Plant, Equipment and Works				
661 Minor plant, vehicles and equipment (block vote)	196	50	36	18
Plant, vehicles and equipment	92	50	50	—
Total, Plant, Equipment and Works	288	100	86	18
Total, Capital Account	288	100	86	18
Total Expenditure	597,377	676,872	856,536	689,654

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Details of Expenditure by Subhead

The estimate of the amount required in 2006–07 for the salaries and expenses of the Trade and Industry Department is \$689,654,000. This represents a decrease of \$166,882,000 against the revised estimate for 2005–06 and an increase of \$92,277,000 over actual expenditure in 2004–05.

Operating Account

Recurrent

2 Provision of \$269,296,000 under *Subhead 000 Operational expenses* is for the salaries, allowances and other operating expenses of the Trade and Industry Department.

3 The establishment as at 31 March 2006 will be 517 permanent posts. It is expected that there will be a deletion of two posts in 2006–07. Subject to certain conditions, the controlling officer may under delegated power create or delete non-directorate posts during 2006–07, but the notional annual mid-point salary value of all such posts must not exceed \$160,600,000.

4 An analysis of the financial provision under *Subhead 000 Operational expenses* is as follows:

	2004–05 (Actual) (\$'000)	2005–06 (Original) (\$'000)	2005–06 (Revised) (\$'000)	2006–07 (Estimate) (\$'000)
Personal Emoluments				
- Salaries	234,149	221,683	208,131	198,695
- Allowances	6,222	6,650	5,925	5,720
- Job-related allowances	4	27	27	27
Personnel Related Expenses				
- Mandatory Provident Fund contribution	186	192	197	540
Departmental Expenses				
- General departmental expenses	41,479	54,631	44,549	60,635
Other Charges				
- Subscription to the Asia-Pacific Economic Cooperation	718	2,000	1,000	1,000
- Trade negotiations and associated activities	669	2,319	1,600	1,600
- Subscription to the Pacific Economic Cooperation Council	128	128	128	128
- Contribution to the International Textiles and Clothing Bureau	520	586	643	643
- United Nations Development Programme	—	308	308	308
	<u>284,075</u>	<u>288,524</u>	<u>262,508</u>	<u>269,296</u>

Capital Account

Plant, Equipment and Works

5 Provision of \$18,000 under *Subhead 661 Minor plant, vehicles and equipment (block vote)* represents a decrease of \$18,000 (50.0%) against the revised estimate for 2005–06. This is due to a reduced cash flow requirement for the replacement of an interactive voice response system.

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Commitments

Sub-head (Code)	Item (Code)	Ambit	Approved commitment	Accumulated expenditure to 31.3.2005	Revised estimated expenditure for 2005–06	Balance
			\$'000	\$'000	\$'000	\$'000
<i>Operating Account</i>						
700		<i>General non-recurrent</i>				
	434	Sixth Ministerial Conference of the WTO	225,000	3,461	221,339	200
	515	Consultancy to provide advisory services on trade in goods and services.....	8,608	5,129	312	3,167
	517	Consultancy to provide advisory services on further broad-based multilateral negotiation	3,054	297	—	2,757
	520	SME Loan Guarantee Scheme.....	10,600,000	18,313	39,600	10,542,087
	524	SME Training, Export Marketing and Development Funds	1,400,000	610,581	332,391	457,028
		Total	<u>12,236,662</u>	<u>637,781</u>	<u>593,642</u>	<u>11,005,239</u>