EUROPEAN CHAMBER
OF COMMERCE IN HONG KONG
香港歐洲商務協會

Room 2807, level 28, The Lee Garden Two
28 Yun Ping Road, Causeway Bay, Hong Kong
www.eurocham.com.hk | info@eurocham.com.hk
T: 2511 5133

Ahead of the launch of the 2023 Policy Address Submission campaign, the European Chamber of Commerce in Hong Kong (the EuroCham), on behalf of its board, members and business councils, would like to submit the attached document to the Hong Kong SAR Government (the Government) for consideration.

Since Policy Address 2022, the Government has adopted a series of policy initiatives to enhance its status as an international business centre. At the same time, the Government has been proactively engaging a wide group of external stakeholders, including the EuroCham. EuroCham has been observing and supporting the work of the Government to propel Hong Kong's post-COVID economic recovery and boost its competitiveness.

To this end, we believe that policies such as the salary tax breaks, welfare allowances announced in the 2023 budget, and the Top Talent Pass Scheme are in the right direction. At the same time, we welcome recent initiatives that could help Hong Kong foster its global position, including the plan to establish an office of the Hong Kong Exchanges and Clearing Limited (HKEX) in London and the Task Force on Promoting and Branding Hong Kong.

In addition, we would encourage the Government to continue working towards fostering economic exchanges with Europe, Hong Kong's second-largest trading partner after mainland China, second-largest export destination and third-largest import supplier. With over 2,000 European companies operating in Hong Kong, EuroCham strives to go the extra mile to contribute to closer business ties between the two markets.

In parallel, we are confident that our members will benefit from the opportunities brought about by the development of the Guangdong-Hong Kong-Macao Greater Bay Area (GBA) with the support of the Central Government. We have also noted and supported the work of the Government to set up a progressive virtual asset policy that will ensure market integrity and investor protection. EuroCham also fully supports the Government's plan to promote Hong Kong as a green finance hub.

Please note that the document includes the policy recommendations from Business Councils and the European Chambers that constitute our membership.

We welcome the opportunity to discuss further our recommendations and answer any questions the Government might have.

1. Hong Kong in Today's Global Landscape

After a challenging period, the Hong Kong economy is bouncing back following the reopening of Hong Kong and mainland China from COVID-19. Restored business and tourism flows underline Hong Kong's critical role as a bridge when the mainland is re-engaging with the rest of the world. Despite global headwinds, Hong Kong's economy is projected to grow 5.0% this year and 2.5% in 2024. At the same time, the unemployment rate dropped to 2.9% between April and June, while inflation in 2022 edged below 2%, significantly lower than other global cities.

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On the other hand, there are signs that economic recovery takes place at a slow pace, as Hong Kong recorded about 13 million arrivals during the first half of 2023, which only accounted for 37% of pre-pandemic levels in 2019. In parallel, the increasingly challenging geopolitical landscape brings significant challenges to Hong Kong

Navigating today's complex economic environment and achieving sustainable growth requires careful strategic planning to address challenges effectively and capitalise on emerging opportunities. Looking ahead, we expect that the Government will continue facing risks from economic uncertainty stemming from high interest rates, geopolitical instability and market uncertainty. Against this backdrop, we encourage the Government to seek closer synergies with Europe and ensure to underscore Hong Kong's value proposition with a clearer, defined and confident approach.

Hong Kong has unfortunately declined in relevance globally, partly because of the isolation suffered during the COVID years, partly because the media often conveys a distorted image of events in Hong Kong and because other issues have taken the top of the agenda of leaders globally. Regaining relevance will take time and a well-defined and executed strategy and plan. Hong Kong is still a unique place in the world. It has the potential to become again a global tourist destination, which could propel other sectors, such as retail and hospitality, leading to an improved image of Hong Kong abroad.

2. Attracting Talent to Hong Kong

Recent years have seen one of the largest exodus of talent and foreigners from Hong Kong. The consequence is seen as a void of talent in the city and a significant reduction of diversity. Diversity has historically been one of the key attractions of Hong Kong, particularly as a competitive advantage over other large cities in Asia. It is one of the main factors contributing to innovation and productivity. Without diversity, it will be very challenging for Hong Kong to credibly retain its status as an International Business Hub.

Moreover, Hong Kong has been facing serious challenges in attracting talent in recent years. In fact, recent surveys highlight the magnitude of the problem.

Therefore, we would encourage the Government to continue promoting Hong Kong as a global city and reduce the perception and, in some cases, the rhetoric that you need to be local and speak Chinese to work and have a professional future in Hong Kong. Hong Kong needs foreign specialised professionals across sectors and levels. It is an opportunity to bring people that will help gain back the international status that Hong Kong had in the past.

While the Top Talent Pass Scheme has been a policy towards the right direction, we would encourage the Government to expand its applicability to the world's top 300 universities and organise targeted promotion campaigns. Moreover, while the scholarships for postgraduate students (funded by the Research Grant Council or the receiving universities) are considered to

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be high in absolute terms, the expensive living standards in Hong Kong pose significant challenges to postgraduate students. In order to make Hong Kong more attractive to young, talented students, we encourage the Government to offer additional incentives to interested students by raising the respective scholarship or allowing postgraduate students to work while being under a student visa.

Regarding attracting talent or general workers from abroad, we would invite the Government to consider investing in policies supporting renting houses in Hong Kong and offering higher housing allowances for foreign workers who meet specific income criteria. The Government could also consider the option of higher deduction for leasing expenses.

Last, we would encourage the Government to consider changes that would make the process of granting a working visa more flexible and faster.

3. Support of the GBA Development

The development of the GBA area carries a critical mission to support innovation and economic growth for China and holds vast potential for members of the European business community in terms of trade, investment and technology. To fully realise the opportunities of the GBA, our members indicate they would invite the Government to update its own GBA strategy and take a proactive approach to enhance the accessibility into the GBA area.

EuroCham has welcomed recent initiatives to enhance Hong Kong's participation in the region's development, such as the recent Qianhai 30 Measures. At the same time, with the border reopening, there is substantial demand for mainland retail customers to open Hong Kong bank accounts for investment and wealth management services in Hong Kong. As we have raised in earlier engagements, it is critical to allow mainland Chinese residents to remotely open Hong Kong bank accounts without physically travelling to Hong Kong, as it would reduce unnecessary friction in their journeys and business conduct.

Moreover, in order to cross the Hong Kong-mainland China boundary, even members of the international business community with a HKID are required to arrange a visa, which is a time-consuming and bureaucratic burden. Such a requirement hampers cross-boundary movement and, by extension, the GBA integration and broader development of the region. We call on the relevant authorities to invest in capabilities that would increase the efficiency of the respective immigration procedures and announce concrete steps towards improved accessibility for business travellers to the GBA, e.g. allowing business people to enter the GBA with their HKID.

4. Promoting Hong Kong as a Digital Assets and Currencies Hub

EuroCham believes that digital assets and currencies (DACs) can play a positive role in the Hong Kong economy and would further enhance its role as an international financial hub. In this context, we note and support the Government's work to introduce a vibrant DAC ecosystem.

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In this context, we welcome the announcement of the Government to explore the introduction of e-HKD as it could help Hong Kong meet existing and future challenges of new forms of money. Towards this end, we would like to encourage the Government to leverage existing best practices and work with industry and academia to ensure that the e-HKD will be introduced within a framework that would be governed by the "*same activities, same risks, same rules*" principle so that operators of e-HKD should be subject to appropriate licensing and/or regulatory requirements. We also encourage the Government to continue exploring the interoperability and programmability of e-HKD and to ensure that the e-HKD, once introduced, will meet all necessary compliance and privacy requirements.

Moreover, we have been closely following and strongly supporting the Government's work to develop a vibrant sector and ecosystem for Virtual Assets ("VA") in Hong Kong. Hence, we note and support the SFC's proposed regulatory framework for Virtual Asset Trading Platforms (VATPs), and we encourage the SFC to work with other regulatory authorities and all participants in the VA industry to promote market integrity and investor protection.

5. Sustainable Finance

5.1 Hong Kong Taxonomy

We commend HKMA's development of a Green Classification Framework for Hong Kong. This is a significant development for the sustainable finance market in Hong Kong and can bring about tangible benefits by clearly laying out standards to ensure the integrity and efficiency of the sustainable finance market. We reiterate the importance of achieving interoperability and convergence with other international taxonomies and standards. We would encourage the Government to engage closely with the EU and China taxonomy bodies to maximise its interoperability and keep each other abreast of developments and updates, whether through the current International Platform on Sustainable Finance processes or elsewhere. It is also crucial for the Government to communicate how different financial market participants, such as incorporation into HKEX ESG disclosures, will use this Framework as soon as possible.

5.2 Green and Sustainable Finance Grant Scheme

We commend the successful launch in 2021 of the Green and Sustainable Finance Grant Scheme, which has been used by over 220 debt transactions in Hong Kong. The Scheme has been popular and enabled many businesses to access the sustainable finance markets. We suggest the Government further enhance it in two ways.

First, the Government can lower the threshold minimum size for transactions so that the Scheme can cover smaller loans to be applicable to a broader portion of the market. Smaller businesses inherently use smaller loans, and given the significance of sustainable loans for businesses in Hong Kong, a lower threshold could benefit smaller businesses. Also, the Scheme has been

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planned to last for three years, so without a formal extension, it would be due to end in May 2024. We recommend the Government extend this Scheme by at least several more years. We also encourage the Government to consider new incentives and other policy support for businesses to more readily access this market.

5.3 Other incentives

We commend the Government's support for the growth of ESG talents in Hong Kong, with policies such as the Pilot Green and Sustainable Finance Capacity Building Support Scheme, which has been very helpful for many professionals to upskill in this area. We recommend that the Government provides incentives for universities and professional training bodies to (1) encourage teaching professionals to gain ESG qualifications and (2) invite overseas teaching professionals to come to Hong Kong to exchange ESG views and knowledge with local teaching professionals.

We also suggest the Government consider financial incentives to support smaller companies to take on ESG-qualified professionals so that ESG capabilities can rapidly spread throughout the Hong Kong economy and not be only focused on the largest companies with financial resources. All sectors of the economy, large and small, need to decarbonise and enhance their sustainability strategies. Such incentives on the employer demand side would also further encourage ESG re-training and upskilling on the human resources side, providing a virtuous circle.

As businesses devise and implement climate strategies, they will need to invest heavily, such as in replacing equipment, retrofitting properties, reconfiguring supply chains or building up new business models. We invite the Government to consider incentives to support such expenditures. Companies can benefit from advisory work such as robust emissions calculations or formulating a climate strategy with advice on appropriate decarbonisation actions.

5.4. Coordination between Government Departments and capacity building among Government officials

Given the urgency of the policies that will be needed for Hong Kong to achieve its climate targets, we encourage the Government to embed skills and responsibilities in its overall climate plan across multiple departments of the Government. This would further enable different parts of the Government to act together in achieving the overall targets.

5.5. Decarbonisation pathways for industry sectors

We suggest the HK Government work together with businesses in Hong Kong to set out sector-specific climate transition pathways so that they can show how they compare with international peers and sectoral benchmarks in a transparent and standardised manner. This standardisation

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can help the sustainable finance markets direct appropriate finance flows towards the companies that align with these pathways.

5.6 Carbon pricing

Around the world, there are various carbon pricing schemes. These schemes are based on the rationale that suitable carbon prices can redirect finance and investment flows towards lower-emitting activities. Therefore, we invite the Government to consider the merits and feasibility of carbon pricing in Hong Kong.

6. Tourism

6.1 Support the local aviation industry

After three pandemic years, Hong Kong's aviation industry is facing serious challenges towards recovering its status as a global aviation hub. At the same time, we note that Hong Kong's positioning as an international aviation hub is a priority for the Government and also affirmed and supported by the Central People's Government in the 14th Five-Year Plan and the Outline Development Plan for the GBA. Towards this end, EuroCham encourages the Government to support the local aviation industry by facilitating and supporting the easing of labour shortage at the airport. In addition, it is critical that airport staff have access to affordable and cost-efficient public transportation to/from the airport; this can be achieved through subsidies to airport staff or by developing and providing long-term affordable public transportation schemes for airport staff.

6.2 Support the local tourism industry

As a follow-up of recent initiatives, we invite the Government to design and launch a mid- and long-term strategy to promote Hong Kong as an international tourism hub. In parallel, it will bring significant value to the Hong Kong tourism and hospitality industry if the Government promotes it as an attractive and safe career choice. Given the need for more human resources in Hong Kong's tourism and hospitality industry, such a campaign could bring significant value.

Moreover, in line with the Government's efforts to promote sustainability in Hong Kong, we encourage the Government to develop a strategy for establishing Hong Kong as a green tourism hub. This should include the following initiatives:

1. Develop awareness campaigns and concepts for local tourism suppliers
2. Support the production and usage of sustainable aviation fuel by policies
3. Incentives the investment into sustainable aviation fuel

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6.3. Promote the status of Hong Kong as a tourist destination

We would encourage the Government to adopt a series of initiatives that would enhance the status of Hong Kong as a tourist destination, prioritising "quality over quantity". Some possible initiatives could be:

1. Review the tendering process of the cafes around the most popular beaches in Hong Kong;
2. launch a more effective "clean up the sea and beaches" campaign in close collaboration with the industry;
3. review the space allocation and programs in major Hong Kong public areas to organise flagship events (e.g. Longines Masters and Concours d'Elegance);

In the same context, we invite the Government to continue investing in sports facilities and sports education programs to contribute to the health and well-being of people of all ages and increase the number of international sports events that would benefit Hong Kong's global positioning.

7. Wine and Spirits Industry

Representing five leading international wine and spirits companies which account for nearly 70% of the "spirits market" by value in Hong Kong in 2022, the EuroCham Wine and Spirits Business Council (WSBC) would like to share our primary and long-lasting concern about the tax scheme on spirits above 30% alcohol by volume (ABV) in Hong Kong.

For the past nearly 30 years, spirits above 30% ABV have been taxed at 100% based on the import value since 1994. We recommend that the Government reduces the excise tax levied on spirits above 30% ABV from 100% to 70%. The proposed spirits tax reform will be a supportive move to cultivate an emerging premiumisation trend, rebuild the tourism and hospitality sector, and be prepared to position Hong Kong as a future auction hub of spirits. The above policy is particularly pertinent today as the wine and spirits industry is a significant contributor to Hong Kong's tourism and hospitality sectors, which have suffered the most critical consequences from the COVID-19 pandemic.

While Hong Kong removed all wine and beer duties from February 2008, as of now, a pure ad valorem excise tax at the rate of 100% Cost Insurance and Freight (CIF) on spirits above 30% ABV is still being levied, making Hong Kong the only major economy in the world implementing a tax policy vary sharply between different categories.

As widely recognised by governments and public health authorities worldwide and accepted as consensus in the scientific literature, the effects of alcohol consumption depend on the drinking pattern – how alcohol is consumed, by whom, in what amounts and how often, not on the alcoholic strength (i.e. ABV) or type of an alcoholic drink. Therefore, we call for tax reduction on spirits above 30% ABV from 100% to 70% as a step toward a more fair and balanced alcohol taxation policy.

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The proposed tax reform will support the continuation of the premiumisation trend in spirits consumption, and it will reinvigorate what are currently fragmented auction activities, facilitating the growth of Hong Kong into Asia's spirits action hub, much similar to the emergence of Hong Kong as a global wine auction centre following the removal of wine duties in 2008.

As a result, it will serve as a step to regain the competitiveness of Hong Kong's spirits tax policy in the region and, therefore, support Hong Kong's economic recovery in a way of guaranteeing tax revenue and bringing economic benefits by drawing more high value-added visitors including meetings, incentives, conferences and exhibitions tourism (MICE) visitors.

8. Automotive Industry

8.1 Electric Vehicles

The current Electrical Vehicle (EV) First Registration Tax (FRT) Concessions and One-for-One Replacement Schemes will soon expire in March 2024. EuroCham urges the Government to announce the EV incentive roadmap beyond March 2024 in advance to sustain the momentum of the electric vehicle transition in Hong Kong.

8.2 Future-oriented Type Approval Regulations

EuroCham recommends that the Government considers adopting the UNECE vehicle type approval regulations to facilitate the faster adoption of the latest automotive technologies in Hong Kong.

8.3 Retired EV Batteries Recycling

EuroCham supports the Government's proposal to establish a Producer Responsibility Scheme for retired EV batteries but invites the Government to streamline the administrative processes of the scheme and centralise the operations for recycling retired EV batteries to minimise the cost burden on the industry.