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JOINT REPORT TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

HONG KONG SPECIAL ADMINISTRATIVE REGION: ANNUAL REPORT 2015

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Summary

Since the handover of Hong Kong to the People's Republic of China (PRC) in 1997, the European Union (EU) and its Member States have closely followed political and economic developments in the Hong Kong Special Administrative Region (SAR) under the 'one country, two systems' principle. In line with the commitment given to the European Parliament in 1997, an annual report is issued on developments in Hong Kong. This is the 18th report, covering developments in 2015. The EU adheres to a 'one China' policy and supports the 'one country, two systems' principle and its implementation.

2015 was a politically challenging year for the Hong Kong SAR and for the functioning of the 'one country, two systems' principle. On 18 June the Legislative Council voted down the government's proposal to introduce universal suffrage for the election of the Chief Executive from 2017. The negative vote concluded an electoral reform process of almost 18 months' duration, involving polarised debates and, in late 2014, massive demonstrations in favour of a higher degree of democracy in the voting system than was permitted by the August 2014 decision of the Standing Committee of the National People's Congress.

The EU regrets that the principal actors in the electoral reform process were unable to reach a compromise on the reform. As a stakeholder in Hong Kong's future and in line with the Basic Law, the EU encourages the Hong Kong SAR and Central Government authorities, through constructive discussion, to resume the electoral reform and reach an agreement on an election system that is democratic, fair, open and transparent. Universal suffrage would give the government greater public support and legitimacy for reaching Hong Kong's economic objectives and tackling social challenges, such as the socio-economic and generational divides in Hong Kong society.

The functioning of the 'one country, two systems' principle was called into serious doubt by the disappearance, in late 2015, of five individuals, two of whom hold EU citzenship, associated with a Hong Kong publishing house and bookshop known for printing and selling material critical of the Central Government. The circumstances of the disappearances were suspicious; the fifth person who disappeared from Hong Kong SAR territory seems to have been abducted.

The EU considers the case of the five book publishers to be the most serious challenge to Hong Kong's Basic Law and the 'one country, two systems' principle since Hong Kong's handover to the PRC in 1997. The case raises serious concerns about respect for human rights and fundamental freedoms and about the application of PRC criminal law to acts that are not punishable under Hong Kong law. The case has potentially lasting implications for Hong Kong's rule of law and could impact on Hong Kong's standing as an international business centre. The EU calls on the Central Government to fully respect the constitutional arrangements for Hong Kong SAR within the PRC, and restore the trust placed by Hong

Kong residents as well as the international community in the Basic Law and the 'one country, two systems' principle.

Other aspects of the 'one country, two systems' principle continued to function well in Hong Kong during 2015. The judiciary continued to demonstrate its independence and consistent adherence to due process. The rule of law remained the guiding principle for the government, economic actors and the population at large. Anti-corruption action remained strong, as shown by the due process in the prosecution of the former Chief Executive and positive good governance indicators. Freedom of speech and freedom of information are generally respected. However, a negative trend can be observed in press freedom and pluriformity, as a result of caution and self-censorship when reporting about PRC domestic and foreign policy developments. The disappearance of the five publishers is expected to aggravate this trend. Academic freedom remains largely respected; however, the institutional autonomy of the universities is jeopardised by the appointment of pro-establishment figures to university councils.

The free market economic system continued to function efficiently and Hong Kong remained a competitive international business centre as well as the world's premier hub for business with mainland China. The rule of law, the transparent regulatory framework, very low corruption levels and crime rates, along with an efficient public administration and an independent judiciary contributed to preserving and fostering the favourable investment climate that lies at the heart of Hong Kong's success. Upholding these elements is vital for Hong Kong's competitiveness, as are the enactment of new legislation on copyright, the automatic exchange of tax information and the implementation of the Competition Ordinance. Climate action needs to be reinforced to achieve the low-carbon economy goals in line with the COP21 outcome.

Political developments

The reform of the Chief Executive election procedure, launched by the Hong Kong SAR Government in 2014, came to an end in June 2015. It had involved two public consultations and a framework decision by the Standing Committee of the National People's Congress (NPC), and was marked by massive 79-day street protests by the Occupy campaign. In line with the framework laid down by the Standing Committee of the NPC, the SAR Government submitted to the Legislative Council (LegCo) a proposal for a voting system with universal suffrage for up to three candidates selected by a nomination committee.

Pro-democracy groups dismissed the proposal as offering 'fake democracy', especially because the nomination committee, whose members are largely pro-establishment, would all but rule out the possibility of a pan-democratic candidate running. Opinion polls varied in their outcomes, while never pointing to a firm favourable opinion among the general public. Government attempts to rally the necessary number of pro-democracy LegCo members behind the proposal did not succeed. Thus, in a tumultuous vote on 18 June, the government's electoral reform package was voted down by a blocking minority of pro-democracy members.

The EU regrets that the principal actors in the electoral reform process were unable to reach a compromise on reform of the method for electing the 2017 Chief Executive. As a stakeholder in Hong Kong's future and in line with the Basic Law, the EU hopes that, through constructive discussion, Hong Kong will be able to resume electoral reform and reach an agreement on an election system that is democratic, fair, open and transparent. Universal suffrage would give the government greater public support and legitimacy for its efforts to reach Hong Kong's economic objectives and tackle social challenges, such as the socio-economic and generational divides in Hong Kong society.

Hong Kong's political climate remained highly polarised between the pro-establishment and pro-democracy camps. Relations between the executive and the legislature continued to be strained in 2015, with opposition legislators staging a non-cooperation campaign and using filibustering tactics to delay government initiatives. The setting up of the new Innovation Bureau took three years to be approved and the adoption of a draft amendment to the Copyright Act was postponed to 2016 and eventually failed. The filibustering seriously hampered the effectiveness of LegCo decision-making and the governance of Hong Kong in general. To address this, a review of the LegCo rules of procedure would be in order.

The November District Council elections did not produce a significant shift in voter preferences. Yet they brought in several new political groupings and voters appeared to favour new and young candidates over long-standing ones. One new party, the Neo Democrats, won 15 out of the 16 seats it contested. Voter turnout was a record 47 %. The conduct of the District Council elections was professional and fair. Both sides made some allegations of vote-buying, but the Electoral Affairs Commission ruled that these allegations were unfounded.

Relations between Hong Kong and the mainland of China

In the wake of the Occupy movement and the failure of the electoral reform, relations between Hong Kong and the mainland are going through a difficult phase. A significant part of Hong Kong society is seriously concerned about the gradual erosion of Hong Kong's 'high degree of autonomy' within the People's Republic of China and the declining respect for Hong Kong's values and way of life under the 'one country, two systems' principle. The adoption of China's new National Security Law on 1 July caused concern, as it makes specific reference to Hong Kong, raising the risk that it could be used to penalise acts carried out by Hong Kong residents on Hong Kong territory, even if they are not punishable under Hong Kong law.

The functioning of the 'one country, two systems' principle was called into serious doubt by the disappearance, in late 2015, of five individuals, two of whom hold EU citzenship, associated with a Hong Kong publishing house and bookshop selling publications that are critical of the Central Government. While four of those people were last seen on the mainland or, in one case, in Thailand, the fifth person disappeared from Hong Kong territory and seems to have been an abducted. All of them later reappeared on the mainland and declared that they were voluntarily collaborating in an official investigation. Despite repeated requests for information and explanation by top officials of the Hong Kong SAR as well as by the EU and other members of the international community, the PRC authorities failed to provide any credible explanation.

The case involves a serious violation of human rights and fundamental freedoms and raises grave concerns about the rule of law under the 'one country, two systems' principle and the mainland authorities' application of PRC laws to acts carried out by Hong Kong residents on Hong Kong soil. The EU calls on the Central Government to fully respect the consitutional arrangements for the Hong Kong SAR within the PRC, and restore the trust placed by Hong Kong residents as well as the international community in the Basic Law and the 'one country, two systems' principle.

Tensions between Hong Kong and the mainland also reappeared at a societal level. There were protests and violent outbursts directed at parallel traders and mainland visitors in the northern parts of Hong Kong near the border with the mainland, where parallel trading caused shortages of basic necessities and put pressure on public infrastructure and transport. 'Localist' groups argued for political and economic choices that focus more on serving Hong Kong's local interests, as opposed to the interests of business.

Rule of law and the judiciary

Notwithstanding the concerns arising from the incident of the five missing publishers, the rule of law was otherwise respected and the judiciary maintained its high standards in 2015. The Global Competitiveness Index 2015-2016 conducted by the World Economic Forum ranked judicial independence in Hong Kong 4th worldwide with a score of 6.3 out of 7. The World Bank project on Worldwide Governance Indicators gave Hong Kong a score of 93.8 % for 'rule of law' in 2014; Hong Kong has ranked in the top 10 % of countries since 2003.

A small number of protestors arrested in the aftermath of the 2014 Occupy campaign were tried and convicted. Campaign leaders who were also arrested were charged and released on bail. Seven police officers were charged with abuse of one demonstrator; the trial is ongoing. The victimised demonstrator was himself charged with assaulting and resisting a police officer, in a demonstration of the prosecutor's scrupulous even-handedness. The pace of the legal proceedings has been subject to criticism from some quarters. It is thus vital that the judicial procedures connected with the Occupy campaign continue, fully to respect the principles of rule of law and due process.

To ensure that the judiciary continues to function effectively, the difficulty in recruiting judges, the shortage of support staff in the courts and the low fees paid to lawyers in legal aid cases, especially criminal cases, need to be addressed. Maintaining judicial independence and full respect for the rule of law are vital to upholding Hong Kong's democratic credentials, its standing as an international business centre, and its rising role as an international centre for arbitration and mediation.

Anti-corruption

Corruption was deemed to be under control and the anti-corruption system remained vigorous and resilient, despite the fact that the number of corruption complaints filed with the Independent Commission Against Corruption (ICAC) rose to a record 2 800 in 2015, an 18 % increase over 2014. It is difficult to draw a conclusion from this increase, since it may be due to a rise in anti-corruption activities but equally to greater public awareness and readiness to file complaints.

On 5 October, former Chief Executive Donald Tsang was charged on two counts of misconduct in public office, making him the highest-ranking SAR official ever to be prosecuted. This is a test case for the ability of the ICAC and the judiciary to investigate and try high-profile corruption cases independently, impartially and free of political considerations. Allegations of an undeclared financial interest of the current Chief Executive were under investigation. The allegations prompted some lawmakers to propose a motion to amend the Prevention of Bribery Ordinance to cover the Chief Executive while in office; however, the Legislative Council voted it down. The overall conclusion is nevertheless that Hong Kong boasts very high standards of transparency and anti-corruption measures. The authorities and political and business leaders recognise that decreased transparency would negatively impact on Hong Kong's strength as an international business centre, including for mainland firms.

Equal opportunities, rights and freedoms

The **media**, including digital media, continued to be largely free and to give voice to a variety of views. Nevertheless, there was a growing impression, recorded in the annual report of the Hong Kong Journalists Association (HKJA), that both the print and electronic media exercised self-censorship, especially when covering affairs concerning mainland China. In addition, the HKJA pointed out that some digital media outlets were continuously kept out of government press conferences on the grounds of not having a print edition, on top of the government's increasing tendency to replace press conferences with one-sided communication formats. Based on 2014 trends, the 2015 Press Freedom Index from Reporters without Borders downgraded Hong Kong by nine places to 70th place, citing self-censorship and a growing influence exerted by the Central Government's Liaison Office. There were reports that businesses with strong ties to mainland China were withdrawing their advertising from media outlets that were critical of Beijing.

Following the leak of audio recordings of its closed-door sessions regarding controversial appointment matters (see below), the University of Hong Kong obtained a court order to ban media reports detailing confidential discussions of its governing council. The injunction raised concerns over press freedom as media outlets retracted their coverage in response to the court order.

In December 2015, the Alibaba Group, China's e-commerce giant, bought the *South China Morning Post* (SCMP), the century-old English-language newspaper. Journalist associations expressed concern that the SCMP's editorial independence would be compromised after the group said it would aim to provide unbiased and 'fair' reporting on China.

The disappearance, under suspicious circumstances, of five people associated with a Hong Kong publishing house producing literature critical of the mainland authorities caused major concern about the curtailment of freedom of expression. Some bookstores were subsequently reported to have taken critical publications off their shelves.

Freedom of expression, media freedom and freedom of information form Hong Kong's core values under the 'one country, two systems' principle and are an essential component of Hong Kong's strength as a global business centre. The EU calls on all stakeholders to preserve these values.

Academic freedom and the independent governance of higher education institutions faced a major controversy in 2015. It was prompted by a decision of Hong Kong University's Governing Council to reject the nominee for the post of Vice-Chancellor because of his links to opposition groups. The decision was seen as political interference at the implicit behest of the SAR Government and sparked protests against the SAR Government's tendency to appoint pro-establishment figures to university councils. This practice threatens independent university governance and could in the long run harm academic freedom in Hong Kong. The controversy prompted calls for the removal of the Chief Executive as *ex officio* Chancellor of all universities in Hong Kong.

Hong Kong still does not have a comprehensive law on **anti-discrimination**. A public consultation on how to remedy this, launched by the Equal Opportunities Commission (EOC), received 100 000 submissions. The EOC will draw up a report with recommendations on promoting equal opportunities for lesbian, gay, bisexual, transgender and intersex (LGBTI) persons, through legislation as well as practical measures. Hong Kong's legislation on same-sex marriage and marriages involving transgender people is being reviewed. Discrimination on grounds of sexual orientation is recurrent.

Foreign domestic workers, who number around 300 000, continued to suffer from a lack of adequate labour and social protection. Two existing laws regarding foreign domestic workers are of particular concern, namely the live-in requirement and the 'two-week' rule, under which foreign domestic workers must find work within two weeks following expiry of their contract or face deportation. In December 2015, the United Nations Committee against Torture urged the government to abolish the 'two-week' rule and allow live-out arrangements for foreign domestic workers. Civil society organisations are calling for a more inclusive arrangement that would encompass a statutory provision on daily working hours and/or overtime. Hong Kong's government has introduced some regulations, including a minimum allowable wage (which was increased in 2015), a weekly day off and a cap on the recruitment fee, but the enforcement of these regulations is still open to question.

Human trafficking remains a concern, particularly in the absence of a single legislative and policy framework. The SAR Government has set up a task force to address the matter and is collaborating with the EU and other members of the international community.

Economic developments

In 2015 Hong Kong continued to score highly on a number of global economic surveys. According to UNCTAD,[1] Hong Kong ranked second in global foreign direct investment (FDI) flows and it registered FDI inflows of US$ 103 billion in 2014, a year-on-year increase of 39 %. Hong Kong ranked second only to mainland China and ahead of the USA, the UK and Singapore. Hong Kong ranked second also in terms of outflows (US$ 143 billion), after the USA and ahead of mainland China, Japan and Germany. Hong Kong also maintained its fifth position in the World Bank's Doing Business 2016 report, the same as in 2015.

The Hong Kong economy grew moderately by 2.4 % in real terms in 2015.[2] The expansion was mainly attributable to resilient domestic demand, upheld by full employment and income growth. The unemployment rate stayed at or below 3.3 % throughout the year. Consumer price inflation was contained at 3 % in 2015. Total exports of goods and services performed less well because of the slowdown in the Chinese economy and slow growth in some major export markets, including the EU.

The tourism sector was lacklustre. The trend towards more visitor arrivals was reversed in the latter part of the year as Chinese visitor arrivals (accounting for over three quarters of the total visitor arrivals) dropped by 3 % in 2015. This was the first decline since the relaxation of visa rules for mainland visitors in 2003, and it had a negative effect on the retail sector. Retail sales of big-ticket items such as jewellery, watches and valuable gifts fell markedly in 2015. The subdued performance of the tourism and retail sectors was also due to the strong Hong Kong dollar and Beijing's crackdown on graft. In April the Chinese State Council approved a decision limiting Shenzhen residents' trips to Hong Kong to once a week, in an attempt to ease growing discontent in Hong Kong over frequent shopping trips by Chinese mainland residents and to create obstacles for the parallel traders seeking to cross the border.

The financial sector continued to flourish as one of Hong Kong's most important economic pillars. In 2015 Hong Kong regained its position as the world's top market for initial public offerings (IPO), raising a total of HK$ 260 billion;[3] over 90 % of all IPO funds raised were accounted for by mainland companies and the rest was raised by Hong Kong-based firms. While the Central Government introduced some controversial measures to bring its stock markets' volatility under control in the months following June 2015, Hong Kong showcased its bourse as the safest and most efficient market for trading Chinese equities. Furthermore, Hong Kong succeeded in being the largest offshore centre for RMB in 2015 in terms of RMB

1. Cf. United Nations Conference on Trade and Development (UNCTAD) World Investment Report (WIR) 2015 (released on 24 June 2015).

[2] Unless otherwise stated, all economic indicators pertaining to the Hong Kong economy were sourced from the Hong Kong Census and Statistics Department.

[3] Deloitte, 2015 Review and 2016 Outlook of Hong Kong and Chinese Mainland IPO Markets, 21 December 2015.

deposits[4] and trade settlement. Hong Kong regulators and its financial industry remained confident that the city would stay ahead in RMB business and would be able to meet the challenge of increasing competition from other international financial centres.

On the governance side, the Basel Committee on Banking Supervision said in its first assessment of Hong Kong that the city's framework for risk-based capital and liquidity coverage was Basel III compliant, and Hong Kong was compliant on 12 out of 13 components of the assessment. On one component, which calls for quarterly disclosure of capital and liquidity data from banks, the committee said the Hong Kong Monetary Authority (HKMA) was 'largely compliant'.

To mitigate the risks for the banking sector, on 27 February the HKMA introduced a new round of supervisory measures on property mortgages. Despite the tame market reactions, especially towards the end of 2015, the Chief Executive said that the government would maintain the cooling measures put in place since 2012 and would continue to increase land supply to ease the housing shortage. In anticipation of an interest rate hike by the U.S. Federal Reserve, the rise in overall residential property prices decelerated in the third quarter and turned into a decline in the last quarter of 2015.

Hong Kong continued to be the testing ground for China's capital market reform, with the rolling out of new policy initiatives. The mutual recognition of funds scheme between Hong Kong and China was a milestone. The Securities and Futures Commission of Hong Kong and the China Securities Regulatory Commission signed the Memorandum of Regulatory Cooperation on Mainland-Hong Kong Mutual Recognition of Funds (MRF) on 22 May. This memorandum allows eligible mainland and Hong Kong funds to be distributed in each other's markets through a streamlined vetting process. The scheme could potentially introduce around 850 Chinese funds into the Hong Kong market and around 100 Hong Kong funds into the Chinese markets to sell up to RMB 300 billion of products on the other side. This landmark development further opened up China's capital markets and strengthened Hong Kong's position as an asset management hub in Asia. Despite a short delay, the first two batches of thirteen mainland funds and three Hong Kong funds were approved for public offering in December, five months after the scheme was officially launched.

The Shanghai-Hong Kong Stock Connect, which was set up in November 2014, went through its first year of operation in a period of extreme market volatility. The pilot scheme was a significant breakthrough in the opening of China's capital markets and served as a model for stock market linkages between China and other international financial centres. The scheme gives Chinese mainland investors more access to international markets, and allows international investors to buy A-shares of Chinese companies through Hong Kong. The trading volume of the stock connect scheme in its first year of operation remained lower than expected, however, partly because of the stock market volatility in China in the summer of

[4] According to the HKMA, total RMB deposits amounted to RMB 1 010 billion (including RMB customer deposits and outstanding certificates of deposit) as of the end of 2015.

2015. A similar scheme with Shenzhen (the Shenzhen-Hong Kong Stock Connect), originally expected to be launched in 2015, was delayed.

While reaping the first-mover benefits, Hong Kong is, at the same time, exposed to the inherent risks of China's capital markets, in terms of both volatility and governance oversight. The challenge for Hong Kong's authorities is to manage those risks while capitalising on its privileged position. Besides, as China gradually liberalises its capital markets and modernises its regulatory framework, Hong Kong is poised to face mounting competition from the Shanghai and Shenzhen markets.

The strategic dimension of economic integration with China became increasingly prominent in 2015. Hong Kong is positioning itself as a platform to help China implement its 'go global' strategy. It is also actively exploring its role in the national strategy of 'One Belt, One Road'[5] (OBOR), presented by Chinese President Xi Jinping in 2013. The Hong Kong Government's vision is for the SAR to be a financing and asset management hub and to make the city a centre of dispute resolution and arbitration for the Asian Infrastructure Investment Bank (AIIB). The Hong Kong business sector was urged to seize the opportunity of the 'OBOR' initiative, which is expected to be a key driver of growth in the long run. Hong Kong has stated its intention to join AIIB as a non-sovereign member in due course.

A new agreement on trade in services was signed on 27 November 2015 under the framework of the Closer Economic Partnership Arrangement (CEPA) between the Hong Kong Government and the Chinese Ministry of Commerce. When the agreement comes into effect on 1 June 2016, China will fully or partially open up to the Hong Kong services industry in 153 of the 160 WTO services trade sectors. The deal will achieve basic liberalisation of trade in services by the end of the 12th Five-Year Plan, as pledged by China in 2011. Hong Kong is also favourably positioned to enjoy China's most preferential liberalisation measures by means of the 'Most-Favoured Treatment' provision of the agreement.[6] The CEPA framework agreement was signed in 2003, and thereafter 10 supplements were signed between 2004 and 2013. In December 2014, the Guangdong Agreement was signed under the CEPA framework for basic liberalisation of trade in services with Hong Kong in Guangdong.

On the external front, the Hong Kong-ASEAN Free Trade Agreement negotiations, launched in July 2014, progressed to the fifth round in 2015. On top of the CEPA with China, Hong Kong has signed three other free trade agreements with its trading partners, namely New Zealand, the European Free Trade Association and Chile. In 2015 Hong Kong launched a consultation for a free trade agreement with Macao.

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[5] 'The Silk Road Economic Belt' and 'The 21st Century Maritime Silk Road' are the major components of the 'One Belt, One Road' initiative, which is a development strategy and framework that focuses on connectivity and cooperation among countries primarily in Eurasia. Its programme mainly covers building and improving the infrastructure of these countries.

[6] The 'Most-Favoured Treatment' provision of the agreement specifies that any preferential treatment China has accorded to other countries or regions, if more preferential than under CEPA, will be extended to Hong Kong.

Competitiveness remained high on the agenda for both the public and private sectors. Government and business leaders discussed options to enhance Hong Kong's competitiveness and one of the main recurrent themes was 'innovation'. The Innovation and Technology Bureau, which was established in November 2015, is to steer the innovation drive.

A number of regulatory measures were taken in 2015 to ensure a competitive environment for business and to align Hong Kong's regulatory standards with international practices. On 10 July, the Legislative Council passed a bill to set up the Independent Insurance Authority, an independent regulatory body for the insurance industry, replacing the Office of the Commissioner of Insurance. The new body has expanded powers for consumer protection and for direct oversight of insurance intermediaries. This matches international practices according to which financial regulators should be financially and operationally independent of the government, and marks a major step forward.

On the basis of the OECD standard, promulgated in July 2014, the Hong Kong Government has drawn up proposals to apply the Automatic Exchange of Financial Account Information requirements to Hong Kong through legislation. Hong Kong's target is to introduce an amendment bill in the Legislative Council in early 2016, with a view to commencing information exchanges by the end of 2018. Hong Kong has not however yet confirmed its preparedness to be committed to the comprehensive OECD/Council of Europe Multilateral Convention on Mutual Administrative Assistance in Tax Matters and, as a consequence, has not adhered to the related Common Reporting Standard Multilateral Competent Authority Agreement (CRS – MCAA), to which all the EU Member States are parties. The CRS-MCAA, subject to a rather straightforward procedure of bilateral activation, provides a suitable legal basis for the actual and effective implementation of cooperation under the OECD standard for the Automatic Exchange of Financial Account Information between all its partners, avoiding lengthy bilateral negotiations.

The government completed all the implementing legislation for Hong Kong's Competition Ordinance, enacted in 2012; the Ordinance thus came into full effect on 14 December 2015. Earlier steps included the establishment of the Competition Commission and the Competition Tribunal in 2013. The Hong Kong Competition Ordinance draws inspiration from EU competition law. However, control of mergers and acquisitions does not form part of the present legal framework.

Hong Kong is seeking to modernise its copyright law, which lags behind international standards and contains loopholes that impede the fight against internet piracy. Updating the current law is all the more important if Hong Kong wants to become an intellectual property hub. The Copyright (Amendment) Bill was put to the Legislative Council in June 2014 with a view to completing the legislative process by the end of 2015. However, public protests over the alleged impact on freedom of speech and freedom of information, combined with filibustering in the Legislative Council, prevented the bill from being adopted. Mega-sized infrastructure projects are being pursued by Hong Kong to cope with future demand. The completion of several of them, including the Hong Kong-Guangzhou express rail link and the Hong Kong-Zhuhai-Macao Bridge, will be delayed and over budget, which has caused heated political debates in the Legislative Council. The construction of a third runway at Hong Kong International Airport has also sparked public concerns about airspace management and the environmental impact. The third runway will be financed by the Airport Authority and will entail the imposition of a passenger departure fee.

The Hong Kong Government has updated the poverty line. The number of poor stands at 1 324 800, and the poverty rate at 19.6 %. Poverty alleviation will increasingly be a challenge in the face of a rapidly ageing population. At the end of the year, the Financial Secretary announced that the Future Fund (with an initial endowment of HK$ 219.7 billion) would be established on 1 January 2016, with a view to supporting increased spending needs in the future. It will be a long-term savings scheme and withdrawals before 2025 would not be allowed except in emergencies.

In the environmental field, the Energy Saving Plan 2015 was released. It sets a target of reducing energy intensity by 40 % by 2025, focusing mainly on the building sector. More ambitious emission targets for the energy sector are also set out in the Fifth Technical Memorandum for Allocation of Emission Allowances. Another positive environmental development is the Air Pollution Control (Ocean Going Vessels) (Fuel at Berth) Regulation, requiring the use of more environmentally friendly marine fuels for ocean-going vessels. Applications for the Hong Kong Government's HK$ 1billion recycling fund were opened, with the first grants set to be given to applicants in March 2016. The fund was announced in 2014 and was approved by the Legislative Council in July 2015. It aims to increase quantity and quality of recyclables and reduce pressure on Hong Kong's landfills. As regards climate change, in the run-up to the crucial negotiations in Paris (COP21), the Hong Kong Climate Change Report 2015 was issued in November. The report stressed that climate change is a major challenge but that it also offers a chance to improve Hong Kong's liveability.

EU-HONG KONG BILATERAL RELATIONS AND COOPERATION 2015

Bilateral relations between the EU and Hong Kong continued to flourish in 2015. As in previous years, the EU was Hong Kong's second largest trading partner after mainland China,[7] while Hong Kong was the EU's 15th largest trading partner for trade in goods (ahead of much larger third partners such as Indonesia, Malaysia, South Africa, Thailand and Vietnam and among the top twenty trading partners in services.

Bilateral trade in goods between the EU and Hong Kong increased and amounted to EUR 50 billion in 2015, with the EU enjoying a trade surplus of EUR 21 billion.[8] Bilateral trade in services in 2014 (the latest available data) amounted to EUR 21.5 billion, with a small EU deficit of EUR 0.1 billion. The EU is still the largest source of foreign companies established in Hong Kong, with a total of 2 029 companies.[9] EU businesses are key players in financial

[7] The ranking is based on trade statistics released by the Hong Kong Census and Statistics Department.
[8] Source: Eurostat: Comext database.
[9] Source: 2015 Annual Survey of Companies in Hong Kong Representing Parent Companies Located outside Hong Kong, Hong Kong Census and Statistics Department.

and business services and active in a wide variety of sectors, including trading, logistics, construction and retailing.

Investment flows between the EU and Hong Kong are also very positive. The EU remains the third largest source of foreign direct investment in Hong Kong, after the British Virgin Islands and mainland China. Hong Kong is one of the top twenty investors in the EU. In 2014 (the latest available data), EU FDI outflows to Hong Kong amounted to EUR5.8 billion; FDI inflows from Hong Kong to the EU reached EUR 2.1 billion. Hong Kong ranks 13 in the list of net FDI inflow in 2014 and 12 in the list of inward FDI stocks in EU-28 in 2014. Both outflows and inflows decreased considerably in 2014 compared to 2013. At the end of 2014, FDI stock held by the EU in Hong Kong was EUR 106 billion and FDI stock held by Hong Kong in the EU at the same time was EUR 71 billion.

As a platform for mainland China, Hong Kong gives EU economic operators high-value opportunities. With a sizeable number of EU companies registered as 'Hong Kong service suppliers' under the Hong Kong-Mainland China Closer Economic Partnership Arrangement (CEPA), the EU is the leading source of foreign companies utilising CEPA. Given the potential of CEPA, the EU and Hong Kong have agreed to explore ways to maximise the opportunities for EU companies and investors.

The ninth EU-Hong Kong structured dialogue took place in Hong Kong on 26 November 2015. The two sides discussed a wide range of subjects and identified areas for further cooperation, in particular intellectual property trading and protection, financial services, environmental protection and climate action, youth exchange, and research and innovation. The two sides agreed to strengthen investment and trade relations and to explore the scope for launching investment negotiations. They exchanged views on regulatory matters, including food safety and public procurement, and agreed to continue working towards a better understanding of each other's concerns and priorities and better market access.

2015 saw many high-level visits from the EU institutions to Hong Kong. European Commissioner Lord Jonathan Hill (Financial Stability, Financial Services and Capital Markets Union) visited in November. He met with Financial Secretary John Tsang, many other Hong Kong officials, and the European business community. The heads of the three authorities forming the European System of Financial Supervision (European Banking Authority, European Securities and Markets Authority and European Insurance and Occupational Pensions Authority) all visited during 2015. The EU Special Representative for Human Rights, Mr Stavros Lambrinidis, also visited Hong Kong in November as did the Managing Director of the European Stability Mechanism, Mr Klaus Regling. The President of the European Research Council, Mr Jean-Pierre Bourguingon, was in Hong Kong in December. A number of the European Commission's Directors-General and other high-level officials visited during the course of the year.

The Chief Secretary of the Hong Kong SAR Government, Ms Carrie Lam, visited Brussels in May and met with two European Commissioners. The Financial Secretary, Mr John Tsang, visited a number of EU countries in November. The Education Secretary, Mr Eddie Ng Hakkim, the Secretary for Financial Services and the Treasury, Professor KC Chan, and the Secretary for Commerce and Economic Development, Mr Gregory So, also visited Brussels in 2015 and met with their EU counterparts.

In the customs field, the EU and Hong Kong brought their good cooperation to a new level in 2015. In April, they signed an action plan to further develop customs cooperation to tackle international trade in IPR-infringing goods throughout the supply chain, among others by means of exchanges of statistical and detention data. A six-month pilot project under the Action Plan was launched in October to test the exchanges and analysis of the data above, as well as the established working mechanisms. The pilot focuses on air traffic, with the participation of five EU airports (London Heathrow, Paris Roissy CDG, Milano Malpensa, Amsterdam Schiphol and Liège Bierset). Also in April, the parties agreed to continue working towards the establishment of mutual recognition authorised economic operators between the EU and Hong Kong. The EU and Hong Kong also continued their cooperation in the context of the Smart and Secure Trade Lane pilot project, which Hong Kong joined in 2013 and which aims to facilitate and secure trade lanes between Europe and Asia.

In research and innovation, 2015 was a momentous year for EU and Hong Kong relations. In November, the Research Grants Council of Hong Kong and the European Commission reached a ground-breaking agreement to set up a collaboration scheme for research and innovation which will allow co-funding of Hong Kong researchers in the EU Framework Programme Horizon 2020. With an initial annual budget of HK$ 9 million for the benefit of Hong Kong researchers, the collaboration scheme will strengthen relations between the EU and Hong Kong research communities in areas of mutual interest with a view to achieving world-class scientific and technical results leading to new and innovative technologies.

On 17 June 2015, the Commission published for the first time a compilation of third country jurisdictions listed as non-compliant or non-cooperative by Member States for tax purposes, as part of the EU's external agenda against corporate tax avoidance aiming to introduce more transparency into national listing processes across the EU, while also encouraging third countries to engage with Member States on good governance in tax matters. The full consolidated version of the list was published online, while a list of the most frequently listed jurisdictions was annexed to the Commission's Action Plan for a Fair and Efficient Corporate Tax System in the EU. In response to Hong Kong's (and other jurisdictions') concerns, the European Commission published in October an online update.[10] This update reflected the fact that many of the countries/jurisdictions, including Hong Kong, had actively engaged in the OECD's international transparency and information exchange agenda and had also committed themselves to applying the OECD's new global standard for automatic exchange of information. The online update showed that Hong Kong was (at the time) listed by eight Member States, as opposed to ten originally, reflecting changes in Member States'

[10] An official update of the EU list was carried out by the European Commission in January 2016 as part of its Anti-Tax Avoidance Package.

assessments of third countries' tax good governance standards, corrections to national lists and Estonia's decision to withdraw its national list altogether.

Hong Kong has signed 13 comprehensive agreements for the avoidance of double taxation (CDTAs) and two Tax Information Exchange Agreements with EU Member States. Negotiations are under way with three others.

EU business interests in Hong Kong are represented by the European Chamber of Commerce (ECC). The ECC is a 'chamber of chambers', with its membership comprising the fifteen European Chambers based in Hong Kong and one in Macao. The ECC operates around five sectoral 'business councils' (Automotive; Brands Protection; Energy and Environment; Financial Services; Information, Communication and Technology). In cooperation with the European Union Office to Hong Kong and Macao, the ECC carries out activities to facilitate dialogue with the government and promote EU business interests. The ECC continued working on the implementation of the European Union Business Information Programme (EUBIP), which strengthens economic partnership and business cooperation with Hong Kong and Macao and ensures a stronger, coordinated representation of EU business interests in Hong Kong and Macao.

The EU and Member State diplomatic missions in Hong Kong continued to work together to raise the EU's profile in Hong Kong. To this end, the EU Office to Hong Kong organised a number of 'dialogue' meetings between the EU Heads of Mission and senior members of the Hong Kong Government, the Legislative Council and judiciary, and other leading figures, including from the business world.

In 2015, the EU and its Member States were particularly active in 'climate diplomacy' activities, in the run-up to the United Nations Framework Convention on Climate Change (UNFCCC COP21 Paris) in December. A number of events, seminars and conferences were organised in cooperation with the Hong Kong authorities, civil society and business organisations. In parallel, several op-eds (opinion pieces) were published in the main media outlets and in newsletters to highlight the crucial importance of global climate action and the positive role Hong Kong can play as a megacity and finance hub.

The EU diplomatic missions and cultural institutes worked together with local partners on many people-to-people activities. The EU Film Festival, the European Higher Education Pavillion at a large education and training fair, the EU Day of Languages and a schools calendar competition were flagship events. The EU hopes to build on this momentum to continue its work with the government, civil society and business in promoting exchanges on rights and freedoms.

The European Union Academic Programme Hong Kong (EUAP), a consortium comprising the Hong Kong Baptist University, the University of Hong Kong, the Chinese University of Hong Kong and Lingnan University, continued to strengthen EU-Hong Kong relations through academic work and network-building with local, regional and European partners. In 2015 the EUAP launched a series of events on European 'smart cities' case studies and organised conferences and seminars, including on EU-China relations. The EUAP also hosted the Model European Union, a simulation in which students play the roles of heads of state or government of the EU Member States meeting in the European Council.
