

**Bills Committee on Revenue Bill 2001
and Revenue (No.2) Bill 2001:**

Response from the Administration to petitions

This paper sets out the Administration's response to the submissions from the Hong Kong Beer Industry Coalition and that from Helicopters Hong Kong Limited on the above two bills, together with other relevant information requested by members.

General comments

2. As explained by the Financial Secretary in the 2001-02 Budget, we have to consider raising additional revenue when enhancing productivity and controlling expenditure alone cannot achieve fiscal balance. This is especially important in the face of successive operating deficits from 1998-99 to 2004-05. However, we are also aware that we should not impose too great a burden on the community at this time of uncertain economic outlook. This is why we have considered only modest adjustments to a selective and small number of revenue items which do not impact on economic growth and have a negligible effect on people's basic livelihood.

3. It was against this background that the Financial Secretary proposed, among other things, to increase from 30% to 40% the duty rate on liquors with an alcoholic content of 30% and below; and to extend the Airport Passenger Departure Tax to all helicopter passengers while proposing to increase the tax generally from \$50 to \$80.

Petition from Hong Kong Beer Industry Coalition

4. We appreciate the concerns of the beer industry, catering industry, bars and karaoke establishments about our proposal to increase from 30% to 40% the duty rate on liquors with an alcoholic content of 30% and below (except wine), as beer is the major type of liquor affected by the

increase. However, since the proposed increase is very mild, we do not believe that it will have any significant impact on these industry sectors.

5. For the more popular brands of beer, the proposal will practically only increase the duty amount per can of beer within a range from 6 cents to 26 cents. A table comparing the proposed duty increases for different brands of beer with the changes in their corresponding retail prices based on a recent market survey, is at *Annex*. Whether, and if so, the extent to which the duty increase will be passed on to consumers through the wholesalers and retailers is entirely a commercial decision on the part of the industry and the traders, having regard to market response and other pertinent factors. Nevertheless, we do not consider that such a small increase in duty amount will have any significant knock-on effect on the beer market. Neither do we believe that this will have the effect of driving more Hong Kong residents to go across the boundary for shopping and entertainment.

6. Given the very modest nature of the proposed increase, we do not believe that this would cause any significant adverse impact on the consumption of beer. It was on this basis that we estimated that the duty-paid quantity of beer in 2001-02 would be comparable to that in 2000-01, and hence estimated that the proposal would generate a revenue increase of around \$90 million for the Government in 2001-02. Members may also wish to note that the duty-paid quantity of beer in April 2001 was 6.5% higher than that in April 2000. That our estimate is higher than that presented in the “market remains unchanged” scenario in the Beer Industry Coalition’s submission is mainly because our estimate includes the estimated additional revenue from other types of liquor with an alcoholic content of 30% and below, such as Chinese spirits and sake.

7. We have not proposed a similar increase in duty rates on strong spirits or wine because their duty rates are already at 100% and 60% respectively. Given the ex-factory price of such products is far higher than for beer, the impact of a duty increase in absolute terms would be much more significant for such products. The risk of a switch to the consumption of cheaper products should be relatively higher, hence the risk of defeating our objective of increasing revenue.

8. In their submission, the Beer Industry Coalition expressed concern that the proposed increase would lead to smuggling of beer and thereby put additional pressure on the Customs and Excise Department. The Customs and Excise Department is committed to combating all kinds of smuggling activities. The Department will continue to take vigorous enforcement measures against the supply and use of duty-not-paid goods. Moreover, since the proposed increase is so modest, we are confident that the proposed increase will not lead to an increase in the smuggling of beer. Nevertheless, we will continue to closely monitor the situation to ensure that timely and appropriate action is taken if there is any sign of increased smuggling of beer or other types of liquor.

Petition from Helicopters Hong Kong Limited

9. We appreciate that the proposal to extend the Air Passenger Departure Tax (APDT) to cover helicopter passengers departing Hong Kong at the Macau Ferry Terminal (MFT) Helipad may have an impact on Helicopters Hong Kong Limited, as the existing provider of helicopter service there. However, we remain of the view that this is a proposal to impose a tax on helicopter passengers primarily to broaden the tax base and to raise additional revenue. Issues relating to the business costs borne by the company and the future development of the helicopter service industry as a whole can be addressed separately.

10. Apart from increasing revenue, our proposal to extend the scope of Air Passenger Departure Tax (APDT) to all helicopter passengers is made on equity ground. We consider it fair and equitable to charge air passengers departing by helicopters at the MFT Helipad, not only because both helicopter passengers and those departing from Hong Kong International Airport (HKIA) are air departure passengers, but also because helicopter passengers departing from the Hong Kong International Airport are already required to pay APDT under the existing Air Passenger Departure Tax Ordinance.

11. Another important point is that we consider those who choose to depart Hong Kong by helicopters at the MFT Helipad should have no difficulty paying APDT even if this would mean an increase in their ticket fares. In fact, the percentage share of APDT of \$80 in average air

ticket prices at the lower end of the market for short-haul flights should be broadly comparable to that in the average helicopter ticket fare.

12. To mitigate the impact of imposing APDT on these helicopter passengers, we have decided to remove the requirement imposed on Helicopters Hong Kong Limited to pay the passenger embarkation fee at the rate of \$18 per passenger, as and when the legislative proposal to extend APDT to all helicopter passengers has been enacted. Moreover, it should be noted that passengers aged 12 or below are currently exempted from APDT while the passenger embarkation fee applies to all helicopter passengers departing at the MFT Helipad. Those families travelling with small children will therefore have the impact of the tax further mitigated.

Rental charge on Hong Kong Macau Aviation Limited

13. We do not consider it appropriate to cover the broader question of Government's policy towards the development of the helicopter industry in the context of the Revenue (No.2) Bill 2001. We would however like to address the various points made by Helicopters Hong Kong Limited regarding the MFT Helipad's rental arrangement with the Government. Under the existing tenancy agreement for the use of the premises between the Government Property Agency and Hong Kong Macau Aviation Limited, the rental structure is based on the highest of the following three components:

- (a) a set minimum annual rent (currently at \$605,000);
- (b) a percentage of the full ticket/charter price for each journey (currently at 4.5%); or
- (c) a fixed fee per passenger for each journey (currently at \$50).

In short, the rental payment is calculated in a way which links the rent payable to the business performance of the MFT Helipad. The figures placed within brackets are subject to periodical review and negotiation between the tenant and the Government. The extent to which rentals

should be recovered from helicopter passengers is a commercial decision for the helicopter company to take. In other words, this rental charge is neither a tax, nor a fee charged on helicopter passengers. It should have no bearing on the proposal to extend the APDT to helicopter passengers departing from MFT Helipad.

14. We do not consider it relevant to compare the rental treatment for the Helipad with the situation at HKIA, given the differences in their locations, scope of services provided, and the market demand for such services. In fact, the Airport Authority has separate contractual agreements with different airlines for use of the facilities in HKIA on commercial terms, and the Authority is expected to pay dividends out of profits accrued from income received through such service agreements to the Government as its shareholder.

Charges on helicopter operators at Chek Lap Kok

15. At present, the Airport Authority imposes three types of airport charges on helicopter flights for use of HKIA. These charges are (a) Landing Charge, (b) Parking Charge, and (c) Terminal Building Charge. Landing Charge is computed with reference to the tonnage of an aircraft. Helicopters with a maximum take-off weight of less than 3 tonnes are charged at a minimum rate of \$331.5. An additional \$110.5 will be charged for each tonne above the 3 tonnes. Since the type of helicopters currently used by Helicopters Hong Kong Limited and East Asia Airlines for their Hong Kong-Macau flight services at the MFT Helipad is Sikorsky S76C, which weighs slightly above 5 tonnes, the Landing Charge is about \$550 (per landing). In addition, they also have to pay a Parking Charge at a rate of \$40 per 15 minutes, and a Terminal Building Charge of \$39 per departing passenger (who is not a transit passenger). A S76C has a maximum seating capacity of 12 passengers.

16. Apart from these charges, a helicopter/airline operator using the HKIA has to pay for ground handling services, such as ramp handling service, into-plane fueling service, and so on. These services are contracted out by the Airport Authority to various handling agents. Since such services charges are contained in commercial agreements between the operators and the individual handling agents, we do not have

information on their charging schemes.

17. Given the differences in location and the type of operational costs involved, as well as the unavailability of full cost information, it may not be appropriate to compare directly the costs of operating helicopter services at the Hong Kong International Airport and at the MFT Helipad.

Government's policy towards the helicopter industry, especially regarding the development of cross-border traffic with the Pearl River Delta

18. The Government welcomes Helicopters Hong Kong Limited's initiatives in improving helipad facilities, and has been discussing with it its proposal to build a helicopter parking pad near the existing helipad at the inner pier of the MFT. The Civil Aviation Department has also provided technical advice to the company on the safety standards of the proposed facility.

19. In recent years, the Government has implemented a series of initiatives to facilitate the development of the helicopter industry such as identifying sites in the urban area and the airport island for helicopter landing facilities, reviewing the air traffic control arrangements for helicopter flights, providing for a commercial operator to share the facilities of the Government Flying Service etc.

20. The Civil Aviation Department is conducting a consultancy study on the potential demand for helicopter services (including helitour) and heliport facilities. We will consider further initiatives to meet forecast demand, with the benefit of the findings of the study which will be completed later this year.

21. We note the Helicopters Hong Kong Limited's interest in launching new helicopter services to and from the Mainland. We agree that there is potential demand for helicopter services to and from the Pearl River Delta. An assessment of this potential demand is being made in the above-mentioned consultancy study.

Conclusion

22. With the above remarks, we remain of the view that the above two revenue proposals as set out in the Bills are appropriate and we would ask Members to support them..

Finance Bureau
28 May 2001

Annex

Duty on a can of beer after the proposed increase of duty rate
(based on a recent survey on the major popular brands)

Brand	Volume Per Can (litre)	Retail Price Per Can before Budget* HK\$	Retail Price# Per Can after Budget HK\$	Duty Per Can before Budget HK\$	Duty Per Can after Budget HK\$
A	0.33	6.1-7.0	6.1-7.5 (0 to +0.5)*	0.55	0.73 (+0.18)#
B	0.33	6.5-9.5	7.0-9.9 (+0.4 to +0.5)	0.80	1.06 (+0.26)
C	0.33	7.5-7.9	6.9-8.3 (-0.6 to +0.4)	0.36	0.48 (+0.12)
D	0.33	6.0-8.4	7.5-8.8 (+0.4 to +1.5)	0.59	0.78 (+0.19)
E	0.355	4.0-5.2	4.2-5.5 (+0.2 to +0.3)	0.35	0.47 (+0.12)
F	0.355	7.1-7.3	7.0-7.4 (+0.1)	0.50	0.67 (+0.17)
G	0.355	4.8-5.9	4.8-6.5 (0 to +0.6)	0.26	0.34 (+0.08)
H	0.33	9.4-11.0	10.8-11.0 (0 to +1.4)	0.49	0.64 (+0.15)
I	0.33	5.2	5.2-5.5 (0 to +0.3)	0.54	0.72 (+0.18)
J	0.375	8.00	8.00 (0)	0.32	0.38 (+0.06)

* Figures in brackets are changes in retail price.

Figures in brackets are changes in duty amount per can of beer.