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Legislative Council

LC Paper No. CB(1) 519/00-01
(These minutes have been seen
by the Administration)

Ref : CB1/PL/FA/1

Legislative Council
Panel on Financial Affairs

Minutes of Meeting held on
Monday, 4 December 2000 at 10:00 am
in the Chamber of the Legislative Council Building

Members present	**:**	Hon Ambrose LAU Hon-chuen, JP (Chairman) Hon Henry WU King-cheong, BBS (Deputy Chairman) Hon James TIEN Pei-chun, JP Hon Albert HO Chun-yan Hon LEE Cheuk-yan Hon Eric LI Ka-cheung, JP Dr Hon David LI Kwok-po, JP Hon NG Leung-sing Hon James TO Kun-sun Hon Bernard CHAN Hon CHAN Kam-lam Hon SIN Chung-kai Dr Hon Philip WONG Yu-hong Hon Jasper TSANG Yok-sing, JP
Non-Panel Members attending	**:**	Hon CHAN Yuen-han Hon LAU Chin-shek, JP Hon LI Fung-ying, JP Hon Albert CHAN Wai-yip Hon LEUNG Fu-wah, MH, JP
Member absent	**:**	Hon Emily LAU Wai-hing, JP

Public officers attending	:	For Item IV
		Mr David CARSE, JP Deputy Chief Executive, Hong Kong Monetary Authority
		Miss Clara TANG Principal Assistant Secretary for Financial Services
		Mr Raymond CHAN Senior Manager, Hong Kong Monetary Authority
		For Item V
		Mrs Rebecca LAI Acting Secretary for Financial Services
		Ms Julia LEUNG Executive Director, Hong Kong Monetary Authority
		For Item VI
		Mr Donald TSANG Yam-kuen, JP Financial Secretary
		Miss Denise YUE Secretary for the Treasury
		Miss Elley MAO Acting Government Economist
		Mr Philip YUNG Administrative Assistant to Financial Secretary
		For Item VII
		Miss Denise YUE Secretary for the Treasury
		Mr Allen LEUNG Principal Assistant Secretary for the Treasury

Attendance by invitation	**:**	For Item VII Society for Community Organization Ms FOK Tin-man Ms LEUNG Wai-chun Ms WONG Shuet-ying Mr TSANG Kam-pao Mr TSE Loi-hing
Clerk in attendance	**:**	Ms LEUNG Siu-kum Chief Assistant Secretary (1)4
Staff in attendance	**:**	Ms Pauline NG Assistant Secretary General 1 Mr KAU Kin-wah Assistant Legal Adviser 6 Ms Connie SZETO Senior Assistant Secretary (1)1 For Item III Ms Eva LIU Head, Research and Library Services Division Mr Jackie WU Research Officer 1

I Confirmation of the minutes of previous meeting and matters arising
(LC Paper No. CB(1) 211/00-01)

The minutes of the Panel meeting held on 19 October 2000 were confirmed.

Overseas duty visit
(LC Paper No. CB(1) 225/00-01(01))

2. Members noted the captioned information paper prepared by the Secretariat and agreed that the Panel should conduct an overseas duty visit to New York and London to study the regulatory regimes and market operations of these two leading international financial centres, as well as to establish direct links with regulatory bodies and market players in these places. They agreed to submit a paper to the House Committee for a bid for funds for the visit which was tentatively scheduled for early April 2001.

II Information Papers issued since last meeting

(LC Paper No. CB(1) 216/00-01 -- Publicity material on the Mandatory Provident Fund System;
LC Paper No. CB(1) 244/00-01 -- Progress report on review of public finances)

3. Members noted the captioned information papers issued since the last meeting.

III Date of the next meeting and items for discussion

(LC Paper Nos. CB(1) 225/00-01(01) and (02))

4. The Chairman reminded members that the next meeting of the Panel would be held on 11 January 2000 at 2:30 pm to discuss the following items:

(a) Briefing by the Chief Executive of the Hong Kong Monetary Authority;

(b) Review of the Growth Enterprise Market listing rules; and

(c) Strategic Change Plan for the Company Registry.

(*Post-meeting note*: At the request of the Administration, item (b) had been deferred to a latter meeting of the Panel.)

5. The Chairman also informed members that at the invitation of the Hong Kong Exchanges and Clearing Limited (HKEx), a visit to HKEx had been scheduled for 18 January 2001 at 11:00 am. Members would be informed of the details in due course.

IV Banking (Amendment) (No. 2) Bill
(LC Paper No. CB(1) 255/00-01(04))

6. The Deputy Chief Executive, Hong Kong Monetary Authority (DCE/HKMA) briefed members on the proposed amendments to the Banking Ordinance (BO) (Cap. 155) in the Banking Amendment (No. 2) Bill.

Approval requirement for appointment of senior management of authorized institutions

7. Dr David LI said that the Hong Kong Association of Banks objected to the proposal to seek HKMA's approval for appointments of senior management of authorized institutions (AIs). The Association considered that the proposed approval requirement was an encroachment on the power of AIs. Mr Albert HO queried the need to introduce such a proposal which would bring significant changes to the existing supervisory framework for AIs and expressed concern about checks over HKMA's power in this respect.

8. In response, DCE/HKMA explained that the current approval requirement, which only covered the appointment of directors or chief executives of AIs, had presented a significant gap in the supervisory framework over AIs. Due to the trend that important responsibilities of AIs were increasingly delegated to the senior management, aside from the directors and chief executives of an AI its senior management also played a role in shaping the organization and making major decisions. Moreover, because of the development of matrix management, heads of key functional divisions in local branches of many foreign AIs were appointed by their headquarters and not by their directors or chief executives in Hong Kong. The new approval requirement would ensure that the appointed senior management of AIs was fit and proper. Furthermore, the amendment would bring the supervisory framework for AIs more in line with that of the Securities and Futures Commission (SFC) for securities intermediaries under which the responsible officers of intermediaries would require approval by SFC. DCE/HKMA also said that a "manager" under BO covered senior management who had specific statutory responsibility to manage the AI prudently and who was subject to the penalty provisions applied to directors and chief executives. However, the current definition of "manager" was outdated. It did not cover certain individuals who exercised important managerial functions. The definition therefore needed to be amended so that it can be used as a yardstick for determining which level of senior management should be subject to HKMA's approval. The proposed new definition of "manager" in the Bill should capture those "persons who were principally responsible" for the conduct of key business activities or functions of an AI, such as heads of retail banking, corporate banking, internal audit, risk management etc.

9. As regards the concern about checks on HKMA's power in this respect, DCE/HKMA stressed that HKMA had no intention to interfere with the appointment decisions of AIs. The proposal aimed at raising the level of corporate governance in the banking industry and ensuring that each AI was being managed by able individuals. He stressed that only under very rare circumstances, such as when it appeared that the individual was manifestly unfit for the position he was appointed to, would HKMA disapprove the appointment. HKMA believed that the approval system could assist AIs in the appointment of their senior management by providing information which they might not have. HKMA would examine the knowledge, experience, skills, competence etc. of the person and check his previous record kept with HKMA to ensure that he was fit and proper for the appointment. He added that AIs aggrieved by HKMA's disapproval decisions could seek appeal and judicial review as appropriate.

10. On Mr NG Leung-sing's concern that the requirement might cause operational difficulties and increase administrative workload for AIs, DCE/HKMA advised that a provisional approval mechanism and grandfathering arrangement for existing managers would be introduced to minimize the administrative burden on AIs. A person appointed in writing by an AI to be a manager would be deemed to have been given the provisional consent of HKMA until such time that his appointment was formally approved or rejected by HKMA. A person who was a manager of an AI immediately prior to the commencement of the relevant section of the Bill would be deemed to have the consent of HKMA to take up such a position and no approval would be required when he was transferred to another managerial position within the same AI. Approval would be required when the same person was appointed to the senior management of another AI.

11. Noting that the approval requirement was in line with the practice adopted by the Financial Services Authority (FSA) in the United Kingdom (UK), members enquired about the practices in other major international financial centres. DCE/HKMA said that regulatory regimes varied from jurisdiction to jurisdiction because of their unique circumstances. The Financial Services and Markets Act recently enacted in UK provided that those persons who had significant influence over a bank's affairs should be subject to the approval of FSA. The proposal was also consistent with the "Guideline on Enhancing Corporate Governance in Banking Organizations" issued by the Basel Committee on Banking Supervision in September 1999.

Internet advertisement for deposits

12. Responding to Mr SIN Chung-kai's view that the scope of amendment relating to advertisements for deposits should be sufficiently broad to cover advertisements published through new technological means, DCE/HKMA advised that the definition of "advertisement" would be amended to cover

different forms of advertising including those made orally or produced mechanically, electronically, optically, manually, or by any other means of technology. The new definition would be consistent with that to be adopted in the Securities and Futures Bill. The policy intention was that internet advertisements, wherever they originated, should be subject to regulation if they were targeted at Hong Kong people. HKMA would issue guidelines setting out the factors to be taken into account when considering whether an advertisement of an overseas financial service provider was targeted at members of the public in Hong Kong.

13. On whether telecommunications companies, internet content providers and internet service providers should be subject to regulation, DCE/HKMA said that it was proposed that service providers which acted merely as a conduit of information to facilitate the dissemination of promotion materials, or which provided website hosting service and could prove that they did not exercise control over the content of the advertisements, would not be liable for the offence under the provision. As regards consultation with the telecommunications service industry on the proposed amendment, DCE/HKMA said that while HKMA had not formally consulted the industry, those service providers which HKMA had contact with in the context of the study group set up to examine issues related to electronic banking had been informed of the proposal. These service providers agreed to the proposal.

Control over AI's places of business

14. Referring to the trend that an increasing number of AIs had set up separate offices to engage in securities business, Mr Henry WU asked for a comparison between regulation of these establishments under the existing supervisory framework and the current proposal to enhance HKMA's control over an AI's places of business.

15. In response, DCE/HKMA advised that under the existing framework, an AI could conduct securities business in a branch office where other banking services were provided. With the proposed expansion in the definition of "local branch" to cover the lending activities of an AI, and the introduction of the concept of "local office" which captured other sales and service functions of an AI, HKMA could have better control over an AI's places of business and could promote a level playing field between the securities arms of AIs and licensed securities intermediaries.

V Asian Development Bank - Hong Kong's Contribution to the 7th Replenishment of the Asian Development Fund
(Legislative Council Brief Ref : A2/5C III)

16. The Acting Secretary for Financial Services (SFS(Atg)) briefed members on the proposal for Hong Kong to contribute US$16.28 million (about HK$127 million) as requested by the Asian Development Bank (ADB) for the 7th replenishment of the Asian Development Fund (ADF VIII). She informed members that the Administration would seek funding approval of the Finance Committee on 15 December 2000.

17. Members generally supported the proposal in principle as they opined that the contribution would help reduce poverty and improve the basic quality of life in the poorer countries in the Asia Pacific region.

18. In reply to the enquiry by Mr Bernard CHAN and Mr Henry WU about the method for deriving the contribution by respective member countries, the Executive Director, Hong Kong Monetary Authority (ED/HKMA) advised that participants including Hong Kong, agreed on a burden-sharing formula for calculating contributions in the donors' negotiation for ADF VII in 1996-1997. The formula was based on the donor's subscribed capital at ADB, adjusted for per capita Gross National Product (GNP)/Gross Domestic Product (GDP). The calculated burden share of Hong Kong in ADF VII was 0.57% of the target size of contributions by donors. Negotiation for ADF VIII was concluded in September 2000 and participating members agreed that the burden sharing percentages of donors should follow those of ADF VII. Based on the agreed target size of contributions by donors at US$2.86 billion, Hong Kong's share in ADF VIII was US$16.28 million.

19. Mr NG Leung-sing enquired about the justification for Hong Kong to maintain the same burden share of contribution for ADF VII in view of the downturn in Hong Kong's economy in recent years. SFS(Atg) stressed that Hong Kong should continue to contribute its share to ADF VIII in order to show its commitment to the region and to ADB. Hong Kong's prosperity was closely linked to the development and economic prospects in the region. Moreover, Hong Kong's continuous support to ADF would further strengthen its well established international image. On the concern that the contribution would become a financial burden for the Government, SFS(Atg) said that ADF VIII would cover the period from 2001-2004 and the contribution of HK$127 million would be encashed in seven years. The Administration did not envisage any adverse effect on public finance. For members' reference, SFS(Atg) informed members that the Government's revised estimates of social welfare expenditure was HK$28.4 billion in 1999-2000 and the proposed contribution to ADF VIII was just 0.45% of this social spending.

20. On the contribution for ADF VIII to be made by other donors, ED/HKMA stressed that donors' contribution was on a voluntary basis. Contribution was made by members with regard to their individual circumstances and considerations. She said that the traditional donors of ADF were industrial members such as Japan, the United States and Canada etc. Newly industrialized economies such as Hong Kong, Korea and Taipei had been asked to increase their donations in recent years. For ADF VIII, while some donors like France and Germany had indicated that they would contribute a lower burden share percentage as in ADF VII, it should be noted that 15 out of the 25 donors had indicated that they would contribute their burden shares as in ADF VII or even increase their burden shares. For instance, Japan and Korea had pledged to contribute amounts above their burden shares. As a newcomer, Singapore had agreed to contribute US$4 million which would be lower than its full burden share of 0.38%.

21. As regards Mr Henry WU's enquiry about the structure of ADB and whether Hong Kong's share of contribution was related to its representation and power in ADB, SFS(Atg) advised that the policy-making hierarchy of ADB comprised a Board of Governors (BG) in which Hong Kong was represented by the Financial Secretary (as the Governor) and the Chief Executive, Hong Kong Monetary Authority (as the Alternate Governor). Beneath the BG was a Board of Directors (BD) responsible for the general operation of ADB. Hong Kong was in the same constituency with eight other members including Australia, which was one of the largest ADB members in terms of regional and total voting power. The Australian Director represented Hong Kong in the BD and would consult the Administration on matters which might affect its interests. ED/HKMA added that the voting power of an ADB member was related to its share holding in ADB. The allocation of initial shares to a member was related to factors such as, its GDP, population size etc. when it joined ADB. Hong Kong joined ADB in 1969. As at 31 August 2000, Hong Kong held 0.56% of the total shares and 0.78% of the total voting power of ADB. For comparison, Australia held about 6% to 7% capital share of ADB and controlled about 5% of the total voting power.

22. Regarding ADB's support towards Hong Kong and China, SFS(Atg) informed members that ADB had granted five loans amounting to US$97 million to finance several infrastructure projects in Hong Kong from 1972 to 1980. These loans had been fully repaid by 1987. China was a major beneficiary of ADB financial support. Although China was not eligible for ADF loans, ADB had granted a total of 79 loans to China from its ordinary capital resources representing about 21% of ADB total loans. As by the end of 1999, the amount of outstanding ADB loans owed by China amounted to US$4.5billion.

23. On Mr James TIEN's enquiry about the eligibility criteria for ADF loans, ED/HKMA said that borrowing members had to meet certain criteria including requirement on per capita GNP/GDP. ADB management would also assess the progress made by the borrowing members in women development, environment protection, improvement in project quality, economic governance and transparency issues etc. before granting the loans. ED/HKMA stressed that all ADF loans were unconditional and carried a consessional interest rate of only 1% to 1.5% per annum with a maturity up to 32 years.

24. Responding to Mr LEE Cheuk-yan's enquiry on sanction against Myanmar, ED/HKMA advised that Myanmar was one of the existing ADF borrowers. She was not aware of any discussion by ADB recently on the imposition of economic sanction on Myanmar.

VI Briefing by the Financial Secretary on Hong Kong's latest economic situation

(LC Paper Nos. CB(1)217/00-01 -- Third Quarter Economic Report, and 246/00-01(01) -- Presentation material on Hong Kong's latest economic situation)

Briefing by the Financial Secretary

25. At the Chairman's invitation, the Financial Secretary (FS) took members through the charts illustrating Hong Kong's latest economic situation. Following the rise of 14.2% and 10.9% in the Gross Domestic Product (GDP) in the first and second quarters of 2000 respectively, the strong growth momentum had extended into the third quarter, with GDP leaping by 10.4% in real terms over a year earlier. The robust growth in GDP was underpinned by continued surges in total exports, domestic consumption and investment demand.

26. FS said that Hong Kong's exports of goods grew by 18% in the third quarter of 2000. In particular, demand for goods from Hong Kong was strong in the Mainland and other Asian markets. Hong Kong's competitiveness had also improved considerably over the past year. Exports of services increased by 12.6% in real terms in the third quarter compared to the same period last year as a result of the notable increase in inbound visitors, which rose to 3.3 million. Tourist arrivals had almost returned to the historic height in early 1997 and had brought about remarkable invisible trade surplus.

27. FS said that domestic demand in Hong Kong picked up further in the third quarter. Overall investment spending as represented by gross domestic fixed capital formation rose distinctly by 13% in real terms over last year. The labour market continued to improve with unemployment and

underemployment gradually and steadily coming down. Labour earnings also rebounded modestly in recent months.

28. FS noted that because of the strong recovery, the forecast economic growth for 2000 had been further revised to 10%. The Hong Kong economy would continue to grow in 2001, but at a slower pace. Indeed too rapid growth for too long a period would only lead to overheating of the economy. The local financial market would continue to benefit from continuous inflow of foreign capital as a result of political and economic instabilities in other Asian economies. However, Hong Kong should be mindful of the downside risks ahead. They included high oil prices, the uncertainties in the US economy complicated by the impasse of the presidential election, the sluggish Hong Kong property market, Hong Kong's unemployment situation, shortage of talents in the financial services and telecommunications sectors, as well as the lingering operating deficits in public finance. Present indications were that the Government would incur deficits of more than $10 billion in 2000-01. These were the factors that would affect Hong Kong's economic performance in both the short and the medium terms.

29. On the other hand, China’s accession to the World Trade Organization (WTO) would offer enormous opportunities for Hong Kong; but Hong Kong businessmen had to work hard to adapt to the changing environment and make full use of the opportunities. If oil prices could stabilize after the winter season and if Hong Kong's unemployment and negative inflation continued to ease, the business environment should continue to improve.

Discussion with members

Sustained economic recovery

30. Majority of members of the Panel pointed out that despite the economic indicators suggesting remarkable growth since early 2000, the general public and the business sector did not feel the effect of the economic recovery. They were doubtful of the sustainability of the economic revival.

31. FS reiterated that there should be no doubt about Hong Kong's robust and quick recovery. He understood perfectly why the community and the business sector had yet to feel the full strength of the rebound, as profit margins in businesses had dropped; the wages for most of the workforce had been frozen in recent years; the stock market had fallen due to volatility in the technology stocks and the property market had remained in doldrums. FS expected that with continued economic revival, stabilization in the financial and property markets, and likely pay rises for the workforce in general in 2001, market sentiment and confidence of the general public would improve. The decline in consumer prices was expected to slow down and the problem of negative inflation would possibly be over in 2001.

32. Mr James TIEN expressed concern that the implementation of Mandatory Provident Fund (MPF) System would reduce the disposable income of the workforce and adversely affect the economy. FS said that the MPF System was meant to provide retirement protection for the workforce and promote economic growth and social stability in the long term. This would be immensely beneficial to both employees and employers. Contributions to MPF schemes were indeed savings for the future and should not be regarded as an expense item. The Administration did not envisage that the implementation of MPF would have adverse impact on the economy.

Government expenditure for 2001-02

33. Mr SIN Chung-kai felt that the Government should revise the GDP Medium Range Forecast (MRF) for 2000-01 to 2004-05 in view of the revised forecast GDP real growth rate of 10% for 2000. He added that the Government should increase the growth rate of 2.5% in government expenditure in 2001-02 so as to stimulate the economy.

34. In response, FS said that while the Government expected the GDP to grow by 10% in 2000, it should not change the trend growth rate for the MRF period without sound reasons. To strive to achieve fiscal balance for the period ending 2003-04, the Government decided in the 1999-2000 Budget to restrain expenditure growth to 3% in 2000-01 and 2.5% per annum in subsequent years against the forecast trend growth of 4%. The Government would nevertheless keep the trend growth rate under constant review. It was most important to adhere to the principle of maintaining prudence in the management of public finance. He said that the deficits for 2000-01 would likely exceed the original estimate of $6 billion to reach $11 billion. While the Government was acutely aware of the hardship of the community during the economic downturn in recent years, it would do much more harm than good if the Government tried to boost the economy by increasing public expenditure recklessly.

35. Mr LEE Cheuk-yan suggested that the Government should set an example for the private sector by raising civil service salaries. FS responded that the current pay revision mechanism for the civil service with which the Legislative Council agreed had been working well. Pay rise for the civil service would continue to follow the trend of the private sector.

Problems faced by low-skilled workers

36. Mr LEE Cheuk-yan and Ms CHAN Yuen-han pointed out that the unemployment problem of low-skilled workers had become more serious due to the structural change in the economy. As there was no collective bargaining power and protection of minimum wages for the general workforce

in Hong Kong, they were particularly concerned about the continual fall in wages of these workers. They also expressed concern that the livelihood of the low-skilled workers would suffer further if fees of Government services and public utilities were to be increased.

37. In response, FS said that labour market conditions had been improving with the gradual decline in unemployment from 5% in the second quarter of 2000 to 4.8% in the third quarter. Underemployment also dropped from 3.2% to 2.6% during the period. Growth in total employment continued to outpace that in total labour force.

38. FS said he shared Members' concern about the unemployment problem of low-skilled workers. It was important that these workers had to upgrade their skills and knowledge to meet the challenges of the new knowledge-based economy. The Government was totally committed to providing training and re-training opportunities for them. He said that with the great demand for skilled labour for high-value added and technology-based industries as Hong Kong economy continued to revive, the less-skilled workers would also be benefited because of the consequential expansion in job opportunities in related services sectors. In addition, wages had in fact rebounded modestly in recent months. Labour earnings went up by 2% in money terms in the third quarter over a year earlier. Netting out the concurrent decline in consumer prices, overall earnings had actually increased in real terms. FS said that the Government should not interfere with the labour market by imposing minimum wages. Wages should move upwards in line with increased demand for labour in tandem with the sustained pick-up in economic activities.

39. Mr LAU Chin-shek noted that the pace of economic recovery of Hong Kong was faster than other East Asian economies. To facilitate comparison of the economic growth of Hong Kong and the livelihood of the general public with other economies, he requested the Administration to provide information on the unemployment rates, movements in wages, revision in fees for government services and public utilities in these East Asian economies for members' reference. FS said that some of the information might not be available or comparable to that in Hong Kong. He undertook to provide the relevant information as far as possible.

(*Post-meeting note*: The information was circulated to members vide LC Paper No. CB(1) 415/00-01 dated 5 January 2001.)

Other concerns

40. In reply to Mr Henry WU's enquiry about the labour demand in the financial sector, FS said that what Hong Kong needed most were professionals with knowledge and international experience in financial management and

researches. This would be key to Hong Kong as a premier international financial centre. He added that the Government would review its policy to facilitate admission of such professionals from the Mainland and overseas.

41. On Mr James TIEN's enquiry about the Government's assistance for the small and medium-sized enterprises (SMEs) in grasping the opportunities brought by China's accession to the WTO, FS said that tariffs for imports to the Mainland would reduce and many invisible trade barriers would be removed after China entered into the WTO. These would benefit the SMEs operating in the Mainland. He further stressed the Government's commitment to supporting SMEs, such as assisting them in enhancing their competitiveness to face new challenges, and providing necessary, and updated market information to facilitate their operation in the Mainland. Nonetheless, as part of Hong Kong's market economy, the SMEs needed to map out their own business strategies so as to make the most of the huge business opportunities ahead.

VII Revision of Government fees and charges

Meeting with the Society for Community Organization
(LC Paper No. CB(1) 225/00-01(05))

42. Ms FOK Tin-man and resident representatives of the Society for Community Organization (SOCO) presented their written submission. They strongly requested the Administration to continue freezing Government fees and charges in view of the slow recovery of the local economy, lack of improvement in employment condition, and the continual fall in wages of the general workforce. They stressed that the elderly and the low-income families living in private housing were suffering from high rentals and cost of living. They expressed concern that their livelihood would be adversely affected by the implementation of the MPF System and the possible introduction of a medical insurance scheme. They pointed out that increases in Government fees and charges would induce the public utilities companies to follow suit.

Meeting with the Administration
(LC Paper No. CB(1) 225/00-01(06))

Administration's response to views of the deputation

43. On the request for freezing Government fees and charges, the Secretary for the Treasury (S for Tsy) said that FS had announced on 27 November 2000 that four major categories of livelihood-related fees, namely, water tariffs, sewage charges, school fees and medical fees would not be increased. She stressed that FS recognized the fact that despite the economic recovery, many people were still suffering from the effects of the financial turmoil and the economic adjustments. Employees in the lower- and

middle-income groups in particular had not yet benefitted from the recovery. There was no predetermined timeframe as to when revision of these fees would be resumed. The Administration would keep the matter under constant review having regard to the overall economic and social situation. Bureau Secretaries would consult the relevant Legislative Council (LegCo) Panels on the appropriate timing of the revision in due course.

44. Some members expressed concern about the adverse impact of the implementation of the MPF System on the livelihood of the public. S for Tsy said that while the Administration recognized that some employees might have to adjust their spending pattern in order to make their contribution in the initial implementation of the MPF System, the System would have far-reaching positive implications for the retirement benefits of the workforce and should be supported by the community at large. On the concern about the proposal to introduce a medical insurance scheme in Hong Kong, S for Tsy remarked that a policy decision had yet to be made and the Administration would consult the public after the proposal had been worked out.

Proposal to revise Government fees and charges

45. S for Tsy briefed members on the Administration's proposal to revise 12 categories of fees which had limited impact on the livelihood of the general public or the operating cost of businesses. The list of such fee items was in the Annex to the information paper. The Administration had not proposed the rate of increase for these items and would like to seek members' views in this regard. The relevant bureaux would brief the respective LegCo Panels on the fee revision proposals if members considered it necessary.

46. Members strongly opposed the Administration's proposal. Mr James TIEN said that the Liberal Party did not support the proposal as the majority of the fee items in the list was directly related to people's livelihood or general business activities. Ms CHAN Yuen-han pointed out that the Hong Kong Federation of Trade Union was of the view that the Government should not recover the full costs of livelihood-related services by raising the relevant fees and charges. Mr LAU Chin-shek expressed the dissatisfaction of the Hong Kong Confederation of Trade Union and the Neigbourhood and Workers' Service Centre towards the fee revision proposal, and considered that this would set a bad example for the public utilities companies. He strongly urged the Administration to suspend all fee revision proposals until there was sustained recovery in the economy. Mr CHAN Kam-lam conveyed the view of the Democratic Alliance for the Betterment of Hong Kong that it was not an appropriate time for the Administration to consider revising its fees and charges as sustained economic recovery was yet to be seen. On the proposed list of fee items, Mr CHAN opined that while those fee items with very low cost recovery rates could be considered for revision, the other items with recovery rate above 80% should not be revised. He further opined that the

Administration should put forward concrete proposals on the rate of increase for members' consideration.

47. In response, S for Tsy explained that revision in Government fees and charges was to uphold the "user pays" principle to ensure that the costs of services would be recovered from the users and would not be subsidized by taxpayers. Otherwise, it would add to the pressure for tax increases or lead to the introduction of new taxes. She stressed that the proposed list of fee revision items would have little impact on people's livelihood or business operations and that the Administration only intended to seek a modest increase. As the majority of the fee revision items would require legislative amendments, the new fees would not come into effect until mid-2001. The Administration was confident that the economy would have improved further by then.

48. On the concern that the fee revision would induce public utilities companies to follow suit, S for Tsy disagreed that a bad example would be set. She advised that the Administration had urged these companies to take into consideration relevant factors including the acceptability and affordability of the general public in the present economic situations, as well as their financial position before putting forward requests for fee increases. S for Tsy stressed that the Government would consider every application for fee increases by public utilities companies carefully and thoroughly.

49. Responding to the comment by Mr James TIEN and Mr Henry WU that the Administration should review its service costs before proposing any revision in fees, S for Tsy reiterated the Government's commitment to continuing with rigorous cost control measures in order to reduce the pressure for any fee increases. Besides pressing ahead with the Enhanced Productivity Programme and other efficiency improvement measures, bureaux and departments were conducting reviews to identify whether it was still necessary to provide the services covered by the various fees and charges. Where appropriate, non-essential services and unnecessary regulatory measures should be dispensed with so that the associated fees and charges could be abolished. As regards the costs for providing the services, S for Tsy said that they would be provided to members when the concrete fee revision proposals were submitted for consideration by relevant Panels and LegCo.

Comments on individual fee revision items

50. On Mr James TIEN's concern that increases in fees related to visa control (item 1.1 of Annex) and licence or registration fees for specific trades and organizations (item 10 of Annex) would adversely affect inbound tourism and general business activities, S for Tsy said that the proposed increases would be moderate.

51. Ms CHAN Yuen-han commented that the proposed increase in fees related to medical services for non-entitled persons (item 11 of Annex) would indirectly affect the public's livelihood. S for Tsy said that the proposed increase in fees would be minimal and it would only affect people who were not ordinarily residents of Hong Kong. Besides, according to the Administration's records, there was only a small number of such cases.

52. Mr Henry WU remarked that increases in fees related to registration of aircraft, licensing of aircraft personnel and related matters (item 8 of Annex) and fees related to registration of owners' corporations (item 10.6) were in conflict with Administration's policies to develop Hong Kong into an aviation centre and to promote the formation of owners' corporations respectively. S for Tsy said that the increase in the former category of fees was insignificant compared with other cost items of the aviation industry. She stressed that members would have the opportunity to consider the fee increase proposals in detail when they were submitted to the relevant Panels and LegCo.

VIII Any other business

53. There being no other business, the meeting ended at 1:05 pm.

Legislative Council Secretariat
31 January 2001