

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 1 June 2005

The Council met at Eleven o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, G.B.S., J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, G.B.S., J.P.

THE HONOURABLE ALBERT HO CHUN-YAN

IR DR THE HONOURABLE RAYMOND HO CHUNG-TAI, S.B.ST.J., J.P.

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE MARTIN LEE CHU-MING, S.C., J.P.

DR THE HONOURABLE DAVID LI KWOK-PO, G.B.S., J.P.

THE HONOURABLE FRED LI WAH-MING, J.P.

DR THE HONOURABLE LUI MING-WAH, J.P.

THE HONOURABLE MARGARET NG

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, G.B.S., J.P.

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHAN YUEN-HAN, J.P.

THE HONOURABLE BERNARD CHAN, J.P.

THE HONOURABLE CHAN KAM-LAM, J.P.

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI, J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG, G.B.S.

THE HONOURABLE WONG YUNG-KAN, J.P.

THE HONOURABLE JASPER TSANG YOK-SING, G.B.S., J.P.

THE HONOURABLE HOWARD YOUNG, S.B.S., J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU KONG-WAH, J.P.

THE HONOURABLE LAU WONG-FAT, G.B.S., J.P.

THE HONOURABLE MIRIAM LAU KIN-YEE, G.B.S., J.P.

THE HONOURABLE EMILY LAU WAI-HING, J.P.

THE HONOURABLE CHOY SO-YUK

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE TAM YIU-CHUNG, G.B.S., J.P.

THE HONOURABLE ABRAHAM SHEK LAI-HIM, J.P.

THE HONOURABLE LI FUNG-YING, B.B.S., J.P.

THE HONOURABLE TOMMY CHEUNG YU-YAN, J.P.

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE FREDERICK FUNG KIN-KEE, J.P.

THE HONOURABLE AUDREY EU YUET-MEE, S.C., J.P.

THE HONOURABLE VINCENT FANG KANG, J.P.

THE HONOURABLE WONG KWOK-HING, M.H.

THE HONOURABLE LEE WING-TAT

THE HONOURABLE LI KWOK-YING, M.H.

DR THE HONOURABLE JOSEPH LEE KOK-LONG

THE HONOURABLE DANIEL LAM WAI-KEUNG, B.B.S., J.P.

THE HONOURABLE JEFFREY LAM KIN-FUNG, S.B.S., J.P.

THE HONOURABLE MA LIK, J.P.

THE HONOURABLE ANDREW LEUNG KWAN-YUEN, S.B.S., J.P.

THE HONOURABLE ALAN LEONG KAH-KIT, S.C.

THE HONOURABLE LEUNG KWOK-HUNG

DR THE HONOURABLE KWOK KA-KI

DR THE HONOURABLE FERNANDO CHEUNG CHIU-HUNG

THE HONOURABLE CHEUNG HOK-MING, S.B.S., J.P.

THE HONOURABLE WONG TING-KWONG, B.B.S.

THE HONOURABLE RONNY TONG KA-WAH, S.C.

THE HONOURABLE CHIM PUI-CHUNG

THE HONOURABLE PATRICK LAU SAU-SHING, S.B.S., J.P.

THE HONOURABLE ALBERT JINGHAN CHENG

THE HONOURABLE KWONG CHI-KIN

THE HONOURABLE TAM HEUNG-MAN

MEMBERS ABSENT:

THE HONOURABLE MRS SOPHIE LEUNG LAU YAU-FUN, S.B.S., J.P.

THE HONOURABLE TIMOTHY FOK TSUN-TING, G.B.S., J.P.

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE MICHAEL SUEN MING-YEUNG, G.B.S., J.P.

THE CHIEF SECRETARY FOR ADMINISTRATION AND
SECRETARY FOR HOUSING, PLANNING AND LANDS

THE HONOURABLE HENRY TANG YING-YEN, G.B.S., J.P.

THE FINANCIAL SECRETARY

THE HONOURABLE ELSIE LEUNG OI-SIE, G.B.M., J.P.

THE SECRETARY FOR JUSTICE

DR THE HONOURABLE PATRICK HO CHI-PING, J.P.

SECRETARY FOR HOME AFFAIRS

THE HONOURABLE STEPHEN IP SHU-KWAN, G.B.S., J.P.

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR

THE HONOURABLE FREDERICK MA SI-HANG, J.P.

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

THE HONOURABLE AMBROSE LEE SIU-KWONG, I.D.S.M., J.P.
SECRETARY FOR SECURITY

DR THE HONOURABLE YORK CHOW YAT-NGOK, S.B.S., J.P.
SECRETARY FOR HEALTH, WELFARE AND FOOD

CLERKS IN ATTENDANCE:

MR RICKY FUNG CHOI-CHEUNG, J.P., SECRETARY GENERAL

MS PAULINE NG MAN-WAH, ASSISTANT SECRETARY GENERAL

MR RAY CHAN YUM-MOU, ASSISTANT SECRETARY GENERAL

TABLING OF PAPERS

The following papers were laid on the table pursuant to Rule 21(2) of the Rules of Procedure:

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
Road Traffic (Public Service Vehicles) (Amendment) Regulation 2005.....	83/2005

Other Paper

- No. 91 — Report of changes to the approved Estimates of Expenditure approved during the fourth quarter of 2004-05 (Public Finance Ordinance : Section 8)

PRESIDENT (in Cantonese): Mr Clerk, a quorum is not present now. Please ring the bell to summon Members back to the Chamber.

(After the summoning bell had been rung, a number of Members returned to the Chamber)

PRESIDENT (in Cantonese): A quorum is now present, the Council meeting starts.

ORAL ANSWERS TO QUESTIONS

PRESIDENT (in Cantonese): Questions. First question.

Food Labels

- DR LUI MING-WAH** (in Cantonese): *Madam President, will the Government inform this Council whether:*

- (a) *imported food products which only have food labels of the places of production but not those required by the Hong Kong authorities can be sold in Hong Kong; if so, of the reasons for that; if not, the reasons for that; and*
- (b) *local food products for export, which comply with the food labelling requirements of the importing places, can be sold in Hong Kong; if not, the reasons for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese):
Madam President,

- (a) All food for sale in Hong Kong, whether imported or manufactured locally, should comply with the Public Health and Municipal Services Ordinance (Cap. 132, Laws of Hong Kong) and the Food and Drugs (Composition and Labelling) Regulations (Cap. 132, sub. leg. W, Laws of Hong Kong) and be marked and labelled appropriately, including the list of ingredients, allergens, additives, statement of special conditions for storage or instructions for use, and information of the manufacturer or packer, and so on. The labels should not falsely describe the food, or mislead consumers as to the nature, substance or quality of the food.
- (b) If local food products for export, which comply with the food labelling requirements of the importing places, are to be offered for sale in Hong Kong, they must also comply with the labelling requirements in Hong Kong. Same as other countries or areas, Hong Kong has set up food labelling schemes suitable for Hong Kong residents based on local condition and public health situation. This facilitates consumers making use of relevant information to choose food meeting their health condition and preference.

DR LUI MING-WAH (in Cantonese): *Madam President, in part (b) of the main reply, it is stated that other countries has set up food labelling schemes based on local condition and public health situation. I thought people's requirements on food are more or less the same. However, if we follow the main reply provided by the Government, can you tell me what is the difference between the food*

served by McDonald's in the United States and that served in Hong Kong? Why is there a difference? If there is no difference, why is that the case?

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, Dr LUI Ming-wah's supplementary question was whether there was a difference between the standard of food in Hong Kong and that of other countries, and my answer is affirmative. If a certain food product is to be offered for sale worldwide, it has to comply with local food label and other requirements. Therefore, if food manufacturers plan to market their food products worldwide, the food products have to comply with the respective requirements in the different places when they are produced.

MR DANIEL LAM (in Cantonese): *Madam President, both Shenzhen and Guangdong Province are the major supplying regions of the foods in Hong Kong. Will the authorities inform this Council, when the new food labelling requirements come into effect, will they liaise with the regions concerned in order to attain a consensus on this matter?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as I know, mainland China would develop their food labelling scheme in accordance with the guidelines set out by the Codex Alimentarius Commission. In this respect, our existing practice is in line with how the development in the Mainland is oriented. We note that the Mainland is a major supplier of food to Hong Kong, accounting for over 30% of our imported foods, so we will certainly co-ordinate with them in their work. If we intend to legislate, we will certainly give them time for preparation.

MRS SELINA CHOW (in Cantonese): *Madam President, I believe the Secretary also knows that very often the Government will meet with strong views from the trade when formulating requirements for food labelling. For example, instead of making reference to timetables of other importing regions, the Government will take the lead ahead of these regions to implement the food labelling scheme, resulting in the failure for many imported foods to be sold in Hong Kong because they could not meet the food labelling requirements in Hong*

Kong. May I ask the Secretary whether the Government has formulated a more realistic timetable for the importers by making reference to views expressed by the importing regions on compliance with our food labelling scheme?

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, last year, the Food and Environmental Hygiene Department carried out a consultation and survey, and studied the feasibility of implementing food labelling on different food products. We found that at present, about 70% of the food products should be able to tie in with the implementation of the timetable of the food labelling scheme; as for the rest of the food products, we will carefully study their standard and problems encountered. Therefore, in the bill that we are going to present to the Legislative Council, there will be, on the one hand, a longer grace period, and on the other hand, the scheme will be implemented in two phases. I hope by so doing it will be possible for the trade to comply with the requirements of the law as far as possible.

MRS SELINA CHOW (in Cantonese): *The Secretary has all along missed the focus of my supplementary question. I am not asking about the grace period or anything of the sort. The focus of my question is whether we will go in advance of these importing regions to implement the food labelling scheme, resulting in foods, which originally could be imported into Hong Kong, being debarred from doing so now because the timetable of our food labelling scheme has been implemented too hastily or too early for these regions.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, allow me to separate my answer into two parts. First, with respect to the development of food labelling, Hong Kong has been lagging behind other developed countries. Thus, I think Hong Kong has to, on the other hand, catch up with other countries. Second, if countries plan to import foods into Hong Kong, they will certainly comply with the requirements in the law of the importing region of Hong Kong. They will not only attend to their own situation as the producing country and then ignore the requirements of the regions where the produce will be marketed. Therefore, I feel that there should be a period for adjustment but I do not find it necessary to set too long a period simply to make room for the development of the regions supplying the produce.

MR HOWARD YOUNG (in Cantonese): *Madam President, this oral question concerns about the controversial issue of food labelling, but it only covers packaged food. Many imported foods being sold at present, however, are as separate rather than packaged items. How will the Government handle such foods? Will the Government ignore them or require their ingredients to be listed for consumers' reference?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): *Madam President, now, we will first handle the packaged food products, after which we will proceed to see how foods that are being sold as separate items could be fully monitored without affecting their free transaction. Since, at present, imported meat and vegetable are not required to have food labels attached, we think we should pay attention to this area. However, we cannot thus formulate regulations to deter hawkers and markets from selling these foods. We are simply embarking from the perspective of public health and food safety, with an intention of safeguarding food safety as far as possible but would not at the same time impose too much restrictions on the trade.*

MR LAU KONG-WAH (in Cantonese): *Madam President, the Secretary said just now we were lagging behind other countries in the implementation of the food labelling scheme, which I agree. However, even if we have enacted the law, how would the present status of law enforcement be? According to the annual survey on expired food conducted by the Democratic Alliance for the Betterment and Progress of Hong Kong, we find that such phenomenon would appear every year. Can the Secretary tell us, in terms of statistics, whether law enforcement efforts of the Government have been effective. From our observation, the effectiveness is still not too high.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): *Madam President, in the past three years, the annual number of food labels being randomly selected for inspection ranged from 55 000 to 57 000, and prosecutions have been instituted against 80 to 90 companies which breached the law, with penalties ranging from \$500 to \$10,000. We will continue to monitor food products in like manner.*

MR FRED LI (in Cantonese): *Madam President, in part (a) of the main reply, the Secretary said, "The labels should not falsely describe the food, or mislead consumers as to the nature, substance or quality of the food." Every time when the Consumer Council carried out investigations, it has always been found that those packaged foods which claimed to have high-fibre or low-sugar content in fact failed to meet international standards. This is because there is no ordinance on nutrition labels. As at present, legislation concerning food labels has not yet come into effect and it is still being studied in the Legislative Council, how should the consumers — especially the chronically ill whom we care a lot about — make their choices among foods claiming to have high-fibre or low-sugar content?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): *Madam President, before enactment of the legislation is in place, we need to put some efforts in education and promotion to enable the public to know the meaning of different claims, such as low-sugar or low-salt content, and so on. At present, there are a variety of means to label food, some of which are in the form of amount per serving, for example, its content in per 100 mg of the food. Thus, I believe it is difficult for the general public to make a comparison. Meanwhile, we will carry out more public education in this respect.*

PRESIDENT (in Cantonese): *Second question.*

Withdrawal of Rent Rebate for Shop Premises in PRH Estates

2. **MR VINCENT FANG** (in Cantonese): *Madam President, it has been reported that since the beginning of this year, the Housing Authority (HA) has been withdrawing gradually the rent rebate for shop premises, which was granted in accordance with the progress of the population intake of the new housing estates involved, rendering many commercial tenants having to pay the market rent. In this connection, will the Government inform this Council:*

- (a) *of the number of commercial tenants affected by the withdrawal of this rent rebate, the dates at which the tenants will start to pay*

market rent, and whether they have to pay the market rent only after their current tenancy agreements have expired;

- (b) of the special arrangements made by the HA for commercial tenants who cannot afford the market rent, including whether negotiation will be arranged with them on re-setting the rent; and*
- (c) whether commercial tenants who cannot afford the market rent will have their deposits refunded if they opt for early surrender of their tenancy, and of the procedure involved?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, before replying to the Honourable Member's question, I would like to give an overview of the Rent Adjustment Scheme (the Scheme) implemented by the HA as a relief measure for the commercial tenants affected by slow population intake of public housing estates. Introduced in 1991, the Scheme provides commercial tenants with rent rebates commensurate with the letting rate of nearby new estates. Rent adjustments under the Scheme take effect from the commencement date of the first tenancy agreement of the shopping centre and will last three years or until the letting rate of the estates in the catchment area reaches 90%. Depending on actual intake, rent rebates for most shopping centres have already ceased following completion and letting of the estates. Nonetheless, the rent adjustment periods for a few shopping centres have been extended for one to two years after expiry of the normal three-year duration.

My reply to the three-part question is as follows:

- (a) The rent adjustment periods for four shopping centres of the HA are due to expire in 2005, involving 246 commercial tenants in total. The rent adjustment period for Chung Fu Shopping Centre ended in January. The rent adjustment periods for the remaining three shopping centres, namely Yu Chui Shopping Centre, Lei Yue Mun Plaza and Yat Tung Shopping Centre, will cease later this year. Details are at the Annex. Upon expiry of the rent adjustment period, all the commercial tenants in the shopping centre concerned,

irrespective of the expiry dates of individual tenancies, are required to pay the original rents as specified in their tenancy agreements with immediate effect.

- (b) The retail facilities of the HA are operated according to commercial principles. The market rents specified in the tenancy agreements are normally determined through open tender or, for contract renewal, by negotiation between the contracting parties. The rental levels should therefore have taken into account the prevailing business environment, the shop location and the operations of individual tenants. If for any reason a commercial tenant encounters difficulty in paying the market rent, the HA will work out appropriate and flexible arrangements with the tenant in the light of his special circumstances and actual business environment, such as early surrender of tenancy and rent reassessment, with a view to achieving a win-win solution.
- (c) Arrangements for early surrender of tenancy initiated by commercial tenants vary according to the terms of tenancy. Tenancy agreements awarded through open tender usually include provisions for early termination. Under such provision, tenants who wish to terminate their tenancy could do so by informing the HA in writing three months in advance. On the other hand, tenancies let by negotiation normally make no provision for early surrender. In these cases, the HA will exercise flexibility in considering tenants' requests for early termination. Usually, the HA require such tenant to pay an amount equivalent to four months' rents as a condition to terminate his tenancy prematurely to compensate for the HA's rental loss during re-letting. Notwithstanding, the HA will consider each application for early surrender in a flexible manner in the light of the actual circumstances of individual tenants.

As for termination procedures, commercial tenants intending to quit should notify the Housing Department (HD) in writing. Once the outstanding rentals and other charges are settled and the premises is vacated in good condition, the HD will refund the deposits in full.

Annex

The HA's Shopping Centres with Rent Adjustment Period Expiring in 2005

<i>Name of Shopping Centres</i>	<i>Expiry Date of Rent Adjustment Period</i>	<i>Number of Commercial Tenants Affected</i>
Chung Fu Shopping Centre	15 January 2005	118
Yu Chui Shopping Centre	31 July 2005	27
Lei Yue Mun Plaza	31 July 2005	45
Yat Tung Shopping Centre	15 September 2005	56
Total		246

MR VINCENT FANG (in Cantonese): *Madam President, may I ask the Secretary, if for some reasons, certain estates are not yet ready for the intake of residents, will those commercial tenants continue to enjoy rebates or concessions?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): *Madam President, as I pointed out in the main reply, normally, concessions will be provided to commercial tenants until the letting rate of the estates in the catchment area reaches 90% or would last for three years. Generally, under these two circumstances, such demands of commercial tenants can be fulfilled. As I have also mentioned in the main reply, owing to various conditions, such as delay in construction work that has prevented residents from moving in, the concession period for individual shopping centres may be extended for one to two years upon the expiry of the normal three-year term.*

MR TOMMY CHEUNG (in Cantonese): *Madam President, in the first paragraph of the main reply, the Secretary said that the HA would provide concession for commercial tenants until the letting rate in the catchment area of nearby estates reached 90% or for a period of three years. The Secretary then set out in the Annex the four shopping centres which were granted extension for concession under this circumstance. The concession period for Chung Fu Shopping Centre has expired on 15 January 2005, while those of the remaining shopping centres will expire by July or September this year. May I ask the Secretary whether the letting rates of the said estates have reached 90% by now? Or, owing to the housing policy of the Government, the letting rate of these*

estates has still fallen short of a certain percentage and is unlikely to achieve the percentage required within the foreseeable future? If extension on rental concession is not once again granted to these commercial tenants, is it unfair to them?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):

Madam President, according to the information I have at hand, the tenancy intake rates of these new estates are as follows: Yu Chui Shopping Centre 55%, Lei Yue Mun Plaza 60% and Yat Tung Shopping Centre 70%. As for commercial tenants, the number of tenants is relatively small. In Yu Chui Shopping Centre, there are 20-odd, in Lei Yue Mun Plaza, 45, and in Yat Tung Shopping Centre, 56. For circumstances like delay in construction work causing postponement of intake as in the case of Yat Tung Shopping Centre, and that of Lei Yue Mun Plaza where some of the Home Ownership Scheme estates in the area have now been altered as quarters for disciplined services, we hope that the renovation work can be completed by the middle of the year for residents to move in. Since we expect the circumstances will improve, we have thus made such a decision for that place.

MR TOMMY CHEUNG (in Cantonese): *Madam President, the Secretary has not answered my question. Since the tenancy intake rate of those estates has not yet reached 90%, if no extension of rental concession were granted, will it be unfair to the commercial tenants there? The Secretary did indicate that the standard intake rate would soon be achieved and even pointed out that only a small number of commercial tenants were involved. But this is not a matter of the number of commercial tenants being affected; it is a matter of fairness. Are these commercial tenants being unfairly treated by the HA?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):

Madam President, this policy has been in place since 1991, and can be regarded in general as working well. I believe the time has come for us to consider whether the Scheme should be continued now. After review, we consider that one to two shopping centres will also face similar problems soon. Though these tenants are confronted with the relevant impact, other options, as mentioned in the main reply, are available to help them solve their problems. These options include rent reassessment, and other more flexible arrangements in handling these problems. For instance, these tenants may opt for early termination or

surrender of tenancy, and their prevailing situation will be flexibly considered. We may review the prevailing situation to understand the operational difficulties they are facing and such situation may not have been taken into consideration when the original rental was determined. The approach which we have been adopting all along may not necessarily be favourable to the commercial tenants, so we wish to handle the issue through different approaches.

MR CHAN KAM-LAM (in Cantonese): *Madam President, in part (b) of the main reply, the Secretary said that if individual tenant encountered difficulties, the HD would give due consideration and make flexible arrangement. Nonetheless, in a recent case in which a shopping centre undergone large scale renovation and repartitioning, consequently causing one of the restaurants to find it impossible to continue its operation, and the affected tenant has made a request to The Link REIT company for a rental reduction. The Link REIT company however indicated that all tenancy issues were administered by the HD and it had nothing to do with such matters. Yet, when the restaurant made enquiry to the HD about this, the HD answered that all these have been referred to the administration of The Link REIT now. Therefore, I hope the Secretary can inform us which party is actually responsible for making the decision?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): *Madam President, I am not clear about the details of this case. However, despite the fact that The Link REIT has yet to be listed, the company has already been set up and we have been handing over bit by bit the management of our shopping centres to this company. Nevertheless, the company is only responsible for the management affairs, policy issues are still to be determined by the HD. Therefore, as far as I understand, the HD still takes mastery of the relevant policy. Mr CHAN may provide us with information on this case after the meeting to enable us to follow up.*

MR LI KWOK-YING (in Cantonese): *Madam President, as far as I understand, at present, a group of commercial tenants has intended to file an appeal on the withdrawal of rental rebate. In part (b) of the main reply, the Secretary mentioned the consideration of individual circumstances and the prevailing business environment. I believe these tenants have found the business environment adverse. Under this circumstance, may I know their chances of success in the appeal? What is the present progress of the case?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I do not know their chances of success in the appeal either. This certainly has to depend on the actual situation. However, I say in addition that since the original rent has been set at a higher level, most often than not, they would find it unaffordable, and we would grant them concessions. Since rents are determined according to the general procedures and situation, with the prevailing situation unforeseeable at the time of determination, so no consideration on pedestrian flow or other business environment has been given. If their rent can be reassessed, we can take into account the actual situation at present when we determine the rent, and can therefore reflect more truly the actual situation. Under such circumstances, if they file an appeal, I believe the Appeal Panel will certainly take into account the present situation, but I am not in a position to tell of their actual chance of success in the appeal because it all depends on individual merits.

MR WONG KWOK-HING (in Cantonese): *Madam President, in the Secretary's earlier reply, he said that commercial tenants might terminate their tenancy agreement if they felt any discontentment or encountered any difficulty in their operation. In fact, in view of the significant cost and the expenses for installing fittings in the shop involved, the investors concerned cannot simply take the premature termination of tenancy agreement as a solution. May I ask the Secretary whether an extension of the period of rental rebate could be interpreted as providing an assistance to these tenants on their operation? From the Annex, it can be seen that the rental rebate period of a number of shopping centres will expire in July or September.*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I have already answered this earlier. If the rent stated in the agreement fails to truly reflect the prevailing business environment, we may consider terminating the tenancy agreement. However, it does not mean that we will not continue to let the shops to the tenants upon termination of the tenancy agreement. This is only a means, a way of handling the case, so that these tenants could be freed from the conditions of the existing agreement. In other words, to lift the restrictions on them cast by rental clauses and other aspects while allowing us to have the flexibility to take into consideration the present situation in order to enter new tenancy agreements, with a view to achieving a win-win situation. This is the outcome we desire to achieve, but whether or not this can become a reality certainly depends on the various aspects of the prevailing situation.

MR WONG KWOK-HING (in Cantonese): *Madam President, the Secretary has not answered whether the concession of rental rebate could be extended while the negotiation of the new tenancy agreement is in progress?*

PRESIDENT (in Cantonese): Secretary, do you have anything to add?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, not much actually. All along, we have been adopting this approach. However, we thought it would be much better if greater flexibility could be exercised, hence consideration was given to the measure I mentioned earlier.

MISS TAM HEUNG-MAN (in Cantonese): *Madam President, the inability of commercial tenants in paying the market rent has often led to high vacancy rate in shopping centres. How will the authorities solve this problem?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, as I said earlier, our retailing facilities would certainly operate according to commercial principles, with the primary aim of providing services for the residents. In some places, commercial tenants are practically enjoying monopoly. That means their business turnovers are viable, only that the level of rent we charged would have a bearing. Therefore, as I said earlier, the measures implemented by us now is target oriented, aiming to achieve a win-win situation. We do not wish to see that shopping centres are left vacant, failing to provide services as designed, while we are denied of the rent we should have collected.

MR TAM YIU-CHUNG (in Cantonese): *Madam President, on the temporary termination of tenancy agreement to be followed by the conclusion of a new tenancy agreement as mentioned by the Secretary earlier is hardly feasible in reality. As commercial tenants have to remove all the fittings in their shops and move out before they can enter into fresh negotiation with the HD or bid the tender for new tenancy agreement, and by then they could have no idea whether the level of rent offered will be deemed suitable. Meanwhile, the loss they would incur within this interim may be significant. We cannot see how this could be the win-win approach as claimed by the Secretary. We hope that after The Link REIT takes over.....*

PRESIDENT (in Cantonese): Mr TAM, please state your supplementary question directly.

MR TAM YIU-CHUNG (in Cantonese): *My question is, the solution mentioned by the Secretary is virtually not a solution and cannot help the commercial tenants concerned. I would like to know whether the Secretary has anything to add.*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I believe Mr TAM has the assumption that we will cancel everything when we terminate the tenancy agreement and will request the commercial tenants concerned to make a fresh bid. However, the situation should not be so interpreted. What we intend to do is to first cancel the clauses in the previous tenancy agreement so that new terms can be negotiated to allow tenants to continue to operate. On the other hand, the rent determined this way may reflect the prevailing situation. This is our original intention.

PRESIDENT (in Cantonese): This Council has spent more than 17 minutes on this question. Last supplementary question.

MR FRED LI (in Cantonese): *Madam President, according to the Annex provided by the Secretary, the rental concession for the Lei Yue Mun Plaza will expire on 31 July 2005. Has the Secretary considered the two possible factors that may cast an impact on the expiry date? First, the quarters for disciplined services will not be fully taken up within the span of one month; it may take several months or may even be up till next year before these quarters could be fully occupied. It is not possible that all vacant units can be taken up at the same time. Second, the proposal of using the thousand-odd units as hostels, which have previously been studied, is now being abandoned, without any decision made yet. Owing to these two factors, tenancy units in the area cannot be fully taken up at this juncture. If so, why should the rental concession be cancelled or terminated on 31 July 2005?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, as I stated in the main reply, the cessation of rental concessions is not set against a certain date, it has been ceased only because of

the expiry of the three-year period. Certainly, we have too considered the factors mentioned by Mr LI just now, which is also true. However, I believe that whoever runs a business should look forward to a prospective future, that is whether the units will be occupied at the end of the day. At present, it is almost certain that the area is guaranteed to be fully occupied. Of course, the pedestrian flow may not surge dramatically on 31 July, but operators can see promising prospects in the future of their business. I believe, by all accounts, the situation is better than before, is it not?

PRESIDENT (in Cantonese): Third question.

Regulation of Internal Sale of Uncompleted Flats

3. **MR LEE WING-TAT** (in Cantonese): *Madam President, it was reported that during the internal sale of uncompleted residential units, some property developers had not provided prospective buyers with the price list of all the flats put up for sale, and that the number of flats sold and their sale prices announced by the property developers concerned were at variance with the records of conveyancing transactions subsequently registered at the Land Registry. In this connection, will the Government inform this Council:*

- (a) *whether the Lands Department has attached, when approving consents for pre-sale of uncompleted flats under the Consent Scheme, conditions requiring the property developers to provide prospective buyers with the price list of all the flats put up for sale at the internal sale of uncompleted flats and to ensure the accuracy of information released regarding the sale situation; if it has attached such conditions, whether any property developer has been found, since last year, to have violated them; if it has not, whether it will consider attaching such conditions;*
- (b) *of the legal basis for the existing mechanism adopted for regulating the internal sale of uncompleted flats by property developers, and the measures or penalties that may be imposed on those property developers who fail to comply with the regulatory requirements; and*
- (c) *whether it has assessed if there are any problems with the above regulatory mechanism; if the assessment result is in the affirmative,*

whether it will comprehensively review the mechanism, and even consider reducing or completely forbidding the internal sale of uncompleted flats by property developers?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):

Madam President, before replying to Mr LEE Wing-tat's question, first I would like to briefly talk about the arrangements on internal sales of uncompleted residential properties prescribed under the Lands Department Consent Scheme. Under the Consent Scheme, developers are required to make available sales brochures. In addition, before the onset of public sales, developers are required to make available the list of units that are to be offered together with their individual prices. It had been developers' practice all along to put up, before the onset of public sales, some units for internal sales to test the market. In order to have more flexibility in setting asking prices and devising marketing strategies, developers did not provide the lists of units on offer and their prices. Nevertheless, since 2001, the Real Estate Developers Association of Hong Kong (REDA) has established a self-regulatory regime, under which its members are required to comply with guidelines issued by the REDA. The aim is to enable intending purchasers to get hold of adequate and accurate information before they decide whether or not to enter into property transactions.

My reply to the three parts of the question is as follows:

- (a) As I mentioned just now, pre-sale consents given to developers do not require them to provide price lists to prospective purchasers in internal sales. However, since its establishment in October 2001, the REDA's self-regulatory regime has required developers to provide sales brochures to intending purchasers participating in internal sales. It came to the notice of the Administration early this year that with the steady recovery of the property market and resurgence of buyers' interests, some developers had adopted different sorts of sales strategies to liven up the market. This has given rise to concerns in the community. In view of this, the Administration wrote to the REDA in March this year requesting it to strengthen the guidelines requiring developers to make available to intending purchasers in internal sales price lists and lists of units on offer, and take measures to ensure that any sales information

released by developers is accurate and comprehensive. At the request of the Administration, the REDA issued a set of supplementary guidelines in April this year for compliance in the following four areas:

- (i) developers should take reasonable steps to inform purchasers of any subsequent material changes with regard to the information provided in sales brochures;
- (ii) a copy of the Deed of Mutual Covenant and the government lease should be provided at the sales offices for free inspection by intending purchasers;
- (iii) price lists and lists of units on offer in internal sales should be made available to intending purchasers; and
- (iv) sales figures, if released by developers, should be as accurate as possible.

The Administration believes that so long as developers genuinely comply with the guidelines issued by the REDA, the interests of prospective purchasers would be reasonably protected, and there is no need at the moment to impose more mandatory conditions. The Consumer Council agrees in principle with our approach of further strengthening the REDA's guidelines. The REDA is currently reviewing the guidelines with a view to further improving their operation and effectiveness.

- (b) Although the REDA's self-regulatory regime has no legal effect, we rely on members of the public, the media and the Consumer Council, who together have been monitoring the operation of the regime. Developers are mindful of upholding their company reputation. Any reports on breaches of the guidelines on internal sales will generate negative impact on the reputation of developers and could also affect the sales performance of their projects.
- (c) Regarding assessment of existing arrangements, I wish to point out that any new measures proposed should satisfy two basic principles.

First, they must be practical and will not fetter the operation of the property market. Second, they must protect the rights of consumers while maintaining an orderly, fair and open market.

We have adopted a two-pronged approach to review the existing arrangements. First, the Administration together with the Consumer Council and the Estate Agents Authority met with the REDA last week and invited the REDA to conduct a comprehensive review of internal sales arrangements as well as the transparency and accuracy of information released by developers. We also asked the REDA to restructure its guidelines on internal sales arrangements in a clearer and more concrete manner. The REDA has undertaken to require the front-line staff of its members to thoroughly comply with all guidelines relating to the sale of uncompleted residential properties and to provide price lists and copies of Deeds of Mutual Covenant for intending purchasers' reference. The REDA has also undertaken to form an internal task force to comprehensively review the internal sales arrangements adopted by its members. Comprehensive and specific proposals are expected to be put forward within two to three weeks. On the other hand, we have asked the Estate Agents Authority to issue new circulars to remind estate agents to comply with the provisions in the Estate Agents Ordinance to provide accurate information to intending purchasers.

Having regard to the two principles I mentioned earlier, we have no intention at the moment to reduce or forbid internal sales of uncompleted flats by developers. This is to minimize as far as possible intervention in the property market so as to maintain its continued healthy development.

Lastly, I wish to take this opportunity to reiterate one point, and that is, the public should not come to hasty decisions to buy properties on account of reports that certain new projects are selling fast. Members of the public should carefully consider their affordability and needs, and look up the actual prices of comparable transactions in the market. In this regard, they could check the comparable transactions registered with the Land Registry. The Consumer Council has also indicated that it will consider stepping up its educational activities as necessary to enhance consumer protection in matters relating to

property transactions, such as publication of pamphlets. If necessary, members of the public should, depending on their actual circumstances, seek advice from professionals such as surveyors or solicitors.

MR LEE WING-TAT (in Cantonese): *Madam President, subsequent to reports that the sale prices of flats have been "inflated" in an internal sale, the Government sent plainclothes investigators to look into the matter found proofs that some property developers did fail to provide price lists in the sale of uncompleted residential units. Madam President, last week, the Government has made a great clamour in announcing that it would monitor the sale of a property development project. Nevertheless, the price list was only made available two hours before the sale of the flats. The guidelines have yet to be implemented since March up till the present. It seems that the Government would chicken out when it comes to the interests of property developers. I wish the Government can explain again what penalties would be imposed on developers for non-compliance of the guidelines?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I have made use of some passages to explain the present situation and our concerns in the main reply I delivered just now. I have also pointed out that since March this year, the Government has taken action to urge the REDA to further strengthen their guidelines. I believe it is understandable that in a regime in which so many people are involved, some time is necessary for improvements to emerge. However, this should not be taken that the Government is just sitting back doing nothing, neither should this be interpreted as the Government is powerless in this regard. As a matter of fact, we all know that the property market is in a very fragile state. We need to conduct monitoring on the one hand, while striving not to stifle the healthy development of the market on the other. It will not be easy to strike a balance between the two. If we work too much on one aspect or work too little on the other, the consequences could be quite serious. For this reason, Madam President and Honourable Members, I hope you can see the efforts we have made. We had a number of discussions with the REDA, they have done something afterwards and agreed to review the present situation in response to the Administration's request within two to three weeks, with a view to ensuring that the proposal they are going to put forward in future will be acceptable to all. I hope you can be more patient, and just wait to see what the result will be in this regard.

MR LEE WING-TAT (in Cantonese): *I wish to raise a short follow-up question. I was asking whether the Government would impose penalties on developers who have violated the guidelines. Can the Secretary give a more concrete reply?*

PRESIDENT (in Cantonese): Secretary, do you have anything to add?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, as I said just now, the guidelines have no legal effect at present, but merely a request in our existing regime. Naturally, if the regime does not work out, then legislation has to be resorted to impose control, and we will have to be very careful about the right balance that I mentioned just now. At present, we have not yet reached that stage. As I mentioned in the main reply, we are relying on members of the public and the media to monitor the situation, and developers should also be mindful of upholding their company reputation.

PRESIDENT (in Cantonese): There are a total of 12 Members waiting for their turn to ask supplementary questions. Will Members please keep their questions concise, so as to allow as many Members to ask questions as possible?

MR MA LIK (in Cantonese): *Madam President, in his main reply, the Secretary mentioned that, in response to the Government's request, the REDA has undertaken to come up with detailed proposals in regard to internal sales arrangements and information released by developers within two to three weeks. I want to ask the Secretary if the estate agent industry would be consulted or would an open public consultation even be conducted?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, as it is a set of internal guidelines of the REDA, the participation of the Government can be no more than finding out whether the actual situation can meet with our requirement. I strongly believe that the REDA would extensively consult the industry. What they really want is to come up with an outcome that is acceptable to the public. As such, I strongly

believe that, in the process, they would spare no efforts in trying to come up with an outcome that is favoured by the public.

MR MARTIN LEE (in Cantonese): *Madam President, the Secretary said that the Government has no intention to reduce or completely forbid the internal sale of uncompleted flats by developers, he also called on the public not to make hasty decisions in purchasing properties. Is the Government not aware that developers have made such a lot of gestures, which were in fact malpractices in creating market manipulation, giving those people who were queuing up to purchase flats the false impression that if they gave up purchasing the flat then, there were still a lot of people waiting behind? Does the Secretary not agree that tolerating such practices could be analogous in telling a member of the public who had been robbed of a fortune that, "You are wrong as well, why did you bring so much money with you"?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I do not think Mr Martin LEE's analogy is a good one. I would rather use other analogies if I were asked to give one. However, Madam President, the point rests with the monitoring of the public and the media. For instance, as we have discussed this subject in this Chamber today, after it is reported by the media, the effect as mentioned by Mr Martin LEE can also be achieved.

MR MARTIN LEE (in Cantonese): *Do you not know that this is a malpractice on the part of developers to create market manipulation? Do you know about it or not?*

PRESIDENT (in Cantonese): Secretary, do you have anything to add?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, if Mr Martin LEE has read my main reply, he should have known that the concerns we had in March have been raised in the wake of strategies taken by developers to liven up the market. In my main reply, I have clearly stated the Government's views in this regard.

MR MARTIN LEE (in Cantonese): *I only want to know if the Secretary is aware of the situation or not. He did not mention if the Government had such knowledge in the main reply.*

PRESIDENT (in Cantonese): Secretary, do you have anything to add?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I have nothing to add.

MR CHIM PUI-CHUNG (in Cantonese): *Madam President, there was a recent Court case involving market manipulation by some people in the stock market and they were imprisoned as a result. The property developers are doing exactly the same thing stark-naked at present. Is the Government adopting a double standard approach, hence turning a blind eye to their malpractice? What rationale is this?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I think we may have different understanding and requirements as regards the issue of market manipulation. We certainly know that property developers would have their own strategies and reasons in promoting their flats. As long as what they are doing does not constitute any false element and the means adopted are transparent and fair, then they would have complied with the rationale behind our measures. We require that they at least have to go along with this principle. For this reason, we have asked them to put forward new initiatives shortly. We will conduct a review of the internal guidelines proposed by the REDA to see if they have satisfied our requirements. As for now, I think all we can do is to wait and see.

MR CHIM PUI-CHUNG (in Cantonese): *Madam President, the Secretary has not answered my question as to whether the Government adopts double standards in law.*

PRESIDENT (in Cantonese): Do you have anything to add?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):
Madam President, I do not think we have double standards.

MS AUDREY EU (in Cantonese): *Madam President, in reply to Mr CHIM Pui-chung's question, the Secretary said that the means adopted by developers should be transparent, however, in part (a) of his main reply, the Secretary said, "the Administration wrote to the REDA in March this year requesting it to strengthen the guidelines requiring developers to make available to intending purchasers in internal sales price lists and lists of units on offer". In regard to "take measures to ensure that any sales information released by developers", I want to ask the Secretary a question. At present, it is not necessary for developers to release information on their own accord as the public can have access to information by means of various channels, such as reading press report, and they may have the impression that the information has been released by developers. As such, I wish to ask the Secretary, since the Secretary has, in response to Mr CHIM Pui-chung's question, pointed out that the means taken by developers should be transparent, whether the Administration will consider obliging developers to release the bona fide sales information to the public, such as the price list, unit price per sq ft and so on. They should at least state these facts clearly, and should not just say "the public could check the comparable transactions in the market" as related by the Secretary in the last paragraph of his main reply. This is totally impracticable. How can the Secretary ask consumers to check these records on their own accord? What I mean is, if developers are asked to act with transparency, then should the Administration at least require them to be responsible for releasing accurate information on the prices?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):
Madam President, of course, we require developers to release accurate information. We can read about press reports on the sales performance of property development project from time to time, however, just as Ms Audrey EU has just asked, should such information be released by developers, or should they be reported by reporters who obtained the news from other sources? Hong Kong is a place where the freedom of press is respected. So, it is difficult to conduct monitoring in this regard, but we have made such requests nevertheless. Such information, however, is in fact available from the Government, because as I have mentioned in the main reply, every transaction has to be registered with

the Land Registry. Once the registration process is completed, the information will be made public for access by members of the public, but it is not possible for the Government to publish such information in the press. Members of the public requiring such information may check it out from the register themselves. For this reason, I said in the main reply that such information was in fact already there and is within our control. However, owing to a variety of reasons, the public will have to access it on their own.

MS AUDREY EU (in Cantonese): *Madam President, you are also aware that I wish to follow up, as the Secretary has not answered my supplementary question. My question is, he should not have asked members of the public to check the relevant information with the Land Registry on their own, for the Secretary should have realized that they would not be able to obtain information on the property in question, they can only check the name of the property owner. Therefore, my question is: Does the Secretary feel that the Government is obliged to impose legal responsibility on developers to release accurate information, instead of asking members of the public to check such information on their own?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I have in fact given the explanation just now. As we have to strike a proper balance, we do not think now is the appropriate time to handle the issue by means of legislation. I certainly understand Ms Audrey EU's supplementary question, but what I mean is, as this is public information, it should not be difficult to make access to it. Purchasing property involves grave decision, if members of the public require such information, they can actually commission solicitors or other professionals to check on their behalf, but if they do not want to do so, they can check it on their own. The main point of my reply is that such information is easily accessible.

PRESIDENT (in Cantonese): We have spent more than 22 minutes on this question. Last supplementary question.

MR PATRICK LAU (in Cantonese): *Madam President, I would like to thank the Secretary for advising the public to make careful consideration and to have a good understanding of the actual situation when buying a property in the last*

part of his main reply. I am aware that the price of a recent property project was as high as over \$30,000 per sq ft. I wish to ask the Secretary whether any transaction of this project in question has been registered, and whether consumers have studied the correspondence between the price and value?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, I can tell Members that I have checked, the record of this transaction did exist in the records of the Land Registry and the figure involved was the same as that reported in the press. As to whether the transaction was good value for the money paid, I think I am not in the position to answer this question, for I believe this is somebody's personal preference, and he may think it is good value for money. This is entirely a matter of personal sense of value.

PRESIDENT (in Cantonese): Fourth question.

General Out-patient Clinics Under Hospital Authority

4. **MR ANDREW CHENG** (in Cantonese): *Madam President, regarding the general out-patient clinics (GOPCs) under the Hospital Authority (HA), will the Government inform this Council whether it knows:*

- (a) the annual attendances at public GOPCs in the year preceding the HA's taking over 59 GOPCs from the Department of Health (DH) in July 2003 and thereafter;*
- (b) the daily consultation quotas of various types per GOPC in the past three years; and given that the HA will refer patients of its specialist out-patient clinics (SOPCs) whose conditions have become stable to the GOPCs for follow-up consultations, the percentage of attendances by such patients at the GOPCs last year, and whether the authorities have correspondingly increased the quotas for consultation at the GOPCs; and*
- (c) whether the current average unit cost of the HA's GOPC service is higher than that of private clinics; if so, the reasons for that, and whether it will look into ways to reduce costs?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese):
Madam President,

- (a) The overall annual attendances at all of the 59 GOPCs under the HA for the periods from 1 July 2002 to 30 June 2003 and from 1 July 2003 to 30 June 2004 are 5 086 024 and 4 190 314 respectively. It should be noted that in 2003, there was a notable reduction in public medical service activities because of the impact of the Severe Acute Respiratory Syndrome (SARS) epidemic. The number of patients attending the GOPCs also dropped and only gradually returned to normal towards the end of 2003. In addition, the implementation of the Visiting Medical Officer Scheme successfully managed many patients at elderly homes. This also reduced their need to visit the GOPCs.
- (b) Before the transfer of the GOPCs from the DH to the HA, it had already been a practice for the SOPCs to refer patients whose conditions had become stable to the GOPCs for follow-up consultations. In the past, these patients were required to book their consultation at the GOPC personally. For patients' convenience, they may now book their GOPC follow-up consultations at the SOPCs direct. The HA has not noticed any marked change in the number of overall referrals of such patients to the GOPCs before and after the transfer of the GOPCs to the HA. The exact percentage of GOPC patients who were previously followed up at the SOPCs is not readily available because the computerization of patients' records in the GOPCs has not yet been completed. Owing to the same reason, the daily consultation quotas per GOPC broken down by types for the past three years are not readily available by the HA either.

As it has long been a standing arrangement for SOPC patients who no longer require specialist care to be followed up at the GOPCs if they choose to remain under the public sector's care, there does not appear to be a need to increase the quota of the GOPCs at this particular point in time.

- (c) The average unit cost per attendance at the HA's GOPCs does not lend itself to direct comparison with costs at private clinics for a number of reasons.
- First, there are major differences in the cost structure between public and private clinics. For instance, doctors and other healthcare staff in public clinics are under the remunerated employment of the HA and enjoy a package of benefits. The running of the HA's network of GOPCs requires a sizable administrative set up. In addition, the HA is setting up an integrated computer system for patient registration, consultation, prescription and dispensing at all the GOPCs. The system is also linked with the HA-wide Clinical Management System. This is in contrast with most of the private clinics which are operated by doctors in solo practice, most of whom take up the administrative work as well. The level of computerization of their clinics is still limited to the use of standalone computers, if any.
 - Secondly, the cost of the HA's GOPC service contains some elements which are normally not a part of the service provided by the private sector. These include medical services provided by professionally qualified nurses and pharmacists, laboratory tests and the provision of drugs. In respect of the provision of drugs, it should be pointed out that public clinics have a much higher proportion of chronic patients who require the prescription of several drugs over long periods. In comparison, private clinics usually only provide patients with drugs for a short time period (one week or less) as a part of their standard charge.
 - Thirdly, the HA's GOPCs also serve as one of the training grounds for Hong Kong's healthcare professionals, while the private medical sector does not have the responsibility to train new entrants to the field. Therefore, the cost of the HA's GOPCs contains a training element, which is not a part of the cost of private clinics.

Currently, the average unit cost per attendance at the HA's GOPCs is \$256. However, if the training element and the cost of pharmacists and drugs are excluded, the unit cost per attendance is \$112, which is comparable to charges at private clinics.

MR ANDREW CHENG (in Cantonese): *Madam President, first of all, I hope Madam President appreciates that the Secretary has not answered part (a) of my main question. The Secretary has failed to provide a complete reply because what I asked is the annual attendances at public GOPCs. Therefore, I hope Madam President would allow me to ask the Secretary to reply in respect of this part and part (b) because the Secretary has, beyond my imagination, strangely expressed that since computerization had not yet been completed, there was no way that he could have the consultation quotas for the past three years. I wish the Secretary could provide us with figures in these two respects to help us explore this issue further.*

Madam President, the Secretary pointed out in part (a) of the main reply that there had been an almost 20% reduction in the number of patients receiving treatment, and the two periods covered straddled the time of the SARS outbreak. Therefore, SARS is not a very important factor. Since resources of the HA have been slashed by \$1 billion, thereby resulting in a serious deficit, many elderly have expressed that they have not able been to obtain consultation chips even by queuing up in the morning. I would like to ask the Secretary what exactly is the future course of primary out-patient services? Under the circumstances of continuous reduction of resources, is the Government going to cut out-patient services and consultation quotas? How is the Government going to face this situation? Has the Government considered that some people may even resort to accident and emergency (A&E) services because of this, thus making it more difficult for the A&E department to maintain its services? Based on these figures, I would like the Secretary to explain what course will the Government's out-patient services take in the future.

PRESIDENT (in Cantonese): Secretary, Mr Andrew CHENG has made a request and raised a question. Please answer his question. As regards his request, you may decide whether or not to respond, or you may follow up after the meeting.

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I would also like to respond. We will provide Members with relevant information as far as possible. We have communicated with the HA repeatedly over this issue, but they can only provide me with the figures which I read out earlier. We will try our best to follow up in this respect.

Regarding whether the HA has cut resources in this respect, I find it necessary for me to explain. In July 2003, the DH had not yet transferred work of the GOPCs to the HA, neither had it assumed the responsibility of training family doctors. As the DH did not have this responsibility, there was no need to employ the relevant resources. However, after taking over out-patient services, the HA has made use of the out-patient clinics to provide training for family doctors, which has taken up substantial resources. This is particularly so in the times of the former DH when one doctor had to attend to 90 patients daily. However, as far as I know, at present, HA doctors are attending to lesser patients each day — at most 85 patients daily. In respect of night clinics, in the times of the DH, doctors had to attend to 80 patients each night whereas HA doctors now only attend to 50 patients each night. Since the number of consultations has to be maintained, the HA, upon taking over these out-patient services, has increased the number of doctors by 20%, nurses by 21%, pharmacists by 27% and support staff by 6%. Therefore, I cannot say that the HA has not invested resources. The amount of resources they are now investing should be more than that in the days of the DH.

The Honourable Member earlier asked what the future out-patient services would be like. First of all, I have to explain two major courses of the HA. First, the main reason for transferring out-patient services of the DH to the HA is that apart from providing training for family doctors, there can be better communication regarding information on out-patient patients, specialist patients or hospital in-patients. At present, the entire information system of the HA can meet our demand.

Second, this will be convenient for patients to follow up their consultations at nearby clinics once they have stabilized, without having to travel a long way to the specialist hospitals and wait for a longer time before they can have their follow-up consultations. The present practice can also enhance service quality. Therefore, although the number of consultations has decreased, is there really a shrink in the treatment we provide for patients? Is the number of clinic attendance equivalent to the number of patients? Is there a need for me to ask

the HA to supply the number of identity cards of patients for the sake of calculating whether or not there has been an increase or a decrease in the number of patients we have attended to? If we have to fabricate the number of patients, I believe the medical staff can easily do that and bring the number of consultations up, but what is most important is to balance the quantity and quality of the services.

Therefore, in the last two years, I think the amount of time spent on each patient by the HA was comparatively longer than before, and the contact time between doctors and patients was also much longer. Regarding the computerization of the information system and the possessing of medical history held by patients themselves, it will take some time before we can see the development. Thus, I consider this an improvement.

MR ANDREW CHENG (in Cantonese): *In a nutshell, will the HA cut out-patient services and the number of chips issued? The Secretary has not answered these two points which I asked earlier.*

PRESIDENT (in Cantonese): Secretary, you seemed to have mentioned part of this earlier.

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Yes, I have. I said earlier that we do not intend to reduce the number of chips distributed, or diminish the ability of the out-patient clinics in taking care of patients. Members may have noted some media comments that a committee on health care matters is looking into long-term medical problems. We will solve those issues in the longer term, but we should not take some actions simply because of this and undermine our existing services. Therefore, we will brief Members of the Legislative Council later that if we are to take this course, what should be done in the meantime, instead of voluntarily reducing the number of chips distributed at present.

DR KWOK KA-KI (in Cantonese): *Madam President, on the figures for the GOPCs, no matter how many chips the HA distributes, they will all be exhausted. The Secretary has expressed in this Council that future services (including*

out-patient services) will be heading in four directions, with training being the last. The Secretary pointed out earlier that at present, 85 chips are distributed daily but if this is the case, I do not know how the HA is to provide training because under such circumstances, it is basically difficult to train new doctors. Have the authorities issued guidelines now? Is it true that every clinic has got its ways and means to carry out training?

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as I know, whenever a clinic takes on doctors who are under training, we have to provide training for them. Training includes several aspects: First, senior doctors must be around to supervise and answer questions from the doctors under training. Together they are to attend to patients with symptoms which are more difficult to handle. Second, doctors under training have to review their work regularly. Their seniors and juniors will follow up and work together in the clinics. Third, doctors under training will have free time for them to attend lectures. Therefore, in my opinion, if we are to raise the standard of family doctors in the future, we must work well in this respect. At present, I think doctors who need to undergo training are given the opportunities to do so.

DR KWOK KA-KI (in Cantonese): *Secretary, my earlier supplementary was that since the HA is handing out 85 chips daily, how can these doctors receive training? If those doctors still have to attend to 85 patients daily, how can they undergo training?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I believe this has to do with professional decision. If doctors consider that they can do so, we will just have to accept. In the days when I received my training, I had to handle even more patients. That said, I myself may not definitely be a very good doctor. *(Laughter)*

DR LUI MING-WAH (in Cantonese): *Madam President, the HA is a huge organization which provides Hong Kong people with quality services. This is a fact known to all. Nonetheless, the annual budget of the HA is around \$27 billion, and this is a very heavy financial burden for the Government. Let us*

take a look. The HA's out-patient clinics are attending to over 5 million patients annually. With the cost per attendance standing at \$256, it amounts to almost \$1.3 billion a year, accounting for roughly 5% of the HA's budget. I would like to ask, has the Government considered singling out these out-patient services and buying places from private doctors, having them provide out-patient services? This is tantamount to bringing private doctors into the public medical services system, subsidizing them to attend to patients, a move which can on one hand alleviate the burden of hospitals and provide employment opportunities, thereby improving the job market of doctors on the other. So, this is in fact a possibility which can be considered. Has the Government thought of this?

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, certainly, this proposal has been made at different times and has also been considered. Nonetheless, I do not think that reforms should be introduced simply because of cost; we have to take account of the quality of services. If the same cost can return better quality, or if a smaller cost can return the same quality, we will also consider.

Having said that, if these out-patient services are now to be handed over to private management, first, we must have sufficient talents to provide opportunities for development and training for family doctors in the market; second, patients who are less well-off or who cannot afford the medical expenses should both be taken care of; third, we consider that at present, the biggest advantage of the out-patient services of the HA is that information of the majority of the patients, that is, 95% of them, has been stored in the computers of the public hospitals. This enables the hospitals to exchange information which is conducive to caring for the patients. If we can solve all these problems, I would not rule out the possibility of heading for this course in the future, but in the short term, we cannot single out this aspect for development.

PRESIDENT (in Cantonese): Dr LUI Ming-wah, has your supplementary not been answered?

DR LUI MING-WAH (in Cantonese): *I am afraid the Secretary has not answered why this has not been considered at the moment. Earlier, the Secretary expressed that it was due to reasons related to the computer system.*

In fact, if reasons are to be cited, there can be more, but the problem is does the Government really have the determination to do so?

PRESIDENT (in Cantonese): I think your question is only about whether consideration has been made and does not include so many things. You are only asking whether the Government has considered, and whether it would do so immediately.

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, we certainly have considered, but I have explained earlier that in the course of consideration, we have to pay attention to what problems there are, and we would not make decisions in a rush.

PRESIDENT (in Cantonese): We have spent more than 19 minutes on this question. Last supplementary question.

MR DANIEL LAM (in Cantonese): *Madam President, apart from attendances and unit cost, has the Government other criteria for assessing the standard of out-patient services? In view of the fact that there is a shortfall in hospitals and private medical services in many areas in the New Territories, particularly in various places in the outlying islands, does the Government need to draw up other criteria to satisfy the need for medical services of residents in the remote areas of the New Territories?*

PRESIDENT (in Cantonese): Mr Daniel LAM, are you referring to the need for services in the New Territories?

MR DANIEL LAM (in Cantonese): *Yes, I am. Regarding out-patient services, I do not know if there can be.....*

PRESIDENT (in Cantonese): Do you mean special arrangement?

MR DANIEL LAM (in Cantonese): *Yes.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Let me try to understand Mr Daniel LAM's supplementary question. Is he asking whether our existing criteria, for example, the number of patients to be attended to per doctor, or the number of chips to be distributed, and so on, apply to the New Territories?

Personally, I can see that population distribution in the New Territories varies, with the outlying islands in particular. We of course hope that out-patient services can be provided in each of the large outlying islands or every major rural town; even if the services cannot be provided daily, we still hope that someone can go there to take care of the residents in need.

Presently, in several outlying islands, particularly in Lantau Island or other outlying islands, we are working towards this direction. We will definitely pay attention to the needs of the local residents, and consider how the provision of services in this regard can be continued while maintaining a favourable standard for the services. That said, we have to see if medical staff deployed to these places can only attend to one or two patients, or can only treat some very common diseases, consequently wasting a lot of time, we may have to make adjustments here. I believe discussions on these issues have to be carried out with the community leaders of those areas. If adjustments are needed, we will see how a mode acceptable to all can be worked out.

PRESIDENT (in Cantonese): Fifth question.

Contract Medical Officers Scheme Implemented by Hospital Authority

5. **DR KWOK KA-KI** (in Cantonese): *Madam President, the Hospital Authority (HA) has implemented the Contract Medical Officers Scheme (CMOS) since 1997-98. All new recruits have since been appointed under three employment contracts that last for seven to eight years in total, and they must complete the relevant medical specialist training programmes and become a specialist within such contract period. Since the implementation of CMOS, all*

sorts of related problems have surfaced and are getting more serious. In this connection, will the Government inform this Council:

- (a) whether it knows, in each year since the introduction of CMOS, the respective numbers of doctors who were employed on contract terms, who were unable to complete their specialist training programmes due to their contracts not being renewed, and who were unable to transfer to other specialist departments for relevant training;*
- (b) whether it knows the details of the employment conditions, such as remuneration level and fringe benefits, for doctors who joined the HA in different years, and whether there are any differences in these employment conditions; if so, whether the authorities have any plans to resolve the problem of disparity in pay among doctors performing the same duties; and*
- (c) how the Administration resolves the problems caused by CMOS, including reviewing the duration required for specialist training programmes in various specialist departments and assisting doctors who wish to transfer to other specialist departments for training, thereby facilitating the training and development of medical specialists?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese):
Madam President, I thank Dr KWOK Ka-ki for raising this oral question. Since this is a rather complicated question, I will spend more time to answer it.

The HA has been shouldering the bulk of the responsibility for providing specialist training to new medical graduates in Hong Kong for many years. The HA takes in and remunerates around 300 such new medical graduates year after year. Due to the low turnover of doctors in the public sector in recent years, the HA was left with a net yearly increase in the number doctors on its payroll. To manage the fiscal burden brought on by the ever-enlarging pool of medical trainees, the HA discontinued the use of permanent employment terms for new trainees and introduced contract employment terms in 1997. The introduction of contract employment terms for doctors can also be attributed to the general

and prevailing use of contract employment in both the private and public sectors and the HA's need to make appropriate changes to its human resources practices in the light of changing trends and circumstances.

- (a) Since 1997-98, the HA has recruited a total of 2 249 resident doctors by contract terms. A breakdown of the yearly intake is set out in the table below.

<i>Year</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
Number	150	296	277	313	305	285	315	308

A total of 58 of these doctors did not have their contracts renewed by the HA (18 in 2003-04 and 40 in 2004-05) due to unsatisfactory training progress and unsuitability for training. In respect of the number of doctors who requested for a transfer from one specialty training programme to another, the HA received a total of 199 applications between 1997-98 and 2004-05. Of these applications, 17 of them were denied, as shown in the table below. The majority of the unsuccessful cases were due to their unsuitability for training in the new specialty as assessed by the receiving specialties.

<i>Year</i>	<i>1997-98</i>	<i>1998-99</i>	<i>1999-2000</i>	<i>2000-01</i>	<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>	<i>Total</i>
Successful	1	14	9	26	43	21	35	33	182
Unsuccessful	0	1	0	1	5	6	3	1	17

- (b) The contract employment terms for doctors have undergone a number of changes since its introduction in 1997-98. These include:

- Replacement of the cash allowance (which is calculated as a percentage of basic salary) by a monthly allowance (which is calculated on the basis of the prevailing civil service staff on cost rates and set as a fixed sum of money not linked to the staff's basic salary) in April 1998. This is to fulfil the recommendation of the Public Accounts Committee in 1996 of introducing a mechanism for regular review and

adjustments of the HA package so as to ensure that the principle of cost comparability is adhered to at all times.

- Lowering of starting salary and introduction of a delinked pay scale in April 2000, following changes adopted for the Civil Service by the Government.
- Introduction of a new pay scale for resident doctors with a lowered maximum salary point in June 2000, as part of the HA's reform measures for its Medical Grade.
- Introduction of fixed pay contracts in June 2002.
- Pay cuts in October 2002, January 2004 and January 2005, following similar cuts by the Civil Service.

This has led to the situation where doctors in the same rank may have different employment terms and remuneration packages. However, it should be appreciated that offering different remuneration packages to the same rank/group of staff joining an organization in different years is an inevitable consequence if the organization is to honour existing contracts with old staff, while continuing to recruit staff at the market rate in a declining economic climate with salaries falling. Such disparity also exists in the Civil Service, and is more commonly found in the private sector.

The HA appreciates the concern of staff over the problem of pay disparity and its effect on morale. While the budgetary situation remains very stringent and the HA must continue to operate within the confines of its contractual obligations, the HA has recently introduced a mechanism to award pay increment to well-performing staff recruited in 2002 with fixed pay contracts. The Government and the HA are also exploring ways of redistributing some of the specialist training responsibilities to the private sector.

- (c) The HA appreciates that apart from pay disparity, contract resident doctors are also concerned about their prospects of continuous employment and training opportunities. On the one hand, it is

widely recognized that contract employment terms encourage performance by linking it with employment opportunity. On the other hand, the HA recognizes that contract employment does not provide long-term job security which could be important for many staff. In order to strike an appropriate balance on the extent of use of contract employment so as to ensure that cohesive, loyal teams of staff are available for delivery of quality service to the public, the HA is considering the establishment of a mechanism for converting some well-performing contract staff to permanent terms of employment.

In respect of training, the Hong Kong Academy of Medicine (HKAM) stipulates that the mandatory training period leading to specialist qualification is six years. To give resident doctors sufficient opportunity to attain their training requirements and sit for the relevant examinations, the HA has been exercising flexibility in extending the contracts of resident doctors beyond seven years, taking into account such factors as the variations in the timing and passing rates of various stages of examinations in different programmes, the performance of the doctors concerned and their potential for further training. In the past few years, the HA has provided all resident doctors who have passed the intermediate examination and been accepted to higher training with the necessary contract period to complete their specialist training. Apart from those trained to become community specialists, the majority of trainees who have acquired specialist qualification will be retained within the HA to meet service needs and facilitate development of expertise.

As for the current system for transfers from one specialty training programme to another, the HA would normally only consider requests made within the first year of the training programme. This serves to strike a balance between giving specialist trainees a reasonable time period to ascertain their career aspiration, while ensuring the efficient and rational use of valuable training resources. Since the current system appears to be working well, there is no plan to make further changes at this stage.

In closing, I would like to point out that it is the HA's objective to provide rewarding, fair and challenging employment to all of its staff, in an environment conducive to attracting, motivating and retaining well qualified staff. Item 10 in Schedule 3 of the Hospital Authority Ordinance (Cap. 113) provides that the Authority shall determine "the remuneration, and the terms and conditions of employment, of its employee." Since taking up the office of the Secretary last October, I have raised the issue of staff morale with the HA on a number occasions. While I understand that there will be no easy solution and fully recognize the initiatives that the HA has already taken in this regard, I am still looking forward to receiving further proposals from the HA for improving its human resources management.

DR KWOK KA-KI (in Cantonese): *Madam President, after listening to the long reply of the Secretary, I am a little disappointed, especially on the solution for the problem of pay disparity of contract staff. I would like to point out the part which the Secretary has not answered, and that is about medical trainees required to receive seven years of training. In part (c) of the main reply, the Secretary said that they would deal with the situation flexibly according to different needs, but that they would not conduct a review on specialty training. I find that they actually do not have a handling mechanism. Anyway, my supplementary has nothing to do with this. In the third paragraph of part (c) of the main reply, the Secretary mentioned that for transfers from one specialty training programme to another, under the current system, medical trainees have to make their applications within the first year of the training programme. In part (a), the Secretary also mentioned that the actual reason for many of the medical trainees to resign or not to have their contracts renewed, was that they only detected some problems after receiving training for one year. I would like to ask the Secretary whether he knows that this system is actually affecting the chance of many young medical trainees for advancement to be doctors in other specialties. Does the Secretary have any measures to change, or will he consider changing, this rather undesirable system?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as I know, there are of course some medical trainees who, while receiving a specialist training, found themselves unsuitable or unable to receive it and so wished to transfer to another specialty. Similarly, from the standpoint of the HA, we do not want to see too many medical trainees applying

to transfer to some other specialties. Even when a young doctor wants to transfer to another training programme, that other specialty also has a choice to choose its doctors. The choice is mutual and is a very normal course of thing. If the officer-in-chief of a specialty really wants to approve of the transfer of a certain medical trainee, this can normally be arranged. Therefore, although the HA has set this guideline, it also depends on how the senior doctors in another specialty assess the medical trainee who indicated his wish to transfer to that specialty, and whether they agree that the latter has the potential. I think that a good mechanism has to be established in this aspect. However, I agree that the issue of whether medical trainees should make a decision of staying or otherwise within the first 12 months of training is worth discussing. In the light of my experience, we do not pay too much attention to such needs. We would rather consider whether the medical trainee concerned is worth training, while the specialty to which he applies for transfer also has to consider its needs for such kind of trainees.

MISS CHAN YUEN-HAN (in Cantonese): *Madam President, in the third last paragraph of part (c) of the main reply to the question of Dr KWOK Ka-ki, the Secretary mentioned that in respect of training, the HKAM stipulated that the mandatory specialist training period was six to seven years. However, in the past, during the period when the Secretary and previous medical trainees received their training, they could continue to work in public hospitals after obtaining the specialist qualification, and could practise in the private sector after accumulating considerable experience. Nonetheless, under the existing system, if the medical trainees could not have their contracts renewed after receiving training, they will have to leave, and private hospitals may not employ them either, particularly when the medical practitioners in surgery employed by general private hospitals must have at least 10 years of experience. Then what can they do? They have already completed their study and the six or seven years of specialist training. They (especially medical practitioners in surgery) are just being stuck midway. What treatment is the entire HA going to give to these personnels who have been trained with so much effort and public money? In view of the problem of resources faced by the HA, that batch of doctors will have to leave the place where originally they could continue their training. On the other hand, private hospitals are reluctant to employ them. Then what can they do? I would like to ask, when confronted with such a situation, how is the entire Government going to assist the specialists concerned, particularly medical practitioners in surgery?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as I know, the HKAM has prescribed that medical trainees have to pass the examination before they can become specialists, and specialists can independently treat the patients under their respective specialties. Under the circumstances, these doctors can work for private hospitals or practise on their own. As to the question of whether they can "survive" or would they have any patients, it, of course, varies from case to case. We all know that doctors are just like other professionals, they can only attract more patients by virtue of accumulated experience.

In this aspect, I know that the HA will handle with flexibility. In case a vacancy for Medical Officer arises and the HA finds a suitable candidate in a certain medical trainee, he will be allowed to stay. Concerning the question why there was a drain on doctors in the past, it was because the public medical system before 1990 was rather outdated. Therefore, many doctors would leave after working for a period of time, and few doctors would be willing to continue their service with public hospitals. A normal drain on doctors was thus created. After the establishment of the HA, since the working environment of doctors has been improved and more support provided, doctors are more willing to continue their service with public hospitals. A drain on more experienced doctors started last year and opened up more chances for the younger specialists to move up the social ladder. Of course, we will continue to monitor the situation and see whether the drain is healthy. If there is a massive exodus of medical doctors, I believe that the HA will have to worry whether it can maintain a definite level of service. Nevertheless, we also see that it is not easy to strike a balance between the two, for very often this is decided by market forces. I believe that the HA, as the major medical service provider in Hong Kong, will of course properly position itself. I think this is an issue that we have to pay attention. However, we cannot offer employment to all qualified specialists simply because of this. In my opinion, no other professions can provide the terms of employment with such strong sense of security as ours. Medical doctors are a profession having more special terms and conditions.

PRESIDENT (in Cantonese): This Council has already spent more than 18 minutes on this question. Last supplementary question now.

MR LEE CHEUK-YAN (in Cantonese): *Madam President, medical doctors are basically the soul of the entire medical service. If at present their morale is low or the drainage rate is high, this will definitely cast a strong impact on the quality of our medical service as a whole. In my opinion, in the whole main reply, the Secretary has failed to face up to a very important question, that is, the low morale of medical doctors is consequent upon their inability to see stability and long-term commitment under the contract system. Therefore, I would like to ask the Secretary whether he will positively — particularly when the Secretary was a graduate of the Medical School of the University of Hong Kong, is not employed under the contract system, but is a brilliant doctor trained under permanent employment terms — assist those junior fellow doctors to fight for the abolition of the contract system and the conversion to a permanent employment system? To professional doctors, the contract system is a very big insult. Administrative Officers are employed on permanent contractual terms, and it seems that the Government only attaches importance to Administrative Officers. Should the Secretary do something for medical doctors as well?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, first of all, I have to state clearly that my present post is Secretary for Health, Welfare and Food. I have to take care of the interests of a variety of professionals, not only those of medical doctors. Of course, just as other professionals, medical doctors receive a lot of training and a lot of social resources are being used on their training. We also hope that medical doctors can become a professional group benefiting the society. In this regard, no matter whether they are medical doctors, social workers or other professionals, I hope likewise that the organizations or institutions that employ them will have desirable structures for management of manpower resources and will provide a system with career prospects, so that the staff know the target that they can strive for. Of course, we cannot permanently employ certain people. If their performance is not satisfactory, I believe that the employers concerned will not allow them to stay. If their performance is satisfactory and their contribution beneficial to society, we should retain them as far as possible, provide them with help and assist them in their development. I think that is our aim. I have had several discussions with the HA in the hope that they would review the existing types of contract terms and discuss with their staff with a view to formulating a more reasonable system.

PRESIDENT (in Cantonese): Last oral question.

Mandatory Building Inspection

6. **DR RAYMOND HO** (in Cantonese): *Madam President, the Government consulted the public last year on building management and maintenance, and the results revealed that the public considered the introduction of mandatory building inspection was a practicable and effective long-term solution for arresting building decay. The authorities are currently working towards a second stage public consultation, focusing on the feasibility of introducing mandatory building inspection. In this connection, will the Government inform this Council:*

- (a) *whether it knows if Singapore or other countries have formulated any policies on mandatory building inspection; if so, of a brief account of the major features of such policies;*
- (b) *when it will launch the second stage public consultation, and how the contents of the mandatory building inspection scheme to be proposed differ from those in the first stage; and whether it will focus on the options on how to require property owners to fulfil their responsibilities for ensuring the safety of their buildings; and*
- (c) *as owners of dilapidated buildings may not be able to have their properties underwritten by insurance companies, how the authorities will assist them in taking out the necessary insurance?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):
Madam President, my reply to the three-part question is as follows:

- (a) According to the information we collected, the Singapore Government requires property owners to engage qualified persons to inspect the structural conditions of their buildings at regular intervals. Non-domestic premises have to be inspected every five years and domestic premises every 10 years. Such inspection comprises two stages. The first stage involves visual inspection. Whether property owners need to carry out the second stage

comprehensive structural inspection depends on the results of the first stage inspection. If only minor defects are found at the first stage, property owners only need to undertake the necessary rectification works. However, if major structural defects are found, the Government may require property owners to conduct the second stage comprehensive structural inspection and to carry out the necessary rectification works. Offenders are liable to a maximum fine of S\$10,000 (about HK\$47,000) and maximum imprisonment for six months.

According to available information, apart from Singapore, other places like the New York City of the United States requires property owners of buildings of more than six storeys to appoint qualified persons to inspect and maintain external walls and appurtenances thereof every five years. The necessary rectification works must also be carried out within the stipulated time limit. Offenders are liable to a maximum fine of US\$1,000 (about HK\$7,800) and maximum imprisonment for six months.

The implementation details of mandatory building inspection schemes vary from place to place according to their different building care culture and socio-economic conditions. In formulating the proposal for the mandatory building inspection scheme, we will make reference to the experience of other places as appropriate, taking into account the circumstances of Hong Kong.

- (b) In order to put in place a long-term solution to the long-standing building neglect problem, we have already carried out the first stage public consultation on building management and maintenance, and released the consultation report in January this year. The results of the consultation indicate that the community generally supports that it is the owners' ultimate responsibility to keep their buildings in good repair. The Government should provide a legal framework for ensuring the proper upkeep of buildings and assistance to the owners in need and carry out enforcement actions. Besides, the public generally supports that mandatory building inspection is an effective measure to ensure property owners to maintain their

buildings properly. The introduction of any mandatory requirements should be well justified, carefully planned and supported by the community. Guided by the public preference, we are therefore in the process of formulating the implementation details of the mandatory building inspection scheme and support measures for the purpose of launching the second stage public consultation towards the end of this year.

The second stage public consultation will cover the implementation details of the proposed mandatory building inspection scheme, including the selection criteria for target buildings, setting of inspection standards and the inspection cycle. Related support measures including establishing an independent arbitration mechanism and providing appropriate assistance to owners in genuine need in discharging their responsibility will also be covered. Subject to a general community consensus on the implementation details and support measures for the mandatory building inspection scheme, we will take forward the follow-up legislative work.

- (c) The Home Affairs Bureau and the Home Affairs Department (HAD) have been, through various means and channels, encouraging owners' corporations (OCs) and property owners to procure third party risks insurance to safeguard owners' interests. The Building Management (Amendment) Ordinance 2000 stipulates that OCs shall procure third party insurance in relation to the common parts of buildings. Through the Hong Kong Federation of Insurers, the HAD has been in active discussion with the insurance industry with a view to formulating the subsidiary legislation specifying the implementation details for third party risks insurance. The implementation details are fairly complicated. Nonetheless, the HAD has already submitted the draft subsidiary legislation, together with the Building Management (Amendment) Bill 2005, to the Legislative Council for scrutiny in April this year.

The HAD has been discussing with the Hong Kong Federation of Insurers to work out the specific terms of building insurance

coverage so as to facilitate the procurement of insurance for buildings which lack proper management and maintenance. The Buildings Department will also consider, on a case-by-case basis, issuing removal orders to assist buildings which have difficulties in procuring third party insurance due to the existence of unauthorized building works. In addition, in order to encourage owners to secure third party risks insurance, the Urban Renewal Authority (URA) and the Hong Kong Housing Society (HS) will provide subsidies in this regard to OCs of buildings that have completed rehabilitation works under their rehabilitation programmes.

DR RAYMOND HO (in Cantonese): *Madam President, in the main reply, the Secretary provided information about the implementation of mandatory building inspection in the New York City of the United States and Singapore as well as the criminal sanction to be imposed on offenders. I would like to ask the Secretary: How much improvement in respect of public safety, public hygiene and even the quality of living environment and building care culture has been made after implementation of mandatory building inspection in these two cities or other places?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): *Madam President, the information provided in part (a) of the main reply is obtained from the Internet and relevant sources. We have only collected details related to the question. The result of the proposal is beyond the scope of information collected on this occasion. If there is a need in future, we will, in response to Members' request, collect information concerning this aspect. Nevertheless, we do not have any information in this aspect at this moment.*

MR FREDERICK FUNG (in Cantonese): *Madam President, the public consultation that the Secretary wishes to launch is inclined to introduce mandatory building inspection and third party risks insurance. However, in many of the older districts in Hong Kong such as Tai Kok Tsui, Hung Hom, Wai Chai, Western District, Tsuen Wan and Sham Shui Po, there are many pre-war or post-war Chinese tenements. These are 50-year-old buildings with three to*

six storeys. The problems just mentioned by the Secretary such as unauthorized building works and hygienic problems do exist. But since these buildings have become dilapidated and the owners, who are old, or may even be unidentifiable, it is impossible to form an OC. Even though maintenance or third party risks insurance is compulsory, there is no OC to carry out the work on behalf of the whole building. During the consultation process, has the Bureau considered how to assist these buildings in solving such technical matters so that an organization which can act on behalf of the whole building can be formed in order to implement the mandatory measures? In fact, the implementation of these measures is already the second step. How can the first step be taken? Is there any proposal or plan in this regard?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):

Madam President, there is a great variety of buildings in Hong Kong. As Mr Frederick FUNG has just said, some of the buildings located at the older districts are also the target buildings of the URA. In my opinion, the radical solution to the problem is urban renewal because these buildings are the best target buildings for urban renewal. Due to the old age and low gross floor areas of these buildings, the profits derived from redevelopment will be greater and the incentive for redevelopment is also greater. So, for these buildings, our consideration will mainly follow this direction. However, if these buildings are not as old as to warrant redevelopment, what should we do? We have also considered this problem. As I have pointed out in the main reply, if the owners encountered difficulties and strong views have been expressed during the first stage public consultation, the Government should consider what assistance to offer to them in this aspect.

As I have also pointed out in the last part of the main reply, we are now working on two programmes in order to deal with such problems. The URA and the HS will provide support service in this aspect. If financial assistance is needed, assistance will be provided under the relevant programmes. But, more importantly, the HS has set up a number of resource centres attempting to offer assistance to buildings which do not have OC such as those mentioned by Mr FUNG. The objective of these resource centres is to help residents form OCs and then provide support service to them. So, we are now having a pilot scheme on this which will be extended to other buildings if it proves effective.

MR ALBERT HO (in Cantonese): *Madam President, in part (c) of the main reply, the Secretary mentioned that the authorities had been discussing with the insurers to help buildings with unauthorized building works and buildings with neglect problem to procure third party insurance. The Secretary even mentioned the rehabilitation programmes under which the owners will be helped to remove unauthorized building works. But, in fact, many buildings are still unable to procure insurance and the risk will be much greater before and during rehabilitation period. The Albert House case may recur any time. I would like to ask the Government whether it would consider providing the service of the ultimate insurer or acting as such to old buildings which cannot procure insurance or has to pay a very high cost for procuring third party risks insurance through the setting up of an organization or making use of the powers of the HS?*

SECRETARY FOR HOME AFFAIRS (in Cantonese): *Madam President, in fact, it is the responsibility of property owners to procure insurance for their buildings, in particular, the common parts of their buildings. So we will do our best to encourage the owners of buildings to form OCs so that they can seek to procure insurance for their buildings. We now understand that many buildings, in the absence of an OC, can discuss with insurers on procuring third party risks insurance if they have formed residents' organizations such as residents' associations or mutual aid committees. The inability of buildings to procure third party risks insurance is mainly because of dilapidation, improper management or the existence of unauthorized buildings works. Nevertheless, the owners can still proceed to discuss with the insurers because the existence of unauthorized buildings works may not necessarily prevent the procurement of third party risks insurance. Rather, it depends on the building's state of maintenance, age and the hazard that the unauthorized buildings works may pose. All these can be discussed with the insurers.*

Regarding buildings for which insurance cannot really be procured, what should we do? We will consider Mr Albert HO's advice and discuss with the HS to see what can be done in future.

MR LEUNG KWOK-HUNG (in Cantonese): *Madam President, I heard the Secretary saying that owners are obliged for the safety of their buildings. It is a good thing to have Secretary Michael SUEN sitting here. When public rental housing (PRH) flats were put on sale, the maintenance of many PRH flats was not well maintained before the flats were handed over to the buyers. Let me cite*

an example. In Tsui Wan Estate, for instance, the concrete and mosaic tiles kept falling off. The size of some particles that fell off is very big and I can show you some next time. The Government, as the owner of the estate, said that it was not responsible for the maintenance when it was requested to do it within the seven-year period after the flats have been handed over to the buyers. Now it requests that OC should be formed to facilitate management. The Government has taken the lead in being irresponsible. May I ask Secretary Michael SUEN or Secretary Dr Patrick HO whether the owners of properties under Secretary Michael SUEN's management will be reprimanded? As the HD or HA is the biggest owner in Hong Kong, Secretary Michael SUEN needs not answer this question. But I would like to ask Secretary Dr Patrick HO: Do you think that a behaviour as such is very bad? Is it the worst example? Should reprimand be awarded?

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, the question we are now discussing is related to a consultation on mandatory building inspection. Can you explain how your supplementary question is related to such a question?

MR LEUNG KWOK-HUNG (in Cantonese): *Yes, it is related because the Government should set a good example. The HA and HD are the biggest property owner in Hong Kong, when the properties under their management are soon to be sold — what I said is based on facts. The Tsui Wan Estate is an example, the concrete particles that fell off are very big — the residents asked the HA to conduct maintenance works, but got the answer that such was not included because this was not a structural problem. The OC cannot ask the HA to conduct maintenance works, but the former was accused of having violated the law. As the Government now encourages the residents to form OCs and the OCs are required to carry out the duties stipulated by law, the Secretary, in such a capacity, should comment on the problem. The Government should set a good example, am I right? If Secretary Dr Patrick HO considers that there will be no problem, people should have known what to do. Since the property owners of Tsui Wan Estate or other owners who have not formed OCs are so worried about maintenance works, they can then refuse to do it because the Government has already taken the lead in being irresponsible. In my opinion, the Secretary should set a good example in this Chamber and give us a fair comment. Of course, he can remain silent if he chooses to do so and I will not press him further.*

PRESIDENT (in Cantonese): I think your question is not related to the main question and cannot be asked.

MR LEUNG KWOK-HUNG (in Cantonese): *Thank you, Madam President.*

PRESIDENT (in Cantonese): We have spent more than 17 minutes on this question. Last supplementary question.

MS AUDREY EU (in Cantonese): *Madam President, this question is related to building decay and building inspections. The Secretary said that the best and ultimate solution to these problems is redevelopment. May I ask the Secretary whether he has considered other options because to carry out inspection when building neglect problem has occurred is not the most effective measure. So, precaution should be taken. In Hong Kong, eight out of 10 residents will have experienced water leakage. May I ask the Secretary whether he will consider providing interdepartmental inspection service so that the source of water leakage can be located immediately on receipt of a complaint and the problem can be resolved without delay? Can this resolve the problem of building neglect?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): Madam President, let me explain why I mentioned the intervention of the URA in my reply to Mr Frederick FUNG's question. It is because he has mentioned some cases in Sham Shui Po. It is under such circumstances that I consider urban renewal to be a better and reasonable solution.

As regards Ms Audrey EU's supplementary question, we have, in fact, noticed this point as well. Just now I have also said that we are considering the details on how to formulate relevant support measures and how to establish an independent arbitration mechanism. We hope that under this topic a proper mechanism could be found to resolve the water leakage problem which has been widely noticed and has apparently not fully resolved by the Government. This problem involves different departments and we have to have an independent mechanism. We hope that in future we can clearly define the mutual responsibilities amongst different departments when problems in this area are

dealt with. Besides, problems can be tackled more easily if different departments can work together with each other. What I can only say is that this is our common concern and I hope we can achieve such an objective in future.

WRITTEN ANSWERS TO QUESTIONS

Construction of Logistics Park on Lantau Island

7. **MR MARTIN LEE** (in Chinese): *Madam President, regarding the plan to construct a logistics park at Siu Ho Wan on Lantau Island, will the Government inform this Council:*

- (a) *whether, before formulating the above plan, it has comprehensively studied the market demand for and the economic benefits of the logistics park, to prove that there is an actual need for an additional logistics park in Hong Kong; if it has, of the study results; if not, the reasons for that;*
- (b) *whether it has examined the feasibility of alternative sites for the logistics park in accordance with the requirements under the technical guidelines for the environmental impact assessment (EIA) issued by the Environmental Protection Department; if it has, of the sites involved, and the reasons for not including them in the scope of the current engineering feasibility study; if not, the reasons for that; and*
- (c) *given that the logistics park will involve large-scale reclamation works, whether the authorities have consulted the public on the reclamation and other issues, such as the demand and possible sites for the logistics park, and so on; if not, the reasons for that?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): *Madam President, the consultancy study to develop a Competitive Strategy and Master Plan for Hong Kong to maintain its position as the preferred international and regional transportation and logistics hub (the Master Plan Study), completed in September 2001, identified the development of logistics parks as one of the key initiatives to maintain and enhance Hong Kong's logistics*

competitiveness. A Bridging Project was then conducted to further define the characteristics, costs and economic benefits of the physical logistics projects recommended in the Master Plan Study. Completed in December 2002, the Bridging Study recommended a number of initiatives with significant benefits to be further pursued, including the development of a logistics park at Siu Ho Wan. The Scoping Study on the Lantau Logistics Park (LLP) completed in August 2004 further confirmed the demand for logistics space in Hong Kong.

The proposed LLP is intended to provide a purpose-built operating environment for the efficient delivery of individually customized and integrated services, which may not be available in traditional industrial buildings or container terminals. It will embrace a full range of logistics services from conventional transportation and freight forwarding activities, to value-added services such as labelling, returns management, pick and pack operations, and so on. It is an important infrastructure to promote service integration, and enable logistics enterprises to enjoy economies of scale. It will enhance the overall competitiveness of Hong Kong's logistics industry, which accounts for over 5% of our Gross Domestic Product and provides about 200 000 jobs for the local labour force.

The proposed LLP site at Siu Ho Wan has the support of the Hong Kong Logistics Development Council as it is strategically located close to the Hong Kong International Airport and Kwai Tsing container terminals. With its proximity to the proposed Hong Kong landing point of the Hong Kong-Zhuhai-Macao Bridge, the LLP will benefit from the opportunities presented by links to the Pearl River Delta Region. This view is consistent with the conclusion of the Bridging Study that the Siu Ho Wan site was more attractive than an alternative site at Kwai Chung-Tsing Yi especially in terms of multi-modal transportation potential.

Through an Expression of Interest (EOI) exercise conducted in December 2004, we invited logistics enterprises to express views on the proposed planning parameters and activities to be undertaken in the LLP. The EOI document was also publicly available online and anyone interested could send in their views. In addition, the LLP project also featured in the Concept Plan for Lantau, for which a three-month public consultation exercise was conducted by the Lantau Development Task Force. We will consider the views received to ensure that the LLP, when developed, will meet the needs of the industry and enhance Hong Kong's logistics competitiveness.

To take forward the LLP project, the Civil Engineering and Development Department has commissioned a detailed feasibility study for the LLP. It covers necessary impact assessment studies to meet the statutory requirements for subsequent reclamation and zoning of the site, including an EIA study. According to the EIA study brief issued by the Director of Environmental Protection under the Environmental Impact Assessment Ordinance in November 2004, the EIA study report will present the reasons for locating the LLP at Siu Ho Wan.

Similar to other major infrastructure developments in Hong Kong, the LLP project will follow all the relevant statutory procedures. The public will be consulted again in accordance with these procedures.

Rent Level of Public Rental Housing Estates

8. **MR LEUNG KWOK-HUNG** (in Chinese): *Madam President, regarding the rent level of public rental housing (PRH) estates under the Housing Authority (HA), will the Government inform this Council of:*

- (a) the quarterly median rent-to-income ratios (QMRIRs) for all PRH households in Hong Kong since the third quarter of 2003 and, by grouping these households according to housing estate and household size, the QMRIRs for each group for the same period;*
- (b) the average quarterly rents paid by PRH tenants in each administrative district since the third quarter of 2003, and how such figures compare with those paid by private housing tenants with comparable incomes in the same respective districts; and*
- (c) the timing for the HA to issue a consultation paper on the review of its public housing rent policy?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):
Madam President, my reply to the three parts of the question is as follows:

- (a) The calculation of median rent-to-income ratio (MRIR) of PRH households is based on the income and rental data collected from the

General Household Survey (GHS) conducted by the Census and Statistics Department (C&SD). The GHS is a sample survey conducted on a continuous basis. It covers about 24 000 households, of which 7 000 live in PRH. The rent-to-income ratios (RIRs) of individual households are first calculated. The RIRs are then placed in an ordered sequence (either in an ascending order or descending order). The middle RIR is the MRIR.

There are altogether 187 PRH estates. The number of households in individual estates sampled in each round of the GHS is very small. The HA therefore has not made any assessment of the MRIRs of tenants in individual estates which are not statistically reliable.

Quarterly figures on the MRIRs of PRH households by household size since the third quarter of 2003 are set out below:

MRIRs of PRH by Households Size (%)

<i>Year</i>	<i>Qtr</i>	<i>1P</i>	<i>2P</i>	<i>3P</i>	<i>4P</i>	<i>5P+</i>	<i>Overall</i>
2003	3rd	20.2	15.8	12.0	10.5	10.3	12.8
	4th	22.3	17.3	12.8	11.4	11.1	14.2
2004	1st	22.3	18.1	12.8	12.0	11.4	14.5
	2nd	22.4	17.7	12.4	11.9	11.8	14.4
	3rd	22.6	18.3	12.5	11.9	11.9	14.7
	4th	23.0	17.8	13.2	11.6	11.8	14.7

Note:

1. Data Source: GHS conducted by C&SD.
2. The lower MRIR in the third quarter of 2003 was mainly due to the Government's rates concession.
3. Figures for the first quarter of 2005 are not yet available.

When reading the above figures, it should be noted that on average some 20% of the PRH households in 2003 and 2004 were Comprehensive Social Security Assistance (CSSA) recipients. In particular, some 51% and 25% of 1-person and 2-person households respectively were in receipt of CSSA. While the RIRs of CSSA households are in general higher than other non-CSSA households,

their rents are fully covered by the CSSA allowance in great majority of the cases.

- (b) The average rentals paid by PRH households in each district since the third quarter of 2003 are shown at Annex A.

On private sector flats, rental statistics are compiled by the Rating and Valuation Department (RVD) and published in the Hong Kong Property Review Monthly Supplement. RVD collects the data on a regional basis, that is, Hong Kong Island, Kowloon and the New Territories. Further breakdown by districts or according to the income levels of individual tenants are not available.

To facilitate comparison between private sector and PRH rents, we have made reference to the average private sector rentals of flats with saleable area less than 40 sq m, which are about the size of PRH flats. The table at Annex B sets out the average private sector and PRH rentals by region since the third quarter of 2003.

- (c) The work of the HA's Ad Hoc Committee on Review of Domestic Rent Policy was temporarily intervened by the judicial review cases concerning the HA's decisions to defer reviewing the rents of its PRH estates in 2002. The Ad Hoc Committee has now concluded its initial deliberations. Our tentative plan is to consult the public on the preliminary findings of the Ad Hoc Committee following conclusion of the Court of Final Appeal's hearing on the judicial review cases on PRH rents scheduled for October 2005.

Annex A

Average Monthly Rental Paid by PRH Households

	<i>Average Monthly Rental Paid by PRH Household (\$)</i>					
	<i>2003 3rd Quarter</i>	<i>2003 4th Quarter</i>	<i>2004 1st Quarter</i>	<i>2004 2nd Quarter</i>	<i>2004 3rd Quarter</i>	<i>2004 4th Quarter</i>
Central and Western	1,430	1,600	1,610	1,610	1,620	1,620
Wan Chai	-	-	-	-	-	-
Eastern	1,460	1,640	1,650	1,650	1,640	1,640
Southern	1,260	1,410	1,430	1,430	1,430	1,430
Sham Shui Po	1,350	1,510	1,520	1,530	1,540	1,550

	<i>Average Monthly Rental Paid by PRH Household (\$)</i>					
	<i>2003 3rd Quarter</i>	<i>2003 4th Quarter</i>	<i>2004 1st Quarter</i>	<i>2004 2nd Quarter</i>	<i>2004 3rd Quarter</i>	<i>2004 4th Quarter</i>
Kowloon City	1,610	1,810	1,820	1,810	1,800	1,800
Wong Tai Sin	1,460	1,640	1,640	1,640	1,640	1,640
Kwun Tong	1,410	1,590	1,610	1,610	1,620	1,630
Yau Tsim Mong	1,800	2,020	2,020	2,030	2,030	2,030
Kwai Tsing	1,400	1,590	1,600	1,590	1,590	1,590
Tsuen Wan	1,320	1,470	1,490	1,480	1,470	1,470
Tuen Mun	940	1,050	1,060	1,050	1,050	1,040
Yuen Long	1,220	1,380	1,380	1,380	1,370	1,370
North	1,030	1,160	1,170	1,170	1,160	1,150
Tai Po	1,060	1,190	1,200	1,200	1,200	1,200
Sha Tin	1,220	1,370	1,380	1,370	1,370	1,370
Sai Kung	1,350	1,550	1,560	1,560	1,560	1,560
Islands	1,560	1,750	1,760	1,790	1,790	1,790
Overall	1,310	1,480	1,490	1,490	1,490	1,490

Note:

- The lower average rents paid by PRH households in the third quarter of 2003 was mainly due to the Government's rates concession.
- There is no PRH flat in Wan Chai District.
- For rent setting purpose, the HA divides the territory into six geographic districts which do not resemble the above 18 districts. The six geographic districts are :
(i) urban; (ii) Sha Tin/Tsuen Wan/Tsing Yi/Kwai Chung; (iii) Tai Po/Tseung Kwan O/Ma On Shan; (iv) Fan Ling/Sheung Shui/Tung Chung; (v) Tin Shui Wai/Yuen Long/Tuen Mun; and (vi) Islands.
- Apart from location, average rentals are also affected by the quality of PRH estates in the concerned districts. New estates with better facilities and a more generous space allocation standard usually come with higher rentals. Therefore, districts with higher concentration of newly developed PRH estates tend to have higher average rents.
- Figures for the first quarter of 2005 are not yet available.

Annex B

Average Rentals for Private Sector and PRH Flats

2003

	<i>3rd Quarter</i>		<i>4th Quarter</i>	
	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>
Hong Kong Island	36.0	155.0	40.5	155.0

	<i>3rd Quarter</i>		<i>4th Quarter</i>	
	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>
Kowloon	38.4	121.0	43.2	128.0
New Territories	31.9	89.0	36.0	95.0
Overall	34.6	125.0	39.0	131.0

2004

	<i>1st Quarter</i>		<i>2nd Quarter</i>		<i>3rd Quarter</i>		<i>4th Quarter</i>	
	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>	<i>PRH Flats Average Rental (\$/saleable area, sq m)</i>	<i>Private Sector Flats Average Rental (\$/saleable area, sq m)</i>
Hong Kong Island	40.7	166.0	40.6	166.0	40.7	171.0	40.6	165.0
Kowloon	43.4	125.0	43.4	125.0	43.5	124.0	43.6	128.0
New Territories	36.3	99.0	36.2	99.0	36.2	99.0	36.2	101.0
Overall	39.2	141.0	39.2	135.0	39.2	137.0	39.2	136.0

Note :

1. The lower average rents for PRH flats in the third quarter of 2003 was mainly due to the Government's rates concession.
2. Size of PRH flats is usually measured by internal floor area, as opposed to saleable area which is commonly adopted in private sector. To facilitate comparison, the floor area of PRH flats has been converted from internal floor area to saleable area. The converting factor is 1.15. (That is, saleable area = internal floor area x 1.15).
3. Average rentals for private sector flats are compiled using the RVD's data on freshly let private properties with saleable area less than 40 sq m, while the figures for PRH flats are compiled based on the rents paid by all PRH households.
4. Figures for the first quarter of 2005 are not yet available.

Support for Children with Dyslexia

9. MR CHEUNG MAN-KWONG (in Chinese): *Madam President, will the Government inform this Council of the following over the past three years:*

- (a) *the number of dyslexia cases and referrals handled by the Education and Manpower Bureau (the Bureau) and the Department of Health (DH) each year and, among them, the respective numbers of cases involving children who have difficulties in motor co-ordination or other co-ordination difficulties and who are assessed to be gifted children;*
- (b) *whether the authorities set age limits for clients receiving assessment and support services tailor-made for students with dyslexia and difficulties in motor co-ordination (including counselling, treatment and child assessment services, and so on); if so, of the reasons for that, and how they dealt with over-aged students requiring the services; if not, whether all students assessed to be in need of the services were provided with such services; and*
- (c) *the annual numbers of cases of suspension of schooling or truancy of students with dyslexia?*

SECRETARY FOR EDUCATION AND MANPOWER (in Chinese): Madam President,

- (a) Over the past three years, the number of cases with specific learning difficulties (SpLD) in reading and writing handled by the Bureau is 2 850. The breakdown of these cases by school year is as follows:

<i>2001-02</i>	<i>2002-03</i>	<i>2003-04</i>
948	980	922

Of these cases, 26 students, that is, 0.9% were assessed to have Very Superior Intelligence (that is, with an Intelligence Quotient of 130 or above).

Over the past three years, the number of new cases of SpLD seen by the DH's Child Assessment Service and Student Health Service is 1 939. The yearly breakdown of these cases is as follows:

<i>2002</i>	<i>2003</i>	<i>2004</i>
518	707	714

According to the DH's data, it is estimated that around 35% of these cases have motor co-ordination difficulties at the same time and 1% has Very Superior Intelligence (that is, with an Intelligence Quotient of 130 or above).

- (b) The Bureau provides assessment and support services for all students at primary and secondary levels in the public school sector. The Child Assessment Service of the DH accepts referrals from doctors for children under 12 years of age with suspected developmental problems. If such cases are identified to have SpLD, they will be referred to the relevant service providers for follow-up.
- (c) Over the past three years, the number of non-attendance cases with SpLD in reading and writing is as follows:

<i>School Year</i>	<i>No of cases</i>	<i>Follow-up</i>
2001-02	0	
2002-03	4	Resumed school after intervention
2003-04	2	Resumed school after intervention

Progress of Modification Works at Tuen Mun Cross-boundary Ferry Terminal

10. **MR ALBERT HO** (in Chinese): *Madam President, in reply to a Member's question at the Council meeting on 20 October last year, the Government pointed out that the tenant of the Tuen Mun cross-boundary ferry terminal had indicated that it would expedite the pier modification works and launch the ferry services to Macao as soon as possible. Moreover, in reply to a Member's question on 27 April this year, the Government further pointed out that it would try to facilitate the tenant's work with a view to enabling the early commissioning of the cross-boundary ferry terminal. In this connection, will the Government inform this Council whether:*

- (a) *the above pier modification works have commenced; if so, of the estimated completion date; if not, the reasons for that and the estimated commencement date; and*

- (b) *it has estimated the commissioning date of the Tuen Mun cross-boundary ferry terminal; if so, of the commissioning date, and how it ensures that there will not be a delay; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): Madam President, the Hong Kong North West Express Limited, the tenant of the Tuen Mun cross-boundary ferry terminal, had carried out part of the demolition works in September 2004. Subsequently, there were some changes to the company's shareholding and management structure, and the modification works have not yet resumed. According to the project programme recently provided by the tenant, the works will resume shortly and the tenant expects that they will be completed in the first quarter of 2006. Separately, the tenant has also indicated to us that it is currently discussing with vessel suppliers issues related to the procurement of vessels.

We have been maintaining close liaison with the tenant, and meetings are held regularly to enable us to keep in view the progress of the modification works and other preparation works. We will continue to facilitate the tenant's work as far as possible with a view to enabling the early commissioning of the cross-boundary ferry terminal.

Industrial Safety at Container Yards

11. **MR KWONG CHI-KIN** (in Chinese): *Madam President, two accidents caused by strong gales toppling empty containers occurred on the 9th of last month, resulting in casualties. Regarding industrial safety at yards for loading, unloading and storage of containers (container yards), will the Government inform this Council:*

- (a) *how it supervises the responsible persons of container yards to have the storage, stacking and unstacking of containers carried out in accordance with the safety requirements laid down by the Government; whether the Labour Department (LD) conducts regular inspections at container yards; if so, of the details of the inspections;*

- (b) of the numbers of cases in which the LD detected breaches of the safety requirements each year since 2000, the locations of the container yards concerned, the safety requirements breached, and the numbers of persons injured as a result of the breaches;*
- (c) of the penalties imposed on the persons responsible for container yards for breaching the safety requirements; if no penalties were imposed, of the reasons;*
- (d) whether the Government will consider requiring persons responsible for container yards to take special safety measures during rainstorms and typhoons, and whether the Hong Kong Observatory will consider announcing the maximum wind speeds in various areas during inclement weather, to assist persons responsible for container yards to take contingency measures; if not, of the reasons; and*
- (e) whether the Government will formulate more stringent safety requirements on handling containers, such as requiring persons responsible for container yards or the government authorities to arrange for designated persons to observe changes in the weather at the container yards, setting up a warning system against strong winds, and stipulating a height limit on the container stacks, to prevent recurrence of such accidents; if not, of the reasons?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President,

- (a) The safe storage and stacking of containers in container yards are mainly regulated by the Factories and Industrial Undertakings (Cargo and Container Handling) Regulations (the Regulations) and the Factories and Industrial Undertakings Ordinance (the Ordinance) administered by the LD.

Under the Regulations, the proprietor of a container yard shall ensure that the storage and stacking of containers are done in a safe and secure manner. The Ordinance requires every employer to ensure, so far as is reasonably practicable, the safety and health of

his employees at work, by providing and maintaining a safe system of work. To provide practical guidance to proprietors of container yards on compliance with the requirements of the Regulations and the Ordinance, the LD has published a "Code of Practice on Mechanical Handling Safety in Container Yards".

Occupational Safety Officers of the LD conduct regular inspections to container yards to ensure compliance with the work safety provisions. On average, container yards are inspected once every six to 12 months. In addition, the LD also launches special enforcement exercises, targeting at high-risk operations and equipment in container yards.

- (b) Between January 2000 and May 2005, Occupational Safety Officers of the LD made 1 963 inspections to container yards. Arising from these inspections, 471 warning letters were issued requiring the proprietors to rectify the irregularities found in their yards (see Table 1). Most of the yards are located in Kwai Chung, Tsing Yi, Tuen Mun and Yuen Long. The common unsafe conditions are: unsatisfactory traffic and pedestrian control; unsafe use of mechanical equipment; and working at height.

Table 1

<i>Year</i>	<i>No. of inspections made</i>	<i>Number of warnings issued</i>
2000	261	80
2001	235	67
2002	319	38
2003	299	63
2004	513	95
January to May 2005	336	128

Between 2000 and 2004, altogether 420 industrial accidents occurred in container yards (see Table 2). These accidents were mainly due to falling from height, slip or trip on the same level and striking against objects. None of these accidents was related to the fall of containers under high wind conditions.

Table 2

<i>Year</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>
No. of accidents	103	92	63	84	78

- (c) Between January 2000 and May 2005, arising from inspections and accident investigations, the LD took out 36 prosecutions against the proprietors of container yards for failing to comply with safety provisions. These provisions carry a maximum penalty of a fine of \$500,000 and imprisonment for six months. The LD will continue to take enforcement action to secure the safety and health of persons at work in container yards.
- (d) The Code of Practice on Mechanical Handling Safety in Container Yards has already set out the safety precautions that should be adopted to ensure the safety of persons at work in container yards during high wind conditions. These safety precautions include:
- (i) special consideration should be given to the high wind condition and the wind-induced funnel effect which may lead to the sliding or toppling of containers;
 - (ii) in order to reduce the wind effect on containers, factors such as limiting the stacking height; block stowage; stacking on ground with sound condition; block stowage with loaded containers in the uppermost tier; and use of stacking fittings or lashings (in particular the exposed rows), should be taken into consideration;
 - (iii) containers should be stacked so that the longitudinal axis is in line with the predominant wind direction. In the case of a storm or typhoon warning, the containers at the corners of the block should be secured;
 - (iv) no person should be permitted to enter or remain in a container stacking area if there is a reason to anticipate container movement due to wind; and

- (v) containers should be lashed in strong winds and container lifting operations should be suspended in adverse weather conditions.

Failure to observe any guidance contained in the Code may be taken by a court in criminal proceedings as a relevant factor in determining whether a person has breached any of the safety provisions to which the guidance relates.

The Hong Kong Observatory currently provides the average wind speed and direction measured at 18 local automated weather stations through its website and "dial-a-weather system".

- (e) In the light of the two accidents on 9 May 2005, the LD is exploring with the industry possible ways of preventing the recurrence of similar incidents. These include enhancing the existing inclement weather alert system for container yards and providing training on weather observation for safety officers and safety supervisors working in container yards. The LD and the Hong Kong Observatory will organize safety seminars to brief the industry on how to watch out for bad weather and the safety precautions that should be taken under such circumstances.

Resumption of Scheduled Land Auctions

12. **MR CHEUNG HOK-MING** (in Chinese): *Madam President, it has been reported that, as revealed by its Chairman on the 11th of last month, the Government had consulted the Real Estate Developers Association of Hong Kong on resuming scheduled land auctions. In this connection, will the Government inform this Council whether:*

- (a) *it plans to resume scheduled land auctions in the near future; if so, of the reasons for that and the details of the plan (including the number of land auctions to be held each year, as well as the proposed number of sites to be put up for auction and their sizes); if not, the reasons for that; and*

- (b) *it will consult this Council and the public before deciding whether scheduled land auctions should resume?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese): Madam President, first of all, I would like to reiterate that the Government had not consulted the Real Estate Developers Association of Hong Kong on resuming scheduled land auctions. My reply to the two-part question is as follows:

- (a) On 13 November 2002, the Government announced a package of measures to stabilize the property market, which included stopping scheduled land auctions. Since January 2004, the sale of government land has mainly been triggered from the Application List System. Recently, some stakeholders in the real estate sector requested the Government to resume scheduled land auctions to complement the Application List System. However, others were of the view that the current Application List System, which had been working well, should not be changed at the moment, and believed that it should suffice for the Government to consider exercising certain flexibility in accepting the trigger price, so as to make it easier for the sites on the Application List to be successfully triggered. In considering these views, the Government should at the same time ensure the clarity and predictability of policy, so as not to confuse the market by giving the impression that policies could be changed easily, which will not be in the interest of the stable and orderly operation of the market.
- (b) We will keep a close watch on the trend and development of the market and listen to the views of all concerned, including those of the Legislative Council and members of the public, so that our mechanism is appropriate to the circumstances of the time.

Lack of Repairs to Fire Service Installations in Public Housing Estates

13. **DR JOSEPH LEE** (in Chinese): *Madam President, it has been reported that the problem of lack of repairs to fire service installations in public housing estates is serious. In this connection, will the Government inform this Council:*

- (a) *of the number of complaints received by the authorities over the past five years about the lack of repairs or malfunctioning of the fire service installations in public housing estates;*
- (b) *of the quantity of each type of fire service installations in public housing estates replaced by the authorities in each of the past five years, and the tests carried out in the same period on the design, performance and safety of fire service installations, as well as the test results; and*
- (c) *whether it has assessed the environmental factors which may affect the stability of the fire service installations in public housing estates, and of the measures to ensure the stability and reliability of such fire service installations?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Chinese):

Madam President, in view of relatively high population density of public housing estates, ensuring the proper functioning of fire service installations and enhancing residents' awareness to fire safety are the priorities of the Housing Department (HD)'s estate management work. Estate management staff inspect all estate facilities, including fire service installations, during their daily patrol. In addition, they also conduct detailed inspections on each and every fire service installation every week and arrange immediate repairs for any damaged items or parts to ensure that the installations are in good functional order at all times.

The Fire Services Ordinance (Cap. 95) mandates that all fire service installations in buildings in Hong Kong should be inspected, tested and maintained by registered contractors once every 12 months. On top of this statutory requirement, the HD arranges an additional inspection for fire hydrants, hose reels and alarm systems in public housing estates every year to enhance their reliability and stability.

My reply to the three-part question is as follows:

- (a) Most of the damage to fire service installations is spotted by estate management staff during their daily patrol while some are reported

by tenants. The number of damage records in the past five years is as follows:

<i>Year</i>	<i>Number of damage reports</i>	<i>Number of damage cases identified by estate management staff during patrol</i>
2001	224	1 503
2002	246	1 622
2003	318	2 090
2004	297	2 272
2005 ^{Note}	122	840

Note: As at end of April

- (b) The HD arranges annual inspections, testing and maintenance for all fire service installations in public housing estates in accordance with the requirements and procedures under the "Code of Practice for Inspection, Testing and Maintenance of Fire Service Installations and Equipment". All the installations are certified to be in good functional order by registered contractors. As regards replacement of fire service installations, the HD upgraded 85 sets of fire detection systems in Housing for Senior Citizens and Small Household blocks in the past five years. All the fire hydrants and hose reel systems are in good working order and hence there is no need to replace them. However, parts of fire service installations are damaged from time to time due to wear-and-tear or vandalism and need to be replaced. The number of replacements in the past five years is at the Annex.
- (c) With regular professional inspection and certification, fire service installations in public housing estates are generally stable and reliable. Where environmental factors such as high humidity have led to malfunctioning, individual assessments of the installations concerned are conducted. As mentioned above, the HD has upgraded all fire detection systems in Housing for Senior Citizens and Small Household blocks. On the other hand, as fire service installations are sometimes vandalized, front-line staff inspect the installations carefully during their daily patrol and weekly

inspections and will arrange repairs promptly if any damage is spotted.

In addition to regular inspection and maintenance of fire service installations in public housing estates, the HD also enhances residents' awareness of fire safety and understanding of fire safety equipment through various activities.

Annex

Replacement of worn or damaged parts of fire service installations in public housing estates in the past five years

Year	Damaged nozzles	Replacement or maintenance of fire hose cabinet, cabinet glass and gate valve
2001	1 497	230
2002	1 581	287
2003	1 980	428
2004	2 103	466
2005 ^{Note}	835	127

Note: As at end of April

Fuel Surcharges by Public Utilities

14. **MR HOWARD YOUNG** (in Chinese): *Madam President, will the Government inform this Council:*

- (a) *how public utilities such as power and gas companies currently formulate the mechanisms for setting fuel surcharges, and whether they follow a set of criteria or indicators in calculating such surcharges;*
- (b) *of the respective adjustments of fuel surcharges by various public utilities over the past five years, and how the authorities monitor*

such adjustments in order to ensure that the increment rates are reasonable; and

- (c) *whether it will consider enhancing the transparency of the existing fee-setting mechanisms of various public utilities, as well as reviewing and improving the mechanisms concerned, so as to keep the operation of the mechanisms in line with fair and reasonable principles?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): Madam President,

- (a) Among the public utilities, electricity and town gas supplies include fuel cost adjustment, the mechanisms for which are stipulated in the relevant agreement signed between the Government and the respective supplier company.

Pursuant to the Scheme of Control Agreements (SCAs) signed between the Government and the CLP Power Hong Kong Limited (CLP) and the Hongkong Electric Company Limited (HEC), fuel cost is borne by consumers and the Basic Tariff includes a standard fuel cost. Through the Fuel Clause Account mechanism, the difference between the standard and the actual fuel costs is returned to or recovered from the consumers each year by means of a Rebate or a Surcharge.

The Information and Consultation Agreement with the Hong Kong and China Gas Company Limited (HKCG) also adopts an arrangement whereby fuel cost is borne by consumers a standard fuel cost is included in the tariff and Fuel Cost Variation is determined each month, based on the difference between the standard and the actual fuel costs. Fuel Cost Variations are returned to or recovered from the consumers by means of a Rebate or a Surcharge in the immediate following month.

Thus, the fuel cost adjustment mechanisms ensure that fuel cost is borne by consumers and there should be no profit or loss to the companies with regard to the use of fuel.

- (b) Adjustments in fuel cost surcharges by the two power companies and the HKCG in the past five years, from 2000 to 2004, are set out in the Annex.

Pursuant to the SCA, the two power companies will, towards the end of each year, put forward tariff proposals, which include, *inter alia*, the proposed fuel cost adjustments, for the coming year. In deciding on the Fuel Clause Rebate or Surcharge, we take into account various factors, including the fuel cost differential, the balance in the Fuel Clause Account as well as the need to stabilize tariff.

In the case of town gas, we monitor and review the Fuel Cost Variation Charge/Rebate by the HKCG against trend movements in the import prices of naphtha to ensure that the adjustments are in line with the latter.

- (c) We have always encouraged the power and the gas companies to enhance transparency with regard to their tariff, including fuel charge variations. The two power companies as well as the HKCG have since included details of the fuel cost adjustment mechanism in their websites and the tariff pamphlets distributed at their customer service centres; and separately itemized the fuel cost surcharge/rebate in their bills to customers.

Annex

Fuel Cost Surcharges

A. Electricity

	<i>Fuel Clause Charge (cents/kWh)</i>									
	<i>2000</i>		<i>2001</i>		<i>2002</i>		<i>2003</i>		<i>2004</i>	
	Change		Change	Change		Change		Change		Change
CLP	2.2	-	2.2	-	1.9	-0.3	1.9	-	(0.3)	-2.2
HEC	(15.2)	-6.7	(9.3)	+ 5.9	(7.1)	+ 2.2	(6.1)	+ 1.0	(4.1)*	+ 2.0

Note: (i) Figures in () denotes rebate

(ii) * Rate applied with effect from 1 April 2004. The rebate was 6.1 cents/kWh between 1 January to 31 March 2004

B. Town Gas

	<i>Fuel Cost Variation Charge (cents//MJ)</i>									
	<i>2000</i>		<i>2001</i>		<i>2002</i>		<i>2003</i>		<i>2004</i>	
	Change		Change	Change		Change		Change		Change
January	(0.06) + 0.06	0.56	-0.50	(1.51)	-0.23	0.00*	+ 0.06	1.58	+ 0.66	
February	(0.10) -0.04	0.11	-0.45	(1.52)	-0.01	0.80	+ 0.80	2.26	+ 0.68	
March	0.08 + 0.18	0.03	-0.08	(1.18)	+ 0.34	2.46	+ 1.66	2.20	-0.06	
April	0.31 + 0.23	0.02	-0.01	(0.87)	+ 0.31	1.68	-0.78	2.16	-0.04	
May	0.30 -0.01	0.03	+ 0.01	(0.09)	+ 0.78	0.96	-0.72	1.92	-0.24	
June	0.15 -0.15	0.04	+ 0.01	0.08	+ 0.17	(0.13)	-1.09	1.98	+ 0.06	
July	0.05 -0.10	0.13	+ 0.09	(0.10)	-0.18	(0.60)	-0.47	1.94	-0.04	
August	0.26 + 0.21	0.15	+ 0.02	(0.28)	-0.18	(0.21)	+ 0.39	2.08	+ 0.14	
September	0.32 + 0.06	0.02	-0.13	(0.34)	-0.06	0.09	+ 0.30	2.52	+ 0.44	
October	0.93 + 0.61	(0.09)	-0.11	(0.08)	+ 0.26	0.48	+ 0.39	3.10	+ 0.58	
November	1.22 + 0.29	(0.68)	-0.59	0.00*	+ 0.08	0.69	+ 0.21	3.48	+ 0.38	
December	1.06 -0.16	(1.28)	-0.60	(0.06)	-0.06	0.92	+ 0.23	3.71	+ 0.23	

Note: (i) Figures in () denotes rebate

(ii) * Months where actual fuel costs were equal to standard fuel costs, hence no surcharge nor rebate.

Disability Allowance

15. **DR FERNANDO CHEUNG** (in Chinese): *Madam President, at present, persons certified to be severely disabled by the Director of Health or the Chief Executive of the Hospital Authority (HA) are entitled to the Normal Disability Allowance (DA). If they are found to be in need of constant attention from others, they will be entitled to the Higher DA. In this connection, will the Government inform this Council:*

- (a) *of the respective numbers of recipients of the Normal DA and Higher DA at present, together with a breakdown of the figures and their percentages by types of disability; and*
- (b) *whether doctors of public hospitals and the Department of Health (DH) have been issued guidelines on assessing whether an applicant for DA is severely disabled; if so, of the details of the guidelines; if not, the criteria based on which assessments are made and how the Administration ensures that the assessments by doctors are objective and fair?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President, a person is eligible for DA if he/she is considered to be "severely disabled" within the meaning of the Social Security Allowance Scheme, which requires the applicant to be certified by a medical practitioner of the DH or the HA as being in a position broadly equivalent to a person with a 100% loss of earning capacity. To qualify for Higher DA, a severely disabled person must be in need of constant attendance from others in his/her daily life but is not receiving such care in a government or subvented institution or a medical institution under the HA. My answers to the specific sub-questions are as follows:

- (a) As at the end of April 2005, 95 901 and 14 297 persons were receiving Normal DA and Higher DA respectively. The tables below show the number of recipients and the respective percentage by types of disability.

The number and respective percentage of recipients of Normal DA by types of disability

<i>Type of Disability</i>	<i>Normal DA</i>	
	<i>Number of recipients</i>	<i>Percentage (%)</i>
Disabling physical condition		
loss of functions of two limbs	3 825	4.0%
loss of functions of both hands, or all fingers and both thumbs	255	0.3%
loss of functions of both feet	447	0.5%
total loss of sight	4 966	5.2%
total paralysis (quadriplegia)	232	0.2%
paraplegia	514	0.5%
illness, injury or deformity resulting in being bedridden	841	0.9%
any other conditions resulting in total disablement	49 478	51.6%
Subtotal	60 558	63.1%
Disabling mental condition		
organic brain syndrome	1 642	1.7%
mental retardation	9 421	9.8%
psychosis	11 424	11.9%
neurosis	5 217	5.4%

<i>Type of Disability</i>	<i>Normal DA</i>	
	<i>Number of recipients</i>	<i>Percentage (%)</i>
personality disorder	262	0.3%
any other conditions resulting in total mental disablement	3 084	3.2%
Subtotal	31 050	32.4%
Profoundly deaf	4 293	4.5%
Total	95 901	100.0%

The number and respective percentage of recipients of Higher DA by types of disability

<i>Type of Disability</i>	<i>Higher DA</i>	
	<i>Number of recipients</i>	<i>Percentage (%)</i>
Disabling physical condition		
loss of functions of two limbs	1 350	9.4%
loss of functions of both hands, or all fingers and both thumbs	38	0.3%
loss of functions of both feet	164	1.1%
total loss of sight	96	0.7%
total paralysis (quadriplegia)	206	1.4%
paraplegia	378	2.6%
illness, injury or deformity resulting in being bedridden	422	3.0%
any other conditions resulting in total disablement	9 238	64.6%
Subtotal	11 892	83.2%
Disabling mental condition		
organic brain syndrome	811	5.7%
mental retardation	767	5.4%
psychosis	132	0.9%
neurosis	67	0.5%
personality disorder	31	0.2%
any other conditions resulting in total mental disablement	596	4.2%
Subtotal	2 404	16.8%
Profoundly deaf	1	*
Total	14 297	100.0%

Note: * less than 0.05%

(b) A medical practitioner will make reference to the following criteria when assessing an applicant's eligibility for DA:

A. Disabling physical condition or blind

According to the criteria in the First Schedule of the Employees' Compensation Ordinance (Cap. 282), definition of disabling physical condition or blind covers:

- (1) loss of functions of two limbs;
- (2) loss of functions of both hands, or all fingers and both thumbs;
- (3) loss of functions of both feet;
- (4) total loss of sight;
- (5) total paralysis (quadriplegia);
- (6) paraplegia;
- (7) illness, injury or deformity resulting in being bedridden; and
- (8) any other conditions resulting in total disablement.

B. Disabling mental condition, including:

- (1) organic brain syndrome;
- (2) mental retardation;
- (3) psychosis;
- (4) neurosis;
- (5) personality disorder; and
- (6) any other conditions resulting in total mental disablement.

C. Profoundly deaf

It means that a person suffers from a perceptive or mixed deafness with a hearing loss of 85 decibels or more in the better ear for pure tone frequencies of 500, 1 000 and 2 000 cycles per second, or 75 to 85 decibels with other physical handicaps such as lack of speech and distortion of hearing.

Eligibility to DA is assessed according to the degree of disability of the patients. Patients of any disease who are in a position broadly equivalent to a 100% loss of earning capacity will be eligible for DA. Examples are: erythematosus, epilepsy, stroke, kidney disease, diabetes, carcinoma or any multi-illnesses. To ensure medical practitioners make the medical assessment in an objective manner, the Social Welfare Department has adopted a "Medical Assessment Form" which sets out the above criteria for assessing severe disability. In order to standardize the assessment, a checklist for assessing disability formulated by the HA and the DH is also attached to the "Medical Assessment Form" for their reference. Medical practitioners will assess the degree of disability of applicants in accordance with the established criteria and guidelines as well as their professional knowledge and judgement. Applicants may appeal to the independent Social Security Appeal Board if they are not satisfied with the final decision on their application.

Measures to Relieve Traffic Congestion Along Queen's Road Central

16. **MR ABRAHAM SHEK** (in Chinese): *Madam President, while Queen's Road Central is a busy road with traffic congestion during commuting hours, the neighbouring Des Voeux Road Central is only open to exempted vehicles such as buses and trams, thus aggravating the traffic congestion along Queen's Road Central. Regarding measures to relieve the traffic congestion along Queen's Road Central, will the Government inform this Council whether:*

- (a) *it will consider relaxing the existing traffic control measures implemented for Des Voeux Road Central on a limited basis, such as by providing drop-off points for taxis and light buses along designated sections of Des Voeux Road Central during specified hours; if so, of the details of the specific measures; if not, the reasons for that; and*
- (b) *it has formulated any interim or long-term measures to ease the traffic congestion along Queen's Road Central; if so, of the details; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): Madam President, Des Voeux Road Central is a major public transport corridor. At certain sections of the road, apart from the tram lane, there is only one lane to accommodate around 180 to 250 bus trips per hour with boarding and alighting activities. If Des Voeux Road Central is open to other traffic, there will be a substantial increase in its traffic load resulting in traffic congestion. We therefore do not have plans to relax the existing traffic control measures.

To improve the traffic conditions along Queen's Road Central, we have implemented the following measures:

- (i) Right-turning from Queen's Road Central to Ice House Street is now permitted to relieve traffic at the junction between Pedder Street and Queen's Road Central.
- (ii) A bus lay-by has been provided opposite to the HSBC Main Building to reduce the traffic impact of busy bus stops.
- (iii) A lay-by has been provided at Queen's Road Central near the Landmark to reduce the traffic impact of boarding and alighting activities.

We will continue to monitor the traffic situation along Queen's Road Central, and will examine and formulate feasible and appropriate measures to ease congestion.

Depressive Illness

17. **MR LI KWOK-YING** (in Chinese): *Madam President, it has been reported that while the number of patients with depressive illness has increased substantially in recent years, the general public lack understanding and show little concern about the illness. In this connection, will the Government inform this Council:*

- (a) of the number of patients who were diagnosed in the past three years as having developed depressive illness, together with a breakdown by their age and gender;*
- (b) whether it has assessed the pressure on public health care services and the negative impact on the economy brought about by the increase in the number of patients with depressive illness; if so, of the assessment result;*
- (c) of the publicity and educational programmes for enhancing the public's understanding of and ability to identify depressive illness; and*
- (d) whether it will accept the suggestion to designate 1 April each year as Depressive Illness Awareness Day; if so, when it will be implemented; if not, of the justifications for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
Madam President,

- (a)** The number of patients diagnosed with depressive illness and treated in public hospitals and clinics over the past three years were 16 561 in 2002-03, 18 586 in 2003-04 and 21 240 in 2004-05. A breakdown of these patients by sex and age are set out in the two tables below:

Male Patients

<i>Male and Age Group</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
< 15	8	13	14
15-39	1 204	1 311	1 404
40-64	2 215	2 562	2 946
> 65	1 296	1 409	1 536
Total	4 723	5 295	5 900

Female Patients

<i>Female and Age Group</i>	<i>2002-03</i>	<i>2003-04</i>	<i>2004-05</i>
< 15	23	25	18
15-39	3 166	3 473	4 012
40-64	5 516	6 295	7 482
> 65	3 133	3 498	3 828
Total	11 838	13 291	15 340

- (b) The Administration has not conducted a detailed study on the impact of depressive disorders in Hong Kong. However, according to the World Health Report 2001 - Mental Health: New Understanding, New Hope by the World Health Organization, unipolar depressive disorders place an enormous burden on society and are ranked as the fourth leading cause of burden among all diseases, accounting for 4.4% of the total disability-adjusted life years (DALYs). This effectively means that 4.4% of total time lost by the community due to illnesses can be attributed to depression.
- (c) Public education on mental health plays an important part in the prevention of depression. The objective is to help the general public recognize the causes and symptoms of mental illness, educate them about the importance of early treatment to prevent the onset of residual disability, and to inform them of the available treatment and rehabilitation services. Current publicity and educational programmes on mental health and depression include:
- The Mental Health Month, which is an annual territory-wide publicity campaign comprising seminars, workshops, exhibitions and road shows on mental health.

- The Elderly Suicide Prevention Programme, which is aimed at raising public awareness of the problems of depression and suicide among the elderly and encouraging early treatment.
 - Mental health education for the elderly provided through the Elderly Health Centres and Visiting Health Teams.
 - Outreach Adolescent Health Programme for promoting, among other things, psychosocial health among secondary school students.
 - Educational activities in Maternal and Child Health Centres for the prevention of postnatal depression.
 - Provision of mental health education material through various publications (for example, leaflets, resource handbooks and video CDs); multi-media channels (for example, newspaper columns, special segments on television and radio programmes and Announcements in the Public Interests); talks and seminars; webpages; telephone hotlines; exhibitions and road shows.
- (d) The Administration will keep the current publicity and educational programmes on mental health and depression under review. At the present moment, we do not have any intention of designating 1 April as the Depressive Illness Awareness Day.

Bicycle Parking Spaces

18. **MR ALBERT CHAN** (in Chinese): *Madam President, I have recently received complaints from many residents of Yuen Long, Tung Chung and Tsuen Wan that many worn-out bicycles were abandoned on the roadsides in these districts, adversely affecting the streetscape, environmental hygiene and road safety. In this connection, will the Government inform this Council:*

- (a) *of the numbers of bicycles confiscated by the authorities and prosecutions instituted in respect of unauthorized parking of bicycles in each of the past three years; and*

- (b) *whether, apart from the measures mentioned in part (a) above, the authorities will consider increasing the number of bicycle parking spaces to provide sufficient parking spaces for users of bicycles; if it will, of the details; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): Madam President, the numbers of bicycles confiscated by the police in Yuen Long, Tung Chung and Tsuen Wan were 178 (in 2002), 527 (in 2003) and 172 (in 2004). The police also prosecuted offenders for unauthorized parking of bicycles. However, since such prosecutions were instituted under the Summary Offences Ordinance and were not categorized, we are unable to provide the relevant figures.

To meet the demand for bicycle parking spaces, we are now examining the provision of additional roadside parking spaces for bicycles in Yuen Long and Tung Chung. As for Tsuen Wan, there are no roadside bicycle parking spaces because there is no cycle track in the district. However, we are planning to provide bicycle parking spaces near the Tsuen Wan Mass Transit Railway and West Rail stations.

Budget for the Current Fiscal Year

19. **MR FREDERICK FUNG** (in Chinese): *Madam President, regarding the Budget for the current fiscal year, will the Government inform this Council:*

- (a) *given that the Consolidated Account for the last fiscal year has recorded, after discounting \$25.6 billion in proceeds from bond issuance, a deficit of \$4 billion, which is significantly lower than the estimate of \$62.1 billion made in last year's Budget and the revised estimate of \$13.4 billion made in this year's Budget, whether it has reviewed if a more aggressive attitude and approach should be adopted in revenue estimates in the future, and whether, in the light of the latest financial position, it will revise the estimates of expenditure for the current fiscal year, including considering the adoption of additional relief measures; and*

- (b) *as it has stated that it will continue to pursue the target of bringing the share of public expenditure in Gross Domestic Product (GDP) down to 20% or below, and has predicted that this percentage will gradually fall from 20.2% in this fiscal year to 16% in 2009-10, of its measures to retrench public expenditure in order to achieve the above targets, and whether it has set a lower end percentage so as to prevent an excessive retrenchment of public expenditure?*

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Chinese): Madam President,

- (a) In forecasting government revenue, we have taken into account a wide range of factors, including the following:
- (i) economic performance and the time lag in reflecting its effects in government revenue;
 - (ii) price adjustment mechanism for individual revenue sources;
 - (iii) actual collections in the current and past financial years;
 - (iv) expected pattern of demand for individual services;
 - (v) revenue raising/concessions introduced in the current and the past budgets; and
 - (vi) revenue impact of any other relevant government policies.

Forecasting has never been an exact science. The revenue estimates reflect our best assessment of the above forecasting factors based on information available at the time of budget preparation. Revenue collection is particularly affected by the ups and downs of the economy, and is not always within the control of the Government. As a consequence of this potential volatility, we have both over- and under-estimated our revenue collection in past years.

The main reason for the higher revenue in 2004-05 is the higher-than-expected receipts from land premium. As such

revenue is volatile, we cannot rely too heavily on it to fund the operating expenditure. Moreover, the sum raised by issuing bonds in 2004-05 will have to be re-paid.

Although our financial position has improved, we must maintain the needed fiscal discipline to ensure the best use of the Government's limited resources. We will continue to allocate resources where they are required and review government expenditure in response to the needs of the community.

- (b) In line with the principle of "big market, small government", it has been one of our fiscal targets to bring public expenditure down to 20% of GDP or below. In the 2005-06 Budget, we forecast that the public expenditure to GDP ratio will decrease from 20.2% in 2005-06 to 16% by 2009-10, resulting in a drop of 4.2 percentage points over the period. In dollar terms, public expenditure is only forecast to drop from \$268.6 billion in 2005-06 to \$264 billion in 2009-10 by \$4.6 billion. This is a relatively mild reduction over the period, especially if the decrease in expenditure of the Housing Authority is taken into account.

We have not set any lower limit for the public expenditure to GDP ratio. We will review the position each year in the course of budget preparation, having regard to such factors as service quality, community needs, price fluctuations, economic development, as well as the overall fiscal position.

Impact of European Union's New Regulations on Export of Hong Kong Electronic Products

20. **MISS CHOY SO-YUK** (in Chinese): *Madam President, it has been reported that the Directives on Waste Electrical and Electronic Equipment (WEEE) and the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (ROHS), promulgated by the European Union (EU), will come into effect in August this year and July next year respectively. Electronic products exported to the EU will then be affected. In this connection, will the Government inform this Council:*

- (a) *of the quantity and total value of computer and electronic products exported to the EU from Hong Kong in each of the past three years;*
- (b) *whether it has assessed how the above Directives affect the business community in Hong Kong, especially the smaller enterprises; if it has, of the assessment results; if not, the reasons for that; and*
- (c) *of the specific measures to enable the computer and electronic products exported from Hong Kong to the EU to comply with such Directives?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in the absence of Secretary for Commerce, Industry and Technology) (in Chinese):
Madam President, the Council of the EU and the European Parliament published in 2003 the Directives on WEEE and ROHS which aim at controlling disposal of waste from electrical and electronic equipment and restricting the use of certain hazardous substances in these products.

My reply to the three parts of the question is set out below:

- (a) According to the information by the Census and Statistics Department, Hong Kong's domestic export of computers and other electronic and electrical products to the EU in the past three years amounted to around \$3.39 billion (2002), \$2.96 billion (2003) and \$3.96 billion (2004). The corresponding figures for re-exports were \$75.13 billion (2002), \$91.1 billion (2003) and \$118.65 billion (2004).
- (b) Hong Kong traders exporting the products concerned to the EU will have to comply with the requirements of the WEEE Directive upon its implementation, including setting up systems, either individually or on a collective basis, for the treatment and recovery of waste electrical and electronic equipment and financing the collection, treatment, recovery and environmentally sound disposal of waste electrical and electronic equipment, and so on. Our manufacturers will also have to comply with the ROHS Directive on the restrictions of the use of certain hazardous substances in products concerned.

We expect that the industry, in particular the small and medium enterprises (SMEs), would have to inject additional resources to various extents for improving the design and manufacturing process of the products concerned in order to fulfil the requirements of the WEEE and ROHS Directives. Measures that the industry should adopt for achieving such purposes may include procuring or upgrading production facilities or technology; modifying the flow of manufacturing processes; re-evaluating and managing suppliers of raw materials; conducting verification tests of products; developing or improving management systems; providing training to staff; estimating the cost for disposing unwanted products; and seeking professional advice.

- (c) Ever since the draft Directives were being formulated in the 1990s, the Government has been liaising with the trade on the assessment of the impact of the WEEE and ROHS Directives on the trade, with a view to providing appropriate assistance to the trade. A series of initiatives have been put in place to help the trade get prepared for the Directives. Details of the initiatives are as follows:

Enhancing Trade Awareness and Promotion

The Trade and Industry Department (TID) and the Hong Kong Trade Development Council (TDC) have been disseminating information through various means about the WEEE and ROHS Directives and the latest development to the trade to enhance their awareness of the Directives. The TDC has also published research reports, including the *Getting Green — Growing Demand in Overseas Markets*, published in March 2004, and the upcoming second research report to be available later in 2005, to provide in-depth analysis on the overseas market opportunities on green manufacturing, including those under the two Directives, for Hong Kong companies.

The TDC also provides professional advice to the Hong Kong Green Manufacturing Alliance (HKGMA) established by the trade in December 2004 aiming to provide assistance to the trade in response

to the impending WEEE and ROHS Directives. To ensure that individual SMEs are aware of the two Directives and their implications, the TDC has co-organized with the HKGMA or offered support to five seminars this year, attracting over 1 400 participants, including those from SMEs. Two more seminars have been scheduled for the latter half of 2005.

Moreover, the TDC promotes Hong Kong's work towards compliance with the WEEE and ROHS Directives through trade fairs, newsletters, briefings and promotional activities targeting overseas buyers or representatives of overseas organizations based in Hong Kong. For example, in collaboration with the HKGMA, the TDC will hold two briefing sessions to update consulates-general in Hong Kong, representative offices of overseas organizations in Hong Kong, foreign chambers of commerce and buying offices on Hong Kong's green manufacturing efforts and progress.

Funding Support

In early May 2005, the SME Development Fund approved funds for two programmes undertaken by the Federation of Hong Kong Industries and the Hong Kong Electrical Appliances Manufacturers Association respectively for enhancing the awareness of the industry and for assisting manufacturers in producing products which are up to the standards as required by the WEEE and ROHS Directives. The funding for these two projects amounts to \$2.29 million.

Provision of Technical Support and Professional Advice

To assist Hong Kong enterprises in facing the challenges of the WEEE and ROHS Directives, the Hong Kong Productivity Council (HKPC) has launched since 1995 a number of projects, including:

- (i) Preparation for the Impact of the WEEE and ROHS Directives on Recyclable Requirements of Electronic and Electrical Products;

- (ii) Development of a Design for Environment Toolbox for Hong Kong's Electronics Industry;
- (iii) Technology Transfer of Lead-free Soldering for PCBA as well as Halogen-free PCB Technologies for the Local Electronics Manufacturers; and
- (iv) CEPA Smart eco-Design™ Programme for Manufacturing and Industrial Engineers — Enhancement of Knowledge of Design Professionals on Eco-Design of Electronic/Engineering Products.

The HKPC also provides consultancy and training services to assist the local industry in complying with the WEEE and ROHS Directives, such as on lead-free soldering process, supply chain management, and so on. Moreover, the HKPC plans to conduct further researches on the WEEE and ROHS, with a view to providing the industry with more comprehensive services along the following directions:

- Setting up a database of environmental materials suppliers to facilitate materials selection for enterprises;
- Setting up a WEEE cost analytical tool for the industry to conduct cost estimation;
- Establishing a WEEE and ROHS resource centre;
- Launching the "Guidance Scheme on Compliance of Requirements of the WEEE and ROHS Directives for Enterprises"; and
- Organizing seminars and meetings for the industry to share relevant experience.

The Government will continue to work closely with the trade to help them ensure the compliance of computers and other electronic and electrical products with the two EU Directives.

BILLS**First Reading of Bills**

PRESIDENT (in Cantonese): Bills: First Reading.

CIVIL AVIATION (AMENDMENT) BILL 2005**MARRIAGE (INTRODUCTION OF CIVIL CELEBRANTS OF MARRIAGES AND GENERAL AMENDMENTS) BILL**

CLERK (in Cantonese): Civil Aviation (Amendment) Bill 2005
Marriage (Introduction of Civil Celebrants of Marriages and General Amendments) Bill.

Bills read the First time and ordered to be set down for Second Reading pursuant to Rule 53(3) of the Rules of Procedure.

Second Reading of Bills

PRESIDENT (in Cantonese): Bills: Second Reading.

CIVIL AVIATION (AMENDMENT) BILL 2005

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): Madam President, I move that the Civil Aviation (Amendment) Bill 2005 (the Bill) be read a Second time.

It is common practice that airlines acquire aircraft through leasing arrangements with financiers. The financiers are the legal owners of the aircraft, but they have no management or operational control over the aircraft. Therefore, in many other jurisdictions with a developed aviation industry, the airline which is responsible for the operation of the aircraft takes on the liability towards third parties, whereas the financier owners are relieved of such liability. In Hong Kong, however, the Civil Aviation Ordinance imposes strict liability on

aircraft owners for loss or damage caused to third parties, regardless of whether they manage the aircraft. This requirement is out of step with overseas practice.

After consulting the aviation and financial sectors, we propose to amend the Civil Aviation Ordinance to bring Hong Kong laws in line with common practice overseas. This would relieve financier owners of any unnecessary risks or liabilities and present a much more favourable environment for aircraft financing business in Hong Kong. It would also improve the competitiveness of Hong Kong airlines, and thus Hong Kong's aviation industry, in upgrading or expanding their fleet.

Having studied overseas legislation, we propose to introduce the Bill to exempt aircraft owners from the strict liability if they have leased out the aircraft without crew for a period exceeding 14 days and assume no management of the aircraft. The protection to the general public would not be affected after the enactment of the Bill, as the operating airlines would still be subject to the strict liability.

Madam President, the Bill would facilitate development of Hong Kong's aviation industry. It would also help maintain Hong Kong's status as an international and regional aviation centre. I therefore recommend the Bill to the Legislative Council for early enactment.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Civil Aviation (Amendment) Bill 2005 be read the Second time.

In accordance with the Rules of Procedure, the debate is now adjourned and the Bill referred to the House Committee.

MARRIAGE (INTRODUCTION OF CIVIL CELEBRANTS OF MARRIAGES AND GENERAL AMENDMENTS) BILL

SECRETARY FOR SECURITY (in Cantonese): Madam President, I move that the Marriage (Introduction of Civil Celebrants of Marriages and General Amendments) Bill (the Bill) be read a Second time.

Under the Marriage Ordinance (Cap. 181) (the Ordinance), marriages can only be celebrated at marriage registries by the Registrar of Marriages or deputy registrars (the Registrar) between 9 am and 7 pm, or at licensed places of worship by competent ministers between 7 am and 7 pm.

The Ordinance also provides that any person who intends to get married has to give a notice of intended marriage to the Registrar who shall then exhibit a copy of the notice at his office. One of the marrying parties has to make an affidavit before the Registrar that there is no impediment of kindred or alliance or any other lawful hindrance to the marriage. The Registrar will then issue a certificate of the Registrar under section 9 of the Ordinance so that celebration of marriage before the Registrar or a competent minister can proceed.

Since there is increasing public demand for the Government to provide more flexible marriage solemnization services and to make use of private sector resources in providing such services, we propose, after an in-depth study, to empower the Registrar to appoint eligible persons as civil celebrants of marriages (civil celebrants) to meet this demand. We believe that practising solicitors with seven years of post-qualification experience and notaries public will provide the pool of candidates for appointment at the initial stage, as their legal knowledge and familiarity with the administration of oaths and taking of declarations will enable them to perform the duties of a civil celebrant competently.

The main objective of the Bill is to provide a statutory framework for the introduction of civil celebrants. The Bill proposes to enable civil celebrants to celebrate marriages at any time and at any place in Hong Kong and witness the marrying parties making declaration before a marriage is celebrated. If the marrying parties wish to use the services of a civil celebrant, they may give a notice of intended marriage to the Registrar through the civil celebrant and make before the civil celebrant an affidavit of no impediment to the marriage.

The Bill will make provisions for regulation of the practice of civil celebrants, including empowering the Registrar to issue a code of practice for civil celebrants for the purpose of providing guidance in respect of their professional conduct. The Registrar shall, in accordance with the provisions set out in the Bill, refuse to appoint a person who does not meet the eligibility criteria for appointment as a civil celebrant. The Registrar may also cancel or

suspend an appointment on prescribed grounds set out in the Bill such as contravention of the code of practice. The Bill also prescribes an appeal mechanism to handle appeals against the decisions of the Registrar to refuse, cancel or suspend an appointment.

After the Bill is passed by the Legislative Council, we will take all necessary measures to implement the above proposal as soon as possible. We will also make appropriate arrangements to publicize the new scheme. Following the implementation of the scheme, the five marriage registries in Hong Kong will, subject to demand, continue to provide marriage solemnization services. Members of the public can still choose the services which suit their personal needs.

Madam President, we believe that the proposed amendments, which will allow the private sector to provide diversified services more flexibly to meet the demand of the marrying parties, will be welcome by the public. Such developments, including the convenience, flexibility and wide-ranging choices offered by the private sector, will help attract more tourists to celebrate their marriages in Hong Kong and enhance the attractiveness of Hong Kong as a tourist destination. I hope Members will support the proposal and pass the Bill as soon as possible.

Thank you, Madam President.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Marriage (Introduction of Civil Celebrants of Marriages and General Amendments) Bill be read the Second time.

In accordance with the Rules of Procedure, the debate is now adjourned and the Bill referred to the House Committee.

Resumption of Second Reading Debate on Bills

PRESIDENT (in Cantonese): We will resume the Second Reading debate on the Immigration (Amendment) Bill 2005.

IMMIGRATION (AMENDMENT) BILL 2005**Resumption of debate on Second Reading which was moved on 27 April 2005**

PRESIDENT (in Cantonese): Does any Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): I now put the question to you and that is: That the Immigration (Amendment) Bill 2005 be read the Second time. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CLERK (in Cantonese): Immigration (Amendment) Bill 2005.

Council went into Committee.

Committee Stage

CHAIRMAN (in Cantonese): Committee stage. Council is now in Committee.

IMMIGRATION (AMENDMENT) BILL 2005

CHAIRMAN (in Cantonese): I now propose the question to you and that is: That the following clauses stand part of the Immigration (Amendment) Bill 2005.

CLERK (in Cantonese): Clauses 1 to 4.

CHAIRMAN (in Cantonese): Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CHAIRMAN (in Cantonese): Council now resumes.

Council then resumed.

Third Reading of Bills

PRESIDENT (in Cantonese): Bill: Third Reading.

IMMIGRATION (AMENDMENT) BILL 2005

SECRETARY FOR SECURITY (in Cantonese): Madam President, the

Immigration (Amendment) Bill 2005

has passed through Committee without amendment. I move that this Bill be read the Third time and do pass.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Immigration (Amendment) Bill 2005 be read the Third time and do pass.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

CLERK (in Cantonese): Immigration (Amendment) Bill 2005.

MEMBERS' BILLS

First Reading of Members' Bills

PRESIDENT (in Cantonese): Members' Bill: First Reading.

THE METHODIST CHURCH, HONG KONG, INCORPORATION (AMENDMENT) BILL 2005

CLERK (in Cantonese): The Methodist Church, Hong Kong, Incorporation (Amendment) Bill 2005.

Bill read the First time and ordered to be set down for Second Reading pursuant to Rule 53(3) of the Rules of Procedure.

Second Reading of Members' Bills

PRESIDENT (in Cantonese): Members' Bill: Second Reading.

THE METHODIST CHURCH, HONG KONG, INCORPORATION (AMENDMENT) BILL 2005

MR LAU CHIN-SHEK (in Cantonese): Madam President, I move the Second Reading of The Methodist Church, Hong Kong, Incorporation (Amendment) Bill 2005 (the Bill).

The Bill is not related to public policy, it seeks to amend the stipulations on the internal affairs of a private body corporate.

The Methodist Church, Hong Kong, is a church organization founded in 23 December 1983. It is hereinafter referred to as The Methodist Church.

The Methodist Church was set up by legislation, in other words, it is regulated under the present Methodist Church, Hong Kong, Incorporation Ordinance (Hong Kong Law Cap. 1133) (the Ordinance). Under the Ordinance, The Methodist Church shall have full power to make investments in Hong Kong. However, the power for The Methodist Church to make investments outside Hong Kong is restricted to handling deposits in banks or finance companies or government bonds.

After a thorough study made, The Methodist Church has therefore instructed me to act on its behalf to propose the Bill. The main purpose of the Bill is to expand the power of investment of The Methodist Church to enable it to make other forms of investments outside Hong Kong, including properties, shares or securities.

With these remarks, Madam President, I move the Second Reading of the Bill and urge Members to support it. Thank you.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That The Methodist Church, Hong Kong, Incorporation (Amendment) Bill 2005 be read the Second time.

In accordance with the Rules of Procedure, the debate is now adjourned and the Bill referred to the House Committee.

Resumption of Second Reading Debate on Members' Bills

PRESIDENT (in Cantonese): We will resume the Second Reading debate on the Federation of Hong Kong Industries (Amendment) Bill 2005.

FEDERATION OF HONG KONG INDUSTRIES (AMENDMENT) BILL 2005**Resumption of debate on Second Reading which was moved on 4 May 2005**

PRESIDENT (in Cantonese): Does any Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): I now put the question to you and that is: That the Federation of Hong Kong Industries (Amendment) Bill 2005 be read the Second time. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the motion passed.

CLERK (in Cantonese): Federation of Hong Kong Industries (Amendment) Bill 2005.

Council went into Committee.

Committee Stage

CHAIRMAN (in Cantonese): Committee stage. Council is now in Committee.

FEDERATION OF HONG KONG INDUSTRIES (AMENDMENT) BILL 2005

CHAIRMAN (in Cantonese): I now propose the question to you and that is: That the following clauses stand part of the Federation of Hong Kong Industries (Amendment) Bill 2005.

CLERK (in Cantonese): Clauses 1, 2 and 3.

CHAIRMAN (in Cantonese): Will those in favour please raise their hands?

(Members raised their hands)

CHAIRMAN (in Cantonese): Those against please raise their hands.

(No hands raised)

CHAIRMAN (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the motion passed.

CHAIRMAN (in Cantonese): Council now resumes.

Council then resumed.

Third Reading of Members' Bills

PRESIDENT (in Cantonese): Members' Bill: Third Reading.

FEDERATION OF HONG KONG INDUSTRIES (AMENDMENT) BILL 2005

MR ANDREW LEUNG (in Cantonese): Madam President, the

Federation of Hong Kong Industries (Amendment) Bill 2005

has passed through Committee without amendment. I move that this Bill be read the Third time and do pass.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the Federation of Hong Kong Industries (Amendment) Bill 2005 be read the Third time and do pass.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the motion passed.

CLERK (in Cantonese): Federation of Hong Kong Industries (Amendment) Bill 2005.

MEMBERS' MOTIONS

PRESIDENT (in Cantonese): Members' motions. Proposed resolution under the Interpretation and General Clauses Ordinance to extend the period for

amending four items of subsidiary legislation concerning the Road Traffic Regulations, tabled in Council on 11 May 2005.

PROPOSED RESOLUTION UNDER THE INTERPRETATION AND GENERAL CLAUSES ORDINANCE

MS MIRIAM LAU (in Cantonese): Madam President, I move that the motion set out under my name, as printed in the Agenda, be passed.

In the House Committee meeting held on 13 May 2005, Members agreed that a subcommittee be formed to study the four items of subsidiary legislation which were introduced to amend a number of regulations made under the Road Traffic Ordinance (Cap. 374).

Being selected Chairman of the Subcommittee and in such capacity, I move that the scrutiny period of the four items of subsidiary legislation be extended to 29 June 2005, in order to provide sufficient time for the Subcommittee to scrutinize the subsidiary legislation and to report to the House Committee results of the scrutiny.

Madam President, I urge Members to support the motion.

Ms Miriam LAU moved the following motion:

"RESOLVED that in relation to the -

- (a) Road Traffic (Safety Equipment) (Amendment) Regulation 2005, published in the Gazette as Legal Notice No. 65 of 2005;
- (b) Road Traffic (Traffic Control) (Amendment) Regulation 2005, published in the Gazette as Legal Notice No. 66 of 2005;
- (c) Road Traffic (Registration and Licensing of Vehicles) (Amendment) (No. 2) Regulation 2005, published in the Gazette as Legal Notice No. 67 of 2005; and

- (d) Road Traffic (Construction and Maintenance of Vehicles) (Amendment) Regulation 2005, published in the Gazette as Legal Notice No. 68 of 2005,

and laid on the table of the Legislative Council on 11 May 2005, the period for amending subsidiary legislation referred to in section 34(2) of the Interpretation and General Clauses Ordinance (Cap. 1) be extended under section 34(4) of that Ordinance to the meeting of 29 June 2005."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Ms Miriam LAU be passed.

PRESIDENT (in Cantonese): Does any Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): I now put the question to you and that is: That the motion moved by Ms Miriam LAU be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the motion passed.

PRESIDENT (in Cantonese): Two motions with no legislative effect. I have accepted the recommendations of the House Committee on speaking time for

each Member. As Members are already very familiar with the time limits on speaking, I will not repeat them here. I only wish to remind Members that I am obliged to direct any Member speaking in excess of the specified time to discontinue.

First motion: Demanding the suspension of privatization.

DEMANDING THE SUSPENSION OF PRIVATIZATION

MR ALBERT CHAN (in Cantonese): Madam President, I move the motion as printed on the Agenda.

The most notable feature of a capitalistic society is the protection of private ownership and that is an inalienable right. Public assets should be regarded as a form of collective private ownership which is therefore equally inalienable. Public assets should not be infringed upon for furthering the interests of any individuals, a handful of consortia or classes. The Government should prudently handle the privatization of public services and assets, so as to ensure that public interest will not be impaired. And, in the sale of any public assets and services, the Government should seek to maximize the revenue of the public coffers and secure the best possible services for the public.

(THE PRESIDENT'S DEPUTY, MS MIRIAM LAU, took the Chair)

However, the government actions of privatizing and selling public assets over the past few decades can be described as rash, chaotic and devoid of any theoretical justifications. We may take a look at what has happened. The CLP Power Hong Kong Limited (CLP) and the Hongkong Electric Company Limited (HEC) have been monopolizing power supply in Hong Kong; in the public transport sector, the MTR Corporation Limited (MTRCL) and the Kowloon-Canton Railway Corporation (KCRC) are regulated by the relevant legislation while bidding is adopted for the operation of bus services; for other services, such as water supplies, there are trading funds, and outsourcing is adopted for the management of housing estates and shopping centres under the Housing Department. In the case of container terminals, various modes have

been adopted at different times, including open tenders and the granting of berths by private agreements. For tunnels, there is the mode of BOT, which stands for "build, operate and transfer". In regard to the Hong Kong Link, that is, "five tunnels and one bridge", bonds are issued. Shopping centres and car parks are sold through the setting up of The Link REIT. All this shows that the means adopted by the Government to implement privatization are indeed variegated and extremely chaotic, and the decisions and modes adopted are highly unpredictable.

The whole series of privatization moves have aroused huge controversies. The Link REIT, for example, was eventually stalled due to allegations about its illegality. The privatization of the Airport Authority has stirred up numerous disputes owing to criticisms that the move is a breach of the Basic Law. Likewise, the valuation problem arising from the merging of the two railway corporations has also created worries. All these problems can show the Government's lack of comprehensive planning and knowledge in the course of privatization. Government privatization projects are often undertaken by officials who are not familiar with the subject and who do not have any knowledge of financial affairs and financing. Owing to the lack of relevant experience and knowledge, these government officials often have to rely on the assistance of the consultants whom they commission with several million dollars and even tens of million dollars of public money. It can be said that these government officials are "under the leash" of their financial consultants, completely unable to judge for themselves which modes of privatization are in best interest of the public.

We can see that privatization projects are currently plagued with many problems. In the case of the Eastern Harbour Crossing, the Government has been forced to accept unreasonable toll rises. Following their privatization, the fees charged by the container terminals in Hong Kong have become the highest in the world. The CLP and the HEC have still refused to reduce electricity tariffs despite their enormous profits. And, public transport operators have even turned down the Government's requests for a two-way fare adjustment mechanism. The Government's privatization moves have led to a practically uncontrollable situation marked by the emergence of "independent realms" and the lack of any protection for public interest. Private organizations in possession of public assets have sacrificed public interest for the sake of profit maximization, totally ignoring the significance of collective private ownership.

Despite all the problems associated with the past privatization projects in Hong Kong, many people (including Members of this Council) are still convinced that privatization is a panacea for all problems. But I must point out that its effectiveness is just illusory. We may look at the example in Britain 20 years ago. Some 20 years ago, Britain embarked on a massive programme of privatization. Some pointed out at that time that the money from the illegal sale of government assets, or "family possessions", would only go into the pockets of business operators for paying their bills. But Mrs Margaret THATCHER argued in defence that privatization was the same as selling "family possessions" to members of the family, for every citizen would benefit from the enormous profits. However, from the studies made by many academics, we can see that over the past 20 years, privatization in Britain has brought about many bitter lessons, including deteriorating service quality, accidents occurring with utility operators, drastic price increases, the suppression of grass-roots workers' wages, massive deletions of posts and so on. But in spite of all this, the income of the management has risen greatly. All these problems can show that following privatization, public interest can no longer be protected. The railway systems, in particular, have experienced many accidents, leading to many more complaints while government subsidies have increased instead of going down.

There are also many other incidents which can show us the very harmful consequences of privatization. Following the privatization of water supplies in England and Wales, water charges in these two places rose by as much as 106% in a matter of just five years. And, in the same five-year period, the profits made by water utility operators soared by an average of 692%, or nearly seven times.

In many countries other than Britain, privatization has also brought about very harmful consequences. For example, in the Dominican Republic, electricity tariffs rose by 51% following the privatization of its electricity supply, and in the end, the government of the Dominican Republic was forced to buy back the power plants. Many such examples actually abound.

Privatization involves significant public interests, so the rights and living of the ordinary people are likely to be affected. We can see that in recent years, foreign governments, having learnt lessons from past failures, have turned very cautious with privatization. For instance, when selling their 3G licences, both Britain and Germany took great pains to ensure sufficient competition and high

selling prices. In the end, Britain obtained US\$32.9 billion by selling its 3G networks, and Germany managed to get US\$44 billion. In many other countries, such as Pakistan, Jordan, Papua New Guinea, Ethiopia, Uganda, Nepal, Bulgaria, Bosnia, Latvia, Lithuania and so on, privatization is invariably preceded by the enactment of a privatization law, under which a statutory body is set up to co-ordinate projects and avoid any harmful effects on the national interests. In some developed countries such as France, Belgium and Spain, there are also privatization laws to regulate privatization projects.

Of all these countries, I think the most striking example is Pakistan. Although Pakistan is a authoritarian and developing country, its approach to privatization is nonetheless very prudent. In this country, an ordinance on privatization was first formulated, and in accordance with this ordinance, an inter-ministerial Cabinet Committee on Privatization is set up with the responsibility of determining items of privatization. In addition, a Privatization Commission is also established to approve and implement privatization projects. The privatization programme in Pakistan is headed by a specially appointed minister who graduated from Harvard University and has a PhD in economics. He once led the privatization programmes in many countries and authored a book entitled *Argentina's Privatization*. Before his appointment as the Federal Minister for Privatization and Investment of Pakistan, he was recommended by 18 countries to serve as a senior World Bank official. Apart from putting experts in charge of privatization, Pakistan has also set down a rigorous divestment procedure, with a view to ensuring a fair and open process and the best deals in the selling of public assets. This is the situation in Pakistan, but in Hong Kong, all is just a complete mess.

In the State of Florida, privatization was once as chaotic as that in Hong Kong, completely unsystematic and disorderly and marked by an absence of monitoring and poor services, thus leading to numerous criticisms. However, after learning from the bitter experience, the State eventually set up the Governor's Centre on Efficient Government in 2004, which is vested with actual powers to improve the relevant projects.

The examples mentioned above can show that in many countries, privatization is implemented with a very rigorous approach, always preceded by the enactment of legislation, then the establishment of a statutory body and finally the appointment of qualified professionals for the job. For this reason, the Hong Kong Government should act equally rigorously. It should first

conduct a comprehensive review and consultation exercise on privatization, and no privatization of any public property or services should be implemented until the different sectors of society have reached a consensus on the desirability or otherwise of privatization, the types of property and services to be privatized and the modes to be adopted. This should be followed by the establishment of privatization committees with public participation and monitoring, so as to ensure that privatization will only be implemented when public interest is not impaired and when there is maximum revenue for the public coffers — I stress, the public coffers. Before all these requirements are met, the Government should suspend the work of privatization — I stress again, suspend, so as to make sure that it will not end up seriously impairing public interest by implementing any haphazard privatization projects in the absence of any monitoring, technical support and legal protection for the public.

With these remarks, Madam Deputy, I move my motion.

Mr Albert CHAN moved the following motion: (Translation)

"That, as the Government's recent public asset privatization plans, such as the listing of The Link Real Estate Investment Trust, the privatization of the Airport Authority Hong Kong, and the proposed merger of the two railway corporations, have aroused public concerns, and such plans involve issues of whether the implementation of privatization is beneficial to the community as a whole and whether it will affect people's livelihood and widen the disparity between the rich and the poor, etc, this Council demands that the Government should act prudently and suspend the privatization plans concerned and that, before the implementation of any public asset privatization plans, ad hoc committees comprising representatives from various sectors of the community should be set up to comprehensively and thoroughly assess and study their cost-effectiveness, return, legality and impact on the general public, etc and, based on the findings of such assessments and studies, conduct full and extensive consultations; furthermore, the Government should ensure that any privatization plan which involves the public interest is for the benefit of the general public and must be subject to public scrutiny."

DEPUTY PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Mr Albert CHAN be passed.

DEPUTY PRESIDENT (in Cantonese): Mr WONG Kwok-hing and Dr Raymond HO will move amendments to this motion respectively. Their amendments have been printed on the Agenda. The motion and the two amendments will now be debated together in a joint debate.

I will call upon Mr WONG Kwok-hing to speak first, to be followed by Dr Raymond HO; but no amendments are to be moved at this stage.

MR WONG KWOK-HING (in Cantonese): Madam Deputy, since the '80s, governments of many countries have been implementing privatization under various high-sounding pretexts, such as to improve efficiency, control growth in the public sector and to involve private participation with a view to enhancing the quality of services and so on.

Nevertheless, someone may argue that by implementing privatization, the Government only wants to achieve two objectives, the first one is to save money and the second is to shun responsibilities. As such, the privatization of public assets or services will bring nightmare to many people. Employees and public servants are the first to bear the blunt, followed by the community as a whole.

The first step taken in the privatization is very often the downsizing of the establishment. Existing staff members are forced to join a voluntary retirement scheme or even be laid off. After a large number of staff members have left, the remaining ones have to take up three or four times of their original workload, working hard day in and day out. Although their wages stay the same, the quality of their life suffers tremendously.

When these employees are employed again, they will be employed as contract or short-term workers with lower wages, their interests and benefits are not taken into account at all. Although these new employees are doing exactly the same job as that of the redundant employees, they are forced to accept a poorer remuneration package. Therefore, to the employees, privatization means layoff, pay cut or doubled workload.

The Hong Kong Federation of Trade Unions (FTU) does not flatly oppose to privatization, but it must be done in the light of actual situation, and must be genuinely for enhancing efficiency and improving services, other than for saving money and shunning responsibilities. For this reason, we support Mr Albert

CHAN's motion on the suspension of privatization plans, and propose various amendments relating to the rights of employees.

Madam Deputy, the grass-roots people are those who are most affected by privatization. No one will believe that better service can be rendered by cutting a lot of experienced staff in exchange for poorer paid and inexperienced new employees. In addition, after privatization, the objective of these organizations will be shifted from simply providing public service to going after profits, as a result, the public will not only suffer from a poorer service, but also at a higher prices.

Madam Deputy, what is still fresh in our memory is in last month, the Eastern Harbour Crossing (EHC) substantially increased its tolls by 67% and this caused a public outcry. While we do not see any effect of a two-way adjustment mechanism as advocated by the Secretary, Dr Sarah LIAO, the entire community has already suffered a lot in the upward adjustment. This is exactly an adverse consequence brought about by privatization and it is the most typical and the latest one. As the EHC is privately owned, however loud people might protest, it would just insist on increasing its toll. Roads and tunnels are public assets. We will use them when we go to work, to school or when we go out. They are basic needs of the public in everyday life. The EHC was built by the Government with the aim of alleviating the congestion problem. However, when this public asset has become privatized, the operator would only go after profits, paying no regard to traffic needs of the entire community. Although the Western Harbour Crossing is always seriously congested and the EHC is under-utilized, the EHC still takes a very firm stance on the tolls, refusing to reduce them. The incident of the EHC may not be a result of privatization, but its abuse of public asset is a typical outcome of privatization.

Some economists would say that privatization is a global trend and that the SAR Government must follow this inexorable trend. However, I would think a sensible government should not be so gullible or follow blindly a so-called global trend.

Madam Deputy, let us discuss the privatization plan of the Hong Kong Airport Authority (AA). It is generally believed that the cost-effectiveness is more difficult to achieve in public bodies and that privatization is conducive to enhancing efficiency. However, despite being a public body, the AA has been outstanding in its performance and is ranked one of the best aviation

management. There is no need for it to enhance its efficiency through privatization.

What is the main purpose for the Government to list the AA? It wants to cash in to alleviate its serious fiscal deficit problem. However, in the past one or two years, we can see that the economy has apparently made an upturn and the fiscal deficit problem is expected to disappear very soon. Is it still necessary to list the AA now? We must understand that the AA controls the lifeline of our aviation industry, and it owns a lot of land. Once it is privatized, cost in the aviation industry may not only rise, but the property market may also be affected. As such, the Government should act very cautiously.

Apart from privatization, the Government is considering introducing a so-called Public Private Partnership (PPP) which is of similar nature. This is privatization in disguise. The most probable PPP project to be implemented is the Sha Tin Water Treatment Plant as speculated. Why is it that the private sector is so interested in entering into partnership with the Government to operate the water treatment plant in Sha Tin? As exposed by the trade unions, they are not really interested in joining hands with the Government to improve water supply, what they are coveting is in fact the valuable land resources affiliated with the water supply system which has a potential for property development. This is what they covet. Nevertheless, the Water Supplies Department (WSD) has along been very efficient and its performance is outstanding. It also wins recognition from many water supply bodies around the world every year. Furthermore, staff members of all ranks in the WSD have shown an understanding of the financial pressure that the Government is facing, they have taken additional efforts to work with the Government to cut and redeploy manpower, and also further downsize the establishment. However, as we can see, the Government has been insisting on going along its own plan by implementing this PPP arrangement for the Sha Tin Water Treatment Plant. So far, the Government has not been able to provide any substantial proof, convincing the public that cost cutting and enhanced efficiency can be achieved through the PPP project. The efforts made by the staff members have been neglected.

There are other typical examples of privatization in disguise to turn public assets for private use. The Highways Department has outsourced the road maintenance works for Hong Kong Island and a major district in the New Territories to a private contractor for as long as nine years. Also, the

maintenance works for the remaining areas were outsourced to two other contractors, each for a period of four years. It has thus led to frequent delays in road works and traffic congestions. However, the complaints lodged by the public are not attended to.

A most shocking thing is I have just learned that the Hospital Authority planned to outsource its central catering unit which supplies patients' meals to a fast-food chain for 10 years without prior discussion and consultation with the Legislative Council. It is tantamount to neglecting the rehabilitation needs of patients and the professional services presently provided by the central catering unit. If the service is really outsourced for 10 years, what can the Government do when there is a price increase in the patients' meals?

Madam Deputy, I wish to reiterate that the FTU does not flatly oppose all privatization plans. However, as privatization may produce a serious impact, it must be fully examined and discussed, and the Government should not act rashly. The most important thing is that we must have the participation of employees and trade unions. As the employees are most familiar with the daily operation, they can provide valuable inputs in regard to business operation and areas for improvement. Also, as the wishes and interests of the employees are conveyed through the trade unions, we must have representatives from the trade unions involved in the process. I implore colleagues to support my amendment.

Madam Deputy, I so submit.

DR RAYMOND HO: Madam Deputy, privatization involves the transfer of property or economic activity from public ownership to private ownership. The Hong Kong Special Administrative Region (SAR) Government's latest attempt in privatizing its assets was the listing of the Link Real Estate Investment Trust (Link REIT), but it was aborted by the legal challenge raised by a member of the public. Other suitable candidates under consideration include the two railway companies with their much-anticipated merger and the Airport Authority. Besides listing public assets, privatization can also be disguised as private sector involvement (PSI) or Public Private Partnership (PPP).

A PPP may take on different forms. According to the classifications provided by the Efficiency Unit of the SAR Government on its webpage, we have private finance initiatives (PFIs); joint ventures; partnership companies;

partnership investment; franchises; design and build; design, build and operate; build, operate and transfer, and so on.

There are many cited advantages of privatization. First, resources are better utilized with the flexibility and ability of the private sector to perform more efficiently. Second, the private sector can inject new thinking and initiatives to enhance the quality and efficiency of public services. In fact, it takes no pain in selling these good points to the people of Hong Kong, as most of us appreciate the strengths of a free economy.

Personally, I can see the merits of privatization, provided that assessment must be done on individual cases. Public and stakeholders' views must be taken into account too. This explains why I have been pressing the Government for privatizing selected public assets and adopting the PFI to encourage private companies to initiate more new public projects which have not been included in the existing facilities or may not be built by the Government on its own in the foreseeable future. The latter condition I attach to the adoption of the PFI is to maximize the benefits in terms of better capital utilization from the private sector and more employment opportunities.

What I oppose most is the Government's attempts to use privatization as an easy way out for its fiscal deficit problems without paying much attention to the views of the other stakeholders, particularly the civil servants in the departments concerned, and members of the public as a whole. I would like to substantiate my point with the following examples.

The push for a PPP arrangement for the Sha Tin Water Treatment Plant is a good illustration. In the course of my follow-up with the Government on the subject, I have unfortunately got the impression that the Government has simply evaluated the project on its own merit, without giving the slightest regard to the worries of the stakeholders, which include the general public and the 4 000 existing staff in that particular instance. For the former, it is the quality of water supply which is at stake while for the latter, their jobs.

Despite their worries about the impact of the abovementioned proposal, members of the public were neither fully consulted nor informed of the latest development. On the other hand, the Government's lack of transparency and its failure in providing dialogue have caused distrust of and the lacking in appreciation for the staff. The insensitive attitude of the Government has also adversely affected the morale of the staff. Believe it or not, it took seven

months before the Secretary, Dr LIAO, agreed to meet the staff representatives to discuss the subject.

Similar unilateral approach has been taken by the Government in the West Kowloon Culture District (WKCD) development. Public consultation was launched after rather than before the Government had made up its mind and made known its proposal on adopting the canopy design and the single consortium arrangement. As a result, the subsequent consultation was at best some kind of public relation exercise to keep down the dissenting views. Instead of giving the public the answers, the so-called consultation has raised more questions. The fact that the Government can go ahead with the project without seeking funding approval from this Council has further added fuel to the suspicion.

As I recall, at the special meeting of the Planning, Lands and Works Panel held on 16 December 2004, I raised the following queries: (1) What are the criteria to be used by the Government to evaluate the financial arrangements and plot ratio of the screened-in proposals? (2) While we are in the process of public consultation and are still not sure of the proportion of oriental and western art or the types of art to be developed or staged in the project, how could the Government come up with figures of the required amount for the developers to provide assurances for future financing of cultural and art development? (3) How to ensure that the revenues from property development will be able to finance the operation of the WKCD and to sustain the required funding as the former is susceptible to market fluctuations? My questions were met with a long and complete silence before representatives from both the Government and the three proponents struggled to come up with some lame responses. Indeed, it is the Government's traditional "I know the best" attitude which worries me most. Moreover, we must also ascertain both the short- and long-term effects of the proposed PPP, with particular emphasis on the reliability, viability and sustainability of the proposal.

The Government will face the same questions in exploring the feasibility of applying the PPP arrangement to Harbour Area Treatment Scheme (HATS) Stage 2. It is a two-phase project with a \$20 billion price tag, which will provide additional facilities to convey all sewerage from the harbour area to the Stonecutters Island for treatment. Members of this Council must recall that a total of \$8.3 billion, as against the original budget of \$6.3 billion, has been spent for Stage 1 of HATS (it was called Strategic Sewage Disposal Scheme or SSDS). Its effect is doubtful because the treatment cannot even reach the standard of

secondary treatment. Previous experience tells us that the Government must not rush to the conclusion. It should study various options before proceeding with Stage 2 of HATS.

Learning from the lesson of the WKCD as well as The Link REIT, the Government should provide more transparency in its decision-making process of privatization projects, so that the projects can proceed with all the support from the public as well as this Council. It should take into account the views of the stakeholders and evaluate both the economic and social consequences of these projects which, as suggested in my amendment will be extended beyond corporatization to include various forms of PPP being considered for various public services, such as water supply, transport, social and medical services.

Madam Deputy, I so submit. Thank you.

MR LAU CHIN-SHEK (in Cantonese): Madam Deputy, the labour sector and trade unions are opposed to the privatization of public services not just because of the need for protecting the rights of the wage earners, but also because of their conviction that the provision of public services is a matter of immense significance to the general public.

Madam Deputy, to begin with, trade unions are of the view that the provision of public services should be the primary task of the Government, a duty it cannot evade. Had the case been otherwise, these services would not have been provided by the Government in the very first place. All social services, infrastructure facilities or any other services related to economic development should be provided by the Government to the public and for the sake of public interest. For this reason, trade unions are unequivocally against any government attempts to shirk these responsibilities in the name of privatization.

Second, trade unions are also convinced that all people, be they poor or rich, should enjoy equal access to public services. Any commercialization of these services will run counter to this fundamental objective, and this is precisely the main reason for the concern of trade unions about the privatization of public services. Hence, in all the discussions on privatization, the concern of trade unions is invariably about the effects on members of the public and society at large.

Today, I shall focus on the problems brought about by the privatization of the Airport Authority (AA). From the outset, the Government has pointed out that the privatization of the AA is meant to enhance its commercial operation and efficiency. But I must point out that over the years, the Hong Kong International Airport has been rated as the best airport in the world. In recent years, the airport of Hong Kong has been enjoying a high international reputation, always being one of the busiest airports in terms of passenger and cargo volumes. The AA has built up an image of high operational efficiency among Hong Kong people; instead of being unsatisfactory in any way, it has done its job quite well, so there should simply be no need for privatization. If even the existing operational efficiency and performance are considered unsatisfactory, what other standards can still be applied? Can the Government guarantee members of the public that privatization will surely bring about better operational performance?

Besides, members of the public are also worried whether the AA will be driven by an incessant quest for profits following privatization to engage in "side-businesses", that is, the provision of services not related to airport management, such as property development, retail activities, logistics and extra-terrestrial investments. They fear that in the end, the proper business of the AA, that is, airport management and services, may be reduced to a secondary position. Will this be good to our society and conducive to the furtherance of public interest? The Government may of course reply that in the course of privatization, it will seek to strictly limit the AA's scope of business expansion to the development of services related to airport operation. However, there is no rigid definition of "services related to airport operation", and I do query how the Government can effectively control the AA after privatization and prevent it from engaging in any side-businesses.

The third query is that privatization may well weaken the Government's control over air transport policies. This will do more harm than good to public interest. Air transport plays a very significant role in the economy of Hong Kong, and the AA is currently the key organization responsible for implementing the air transport policies of the Government. Once the AA is privatized, conflicts will surely emerge. One example is that the pursuit of profits may well drive the AA to increase airport charges, and once this happens, the status of Hong Kong as the aviation hub of the Asia-Pacific Region will definitely be affected. I think it is only reasonable for people to worry that the losses resulting from privatizing the AA may outweigh the gains. In the past few

years, the partial privatization of the MTR has led to quite a number of conflicts between the interests of company shareholders and those of the public at large. For instance, despite long years of deflation and a huge annual profit to the amount of tens of billion dollars year after year, the MTRCL has still refused to reduce its fares. This is clearly an example of the shortcomings of privatization.

Lastly, I think it is worth adding one more point to the discussions on the privatization of the AA. The privatization of public services may sound an alarm in those private enterprises that may be affected in the process, and they may thus come forward to voice their opposition.

We usually think that there are conflicting interests between the management and labour sides of an enterprise. But since the privatization of public services will involve the collective interests of all people in the affected enterprises, all employers and employees of the enterprises concerned, and also their management and staff unions, should really form a united front, offering assistance to one another and taking concerted actions to oppose the privatization of public services. In particular, for the management and labour sides of those enterprises with a history of divergent views, they can actually capitalize on the opportunity of opposing the privatization of the AA to dispel their differences, so that they can join hands to work for their own common interests as well as those of society at large and the general public.

Madam Deputy, I so submit.

MR HOWARD YOUNG (in Cantonese): Madam Deputy, as early as the '70s, the then Financial Secretary, Sir Philip HADDON-CAVE, already advocated the policy of positive non-intervention and "a small government". Various means such as trading funds and corporatization were then adopted to achieve these objectives. Unfortunately, something subsequently went wrong in the process, leading to an incessant expansion of government expenditure. Then came the financial turmoil and the resultant recession, so the Government was forced by an acute fiscal deficit to consent to the securitization or sale of part of its assets, in the hope of returning to the proper track of "big market, small government".

Successful privatization will bring many benefits to the whole society, such as improving people's livelihood, raising management quality and enabling

people to share the wealth of the community and so on. The Link REIT, which was originally scheduled for listing some time ago, is a fine example, because apart from bringing in a more advanced style of management that can boost the business of shop tenants in housing estates, it can also improve the financial conditions of the Housing Authority (HA) and provide income for subsidizing the maintenance of public housing estates. In addition, with The Link REIT, the HA will not have to face a shortage of funds for public housing construction, hence low-income or poor families will not have to suffer as a result.

When it comes to The Link REIT — since it is mentioned in the original motion — I believe that people are still wondering why the hindrance put up by some people can succeed in making it impossible to fix a new listing date despite the fact that this is an investment project sought after enthusiastically by 500 000 small investors. To a small investor who can already enjoy a return rate of 6% a year simply by putting down the minimum investment amount of \$5,200 or so, The Link REIT is far more appealing than bank interest even when interest rates are back on the rise again these days. Many people will ask, "Who opposed the listing of The Link REIT? Who acted against our interests?"

Besides, for the listing of The Link REIT, the Government already spent as much as \$100 million on asset valuation, consultancy and legal services. All this money has been wasted. Even if The Link REIT can eventually be listed, it is uncertain as to whether it can still be so well-received and whether it can still give the HA a revenue of \$32 billion as originally expected. I believe that when we hear the appealing slogans on safeguarding public interest chanted by those against the listing of The Link REIT, people will certainly ask, "Who should be held responsible for that mess, the abortive listing of The Link REIT?" And, it must be added that it is impossible to estimate the intangible loss resulting from our becoming an international laughing stock after the abortive listing of The Link REIT.

It is mentioned in the motion that attention must be paid to the rate of return and cost-effectiveness of privatization plans. This seems to be an attempt to prevent the listing of The Link REIT from becoming a sale of assets at dirt cheap prices. But it must be noted that Hong Kong is a mature financial market equipped with a fair, satisfactory and time-tested listing mechanism. In addition, the estimated value of The Link REIT is the result of professional valuation. If the assets are sold at yet higher prices, the only result will be that The Link REIT will have to increase the rentals, and the ultimate victims will be the ordinary people, shop tenants and users.

In regard to public opinions, a survey conducted on 23 December last year, that is, after the abortive listing of The Link REIT, indicated that 58% of the respondents were for the listing, with just a mere 20% expressing their clear opposition. These findings showed that the listing of The Link REIT was generally accepted by society. It was small wonder that as many as 10 000 people took to the street on New Year Day this year to protest against the deferring of The Link REIT listing.

By saying all this, I do not intend to hold anyone responsible for the abortive listing of The Link REIT. As I mentioned at the beginning my speech, privatization is no novelty at all. Rather, it is now a worldwide trend, as evidenced by the fact that real estate investment trusts similar to The Link REIT are already found in many other places such as Singapore.

Understandably, and as mentioned in a World Bank document on privatization, there is no hard-and-fast rule on what the proper direction of privatization should be. Quite the contrary, privatization should be implemented taking into account the unique circumstances and factors in different places. This is precisely the position of the Liberal Party. The original motion mentions both The Link REIT and the airport, but I have focused only on the former in my speech today. The airport is quite a separate issue. Many Members have mentioned that there should be different considerations for different cases, meaning that in the course of privatization, care and prudence are advised. But this does not mean that we should blindly call a halt to everything or push ahead regardless of the actual situation. The important thing is to analyse and consider each issue independently and objectively.

A new mode of public asset management has gained increasing popularity in the world, and that is, that commercial elements should be introduced more extensively into government or public-sector management. These elements can be outsourcing, privatization or commercialization. But regardless of the modes adopted, the objective should always remain efficiency enhancement. As a metropolis, Hong Kong should not lag behind others. It is especially important that when our efficiency in certain areas is proven to be too low, we should accord priority consideration to them. We should keep abreast of the times and learn and adopt new modes of management.

Madam Deputy, the amendments of Dr Raymond HO and Mr WONG Kwok-hing respectively add in the ideas of Public Private Partnership and the

protection of employees' rights and benefits. These amendments are good, but since they cannot do away with the point on "suspension of privatization" and are therefore not in line with our position, we find it difficult to give them our support.

MS LI FUNG-YING (in Cantonese): Madam Deputy, in 2003, the then Financial Secretary Mr Antony LEUNG announced in his Budget that \$112 billion worth of government assets would either be sold or securitized in the coming five years to make up for the Government's inadequate revenue. After the passage of more than two years, the economic conditions of Hong Kong have changed greatly and there have been substantial improvements to the revenue of the Government, but the pace of selling or securitizing government assets has not slackened. After selling \$15.5 billion worth of housing loans to the Hong Kong Mortgage Corporation Limited, the Government has also issued a \$6 billion securitization bond for the "five bridges and one tunnel". Other projects in progress include the privatization of the Hong Kong Airport Authority (AA) and the merger of the two railway corporations. And, the abortive divestment of the Housing Authority's retail and car parking facilities, that is, the listing of The Link REIT, will also be re-launched.

In the Budget this year, the Financial Secretary made remarks to this effect: The sale and securitization of assets will not only provide the public with more investment options, but also ensure a more effective use of resources. The justification for the continued sale of government assets has changed from making up for inadequate revenue to providing the public with more investment options and ensuring a more effective use of resources. I am of the view that the objective of public service provision by the Government should be serving the public. There are many different ways to ensure a more effective use of resources, but using privatization as a means of achieving this purpose will fundamentally alter the very nature of public services. In addition, "a more effective use of resources" has been reduced to nothing but a synonym for stronger exploitation of employees after privatization, as evidenced by the changes in employment conditions brought about by many privatization or outsourcing projects both overseas and locally in Hong Kong. I therefore have great reservations about the Government's incessant attempts to sell or securitize its assets with resource considerations as the sole basis. I think the two deciding considerations in the course of privatization should be the effects on members of

the public, that is, service users, and also the impacts on the employees affected. If the problems connected with these two considerations cannot be properly addressed, the Government will have to work out alternatives to privatization if it wishes to achieve a more effective use of resources.

The Financial Secretary is of the view that one of the purposes of privatization is to provide the public with more investment options. But I must say that this cannot properly address the problems connected with the two considerations mentioned above. The only result of such an attempt to provide the public with more investment options will be that the beneficiaries of privatization are used as a means to suppress those people whose interests may be compromised in the course of privatization. Social division will result, stirring up conflicts between classes.

To remove the obstacles to privatization, the Government must impart a clear message to the public, convincing them that there will be no negative impacts on the services concerned, in addition to obtaining the support of the employees concerned. However, I am of the view that the Government's current approach to privatization is marked by huge inadequacies in both these two respects. In the case of the merger of the two railways and the privatization of the AA, for example, many affected employees have told me of their worries that the structural changes in these organizations may endanger their jobs and impair their rights. Why do the affected employees oppose privatization? One fundamental reason is that in the whole process of privatization, the trade unions representing the staff sides have all along been denied any role. The consultative sessions organized by the management for the staff sides are nothing but window-dressing. The staff sides are simply unable to discuss with the management on an equal basis the possible problems of privatization, not to mention change the course of privatization.

Madam Deputy, in our discussions on the privatization of government services, I do not think that the Government can possibly clear all obstacles simply by making references to "big market, small government", "a more effective use of resources" and "providing the public with more investment options". The reason is that the provision of public services actually involves different perceptions of the role of the Government, the needs of service users and even the impacts on the employees affected. I hope that in the course of privatization, the Government can give careful thoughts to all these issues. Thank you, Madam Deputy.

MR LEUNG KWOK-HUNG (in Cantonese): Madam Deputy, with your indulgence, I would like to recite a poem composed by Mr LU Xun: "In the long, dark nights of spring, I am inured to fleeing with my wife and children, with grey locks flying. In my dreams, I vaguely saw my mother in tears and bandits' banners come and go on the city wall. Suppressing my wrath on hearing my friends' recent death, I decided to compose an angry poem in this night of bloody knives. But having done so, I found nowhere to write it down, seeing only my moonlit dark clothes." This poem is about the arrest and execution of five Communist Party members by the Kuomintang. All of them were writers, friends of LU Xun, so he was charged with indignation when he wrote this poem.

I hope that Mr CHING Cheong's wife, Mary LAU, can hear these words, and I further hope that officials of the Hong Kong Government, and even Mr HU Jintao, can also hear my words.

DEPUTY PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, the debate topic now is "Demanding the suspension of privatization".

MR LEUNG KWOK-HUNG (in Cantonese): Yes, I know. It is alright as long as he can hear my words.

Actually, privatization is a very straightforward issue. I have heard how Mr Howard YOUNG of the Liberal Party talked about the advantages of The Link REIT listing. There is a Russian saying that "he who laughs last, laughs best". But Mr YOUNG certainly laughed much too early.

The listing of The Link REIT was totally clandestine from beginning to end. The idea was borrowed from Singapore, and he was right in saying that the experience of this country seemed to be a success. I have said in this Chamber many times before that the listing of The Link REIT must be investigated due to its clandestine nature. I have been saying so all along, but Mr CHAN Kam-lam, a member of the Panel on Housing, asserts that an investigation should be conducted later. I now think that there is an urgent need for investigation, which is why I maintain that an investigation must be conducted. I am aware that when the listing of The Link REIT is re-launched, its valuation may increase by tens of billion dollars. Some people have told me that it may be as high as \$60 billion. Will this price be regarded as a cheap

offer? If The Link REIT is really valued at \$60 billion in the future, will those who now laugh instead cry?

Actually, the rationale behind privatization is very simple. How does capitalism operate? Long before the emergence of capitalism, privatization already existed. Capitals are supposed to grow in value all the time, and this will involve buying at low prices but selling at high ones. Privatization means that when the Government wants to buy back public utilities, it must "buy" them at "high prices". The reason is that ownership is in the hands of the operators and bourgeoisie, so if it wants to buy them, it must pay high prices. This was the bitter lesson learnt by Britain from its YOUNG Project after World War II. However, when anyone wants to buy them back, it will raise their prices, that is, it will "sell" at "high" prices. Therefore, with even just a single round of buying and selling, the assets will expand like heated metals and money will all go to the pockets of rich people.

What is The Link REIT all about? It is all about selling off government assets at cheap prices with the aim of giving an impression of a high rate of rental return. Mr Howard YOUNG has already explained the rationale concerned, and I do not need to give any further explanation. All this shows that it is evil to sell off government assets cheaply just for the purpose of making The Link REIT a success and making investors think that the rate of rental return is high. Besides, has the Government ever attempted to privatize such a huge quantity of public services before? We are not trying to snatch any money from them. In fact, the extent of privatization in Hong Kong is very low, largely due to Philip HADDON-CAVE's policy of positive non-intervention.

It now seems that Hong Kong has been turned into a communist country trying to privatize its assets. This is simply wrong. The discussions today are pointless and really very boring, so I wish to illustrate the very nature of privatization by looking at two cases. What is privatization? To the Russians, the case of the Chelsea Football Club, is a good illustration. Petroleum is a valuable natural resource of Russia, a source of pride to the Russians. But it has been taken away by a baby-face tycoon through corruption, and he has even spent the money on running the Chelsea football team in Britain, which offers its players several hundred million pounds in basic salaries. Football fans should all be familiar with this story. The Manchester United is already a private enterprise, and it is now to be privatized for yet another time. All those who intend to buy the stocks of Manchester United to show their support will be rendered unable to exert any control. The privatization of a private enterprise

will alter the very nature of Manchester United, rendering it unable to serve the public any more.

To put it simply, as a result of all the privatization efforts, we will see in Hong Kong (as mentioned by Mr Howard YOUNG) the pictures depicted by the World Bank and the IMF to countries like Indonesia, Malaysia and Argentina. Many people like to refer to the depictions made by the World Bank and the IMF, but we must not forget that when the World Bank resorted to the offering of loans as a means of forcing Argentina to embark on privatization, it did predict very bright prospects for Argentina. But in the end, riots erupted in Argentina and its middle classes all went bankrupt. The case of Indonesia and Malaysia belongs to a separate category. In 1997, Indonesia and Malaysia were tipped as the locomotives or power houses of the Asian economy. What is their situation now? I hope those who refer to these countries can give me an answer.

My position in regard to privatization is very clear. I think it is wrong for the Democratic Party to support privatization. I am a social democrat. To me, democracy should be a mechanism whereby the people can maximize their well-being by monitoring the performance of the government. Privatization cannot achieve this objective. *(The buzzer sounded)*

DEPUTY PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, time is up.

MR LI KWOK-YING (in Cantonese): Madam Deputy, public asset privatization plans have become a new trend in the domain of public administration management in various advanced countries around the world.

Privatization seeks to improve the rigid bureaucracy of government departments by introducing competitive elements, thereby enhancing their operational efficiency. What is more, under the concept of "big market, small government", privatization enhances the flexibility of the sources of income of the public sector. Through the offering of shares for public subscription, public organizations can, on the one hand, ease the Government's financial burden and, on the other, share the fruit of privatization with the people.

As the original motion considers that some of the privatization plans proposed by the Government recently, including the listing of The Link REIT,

the privatization of the Airport Authority (AA) and the proposed merger of the two railway corporations, involve the interest of the community as a whole, people's livelihood, the disparity between the rich and the poor, and so on, it demands that the relevant plans be suspended and ad hoc committees be set up to conduct comprehensive and thorough review. If the accusation made by the original motion is substantiated, I believe this Council as a representative of public opinion should, even without this motion, take the initiative to raise objection to these plans that go against public interest.

However, is this the actual state of affairs? Let me cite the listing of The Link REIT as an example. When the plan was suspended, there were indeed severe public condemnation and criticisms. However, the target was not the Special Administrative Region Government or the Housing Department (HD), but those people who took advantage of the judicial proceedings to deliberately block the listing of The Link REIT. As regards The Link REIT whirlwind stirred up at that time, I believe Members here still recall how The Link REIT was eagerly sought after by the public, and even in the international financial markets. Such inclinations of the public sentiment do reflect the public's earnest expectations for the listing of The Link REIT. If The Link REIT could only hurt the community as a whole, how would the people support its listing?

What is more, the listing of The Link REIT is indeed a wise decision for an all-win situation can be achieved in which the public, the Housing Authority (HA) and investors will all be benefited. At present, many shopping complexes in housing estates are vacant, mainly due to poor management. Some people think that the HD might as well offer the shops to the unemployed to start up business. But how can the unemployed without any capital operate business here when even commercial tenants with capital are unable to do so? Through the split-and-list plan, the HD can introduce a new mode of management and hence improve the business environment of the shopping complexes. At present, some shopping complexes in some public housing estates have a high vacancy rate of up to 50% to 60%. Should this situation occur in private shopping arcades, I believe the management will definitely come up with a host of solutions in a proactive manner. With its bloated structure and under the influence of bureaucratic protectionism, the HD cannot do anything but leave the shopping complexes in its housing estates vacant and this has in turn greatly affected the revenue from rents.

Indeed I have reservations about the original motion's view that the Government has failed to conduct a thorough review and consultation before the

implementation of the privatization plans. Let me cite The Link REIT as an example. A consultancy study was commissioned by the HA as early as 2002 to consider such factors as the retention and dismissal of employees, ways to sell the enormous amount of assets to avoid impacting on the market, and so on. As such, I consider the original motion's accusation against the relevant plans untenable.

Besides, although the Government has not yet come up with any established plans to deal with the merger of the two railway corporations and the privatization of the AA, it has undertaken that after a decision is made, detailed report will be given to this Council and public views will be considered. It can thus be seen that the Government is prudent and open-minded in dealing with the privatization plans and will undertake consultancy studies in the light of the individual circumstances of these privatization plans. Given that many privatization plans are still in the process of consultation and study, does the request made by the original motion to re-establish ad hoc committees comprising representatives from various sectors to conduct thorough studies and assessments not seem superfluous?

All in all, under a proper monitoring system, privatization plans can enhance the efficiency and effectiveness of public organizations. We must, in no circumstances, reject the existing privatization plans because of a moment's dispute sparked off by personal feelings. Only through privatization can our public organizations enhance their efficiency and keep pace with the times.

With these remarks, Madam Deputy, I oppose the original motion.

MR JEFFREY LAM (in Cantonese): Madam Deputy, all along, the Government adheres to the "big market, small government" principle. In recent years, a number of privatization plans have been introduced and studied in succession. I consider that privatization plans may allow the Government to concentrate limited public resources on essential public services, and thus creating more room for development in the private sector.

All public asset privatization plans should be prudently implemented to ensure that it will be beneficial to the community at large. However, I do not agree with the motion which demands the suspension of privatization plans.

Studies like those on the proposed merger of the two railway corporations and the privatization of the Hong Kong Airport Authority have been in progress

for quite some time. The views of various sectors of society have been extensively consulted. It is the hope of many people that the plans will be implemented. For instance, if the proposed merger of the two railway corporations does go through, passengers do not have to pay extra access fare at interchange stations, thus saving on transportation expenditures is possible. If the privatization of the airport can be implemented, it is hoped that their charges will be reduced, enabling users and customers to benefit. These are the foreseeable benefits to be brought about by privatization and it is also a desirable condition the community expects to see.

I would like to stress that all privatization plans must be carried out cautiously and haphazard implementation should be averted. We should progress step by step, examining carefully and comprehensively every detail of the plans, identifying the most appropriate approach for implementation. These plans should not be called off abruptly. Putting on the brake for no reason will only make those riding on the car falling one after the other, causing injuries. What good does it do?

As for comments that privatization is like "selling family possessions", selling assets at dirt-cheap prices, slaughtering the goose that lays golden eggs and so on, I can hardly agree.

If public services are to be operated under prudent commercial principles, the private sector is given a free hand to handle them and the market is allowed to adjust spontaneously, this will effectively enhance efficiency and cost-effectiveness, enabling the Government to spend public expenditure in a more restrained manner and refrain from implementing unpopular and disturbing measures like increasing the taxes or charges. This is beneficial to Hong Kong as a whole.

In the past, when the Government put its assets on sale, it was able to sell them at reasonable prices and at the right timing. The securitization of five tunnels and one bridge introduced last year was greatly welcomed by the public with oversubscription of two times and \$6 billion was raised.

Privatization plans may also help concentrate government resources on basic and essential public services. This can prevent the excessive expansion of the establishment of the Government on the one hand, and provide more room for development in the private sector on the other, tying in with the "big market, small government" principle.

In fact, the downsizing of public sector and the introduction of privatization plans have become a global trend. Take the United Kingdom as an example, as early as in the '80s, a number of privatization plans were introduced, such as those involving fuel companies and telecommunication companies. During the two decades from 1983 to 2003, the Gross Domestic Product of the United Kingdom grew at an annual rate of 2.6% in average, while the unemployment rate decreased from 11% or some 3 million persons in the early '80s to 4.7% or 1.4 million persons in the first quarter of this year. This shows the effect of privatization, and its merits are in full play.

Let us take the national railways in Japan as an example. Since privatization in 1987, the increase in the number of passengers of the railway in the following two years ranged from 2% to 6%. By the same token, upon the privatization of the railways in New Zealand and the United States, the safety standard of those railways is being maintained at a commendable level.

I know various sectors of society are very concerned about the privatization plan of government assets and specific and constructive proposals will be made. But nothing must be done to abandon previous efforts and start everything anew.

Madam Deputy, I so submit.

MR RONNY TONG (in Cantonese): Madam Deputy, the issue on privatization has aroused much controversy in society, it has not only led to finger-pointing among different groups, but has also caused polarization in society. The situation does not arise only out of the doubts on the effectiveness of privatization plans to enhance cost-effectiveness of public utilities and assist the Government to ease its fiscal deficit, it should also be attributed to The Link REIT incident which has demonstrated to us the relationship between privatization, share prices and the interests of shareholders of these assets after they are listed. Such interests are in conflict with the interests of the general public. Privatization plans may also affect the daily life of the public, the living of the working population, as well as the stability and prosperity of Hong Kong. We consider it necessary for us to rethink the impact of privatization on Hong Kong.

First of all, the Government has expressed that the selling or securitization of public assets was one of the ways to reduce fiscal deficit. However, I am afraid we have to disagree. For we consider this is just as shirking responsibilities. The Government, on selling some public assets in one go, must take into account that, in future, the authorities can hardly prevent these privatized public utilities from adopting commercial operation that aims mainly at increasing profit and the community will be affected.

Take the Hong Kong International Airport as an example, the current rate of return is around 2%, which, if assessed under commercial principles, is definitely unacceptable. However, the reason Hong Kong can become an international and regional aviation hub and logistic feeder terminal lies on the contribution made by the existing Hong Kong Airport Authority (AA) in management, and the good and competitive services provided by the airport as compared to neighbouring competitors. Once the airport is privatized, in order to uphold commercial principles, increase the rate of return for shareholders and attract investors in the share markets, the operator is bound to increase returns on all fronts. By then, Hong Kong's status as the international aviation centre will be undermined. Once this status is taken over by our competitors, the impact on the community at large is immeasurable.

If we are to discuss the drawback of running public utilities in a privatized mode, as many colleagues have said, the Eastern Harbour Crossing (EHC) is a case in point. Though the EHC is not operated under a privatization plan, it is a public facility operated under commercial principles, the outcome of which is equivalent to that of a privatized public asset. We all see that since the operation of the EHC is based solely on commercial principles, the EHC increases its tolls significantly before the economy of Hong Kong has recovered. This is exactly a demerit of operating public facilities under commercial principles. Upon the privatization of a facility, the Government simply becomes incapable of intervening the business decisions of the consortium concerned. Eventually, the enormous cost has to be paid by society as a whole. Therefore, we think for all the essential infrastructure facilities of a society, such as airports, tunnels, water supplies and even railways, it is inappropriate to introduce any privatization plan hastily before the long-term implications of such an arrangement on society have been clearly ascertained.

However, this view is not applicable to all public assets. We consider that for those service-based assets which are not infrastructure facilities and have

a competitive edge, they are more suitable to be operated under the privatized mode. We are referring to car parks, student assistance and finance schemes under the purview of the Government. However, we must understand that in order to ensure the effective operation of these assets during the period of privatization, a level playing field must be provided. Only if these assets or industries are not lagging behind their competitors will stakeholders strive to deploy resources to reduce wastage, enhance cost-effectiveness and quality of services to reap maximum profit. It is like the case of the existing telecommunications market. Therefore, we consider that the spirit of privatization lies in fair competition. Accordingly, the formulation of systems and legislation on fair competition is the cornerstone to the implementation of any real privatization plan.

To make actual improvement in eliminating shortcomings like low efficiency and low effectiveness in the public sector or government departments, we consider that the right remedy is to promote democratization in government departments and in the public sector with a view to establishing a mechanism which allows public supervision and participation. Therefore, we agree in principle to the spirit as set out in the original motion and the two amendments. Nonetheless, since some privatization plans are now underway, the shelving of these plans at present may incur greater loss to society, we have reservation about the proposal of suspending the plans concerned. I hope Mr CHAN will understand our position.

Thank you, Madam Deputy.

MISS TAM HEUNG-MAN (in Cantonese): Madam Deputy, in view of the fiscal deficits for a successive number of years, the Administration then tries to open up new sources of revenue to get out of its financial predicament and so it resorts to the selling of its "family possessions". Such kind of financial policy induces the implementation of a series of public asset privatization plans. There are the listing of the MTR Corporation Limited (MTRCL) which has led to unprecedented response; the listing of the The Link Real Estate Investment Trust (The Link REIT) which has caused great controversies; the privatization of the Hong Kong Airport Authority (AA) with preparation work now being carried out in full swing, as well as the proposed merger of the two railway companies. The objective of public asset privatization seems to be heading forward in full

speed like an engine in full throttle. However, has something been overlooked as we go in full throttle? Has The Link REIT farce helped us in anyway to think about this issue carefully?

I believe every Member in the Chamber, including Mr CHAN, mover of the motion, will not deny the merits of public asset privatization, nor will they categorically deny the plans of the Government to privatize its assets. Firstly, public asset privatization plans may alleviate within a short period the financial pressure faced by the Government. The performance of public finance in the past two financial years demonstrates amply the important role the revenue generated by public asset privatization played in maintaining financial stability. On the day the MTRCL was listed, small investors went on a massive subscription spree and the Government had earned a large sum from this. The amount of capital frozen on the eve of the listing of The Link REIT was also massive. Had The Link REIT been successfully listed as planned on that day, the public coffer would likely have made a substantial income.

Moreover, public asset privatization plans may offer more investment opportunities to the public. For investors who desire to obtain a return higher than that generated from investment tools like deposits or securities but cannot bear the risk of shares trading, investment in public assets listed after privatization is a pretty good choice. As an example, the MTRCL share price has increased to a level higher than that before it was listed. In addition to receiving regular dividends, small investors who have subscribed the shares as a long-term investment when it was first listed, still manage to get a certain amount of book return. This shows that public asset privatization may provide a different type of investment choice for investors and so it is beneficial to the economy.

Madam Deputy, given the many advantages of public assets privatization plans, why are people opposing the merger of the two railway companies, and why did The Link REIT farce happen? The only reason is that many people, in particular the grassroots, have considerable doubt on the mode of operation of privatized public services. They worry that companies operating under commercial principles and mode will be absolutely profit-oriented, neglecting the need to provide good services to the public at affordable prices, and thus affecting the livelihood of the people and the development of the economy. For instance, if the MTRCL is privatized, will it, by using the interest of

shareholders as a defence, decline to offer any fare concessions or even increase its fares substantially? And, for example, if the AA is privatized, will airport charges and shop rentals be increased significantly? Will the public be charged additional fees?

In The Link REIT incident, the worries from the public were even more conspicuous. Tenants of shopping centres in public housing estates feared that they had to pay exorbitant rents after the privatization and that their shops might even have to close down. As for tenants of public housing estates, they feared that some small shops providing services to the residents may close down and as shopping centres are re-designed, this would cause them inconvenience in shopping. These worries eventually led to the application for judicial review, causing the abortion of the listing exercise of The Link REIT. The worries the public have on the privatization of public assets are absolutely understandable and fairly reasonable. If their worries are not removed, opposition will definitely gain force. If the Government had given careful consideration to the worries of the public and the legal aspects of the issue at that time, would the dream of half a million people to "make a small New Year's fortune" have been shattered?

Privatization is not a bad thing in itself, nor is it a scourge. The Government only needs to consider carefully the worries of the public and find a way to dispel them, the opposition will naturally disappear. Conducting an extensive consultation, responding to the aspirations of society and trying to dispel the worries of the public are essential measures that need to be implemented in every privatization plan. I cannot agree more to the proposal stated in the original motion calling on the Government to act prudently and conduct consultations. But I find another point in the motion quite puzzling, that is, why should the Government be asked to suspend all privatization plans before any discussion can be carried out? At present, both the proposals on the merger of the two railway companies and the privatization of the AA are in the studying stage where time and room for consultation, collection of views and making changes to plans are still available, why should we abandon all the efforts we have made and start anew? If these concerns of mine can be properly addressed, I will definitely support this motion. I have to stress that for whatever policy the Government may make, it must be based on the interest of the general public. Only a people-based philosophy of governance can be regarded as an ideal objective. Madam Deputy, I so submit.

MR PATRICK LAU (in Cantonese): Madam Deputy, the Hong Kong economy has declined in recent years due to the impact of external factors. It is just natural that public revenue drops as a result of the poor economic environment. On the other hand, however, expenditure on public services keeps going up because of the increasing demand. A long-term imbalance of revenue and expenditure has led to a fiscal deficit which has in turn prevented the Government from implementing its policies effectively. Under circumstances of financial stringency, services provided by the Government are also adversely affected. What the Government can do to resolve the problem is to increase its revenue by selling public assets, that is, launching privatization plans in order to alleviate the pressure of fiscal deficit and the people's burden.

Privatization plans aim at alleviating the fiscal deficit of the Government. These should be sound ideas. But if the process of privatization is not handled properly, it may be counter-productive and a well-intentioned scheme may backfire or even become a tool of political contentions. We are reluctant to see such undesirable consequences. So, before any privatization plan is launched, each step must be designed prudently and it should not be taken in a slapdash manner.

Because of the above reasons, I support the motion that the cost-effectiveness, return, legality and impact on the general public of a privatization plan should be comprehensively and thoroughly assessed and studied. And based on the findings of such assessments and studies, full and extensive consultations should be conducted in order to ensure that any privatization plan which may touch on public interest is accepted and monitored by all and is for the benefit of the general public. These points have been discussed by many Members already.

However, concerning the motion's suggestion that privatization plans should be suspended, I share the view of Mr TONG and Miss TAM and I have reservations about it because I am worried that procrastination of these privatization plans may adversely affect public finance and the general public.

Madam Deputy, apart from alleviating the Government's fiscal pressure through attracting investment from the private sector, the objective of public asset privatization plans is to address mismanagement in public organizations. If management is improved, many problems can be resolved. We can find out the right answer to the problems. For instance, through adopting the public private partnership (PPP) approach, the management of a public organization can

be outsourced to the private sector. Perhaps there are other PPP approaches that can also be considered.

So, in my opinion, the Government should reconsider the feasibility of adopting the PPP approach before deciding whether or not to adopt privatization, and that is, to sell off its assets to the private sector. In doing so, it can address the mismanagement problem of public organizations without selling its assets, which gives people an impression that the assets are sold cheap.

However, when deciding to adopt the PPP approach, a number of principles must be considered. In my opinion, Madam Deputy, the following principles should be considered: first, the Government should announce the reasonable market price or details concerning the land involved; second, by making reference to the practice of other countries, a simulation study of the business concerned and a detailed analysis on cost-effectiveness should be conducted before tenders are invited; third, most importantly, bidding must be conducted in a fair, equitable and open manner; and fourth, enterprises of different sizes should be given equal opportunity to take part in projects of various scales.

By adopting the PPP approach under these principles, it can help enhance the potential value of public organizations. If privatization plans are really to be implemented in future, more people will be attracted to invest in them with confidence. As a result, a better price can be fetched for the assets in question and the public interest can be enhanced.

(THE PRESIDENT resumed the Chair)

Thank you, Madam President.

MS AUDREY EU (in Cantonese): Madam President, many Honourable colleagues have talked about the merits of privatization and the general public also agree that privatization will improve the quality of management, operation and efficiency. Besides, privatization of assets will provide the public with a sound investment opportunity. However, after The Link REIT case and even the recent increase in tunnel tolls by the Eastern Harbour Crossing (EHC), the issue of privatization has become a controversial topic again.

In fact, the 2003 Budget pointed out that in order to increase revenue or eliminate the deficit, the Government would sell or securitize assets worth \$112 billion during the period from 2003 to 2008. Such a decision has also triggered a series of privatization moves made by the Government in recent years. In other words, the major motive behind the launching of privatization by the Government is to sell "family possessions". Apart from telling the public that the purpose of privatization is to increase its non-recurrent revenue, the Government has not clearly explained the spirit, objective and principle behind it.

Madam President, in principle, I do not oppose privatization. After reading Mr Albert CHAN's draft speech, I agree to the majority of its contents. In response to his motion today, all colleagues have mentioned what measures should be adopted or how to play safe in launching privatization. I also agree with them. I would like to point out that privatization is not only a slogan or a listing activity. Nor is it the first step towards "small government, big market". The privatization of public assets may touch the interests of many people. Through privatization, some companies will be able to enjoy monopolistic advantages and hence can increase their fares and charges arbitrarily, thus adversely affecting public interest. So, I support both the views and the necessary safeguards as Mr Albert CHAN has mentioned in his speech and in his motion.

The Government should not simply base on any principles or consider the issue from the financial perspective and conclude that privatization is justified and supported by all. To launch any privatization plan, the Government should consider the worries and requests of the stakeholders, set up a relevant regulatory framework and provide specific data to illustrate what economic benefits can be reaped. Most importantly, full preparation should be made in order to ensure that the plan concerned has a sound legal basis.

The EHC case is also a painful lesson to be learnt. The BOT mode is another type of privatization. But the difference is that the asset concerned is first managed by the private sector before it is transferred to the Government. The fact that the EHC toll hike has led to seething popular discontent reflects that the arrangement made is full of loopholes from the outset. For instance, there is a lack of a monitoring organization and in case there is a dispute concerning an application for toll increase, it is to be decided by arbitration which lacks in transparency. In fact, arbitration is only suitable for resolving disputes between

private companies. As to whether arbitration is a suitable way to resolve disputes concerning services which will have a great impact on the public interest, I think the Government should reconsider it. More importantly, the Government has tackled each tunnel on an individual basis, without considering whether vehicular flows can be effectively diverted by means of a toll increase on the basis of the cost structures and the conditions for toll increase in the three tunnels.

As regards the shopping malls and carparking facilities of public housing estates, the airport and the two railways, these are public assets which are each worth tens of billion dollars. If there are any mistakes in the privatization process, the services concerned may be adversely affected or the fares may keep increasing, these will seriously affect the people's livelihood. The airport, in particular, enjoys a natural monopolistic status. Will it increase the landing charges dramatically in order to enhance the rate of return on capital or build a new runway? After the privatization of the airport, can people share the fruit of efficiency enhancement? Are the mechanisms for preventing monopolistic action sufficient? There are a host of problems to deal with.

In many countries, ad hoc monitoring organs will be set up when their airports are privatized in order to strike a balance between public interest and commercial principles. For instance, the airports in the United Kingdom are monitored by the Civil Aviation Authority and the Competition Authority. Moreover, the fees and charges of airports, which are subject to a certain ceiling and regulated by some price fixing formula, are reviewed once every five years.

Madam President, I fully support the similarities shared by the original motion and the two amendments, as well as the details or the suggestion that full and extensive consultations should be conducted before launching privatization plans. However, the crux of the issue is that the original motion or amendments only mention that privatization plans should be suspended. If people look at the motion from such perspective, I am afraid that they may think that we oppose any "across-the-board" privatization plan. In fact, we only think that in everything we do, we should act in a prudent manner and examine public interest and the interest of stakeholders carefully. So, Madam President, even though I agree to all the contents of the motion, I find it difficult to support it because of the wording "suspend". So, I will abstain when we vote on the original motion and the amendments. Thank you, Madam President.

MR LEE CHEUK-YAN (in Cantonese): Madam President, on behalf of the Hong Kong Confederation of Trade Unions, I would like to tell the general public in Hong Kong categorically that we oppose privatization as blindly pursued by the Government. We also oppose "big market, small government" as reiterated by the Government time and again.

All governments and organizations in the world, including the World Trade Organization which will hold a meeting in Hong Kong in December this year, are doing the same thing, and that is, engaging in the transfer of benefits and collusion between business and the government. The Hong Kong Government is one such example. It may say that all governments in the world are doing the same thing. But in fact all the people in the world are also requesting their governments to pay attention to people's livelihood instead of just seeking investment and profit-making opportunities for multinational consortia. All trade unions and non-government organizations in the world are unanimously of the view that privatization blindly pursued by the government will jeopardize the interest of the people.

However, I will not talk about what is happening in the whole world in such an abstract manner. I will only talk about Hong Kong. Firstly, I wonder why the Hong Kong Government, on some occasions, is so fond of maltreating its civil servants. Whenever it talks about privatization, it will severely criticize the civil servants to the effect that they are worthless. Whenever it mentions privatization — Mr Patrick LAU has also mentioned that it is necessary to improve the quality of management — in other words, the civil servants are not doing a good job and because of their poor management, and so privatization is necessary. I really do not understand why the Government always belittles the civil servants and heaps praises on the private enterprises as if they can do magic. It seems that once public organizations are run by them, the quality of management can be upgraded instantly. As a matter of fact, the quality of management has not been improved but the exploitation of staff has instantly become much more serious. Concerning the privatization process, Madam President, we can see that there are three major harms:

The first one is that the public interest is jeopardized and the people will suffer. This can be seen from two perspectives: first, once a public asset is privatized, the price of the services will immediately go up and there is a need to raise the price further; second, accountability will disappear immediately. Because it has been privatized, how can there be any accountability? Even

when a complaint is lodged, it is only dealt with in an indirect and ineffective way: The complaint is filed with the Government which will in turn monitor the management company. Eventually there is no more accountability. So, this is the first major harm.

The second major harm is the harm done to the existing staff. Whenever privatization is mentioned, the Government is very keen on saying that the existing staff will not be affected. This is because everybody is trying to "outlive" the other. What does that mean? The existing staff will not be affected because they will not be dismissed. But the first thing the Government will do is to introduce some schemes which are designed to lay off the staff in a disguised way. It is the so-called voluntary departure scheme which has led to low morale of the staff. No matter it is a "fat chicken" or a "thin pigeon", the purpose is to induce and tempt the staff to resign by handing out money. As the number of staff has gradually decreased, these stable jobs — all jobs in the public sector are quite stable, Madam President — will gradually disappear. Job seekers will have to work as contract staff because job stability has gone.

The third major harm is the harm done to the workers employed under the Government's outsourcing policy. After the services have been outsourced, the wages will also be reduced. How then can cost-effectiveness be achieved? What is the magic behind? The answer is to cut the wages as far as possible in order to enable the organization to make a profit. In doing so, it may be more cost-effective or cheaper by hiring these workers than civil servants because these workers are subject to serious exploitation. This is the third major harm.

We can illustrate the impact of these three major harms clearly by citing a few examples. Madam President, during the outbreak of SARS, for example, I remember that the Housing Authority (HA) had offered to reduce rents. Then the concession was cancelled. This is exactly what public interest means. In future, when all public assets have been privatized, the Government cannot affect the practice of the private sector by any policy. Even though a serious problem has occurred, the Government can do nothing and the HA cannot offer rent reduction as before.

Secondly, it is outsourcing policy which has caused a lot of hardship to the staff. Frankly speaking, The Link REIT will keep outsourcing its services in future. By comparing the wages of the workers working for the subcontractors and the existing civil servants of the HA, we can see how the staff are adversely

affected. The listing of The Link REIT will jeopardize public interest because, apart from the fact that there will be no rent reduction as I have just said, rents will go up at any time as the organization will try to maximize its profits. The rents will then drive up commodity prices which will be borne by the buyers. This will in turn put public interest at risk.

Another example is the issue concerning the Eastern Harbour Crossing (EHC) which has recently become a contentious subject. Obviously the EHC has adopted the BOT model of operation and it can increase its tolls at any time. Even though the rate of increase is so huge, the Government can do nothing. Again, public interest has obviously been damaged. Another example is the MTR Corporation Limited (MTRCL), which can be said to be a semi-privatized company. Even though it has earned tens of billion dollars, we cannot demand a fare reduction from it. Traffic expenditure in Hong Kong is totally out of the Government's control. Even though Hong Kong people have always complained that traffic expenditure is high and their wages are low, the Government can do nothing because the MTRCL is a listed company. So, obviously public interest is subject to significant and serious damage.

Cleaning work has also been outsourced. During the outbreak of SARS, who would be willing to go to Amoy Gardens? Of course, they would not be the workers working for the subcontractors. If I were the management, I would not advise them to risk their life for a monthly salary of just \$3,000 or \$4,000 and I do not want to take care of them for life if anything happens to them either. But the civil servants are different because they have a stable job and are willing to take the risk. So we should be able to see the difference. Madam President, all privatization plans will actually damage public interest. Thank you, Madam President.

PRESIDENT (in Cantonese): Mr LEE, time is up.

MR LEUNG YIU-CHUNG (in Cantonese): Madam President, the Eastern Harbour Crossing (EHC) becomes a much quoted example in today's discussion on the privatization issue. Why is it that all of us talk about the EHC? We all know without being told that this has to do with its substantial toll rise. In addition to unanimous criticisms from the public, the Government also keeps on cursing in the depth of its heart, only that it cannot publicly discuss the matter.

In the EHC toll rise incident, the Government appeared to be terrified, anxious and in fear of serious traffic jams, though there have been, fortunately, no such major traffic jams. This incident does show that raising tolls in this way is not the solution. Unfortunately, given its existing structure or overall operation, what can the Government do in response to the EHC toll rise? It is found that the Government can only raise its arms in surrender, for it is completely helpless. This explains why we cannot but quote the EHC as an example in today's discussion on privatization.

Actually, this incident reflects a very important fact that the problems caused by the privatization of these public organizations will definitely be very serious. In addition to their direct and close relationship with the public at large and the community as a whole, the impact will be very far-reaching too. As such, we cannot but examine this issue. Nevertheless, it is a great pity that we did not see the Government reflect deeply on the EHC issue. Instead, it was seen accepting the matter as it was.

As pointed out by a number of Members earlier, owing to the "big market, small government" principle, this situation will only continue. Let me cite The Link REIT as an example. We see that the Government has not shelved The Link REIT plan because of what it has learnt from the EHC case. Instead, we see that the Government is making active preparations to continue its listing plan when the litigation is over. It is thus evident that the Government often does not know how to draw lessons and learn the experience from these cases. This is a cause of grave concern in us. Therefore, this motion topic proposed today is imperative and worth discussing.

Madam President, privatization is generally understood as the transfer of the ownership of an organization to the private sector. However, the means of privatization adopted by the Government recently is not like that. Instead, these public organizations are demutualized so that shares of these organizations can be freely traded on the stock market. Examples of demutualization include the future listing of The Link REIT, as mentioned earlier, and previous cases like the privatization of the MTR Corporation Limited and the Airport Authority. This has worsened the problem because, when their shares can be traded on the free market, these organizations will have even more "say" in their future operation. In tackling any problems, their starting point will always be safeguarding the interest of their shareholders. This thinking can then generalize and override everything. If they are requested to lower their charges, they will say that such

a request will undermine the interest of their shareholders. If they are requested to provide more facilities, they will reject on the same ground. Although the shareholders' interest is taken as the prerequisite in all cases, the underlying factor is actually merely the preference of the organizations concerned. They can turn a deaf ear to any requests made by the general public. Therefore, the impact brought about by this form of privatization is even more serious than others. Moreover, the general public will then be unable to play its role as a watchdog.

Perhaps some people would ask this question: What is the point of worrying as managing these government organizations like private sector ones merely represents a change in their bosses? However, we see that it is not as simple as getting a new boss. This is because after their transformation, these public organizations can very easily operate in a monopolistic manner because they are still public service providers. This will give rise to serious consequences. People will have no choice when these organizations raise their charges. No matter if an increase is reasonable or not, we can only tolerate and accept it. Even if the services provided by these organizations are unsatisfactory, we will still be forced to accept. Let us look at the EHC case. We can opt for the Cross-Harbour Tunnel, but it is very congested. We can only use the Western Harbour Crossing (WHC), but the WHC tolls are even more expensive. We can thus see that this mode of operation will give rise to another one — monopolization.

Regrettably, despite our discussions with the Government over the years for other remedies, such as enacting anti-monopolization legislation as a means to curb monopolization, the Government has left this matter completely to the private organizations and has no intention at all to make any efforts in this respect. As a result, many public organizations still operate in a monopolistic manner, thus producing a profound impact on the public at large.

Actually, do private organizations necessarily perform better than public sector ones? Of course, the former appear to perform better in reality. But why? It is mainly attributed to a simple principle: These private organizations are not watched and monitored by the public and they are not required to be accountable to the public. This is the most important point. They can dismiss their employees and slash benefits at any time without the need to listen to any advice. In short, they can do whatever they like. The so-called cost control or effectiveness control measures can be implemented without being monitored at

all. Under such circumstances, although higher effectiveness and profits can be achieved, what are the consequences produced? As pointed out by Mr LEE Cheuk-yan earlier, this would leave employees unprotected, and benefits and wages can be slashed at any time. It is simply impossible for employees to say "no". In our opinion, this is absolutely detrimental insofar as employees are concerned.

Furthermore, with respect to other operational issues, as private organizations are not being monitored, they can do whatever they want without the need to give any procedural explanations. As such, they can decide raising charges and implement their decisions at any time. Moreover, they can do away with such work as consultation. The Government, however, operates differently. It must conduct consultations and give explanations. Insofar as society, particularly the democratic society nowadays, is concerned, these procedures are essential because these services are closely associated with the public at large. These organizations must not be permitted to act arbitrarily. However, this is possible once these organizations are privatized. I think this is not a good thing.

Madam President, in today's discussion on privatization, we must not, most importantly, look merely at whether this is good to the organizations concerned (*The buzzer sounded*) Most importantly, the interest of the public at large must be protected.

MR ALAN LEONG (in Cantonese): Madam President, the disputes over The Link REIT incident, precipitated by the privatization of public assets, have impacted on the rule of law due to the emergence of a judicial review subsequently and the Government's approach in handling it. Because of a change in the focus of discussions afterwards, society has found it impossible to debate the pros and cons of privatization in a comprehensive manner. Today, The Link REIT incident is expected to be resolved through legal means. As social conflicts have gradually eased, we should get down to business by seriously discussing the problems with the privatization of public assets and public services.

Privatization is not necessarily a plot designed by capitalists in collaboration with government officials; neither is it an inexorable truth of "those who follow it will prosper, and those who resist it shall perish". It is rather a

man-induced product under a specific space and time in history. In the '70s, European and American citizens vetoed the governance philosophy of "big government, small market" with their votes. With the political arena turning to the right, the state-owned economy gave way to the market economy. Poorly operated state-owned enterprises ended up either raising capital through listing and becoming self-financing after improving their management, or winding up their businesses after the cessation of capital injection by their governments.

Due to the great resemblance between Hong Kong and Western developed economies, and coupled with the economic plight confronting Hong Kong in the few years past, the Government is convinced that following the privatization policy of the West can eliminate our deficit and even revive our economy. However, has the Government thought of the fact that the privatization policy of Western society is built on a democratic political system, fair competition and comprehensive social welfare? Although Hong Kong cannot compare with Western society in these areas, it chooses to follow blindly the trend of privatization like an ugly woman trying to imitate a famous beauty.

Under the leadership of Britain's Lady Margaret THATCHER, the Conservative Party won the general election thrice. With the support of votes from the public, the Maid of Iron even resorted to enacting legislation to undermine the influence of the labour unions and remove the obstacles encountered in the course of privatizing the coal mining industry and other industries. Nevertheless, legislation was enacted in Britain a long time ago to regulate fair competition and minimum wages. Moreover, departments had already been set up under the Cabinet to specifically deal with unemployment relief and retirement benefit.

Even though reforms are backed by the established constitutional, economic and welfare policies, Britain after privatization is still confronted with an unprecedented disparity between the rich and the poor. With its Gini Coefficient standing at 0.368, Britain has risen to the second place among the 15 industrialized countries in terms of the disparity between the rich and the poor. In comparison, Hong Kong, with a Gini Coefficient of 0.525, has already confronted a worsening disparity between the rich and the poor, what would happen in the end if the territory, devoid of a democratic political system and a fair economic environment, choose to follow Britain's bold approach to implement privatization?

Let us try to take a look at The Link REIT incident. Although the listing of public housing services is far-reaching in implications, there is no way for the public to make known their position by voting on such an important matter, not to mention discussing in detail the problems with the distribution of social interests brought about by the listing proposal, for the Government here is not elected. Since the Government is not required to assume political responsibility, it has not bothered to explain to this Council and clarify the ambiguous provisions in the Housing Ordinance for the sake of obtaining a clear mandate. It has acted perfunctorily in tackling legal details. People pointing out dubious legal points were given the label of stirring up disturbances to create trouble in Hong Kong. The Government has even gone to great lengths to pressurize the court to give a timely ruling in its favour as it is determined to remove all obstacles to the listing of The Link REIT.

In the course of forcibly implementing privatization, the Government, without a full mandate of public opinion, has often neglected the impact of the public assets privatization policy, in relation to the distribution of wealth and resources, on the grassroots, both psychologically and in terms of their actual livelihood. It is also insensitive to such queries as the possible involvement of transfer of benefits. The Government tends to turn a deaf ear to the voices of opposition in the community, and a blind eye to actions of opposition. The forcible implementation of its privatization plans will only lead to greater social disturbance, thereby dividing up the community, intensifying class conflicts, and creating internal wastage. In the long run, social costs will rise instead.

In the course of implementing a policy to privatize public assets and services, the Hong Kong Government must acknowledge the fact that it is not elected by universal suffrage and has poor political acceptance. Before making a decision, it must fully address public aspirations and listen to public opinion and, in particular, permit the participation of this Council as far as possible. What is more, the Government must understand that not every public asset and service can be operated in the market model. After all, everyone is entitled to expect the Government to play its role in clothing, food, housing and transportation, health care, education, and other areas, instead of having to pay for every commodity.

While privatization can probably create more business opportunities and push Hong Kong economy forward, social and economic figures are not merely insensitive statistical data. Actually, the Government's responsibility and

commitment towards the disadvantaged group are included. In the course of privatization, everything must be taken care of and prudence must be exercised to ensure that privatization keeps pace with the liberalization of the political system, welfare reform and establishment of fair competition so that every member of the public, be they rich or poor, can be convinced that they can benefit from the process.

Madam President, I share very much the main arguments put forward in Mr Albert CHAN's original motion. In particular, I am equally worried that the Government has not only failed to act prudently, but also neglected the disparity between the rich and the poor created as a result of privatization. However, I disagree that, in order to review the Government's privatization notion and approach in practice, all existing privatization plans must be called to a halt immediately. For this reason, I cannot support Mr CHAN's original motion as well as the two amendments.

Madam President, I so submit.

MR WONG TING-KWONG (in Cantonese): Madam President, in recent years, the privatization of public assets has become a trend in various parts of the world with the goal of achieving the effect of "big market, small government". The SAR Government of Hong Kong is now making active preparations to enable the re-launch of The Link REIT, the merger of the two railway corporations and the privatization of the Hong Kong Airport Authority. It is hoped that the SAR Government can, in the course of implementing its privatization plans, draw lessons from The Link REIT incident and learn from the successful experience of the listing of the Mass Transit Railway (MTR) to truly gain support from all sides, enable the public to share the fruit of success and not to implement privatization simply for the sake of privatization.

The listing of the Mass Transit Railway Corporation (MTRC) is by far Hong Kong's only successful example of privatizing public assets. The fact that Hong Kong entered an economic recession after the Asian financial turmoil in 1997, with public finance facing a fiscal deficit year after year, has forced the Government to look at every possible measure to raise revenue and cut expenditure. While broadening sources of capital, the listing of the MTRC could also consolidate the local securities market and improve the Government's medium-range financial position. Moreover, the public were given a chance to

take part in this profitable public enterprise. The response of the community as a whole was positive. Nevertheless, the privatization of MTRC was an innovative move, for there had been no precedent in Hong Kong. Attracting more than 600 000 Hong Kong citizens to invest in the enterprise, the privatization of the MTRC ultimately proved a success.

Privatizing public organizations has the virtue of improving and upgrading the original productivity and efficiency of the organizations as well as improving services and easing the Government's financial burden through professional management in the market. The Government has also emphasized that, in deciding on the privatization of assets, it has to adhere to the principle that public interest would not be undermined for the sole purpose of fighting for the highest return for the shareholders. The SAR Government should act prudently in scrutinizing the privatization proposals of public organizations one by one and, when required, undertake consultancy studies, as well as putting in place a mechanism to ensure that the abovesaid principle is put into practice.

We are pleased to see the Government's fulfillment of the abovementioned commitments and its open-mindedness towards privatization. Should the relevant projects be able to meet the abovementioned requirements, gain extensive support of the community after consultation, and share the fruit with the public, we think we should give them our support.

The Democratic Alliance for the Betterment and Progress of Hong Kong therefore holds the view that, in planning every privatization project, the Government must carry out studies prudently, lobby and consult various political bodies and industries with a view to gaining acceptance from various sectors of the community to boost the people's confidence in privatizing public enterprises.

Madam President, I so submit.

DR FERNANDO CHEUNG (in Cantonese): Madam President, recently, the footage of the old lady, LO Siu-lan, declaring her determination to "knock on the tiger's head of TUNG Chee-hwa" was frequently replayed by the media when covering progress in the listing of The Link REIT. I believe many people would start cursing whenever this footage was shown. Some people might even criticize this old lady for "stirring up troubles", thwarting the proposed listing of The Link REIT and preventing others from making money.

It is a great pity that, with respect to such matters with far-reaching implications, namely a series of public asset privatization plans involving the realization of shopping complexes by the Housing Authority (HA), the privatization of the Airport Authority (AA) and the merger of the two railway corporations, what the media and the general public care about is merely whether there are any chances for them to invest and make profits. Little consideration has been given to the social issues of a deeper level behind these plans. Actually, the privatization of these public assets implies the transfer of property originally belonged to the community as a whole to the market for operation, and even possession. Such a transfer involves public interest. It is not the case that we can ignore these issues just because some people are making profits.

I clearly recall Secretary Dr Sarah LIAO said in a radio programme that she could do nothing about the recent incident of the Eastern Harbour Crossing increasing the tolls. Her conclusion was that public utilities were in conflict with private enterprises in terms of their ultimate goals. As the former acts ultimately in public interest and the latter in making money and personal gains, these two inherent differences will certainly lead to conflicts. However, under the influence of the ideology of neoliberalism, we will find that people have begun chasing after and blindly idolizing privatization and the application of market principles because of their belief that privatization would definitely improve efficiency. And here, efficiency, so to speak, is often simply regarded as profits. I would like to remind Members here that efficiency in the academic sense carries different layers of meaning. Enhanced efficiency in an organization does not imply increased efficiency in the community as a whole. Let me cite a simple example to illustrate my point. In order to raise its efficiency, the Pacific Century CyberWorks might be required to resort to a massive layoff in order to raise its efficiency. After retrenchment, not only will its efficiency increase, share prices will rise, the effectiveness of the company will raise and shareholders will benefit as well. However, subsequent to the trimming of hundreds, and even thousands, of employees, the overall efficiency of the community might fall, because we will lose hundreds, or even thousands, of staff who can originally be injected into our labour market. This explains why there are different levels of efficiency, and efficiency can even lead to conflicts. After privatization, the public sector can sometimes make use of these profit-raising methods as well as its monopolistic status to continue to raise fares or lower its quality of service, thus undermining the interest of the public or consumers. Let me cite the British underground railway as an example. After privatization, the British underground railway earned a lot of money, though a

substantial portion of its profit growth was achieved at the expense of lowering its safety standards. In an underground train accident that took place in Britain in 1999, seven people died and 150 others injured. This was indeed a bloody lesson to be learned. Is our society pursuing the same standard whereby profit is regarded as the only factor to measure efficiency? Upon the listing of the AA and the merger of the two railway corporations in the future, will public safety be paid as a price? Have the authorities concerned carefully evaluated these consequences?

Therefore, if only profits or effectiveness are pursued without mentioning efficiency or effectiveness in distribution, it will only hurt society. Of course, privatization could definitely bring some profits, yet the profits will very often be pocketed by a handful of people only. Given its semi-monopolistic status, public utilities will very easily become major blue chips upon listing. Certain companies can make huge profits from buying them in bulk. On the other hand, some enterprises might, after privatization, resort to retrenchment or outsourcing their work, and front-line staff will, more often than not, bear the brunt. This explains why the HA, as a public organization, will still listen to the Government's appeal and implement the guideline on imposing a lower limit on the wages of outsourced cleansing workers, thus greatly improving the income of cleansing workers and security guards. The Link REIT, however, is a private company. Even if it lowers the wages of the outsourced workers working in its shopping complexes in future, there are apparently no ways for us to do about it.

Actually, it is not necessarily appropriate to say that private enterprises are definitely superior to public utilities. With pursuing maximum profits as their goal, private enterprises sometimes will really sacrifice public interest. Should the Government privatize all the shopping complexes operated under the HA, for instance, will those less profitable shopping complexes in remote areas or housing estates with low spending power be forced to close by The Link REIT because of its benefit-oriented approach? In the end, the residents might be affected and they will have to travel farther away before they can buy daily necessities.

As such, public assets actually belong to the entire society. The Government must conduct extensive consultation and strive to reach a consensus with all sides before turning them into private property. Here I am not blindly opposing all forms of privatization and every effort of applying market principles. However, we must face squarely the consequences brought about

by privatization and application of market principles, including a major problem mentioned by Mr Alan LEONG earlier, namely the disparity between the rich and the poor. We must under no circumstances look only at money and hastily put up our assets for sale. Instead, we have to conduct a comprehensive assessment and show the outcome to the public so that everyone can take part in the process and make decision.

Madam President, I speak in support of Mr Albert CHAN's original motion.

MR ABRAHAM SHEK: Madam President, being a staunch advocate of "big market, small government," I support the idea of privatization in principle. It is my belief that privatization, if properly implemented, can be beneficial to the community at large. It promotes efficient use of public resources and enhances asset value, while offering an opportunity for Hong Kong citizens to share the city's wealth and assets. Unfortunately, the Government's privatization plans, with all their good intentions, have instead resulted in much discontent in various social strata. Perhaps it is time that the Government embarks on a major reflection on why and how it should proceed with its privatization programme.

The main problem with the privatization plans is that the Government is sometimes so eager to fill its coffers with the proceeds from privatization sales that it forgets its responsibility to manage and safeguard the greater public interest. For example, the way it handled The Link REIT listing certainly left much to be desired. The goal of wealth creation and redistribution was completely defeated by problematic asset valuation and unclear subscriber policies. Moreover, there are other criticisms that too much of the privatization programme is conducted behind closed doors of the bureaucratic machinery. To date, the Government has not even released a list detailing all the potential privatization projects or their priorities, even though its ambitious plan to sell as much as \$112 billion worth of assets in the following five years was announced in 2003. It is no surprise that demand for the Government to re-evaluate the rationale and direction of the entire plan is mounting.

At this point, I urge the Government to take heed of what is being said in today's motion debate, and to fully assess the whole privatization programme. Time is needed to readjust relevant privatization policies, to make them more coherent and responsive to concerns about cost-effectiveness, asset valuation,

investment return, regulation, legality and the impact on users and employees affected by privatization. It may also consider setting up ad hoc committees comprising cross-sector representatives in order to engage wider participation and facilitate discussions.

Of the many issues which need to be addressed, one which is causing grave and wide concern is — what level of investment return should be considered reasonable for the privatized entities after their listing. Making a decision on this issue will go a long way in dictating what fees are to be set for the essential services which our public have the right to enjoy. Affordable price adjustment mechanisms have also yet to be formulated for assets which occupy a monopolistic position and affect large numbers of users, like the airport and the railways.

Another important issue is the Government's land subsidy to those privatized entities. Both the Airport Authority (AA) and the two railways are commercially operated infrastructural projects. While they remain wholly-owned government assets, indirect land subsidy could be understood as a way to assist their finances, to overcome the problem of funding gaps, as well as to safeguard public interests. But when they become privatized, like the MTR, the practice would not really be acceptable. We cannot have valuable land transferred into private hands through any means other than open, competitive bidding. There is an urgent need to revisit this financing mode which is tantamount to backdoor transfer of scarce resources.

Moreover, there is a need to regulate the AA and the railway corporations' participation in their non-core businesses. With such huge stocks of "free" land under their control, the AA and the two railways have increasingly ventured into property development, estate management and even owning exhibition venues. In 2004, over half of the MTR's revenue came from property development. How much of these profits are being used to subsidize its fares? The answer is very simple — minimal. Regulating the scope of their business remains a privatization issue which needs to be resolved. Privatization must be for the benefit of the people in the immediate and longer terms.

Madam President, the process of privatizing public entities is still in its infancy, despite the fact that Hong Kong is a capitalistic free economy. So far, the Government has sold \$15.5 billion worth of housing loans to the Hong Kong Mortgage Corporation, and has successfully introduced a \$6-billion bond

programme for tolls and bridges which has raised the necessary funds without sacrificing assets. The balance of \$90 billion worth of assets is still in the pipeline for privatization. In addition, Dr the Honourable Raymond HO has rightly suggested that there are other controversial forms of privatization brewing in other sectors, such as the contentious plan to privatize water supply under a Public Private Participation approach. This involves reallocating massive amounts of public resources. After the disastrous halt of The Link listing, it is appropriate that the Government should further reassess the need and priority of its privatization programme of public assets.

With these remarks, I oppose the motion.

DR KWOK KA-KI (in Cantonese): Madam President, the motion proposed by Mr Albert CHAN today seeks to suspend the privatization plans. I wonder if it is because the new Secretary of Department or Bureau Directors appointed in recent years are all from the private sector — as we all know, Secretary Frederick MA, who is not here at the moment, is from the private sector; the former Financial Secretary, Mr Antony LEUNG, was also from the private sector — so they probably want to bring the Government some new concepts, so to speak, or introduce some new initiatives. Privatization probably provides them with the perfect material to do what they want.

Nevertheless, in studying whether privatization is justified and whether it is essential to Hong Kong, Members have to look at its purpose. The Government's securitization exercise of five tunnels and one bridge launched last year was well supported by the public, and the Government was even seen like handing out lots of sweets to the people. Securitization is one form of privatization. However, I am concerned that we can now see the two problems many colleagues discussed at length earlier, including the ones brought about by the privatization of the Eastern Harbour Crossing (EHC) and The Link REIT, as well as the numerous disputes arising in the course of privatization.

Undeniably, insofar as any government or region is concerned, there must be public sector and private sector participation. What matters is: What role does the Government play? I agree that the Government should play the role of a small government. If it is not absolutely necessary, the Government should not take part in or even impede market operations. However, the problem is, in the course of Hong Kong history, capital is very often required before some

projects can be developed. These projects include many of those relating to people's livelihood and public undertakings. At the preliminary stage, these projects have to rely on government subsidies. Of course, not all the government participation projects will necessarily be successful.

However, it is a great pity that when the Government considers it necessary to launch privatization plans, it would very often look for projects capable of standing firm in the private market or ones capable of making profits. It would be very short-sighted for the Government to launch privatization plans in order to reduce or resolve its fiscal deficit, why? To start with, although our public finances are having a structural fiscal deficit problem, we still have lots of ammunition, that is to say, assets which can be disposed of. It is groundless for us to, owing to some cyclical or unpredictable financial circumstances, such as financial hardship encountered after the SARS incident, allow the Government's long-term revenue, or golden eggs, to be shaken or affected.

Actually, I am a bit worried on seeing such privatization plans as the securitization of five tunnels and one bridge and the privatization exercise of the two railways or the AA to be launched shortly afterwards. On the one hand, the Government will not (and can hardly) launch unprofitable projects or projects incapable of luring investors, that is, for the subscription of investors or participation of consortia. Therefore, only profitable projects or so-called "golden eggs" can ever be launched in the market. This is like killing the hens to get the eggs. Many public utilities capable of sustaining their finances or those found to be an important or evidently valuable source of income to the Government have now disappeared after privatization. What remain are probably undertakings with low profitability or even requiring government subsidy. Should this be allowed to continue, the Government will certainly get into even greater trouble in future.

If reducing the fiscal deficit is not the objective of the Government in implementing privatization, some people will ask: Is raising efficiency the objective of the Government? I will partly agree if implementing privatization is to achieve the purpose of enhancing efficiency. Many public organizations, including the Housing Department, which has been discussed before, are actually not efficient and a lot of wastage has thus resulted. But the question is: Is privatization the only way to bring these organizations closer to the market and make them more efficient? The answer is apparently negative. This is because many services capable of being privatized or being considered for

privatization, such as fresh water supply, postal services, tunnels, railways, and so on, are actually closely associated with the people and might directly affect their livelihood.

I guess it would probably be very difficult to salvage the wrongly implemented plans or the controversial ones, such as the EHC and The Link REIT, because the Government is clinging obstinately to its course. For instance, in its deliberate bid to implement the plan, the Government will by all possible means re-table the proposed listing of The Link REIT to this Council for discussion. However, I really hope that the Government can have a clear concept of its objective before implementing other privatization plans. This is because, if it seeks only to achieve some very short-sighted goals, such as making the budget of a certain year to have a smaller fiscal deficit, and hence sells our most valuable assets, and in so doing brings more troubles to the people afterwards, we will really find ourselves trapped in a situation in which we lose sight of other considerations and have more losses than gains.

Judging from Hong Kong's current financial position, we have definitely not yet reached the stage when we have to sell all our family possessions. I agree that we have to suitably introduce private investment and private market competition to bring in market operation in some areas. This is a major direction we can definitely follow. However, the Government must stop blindly privatizing public utilities capable of helping it resolve its deficit problem and giving the people a stable life. I believe this is also in line with Hong Kong's long-term interest.

I so submit. Thank you, Madam President.

MR CHAN KAM-LAM (in Cantonese): Madam President, whenever mention is made of the privatization of public assets, many people would say that it is like selling family possessions. In general, people do not think favourably of selling family possessions and they think that only the prodigal son would do this or this is an evidence of a decline in family fortune. So whenever mention is made of privatization or selling of family possessions, a very bad impression would be created. Then people would raise their objection. As a matter of fact, there has long been privatization of public services in Hong Kong and it is also very common in foreign countries or on the Mainland. The question is as each asset is belonged to the public and so when dealing with each privatization plan, the

Government must act prudently. The motion moved by Mr Albert CHAN proposes that the Government should thoroughly study public asset privatization plans before their implementation and conduct full and extensive consultations. These are very similar to the view held by the DAB and we think these should be done. As to the point made by Mr Alan LEONG that since Western countries have a democratic political system and they have a sound social security system, therefore it is acceptable to launch privatization plans there, but since the Hong Kong Government is not formed by an election and there is no mandate from the people, so implementing privatization would easily lead to a transfer of benefits, in my opinion, this kind of labelling arguments on the privatization of public sector organizations would never help improve governance in any way. However, there is a point I share with him and that is, we should not propose that all privatization plans be suspended because not enough consultations have been conducted.

What I would like to point out is that as the original motion proposes that three privatization plans should be suspended and that ad hoc committees should be set up and conduct consultations, this is like wiping out all the studies and preparations done on these three projects. This is not fair to all these people who have put so much effort on these plans and it would be a waste of the money spent. This is also not the best way to use government resources.

Take the listing of The Link REIT as an example, though The Link REIT was formed in 2004, internal assessment work done by the Government started two years prior to its formation. The Housing Authority (HA) commissioned UBS Warburg to conduct a feasibility study on plans to divest some of its assets. A report was completed in end 2002 and it was entitled "Review of the Institutional Framework for Public Housing" and it was suggested that the HA should gradually divest its non-core assets. It can be seen therefore that the privatization plan is not devised without any careful consideration. Hence it would be totally unjustified to make the accusation that no study has been made by the authorities before the implementation of privatization.

In addition, besides studying into the feasibility of the divestment proposals, The Link REIT consultants report also touches on other issues of public concern and social problems such as how to deal with the retention or otherwise of the staff, how to minimize the impact of divesting assets on the market and so on. All these issues were discussed in this consultant report which was compiled at the initial stages when listing was contemplated. One

year before The Link REIT was set up, the HA began to contact 11 commercial tenant groups such as the Hong Kong Public Housing Estate Shop-operators Union, The Federation of Hong Kong, Kowloon, and the New Territories Public Housing Estates Resident and Shopowner Organizations, the Hong Kong Doctors Union, the Hong Kong Retail Management Association and so on. Staff from the Housing Department and The Link REIT Management held a number of hearings in various housing estates to listen to what members of the public had to say as well as conducting consultations and offering explanations. It would likewise be unconvincing to put forward the argument that the listing of The Link REIT should be suspended as not enough has been done to assess the impact on people's livelihood and so more studies should be made.

At the final stages of the listing of The Link REIT, it was forced to be suspended because what these scoundrel politicians did to initiate legal proceedings to everyone's surprise. Huge losses in public money as well as in the investors were incurred. For those scoundrel politicians and rogue lawyers who added fuel to the flames behind an old lady by the name of LO who took the case to the Court, they were all condemned by the people and this serves them right.

On the proposed listing of the Hong Kong Airport Authority (AA) and the merger of the two railways, much preparation has been made as well, including internal studies made in the Government, consulting the industries and collecting views from the staff affected and so on. About three years ago after the Executive Council had announced that a study would be made on the merger of the two railways, the staff of the two railways were consulted, consultants were hired to commence an internal study and later the two railways were invited to submit a joint report. The two railways were urged to set up channels to enhance communication with the staff. In addition, when preparations were made on the privatization of the AA, the Government had all along discussed the matter with the aviation industry and the trade unions. Officials took part in the seminars concerned and a lot of consultant reports and consultation papers were issued.

Of course, we all know that it is a very complicated thing to talk about the merger of the two railways and the listing of the AA. It is much more than divesting assets as issues about franchise, scale of development and policies are also involved. It follows that any move must be taken with great care and only after thorough planning.

As to the question of whether or not the preparations are enough, I would think that it depends on individual opinions. I would like to ask one question: If ad hoc committees are set up just to undertake similar studies and consultations which have already been undertaken, would the time of the public and resources spent be worthwhile? In the past, the Government was criticized for spending time only on endless studies and consultations and failing to come up with a decision, I really hope that the same thing will not happen again in this matter.

The aims of the privatization of public assets are not just to enhance operational efficiency and financing abilities but also to enable the public to share the fruits of success. I hope that in the debate today, Members can come up with some sound arguments and we can all put forward views on how public asset privatization plans are to be launched so that they can form the basis of government action afterwards.

Madam President, I so submit.

MS MIRIAM LAU (in Cantonese): Madam President, all along the principle of "big market, small government" is practised in Hong Kong. That is why the Government is not holding too many public assets of commercial value and for those public assets with commercial value, most of them are transport infrastructure facilities. As these transport infrastructure facilities touch on community interest as a whole, if the Government wishes to privatize its public assets, it must be done with great prudence and after meticulous consideration, lest public interest may be compromised. However, when we demand that the Government should exercise great prudence, it does not mean the privatization plans should all be suspended.

The privatization of public assets first began with the listing of the MTR Corporation Limited (MTRCL). The MTRCL was listed in October 2000. Not only are members of the public given a chance to invest in the MTRCL, making 600 000 people shareholders of the MTRCL, but also the accountability of the MTRCL is enhanced. From then on, the MTRCL would not only just be accountable to the Government but also to the small shareholders. Though the MTRCL is accountable to its shareholders, it does not mean that the interest of the public at large is neglected. Through the workings of the market forces, the MTRCL has since its listing involved in opening more sources of income while cutting expenses. Its productivity has been raised and so fares are kept at a level similar to that prior to the listing. As a matter of fact, the MTRCL has

never adjusted its fares since 1997 and a lot of concessions have been given to the passengers.

Looking from the privatization experience of the MTRCL, public response to the privatization of government assets is positive. This proves that the Government's attempt to privatize public assets is feasible. Last year the Government launched the securitization of the five tunnels and one bridge project. The response was overwhelming. There was a two-fold oversubscription and small investors were each allotted one lot and \$6 billion was raised. This is not only the first securitization of government bonds issued in Hong Kong but also the greatest bonds securitization project in the region. It helps consolidate Hong Kong's position as a financial hub.

Actually, privatization of public assets has been carried out in many countries and Britain is an outstanding example of this. As early as in the 1980s when Mrs THATCHER was in power, Britain began to launch privatization plans, in areas like petroleum, civilian and military aeroplanes manufacturing, telecommunications, railways and so on. In Britain, after public asset privatization plans have been implemented, not only is there a reduction in government expenditure on subsidies but that extra revenue is generated. In the late '80s, the British government coffers gained as much as £8 billion each year in average from the privatization projects. Though the amount only took up 2% of the total public revenue of Britain, it was sufficient to enable the THATCHER Government at that time to offer remissions in the salaries tax. The lowest marginal tax rate was reduced from 33% to 25% and the highest marginal tax rate was slashed from 98% to 40%. From this it can be seen that it is the public who will gain in the end from public asset privatization plans.

Coming back to Hong Kong and speaking about the proposed merger of the two railways, if this would become a reality, a synergy effect can be produced which will in turn enhance operation efficiency and hence creating room for the downward adjustment of fares. At least there would be room to adjust transfer fares when passengers use railway services provided by the same company. Just imagine, for a trip from Sha Tin to Mong Kok, if someone uses an Octopus card for adults and takes a train on the East Rail, he will need to pay \$5.1; but if he transfers in Kowloon Tong and goes to Mong Kok, he will pay an extra \$4.6. The total fare for the whole trip would come to about \$10. If he goes from Sha Tin to Tsim Sha Tsui, he will need to pay \$7.6 if he takes the East Rail to Tsim Sha Tsui East. But if he makes a transfer in Kowloon Tong, he

will have to pay an extra \$3. Should there be a merger of the two railways, it is believed that the transfer fares will be cancelled or reduced. Hence the members of the public would be relieved of their heavy burden in traffic expenses to some extent.

As to the impact of the merger of the two railways on their staff, the Liberal Party has made it clear long ago that the Government must minimize the impact of the merger on the staff of the two railways as well as that on service quality. And one of the requirements stated in government studies on the merger is that no front-line staff of the two railways will be laid off because of the merger. As the Kowloon-Canton Railway Corporation would see the commissioning of some new extensions in the coming few years, plus the fact that the MTRCL is engaging in business activities both on the Chinese Mainland and overseas, so new job opportunities can be provided to their staff. Business in these areas may further expand after the merger.

It remains of course that the merger of the two railways is a most important proposal in the privatization of large-scale transport infrastructure facilities in Hong Kong. It touches on long-term transport policies in the territory and at stake are the interests of the public at large, the staff of the two railways and the interests of the existing and future shareholders of the MTRCL. That is why the Government must act with great care.

As for the plan to partially privatize the Hong Kong Airport Authority (AA), this still at a consultation stage at present. However, as privatization is likely to reap benefits for Hong Kong, we are of the view that the Government should continue to explore this possibility so that as market conditions tally and the time for divestment is ripe, privatization can proceed. It is in fact a global trend for airports to be privatized. Some international airports like those in London, Frankfurt, Zurich, Sidney, Beijing, Shanghai, Shenzhen and so on have all undergone privatization in a bid to raise airport service quality.

However, as there are still many areas of public concern regarding the partial privatization of the AA, sound and thorough considerations must be made. Such issues include how to strike a balance between the maximum profits sought after by the shareholders and the protection of public interest from being compromised. If in going after a high rate of return the Hong Kong airport is wilfully increasing all kinds of fees and charges, this will not only add to the burden borne by passengers and cargo owners, but it will also affect other

related industries like the shipping and logistics industries, the forwarding agents, the beverage and catering industries, the tourism industry and so on. As a result, the overall economy of Hong Kong will stand to suffer.

The airport is a vital infrastructure facility and it is where the overall economy and social development of Hong Kong are hinged on. On a security level, if there is any lapse in management on the part of the new company formed after privatization, this is likely to undermine the long-term competitiveness of Hong Kong and hence downplay its role as a transit airport and aviation hub. Therefore, the Government must be very prudent with respect to the plan to privatize the airport and views from all quarters must be given adequate consideration.

Success in the privatization plans will bring a lot of benefits to the community, including improving people's living, raising operation quality, permitting a sharing of wealth in the public and increasing employment opportunities and so on. If we follow the proposal made in the original motion to suspend the privatization plans regarding The Link REIT, the AA, the merger of the two railways as well as all other privatization projects because of the need to thoroughly assess and study the relevant issues, this would on the contrary not to the advantage of the community.

Madam President, I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR SIN CHUNG-KAI (in Cantonese): Madam President, originally I had a plan to propose an amendment to Mr Albert CHAN's original motion to delete the part on "suspend the privatization plans concerned and that, before the implementation of any public asset privatization plans, ad hoc committees comprising representatives from various sectors of the community should be set up". However, after discussing with Mr Albert CHAN, I have decided to withdraw the amendment and instead I would oppose to the original motion.

As early as in November 2002 when the Democratic Party submitted recommendations on the Budget to the then Financial Secretary, the idea of securitization of government assets was raised. The government assets we had

in mind were the five tunnels, the government car parks and the car parks and shopping malls run by the Housing Authority (HA). Then in the Budget debate in April 2003, we also agreed to the suggestion made by the Government in the Budget to divest its assets.

Madam President, with respect to the motion today, the Democratic Party thinks that many of the suggestions made by Mr Albert CHAN in the motion regarding the process and procedures of privatization can be supported, with the only exception that we have reservations about the point on suspending privatization plans. In the debate Members have cited many examples, some of which are about some facilities. Ms Miriam LAU also mentions airport facilities just now. Many airports in the world have been privatized irrespective of whether they are located in socialist countries or capitalist countries. An example of the former kind is the airport in Beijing in our Motherland. Examples of the latter kind are airports in Britain and many other countries in Western Europe. So the main point of the debate is not on this but on which side does the job better.

As for roads and bridges, I hope Mr WONG Kwok-hing would go and take a look at our stock exchange. He can then find many road companies listed in the stock exchange and this shows that even roads can be privatized. However, another point is that even as something is privatized, that does not mean that there is no need for the Government to monitor things. At times there is a need for the Government to exercise some sort of regulation. The mode of regulation can be the assumption of the role as the arbitrator by the Government or it can retain the power to raise fees and charges. All these are issues to be considered. If the Airport Authority wants to privatize the airport and when berth charges are to be determined, would this have to be decided by arbitration or would the Government retain the power to decide and take control over it? I would think some thoughts should be given to this. It follows that great prudence must be exercised throughout the entire process of privatization.

Today when proposing this motion, Mr Albert CHAN also presents many submissions and information which he collects. An interesting point is the example of Pakistan which Mr CHAN cites. I would think that there are always two sides to a coin. When there is a minister in charge of privatization matters in Pakistan, I can come up with an interpretation that the country attaches great importance to privatization and so a minister is assigned to handle privatization matters. It follows from this interpretation that they should be very much in

support of privatization and they would think that privatization is of vital importance. I think therefore that the motion moved by Mr Albert CHAN can be read in two parts, first, on whether or not there should be privatization; and second, how privatization can be implemented.

On the question of whether or not there should be privatization. Speaking from many international examples, I do not think this question of whether or not there should be privatization is a topic for debate any more. This is because most countries are doing this. What should be debated is only how can this be done better and how should public interests be balanced. Therefore, under this major premise, I am in complete agreement with the suggestion made in the motion in this regard. We also support the point made by Mr WONG Kwok-hing, Mr LEE Cheuk-yan and Ms LI Fung-ying that there should be participation from the trade unions in the privatization plans. It follows that in the entire privatization process, a proper balance must be struck between the interests of the staff, the trade unions, the public and the Government.

I should like to respond to what "Long Hair", that is, Mr LEUNG Kwok-hung, has said earlier. He said that the Democratic Party should not lend its support to privatization. He also said that he was a social democrat. I hope he could see that there are many countries in Eastern Europe and even other countries in Europe, that is, those in Western Europe, they all continue with privatization plans even after the social democratic party there has come into power. This is an objective fact. That is exactly what they are doing. So if we want to debate whether or not social democrats will object to privatization, I would suggest that we should all look at the Labour Party of Britain. Ever since it came to power in 1997, the privatization plans which it has launched are at least the same in number if not more than those at the time of Mrs THATCHER. I would also like to ask Mr "Long Hair", if he looks at the issue from the perspective of a social democrat, then how should he comment on the Tony BLAIR Administration?

I also hope that when thoughts are given to go ahead with privatization plans, the Government can learn some lessons. As there are bound to be a lot of public attention and debates caused by privatization plans, I would think that when the Government is to implement privatization plans, it should gain an endorsement from the Legislative Council as much as possible. It may seek to get the plan passed in this Council, either by submitting the plan in the form of

moving a motion or in the form of amending an ordinance. What the Government should avoid as much as possible is to bypass the Legislative Council. Instead, it should let the Legislative Council debate on the plan and formally vote on it. It does not matter if the Legislative Council is for or against the plan, the most important thing is to involve the Legislative Council in the privatization process. Having said that, should the Legislative Council vote against a certain privatization plan, to be honest and especially given the present system, I do not think the Government should implement the plan despite the opposition.

I agree with Mr Abraham SHEK when he said that during the privatization process, the Government must sever its ties with the original public asset concerned and the severance of such ties must be complete. Mr Abraham SHEK asked for example, that when it came to the question of land after privatization, should land continue to be granted by the Government? I think the Government must rethink this point. During the process of privatization, the Government must sever its ties with the public asset and it must not grant any government asset or land through the back door to the privatized company, such as the MTRCL.

Madam President, we will vote against the original motion today and abstain from voting on the two amendments. Though we agree that the views from the trade unions and the employees must be considered during the privatization process, as the two amendments still retain the proposal to suspend privatization plans, we will oppose to this point in the same way as we oppose to the original motion.

I so submit.

MR ALBERT HO (in Cantonese): Madam President, actually I would just want to say a few words to supplement what Mr SIN Chung-kai has spoken just now on behalf of the Democratic Party.

I remember a few years ago an expert came to Hong Kong from Britain and spoke on the subject of the benefits of privatization. The talk was given in Mandarin Hotel. Many Members went there to listen to the talk. The speaker said that it was the global trend to privatize and many benefits of privatization were pointed out. He said that almost anything under the sun could be

privatized — the management of prisons could be privatized and many other things could be privatized as well. I remembered I asked him an interesting question. I told him that our Government did not govern too well and could governance be privatized. He gave a humorous reply and he said there was nothing in the world which could not be privatized, but there were always political considerations and to privatize governance would invite a lot of political resistance.

I think words from the expert were to a certain extent very sensible and convincing. He also cited a lot of supporting data as well. But we cannot be spellbound by this myth and think that privatization is a panacea to all our problems. There are many things in this world that when consideration is given to them, issues like cost-effectiveness and efficiency in management, as well as many other social and political factors, would all need to be taken into account. I think nowadays the situation in Hong Kong more or less is: some organizations have been for a long time operating under commercial principles and even if the Government holds 100% of their shares, in reality it would be difficult for the Legislative Council and the public to exert any substantial influence on them. Take, for example, the Kowloon-Canton Railway Corporation (KCRC), though it is said that the KCRC is owned by the Government, it is run as a private enterprise completely and it is operated under private-sector and commercial principles. Often times it is impossible for us to influence its fares and ask it to provide some information, and we have no say over its staffing arrangements and the remuneration of its directors and staff. In such circumstances the KCRC has become a kingdom of its own. A kingdom like this does not have any advantages. Though there are government officials who serve as directors on its board, they have never exerted any influence on the operation of the organization as government officials. Therefore, I would think that if these organizations are privatized, it would be more advantageous. This is because with market competitions these organizations may become more cost-effective in their management and it must make improvements to survive in the face of competitions. Thus privatization would of course be much better than the current situation where they are not accountable to anyone, operating as a kingdom of their own and do not have to face up to the pressure coming from competitions in the market.

I therefore think that one of the criteria for privatization is that if the organization concerned is already operating under market principles and provided that such a mode of operation cannot be changed and the public sector

mode of management is not suitable, then it would be a much better choice to privatize it. Of course, we know that for some of these organizations, such as the Hospital Authority (HA) which is tasked with public health care matters, their operation is only possible with the huge amount of support and finance from the Government. Though the HA is a statutory body and it has its own management, we have never considered privatizing it. Likewise, the situation in many other organizations will also lead to much contention. So we think that each privatization project must be carefully studied. Apart from cost-effectiveness, things like public aspirations and impact on people's living and so on must also be factored in. We should not generalize things and think that since there are definitely advantages to privatization and since it is definitely a major trend of the times, then we should privatize everything and think that everything can be privatized. This is definitely not what we think should be done.

Now there are a few projects which have been studied by the Government for a long time and in our opinion, these projects need not be suspended. If in future, a decision is made to privatize them, I would very much agree with what Mr SIN Chung-kai has said just now that the Government should gain the support of the Legislative Council in such privatization plans and it would be much better if privatization is achieved by legislating. This is because only by legislating can powers be clearly delineated and hence prevent the Government from facing legal challenges. Had the listing attempt of The Link REIT last time gone through the legislative process, at least there would not have been any application for judicial review and there would be no one putting up a challenge to the powers of the Government. Since the privatization of public assets is such an important choice to make and as the mode of operation and the identity of the stakeholders will all have to change, there should be more debates on these issues. A better still option is to gain the support of the Legislative Council and the best option is to put all things into force by legislating.

Finally, I would like to stress one point and that has been mentioned by Mr Abraham SHEK and Mr SIN Chung-kai earlier, that is, after privatization is achieved, the enterprise concerned must never gain any support or subsidy from the Government again. All along, I am strongly opposed to the provision of government subsidies to the MTRCL after it has been privatized. It is definitely not acceptable for the Government to act in the absence of endorsement from the Legislative Council and decide to forgo an income in dividends to the amount of hundreds of million dollars to subsidize a company held by tens of thousand shareholders. In future, the Government may even grant land to the MTRCL to

build properties on the top of its stations, this is totally unacceptable. Thank you, Madam President.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ALBERT CHENG (in Cantonese): Madam President, after listening to the speeches made by many Members, I find that many people cannot tell the difference between to privatize and to privately run some organizations. The Hong Kong Link bonds of five tunnels and one bridge are not a privatization move but that of securitization. The Link REIT is not a farce but a tragedy. Today Mr Albert CHAN moves a motion to call for the suspension of privatization. This is not a wholesale rejection of privatization. Many Members when giving their speeches display a reservation about privatization but they do not agree to or do not support the passing of this motion on the suspension of privatization. I can assure Members here that even if this motion is passed today, motion debates in this Council are not binding and again our future Chief Executive is likely to say, "Sorry." So Members need not worry, for even if we have reservations about privatization, please vote in favour of Mr Albert CHAN's motion. This is because the Government will not be bound by this motion debate of ours.

Henry TANG, the Financial Secretary, said that it was not prudent financial management to use non-recurrent income to support recurrent expenditure. Privatization is like selling family possessions and it cannot solve the fiscal deficit problem. The most important thing is to increase revenue and cut expenditure. In recent years, the term "privatization" has gained great popularity. Last year the listing attempt of The Link REIT was challenged by some tenants of public housing estates in a court of law and the listing was shelved eventually. There were some views which claimed to be rational and seemed fair put forward by some people but they were actually scathing attacks on people who lent their support to those public housing tenants acting under the law to protect their lawful rights. These attacks are unabashed attempts to smear and discredit the powerless public housing tenants and Members of this Council and their representatives who act according to the law to defend their lawful rights. They tried to insult people but failed to put up any convincing arguments. The only pretext put up by the Government is that privatization is a sweeping global trend and it is in line with the financial management philosophy

of the Government of the Hong Kong SAR, that is, "a big market, small government". It is also said that privatization means people taking the lead and economic benefits accorded the first priority, hence there is bound to be a success and the financial woes besetting the Housing Authority (HA) will surely be gone.

Leaving aside the claim that the HA by listing The Link REIT and divesting all the public assets under its name, it can really solve its so-called financial problem which is in fact non-existent, the attempt of the HA to divest assets which yield as much as 20% of its annual income is none but killing the hen to get the eggs. The move is also a destruction of public housing policy. This is where the problem lies. We may agree with the HA completely in taking forward this privatization policy, but speaking from investment returns and supervisory functions, after the listing of The Link REIT, the HA will no longer have any share in the new company. The situation is vastly different from the privatization of the MTR Corporation Limited (MTRCL) where the Government is still the major shareholder. So would the listing of The Link REIT be in the best interest of the Hong Kong society as a whole? This puts people in great doubts.

As a matter of fact, privatization involves a transfer in the ownership of public assets and it touches on the fundamental interests of society as a whole and all sectors across it. So no rash action can be taken because each move taken will entail grave consequences. For the Legislative Council, it has never made any in-depth discussions on this issue which is a fundamental one and one of principles. For the Government, it has never submitted any discussion papers on public asset privatization policy. The three major parties of the Legislative Council gave their support to the listing of The Link REIT, all so thoughtlessly. This is irresponsible. More so it shows that there is no thorough understanding on the part of some political parties and Members on privatization and this borders on sheer ignorance.

To privatize and to privately run an organization are two different things. The former is about a change in ownership while the latter only touches on a change in the mode of operation, that is, to one which is market-led and with the aim of raising economic benefits and income. Actually, over the past decade or so, many government bodies and public services have been running like private organizations in disguise, such as the Hong Kong Post and the trading fund of the Electrical and Mechanical Services Department. The only example of a truly

privatized public asset is the MTRCL. But it is not 100% privatized, as the Government is still the major shareholder and it has the final decision-making power. Even when bonds are issued and listed after the securitization of the five tunnels and one bridge, the ownership in these public assets does not change. The power to manage is still safe and secure in the hands of the Government. If on this occasion The Link REIT can be listed successfully, this would be the first time ever when public assets are fully privatized. After the listing, The Link Management will need to be accountable to the shareholders and the Government will not have any say at all. Having said that, as shopping malls and car parks in the housing estates are basic facilities in the public housing estates and these are related to the rights of close to 3 million public housing tenants, how can the Government act so thoughtlessly and take its hands off it?

Public housing tenants are very worried about their right to use the car parks in the public housing estates. The Link Management wants to cancel the parking concessions for the shopping malls. This results in a decrease in people visiting the shopping malls. One can therefore see the harm done before any benefit is reaped. The case reminds people of the Hung Hom Peninsula, that is, since ownership has changed hands, the developers are obsessed with making profits, so they can act according to the law and they have the power to decide how to dispose of the assets under their name. In the end, conflict erupted in society and it almost got out of control. Another example is the increase in tunnel tolls by the Eastern Harbour Crossing. As it is privately-owned asset, this public utility which has a far-reaching impact on people's living can afford to embark on a frantic fee hike, resulting in huge out-of-sector consumption. But the Government can do nothing about it because it is bound by the terms and conditions in the agreement. From these examples we can see that for these public services or public utilities, as public interest and fundamental issues are at stake, the social costs and social benefits must be counted and weighed in and no rash steps can be taken.

Admittedly, the question of privatization is a very complicated one. Different public assets should be dealt with differently, taking into account their own special social and historical factors and also the actual situation. No two are the same. The key factors to be considered are the so-called out-of-sector consumption and out-of-sector benefits, both being terms used in economics. It follows that privatization has a bearing on the long-term benefits of Hong Kong society in general and various sectors in particular. It is unfortunate that the Government has never submitted any discussion paper on this policy, hence there

is no way the Legislative Council can engage in any in-depth discussion on this subject. The public at large is not consulted extensively and likewise there is no way views from the public can be expressed. In circumstances as these, how can the Government adopt a matter-of-fact attitude, taking everything for granted, heedless of the consequences and launch a wholesale privatization of all public assets across the board?

I therefore support the motion moved by Mr Albert CHAN. Thank you, Madam President.

MISS CHAN YUEN-HAN (in Cantonese): Madam President, today's motion is about privatization, that is, privatizing the existing government departments or public organizations.

Ever since joining the Legislative Council in 1995, I have seen many such proposals presented by the Government, such as the trading fund of the Electrical and Mechanical Services Department, the listing of the MTR Corporation (MTRC), and then the listing of The Link REIT. Next, we shall have the Sha Tin operation of the Water Supplies Department. Some years ago, there had been a plan to privatize the Survey and Mapping Office, which was eventually shelved by the Government due to strong opposition in the Legislative Council then. In fact, we can see that at that time the Government was proposing to privatize these organizations and trading funds or seek them listing. As just said by Mr SIN Chung-kai, it was an outside trend that came over to Hong Kong, and Hong Kong was being influenced by it.

We always argue with the Government on this issue. We tell the Government that, when some countries say that they are going to launch privatization projects, they would always encounter certain problems in the process. Does the Government know clearly all the problems involved? It will not work if the Government just decides to follow the trend and implement the plans without first getting a good picture of the situation. If the Government has decided on something without first considering the process carefully, then those who will suffer most are none other than the service targets or the people, and then the list will go on to cover employees of the relevant departments or the public organizations. We have made a lot of criticism in this regard. Yet, unfortunately, it appears that the Government has not been getting this message very clearly.

Some years ago, the community was faced with an economic downturn. So the Government seemed to be particularly enthusiastic in launching such plans. As pointed out by Mr WONG Kwok-hing just now when he spoke on his amendment, we are not opposing all privatization plans. But the Government must be able to learn from its own past experience from the process of preparing the whole series of such plans before it should implement any further privatization plans. It should not implement such plan so casually and carelessly. At present, the circumstances are pretty funny in this regard. On the whole, the Government thinks that private organizations usually enjoy very high working efficiency. Therefore, once privatized, government departments and public organizations will then be able to inject competition, enhance their own efficiency and reduce costs and so on. This is what the Government often says. After having listened to plenty of such remarks, we feel that that the Government has become over-obsessed with such a practice. We often share such a joke among ourselves: It is understandable for the Government to have such undue obsession for the first time. However, after having seen the bad consequences that took place in other countries with such obsessions, and even when they had started to review their own practice and admitted that there were mistakes in the process, if our Government is still indulged in such an obsession, then the officials must be having a problem with their IQ or wisdom.

I am working in the Hong Kong Department Stores and Commercial Staff General Union, and know something about business operations. In fact, privatization does not necessarily mean low costs, high efficiency and good business. As a matter of fact, during the past few decades, we have handled many labour disputes, many of which involved famous shops, famous companies and famous organizations. They may have to close down too, and may also have the need to undergo structural re-engineering, and they may also have many, many problems. They may also face a lot of difficulties. So, if someone says that privatization will bring about all sorts of advantages, saying that it will mean low costs, high efficiency and good business, then I would say he has been over-obsessed with privatization, and maybe he has been — I am not sure if this is a proper term I should use — a bit "dumb". Madam President, I feel this term can be used. It is just a bit cheeky and casual.

The Government says that privatization can bring in competition. Sometimes, I may get angry over certain situations. I still remember some years ago, we could see that the working operations in certain government departments had really developed into ludicrous proportions. If we requested

some maintenance services from some departments, we had to go through many complicated procedures before we could get the services. Other people are advocating simplified leadership, but government departments are still working through multiple layers of management: We have many different senior officials at the top, and when it comes to the actual working level, there are only a handful of people there. There are a lot of people giving orders. The Government has never reviewed such a situation. It only says that, as the efficiency is so low, we have no alternative but to implement privatization plans. The Government is completely blind to the fact that, after decades of operation, a bureaucratic framework has already emerged. In fact, such a bureaucratic framework has already created a lot of farcical situations among the different government departments, and it may even have stopped the progress of certain projects. This is a fact. When we had advocated some reforms to be launched in the Government, and after we had made some efforts to change the situations, we found that, during the past few years, some reforms had been launched in some government departments and public organizations. They had also received a lot of suggestions. For some departments which are more willing to listen to the opinions of employees, they really show considerable improvement in their efficiency after reforms have been launched. As a matter of fact, there are plenty of such examples. Therefore, the Government should not carry on with its blind obsessions, such as, for example, that privatization is a panacea, privatization can reduce costs and privatization means efficiency and so on. I just wish to say, this is not the case. In fact, the two sectors have very different situations, and the Government must analyse these situations scientifically, instead of simply approaching the issue with an obsessive attitude.

Besides, I also want to say that some public organizations can never be privatized. Why? It is because some services must be provided by the Government. For example, a few years ago we talked about the Survey and Mapping Office which is responsible for the production of satellite maps, and they were working in government premises. Yet, with technological advances, we do not know how the future situation will eventually become. At that time, there was a suggestion of contracting out the services. Later the suggestion was shelved due to strong opposition from this Council. Another example is the issue of water supply. Today we still find the idea highly controversial. We absolutely do not agree to the privatization of water supply. In spite of some successful precedents, there were also some failure cases as well. I feel that, why can Hong Kong not continue to implement the system which has already

been working so successfully? Even for people coming from different parts of the world, they also think that the quality of our fresh water is the best. Madam President, when we travel to overseas countries, sometimes we may have to drink local fresh water in overseas countries. I do not know why, but I would invariably find some queer flavour in the water; perhaps it was because I have been accustomed to drinking Hong Kong water. I find Hong Kong water does not carry any queer flavour and is very delicious. I shall soon visit Taiwan. The water there also carries some queer flavour. Therefore, I think we must treasure departments which have been operating very well. Do not follow others blindly to pursue privatization just for the sake of privatization.

Madam President, I would like to mention another point. In the process of implementing privatization plans or seeking a public listing, some problems may emerge. The Mass Transit Railway (MTR) and the Eastern Harbour Crossing (EHC), as mentioned by some colleagues, are just typical examples. We can see that many accidents took place in the services of the MTR, and such accidents were caused by factors related to contracting out services. It was because after the company was listed as a public company, it had to exercise very strict cost control, that is, they had to save money. So, they had overlooked the fact that it was a public service, a mode of transport used by the public. Frankly speaking, from an objective point of view, this is indeed a realistic issue. Besides, I have recently received a complaint from some courier staff who said that the MTR Corporation Limited had openly declared that they could not make use of the MTR for performing courier services. This is a practice that would drive them to a dead alley. I feel that sometimes such organizations have to take some responsibility. As it is a public facility, why some service providers are prohibited from using the facility? With regard to the present problem with the EHC, in fact, the Government had said that there was nothing it could do in this case. At present, the increase of tunnel tolls of the EHC is as high as over 60%. What else can the Government do? No matter how hard the Government persuades the operators of the EHC not to introduce such a substantial increase, they simply ignore such advice.

Therefore, I really hope that the Government will not implement privatization on an across-the-board basis. May I ask the Government to consider carefully which projects are really necessary, and which projects are not necessary? Do not have such an obsession — do not think that privatization can remove all kinds of problems. Such words are meant only for those who make

a lot of profit. But for the Government, please do not make such comments anymore.

Madam President, I support both the original motion and the amendments. Thank you.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): If no Member wishes to speak, then I would now call upon Mr Albert CHAN to speak on the two amendments. Mr CHAN, you have five minutes.

MR ALBERT CHAN (in Cantonese): Madam President, both of the two amendments are not related to principles. They are on some of the contents found in the original motion, that is, they have added some recommendations on the benefits of employees, communication with employees and the scope of privatization and so on. In my opinion, these two amendments are in line with the overall spirit of the original motion. That is why I will support these two amendments.

Madam President, on communication with the employees, I would like to point out that this kind of problem often appears. It can appear in many sectors and such kind of problem frequently exists these days. Like today, many lifeguards and some representatives of the trade unions are staging a petition before the Legislative Council building. This is because when implementing privatization or when services are privatized, the Government has completely ignored the basic rights of the employees — and I stress, their basic rights. It is not that the Government has not consulted them. It has done so, but before any consultation is conducted, the Government has already a preconceived stand and that is: the service will be privatized definitely. That was the major premise under which the Government talked with its staff. In other words, the staffs will suffer for sure, the only question is how they will suffer. As a responsible government and in the face of a service which has been provided for decades and a group of employees who have almost worked their whole life for the

Government, this is not the approach to take and the mentality to hold. So I think the topics of communication with the employees and the scope of privatization as mentioned in these two amendments, have filled the gap in my motion exactly. I hope the Government can reflect on this, especially with a view to making an overhaul of the way it communicates with the staff. It must never conduct any consultation after it has formed a preconceived stand, for this will not be a genuine and formal consultation.

Therefore, despite the fact many Members have indicated that they will not support these two amendments, I would think that even if Members will vote against the original motion at the end of the day, they should support the two amendments. It is because these amendments have slapped the face of the Government resoundingly, waking it up to the importance of communicating with its staff. I therefore appeal to all Members that if in the end they vote against the motion, the original motion will likewise have no chance of passing; but if they support these two amendments, a clear message can be sent to the Government and that is, it must never neglect the abovementioned two areas.

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): Madam President, first of all, I wish to thank the 26 Members for their many valuable opinions on this issue. I will explain the views of the Government on a number of main points.

The objective of the Government's privatization of some of its assets is mainly to pool resources together and channel them to public services that must be provided by the Government. This is not only consistent with the principle of "big market, small government", but also provides the private sector with more room for development, so that the provision of services can be operated under commercial principles and they can be entrusted to non-government organizations. This will enable the natural adjustment mechanism of the market to be brought into play, thereby enhancing efficiency and cost-effectiveness. This will be beneficial to Hong Kong as a whole, including the taxpayers as well as to the development of market economy.

The Government understands that the assets involved in the privatization plans belong to the general public of Hong Kong. We will carefully consider the mode of the sale of assets, conditions in the market, and so on, to ensure that the assets are sold at a reasonable price. We absolutely will not rashly

implement any plan before carefully considering the justifications of the price. In this connection, we will seek the assistance of professional consultants to conduct stringent valuation of the relevant assets and formulate sales strategy for us. We will carefully handle various arrangements to ensure the legality of the privatization plans as well as their compliance with the relevant laws and regulations.

Before implementing any privatization plan, the Government will carefully consider the impact on society. We will certainly listen to the views of all sectors of the community carefully, particularly views put forward by people directly affected by such plans. Where the circumstances allow, we will incorporate their interests in our consideration as far as possible. Regarding the amendment proposed by Mr WONG Kwok-hing, I wish to particularly point out that the Government, like Mr WONG, is very concerned about the interest of the employees in the relevant organizations. During the privatization of the MTR, for instance, the Government had adopted suitable measures to ensure that the welfare and interest of employees were reasonably protected. Moreover, as the sale of assets is an issue of great importance, we will consult the Legislative Council and keep Members informed of the specific details in the entire process.

For example, we have conducted a comprehensive public consultation on the proposed privatization of the Hong Kong Airport Authority (AA), and the six-month consultation ended only yesterday. During the consultation, we received valuable opinions from many people and organizations. Some of the views are in support of the privatization of the AA, and there are also views expressing reservations and various concerns about the plan, such as whether the airport charges will be adjusted after the privatization of the AA, whether the welfare of employees and their employment terms will be subsequently affected, concerns over the use of land at the airport and compliance of the entire privatization plan with the relevant statutory provisions and so on. The Government will conduct detailed analysis of the public opinions collected over a period of time in the future and study the direction of the privatization of the AA. We will closely liaise with the relevant sectors and report to the Legislative Council and the public the progress in due course. I wish to stress that the Government does not have any timetable for the privatization of the AA, and we will not implement the privatization plan of the AA hastily.

As for the listing of The Link Real Estate Investment Trust (The Link REIT) which is of great concern to various sectors of the community, Members

have put forward many views in this respect earlier on. I wish to point out that the proposed divestment plan of the Hong Kong Housing Authority (HA) involves shopping malls and carparking facilities under the HA, and the profits to be generated from the sale of these facilities will be used for constructing rental public housing units. Before making a decision on the divestment, the HA had commissioned consultant firm to study the various options of divestment and make recommendations. Since a decision was made in July 2003 to divest the relevant facilities, the HA has maintained communication with the parties concerned by, for instance, distributing pamphlets to all shop tenants and all members of District Councils (DCs). The pamphlets are also made available to domestic tenants at estate offices. The Housing Department has met with a number of major organizations of shop operators. It has given briefings on the divestment plan to the Legislative Council Panel on Housing as well as individual DCs on request and listened to their opinions. The HA has made great efforts in conducting consultation on the listing of The Link REIT, and there are sufficient channels for the relevant sectors and organizations to express their views.

Earlier on some Members mentioned the plan about the Sha Tin Water Treatment Works, and I would like to talk about it here. Regarding the staff arrangement over which Mr WONG Kwok-hing and other Members have expressed concern, I understand that the Secretary for the Environment, Transport and Works, the Permanent Secretary and the Director of Water Supplies already met with the seven major staff unions of the Water Supplies Department and representatives of the joint conference in December last year, and views were exchanged candidly. We hope that the employees can maintain continuous communication with the bureau and the department and actively participate in the process and provide input, so as to reach a consensus and work out a proposal acceptable to all sides through concerted efforts. We will certainly assess the impact of the implementation of PPP on the employees carefully, and we have indeed undertaken that there will not be forced redundancy and that desirable arrangements will be made. So, what I wish to say is that the Government is very concerned about the employees in these divestment or privatization projects.

For these reasons, I wish to state expressly that the Government does not agree with the proposal of suspending all asset sale programmes immediately.

Nor do we see any need to set up ad hoc committees to study various privatization plans. As I pointed out earlier, in planning and implementing these plans, we will listen carefully to the views of all sectors of the community and people who are affected, and we will actively and duly respond to their concerns. We, therefore, consider it appropriate and effective to conduct public consultation through the existing mechanism which includes the Legislative Council. In fact, the Legislative Council is in itself an organization representing the views of different sectors, and when implementing individual privatization plans, the Government will commission, on a need basis, experts and consultants to provide professional opinions. Therefore, we do not support setting up separate ad hoc committees for each plan, which is superfluous.

As for the amendment proposed by Dr Raymond HO, I wish to point out that regardless of the areas involved in and the forms of the project, the Government will definitely make detailed planning and careful consideration before implementing large-scale projects. Consultation will also be duly conducted to balance the interests of all sides. Indeed, we do not see any need for setting up ad hoc committees in addition to all these to conduct studies.

I wish to thank Members once again for their valuable opinions. The Government appreciates that the sale of assets is an important and complex task involving a myriad of considerations. In implementing these plans, the Government will certainly work in a legitimate and cost-effective manner while ensuring that the plans are for the overall benefit of Hong Kong. We will certainly listen to the opinions of all sides as far as possible, particularly opinions of Members of the Legislative Council, and we will implement various privatization plans after carefully considering Members' views and concerns.

Thank you, Madam President.

PRESIDENT (in Cantonese): I now call upon Mr WONG Kwok-hing to move his amendment to the motion.

MR WONG KWOK-HING (in Cantonese): Madam President, I move that Mr Albert CHAN's motion be amended, as printed on the Agenda.

Mr WONG Kwok-hing moved the following amendment: (Translation)

"To add "as well as anxieties among employees" after "public concerns"; to add ", employees' rights and benefits, labour relations," after "people's livelihood"; to add ", including trade unions," after "various sectors of the community"; and to add "and employees" after "general public"."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Mr WONG Kwok-hing to Mr Albert CHAN's motion, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr WONG Kwok-hing rose to claim a division.

PRESIDENT (in Cantonese): Mr WONG Kwok-hing has claimed a division. The division bell will ring for three minutes after which the division will start.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Ms LI Fung-ying, Mr WONG Kwok-hing, Dr KWOK Ka-ki, Dr Fernando CHEUNG, Mr CHIM Pui-chung and Mr KWONG Chi-kin voted for the amendment.

Dr LUI Ming-wah, Mr Bernard CHAN, Dr Philip WONG, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Abraham SHEK, Mr Tommy CHEUNG, Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong, Mr Patrick LAU and Miss TAM Heung-man voted against the amendment.

Dr Raymond HO, Ms Margaret NG, Mr CHEUNG Man-kwong and Mr SIN Chung-kai abstained.

Geographical Constituencies:

Mr LEE Cheuk-yan, Miss CHAN Yuen-han, Mr LEUNG Yiu-chung, Mr LAU Chin-shek, Mr Albert CHAN, Mr Frederick FUNG and Mr Albert CHENG voted for the amendment.

Mr James TIEN, Mrs Selina CHOW, Mr CHAN Kam-lam, Mr LAU Kong-wah, Miss CHOY So-yuk, Mr LI Kwok-ying, Mr MA Lik and Mr CHEUNG Hok-ming voted against the amendment.

Mr Albert HO, Mr Martin LEE, Mr Fred LI, Mr James TO, Dr YEUNG Sum, Ms Emily LAU, Mr Andrew CHENG, Ms Audrey EU, Mr LEE Wing-tat, Mr Alan LEONG and Mr Ronny TONG abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 26 were present, six were in favour of the amendment, 16 against

it and four abstained; while among the Members returned by geographical constituencies through direct elections, 27 were present, seven were in favour of the amendment, eight against it and 11 abstained. Since the question was not agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was negatived.

MS MIRIAM LAU (in Cantonese): Madam President, I move that in the event of further divisions being claimed in respect of the motion on "Demanding for the suspension of privatization" or any amendments thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Ms Miriam LAU be passed.

PRESIDENT (in Cantonese): Does any Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the motion passed.

I order that in the event of further divisions being claimed in respect of the motion on "Demanding the suspension of privatization" or any amendments thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

PRESIDENT (in Cantonese): Dr Raymond HO, you may move your amendment now.

DR RAYMOND HO (in Cantonese): Madam President, I move that Mr Albert CHAN's motion be amended, as printed on the Agenda.

Dr Raymond HO moved the following amendment: (Translation)

"To add "of varying forms and in different areas, including transportation, water supply, social welfare, health care financing, etc" after "before the implementation of any public asset privatization plans"; to delete "their" after "assess and study" and substitute with "the"; to delete "," after "return" and substitute with "and"; to delete "and" after "legality" and substitute with "of the different forms of privatization plans as well as their"; and to add "acceptance and" after "subject to public"."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Dr Raymond HO to Mr Albert CHAN's motion, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Dr Raymond HO rose to claim a division.

PRESIDENT (in Cantonese): Dr Raymond HO has claimed a division. The division bell will ring for one minute, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Dr Raymond HO, Ms LI Fung-ying, Mr WONG Kwok-hing, Dr KWOK Ka-ki, Dr Fernando CHEUNG and Mr KWONG Chi-kin voted for the amendment.

Mr Bernard CHAN, Dr Philip WONG, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Mr Ms Miriam LAU, Mr Abraham SHEK, Mr Tommy CHEUNG, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong and Miss TAM Heung-man voted against the amendment.

Ms Margaret NG, Mr CHEUNG Man-kwong, Mr SIN Chung-kai, Dr Joseph LEE and Mr CHIM Pui-chung abstained.

Geographical Constituencies:

Mr LEE Cheuk-yan, Mr LEUNG Yiu-chung, Mr LAU Chin-shek, Mr Albert CHAN, Mr Frederick FUNG and Mr Albert CHENG voted for the amendment.

Mr James TIEN, Mrs Selina CHOW, Mr CHAN Kam-lam, Mr LAU Kong-wah, Miss CHOY So-yuk, Mr LI Kwok-ying, Mr MA Lik and Mr CHEUNG Hok-ming voted against the amendment.

Mr Albert HO, Mr Martin LEE, Mr Fred LI, Mr James TO, Dr YEUNG Sum, Ms Emily LAU, Mr Andrew CHENG, Ms Audrey EU, Mr LEE Wing-tat, Mr Alan LEONG and Mr Ronny TONG abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 24 were present, six were in favour of the amendment, 13 against it and five abstained; while among the Members returned by geographical constituencies through direct elections, 26 were present, six were in favour of the amendment, eight against it and 11 abstained. Since the question was not agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was negatived.

PRESIDENT (in Cantonese): Mr Albert CHAN, you may now reply and you have five minutes 52 seconds.

MR ALBERT CHAN (in Cantonese): Madam President, I would like to thank the 25 Members for speaking on the motion, and I would also like to thank Secretary Frederick MA for providing us with a response. From the number of Members who have spoken on the motion, we can see that Members are all very concerned about this issue, be they from different political parties, or elected from different functional constituencies or different geographical constituencies.

The response of Secretary Frederick MA was very much predictable — that is, the Government has listened to our opinions, but it will continue to act in much the same way as before. I feel that disastrous problems will still take place later on. At present, the problems brought about by the implementation of privatization projects are mainly caused by Antony LEUNG. Several Members had mentioned this just now as well — that the problems had their origin in the policy address of 2003. Now, both Antony LEUNG and TUNG Chee-hwa had stepped down. This proves that there were really problems with the policy address, which led to lots of controversies in Hong Kong.

Some say that The Link REIT incident was the event that ultimately led to the stepping down of TUNG Chee-hwa because of his failure to handle it properly. With the benefit of hindsight, we can see that the privatization move is like a roller-coaster that has gone out of control — we do not know how it would eventually end up — that it may overturn or crash and no one knows how many people will die in the incident. If we do not stop this out-of-control roller-coaster, but just let it go on its crazy run without any definite direction, then there are enough reasons for us to worry about Hong Kong's prospects.

I feel that it is just similar to the case of the enactment of laws to implement Article 23. The problem with the privatization issue is that the details are unknown to us. Very often, the details can lead to the emergence of major problems. Many Members said that they supported many aspects pointed out by me in the motion, such as consultation, cost-effectiveness, the disparity between the rich and the poor and so on. Since these issues have not been addressed or answered, why does the Government not stop the project? The Government said that it did not matter, the privatization plans could still go ahead all the same. The disparity between the rich and the poor could be ignored; the cost-effectiveness issue could be ignored; and even the interests of the employees could be ignored and the privatization plans could just go ahead all the same. How on earth can the Government allow this crazy roller-coaster continue to go ahead with any direction or control?

Today, I propose this motion debate not because I want to argue or challenge whether we should implement these privatization plans. Instead, I just argue about the approach, format, system and the relevant laws of privatization. I have cited many overseas examples, and several Members have also mentioned the case of Britain. Some academics have conducted certain research studies and discovered that, if all the privatization projects implemented in Britain during the past 20 years were added together, each British citizen could only get average revenue of £30 a year only. Can this be called a success? When Mrs Margaret THATCHER put forward her privatization plan, she had some very heated arguments with Harold MACMILLAN. At that time, some people had already pointed out that the British people should not use their own family assets to pay the bills of the businessmen. If the country wants to sell the people's assets, it should sell it at the best price. Mrs THATCHER was very proud at that time, and she told the British people that she was just selling those assets to members of the family. Twenty years have lapsed, what is the

situation now? Today, only 5% of the British people are still holding shares of those privatized enterprises — only 5%. After the public assets were sold at pathetic prices, foreign consortia have become the major shareholders of those enterprises. The national assets of Britain have become the assets of those major foreign consortia. The British people have to put up with the poor but expensive public services now. This has proved that the promise made by Mrs THATCHER at that time was nothing more than empty words.

Today, let us see what the Hong Kong Government has promised. Many years ago, the Government said that it wanted to privatize the cleaning services as well as the management services of housing estates of the Housing Department. What has happened now? When the Eastern Harbour Crossing Ordinance was passed 20 years ago, what was the situation then? When the Western Harbour Crossing Ordinance was passed 10 years ago, what was the situation then? All were naked lies. The consortia have swallowed up the public assets and have made excessive profits out of them and the people are those who eventually suffer. Many Honourable Members have talked about their subjective aspirations, but those are just their subjective aspirations. We have to see what the objective facts in reality are. The objective facts are: the Government has a lot of privatization projects, many of which are beset with problems, which will eventually damage the interests of the employees as well as the people. But have the services been improved? Can I ask you, in your opinion, is there any service that has been improved after its privatization?

Today, 26 Members have spoken. But none of them has been able to cite any concrete example. When The Link REIT incident was mentioned, before the sale of its shares on 24 November, no one, including Mr CHAN Kam-lam, can tell us their price. When the Government sells its assets, it does not even know the price. If you sell your own flat, and if you do not know the price, will you sell it? What kind of Council is this? How can we sell our assets without knowing the price? Do you think this sale of assets is reasonable? Are you acting with a clear conscience? Please ask what your responsibility is. This Council is totally negligent of its own duty. How can you sell your assets if you do not know the price?

Madam President, I hope 20 years later, when Hong Kong people take a retrospective look at such privatized public assets, they will not have the same feeling as the British people are having now. I have discussed many issues

privately with Secretary Frederick MA, and I hope that he can examine these issues. Thank you, Madam President.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the motion moved by Mr Albert CHAN, as set out on the Agenda, be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr Albert CHAN rose to claim a division.

PRESIDENT (in Cantonese): Mr Albert CHAN has claimed a division. The division bell will ring for one minute, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Dr Raymond HO, Ms LI Fung-ying, Mr WONG Kwok-hing, Dr KWOK Ka-ki, Dr Fernando CHEUNG and Mr KWONG Chi-kin voted for the motion.

Dr LUI Ming-wah, Mr CHEUNG Man-kwong, Mr Bernard CHAN, Mr SIN Chung-kai, Dr Philip WONG, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Abraham SHEK, Mr Tommy CHEUNG,

Dr Joseph LEE, Mr Daniel LAM, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong, Mr Patrick LAU and Miss TAM Heung-man voted against the motion.

Ms Margaret NG abstained.

Geographical Constituencies:

Mr LEE Cheuk-yan, Miss CHAN Yuen-han, Mr LEUNG Yiu-chung, Mr LAU Chin-shek, Ms Emily LAU, Mr Albert CHAN, Mr Frederick FUNG and Mr Albert CHENG voted for the motion.

Mr James TIEN, Mr Albert HO, Mr Martin LEE, Mr Fred LI, Mrs Selina CHOW, Mr James TO, Mr CHAN Kam-lam, Dr YEUNG Sum, Mr LAU Kong-wah, Miss CHOY So-yuk, Mr Andrew CHENG, Mr LEE Wing-tat, Mr LI Kwok-ying, Mr MA Lik and Mr CHEUNG Hok-ming voted against the motion.

Ms Audrey EU, Mr Alan LEONG and Mr Ronny TONG abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 25 were present, six were in favour of the motion, 18 against it and one abstained; while among the Members returned by geographical constituencies through direct elections, 27 were present, eight were in favour of the motion, 15 against it and three abstained. Since the question was not agreed by a majority of each of the two groups of Members present, she therefore declared that the motion was negatived.

PRESIDENT (in Cantonese): Second motion: Investment income of the Exchange Fund.

INVESTMENT INCOME OF THE EXCHANGE FUND

MR SIN CHUNG-KAI (in Cantonese): Madam President, first of all, I would like to stress that, my most significant objective in moving the motion lies in the last part of it, that is, "..... allocate more investment income of the Exchange Fund to the Government, so as to increase government revenue."

During the eight years since the reunification, the Government has recorded deficits in five of them. For this reason, a series of measures have been implemented to open new sources of income and cut expenses.....

(Someone shouted aloud in the public gallery)

PRESIDENT (in Cantonese): People in the public gallery must keep quiet. Will security officers take them out of the public gallery? I am sorry. Mr SIN Chung-kai, please stop your speech for the time being.

(Mr SIN Chung-kai stopped delivering his speech. The people who shouted in the public gallery were leaving slowly, but they continued speaking aloud in the process)

PRESIDENT (in Cantonese): People in the public gallery must keep quiet.

(As security officers were taking the people out of the public gallery, these people continued shouting aloud)

PRESIDENT (in Cantonese): People in the public gallery, please leave quietly.

(The people were taken out of the public gallery by security officers)

PRESIDENT (in Cantonese): Mr SIN Chung-kai, please continue.

MR SIN CHUNG-KAI (in Cantonese): The Government has recorded deficits in five of the past eight years. For this reason, a series of measures have been implemented to open new sources of income and cut expenses. However, at the time of an economic downturn, it is not easy to open new sources of income and cut expenses, and the effect of such measures is not too satisfactory either. Major tax increases were imposed on the 1 million taxpayers in the territory, resulting in an increase of government revenue of just \$6.8 billion, which was almost negligible when compared with the huge deficits which once hit the \$60 billion mark. However, for the taxpayers, such measures were already a very heavy burden on them. Besides, the cut introduced to the Comprehensive Social Security Assistance (CSSA) payments had slashed the living expenditure of the elderly and the disabled, and such a measure could altogether save only \$1.7 billion. At the time of an economic downturn, though measures for opening new sources of income and cutting expenses can generate some income or slash some expenditure for the Government, such austerity policies have imposed a heavy burden on people of the middle class as well as the grass-roots people, and it has made an impact on the long-term development of Hong Kong.

As early as in 2002, the Democratic Party proposed a method for enabling the Government to open new sources of income on the one hand, while it would not bring about a heavier burden to the people on the other, that is, increasing the allocation of investment income from the Exchange Fund to the Government. The Democratic Party put forward several proposals in the hope that the Government may consider using them, so as to increase its revenue to relieve the fiscal deficit problem, or the fund may be used on education. If such a method can at the same time achieve the target of bringing about a stable annual revenue to the Government from sharing the profit of the Exchange Fund, thus enabling the Financial Secretary to have a better picture of the investment income from the fiscal reserve, and be in a better position to make use of such resources more effectively when he is drafting up the Budget, then it will be even more desirable. Therefore, in our policy papers presented to the Government and Honourable Members, the Democratic Party has put forward two concrete proposals for amending the existing practice of sharing the income in accordance with the return rate, namely, the proposals of "specified return payment" and "specified allocation ratio".

As a matter of fact, Prof TANG Shu-hung, Head of the Department of Economics of the Hong Kong Baptist University, once recommended the

Government to adopt "the shortfall transfer approach" and "the amended bonus sharing approach", for the purpose of transferring the surplus of the Exchange Fund to the Government.

To put it in concrete terms, "the shortfall transfer approach" provides that, if the settlement interest is lower than the forecast amount, the shortfall shall be made up by transferring the same amount from the aggregate surplus of the Exchange Fund to the Government. With regard to the "amended bonus sharing approach", it provides that if the settlement return rate of the Exchange Fund is higher than a certain specified benchmark return rate, then a bonus sharing system is adopted; if it is lower than the benchmark return rate, then a benchmark rate system is adopted.

I wish to point out that, the advantage of allocating more investment income to the Government as its revenue is, the Government can have a relatively large additional income without imposing any extra burden on the people. During the past few years, some policies were not adopted even though they were good for the long-term development of Hong Kong simply because of the fiscal deficit. Small-class teaching is one of such example. However, in fact the Government is rather rich. It has a fiscal reserve of nearly \$300 billion, whereas the aggregate surplus of its Exchange Fund is over \$400 billion. Yet, such a reserve belonging to Hong Kong people has not been properly utilized.

However, I also understand that, whenever the subject of making use of the Exchange Fund is raised, it will become a sensitive issue. So, I would like to take the opportunity to respond to several significant issues.

First of all, the Democratic Party's proposal will only affect the annual investment income of the Exchange Fund in future, and it will not make use of any of its present assets. In other words, it is a case of "consuming the interest, not the principal". At present, regarding the assets of nearly \$300 billion for supporting our currency and the aggregate investment surplus of over \$400 billion in the portfolio of the Exchange Fund, the capital level of both of them will not be reduced. As a matter of fact, the Hong Kong Monetary Authority (HKMA) is making use of more than \$1,000 billion of assets in the Exchange Fund for investment. So it is by no means difficult to earn an income of \$30 billion. According to the Democratic Party's proposal, the HKMA is still able to allocate about \$20 billion of its income annually to its aggregate surplus.

Secondly, I believe the proposals will not affect the stability of the Hong Kong dollar.

As at end of March this year, the monetary base has some \$290 billion. In this aspect, it has the complete support from the Exchange Fund. On the other hand, the investment income of the Exchange Fund that has accumulated over the years, that is, the aggregate surplus, amounts to \$420 billion. The sum of these two items accounts for over 30% of the money supply (M3). The HKMA announced that, as at end of April of this year, Hong Kong had an exchange reserve of US\$122.6 billion, which made Hong Kong rank seventh in the world. From the above figures alone, we can see that Hong Kong has a rich reserve which is sufficient for defending the Hong Kong dollar.

Furthermore, subsequent to the raid on the Hong Kong dollar in 1998, the HKMA has already made seven technical amendments with the purpose of strengthening the currency board arrangements in Hong Kong. From end of 2003 to the present, the 12-month long-term exchange rate of Hong Kong dollar has become strong. The discount price at end of April was 883 points, which fully illustrated the stability of the linked exchange rate.

The Democratic Party believes that, while the Exchange Fund can earn between some \$30 billion to some \$90 billion annually as its investment income, subject of course, to fluctuation, the Government should be able to receive some \$20 billion annually from sharing the investment income of the Exchange Fund, though at times the amount may be smaller. According to the present allocation method, if our reserve is gradually dwindling, the amount we can share from the investment income will dwindle as well. If the Government adopts the Democratic Party's proposal, an additional \$10 billion would be allocated annually to the Government as its revenue. When this amount is compared to the aggregate surplus of over \$40 billion at present, the exclusion of \$10 billion from its annual income will only have a minimal impact on the relatively affluent level of the overall reserve. If anyone says that this proposal may affect the stability of the Hong Kong dollar, he may be too biased.

As for the impact on the linked exchange rate brought about by the transfer of funds from the Exchange Fund to the Government as its reserve, some professors of economics are of the opinion that, the transfer of funds from the Exchange Fund "will increase the balance in the general revenue account, so the

aggregate surplus of the Exchange Fund will dwindle as a result. However, as the balance of the Exchange Fund remains unchanged, this will not affect its capacity for stabilizing the linked exchange rate. The fiscal deficit will be reduced or eliminated as a result of such a transfer, so, on the contrary, it will be good for the stability of the linked exchange rate."

Madam President, we have experienced an economic downturn during the past eight years. Any excessive austerity policies that may restrict our expenditure without good justifications will affect the long-term development of Hong Kong. The Democratic Party has compiled a detailed report for this motion, which should have already been forwarded to all Honourable Members. The proposal advocates two concrete suggestions: One is "allocating a fixed amount" to the Government annually, which we propose to be \$30 billion. Some political parties have suggested that this rate could be adjusted upwards slightly. This method makes use of the so-called "specified return ratio" as the basis to amend the existing method of sharing the investment income between the Government and the HKMA, so as to allocate more investment income to increase government revenue.

With these remarks, I beg to move.

Mr SIN Chung-kai moved the following motion: (Translation)

"That this Council urges the Government to review the existing agreement between the Government and the Hong Kong Monetary Authority on the methodology for sharing the Exchange Fund's investment income, and allocate more investment income of the Exchange Fund to the Government, so as to increase government revenue."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Mr SIN Chung-kai be passed.

PRESIDENT (in Cantonese): Mr CHAN Kam-lam will move an amendment to this motion, as printed on the Agenda. The motion and the amendment will now be debated together in a joint debate.

I now call upon Mr CHAN Kam-lam to speak and move his amendment.

MR CHAN KAM-LAM (in Cantonese): Madam President, like other political parties, the Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) has suggested the Government to review the existing arrangement for fiscal reserves and sharing the Exchange Fund's investment income. However, we must emphasize that the main objective and focus of such a review is not only to increase the allocation of funds to the Government. We should also attach importance to enhancing the stability and predictability of the sharing of investment income from the fiscal reserves, in order to reduce uncertainties in the formulation of the budget by the Government. Moreover, if the recurrent expenditure can be supported by reliable and stable resources, it will be conducive to the redeployment of funds and stable implementation of financial plans in the long run.

Given that the investment return of the Exchange Fund is to a very large extent subject to various factors relating to the global economic conditions, after the rate of return of the fiscal reserves is linked to that achieved by the Exchange Fund, neither the stability nor predictability of the investment income of the fiscal reserves is considered high.

In the past, given a substantial difference between the actual investment income of the fiscal reserves and its projection, the Budget had failed to serve the budgeting purpose, and the most obvious examples should be the Budgets for 1999-2000 and 2001-2002. The Government originally estimated a deficit of \$36.5 billion in 1999-2000, but there were dramatic changes and in the end no deficit was recorded at the end of that year, and what is more, there was even a consolidated surplus of \$10 billion. A main reason was that the investment income of the fiscal reserves increased from the original projection of \$22.2 billion to \$45.4 billion. In 2001-02, the Government originally estimated a mild deficit of \$3 billion, but the actual deficit turned out to be as high as \$63.3 billion at the close of account. In the interim, although the Government already adjusted downward the projected investment income of the fiscal reserves from \$35 billion to \$12.5 billion in the light of poor market conditions, the actual figure still differed greatly from the projection and the Government could only have a share of \$1.6 billion.

From the experience over the years, the actual deviation in the investment income of the fiscal reserves is apparently bigger than that in other types of recurrent revenue. If the sharing arrangement is changed in a way that the

investment income of the fiscal reserves can be stabilized, the extent of deviation can be greatly reduced in the formulation of the Budget by the Government in future, and this will facilitate balanced resource deployment and be beneficial to the policy of continued funding for various services relating to the people's livelihood and welfare.

In fact, the Government can consider a host of income sharing proposals, and let me just cite a few examples here. The Government can sign an agreement with the Hong Kong Monetary Authority (HKMA), under which the Government can receive a stable income from interests yearly in respect of the fiscal reserves placed with the Exchange Fund in the form of a loan. The interest rate set by the Government on the "no gain, no loss" principle can be increased by a certain percentage to be the recurrent revenue of the Government, thereby increasing the recurrent income of the Government and alleviating the problem of a structural deficit. Besides, the Government can sign an agreement with the HKMA under which the Exchange Fund is required to distribute extraordinary dividend to the Government when the annual investment return rate of the Exchange Fund exceeds a certain percentage, so that more investment income can be allocated to the Government.

Certainly, this income sharing methodology has its pros and cons. The merits are that it can generate relatively stable recurrent revenue to the Government and help improve the structural deficit problem, thus saving the need for the Government to excessively compress expenditure. When a fiscal balance is achieved, the Government can comply with the principles of keeping expenditure within the limits of revenues and fiscal prudence.

The demerit is that since the Exchange Fund has to give a pledge to the Government similar to that for a guaranteed return, some investment portfolios of the Exchange Fund might have to invest in government bonds which are stable but with a lower return, thus posing restrictions on the investment preferences of the Exchange Fund. Besides, given that the decision on whether an extraordinary dividend is to be distributed by the Exchange Fund would depend on the actual situation every year, this part of income will remain unpredictable. Of course, we understand that fluctuations tend to be quite small in this area.

The Government can certainly consider other options. For example, it can adopt the moving average approach, using the actual amount of income allocated to the fiscal reserves and the total investment return or the investment

return rate of the Exchange Fund to work out the average amount. The base figure can be the average of the past few years, and the figure of a new year can also be factored in, that is, 4+ 1 or 2+ 1, in order to determine the amount to be shared by the fiscal reserves.

Apart from the "moving average" approach, the Government can adopt the fixed average approach. That is, the Government can calculate the average based on the figures in several years in the past and using the current return rate, and the average so derived can be taken as the fixed amount of income to be shared by the Government in a number of years to come.

The stability of the amount to be shared varies under different approaches using different base figures to work out the average, and as the average is calculated based on the past figures, this means there is bound to be the shortcoming of a lag behind the latest circumstances. But the greatest advantages of these average-based approaches are that they can enhance the stability of the amount of income shared by the fiscal reserves and improve the predictability of the amount to be shared. Even though there may be a bit of a lag, it is still worthwhile to adopt these approaches.

The Government can also consider pitching the share of the Exchange Fund's investment income for the fiscal reserves at a fixed level. This can stabilize this income and enhance its predictability and at the same time increase the revenue from investment return in the fiscal reserves and hence increase government funding. But if the amount is set at too high a level, the Exchange Fund would be made to subsidize the fiscal reserves. As a result, the growth of the accumulated surplus of the Exchange Fund will obviously slow down or come to a standstill in future. Meanwhile, if the relevant arrangement stipulates that the fiscal reserves shall receive the total investment income in full when the total investment income falls short of the fixed amount as specified, then the investment income of the Exchange Fund for that year will become zero.

From the past experience of the Asian financial turmoil, in this small and completely open economy of Hong Kong, the financial market here is exposed to greater external risks compared with other countries or places in Asia. If the Exchange Fund is used lightly to subsidize the fiscal reserves, it might arouse doubts as to whether Hong Kong has the ability to maintain strong fiscal reserves and this would hence affect the market's confidence in the stability of the Hong Kong dollar.

The DAB stresses that given an increasingly heavy financial burden on Hong Kong, seen from the perspective of fiscal prudence, it would not be appropriate for the Government to increase its reliance on investment income.

We consider that the objective of the Government in reviewing this issue should be to enhance the stability of the annual allocation of the Exchange Fund's investment income to the fiscal reserves. It is equally important for the Government to strictly meet the requirements under Article 107 of the Basic Law in determining the level of additional investment income to be allocated by the Exchange Fund by keeping expenditure within the limits of revenues in drawing up the Budget. It must strive to achieve a fiscal balance, avoid deficits and ensure the growth of expenditure will not be higher than the growth rate of the Gross Domestic Product over a certain period of time. Madam President, I have included Article 107 of the Basic Law in the original motion today mainly to remind Members to put our reserves to good use and not to target actions lightly at the reserves. An increase in revenue certainly means that the expenditure can increase. But in order to strike a balance, it is equally important to consider reducing the public's tax burden reasonably, increasing expenditure suitably to ease the people's plight and improve the quality of their living.

In the meantime, while considering the new sharing arrangement, the Government should also consider the handling of the accumulated surplus of the Exchange Fund. At present, the Exchange Fund has an accumulated surplus of as high as \$420 billion. Under the existing sharing methodology, the surplus can increase by about \$20 billion to \$30 billion per annum, and in less than 10 years' time, the accumulated surplus may be well above the monetary base for backing the Hong Kong dollar. Therefore, we believe a new issue which the Financial Secretary will face in the future is to look into the need to slightly slow down the growth of the accumulated surplus, so that the new sharing methodology can produce the effect of allocating more investment income to the Government.

Madam President, I so submit.

Mr CHAN Kam-lam moved the following amendment: (Translation)

"To delete "agreement" after "review the existing" and substitute with "methodology for sharing the Exchange Fund's investment income"; to delete "on the methodology for sharing the Exchange Fund's investment

income, and" after "Hong Kong Monetary Authority" and substitute with ", "; and to delete "so as to increase government revenue" after "to the Government," and substitute with "and ensure that there is stable government revenue from the investment income; in determining the level of the Exchange Fund's investment income to be allocated to the Government, the principle of keeping expenditure within the limits of revenues in drawing up the budget, striving to achieve a fiscal balance, avoiding deficits and keeping the budget commensurate with the growth rate of the gross domestic product must be strictly followed". "

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the amendment moved by Mr CHAN Kam-lam to Mr SIN Chung-kai's motion be passed.

MR JAMES TIEN (in Cantonese): Madam President, today's motion is about how the investment income of the Exchange Fund should be used. The original motion hopes that more of the Exchange Fund's investment income can be allocated to government revenue. Mr CHAN Kam-lam's amendment mentions the need to strictly follow some principles, such as keeping expenditure within the limits of revenues, striving to achieve a fiscal balance, avoiding deficits and keeping the Budget commensurate with the growth rate of the Gross Domestic Product. The Liberal Party supports all these principles. I consider the amendment more agreeable. Although we need not deal with issues not mentioned in the original motion, it would be better if the original motion can be more explicit by telling us that the Government, after the money is allocated to it, will not be allowed to spend the money wantonly or just ignore the deficit problem. We, therefore, consider Mr CHAN Kam-lam's amendment acceptable.

Madam President, let me turn back to the Exchange Fund in the original motion. As far as I know, the Exchange Fund was set up in 1935 purely for the purpose of stabilizing the exchange rate of the Hong Kong dollar, and the *modus operandi* of sharing investment income between the Fund and the Government has been in place only after 1998. We notice that in recent years, balance in the Fund has reached \$300 billion, although it is already less than the amount a few years ago. As for the accumulated surplus of the Exchange Fund, over the years, the Hong Kong Monetary Authority (HKMA) has made profit with the Government's reserves by investing and so, that is, in fact, the money of the

Government. Yet, the Government has allowed the HKMA to set up a separate account for the accumulated surplus. As a result, the income is split into two sums of money. Only a certain percentage of the return from the reserves will be allocated to government revenue, whereas the accumulated surplus of the Exchange Fund is handled in a different way, for it is just put aside.

We agree with what Mr SIN Chung-kai and Mr CHAN Kam-lam have said. Nowadays, do we need to keep an accumulated surplus of such a huge amount? From the relevant statistics that I have just read, as at 2004, about \$296 billion of the \$1,061.9 billion belonged to the fiscal reserves. The accumulated surplus amounted to some \$420 billion, and there was some \$340 billion under "other funds". If we calculate on this basis, only \$14.5 billion of investment income would be allocated as government revenue in accordance with the sharing methodology, whereas \$20.5 billion and some \$16 billion would go to the accumulated surplus and these are, in fact, quite substantial amounts.

We are also concerned about what will happen if more income is allocated to the Government. The Liberal Party considers that the Government should strive to achieve a balanced Budget. We do not agree that the Government should reduce its fees and charges relating to the people's livelihood or provide more services after more income is allocated to government revenue, as suggested by some Members. We consider that, as also mentioned by Mr SIN Chung-kai earlier, the Government should return to the middle class the increase of some \$3 billion in salaries tax imposed by the Government two years ago. Moreover, if its financial position further permits, should the Government also consider returning to the business sector part of the excess profits tax that the business sector was made to pay several years ago and also reducing the profits tax to its previous level?

We can see that nowadays, the fiscal reserves of Hong Kong rank only the seventh in the world, in US dollar terms, and \$1,000 billion is equivalent to about US\$122.6 billion, if we calculate on a per capita basis, Hong Kong ranks only after Singapore and we are the second in the world, for our population is comparatively small. Take Japan which ranks the first as an example. Japan has fiscal reserves exceeding US\$830 billion, but it has a comparatively large population. From this perspective, is there a need for us to keep such a huge fiscal reserve?

Moreover, we also notice some changes in the financial aspect in recent years. From the three new measures proposed by Mr Joseph YAM recently,

including the strong-side convertibility undertaking of 7.75 and weak-side convertibility undertaking of 7.85 for exchanging US dollars, we can see a departure from previous practices. If we look at it purely from a theoretical viewpoint, under the currency board system, it is already adequate to maintain a 100% US dollar backing. The total value of Hong Kong dollar banknotes is about some \$100 billion, and together with the monetary base, we should have some \$280 billion in aggregate. In other words, if it is adequate to keep US dollars at an amount equivalent to some HK\$280 billion, do we need to accumulate such a huge amount of surplus?

Certainly, from the Government's viewpoint, the money that has been accumulated in the HKMA is also the money of the Hong Kong Government and Hong Kong people, and it is certainly more desirable to save the money up. But on the other hand, the Liberal Party considers it unnecessary for this sum of money to grow continuously as investment is made all the same. Certainly, we think that the Government should not touch this principal in the Exchange Fund, that is, the \$400 billion-odd or \$700 billion-odd (being \$1,000 billion deducted by the \$300 billion fiscal reserves). But should all the earnings be put into the reserves? The Liberal Party does not see this need. So, while the Democratic Party suggests that the Government should take this into consideration, that there is a need to set a fixed sharing ratio and the amount of income to be allocated, the Liberal Party would consider that the Government should be able to answer these questions now.

We do not need such huge reserves in the Exchange Fund to defend the Hong Kong dollar. This is one reason. Besides, the fiscal reserves plus the Exchange Fund now total an excessively large amount of money, and part of it should be allocated to government revenue in order to support other expenditures relating to the people's livelihood. Meanwhile, consideration can then be given to how the tax payable by the business sector and the middle class can be adjusted downward, so that while tax can be reduced on the one hand, more resources can be provided to meet the expenditure relating to the people's livelihood on the other. I would think this will enable the overall resources of society to be put to better use.

The Government must not forget that the Exchange Fund and even the fiscal reserves are actually the money of the Hong Kong people, and the Government is just using the money on their behalf. Now, this sum of money is getting bigger and bigger. The situation is like money deposited in the

savings account keeps growing but there is not enough money to spend at home. Is there a need to be so? The Liberal Party, therefore, supports the motion of Mr SIN Chung-kai of the Democratic Party and the amendment proposed by Mr CHAN Kam-lam. As things now stand, should the Government not reconsider this issue, and under the principles of keeping expenditure within the limits of revenues and striving to achieve a fiscal balance, can it not consider allocating the earnings to the annual government revenue at a relatively fixed percentage, thereby easing the financial pressure on the Government? Thank you, Madam President.

MR RONNY TONG (in Cantonese): Madam President, in March this year, the Financial Secretary said that he expected that the Government would be able to receive about \$14.1 billion from sharing the Exchange Fund's investment income in the coming year. However, while his words were still ringing in our ears, Mr Joseph YAM, Chief Executive of the Hong Kong Monetary Authority (HKMA) told Members at a meeting of the Panel on Financial Affairs held on 6 May that, as the Exchange Fund had incurred losses in its investment in the first quarter of the year, the originally expected shared investment income of \$14.1 billion might not necessarily materialize.

As illustrated by this incident, we can see that there are major shortcomings in the present practice of depositing the balance of the Government's fiscal reserves in the Exchange Fund as well as the way of sharing the overall investment return of the Exchange Fund in the year concerned:

First, the year-on-year investment rate of return of the Exchange Fund is subject to substantial fluctuations: In 1999 and 2003, the Exchange Fund recorded overall return rates as high as 10.8% and 10.2% respectively. However, in 2001, the return rate was only 0.7%. So, the way of sharing the investment income on the basis of the year-on-year rate of return makes the actual amount received by the Government very unstable. And this will make it nearly impossible for the Government to make any accurate estimate in the process of drafting the Budget. From the perspective of public finance, such an arrangement is indeed undesirable.

Secondly, with regard to the balance of the Government's fiscal reserves in the Exchange Fund, they will be affected by the financial conditions of the Government in each particular year. As such, if it is used as the basis for

working out the amount to be shared with the Government, then the Exchange Fund cannot exercise its function of stabilizing the financial conditions of the Government. When the economy is booming, the Treasury will have surplus every year, and the Government will not have any financial difficulties. And with incessant accumulation of fiscal reserves, the amount of money to be shared by the Government will go up every year. On the contrary, if we experience an economic downturn, and the Treasury will inevitably incur deficits. At such moments, the Government will be badly in need of some additional financial resources. Yet, as the fiscal reserves have dwindled, the amount of investment return to be shared by the Government will dwindle as well.

Most important of all, thirdly, before our structural fiscal deficit problem is solved, such a method of sharing the investment income is neither reliable, nor capable of contributing effectively to improve the use of public finance.

Therefore, I propose that the following method of sharing the investment income should be adopted: That a reasonable rate of return should be worked out in accordance with the aggregate investment surplus of over \$420 billion, which has been accumulated over the years. A certain amount of money worked out at that rate of return should be allocated annually from the aggregate investment surplus as the recurrent income of the Government, and that the level of the rate of return should be reviewed periodically. For example, if the rate of return is pegged at 6%, then under the present aggregate investment surplus of \$420 billion, the Government should be able to receive a recurrent income of \$25.2 billion this year.

The advantage of this arrangement is: The Government's share of investment income or return will not be affected by its own financial conditions in the short and medium range or any changes in the external investment environment. This will enable the Government to receive a stable recurrent income regularly, and it will also help solve the structural fiscal deficit problem caused by a narrow tax base. In drafting the Budget, the Government will then be able to estimate its own revenue more accurately, thereby enabling it to plan and use its financial resources more effectively.

By virtue of the authority vested in the Financial Secretary under section 8 of the Exchange Fund Ordinance, he may transfer from the Fund to the general revenue any sum in excess of the amount required to maintain the assets of the Fund at 105% of the total obligations of the Fund for the time being outstanding.

However, the Government or the HKMA has never provided any detailed data and information to the public on how the total obligations should be worked out, thus making it impossible for the public to determine whether the asset level of the Exchange Fund is too conservative or not. However, I firmly believe that my proposed method will not violate this provision. I would like to take this opportunity to call on both the Government and the HKMA to improve the transparency in this regard, so as to enable the public to exercise effective supervision.

During the past few years, owing to circumstances necessitated by the fiscal deficit, the Government has implemented many measures to open new sources of income and cut expenses, including proposing tax increases, cutting the allocation of funds and subsidies for many items of public services, thereby placing the people in highly difficult situations. Although there are some early signs of an economic recovery now, most people, especially the grassroots, are still unable to really benefit from it. And the Government still insists that it is necessary to continue its initiatives of opening new sources of income and cutting expenses. Although the Government has repeatedly stressed that, maintaining an aggregate surplus of over \$400 billion in the Exchange Fund is a way of storing wealth among the people, I feel that it is really the time for the Government to return wealth to the people, under the condition that the pegged exchange rate and the stability of the Hong Kong monetary system will not be affected.

With these remarks, I support the original motion. Thank you, Madam President.

MR BERNARD CHAN: Madam President, the Honourable SIN Chung-kai's motion urges the Administration to draw on more of the Exchange Fund's investment income in order — and I quote — "to increase government revenue".

This assumes that it is a good thing to increase government revenue. In fact, many people would say the opposite. They would say the Government spends too much money already, and should be taking in less revenue, not more.

However, whether you agree with that or not, we should not view the Exchange Fund's investment income as a fiscal free lunch, or a source of easy funds.

There are good reasons to maintain a substantial sum of funds in reserve. Like any organization or individual, the Government needs some funds simply to look after the day-to-day cash flow. In Hong Kong's case, the reserves also play a role in maintaining exchange rate stability.

Also, we need reserves in case of an emergency, or an unexpected period of economic downturn. As we have seen in recent years, reserves can act as a welcomed buffer when revenues decline. Without the reserves at times like that, the Government would have to choose between cutting public services or going into debt.

Obviously, it is possible to go too far and to have too much in the reserves. I know some of my colleagues here believe that we have reached this stage already. The optimum amount for the reserves is debatable.

But the basic reason for the Exchange Fund is prudence, and we should take a prudent approach towards how we use it. We should try to ensure that government revenue from investment income is sustainable and stable. We should keep government expenditure in line with economic growth — and resist the temptation to spend money just because it is there. Most of all, Madam President, we must make sure, above everything else, that we have enough reserves to look after our people's interests in an unexpected downturn or other emergency. Thank you.

MR JEFFREY LAM (in Cantonese): Madam President, Hong Kong has all along operated very well as an open economy because we have sufficient foreign currency reserves and a sound financial foundation. That is why we have been able to face up to huge external impact. The Hong Kong Monetary Authority (HKMA) announced some days ago that as at the 30th of last month, the total assets of the Exchange Fund amounted to \$1,058.1 billion.

Despite the existence of a surplus in the Exchange Fund, the Government has faced a fiscal deficit in recent years. The proposal of allocating more investment income of the Exchange Fund to the Government seeks to mitigate the deficit problem and it is worthy of consideration. At present, the Exchange Fund has accumulated to over \$1,000 billion, and Hong Kong ranks the seventh in the world in official reserves.

Judging from its abundant assets, the Exchange Fund should have sufficient capital at present to maintain the Hong Kong dollar exchange rate. If consideration is given to allocating part of the Fund for improving services and easing the burden on the people, it should be beneficial to society as a whole.

Therefore, while ensuring a sound policy on the Hong Kong dollar and without drawing the "principal" of the Exchange Fund, we should look into conducting a review of the sharing methodology of the Exchange Fund, so that the Government can capitalize more flexibly on the investment return of the Exchange Fund.

We must, however, consider carefully at the same time that the Exchange Fund, being the backing of the entire currency system and the economy of Hong Kong, must be kept at an abundant and sufficient level. Otherwise, if public finance in Hong Kong will be affected after a greater share of income is allocated to the Government, we will be paying too big a price for just a little gain. Even now, we are still reeling from the aftermath of the Asian financial turmoil. At that time, the Government intervened in the market, mobilizing over \$100 billion from the foreign currency reserves to curb bilateral manipulation by hedging funds in the stock and foreign currency markets. Finally, with sufficient capital, the Government had successfully fended off international speculators because the Exchange Fund had saved up for rainy days by maintaining a sufficient level of reserves. Even a small business operator will not take out each and every cent of the profit and spend them all. Rather, they will save up part of the profit to prepare for the rainy days.

Meanwhile, we must not forget that the financial market has become increasingly globalized, which means that the scale and volatility of the flow of capital in the international market are very big. Coupled with the recent anticipation about the revaluation of the Renminbi, even "Chief Executive YAM" has to introduce the "YAM's three strokes" to step up defence. So, the proposal of drawing the line at \$30 billion and making it a "fixed amount" to be allocated to government revenue seems to be too rigid and fossilized. It will undermine the ability of the Exchange Fund in defending the Hong Kong dollar when we face another crisis similar to the financial turmoil or other financial crises. Insofar as the general fiscal concepts are concerned, it also violates the fundamental principle of keeping expenditure within the limits of revenues as provided for in the Basic Law. Therefore, the allocation of more surplus from

the Exchange Fund to the treasury should be handled with care and considered in detail before a decision is made.

Madam President, I so submit.

MR ALAN LEONG (in Cantonese): Madam President, in 1976, the Government started to place the fiscal reserves in the Exchange Fund and received return at a fixed rate. It was until 1998 that the then Financial Secretary, who considered that the rate of return of the fiscal reserves failed to catch up with the high inflation rate after the reunification of Hong Kong, adopted a more aggressive investment approach, and the rate of return on the fiscal reserves has since been linked to that of the Exchange Fund.

Under this sharing arrangement, the net investment income of the Exchange Fund from 2002 to last year amounted to \$40.2 billion, \$83.4 billion and \$52.1 billion respectively, and the Government's share on its reserves was \$15.6 billion, \$25.7 billion and \$14.5 billion respectively. Insofar as this year is concerned, the Government's income from the Exchange Fund last year can meet 6.9% of the Government's recurrent expenditure for this year.

Meanwhile, the total assets of the Exchange Fund amounted to \$1,061.9 billion as at the end of last year, of which \$270 billion to \$280 billion came from the fiscal reserves of the Government. The main functions of the Exchange Fund are to stabilize the exchange rate of the Hong Kong dollar and ensure the healthy development of the monetary and financial systems in Hong Kong, with a view to maintaining Hong Kong's position as an international financial centre.

Madam President, I have just cited lots of statistics and arguments that come from official information. But if I am to take this information to the Kowloon East constituency and explain to my constituents and the residents there the financial position of Hong Kong, I think they will feel either puzzled or furious, for they will find out that Hong Kong has amassed a reserve of over \$700 billion and for a host of reasons that the residents do not understand, the money is just put aside unused. Even though the money keeps growing, not a single cent is used to address the fiscal deficit, let alone used to make up for, say, the \$300 million reduction in the Comprehensive Social Security Assistance payments last year or the \$900 million reduction in health care expenditure this year.

Madam President, I have no intention whatsoever to suggest that the Exchange Fund be handed out to all the people of Hong Kong. I appreciate the importance of maintaining sizable foreign currency reserves to the stability of Hong Kong's financial system. But even for Hong Kong people who know little about finance and economic matters, whether they be illiterate old people or housewives working hard to take care of both their families and career, everybody does have the right to know what attitude the Government has adopted in managing the common resources of our society. This is especially so as Hong Kong has amassed such dazzling, colossal wealth but this does not help improve the plight of Hong Kong people in any way over the years in such areas as welfare, education and health care services. That is why members of the public are totally justified to feel puzzled and even furious.

We must ask: The Exchange Fund had a surplus of \$38.5 billion last year, and if we take, say, \$20 billion from it, will it deal a heavy blow to the financial stability of Hong Kong? But even if we just take out \$20 billion, it would be enough for Hong Kong to stay away from a fiscal deficit for the next three years to come. What is more, the people do not have to live in the shadow of fee hikes and cuts in services, and staff morale in government departments can also be boosted. The economic effects produced by higher public morale are, I believe, worth many times more than the sum of \$20 billion.

Furthermore, the Budgets in recent years have not only entangled in debates over whether various expenditures should be increased or reduced, but have also been bogged down in dilemmas of whether various taxes should be increased or reduced and whether they should be retained or otherwise. But given anomalies in the economic structure and a narrow tax base in Hong Kong, there is very little room for manoeuvre and as a result, policies and directions have been confusing. The Government wishes to increase tax, but it also has to keep abreast of the world trend of tax reduction; it hopes to do away with the \$1.5 billion revenue from the estate duty, but it also has to spend money on studying the introduction of a sales tax; and it has neglected the social cost of producing a greater prevalence in gambling only for more revenue from the betting duty. Is it really necessary for the community to repeatedly suffer from internal depletion over the issue of taxation?

In order to put an end to the never-ending contentions over the priorities of cutting expenditure and over tax increases or reductions, the most effective way is to put the huge reserves to optimal use. Last year, in the *Hong Kong*

Economic Journal, Mr LAM Hang-chi proposed to design with the money in the Exchange Fund an investment portfolio mainly comprising US dollar bonds plus a small portion of blue chip bonds or even junk bonds, which can already guarantee a fixed income from interests of over \$50 billion to \$60 billion a year. This will be more than enough to serve as fiscal reserves and for improving public services, not to mention stabilizing the Hong Kong dollar.

I hope that the many officials responsible for financial and monetary matters in the SAR Government will not regard the voices of the people and Members as merely words of avarice driven by a jealousy of the wealth of the SAR Government. Let us not forget that this huge wealth belongs to the community of Hong Kong in the first place. We have the right to expect this sum of money to be able to truly contribute to the well-being of Hong Kong, rather than being turned into a hollow sum of money to flaunt our achievements while doing no good to the development of the territory and the livelihood of the people.

With these remarks, Madam President, I support the allocation of more investment income of the Exchange Fund to the Government.

DR FERNANDO CHEUNG (in Cantonese): Madam President, the cash assets of the Government of the Hong Kong Special Administrative Region (SAR) is indeed enviable. We have reserves exceeding \$1,000 billion. If we look at this figure alone, as far as I understand it, we rank the sixth in the world. We are just a small special administrative region and yet, surprisingly enough, we rank the sixth among almost 200 countries in the world. It means that the SAR Government can really be said as among the wealthiest in the world. Inevitably, we may ask, why is our Government so rich? If we look at another figure, that is, if we calculate on a per capita basis, the public reserves per capita in Hong Kong even rank the first in the world. Think about this: When Hong Kong has such colossal wealth, as Members of the Legislative Council, we should perhaps take pride in the affluence of our Government.

Since we are so rich, we have the duty to ensure that this public money is well-spent. Otherwise, if the money is just put aside, an opportunity cost will be incurred, which means that the money can actually have been spent on some other areas and will hence produce a lot of good results to society, but as we do

not make use of it, we will, therefore, let slip this opportunity. The good results may not necessarily be economic in nature. They can be related to society and the people's livelihood. Many economists have, in fact, conducted studies in this regard to look into how much a society or government should keep in its reserves in order to be considered adequate and how much in public reserves is considered sound to fend off attacks on its currency, stabilize the economy and the financial system, and bring about economic development.

It is certain that no other society has maintained reserves at a level as high as that of Hong Kong. I am not an economist, but we Chinese have this saying: Store up grain against times of famine. Since we have so much in our reserves, and as there are the problems of poverty and a wealth gap in society now, why do we not make use of this wealth properly? Why do we not make use of the income from investment properly to enable the Government to operate more effectively, thereby improving the quality of living of the people?

In the past, we faced an economic recession and many problems relating to the people's livelihood have emerged in our society. But in order to achieve a balanced budget, the Government, despite growing demands in society, has still insisted on cutting public expenditure, including the expenditure on health care services, education, social welfare and housing. Even for some insignificant amounts, the Government has held the purse strings very tightly. For services dedicated to helping the grassroots, or the five single-parent service centres set up for single-parent families for which the annual expenditure is estimated to be merely some \$8 million, the Government has still held the purse strings tightly and insisted on a cut in funding. In the past, the expenditure on tertiary education was cut at an astonishing rate and now, health care expenditure is faced with a big problem. In view of these circumstances in society, can we still say that we do not have sufficient revenue and therefore need to keep on cutting public expenditure? The social welfare sector will face the cessation of the tide-over grant by the Government, and this is set to bring disastrous consequences. Will the Government continue to be a miser? We have amassed a reserve exceeding \$1,000 billion and will continue to be one of the richest governments in the world. Are we going to cling onto this sum of money and be reluctant to use it, saying that the money is meant to fend off attacks on our currency and safeguard the stability of the financial system?

As our colleague, Mr Alan LEONG, said earlier, can these reasons convince the people at all why the money in the reserves is not properly put to

use, particularly as they are still living in very straitened circumstances? I very much hope that the Government can show its sincerity. Even if we consider it from the most conservative perspective or from the perspective of market fundamentalists, so to speak, how much does a government need to keep in its reserves in order to defend its financial system? We cannot just allow this sum of money to accumulate indefinitely without returning it to society. Particularly as the needs are so big in society and the problem of a wealth gap is so serious, we are all the more duty-bound to utilize this money to enable the people to improve their lot and turn for the better.

So, I speak in support of this motion. Madam President, I so submit.

MR ABRAHAM SHEK: Madam President, at the Panel on Financial Affairs meeting on 17 February this year, the Honourable LEE Cheuk-yan and the Honourable Emily LAU called for some of the surplus accumulated from the Exchange Fund to be transferred to the Government's General Revenue to meet additional expenditures and benefit the public. Then, in a budget debate in this Council in April and at the Panel on Financial Affairs meeting on 6 May, some colleagues raised the same request again. Therefore, it is no surprise that the Honourable SIN Chung-kai is now requesting a review of the methodology for sharing the Exchange Fund's investment income with a possible view to inflating government revenue and hence increasing expenditure.

This suggestion would obviously be a quick antidote to help balance the budget deficit which Hong Kong has been suffering for the past few years. With such extra money to fund our ever-increasing government spending, the pressure for tax increase would be relieved. Constraints on expenditures on education, welfare and health care services, as well as civil service programmes can be removed. Obviously, it appears that this idea will benefit everyone in the community, but if one has a clear understanding of the functions and operation of the Exchange Fund, one would realize that this is not what it seems to be.

The Exchange Fund is not just another ordinary investment fund. Its prime objective is to fully back our monetary base. The Government transferred part of its fiscal reserve to the Exchange Fund in order to avoid derogation of the reserve arising from exchange risks and to centralized the management of the Government's financial assets. These assets, owned by the

people of Hong Kong, produce an annual dividend which goes to the budget. The current arrangement under which the fiscal reserves share the same rate of return achieved by the entire Exchange Fund each year was introduced in 1998. Over the years, this arrangement has on average generated a greater rate of investment return than the investment benchmark of the Exchange Fund. In 2004, the investment return for the fiscal reserves was \$14.5 billion, which was \$2.2 billion higher than the "target" set in the 2004-05 Budget. Considering the results, one should adopt a cautious policy of "if it ain't broken, don't fix it". I consider that the present system is serving Hong Kong well.

The strong financial position of the Exchange Fund allows the Hong Kong Monetary Authority (HKMA) to maintain monetary stability here. For this reason, no Financial Secretary has ever allowed any of the Fund's earnings to be transferred to the Budget. Over the years, the Fund has accumulated a massive internal surplus. At the end of 2004, the size of the Exchange Fund stood at \$1.0619 trillion, with an accumulated surplus of \$423.4 billion. In my view, keeping the Fund at such substantial level is not an act of over-conservatism on the part of the Government. The money is of paramount importance in safeguarding the exchange value of Hong Kong's currency. It also helps to maintain the integrity of our monetary and financial systems. Volatility in the global financial market can be devastating. During the Asian financial crisis in 1998, Hong Kong spent US\$9.5 billion of its US\$98.1 billion reserve to defend the Hong Kong dollar and maintained its peg at \$7.8 to US\$1. Given the increasingly volatile global financial market and the fact that Hong Kong is a very small but externally oriented economy, there is a need to further strengthen our defence against speculative attacks on our currency when external shocks can be absorbed by a sizeable Exchange Fund.

Madam President, I firmly support the HKMA in adopting a prudent approach of accumulating a hefty Exchange Fund surplus. On the Exchange Fund's balance sheet, the fiscal reserves are regarded as a liability, whereas the accumulated surplus is a fund equity. The use of the Fund is governed by the Exchange Fund Ordinance. Section 3(1) of the Ordinance stipulates that the Fund "shall be used primarily for such purposes as the Financial Secretary thinks fit affecting, either directly or indirectly, the exchange value of the currency of Hong Kong and for other purposes incidental thereto." Later, in section 3(1A), it specifies that the Fund may be used when the Financial Secretary "thinks fit to maintain the stability and the integrity of the monetary and financial systems of Hong Kong." In November 2002, the HKMA affirmed its stance that it was not

possible to use any asset of the Exchange Fund to meet operating and contingency requirements of the Government regardless of the size of its accumulated surplus, because such purpose did not fall within those specified in sections 3(1) and 3(1A) of the Ordinance.

Nevertheless, section 8 of the Ordinance allows the Financial Secretary, after consulting the Exchange Fund Advisory Committee, and with the prior approval of the Chief Executive in Council, to transfer from the Fund to the General Revenue any sum which he feels would not adversely affect the Exchange Fund's ability to fulfil any of its purposes under sections 3(1) and 3(1A). Of course, there is no way to devise a formula for determining an exact amount which can be transferred safely or an appropriate level which the Exchange Fund should be maintained. But any transfer would be unadvisable. It may adversely affect public confidence in, and market perception of, the Government's ability to maintain monetary and financial stability. In addition, Hong Kong's credit rating may be downgraded when financial commentators take a negative view about Hong Kong's vulnerable position to speculative attacks. The accumulated surplus of the Exchange Fund which amounts to \$423.4 billion may appear to be colossal in the eyes of a layman. It is also true that our monetary base is more than adequately covered. However, I wish to remind our colleagues that total deposits in our banking system now amount to \$3.8 trillion equivalent, of which more than half are denominated in Hong Kong dollars. By comparing these figures, we can conclude that it is prudent for us to maintain the Exchange Fund. Thank you.

MS EMILY LAU (in Cantonese): Madam President, I speak in support of Mr SIN Chung-kai's motion. As Mr Abraham SHEK said, there is nothing unusual about this. Of course, this is nothing unusual. An overwhelming majority of Members in the Legislative Council have expressed their support, moreover, they did not begin to show their support only from this year. Here, I wish to express my thanks to staff members of the Secretariat who worked day and night to prepare an excellent paper which sets out all the relevant information. Many Honourable colleagues are now using this paper. Even this paper prepared by the Secretariat shows that since 2001, we have raised this issue with Mr Joseph YAM every time we have a meeting with him.

Madam President, you have heard that except the Honourable Members of the General Alliance, other Members who have spoken, no matter if they belong

to large parties, small parties, or are solitary independent Members like me, all fully support the motion. I trust the Financial Secretary, who is now the Acting Chief Executive — we are really lucky to have even the Acting Chief Executive present in the Chamber today — we should have heard all the speeches delivered by Members on this motion. However, in the resumption of the Second Reading debate on the Appropriation Bill in April this year, he made it clear that there was no room for any discussion insofar as this matter was concerned. In view of this, he would probably be just playing the same old tune again today, however, Madam President, this is not very desirable.

A number of directly elected Members stood up in this Chamber to discuss how public funds, that is, the money from members of the public, should be used — we are not trying to spend all the money, as Mr Joseph YAM would wrongly accuse us of — and Members were all very prudent and cautious when speaking, in the hope that a formula for the allocation of funds acceptable to all could be found, be it as a fixed amount or according to a proportion. However, all that the Administration said in answer at that time was just one sentence (moreover, it seems it was Donald TSANG who said it): Sorry but we cannot go along — or what exactly was it?

MR ALBERT HO (in Cantonese): Sorry but we cannot oblige.

MS EMILY LAU (in Cantonese): Thanks. Sorry but we cannot oblige. Madam President, I believe that this answer of "Sorry but we cannot oblige" is really not alright.

It is not true that after someone who was not popular has stepped down and another designated person has ascended to power, all the problems facing Hong Kong can then be solved. If the Legislative Council, the seats of which are not all directly elected, can reach a clear consensus on certain matters but the authorities still refuse to do anything, I really cannot see what reasonable ground there is for this.

Madam President, let us look at the accumulated surplus in the Exchange Fund. According to the paper provided by the Secretariat, in the decade from 1995 to 2005, the amounts of money has more than doubled and this is the

investments income earned with the Exchange Fund. Just now, an Honourable colleague has remarked that there was over \$300 billion in the government reserves and the accumulated surplus stood at over \$400 billion, so there was over \$700 billion in total. If we leaf through the paper, we can see that when the Government intervened in the market in 1998, \$296.4 billion was used at that time. Donald TSANG said afterwards that he would never do so again, so let us bear that in mind. This is because we cannot tell if people will keep the promise that they have made.

If only some \$290 billion was used in that incident involving such a massive attack, how much money is required in defending the Hong Kong dollar? Madam President, if you have the time to observe the meetings of the Panel on Financial Affairs, you will hear that when Members ask how much money is required, the reply from Mr Joseph YAM is often: Of course, the more, the better. Madam President, he will of course consider \$700 billion to be too little and that it would be best if there is \$7,000 billion. Madam President, Mr Joseph YAM's annual salary is \$9 million. Where does the money come from? From no other source than the Exchange Fund. Mr Abraham SHEK — he has left now — remarked just now that he was not sure how the money in the Exchange Fund was used. This I know. It was used by some people to purchase properties. \$3.6 billion was used to purchase properties for no good reason — sorry, my mistake, it should be \$36 billion — is the correct figure \$3.6 billion? The amount is just far too great.

In other words, should the Exchange Fund be used for such a purpose? Mr Bernard CHAN, as the Chairman of the Panel on Financial Affairs, you should know about this. I noticed that Mr CHAN had published an article in the newspaper, saying that the sector was in fact also very dissatisfied, particularly when it was found that the view of the property was superb with panoramic sea-view. Money in the Exchange Fund should be used appropriately and should not be spent on the purchase of properties.

Madam President, I notice that today, we have reached a consensus and very much hope to sit down, discuss with the authorities and look for a formula together. No one wants to spend all the some \$400 billion for no reason. We are talking about using just \$20 billion or \$30 billion. Moreover, Members are only suggesting that the amount be allocated from the investment income. If the Financial Secretary is still going to maintain that it is not possible to oblige and there is no room for discussion, and even though 50 or 60 Members of the

Legislative Council are in favour of this proposal, the Government is still not going to oblige, so on so forth, may I know how the relationship between the executive and legislature can be improved? Should we not find a way by pitching in our joint efforts?

Regarding how this public money should be made use of, Madam President, of course, I have noted the remarks made by Mr Bernard CHAN in his speech that this is a fiscal free luncheon. Madam President, may I ask if there can really be any free luncheon? In this regard, I very much agree with Dr YEOH Eng-kiong's comment that no money will drop from the sky, nor will it grow from trees. This is Hong Kong people's money, not any so-called free luncheon. If it is spent on Hong Kong people, this is only an all too righteous thing to do. Mr Alan LEONG put it very well when he said — not to mention East Kowloon, even in New Territories East, to which I belong, or in the Island District, to which you, Madam President, belong — no one understands why we are always clinging onto this amount of over \$700 billion all the time. At present, some old ladies have to queue up at public clinics for out-patient service at 5 am, even so, they still cannot get any chip. Yesterday, I met an old lady in Tseung Kwan O who was in precisely such a situation. She told me she wanted to talk to government officials very much because Members had no power and only talking to the officials would do. Do you think you can tell her, "It is true we are in possession of over \$700 billion, but sorry, there is no room for discussion.". You see, such an answer surely will not do.

But how should these public funds be used? Mr James TIEN proposed that taxes be reduced, however, I believe that people with better means should pay more. If the Government makes a refund after tax has been collected, will this not be too much trouble? However, I agree that using the money for such a purpose can also be considered. Our conclusion is that we support the principle of allocating more money, but whether the funds should be used to refund the tax paid or be placed in a trust will depend on the need.

An Honourable colleague proposed that the funds be used to implement small-class teaching. Since the "3+3+4" academic structure is now being implemented, should we build more universities and invest a bit more in research and development? How can the money actually be used? A few days ago, Secretary Prof Arthur LI told us that at present, there were almost 140 schools which have been in use for over 30 years. Buildings of such an age are already very run down and redevelopment is necessary.

In addition, since at present, the population of our society is ageing, should more be invested in medical services? Madam President, let alone environment protection and the control of air and noise pollution, there are in fact a lot of things that need to be done. But the Government is not doing any of these. I only hope that when the Financial Secretary gives his reply later, he will not merely repeat the reply he gave in the Budget debate held at the end of April because I hope that he will respect the precious consensus reached by the Legislative Council — with the exception of a few Members — on such an important and sensitive issue. I hope the Administration will show its sincerity by expressing its willingness to have a detailed discussion with the Legislative Council and look for a new formula together, as well as studying how the investment income can be utilized in the best way, so as to truly benefit the Hong Kong public.

I so submit.

MR PATRICK LAU (in Cantonese): Madam President, the Government often stresses the need to eliminate the fiscal deficit and to strictly control its expenditure according to the principle of fiscal prudence. It had no qualms in adopting a hard-line stance and sacrificing the interests of grass-roots members of the public and the middle class by insisting on reducing Comprehensive Social Security Assistance (CSSA) payments amid objections in society and steadfastly refusing to withdraw the decision made to increase salaries tax and profits tax. The Government has also proposed a number of measures to broaden the tax base and is examining the levy of a sales tax, a green tax, and so on.

Apart from the Government's continual efforts to cut back on its expenditure and the various proposed cost-cutting measures, the most that the Government can do is to save \$1.7 billion in expenditure each year by reducing CSSA payments or to levy a sales tax to boost income by an estimated \$20 billion. In contrast, the investment income of the Exchange Fund in March and April this year alone stands at \$2 billion per month. Therefore, if the investment income of the Exchange Fund can be transferred to the Government, the revenue of the Government will increase by tens of billion dollars each year. In fact, in the past six years, the investment income of the Exchange Fund stood at an average of \$50 billion each year.

According to the information of the Hong Kong Monetary Authority (HKMA), as at the end of April this year, the total assets of the Exchange Fund

has reached \$1,058.1 billion. If a small portion of this huge reserve can be utilized effectively, I believe it would be enough to relieve the fiscal pressure experienced by the Government in a significant way. Not only will it be possible to solve the problem of fiscal deficit earlier, but more importantly, it will also serve to alleviate the burden borne by the public.

However, according to the existing policy, no matter if investment income earned by the HKMA is \$30 billion or \$90 billion, the share that the Government receives can only be calculated according to a rate of return and the amount is only on average \$20 billion. This is inadequate for resolving the fiscal deficit facing the Government and is only a drop in the ocean.

Therefore, I can tell Ms Emily LAU it is not true that not all Members from the General Alliance oppose the motion (*laughter*) — however, I am not sure if all of them oppose or support it either — so please heed my words: The most important thing is that the stability of the Hong Kong dollar is not affected. This is what the General Alliance considers the most important. We believe that as long as the Government can increase its revenue without affecting the stability of the Hong Kong dollar, we will support an agreement on sharing the investment income of the Exchange Fund so that government revenue can be increased.

Madam President, since the accumulated surplus of the Exchanged Fund now stands at over \$400 billion and assets in the monetary base are close to \$300 billion, and since there is a total of \$700 billion in reserve to back up the Hong Kong dollar, furthermore, with the measures implemented in 1998 to reinforce the linked exchange rate, I believe that even if a greater amount of investment income of the Exchange Fund is allocated to the Government, the stability of the Hong Kong dollar will not easily be shaken. Furthermore, this will give the Government a sizeable amount of income.

An increase in the income of the Government will enable the Government to attain the goal of eliminating the deficit and so the pressure to increase taxes will be taken off the Government, thus alleviating the burden on the public's livelihood. Most importantly, the purchasing power of the public will be enhanced and economic recovery will be given a tremendous boost. Improvements in the economic situation will enhance the investment environment and even the competitiveness of Hong Kong in the outside world. Since money can be used to generate even more money, more and greater

economic benefits can be derived continually, the overall economic situation will experience a significant improvement and the Government, the public and private organizations will all be able to enjoy the benefits.

Madam President, in fact, this move is just like making transfers from a savings account to a current account. The point is that if the revenue of the Government can be increased, I believe a lot of things can be done because what could not formerly be done can now be expedited, for example, those relating to the infrastructure, tourism, education, medical services, welfare, community planning, cultural and recreational facilities, and so on. Since our future development hinges on human resources, education is an important area of work when we are to reinforce our advantages in manpower. In view of this, funds for making investments in education are indispensable. In addition, in order to complement the development of tourism, it is necessary to build various types of infrastructure as soon as possible and expedite the planning and implementation of projects intended to improve the environment of local communities, as well as funding welfare and medical services for members of the public in need of them. In that case, the Government will no longer be able to use the excuse of having no money to shift its responsibility. Therefore, I support the allocation of a greater share of the investment income of the Exchange Fund to the Government, so that the new governing team, with adequate resources as well as the room to give full play to their abilities, can develop Hong Kong into a better place. Thank you, Madam President.

MR LEE CHEUK-YAN (in Cantonese): Madam President, the aim of today's motion debate is to make the Government use resources optimally. The resources in the Exchange Fund have been the subject of our discussions for many years. Every time we raised this issue with Joseph YAM, he would say that Financial Secretary Henry TANG was the one holding the purse-string and the one who could decide how the Exchange Fund is to be used. However, when we raised this issue with Financial Secretary Henry TANG, he would say that a cautious approach was called for. This matter has been discussed for many years, even so, I still cannot tell when the Hong Kong public will get an answer. Will it be possible to utilize the huge foreign exchange reserve in the Exchange Fund in our possession in a better way?

I hope Members will not get me wrong. What I call for is not to throw the doors of the granary open and hand out the rice in it. This is absolutely not

what today's motion is about. The subject of discussion is how to utilize in a better way the wealth accumulated by Hong Kong people in the Exchange Fund over the years. Members can have a look at some figures and they are extremely formidable. In 1997, the accumulated surplus of the Exchange Fund stood at \$190.2 billion, by the end of 2004, it has increased to \$423.4 billion, an increase of more than 1.2 times. When the Hong Kong economy was in recession, the Exchange Fund did not suffer the slightest loss because its investments were not concentrated in Hong Kong but distributed throughout the world. Therefore, the Exchange Fund has experienced continuous growth and has grown by 1.2 times. The accumulated surplus accounts for nearly 40% of the total asset of the Exchange Fund, as compared to only 2% for the United States, 8% for the European Union and 9% for Singapore. Members can see how abundant our Exchange Fund is compared to those in other countries.

At the end of 2004, the accumulated surplus is 1.41 times of the monetary base and is equal to 30% of the Gross Domestic Product. The amount of funds used by the authorities to intervene in the market in 1998 was only \$112 billion, whereas the present accumulated surplus stands at \$423.4 billion. In fact, the present level of accumulated surplus is more than enough for maintaining the stability of the exchange rate of the Hong Kong dollar. As the Exchange Fund continues to balloon, what is happening to the fiscal reserve? The fiscal reserve has fallen from \$434.3 billion in 1998-99 to \$296 billion in 2004-05. The latter has already taken into account \$20 billion in bonds and \$6 billion from the securitization of the Hong Kong Links. If the bonds issued are not counted, the decrease is close to 40%. We can see that the Exchange Fund is growing all the time and this is something that we should be pleased about. However, the fiscal reserve has been shrinking. This will lead to another problem, that is, the funds allocated as revenue in a particular year will keep decreasing until it is impossible to receive a share or the share will keep dwindling. This will give rise to a major crisis and pose a serious threat to the overall revenue and expenditure in Hong Kong.

With growth on the one hand and decrease on the other, it is necessary for us to identify the cause of the problem. Is it necessary to allow the Exchange Fund to grow in such a way? Every time we ask Joseph YAM about this, he would maintain that it is necessary to be sound, however, how sound would it have to be? I once said in a meeting that the Exchange Fund was like a safety net that serves three functions by supporting the Hong Kong dollar, providing an

accumulated surplus and serving as a fiscal reserve. Is it necessary to be so sound? Moreover, Members have to also bear in mind the fact that when we discussed this matter several years ago, the accumulated surplus stood at over \$100 billion and close to \$200 billion, whereas it now stands at over \$400 billion. However, he is still maintaining that this is not enough. How much is enough then? If Joseph YAM holds such a view, then it will never be enough because it is the best to be always sound and it is always the best to have more money in the coffer. However, the attitude adopted by Joseph YAM in fact only serves to make work easier for the HKMA and for himself and this is in fact being cruel to all Hong Kong people. We can see that the fiscal reserve is dwindling by the year and so is the share received each year, so the share allocated to the public is getting less and less. His trying to be conservative and sound is in fact cruelty to the public. Of course, at the end of the day, Joseph YAM would say that this matter has nothing to do with him because in the end, it is up to the Financial Secretary, Mr Henry TANG, to decide things. In view of this, I hope the Financial Secretary can do something about this today. In this world, when tackling international plunderers, it can be said that no amount of funds is ever enough. There is US\$1,500 billion in circulation throughout the world, so these plunderers can borrow a lot of money and leverage on it to carry out speculative attacks on the Hong Kong dollar. For the purpose of tackling these plunderers, one can always say that the money is not enough. However, the more the amount of reserve in the Foreign Exchange, the lower the marginal utility will be.

Therefore, under such circumstances, the Financial Secretary really has to decide when to remove the lock and transfer the accumulated surplus of the Exchange Fund to the reserve. The proposals put forward by the Hong Kong Confederation of Trade Unions in the past were very simple: first, assuming that the future rate of return will be 5% and the share allocated to the coffer is 5% each year, if the rate of return is higher than 5%, the amount will be allocated to the general expenditure and if the rate of return is lower than 5%, the amount will be credited to a suspense account and paid in future. Second, to make an allocation equal to the accumulated surplus of two years at one go. Based on the accumulated surplus of the last two years, the total amount is \$96.2 billion. Even if an allocation of \$96.2 billion is made, the accumulated surplus will still be higher than the level in 1997 since there is at present over \$400 billion. This is what I hope the Government can do. Thank you, Madam President.

MR CHIM PUI-CHUNG (in Cantonese): The motion debate today has to do with the Exchange Fund. As we know, the Hong Kong dollar was pegged to the US dollar on 17 October 1983 and the rate was set at \$7.8. The official rate is US\$1 to HK\$7.8. Many people, including members of the public, still do not know why the exchange rate was set at \$7.8. In fact, at the time when the exchange rate was at its highest, US\$1 could be exchanged for HK\$9.6, whereas before the value of the US dollar had risen sharply, US\$1 could be exchanged for about HK\$6. \$6 plus \$9.6 is \$15.6 and \$15.6 divided by two gives a median of \$7.8. This is the reason why US\$1 is not equivalent to HK\$7.5 or HK\$8 but HK\$7.8.

Recently, the Hong Kong Monetary Authority (HKMA) has set the highest and lowest exchange rates between the US dollar and Hong Kong dollar at \$7.75 and \$7.85 and with the range being 10 cents. This change has made me feel very worried. The meaning of a so-called linked exchange rate is that the currencies are pegged together and such a peg must be unbreakable. Through the latest practice, the HKMA wants to allow for adjustments within a range of 10 cents. If a range of 10 cents is allowed at present, why can a range of 30 cents, 50 cents or even one dollar not be allowed in future? This is something the SAR Government should ponder over.

In addition, what is the HKMA earning now? It is now earning profits. When banks issue banknotes, they place deposits with the HKMA, which makes use of opportunities and differences and make profits from the spread. This spread includes that in relation to all foreign currencies, in particular, when the Euro was very strong in the past, its spread with the Hong Kong dollar and US dollar rose from a very low exchange rate of \$1 Euro to some 80 cents US upwards to US\$1.2 or US\$1.3. This difference enabled the Exchange Fund to reap a seemingly substantial amount of profit in its account. However, this is in fact just a number game. Therefore, it is necessary for us to have an understanding of how the Exchange Fund earns its money and the power that it exercises, otherwise, in the end, we will suffer a kind of intangible loss.

We have two requests for the HKMA. First, it is undeniable that the profits made by the Exchange Fund have more than doubled in the past few years and has now reached more than \$420 billion. Concerning this amount of some \$420 billion, we have to understand that based on the analysis made just now, when the exchange rate between the Euro and the US dollar rose from some 80 cents US to about US\$1.2, the increase was as high as 50%, in other words, with

this difference in exchange rate in the past, over \$100 billion was made with about HK\$200 billion in the past. That the reserve could rise to over \$400 billion was due to the profits made by means of the differences in exchange rates. We also know that the Exchange Fund has recently suffered some so-called losses in terms of figures but of course, these losses are only in terms of figures. We are sure the Exchange Fund is not a magician, nor is it a magical wand which can spin money whenever we want. In principle, it only uses its special position to earn money by exploiting the differences in exchange rates. In the past, the difference was just a matter of a few cents and in each transaction, earnings were made by means of a difference of two cents. Nowadays, it is hoped that earnings can be made by means of a difference of 10 cents, or a difference of about 1.25%. Of course, the profits that it makes are different from those that other banks make, for this reason, the Exchange Fund has assumed the role of a *de facto* central bank. Apart from making profits, it also has to maintain the balance of the exchange value of the Hong Kong dollar when appropriate.

What is even more worthy of our concern is that funds amounting to several billion dollars in the Exchange Fund were used to purchase offices. Although given the present real estate environment, the decision and the move were in fact correct and would be profitable, I cannot help but ask which consortium was related to the decision-makers? Who was wielding the magical wand at the back to compel the HKMA to make such a decision? It is worthwhile for Members of the Legislative Council and the Hong Kong public to be concerned about and ponder over this. Have some people derived benefits directly or indirectly from such a move or such a course of action at some point in time, for example, getting special treatment when renting their residences? It is worthwhile for us to ponder over and be concerned about this matter.

We firmly believe that no government official has any direct interests whatsoever in this matter, but what about afterwards? I believe that this is like the fire in a furnace and paper cannot cover fire up. In view of this, although Members hold hopes on the Exchange Fund and hope that it can offer more dividends and profits to the public, I personally believe that issues relating to the distribution of responsibilities and the exercise of power are more important. We are also concerned about whether there is any issue involving the so-called collusion between the Government and business and the transfer of benefits — not an immediate transfer of benefits but making things easy for one another afterwards. This is what Members who are called fighters of democracy should

be concerned about. Of course, Madam President, I will also be happy to offer help.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ALBERT HO (in Cantonese): Madam President, nowadays, our SAR Government is in possession of nearly \$1,000 billion in the form of reserves in the Exchange Fund. Apart from \$280 billion in currency reserve and about \$300 billion in fiscal reserve, most of this amount is accumulated surplus. Under present-day circumstances, how to utilize this surplus appropriately has become a test of the leadership of our SAR Government, including that of the Financial Secretary, Mr Henry TANG, who is seated here. To demonstrate his leadership, he does not have to behave like a spendthrift and keep hosting events such as the Harbour Fest, still less should he become a miser. Under present-day circumstances, we should consider seriously how this surplus can be properly utilized to enhance Hong Kong's competitiveness in the long term or to make long-term investments in society or on talents. This is what matters the most.

I remember that in the past two years, we have had a number of debates on the problem of fiscal deficit. We have suggested that the Government must summon its courage, adopt anti-cyclical measures and should even not hesitate to prepare more deficit budgets to spur an economic recovery. Of course, we are not asking the Government to stimulate the economy blindly or wantonly. In fact, the experience of crisis management in many places shows that greater conservatism and a contracting economy will on the contrary create a vicious circle.

We are thankful that a small surplus has been recorded in the account books this year. Although the Financial Secretary said that the surplus might be illusionary or temporary in nature, because this year, bonds were issued and securitization was implemented. Therefore, the spectre of a deficit is still lurking. However, leaving the problem of the deficit aside, I have said that we should not merely look at the surface of the problem. We should consider what fiscal policies and measures can be adopted to spur an economic recovery in Hong Kong, rather than relying solely on contracting expenditure to deal with the surplus. In addition, what is more important is that in view of the long-term economic restructuring, should we not make long-term investments with vision,

so that our society can complete the restructuring process as early as possible under the support, initiatives and leadership of the Government?

We often say that education is very important in the restructuring process. These days, because of the reduction in education funding, a number of universities have expressed their discontent. It can also be seen that a reduction in sub-degree places has left many working people who wish to pursue further studies feel disappointed. In the education sector, since the Government will not implement small-class teaching in the near future, coupled with the fall in birth rate in Hong Kong, teachers are facing the prospect of unemployment, the construction of some schools has come to a halt and some schools are even facing closure. Why does the Government lack the vision to see the importance of education and put part of our surplus into good use, so as to enhance the grooming of talents and human resources in Hong Kong? This is also one of the meanings of restructuring, that is, we turn bonds and cash into better and more talents as our investments. This is definitely what we need.

The Financial Secretary also mentioned the issue of helping the poor. In fact, helping the poor and education are inseparable. We do not want to see inter-generational poverty. Education and support for poor families, including financial support, are very important. We demand that an additional several billion to tens of billion dollars be allocated each year. In fact, such an amount only accounts for 1% of the entire foreign exchange reserve but it will serve a very important purpose. We do not want to make use of the monetary reserve or Hong Kong's fiscal reserve. Apart from these two reserves, the Exchange Fund has nearly \$400 billion in buffer fund to support the entire Hong Kong economy. In view of this, if we still dare not make an effort in this regard and use our funds to drive the economic restructuring in Hong Kong, and in particular, promote education, I really cannot imagine what competitiveness is left in Hong Kong after five or 10 years.

All along, in particular, in 1998, the impression that the Financial Secretary and the HKMA gave us was that they were very worried about an attack on the Hong Kong dollar since it will lead to a monetary crisis in Hong Kong. The claim made two to three years ago was that it was not all right if the deficit was persistent as our currency would experience a crisis and the Hong Kong dollar would be made the object of another attack. However, I wish to ask one question: If Hong Kong's competitiveness is not enhanced and if the grooming of talents is not put in place properly, over the long run, will they not

become the root causes of a deficit? This will impinge on the financial, economic and monetary systems in Hong Kong.

Therefore, I hope that the Financial Secretary and the next Chief Executive will use their wisdom, pluck up courage and resolutely allocate part of our reserve to making long-term investments in society. I believe that in the long run, this will be beneficial to the society as a whole.

Thank you.

MISS TAM HEUNG-MAN (in Cantonese): Madam President, the Exchange Fund of Hong Kong is mainly comprised of the fiscal reserves in the public coffers, the monetary base used to back up the Hong Kong currency issued and the additional reserve funds used to stabilize the Hong Kong dollar. In the aftermath of the Asian financial turmoil, the linked exchange rate system which had been practised in Hong Kong for many years was severely battered. Many people begin to pay attention to the Exchange Fund and they want to see if the funds there are enough to stabilize the Hong Kong dollar. The issue is certainly one which deserves our attention. But is the Exchange Fund with a current balance of over \$1,000 billion only playing the role of stabilizing the Hong Kong dollar and nothing else? When we look carefully at the public finance accounts for each year, we will find out that the investment income of the Exchange Fund allocated to the Government takes up a very significant portion of public revenue, with an annual income of at least \$10 billion.

Since the allocation of investment income of the Exchange Fund is so vital to public finance, the methodology used for the sharing of the Exchange Fund's investment income which determines the income paid to the Government would become very important. Over the past few years when the Government was plagued by a deficit problem, many people eyed this source of revenue with interest in the hope that a steady source of revenue could be found. Therefore, some people have suggested that change should be made to the methodology used for sharing the Exchange Fund's investment income and allocate more of such income to the Government. I support such a suggestion. When after about \$300 billion is taken from the balance of the Exchange Fund as fiscal reserves, there is still \$700 billion which can be used to stabilize the Hong Kong dollar. As compared to the monetary base for Hong Kong which is comprised of about \$300 billion, the above sum would serve the above purpose very well. So if more money is allocated from the investment income of the Exchange Fund each

year to the Government as general revenue, this will not affect the Exchange Fund's ability to stabilize the Hong Kong dollar in any significant manner.

But what we should consider is not how much income the Government may get from this income sharing but the concept behind the methodology for sharing such income. Put it simply, this is to define clearly first the relationship between the Hong Kong Monetary Authority (HKMA) and the Government, that is, whether we would think that the HKMA is part of the Government or is it an investment bank commissioned by the Government? From these two concepts I think we can conclude whether or not the existing methodology for income sharing is reasonable or not. Personally I would think that seen from various perspectives, it would be more appropriate to view the HKMA as an investment bank commissioned by the Government to undertake asset management. This is because the decisions made by the HKMA are entirely independent from any part of the government structure and so it would not be most appropriate to depict the HKMA as part of the Government. Besides, the salaries of the HKMA staff are not paid out from the general accounts of the Government, therefore, the HKMA should better be seen as playing more of a role of an investment bank.

If this concept is recognized, then I think there would be a need to revise the existing methodology for sharing the Exchange Fund's investment income. According to existing standards, the Government has to bear the investment management risks of the HKMA and such risks mean fluctuations in government income. This is something unreasonable when seen from the relationship between the client and the administrator of assets. As a client, the Government would of course expect a steady return and what the HKMA should do is to strive to achieve this. It would not be a most desirable thing for public revenue if the HKMA is passive and allows public revenue to fluctuate.

(THE PRESIDENT'S DEPUTY, MS MIRIAM LAU, took the Chair)

Why is it that the income which the Government gets under the existing income sharing system would fluctuate? We will see the point by looking at the following. At a time of economic downturn, it would be easy for fiscal deficits to appear in the government books and that means a reduction in fiscal reserves. Even as the rate of return for the Exchange Fund remains unchanged, the income which the Government gets will decrease. It would be more so the case at a

time of economic downturn, for as investment conditions get worse, how can the rate of return remain as before? Under such a dual effect, government income would only shrink further. On the contrary, when the economy is booming, there would be surpluses in the government books and fiscal reserves will increase. When added with a higher rate of investment return at a time of a booming economy, it would only be natural that income from this part of public finance would increase. Fluctuations in income would be very marked when the two scenarios are compared. For the purpose of stabilizing public revenue, this issue is certainly something which deserves our attention.

Madam Deputy, though I do not think that non-recurrent income should be relied upon as a source of income to stabilize public finance, we must do our best to maintain stability in some sources of non-recurrent income. One thing which will work is to revise the methodology for sharing the Exchange Fund's investment income. As for the actual direction for revision, that would have to be studied carefully. Some people put forward views such as sharing all the Exchange Fund's investment income or allocating a fixed amount of funds to the Government. All these suggestions should be carefully looked into. In other words, apart from stabilizing the Hong Kong dollar, it is also important that the Government can get a quite steady source of income. I so submit. Thank you, Madam Deputy.

DEPUTY PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ALBERT CHENG (in Cantonese): Madam Deputy, Members are actually being jealous because the Exchange Fund has an accumulated surplus of \$423.4 billion whereas our Budget is facing a deficit problem. What Members are particularly concerned about is actually whether the money should be put into the left or the right pocket.

Miss TAM Heung-man said earlier that she disapproved of meeting recurrent expenditure with non-recurrent expenditure. Her thinking is actually the same as the fiscal philosophy of the Financial Secretary, Mr Henry TANG, and this is also something I share and support. As such, I disapprove of selling assets and using the \$30 billion received from selling The Link REIT to tackle the Housing Authority's deficit problem for this is tantamount to sustaining recurrent expenditure with non-recurrent expenditure and this is in breach of the

fiscal philosophy of the Financial Secretary. However, the surplus of more than \$400 billion will yield fixed interest income every year. So, the income is actually fixed, not non-recurrent, as Miss TAM put it — this is undoubtedly recurrent revenue. Income, or recurrent income, will definitely be yielded should some \$400 billion be kept in the bank year after year. To meet non-recurrent expenditure with recurrent expenditure happens to be in line with the fiscal philosophy of the Financial Secretary.

However, neither do I support the motion nor the amendment, why? My reason is the same as the point being deliberated by Members — what does it mean by keeping expenditure within the limits of revenues? Let me illustrate by citing an example of depositing some \$4,000 in a bank. My colleague, Mr Alan LEONG, commented earlier that he did not know how to explain to his voters in the Kowloon East constituency. I am from the same constituency too. I think I can do it if I am to explain to the voters, whether they are a housewife from Ngau Tau Kok or a woman in Sha Tin. I just have to tell them that I have some \$4,000 in the bank — I do not want to quote such an enormous figure as \$400 billion because no one has a clear idea of how many zeros are there in \$400 billion. I would think \$4,000 can already serve the purpose — there will be no problem if a family has a difference or deficit of \$200 yearly. We can spend as usual without the need to economize on food and clothing because we still have some \$4,000 in the bank, not to mention we will have interest income as well. This explains why we need not bargain with the Government as to whether the money should go to the left or to the right pocket. As Members of this Council, we have our fiscal philosophy and expectations for the Budget. This is what I am going to tell the Financial Secretary should the Government say that a budgetary deficit of more than \$20 billion is expected: What does it matter, given that there is a surplus of over \$400 billion and the Government has fixed income every year? The Government can simply continue to spend and it does not need to slash Comprehensive Social Security Assistance and other provisions. This is merely a fancy accounting system. With more than \$4,000 in the bank, it does not matter even if we lose \$200 every year. We can still afford the loss. There is no need to be frightened. For this reason, I oppose the original motion and the amendment.

Coming back to The Link REIT, the Government is prepared to sell its assets to sustain its recurrent expenditure with non-recurrent expenditure. Some colleagues asked this question: Why does the Government not draw on its fiscal reserves? If \$30 billion is used for subscribing The Link REIT shares, a

guaranteed fixed income of 6% will be yielded yearly because the Government's assets are expected to be sold at an exceedingly low price. The Government can indeed reap more income from buying the shares back than the investment income from the Hong Kong Monetary Authority (HKMA). Even if not better, the income will definitely not be less than that of the HKMA, so what are the problems? I would rather ask: Is it justified to use the income from our budgeted reserves to offset the problems brought about by privatization? We can use the income from our budgeted reserves to buy The Link REIT shares or whatever. In this regard, why should I oppose this motion? It is mainly because of the pegged exchange rate. The linked exchange rate system *per se* is problematic. If tracing back to its roots, we will find that it is highly probable that the pegged exchange rate will be hit. This explains why I oppose using the fiscal reserves before the pegged exchange rate is reviewed. We should still have a vivid memory of the financial crisis which happened in 1997. Today, negative asset holders are still going through hard times, without being completely free from the burden of their negative assets. Instead of moving a motion to use our fiscal reserves, we might as well do something more useful by requesting the Government to examine how to maintain the linked exchange rate and whether it should be reviewed. This explains why I oppose this motion as well as the amendment. During the earlier debate on the privatization issue, I told my colleagues not to worry because the motion is non-binding. Even if the motion is passed, the Government could still say that it regrets that it cannot comply with our wishes instead of wasting time to respond to us. Based on this principle, I told Members just now not to worry and they could still vote in support of the motion even if they are against it. Therefore, although I oppose the motion, I consider that I probably should vote in support of it. I am a bit confused at the moment. I guess I have to carefully consider the matter when raising my hands to cast a vote on this motion later. Thank you, Madam Deputy.

MR LEUNG KWOK-HUNG (in Cantonese): Madam Deputy, I am against this motion because the Hong Kong Monetary Authority (HKMA) has been using the Exchange Fund to invest in markets all over the world and has made some very good profits by acting according to the capitalistic rules. Is that right? In fact, making international financial investments is just a zero-sum game in which there are winners and losers. Hong Kong people may feel that the Chief Executive of HKMA Mr YAM has been doing a great job in making investments, but actually he is doing a lousy job in his investments. As he has been doing well in making

investments, everyone praises him. Everyone says, "Great! Mr YAM has earned a lot of money for us." However, has it ever occurred to them that some governments did lose a lot of money in the highly competitive international financial market? Have they ever considered how the people of Argentina fared when they received their wages at a time when their currency depreciated? When I visited Argentina, I found that the tallest building there was none other than the one showing a sign of "Hongkong and Shanghai Banking Corporation". It is so highly regarded there that it seems to be enjoying the status of a king in that country.

Of course, each Hong Kong person would like to see the Government can own more money, so that they can enjoy a better life. However, is it necessary for us to encourage the HKMA to devote all its energy to participate in speculative financial activities, instead of pursuing its official business, and that the more profit it can reap, the better it is? We have all experienced the era of Antony LEUNG, the former Financial Secretary. At that time, this financial market speculator was in charge of our financial affairs when we faced a financial disaster. His concepts made many people lose their jobs and face pay cuts and so on. He described his concepts in a simplified manner — but in fact, all these were done just for the sake of reducing costs.

Hong Kong people are foolish to think that, as long as they are rich, they can exploit others. I can by no means agree to such a mentality. We all know that, financial investment activities absolutely cannot enhance the real wealth of any particular place. Instead, such activities are just a game in which the growth in the value of wealth just occurs as a result of the transfer of wealth. Consequently, the winner wins simply because he is overwhelmingly rich and powerful. When we were raided by people like George SOROS, we all felt very angry. So if our assets management body does the same thing in other countries, will other people be equally angry? When our Government or even our people surprisingly support the HKMA in reaping as much profits as possible, will we be held morally responsible? Why should we build our happiness on the pain of others? Do you know our happiness may one day become the source of our own pain? Do you know Argentina had once been made use of by the United States as its "henchman" in the speculative financial market of South America, and what has become of it now?

I absolutely do not agree with Joseph YAM in pursuing such improper business. He now even claims that he has the ability to make a lot of money in

the international market, and he is worth a lot of money. That explains why he can purchase properties as freely as he wants. He can do this and that. He can buy a flat from a property developer, and then he can choose and buy another flat in an internal pre-sale of property developers. This is an idol-making campaign. It is very easy to create an idol. However, such an idol can kill a lot of people. I also heard an Honourable colleague who is also serving on the Board of the Tracker Fund say that, earning some \$10-odd million was no big deal.

I must be the most suitable person to discuss this issue. I have made a declaration of interests on the soccer articles I used to write for four newspapers. Now, two of them have stopped using my articles because I had criticized Mr TUNG too harshly in those soccer articles. Among so many Members in this Council, I must be the most qualified person to talk on this issue. Hong Kong dollar was made to peg with the US dollar just because the British people did not wish to leave Hong Kong. That was why they set up such a system at the time when the Sino-British Joint Declaration was signed. A review of such a system is long overdue. When our Government was facing a financial crisis, the then Financial Secretary Mr Donald TSANG still told us that no speculative activities was going on even though the interest rate for overnight loans was as high as several hundred per cent. Eventually he was wrong and had to make use of \$200 billion to save our financial market. Mr TSANG, once nicknamed "Christmas TSANG", also said that Hong Kong would be the first economy in Asia to experience an economic recovery, and that we should never have to worry about becoming poor. Also, with reference to housing allowances for civil servants, it is stipulated that only those officers who choose to buy their own flats or purchase their properties by instalments are eligible for such allowances. But now even those civil servants living in public housing estates or Home Ownership Scheme flats can apply for a standardized subsidy of \$600,000, so as to enable them to buy their own flats from the property market. What kind of government is it? Everything it does seems to be aiming at reaping a profit, which is never brought about by or associated with any production activities. This accounts for the failings of Hong Kong.

Therefore, I will never not follow the trend by asking Mr YAM to reap as much profit as possible. I feel that the Government must identify its proper course of action. The Government should not, on the one hand, protect the value of our currency, so as to ensure that major consortia holding Hong Kong dollars will not suffer any depreciation in their assets, and on the other hand,

make use of public money to save the property market and the stock market. I have never seen such a government before. Perhaps the BUSH Administration is just such a government. George BUSH introduces reduction in both tax and welfare benefits, but has increased the budget for national defence. I can tell you that, when the Americans elected George BUSH as their President, they had already, in a sense, passed a death sentence on the United States. I hope Hong Kong will not have such a Chief Executive, such Secretaries of Departments and such Directors of Bureaux. Therefore, I will not vote in support of the motion.

Thank you, Madam Deputy.

DEPUTY PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ALBERT CHAN (in Cantonese): Madam Deputy, my knowledge in the financial field is by no means profound, nor am I an expert in this regard. However, after listening to the speeches of many Members and going through the information prepared by Mr SIN Chung-kai of the Democratic Party, that is, the information on the Exchange Fund's Investment income, I would like to raise a very fundamental question — I have been listening for a long time, I do not know if the Secretary will explain or reply later — that is, what is the basic purpose and intention of establishing the Exchange Fund? What significance does it have on Hong Kong's overall financial structure and the stability of the linked exchange rate?

Anyone who intends to change the use of the Fund by allocating a certain portion of the profits from the Fund's investment to the Treasury as revenue is also a way of changing the use of the Fund. This is a change in policy. Today, the Government can allocate a portion of the Fund to the Treasury, tomorrow, it can allocate more. This involves a change in policy. Will this change in policy bring a substantial change to the original intention of establishing the Fund? Will this substantial change send a wrong message to the financial market or international investors and they may think that a change in the Exchange Fund may bring about an impact?

I consider this a very serious and important issue. Before we have analysed and studied this impact in detail, we should not hastily say that because we are having a fiscal deficit, we therefore have to sell our assets — this is

another way of selling assets, just as the case of The Link REIT. There are many ways to tackle a fiscal deficit. Right now, we have not come to a so-called fiscal deficit crisis; we are not facing a major financial crisis in which we have to decide immediately or next year that a certain amount of money should be taken out of the Exchange Fund and be given to the Treasury as part of its revenue.

Of course, we have been talking about widening the tax base for years, but is this a part of widening the tax base? Since we are having this demand — we have in the past discussed over and over again in this Chamber the need to conduct a full review of the tax regime, why then do we have to take money from the Exchange Fund to cover the fiscal deficit instead of increasing profits tax? So many consortia have made so much money, why can we not take something from them and look for money here instead? This is a matter of value orientation and distribution of benefits among social classes. Since it is deemed a part of tax revenue, it should therefore be a matter of distribution and redistribution of wealth.

The Exchange Fund is owned by the Hong Kong public; it does not belong to a certain class. This is the same as the privatization of public asset which we have debated earlier. Since it is owned by all, why can we not use the money to help the poor? Why can we not use the money to improve medical services? Why can we not use this money to enhance the living environment? Why can we not use this money to improve the water quality of the Victoria Harbour? This is a matter of policy and value judgement.

Therefore, the more I have listened, the more queries I have got. Superficially, this proposal appears to be logical: Since the reserves almost amount to a thousand billion dollars, let us allocate a portion of it to make up for the deficit. Should we not pity the elderly who have their CSSA slashed? Why can we not use the money to help the elderly, so that their CSSA would not be slashed? Is the poverty problem not serious? What about student problems? A couple of days ago, we had an argument with Secretary Prof Arthur LI over why despite the original undertaking of constructing 41 new schools, but now like a bolt from the blue, 22 of them had to be cut all of a sudden, and would not be constructed. What about these schools then?

Therefore, Madam Deputy, regarding this motion, I personally — I have not realized and I do not know very well, but I find more problems as I listen to

more speeches. This motion has failed to provide answers to many basic concepts, as well as issues which are very elementary and are just "ABC" in terms of financial management. We cannot shake the foundation because of specious reasons. I have no knowledge of finance, but the management of the Exchange Fund is an integral part of stabilizing the value of the Hong Kong dollar. What chain reaction will there be once this foundation is touched? Will it bring about a domino effect? I have not come across such an analysis.

When I was listening outside, I felt that everyone seemed to be supporting this motion. Everyone is supporting because it sounds logical. What I am most worried is that despite our good intentions, we are doing something bad, just as the administration of over seven years by TUNG Chee-hwa. He always wanted to reform this and that, such as education, housing, medical services, all kinds of policy areas, but still, he dared not touch the Exchange Fund. Although TUNG Chee-hwa had governed for so many years, he dared not change the policy on the Exchange Fund.

I do not know how many Members in this Chamber have knowledge about economics. When we debated on the privatization of public assets earlier, I cited the example of Pakistan. What is most frightening now is that I do not think that the two Members who proposed the motion and the amendment know anything about economics. The fact that Members who do not know much about economics want to change the Exchange Fund system scares me. Moreover, they have not provided us with any specific information, apart from this booklet. After reading it, I cannot tell how big an impact there will be once the foundation of the Fund is rocked.

Therefore, Madam Deputy, with so much worries — I cited the "roller coaster" example earlier during the debate on the privatization of public assets — I am most concerned that doing things rashly may result in getting killed in a car crash, right? Because of this worry, I will oppose the motion and the amendment.

DEPUTY PRESIDENT (in Cantonese): Does any other Member wish to speak?

(No Member indicated a wish to speak)

DEPUTY PRESIDENT (in Cantonese): Mr SIN Chung-kai, you may now speak on Mr CHAN Kam-lam's amendment. You have up to five minutes to speak.

MR SIN CHUNG-KAI (in Cantonese): Madam Deputy, Mr CHAN Kam-lam's amendment has replaced "agreement" with "methodology". This is only modifying a word, and we find no difference in meaning from the original motion. In addition, he has deleted the part on "so as to increase government revenue" but retained the preceding part on "and allocate more investment income of the Exchange Fund to the Government". Since government revenue is involved in either case, we thus find that even if this part is deleted, there will be no difference in essential meaning. Consequently, we think that the former half of the amendment has not changed the meaning of the original motion.

Nonetheless, the most important thing is that he has added "ensure that there is stable government revenue from the investment income". I am not against being "stable" but as Mr Alan LEONG mentioned earlier, from 1976 to 1998, the Government had in fact used the income of the Exchange Fund for deposit purpose to generate a more stable income. Later in 1998, the Government considered that the rate of return in this respect was low and thus turned it into a rate of return for overall investment. If we revert to the practice adopted before 1998 in handling that sum of investment income, the result may be stable, but if we are only looking for stable income, the return rate may be lower, this may deviate from our original intention.

However, Mr CHAN Kam-lam has included the sentence "in determining the level of the Exchange Fund's investment income to be allocated to the Government". As I understand it, his objective is also to increase income. The last sentence of the amendment is drafted in accordance with the provision of the Basic Law — Mr Albert CHENG may not care too much about the Basic Law, but the wordings "strive to achieve a fiscal balance, avoid deficits" which appear in Article 107 of the Basic Law have been mentioned in our previous proposal on the Government's Budget. As we understand it, the provision is asking us to strive to achieve a fiscal balance within a period of time, rather than adhere strictly to it every year. However, the broad principle is to "strive to achieve a fiscal balance, avoid deficits and keep the budget commensurate with the growth rate of its gross domestic product", that is, it is not necessary to keep

it below 120%, but just to keep them commensurate with each other. If we are taking the literal meaning, this provision of the Basic Law is in fact acceptable.

In a nutshell, we consider that the amendment moved by Mr CHAN Kam-lam has not distorted the meaning of the original motion, and we also accept the provision of the Basic Law. Therefore, we can support this amendment.

FINANCIAL SECRETARY (in Cantonese): Madam Deputy, first of all, I am grateful to Mr SIN Chung-kai and Mr CHAN Kam-lam for proposing a motion and an amendment respectively on this important subject of "Investment income of the Exchange Fund". I am also grateful to the Members who have spoken to express their views. Now, allow me to share with Members my position on this subject and the views of the Government.

(THE PRESIDENT resumed the Chair)

The Exchange Fund Ordinance (EFO) states that the Exchange Fund shall be used primarily for affecting, either directly or indirectly, the exchange value of the Hong Kong dollar and also for ensuring the stability and the integrity of the monetary and financial systems of Hong Kong with a view to maintaining Hong Kong as an international financial centre. Article 113 of the Basic Law also states that the Exchange Fund is primarily used to regulate the exchange value of the Hong Kong dollar.

The Government has since 1976 deposited its fiscal reserves with the Exchange Fund. The then Financial Secretary explained in his Budget speech in that year that the major purpose of this arrangement was to boost the financial position of the Exchange Fund and achieve the aim of regulating the exchange value of the Hong Kong dollar. At that time, the fiscal reserves were deposited with the Exchange Fund at a fixed rate of return.

In 1998, we decided to link the return of the fiscal reserves placed with the Exchange Fund to that achieved by the entire Exchange Fund. The reason for the decision was that while the fixed rate of return arrangement applied before

1998 could minimize market risk, the rates of return often lagged behind the inflation rates prevailing at that time. In the past seven years, although the investment returns of the Exchange Fund fluctuated along side with market performance, the overall returns of the fiscal reserves are considered reasonable.

Just now, I have heard a lot of views which consider that the level of reserves in the Exchange Fund is already sufficient, therefore, we can transfer resources from the Exchange Fund to public expenditure. This can only be made with reference to section 8 of the EFO, which provides a mechanism for "transfer from the Fund". Under this section, as the Financial Secretary, I have to be satisfied that such transfer is not likely to affect adversely my ability to fulfil any purpose for which the Exchange Fund is required to be or may be used; besides, the transfer can only be made after consulting the Exchange Fund Advisory Committee and with the prior approval of the Chief Executive in Council.

The question to ask is: What level of reserve in the Exchange Fund can be considered sufficient? We cannot be sure that transferring the limited resources of the Exchange Fund really will not affect our ability to maintain the monetary and financial stability of Hong Kong, since after making the transfer the Exchange Fund would have fewer resources available to protect Hong Kong against external speculative attacks. During the financial turmoil in 1998, we made use of over HK\$100 billion of our exchange reserves to suppress the double-play carried out by hedge funds in the stock and exchange markets and subsequently expanded the monetary base to include over \$100 billion of exchange fund bills with 100% backing by foreign exchange, so as to reduce the volatility of the interest rate market. All these measures require the backing of sufficient resources from the Exchange Fund to ensure the stability of the monetary and financial markets in Hong Kong.

Although the Hong Kong economy is now recovering, the international financial environment is still full of risks. Given that the number of hedge funds has increased significantly, coupled with the existence of derivatives and their leverage, we simply cannot afford to lower our guard. Moreover, with the pressure arising from the expectation that the Renminbi will be appreciated and a lack of direction for the global economy, together with the rapid and huge flow of international capital in Asia, it is indeed necessary for Hong Kong, as a small and open financial regime, to be well prepared to face any potential financial

risk. The three measures to refine the linked exchange rate mechanism introduced by the Hong Kong Monetary Authority recently is a good example illustrating the need to make proper deployment and even go on the offensive in the face of the complicated and changeable external financial environment. Conversely, to weaken the integrity of the Exchange Fund at such a time is not responsible behaviour.

Although many Members have not denied the functions served by the Exchange Fund, they seem to be more concerned about whether the Government can cope with the repeated reductions in resources in recent years. In fact, the investment income of the Exchange Fund is not the major source of income for the Government. I can also assure Members that the Government will adhere to the principles of keeping expenditure within the limits of revenues and saving and spending as appropriate.

The revenue of the Government is mainly derived from income tax and profits tax. They account for over 40% of the Government's total revenue. In 2004-05, the return on the fiscal reserves is \$14.7 billion, which is less than 6% of the Government's total revenue. Its effect on government finance is limited. Moreover, in the past year, the Hong Kong economy was recovering steadily. Revenue from various types of tax, including profits tax and salaries tax, far exceeded expectation and there is a possibility that the goal of fiscal balance can be achieved earlier in 2008-09. The Exchange Fund, as the bulwark in stabilizing the exchange rate of the Hong Kong dollar, is an important cornerstone in the healthy development of the Hong Kong economy in future. At a time when all items of public revenue is on the increase, to request the transfer of more investment income of the Exchange Fund to the Government, thus weakening the ability of the Exchange Fund to resist external attacks, is in fact unjustifiable.

Of course, we understand that it is Members' hope that the Government will have more income and more stable sources of income to support various items of public expenditure. I wish to stress that the fiscal principles of the Government, as laid down in Article 107 of the Basic Law, are keeping the expenditure within the limits of revenues in drawing up its Budget, striving to achieve a fiscal balance, avoiding deficits and keeping the Budget commensurate with the growth rate of the Gross Domestic Product. We will give due consideration to social and economic development needs and the aspirations of

the community, and allocate adequate resources to provide services and investing in our future. If we rashly put the Exchange Fund and public expenditure together in one bag, not only will this violate the Government's principle of keeping expenditure within the limits of revenues, but will also turn the principle into one that looks for revenue to meet the expenditure. This will not meet public expectations on the Government to manage public finance prudently.

Just now, a Member said that the Government, in order to achieve a balanced budget, has sacrificed the long-term interests of Hong Kong. I wish to point out that such a situation will definitely not occur. I believe Members have not forgotten that despite the deflation over the past years, public expenditure was not reduced accordingly. On the contrary, it has been on the increase, so that deficits were recorded in successive years. Many Members and the public are very dissatisfied with this and support the Government in exercising stringent control over public expenditure by saving and spending as appropriate.

Through the concerted efforts made at all levels of the Government, its incessant efforts, its moderation in spending and the introduction of reforms, last year, the tables were finally turned when the continual increase in operating expenditure was reversed for the first time in 50 years. Members and the public expressed their approval for this development. For an organization with over 160 000 employees, there is always room for reform and cost-cutting. We must encourage various departments to adhere to the principle of saving where appropriate.

Meanwhile, we are also committed to making long-term investments in Hong Kong. A prime example is our commitment to education. The expenditure on education has not been cut by one cent. The recurrent expenditure rose from \$30.3 billion in 1995-96 to \$48.7 billion in 2005-06, representing an increase of over 60% in a decade. Education is a long-term investment, it is the Government's long-term vision as well as a commitment shared by the Government and sectors across the community. The claim made by Mr Albert HO that the expenditure on education has been slashed is incorrect.

We also support and care for disadvantaged groups. The expenditure on social welfare has increased substantially by 150% in the past decade. This figure has not yet factored in the drastic rise in the CSSA expenditure, which has increased by 184%.

In the past 30 years, although changes were made to the arrangement whereby returns of the Exchange Fund are credited to the Government's fiscal reserves, the original intention and objectives of this arrangement have not changed. With the globalization of the financial market and the greater volume and volatility of international capital flow nowadays, we can say that these objectives have become more important and it is therefore necessary for the Exchange Fund to possess sufficient resources, to be used to stabilize the exchange rate of the Hong Kong dollar when necessary.

Madam President, I am grateful to Members for making various suggestions. The SAR Government will keep the income sharing arrangement with Exchange Fund under review from time to time. We will preserve the ability of Exchange Fund to maintain the stability of the Hong Kong dollar and the monetary and financial systems in Hong Kong, and ensure that the fiscal reserves will secure a steady and reasonable rate of return. We will continue to adhere strictly to the fiscal disciplines as laid down in Article 107 of the Basic Law and make the best use of public resources for investing and building a better future for Hong Kong.

Thank you, Madam President.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the amendment, moved by Mr CHAN Kam-lam to Mr SIN Chung-kai's motion, be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the amendment passed.

PRESIDENT (in Cantonese): Mr SIN Chung-kai, you may now reply and you have seven minutes 48 seconds.

MR SIN CHUNG-KAI (in Cantonese): First of all, I would like to reply to the point made by the Financial Secretary that the present practice is "keeping the revenues within the limits of expenditure". Madam President, I would like to say to the Financial Secretary through you that the former Financial Secretary also practised the principle of "keeping the revenues within the limits of expenditure" in 2002 and so he increased the tax. This is in nature tantamount to allocating or transferring more investment income of the Exchange Fund. The point is, in fact, not of much significance.

I wish to say a few words on the \$30 billion mentioned by Mr Jeffrey LAM. In fact, our idea is not very concrete, the \$30 billion is only used as an example. Of course, this is the Democratic Party's idea. Our original motion does not contain this proposal. Mr James TIEN suggested taking out half of the investment income of the Exchange Fund. We have also mentioned in our policy booklet that half of the investment income of the Exchange Fund, if the same calculation method as in the past is used, would be more or less the same as \$30 billion a year.

On the stability of the Hong Kong dollar, Mr Abraham SHEK — he has left — mentioned that we still have half of the total deposits in our banking system, which is in Hong Kong dollar. If we calculate that part in terms of M3, that will come to \$2,200 billion. Seen from this perspective, some \$1,050 billion is still not enough, we still need to accumulate another \$1,200 billion. But do we need to accumulate surplus in this way? Is keeping such a huge amount of reserves the only way to solve this problem? The motion we are discussing today is, in fact, about allocating more investment income. It concerns the interest rather than the principal, so it will have no impact on the latter.

I also want to respond to what Mr Albert CHAN has said. Of course, there could be many reasons to object to the motion and Mr Albert CHAN has put forward two arguments, one of which is that changing the agreement may possibly undermine the confidence of the financial market in the Hong Kong dollar. Somehow I can understand and respect the rationale behind this, but I

am rather disappointed with his argument on the objective of allocating more investment income. I have said explicitly in the beginning that the Government has spared no efforts to slash resources and services in the past few years. If more investment income can be allocated, the extent of the cut in resources and services may be reduced. There might even be more money available to improve the services. I think, of the two arguments, confidence of the financial market may be a problem. Yet, by a greater allocation of the investment income, the services for the grassroots can be directly benefited. Therefore, from the standpoint of safeguarding the grassroots' interests, we should support the original motion.

Madam President, the motion today is not the first time we put forth ideas like these. In 2002, we submitted a proposal to the former Financial Secretary. However, three years since then, the Government still maintains the same view it holds today of not making any changes. In retrospect, Mr Albert CHAN has also mentioned what in fact is the purpose of establishing the Exchange Fund. Although this is ancient history, it is still worth mentioning. In 1961, John COWPERTHWAITTE amended the Exchange Fund Ordinance (the Ordinance) as he regarded keeping too much money in the Exchange Fund pointless. So he amended the Ordinance by introducing section 8 into it. This is the section mentioned by the Financial Secretary just now. It allows the Financial Secretary to transfer money when necessary from the Exchange Fund to the general revenue account of the Government. The Ordinance was enacted and came into force in 1964. John COWPERTHWAITTE in his Budget announced transferring \$150 million — almost one third of the accumulated surplus — to the Development Loan Fund, involving not just the interests but also the accumulated surplus. Of course, the situation now is very much different from that in 1964, but history speaks for itself, the Government did exercise this power in the past. Thus, the issue we are discussing today is not a great novelty.

I believe the motion as amended today can be passed. Of course, there will be some Members voting against it and this I can understand. However, I would like to tell Ms Emily LAU through the President that Mr Bernard CHAN said he will support the motion as amended, in other words, in favour of a greater allocation. This is what I want to vindicate Mr Bernard CHAN of. I believe the majority of Members today will vote in favour of the motion as amended. Thank you.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the motion moved by Mr SIN Chung-kai, as amended by Mr CHAN Kam-lam, be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Ms Emily LAU rose to claim a division.

PRESIDENT (in Cantonese): Ms Emily LAU has claimed a division. The division bell will ring for three minutes, after which the division will start.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Dr Raymond HO, Ms Margaret NG, Mr CHEUNG Man-kwong, Mr Bernard CHAN, Mr SIN Chung-kai, Mr WONG Yung-kan, Mr Howard YOUNG, Ms Miriam LAU, Ms LI Fung-ying, Mr Vincent FANG, Mr WONG Kwok-hing, Dr Joseph LEE, Mr Jeffrey LAM, Mr Andrew LEUNG, Dr KWOK Ka-ki, Dr Fernando CHEUNG, Mr WONG Ting-kwong, Mr CHIM Pui-chung, Mr Patrick LAU, Mr KWONG Chi-kin and Miss TAM Heung-man voted for the motion as amended.

Geographical Constituencies:

Mr Albert HO, Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Mrs Selina CHOW, Mr James TO, Miss CHAN Yuen-han, Mr CHAN Kam-lam, Mr LEUNG Yiu-chung, Dr YEUNG Sum, Mr LAU Kong-wah, Ms Emily LAU, Mr TAM Yiu-chung, Mr Frederick FUNG, Ms Audrey EU, Mr LEE Wing-tat, Mr LI Kwok-ying, Mr Alan LEONG and Mr Ronny TONG voted for the motion as amended.

Mr Albert CHAN, Mr LEUNG Kwok-hung and Mr Albert CHENG voted against the motion as amended.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 21 were present and 21 were in favour of the motion as amended; while among the Members returned by geographical constituencies through direct elections, 23 were present, 19 were in favour of the motion as amended and three against it. Since the question was agreed by a majority of each of the two groups of Members present, she therefore declared that the motion as amended was carried.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 11.00 am on Wednesday, 8 June 2005.

Adjourned accordingly at three minutes to Seven o'clock.