

立法會
Legislative Council

LC Paper No. CB(1)805/05-06
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Panel on Financial Affairs

Minutes of meeting
held on Monday, 5 December 2005 at 9:00 am
in the Chamber of the Legislative Council Building

- Members present** : Hon Bernard CHAN, JP (Chairman)
Hon Ronny TONG Ka-wah, SC (Deputy Chairman)
Hon James TIEN Pei-chun, GBS, JP
Hon LEE Cheuk-yan
Dr Hon David LI Kwok-po, GBS, JP
Hon James TO Kun-sun
Hon CHAN Kam-lam, SBS, JP
Hon SIN Chung-kai, JP
Hon Emily LAU Wai-hing, JP
Hon Abraham SHEK Lai-him, JP
Hon Jeffrey LAM Kin-fung, SBS, JP
Hon Andrew LEUNG Kwan-yuen, SBS, JP
Hon WONG Ting-kwong, BBS
Hon CHIM Pui-chung
Hon TAM Heung-man
- Members attending** : Hon CHAN Yuen-han, JP
Hon Howard YOUNG, SBS, JP
- Members absent** : Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon Albert Jinghan CHENG

Public officers attending : Agenda item IV

Mr Henry TANG, GBS, JP
Financial Secretary

Mr KWOK Kwok-chuen, BBS, JP
Government Economist

Agenda item V

Mr Richard YUEN, JP
Commissioner of Insurance

Ms Maisie CHENG
Deputy Commissioner for Tourism

Mr Ros LAM
Assistant Commissioner of Insurance (Policy)

Ms Cora HO
Principal Assistant Secretary for Financial Services and the
Treasury (Financial Services)³

Clerk in attendance : Miss Salumi CHAN
Chief Council Secretary (1)⁵

Staff in attendance : Ms Connie SZETO
Senior Council Secretary (1)⁴

Ms May LEUNG
Legislative Assistant (1)⁸

Action

I. Confirmation of minutes of meeting

(LC Paper No. CB(1)403/05-06 — Minutes of special meeting on 19 October 2005)

The minutes of the special meeting held on 19 October 2005 were confirmed.

II. Information papers issued since the last meeting

2. Members noted the following information papers issued since the regular meeting held on 7 November 2005:

- (a) Securities and Futures Commission Quarterly Report for July to September 2005 (LC Paper No. CB(1)275/05-06); and
- (b) Mandatory Provident Fund Schemes Statistical Digest — September 2005 (LC Paper No. CB(1)382/05-06).

III. Date of next meeting and items for discussion

(LC Paper No. CB(1)404/05-06(01) — List of outstanding items for discussion

LC Paper No. CB(1)404/05-06(02) — List of follow-up actions)

3. The Chairman informed members that the Administration had proposed the following items for discussion at the next regular meeting of the Panel to be held on Thursday, 5 January 2006:

- (a) Briefing on the review of derivative warrants market; and
- (b) Briefing on sale and outsourcing of the funding and administration of loans made to students.

4. On item (a) above, the Chairman pointed out that in view of recent public concerns about the risks associated with warrants trading in Hong Kong and the regulation of such trading activities, the Panel had agreed at the meeting on 13 October 2005 that the Administration and relevant parties should be invited to discuss the subject, including the need for strengthening the measures for regulation of warrants trading (including regulation of media programmes on warrants trading), and measures for guarding against market manipulation and addressing potential conflict of interest. The Chairman said that the Securities and Futures Commission (SFC), after completing a review on the subject, had issued a “Report on the Derivative Warrants Market in Hong Kong” on 25 November 2005, inviting market

participants and interested parties to give their written comments on or before 31 January 2006. In response to the Panel's invitation, the Administration proposed to brief the Panel on the findings of the review on 5 January 2006. As regards item (b), the Chairman said that the Administration proposed to brief the Panel on its plan to sell off the portfolio and outsource the funding and administration of non means-tested student loans to the private sector.

5. Members agreed that items (a) and (b) above be placed on the agenda for the meeting on 5 January 2006. They further agreed that the meeting be held from 10:00 am to 12:30 pm.

6. Ms Emily LAU expressed concern about the closure of local branches by banks and its impact on the public. She pointed out that following the oral question raised by Hon Albert CHAN at the Council meeting held on 9 November 2005, the Hong Kong Association of Banks and the Hong Kong Monetary Authority (HKMA) had met with some Legislative Council Members on 23 November 2005 to discuss the issue. As far as she knew, it was agreed that HKMA would follow up the issue and discuss with banks. In this connection, Ms LAU suggested that HKMA be invited to brief the Panel on the follow-up actions taken. Given that the Chief Executive of the HKMA (CE/HKMA) would brief the Panel on the work of the HKMA at the Panel meeting on 6 February 2006, the Chairman suggested that the CE/HKMA be invited to brief the Panel on the subject at that meeting. Ms LAU supported the Chairman's suggestion. Members agreed with the arrangement.

IV. Briefing by the Financial Secretary on Hong Kong's latest overall economic situation

(LC Paper No. CB(1)376/05-06 — Third Quarter Economic Report 2005 and the press release

LC Paper No. CB(1)404/05-06(03) — Paper provided by the Administration)

Briefing by the Administration

7. Upon invitation of the Chairman, the Government Economist (GE) gave a power-point presentation on the latest overall economic situation of Hong Kong, and the Government's updated economic forecast for 2005 as a whole and broad assessment of the economic outlook for 2006. GE highlighted the following points:

- (a) The Hong Kong economy turned out an even more spectacular performance in the third quarter of 2005. With both the external and domestic fronts exceeding expectations, the Gross Domestic Product (GDP) leaped by 8.2% in real terms in the third quarter over a year earlier, and marked the eighth consecutive quarter that the economy had attained above-trend growth. On a seasonally adjusted

quarter-to-quarter comparison, GDP also expanded notably further, for the ninth straight quarter, by 2.7% in real terms in the third quarter of 2005.

- (b) Economic expansion had become more broad-based in the third quarter, with the external sector as the dominant driving force. Total exports of goods continued to grow significantly, by 12.8% year-on-year in real terms, and exports of services expanded noticeably further, by 8.2% in real terms in the third quarter. The external sector had attained growth of 10.6% for the first three quarters of 2005.
- (c) On the domestic front, local consumer spending held firm in the third quarter, supported by improving employment incomes. Spending in the local market had attained stronger growth than that by residents abroad.
- (d) Overall investment spending in terms of gross domestic fixed capital formation grew further. Business sentiment remained generally upbeat. This, together with the need to expand capacity to cope with the increased business volume, led to a further visible increase in investment in machinery, equipment and computer software in the third quarter. However, the weak building and construction activity continued to hold back the pace of upturn in overall investment.
- (e) The labour market kept turning better on a broad front during the third quarter of 2005, and improved further in October. The seasonally adjusted unemployment rate fell to 5.3% and the underemployment rate to 2.5% in August - October, both representing their lowest levels since July - September 2001. Total employment surged to an all-time high of 3.42 million in August - October 2005. The number of long-term unemployed persons also came down markedly, from the peak of 93 000 in 2003 to about 59 000 in August - October 2005. Thus even the hard core of the unemployed was able to benefit from economic revival once the recovery broadened to a full-fledged upturn. Meanwhile, labour income also improved moderately, with payroll per person engaged in the private sector establishments rising by 3.6% in money terms in the first half of 2005 over a year earlier. Both labour earnings and labour wages had risen as labour market improved.
- (f) The property market as a whole turned quieter in recent months, representing a consolidation from the hectic situation earlier this year. The local stock market was buoyant for most of the time in the third quarter of 2005, underpinned by progressive improvement in the local economy and good corporate earnings.
- (g) Consumer price inflation climbed up slightly further during the third quarter, reflecting the buoyant economic upturn, progressive

feed-through from the earlier rental rebound and also some modest impact from higher fuel cost. On the whole, price pressures remained well contained so far. The inflation environment remained benign, as both unit labour cost and unit rental cost continued to show modest increases in recent period. The Composite Consumer Price Index (CCPI) rose by 1.4% in the third quarter of 2005 over a year earlier, and moderately further by 1.8% in October.

- (h) On the back of the highly robust growth attained in the first three quarters of 2005, the forecast GDP growth for 2005 as a whole was raised from 4.5% - 5.5% to 7% in the current round of forecast update. Given the lower-than-expected actual outturn so far, and with the pace of rise-back in CPI inflation likely to remain gradual in the remaining months of the year, the forecast CCPI inflation for 2005 as a whole was revised slightly downward to 1.2% from the earlier forecast of 1.5%. The GDP deflator was revised up by 0.5% to -0.5%.
- (i) Trade outlook in 2006 was still beset with a range of uncertainties, including whether the global economy was able to sustain reasonably solid growth momentum; to what extent avian flu would impact on global economy and international trade; whether US dollar would continue to strengthen; by how much more the impact of the earlier oil price surge would show up in 2006; and successive interest rate hikes in the US, etc. Nonetheless, upside external factors including the continued robust trade growth in the Mainland, recent strength in US economic growth, Sino/US agreement on Mainland's textiles and clothings exports, coupled with favourable domestic factors, such as continued improvement in employment conditions, generally upbeat economic sentiment and resilient stock and property market conditions, would help sustain economic growth.

(Post-meeting note: The power-point presentation material was issued to Panel members and non-Panel Members vide LC Paper No. CB(1)467/05-06(01) on 6 December 2005.)

Discussion

Economic performance of Hong Kong

8. Given the uncertainties in the global and domestic environment, Mr CHAN Kam-lam expressed concern on whether Hong Kong's economy could maintain sustainable growth in 2006.

9. In reply, FS said that in raising the forecast GDP growth rate for 2005 from 4.5% - 5.5% to 7% in the current round of forecast update, the Administration had given due allowance for some moderation in the global and regional demand in the

fourth quarter of 2005 arising from external uncertainties, such as surging oil prices, and had taken into account the dent in domestic demand from successive interest rate hikes. FS said that while he was optimistic that economic growth would remain robust in 2005 on year-to-year comparison with 2004, the growth rate would be moderate for the fourth quarter of 2005. As regards the economic outlook for 2006, FS advised that the Administration would take into account both downside risks and upside factors when preparing the forecast, which would be announced along with the Budget Speech in February 2006.

10. Mr James TIEN said that the business sector was concerned about the damping effects of interest rate hikes on the property market and retail business. He enquired about the measures to be taken by the Administration to address possible slow down in the sectors.

11. On the development of the property market, FS said that the Administration's policy remained that it should be market-driven. To facilitate healthy and steady development of the property market, the Administration would continue with its efforts to improve the Application List System for land sales, such as providing suitable sites in the Application List to meet the needs of small and medium-sized developers; and consider measures to expedite the approval of applications for modification of land leases.

12. Miss Mandy TAM expressed concern that rising business costs in Hong Kong would adversely affect its competitiveness and enquired about the measures to be taken by the Administration to address the concern.

13. Recognizing that Hong Kong needed to build on its strengths to meet the various challenges, FS assured members that the Administration would continue to improve the business environment and promote economic development to attract more investment. To this end, the Administration would continue to review and streamline the relevant regulatory regimes with a view to removing unnecessary constraints and facilitating business operations.

14. Miss Mandy TAM also expressed concern about the impact of the strengthening of Hong Kong dollar in recent months on Hong Kong's export trade. FS said that as re-export of Mainland products accounted for a significant proportion of Hong Kong's export trade, changes in renminbi exchange rates would have a greater impact on Hong Kong's external trade. Nonetheless, the modest appreciation in the value of RMB recently had not affected the competitiveness of Hong Kong's export trade.

15. Miss Mandy TAM noted from Chart 6 of the power-point presentation material that there was only moderate increase in investment in machinery and equipment in the third quarter of 2005 and enquired about the measures to be taken by the Administration to promote investment in fixed capital in Hong Kong. In response, FS advised that although the growth rate of investment in fixed capital had

slowed down in the third quarter of 2005, a growth of 2.4% over a year earlier in real terms was still a noticeable one.

Addressing the unemployment problem in the construction sector

16. Noting that the unemployment rate of the construction sector stood high at over 14%, Mr CHAN Kam-lam and Mr Abraham SHEK urged the Administration to take concrete measures to address the serious unemployment problem. In this connection, Mr SHEK suggested that the Administration should expedite the implementation of public works projects, in particular the outstanding projects of the former municipal councils. In order to facilitate implementation of construction and building projects of the private sector, Mr SHEK called on the Administration to undertake a comprehensive review of the approval process for application of modification of land leases, which was considered by the professionals and property developers as cumbersome.

17. On addressing the unemployment problem in the construction sector, FS re-iterated the Administration's pledge in the 2004-05 Budget to make provision for an average annual allocation of about \$29 billion a year for works projects in the next few years. He further advised that the Chief Executive (CE), in his Policy Address 2005-06, had stressed the importance of continuous infrastructural development as a means to address the problem. The Administration would expedite the implementation of public works projects where possible. Nonetheless, FS pointed out that as private sector building projects were capable of creating more employment opportunities than infrastructural development projects, robust development in the property market would be vital in resolving the unemployment problem in the construction sector. FS also pointed out that the Administration was aware of the concerns expressed by the property sector and relevant parties about the existing lease modification procedures. While stressing the need for the Administration to be prudent in approving applications and setting land premiums, FS agreed that there was room for improvement in the existing approval process. For instance there was room to explore whether the approval process should include the requirement of ensuring that the application would comply with the relevant regulations imposed by government departments. FS advised that the Economic and Employment Council (EEC) had discussed related issues and would explore proposals for improving the approval process.

18. While expressing support for the Administration to streamline the process for modification of land leases with a view to expediting implementation of works projects, Ms Emily LAU stressed the need for the Government to establish a fair and transparent mechanism for processing applications. In this connection, Ms LAU said that the Legislative Council Subcommittee to Follow Up the Outstanding Leisure and Cultural Services Projects of the Former Municipal Councils had recently met with deputations to hear their views on measures for expediting the procedures for implementating the outstanding projects. The deputations considered that the

Administration should expedite the relevant procedures and the payment for completed projects.

Addressing problems of unemployment and poverty

19. Mr CHAN Kam-lam noticed that the growth of total labour force continued to outpace that of new jobs thus exerting pressure on the unemployment problem. Noting that there were some 40 000 vacancies in the market, Mr CHAN was concerned whether the phenomenon was due to low wages offered for the jobs or mismatch in the labour market with the majority of the vacancies belonged to the high-skilled categories, while the unemployed concentrated on the low-skilled segment of the workforce. He considered that the Administration should devise measures to address the problems of unemployment and low wages for non-skilled workers.

20. FS advised that a total of over 200 000 new jobs were created since the trough of unemployment problem in mid 2003, benefiting both high-skilled and low-skilled workers across different sectors. However, the Administration recognized that there was some mismatches in the labour market as Hong Kong economy was still undergoing transition to a knowledge-based economy. As regards concern about the problem of low wages for non-skilled workers, FS stressed that labour wages should be determined by the market. He believed that wages would respond to the demand and supply in the labour market.

21. Ms Emily LAU expressed concern that despite the strong performance of Hong Kong's economy in 2004-05, the general public had not benefited from the economic recovery. She pointed out that although Chart 11 of the power-point presentation material had indicated some improvement in overall labour income recently, there were over 200 000 families in Hong Kong with an average monthly household income below \$4,000. In comparison, the figure for 1997 was just about 40 000. Ms LAU expressed concern that the problem of poverty was getting worse in Hong Kong.

22. FS advised that when he took up the position as the Financial Secretary in mid 2003, total unemployment had surged to about 260 000; residential mortgages in negative equity had reached the height about 106 000 cases; and there was negative growth in labour income. With the concerted efforts of the Administration, LegCo, the business and labour sectors and the community at large, Hong Kong's economy had gradually recovered from the doldrums. GDP attained a real growth of 8.1% in 2004 and was forecasted to grow by 7% in 2005. A total of over 200 000 jobs had been created; residential mortgages in negative equity had reduced to below 10 000 cases; and there was sign that labour income had been improving. FS emphasized that these achievements in the past few years should not be overlooked.

23. To enable members to have a full picture on the changes in labour income brought about by economic growth or downturn, Ms Emily LAU requested the

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Administration to provide, in future briefings on Hong Kong's overall economic situation, not only changes in labour income by broad economic sectors, but also changes in average total monthly household income, including the number of families having an average total monthly household income of less than \$4,000.

Protecting interests of the local workforce

24. Ms CHAN Yuen-han noted from paragraph 5.13 of the Third Quarter Economic Report 2005 that labour wages had increased by 0.4% in money terms in June 2005 over a year earlier, but after discounting the effect of consumer price inflation, labour wages had actually fell by 0.9% in real terms. Ms CHAN expressed concern that while the general public had not benefited from the economic recovery, their burden had indeed increased due to rise in inflation. She stressed that it was vital for the Administration to acknowledge the problems of unemployment, poverty and low wages for non-skilled workers, and to implement concrete measures for addressing these problems. Ms CHAN further pointed out that the application of the World Trade Organization (WTO)'s Government Procurement Agreement (GPA) in Hong Kong had undermined job opportunities for local workers and led to unfair competition in the market. Pointing out that only a handful of WTO members complied with the GPA requirements and some members had imposed higher thresholds in applying the requirements, Ms CHAN called on the Administration to review related policies in order to protect interests of local workers.

25. FS said that the advance of globalization had brought about challenges for economies in the world, in particular, small and externally oriented economies like Hong Kong. Increasing economic integration between the Mainland and Hong Kong, and the emergence of the Pan-Pearl River Delta (PPRD) economic region had brought about both opportunities and challenges to Hong Kong. These developments would inevitably put pressure on the employment situation in Hong Kong. To meet the challenges, it was essential for Hong Kong to develop economic sectors which had competitive edges and complementary to the developments in the PPRD. In this connection, the Administration would continue to reinforce Hong Kong's existing strengths and enhance competitiveness of the key industries, including the financial services, professional services, logistics, and producer services industries. The Administration would promote tourism industry with a view to creating more job opportunities for the low-skilled and low-education segments of the workforce. FS stressed that it was necessary to employ multi channels in resolving the unemployment problem of Hong Kong.

26. As regards concern about the impact of the GPA on Hong Kong, FS advised that the GPA provided that any government contract for procurement of goods or specified non-works services exceeding a value of \$1.3 million and of works services exceeding \$50 million had to be invited through global tendering. He supplemented that in procuring goods or services for the Government, besides complying with the GPA requirements, the Administration needed to ensure that the provision was value for money as public money was involved. The latter, to some extent, might have a

greater impact on the local workforce. FS stressed that it would be in the long term interest of Hong Kong to promote free trade and open competition in the market. The Administration was willing to work with the labour sector in devising measures for protecting interest of local workers.

27. Mr James TIEN noted from Charts 1 and 11 of the power-point presentation material that despite that the GDP leaped by 8.2% in real terms in the third quarter of 2005 over a year earlier, labour earnings and labour wages had only increased by 2.7% and 0.4% respectively over the same period. He enquired about the reasons for the phenomenon and the Administration's assessment on improvement of labour income with continuous economic growth in Hong Kong.

28. FS advised that economic recovery in recent years had generated over 200 000 new jobs in the market. In tandem with the economic revival, labour earnings and wages also went up. FS emphasized that labour earnings and wages were determined by market forces. Chart 11 showed that there was noticeable growth in both labour earnings and wages in 2005 as compared to 2004, although the rate of growth in both items had become moderate in recent months.

29. Mr LEE Cheuk-yan considered that the Administration had a moral responsibility to call on the employers to raise wages in 2006 so that the general workforce could benefit from the economic recovery. He also suggested that the Administration should consider providing travel subsidies to low-waged workers to encourage them to take up jobs in other districts. Mr LEE further requested the Administration to provide a concrete timetable for the implementation of statutory minimum wages in order to protect the interest of low-waged workers.

30. In response, FS re-iterated that wages should be determined by the demand and supply in the labour market. It would be inappropriate for the Administration to intervene in the market by calling on the employers to raise wages. As regards the subject of mandatory minimum wages, FS advised that a roadmap had already been worked out and the matter would be referred to the Commission on Strategic Development (CSD) for in-depth discussion where necessary. On the suggestion of providing travel subsidies to low-waged workers, FS said that the Administration would consider the suggestion.

Strategies for developing Hong Kong's economy

31. While expressing support for the Administration to address the unemployment problem, Mr Ronny TONG emphasized that it was equally important for Hong Kong to invest in the development of human resources. Noting from Table 5.3 of the Third Quarter Economic Report 2005 that the vacancy rate for financing, insurance, real estate and business services sectors stood high at 2.4% in June 2005, Mr TONG expressed concern that the shortage of high quality services professionals might undermine Hong Kong's status as an international financial and business centre. He urged that the Administration should allocate adequate resources for the development of human capital in Hong Kong.

32. In response, FS said that the Administration fully recognized the importance of investing in the development of human resources for promoting economic development of Hong Kong and enhancing Hong Kong's status as an international financial centre. Over the past years, apart from providing resources to upgrade the quality of financial services and business professionals, the Administration had also implemented admission schemes to attract talents from overseas and the Mainland to come to Hong Kong. FS stressed that the Administration and the business community would step up efforts in these areas.

33. On Mr Ronny TONG's suggestion of attracting more talents with experience and expertise in the international financial markets to Hong Kong, FS advised that the presence of a large number of overseas corporations in Hong Kong had helped to form a critical mass of overseas talents with international experience. The Administration would step up efforts to attract more talents to come to Hong Kong through various means, such as meeting the education needs of their children and improving the air quality of Hong Kong.

34. Mr WONG Ting-kwong noted that the growth in inbound tourism had slowed down in the third quarter of 2005. He expressed concern whether this was related to the dissipation of the "Hong Kong Disneyland" effect and rising hotel room rates.

35. FS advised that the management of the Hong Kong Disneyland had maintained that the theme park would attain the forecast attendance of 5.6 million visitor trips per year. As regards the proposal of adding one to two non-executive directors to the Board of Directors of the Hong Kong International Theme Parks Limited with a view to enhancing the transparency of the operation of the Board, FS said that the details were still under consideration by the Administration and the Board.

36. On Mr WONG Ting-kwong's enquiry about details of the Administration's plan to promote tourism industry in 2006, FS advised that new initiatives would aim at enhancing the attractiveness of tourist destinations, promoting Chinese culture and food, and increasing the provision of accommodation for visitors. In respect of the

first initiative, FS advised that major new tourism infrastructure projects including the second phase of the popular “A Symphony of Lights” show, Tung Chung Cable Car System, and Hong Kong Wetland Park, had been or would be in place by end of 2005 or early 2006.

37. While expressing support for the Administration to strengthen key industries which Hong Kong had competitive edges and streamline procedures to facilitate business operations, Mr CHAN Kam-lam expressed concern that competition from the region had threatened Hong Kong’s logistics industry. He enquired about the measures to be taken by the Administration to consolidate Hong Kong’s position in the industry.

38. FS re-iterated the Administration’s commitment to improving the business environment of Hong Kong to facilitate business and reduce operating costs, as well as reinforcing and improving strengths of Hong Kong’s key industries. He added that the Committee on Economic Development and Economic Co-operation with the Mainland of the CSD would discuss strategies for economic development in Hong Kong. The Committee would consider topics, such as priority sectors for development, and suggest measures to enhance competitiveness of the logistics industry.

39. Ms CHAN Yuen-han was concerned that Hong Kong’s economy was over dependent on the development of the property sector. The burst of the bubble in the property market in late 1990s had revealed the detrimental impacts on Hong Kong’s economy. Ms CHAN called on the Administration to devise strategies for promoting development of a broad-based economy for Hong Kong.

40. FS said that Hong Kong had all along maintained a broad-based economy with the external sector as the main driver of growth. He advised that total exports had maintained double-digit growth in real terms in recent years. Moreover, for the first three quarters of 2005, total exports grew by 10.6% in real terms with total exports of goods and exports of services surged by 11.1% and 8.5% respectively. FS pointed out that with ongoing economic restructuring in Hong Kong, the growth in high-skilled jobs was able to maintain an average increase of 4% to 5% per year and the quality of the local workforce had also improved as evidenced by the fact that about one third of the existing workforce belonged to the high-skilled segment.

41. Mr SIN Chung-kai expressed concern about the possible negative impact of the review of the Copyright Ordinance (CRO) (Cap. 528) and enquired about the measures to be taken by the Administration to address the concern.

42. FS said that copyright-related issues were extremely complex and there were inherent conflicts between the interests of copyright owners and the users. He stressed that it was vital to strike a proper balance between the interests of both sides in order to achieve a win-win situation. The Administration believed that the public consultation on the review of certain provisions of the CRO conducted in late 2004

and ongoing discussion with the various stakeholders would be an important step towards this direction.

Tax relief for the general public

43. With anticipated increase in government revenue resulting from strong performance of the economy in 2004-05, Mr SIN Chung-kai considered that there should be ample room for the Administration to reduce taxes. Mr SIN urged that the Administration should consider the strong call from LegCo Members belonging to the three major political parties for reducing taxes in the 2006-07 Budget in order to relieve the burden of the public.

44. Miss Mandy TAM said that the accounting profession was of the view that given that the Government had yet to restore fiscal balance by 2007-08, it would not be appropriate for the Administration to reduce taxes in the 2006-07 Budget.

45. In response, FS pointed out that while robust economic growth in the 2004-05 had increased government revenue, the Administration still faced with a structural problem in its public finance, i.e. lack of a steady income source to underpin its revenue. He advised that over the past years, government operating revenue contributed by taxes, and capital revenue with land premium and investment income from the Exchange Fund being the major components, had fluctuated a lot. As such, the Government required a broader, sizable and steady income source to underpin its revenue and meet its expenditure. The Administration considered that a broad-based Goods and Services Tax a reasonable and equitable way to secure fiscal stability in the future.

46. As regards the request for reduction of taxes, FS re-iterated that he and the CE had undertaken in the resumption of the Second Reading debate on the Appropriation Bill 2005 and the CE election campaign respectively that when the economic recovery took stronger root, the Administration would consider reducing taxes to relieve the burden of the public. FS said that while the Administration recognized the request from the general public at large for reduction of taxes, given the uncertainties in the external and domestic economic environment in recent months which might put pressure on Government's fiscal position, it was necessary for the Administration to adopt a prudent approach. The Administration would take into account Hong Kong's economic performance in the second half of 2005 and the external economic environment in examining whether there was room for tax reduction in the 2006-07 Budget.

47. In response to Ms Emily LAU's enquiry about resource allocation on health programmes for addressing a possible outbreak of an influenza pandemic, FS stressed that the Administration would remain highly alert about the risk and make necessary preparations. He assured members that relevant departments had been allocated with adequate resources for implementing preventive measures against a possible outbreak of the pandemic.

Taxation regime of Hong Kong

48. Miss Mandy TAM noted that Singapore had entered into agreements with some 50 jurisdictions on avoidance of double taxation and that the Mainland had offered preferential treatment in its agreement on avoidance of double taxation with Switzerland. Miss TAM considered that the CSD should consider measures to expedite progress of reaching avoidance of double taxation agreements with other jurisdictions and explore with the Mainland for granting more preferential taxation treatment to Hong Kong in order to reinforce Hong Kong's status as an international financial centre.

49. FS advised that while Hong Kong had entered into agreements with a number of jurisdictions on tax treatment pertaining to specific areas, such as aviation, it had entered into comprehensive agreements on avoidance of double taxation with Thailand and Belgium only. FS took note of Miss Mandy TAM's suggestion in paragraph 48 above and undertook to refer it to the CSD for consideration.

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Roles of the EEC and the CSD

50. Ms Emily LAU referred to her question raised at the Council meeting on 30 November 2005 on discussion of implementation of minimum wages and standard working hours in Hong Kong by the EEC, under which she expressed concern that the functions of the EEC might be overtaken by the CSD. In this connection, Ms LAU expressed concern about the increasing trend of the Administration to refer subjects for discussion by the CSD instead of the LegCo. She emphasized the importance for the Administration to consult the LegCo in gaining its support for public policies and programmes.

51. FS stressed that the Administration had been maintaining a partnership relationship with LegCo. A number of LegCo Members were also members of the CSD or EEC, which had helped to enhance the effectiveness of the discussions. FS stressed that the LegCo, CSD and EEC served different functions.

V. Proposed introduction of a new category of “travel insurance agents”

(LC Paper No. CB(1)404/05-06(04) — Paper provided by the Administration

LC Paper No. CB(1)404/05-06(05) — Background brief prepared by the Legislative Council Secretariat (including the Administration’s written response to the issues raised at the Panel meeting on 4 July 2005)

LC Paper No. CB(1)2059/04-05(01) — The Administration’s written response to the seven submissions

LC Paper No. CB(1)1919/04-05(05) — Paper provided by the Administration for the Panel meeting on 4 July 2005)

52. The Chairman declared interest as a member of the executive management of a number of insurance companies. He invited the Deputy Chairman to preside over the discussion of this item. The Deputy Chairman took over the chair.

Briefing by the Administration

53. At the invitation of the Deputy Chairman, the Commissioner of Insurance (C of I) briefed members on the progress of the Insurance Authority (IA)’s proposal to introduce a new category of “travel insurance agents” under the Insurance Intermediaries Quality Assurance Scheme (IIQAS). He pointed out that when the Panel was briefed on the proposal at its meeting on 4 July 2005, members had in general expressed support in principle for the proposal so as to promote travel insurance and facilitate travel agents to sell travel insurance. Nevertheless, members had noted the concerns expressed by some insurance intermediary bodies that the proposal might set a precedent for similar arrangement to be extended to other types of insurance, such as motor insurance or employees’ compensation insurance and that it might affect the professional standards of insurance intermediaries. Following the Panel meeting, IA had held further discussions with the representatives of the relevant insurance intermediary bodies and reassured them that it had no intention to extend similar arrangement under the proposal to other types of insurance. IA had also briefed them on the standard of the proposed examination for “travel insurance agents”. The proposal was then discussed at the IIQAS Steering Committee meeting on 22 November 2005. The Committee endorsed the proposal having regard to the assurance and justifications given by IA. C of I also pointed out that the proposed “travel insurance agents” registration system would be ready for implementation in early 2006 subject to the comments on the draft “Study Notes on Travel Insurance”, which had been circulated to the relevant bodies of the insurance and travel industries

for their views. IA would continue to liaise with the relevant industries in promulgating the new registration system.

Discussion

Responses of the insurance and travel industries to the proposal

54. Mr SIN Chung-kai requested the Administration to elaborate on the responses of the insurance and travel industries to the proposal. C of I advised that the travel industry supported the proposal because it would encourage more outbound travellers of Hong Kong to take out travel insurance for their own protection, and facilitate travel agents to be registered as “travel insurance agents” so that they could sell travel insurance with proper authorization. C of I pointed out that under the existing IIQAS, persons who wished to be registered as insurance agents and be able to sell general insurance products, including travel insurance, were required to pass two examination papers covering various subjects which were beyond the scope of travel insurance, and to fulfil the Continuing Professional Development Programme requirements. Travel agents had found it difficult to fulfil all the requirements under the IIQAS which were intended for full-time insurance practitioners. However, under the proposed registration system, travel agents who wanted to be registered as “travel insurance agents” would only be required to pass an examination covering principles and practice of insurance and travel insurance. This arrangement would facilitate travel agents to obtain the necessary qualification to sell travel insurance only, without detracting from their core business. On the other hand, the insurance industry also supported the proposal because it would subject the travel agents selling travel insurance to proper regulation.

55. The Chairman confirmed that the insurance industry supported the proposal in principle. He pointed out that when the Panel was briefed on the IA’s proposal at its meeting on 4 July 2005, members had noted the concern expressed by the insurance intermediaries in their submissions and requested IA to give further thought to the proposal and consider how the concern could be addressed. The Chairman was pleased to note that IA had since then held further discussions with the insurance industry, and a consensus was subsequently reached. To keep track of the implementation of the new registration system, the Chairman requested the Administration to report to the Panel on the implementation of the system about one year after its implementation, including information on the number and percentage of travel agents who had passed the “Travel Insurance Agents Examination” and registered under the system, as well as the Administration’s assessment of the effectiveness of the new registration system and the impact of the system on the professional standards of insurance intermediaries. C of I undertook to provide the report.

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56. Mr Howard YOUNG said that Members of the Liberal Party supported the proposal so as to facilitate the public to take out travel insurance before they travelled. Mr YOUNG also pointed out that the travel industry supported the proposal, as the

proposed system would facilitate travel agents to be adequately equipped to advise their clients on their travel insurance needs without requiring them to fulfill all the requirements intended for full time insurance practitioners.

57. Miss TAM Heung-man was concerned about the impact of the proposal on the income of insurance practitioners. In response, C of I pointed out that as travel insurance was not the major business of the some 50 000 insurance practitioners in Hong Kong, the income from the selling of travel insurance only constituted a small portion of their total income. Indeed, the insurance intermediaries had not expressed such concern during the consultation period. They were more concerned that the proposed arrangements would be extended to other types of insurance.

Requirements under the new registration system

58. Responding to Mr Howard YOUNG's enquiry, C of I explained that under the proposal, a travel agency and its staff members deployed to sell travel insurance should be registered with the Insurance Agents Registration Board (IARB). The registration fee was \$360 for a period of three years.

59. Mr SIN Chung-kai was concerned how the Administration could ensure that travel agencies would only deploy those staff who had been registered as "travel insurance agents" to sell travel insurance, and that the registered "travel insurance agents" would not sell other types of insurance to their clients. He enquired about the monitoring measures to be put in place by the Administration and the sanctions for breaching the requirements. The Deputy Chairman expressed similar concerns. He pointed out that considerable resources would be required to monitor compliance with the new requirements by travel agencies.

60. In reply, C of I advised that after the implementation of the proposed registration system, the Office of the Commissioner of Insurance (OCI) would strictly enforce the requirement that only those who had passed the qualifying examination and had been registered as "travel insurance agents" with IARB might sell travel insurance at travel agencies. IA was considering introducing a new arrangement together with the implementation of the proposal requiring "travel insurance agents" to display their names and title of "registered travel agent" together with their IARB registration numbers at their service desks or counters. The same information was required to be printed in the official premium receipts of the travel insurance policies, which would facilitate follow up action in cases of complaints and provide better protection for consumers.

61. C of I also advised that if "travel insurance agents" were involved in the selling of other types of insurance, they had breached the requirement under the registration system. Such a breach of requirement, which was similar to holding himself as an authorized insurance agent in the sale of insurance without registration, was a criminal offence. Convicted persons might be sentenced to a maximum of three months' imprisonment and a maximum fine of one million. C of I assured members

that, upon the implementation of the proposed registration system, the Administration would step up publicity of the new system jointly with IARB and the Consumer Council, so as to remind consumers of the need to make sure that the travel agents selling travel insurance to them were registered “travel insurance agents”.

(Post-meeting note: The Administration subsequently confirmed that convicted persons might be sentenced to a maximum of two years’ imprisonment and a maximum fine of one million.)

62. The Deputy Chairman enquired whether the travel industry was fully aware of the new requirements under the proposed registration system. C of I explained that OCI had discussed with the Hong Kong Federation of Insurers (HKFI) and the Travel Industry Council of Hong Kong (TIC), the representative bodies of the insurance industry and the travel industry, in the course of formulating the proposal and conducted consultation with the stakeholders in the industries to gauge their views on the proposal. The requirements to be complied with by “travel insurance agents” under the new registration system had been clearly conveyed to TIC representatives. Responding to the Deputy Chairman’s suggestion of an additional requirement to display the photos of the registered “travel insurance agents” at the service desks or counters, C of I said that this would have to be further explored in consultation with the travel industry. In this connection, he pointed out that a customer might make enquiries about or lodge complaints against an insurance agent with IARB by providing the registration number of the agent concerned.

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Training for staff of travel agencies to sit for the proposed examination under the new registration system

63. Mr Howard YOUNG pointed out that given the tight manpower position of travel agencies, in particular during peak seasons, flexible arrangements should be worked out to facilitate the staff of these agencies to receive training to prepare for the “Travel Insurance Agents Examination”. He also expressed concern about the training expenses to be borne by travel agents under the proposed system.

64. C of I responded that OCI would discuss with HKFI and TIC to work out the arrangements and schedules for the trainings to be provided by insurance companies free of charge. It was in the interest of insurance companies to provide proper training for “travel insurance agents” because they had to ensure that those people appointed by them as agents were competent to undertake the required duties and provide customers with a good quality of service. It was envisaged that a considerable number of staff members of travel agencies would be able to register under the proposed system within three to six months after its implementation.

Regulation of “travel insurance agents”

65. The Deputy Chairman urged the Administration to ensure the professional standard of all insurance agents upon the implementation of the new registration system, so that customers’ interests would not be unduly affected by any mishandling of insurance policies by insurance agents.

66. C of I pointed out that at present, some travel agents refrained from selling travel insurance while some operated in the grey area hoping that by simply collecting insurance premiums from the customers and not giving advice to them, they could get away from having to be registered as insurance agents. This practice had caused inconvenience to customers and given them little protection. The implementation of the new registration system would make it more convenient for travellers to take out travel insurance while at the same time ensure that those who sold travel insurance at travel agencies were qualified and equipped to advise their clients on their travel insurance needs. The proposal would subject the travel agents to proper regulation and provide better protection to their clients.

67. Responding to Miss TAM Heung-man’s enquiry, C of I advised that the registered “travel insurance agents” would be subject to the same regulatory requirements applicable to other insurance agents under IIQAS. They would be required to comply with the code of conduct applicable to all insurance agents and subject to the standard procedures for complaint investigation and disciplinary actions of IARB.

68. Mr Howard YOUNG was concerned whether the selling of travel insurance through other means, such as through banks or the internet, was also subject to the same regulatory requirements. C of I confirmed that the sale of insurance products was subject to the same regulatory regime, regardless of the channels through which the sale transactions were made. The insurance companies concerned would be responsible for the insurance policies issued through their appointed insurance agents.

VI. Any other business

69. There being no other business, the meeting ended at 11:35 am.