

# OFFICIAL RECORD OF PROCEEDINGS

Thursday, 13 November 2008

The Council continued to meet at Nine o'clock

## MEMBERS PRESENT:

THE PRESIDENT

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

THE HONOURABLE ALBERT HO CHUN-YAN

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

THE HONOURABLE LEE CHEUK-YAN

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

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

DR THE HONOURABLE MARGARET NG

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHAN KAM-LAM, S.B.S., J.P.

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

THE HONOURABLE LEUNG YIU-CHUNG

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

THE HONOURABLE WONG YUNG-KAN, S.B.S., J.P.

THE HONOURABLE LAU KONG-WAH, J.P.

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

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

THE HONOURABLE ANDREW CHENG KAR-FOO

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

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

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

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

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

THE HONOURABLE ALBERT CHAN WAI-YIP

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

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

THE HONOURABLE VINCENT FANG KANG, S.B.S., J.P.

THE HONOURABLE WONG KWOK-HING, M.H.

THE HONOURABLE LEE WING-TAT

DR THE HONOURABLE JOSEPH LEE KOK-LONG, J.P.

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

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

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

THE HONOURABLE KAM NAI-WAI, M.H.

THE HONOURABLE CYD HO SAU-LAN

THE HONOURABLE STARRY LEE WAI-KING

DR THE HONOURABLE LAM TAI-FAI, B.B.S., J.P.

THE HONOURABLE CHAN HAK-KAN

THE HONOURABLE PAUL CHAN MO-PO, M.H., J.P.

THE HONOURABLE CHAN KIN-POR, J.P.

THE HONOURABLE TANYA CHAN

DR THE HONOURABLE PRISCILLA LEUNG MEI-FUN

THE HONOURABLE CHEUNG KWOK-CHE

THE HONOURABLE WONG SING-CHI

THE HONOURABLE WONG KWOK-KIN, B.B.S.

THE HONOURABLE WONG YUK-MAN

THE HONOURABLE IP WAI-MING, M.H.

THE HONOURABLE IP KWOK-HIM, G.B.S., J.P.

THE HONOURABLE MRS REGINA IP LAU SUK-YEE, G.B.S., J.P.

DR THE HONOURABLE PAN PEY-CHYOU

THE HONOURABLE PAUL TSE WAI-CHUN

DR THE HONOURABLE SAMSON TAM WAI-HO, J.P.

**MEMBERS ABSENT:**

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

DR THE HONOURABLE LEUNG KA-LAU

**PUBLIC OFFICERS ATTENDING:**

THE HONOURABLE EDWARD YAU TANG-WAH, J.P.  
SECRETARY FOR THE ENVIRONMENT

MR GREGORY SO KAM-LEUNG, J.P.  
SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT

**CLERKS IN ATTENDANCE:**

MRS VIVIAN KAM NG LAI-MAN, ASSISTANT SECRETARY GENERAL

MRS JUSTINA LAM CHENG BO-LING, ASSISTANT SECRETARY  
GENERAL

**PRESIDENT** (in Cantonese): Clerk, a quorum is not present, please ring the bell.

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

**PRESIDENT** (in Cantonese): Good morning. Council now resumes to continue the motion debate on "Alleviating the burden of fuel costs on the public and relevant trades".

## **MEMBERS' MOTIONS**

### **ALLEVIATING THE BURDEN OF FUEL COSTS ON THE PUBLIC AND RELEVANT TRADES**

#### **Continuation of debate on motion which was moved on 12 November 2008**

**MR FREDERICK FUNG** (in Cantonese): President, I welcome the Secretary to listen to my speech this morning.*(Laughter)*

President, the persistently high fuel prices have been troubling the development of Hong Kong. In fact, local fuel supply is the most typical example of oligopoly. The so-called free market principle upheld by the Government actually does not exist in the local fuel market. The community has been requesting the Government to monitor fuel prices and enhance the transparency of pricing by oil companies, and the most important of all, is to enact a fair competition law to break what appears to be collusive pricing by oil companies with a view to introducing genuine fair competition in the market.

Unfortunately, the enactment of a fair competition law has been delayed time and again by the Government after several consultation exercises. Despite the Chief Executive having undertaken to introduce a Competition Bill in this Legislative Session, the attitude of the authorities as demonstrated in those consultation exercises made the Hong Kong Association for Democracy and People's Livelihood (ADPL) and me fear that the regulatory provisions eventually formulated by the Government would be just "toothless tigers". As a result, an

oligopoly of oil companies will continue to exist, so will collusive pricing. This is tantamount to placing the interests of multinational enterprises above the sufferings of the general public.

President, in this year's policy address, the Chief Executive stressed the need to enhance the transparency of fuel prices and would subsequently adopt the so-called "three strokes" to monitor fuel prices, including the spending of over \$1 million to obtain information about the Singapore free-on-board (FOB) prices, and the publication of the Singapore FOB prices in comparison with local retail prices on a regular basis. The second stroke is to grant a funding of \$420,000 per annum to the Consumer Council so that the latter can release the retail prices and relevant discounts of various oil companies, with a view to facilitating the price watch by consumers. Consideration will also be given to introducing monitoring of fuel pricing through the filling station tendering process. Both the Chief Executive and Secretary for the Environment have said that, according to government observation, the movements in local pump prices of motor fuels and import prices are "roughly the same" and there is no evidence that fuel prices are quick in going up but slow in coming down.

President, given that the fuel market is extremely enclosed, the oil companies have all along refused to disclose their pricing mechanism on the ground of commercial secret. As a result of the lax supervision of the SAR Government, the oil companies have denied all monitoring and grown in power, and they always enjoy an advantageous position. It can be said that regardless of whether the economy is booming or gloomy, the oil companies could still reap huge profits. The present financial tsunami is a case in point. When the real economy is hit by the second wave of economic recession, all sectors and the small and medium enterprises have to face a tough challenge. Even members of the public who do not make investments suffer the pain of pay cuts and layoffs. And yet, the oil companies have remained unscathed, and continue to nibble off the price difference between retail and import prices. What is more, they have made use of this opportunity to maximize profits by raising prices quickly but reducing them slowly. The worst thing is that the Government still has to defend the oil companies by saying that there is no sign of such.

President, it is unbelievable that the authorities can be so naïve as to think a comparison of the Singapore FOB prices with the local retail prices will lead to the conclusion that the oil companies are not "quick in raising prices but slow in reducing them", not to mention the fact that the so-called FOB price is nothing

but a trick employed by those multinational oil companies. The ups and downs of FOB prices have no effect on the oil companies' overall profits at all. Just as members of the trade said, the FOB price is nothing but "the selling price of the fuel sold by a father to his son", carrying no reference value at all.

From extraction to selling at the destined outlets, crude oil has to go through such processes as refining and transportation before arriving at Hong Kong. The costs incurred also include wages, promotion, transportation and land premium. As we all know, in the short to medium term, these operating costs have been comparatively stable, in the recent year and a half in particular. What actually dictates the ups and downs of fuel prices is therefore the international oil prices.

By comparing the international oil prices and local retail prices between last September and the present, one may see how the oil companies engaged in "price cheating" and how fuel prices are "quick going up, but slow coming down". President, while the price of international crude oil was US\$83.85 per barrel in last September, it rose to a record high of US\$147.27 per barrel this summer. In the aftermath of the financial tsunami, the price dropped to US\$62.9 per barrel last week. But when I arrived here this morning, I heard from the radio that the price of today is US\$55.7 per barrel. By the same logic, the current local retail prices should be lower than that of last September.

However, President, while petrol was HK\$13.69 per litre in last September, it is now HK\$14.59, with an increase of about 7%. The case for diesel is even worse. While the local retail price of diesel was HK\$7.87 per litre in last September, it still stands at HK\$9.35 today, with an increase of about 20%, not yet including the \$0.56 duty concession granted by the Government earlier on.

President, the oil companies' act of raising prices quickly but reducing them slowly can be clearly reflected by these figures. How can we blind-fold our eyes and open our mouths wide to say that this does not exist? In fact, it is most obvious that there is sufficient evidence showing the oil companies' act to take a mean advantage. How can the authorities still attempt to delay the request for oil companies to enhance the transparency of pricing in the name of undertaking researches? The ADPL calls on the Government to act immediately and exercise supervision of fuel prices through the filling station tendering process, and explore alternative types and sources of fuel. More importantly, a cross-sector fair competition law must be expeditiously enacted to curb such

anti-competitive acts as oligopoly and collusive pricing by oil companies, with a view to restoring local retail prices of fuel to a reasonable level to assure consumers' interests.

With these remarks, President, I support the original motion and all the amendments.

**MR TOMMY CHEUNG** (in Cantonese): President, high fuel price has not only affected the driving public and the transport industry, but it has also pushed up the retail prices of liquefied petroleum gas (LPG). Be it members of the public or the catering industry, or users of centralized or cylinder LPG, they all suffer from such a price increase and find it hard to withstand.

However, compared with fuel oil, the price of LPG rises more quickly and drops more slowly and its pricing is almost opaque. There is practically no government supervision of the price of gaseous fuel.

According to the information provided by the LPG industry, there were a total of about 690 000 piped and cylinder LPG users (including domestic, commercial or industrial) in 2007. And yet, only one LPG supplier (Shell) has adopted a pricing mechanism to review its prices regularly, which can be said to be the only company with some measure of transparency.

Under this mechanism, the oil company will review its prices every three months, whereas the operational costs will be reviewed once a year. In each review of LPG price, the company will set the price by forecasting the import prices in the next three months, and in the subsequent review three months later, if there is any variation between the actual import prices and the import prices forecasted in the previous review, the difference will be reflected in the subsequent review. In other words, an increase recorded in the past three months will not be adjusted until three months later.

Though only limited information has been provided by the oil companies, the pricing mechanism in itself does facilitate prices in being quick in rising but slow in coming down. This is because if the international LPG price is expected to go up, the oil company will raise it in advance. Even if the actual import price increase is less than forecasted, it has at least charged a higher price for three months. Secondly, even if it is discovered that the company has



overcharged three months later, but owing to the low transparency of the pricing mechanism, only the company itself knows whether or not the surplus has been fully reflected in the next pricing. After all, the so-called "import price" is a commercial secret which nobody except the company knows. Although the Census and Statistics Department (C&SD) will collect the monthly LPG import prices, the data only reflects the "average import price" of all oil companies, just as the case of fuel oil. What I mean is that members of the public cannot use this "average" figure to make any comparisons with the retail prices.

What is more, the oil companies said that the operating cost would also be taken into account in the course of pricing, which is nonetheless an unknown. Such a mechanism, which sounds pretty good, is nothing but a tool for the oil companies to push up fuel prices quickly but reduce them slowly, and even manipulate them.

Earlier on, Secretary Edward YAU said that he would make reference to the movements in international LPG prices and local LPG import prices to determine if the prices of domestic LPG charged by the oil companies are reasonable. However, only one company has disclosed a little bit information about its pricing mechanism, but nothing from others. I wonder what supervision the Secretary has exercised. Furthermore, given that the import prices provided by the C&SD cannot compare directly with the import prices of various companies, what is the Secretary's basis of comparison? Moreover, while cylinder LPG is measured in kg, which is the same as that of the LPG unit price collected by the C&SD, centralized domestic LPG is measured in cu m. Not only is the conversion of the unit of measurement complicated, it is indeed a commercial secret. So, what is the Secretary's supervision based on? The Secretary should have the answers to these questions, but the Liberal Party still hopes that the Secretary will explain what data or information will be used for the exercise of supervision, and what the result is.

President, the Liberal Party considers that if the Government is really intent on monitoring the fuel market, it should publish the international LPG prices for public information. At the same time, it should also request the various oil companies to enhance transparency by publishing the pricing criteria. In view of the plunging international LPG prices, the Government should request the oil companies to increase the frequency of price adjustments, say, conducting a

monthly adjustment for auto LPG, so that the retail LPG prices can reflect the drop in international LPG prices in the first instance to the benefit of the public and the industry.

Besides, ever since the Consumer Council started to investigate into the competition in the LPG market in 2000, no further action has been taken by the Government to examine how competition in the market can be boosted, how competition in terms of price can be promoted and how supervision of the market can be stepped up. Now eight years has passed, but not the slightest progress has been made in boosting competition in the gaseous fuel market or enhancing the transparency of pricing. There is indeed a need for the authorities to look into the matter in public interest.

President, I so submit.

**MR LEE CHEUK-YAN** (in Cantonese): President, Members who watched the television today should have noticed that the price of New York crude oil had sunk to US\$45 per barrel. As far as I can remember, the highest was some US\$160, so the price now represents a drop of nearly 60%. However, comparing the record high oil price of last year with the present, namely both import and retail prices, it can be seen that while the retail price of unleaded petrol was US\$7.61 in July last year, it is now US\$10.2. Apparently, despite a slump in international fuel prices, retail prices in Hong Kong still went up. The Secretary will certainly say that this is a result of an increase in import prices so that nothing can be done.

In fact, the whole chain of oil supply has been monopolized, without any competition. Of course, Members may say that the petroleum exporting countries have engaged in collusive pricing right from the start. Let us not go so far, but at least, the supply from Singapore to Hong Kong has been monopolized. How can we break the first barrier, that is, monopolized import prices? What comes next is the second barrier, which is collusive pricing by the local oil companies. In fact, the Government is obliged to tackle this. Although repeated discussions on fuel prices have been held over the past few years, during which collusive pricing was mentioned every year, no action has been taken by the Government. Worse still, the Chief Executive recently stated in the policy address that studies would be undertaken to examine if the oil companies are quick in raising prices but slow in reducing them, and further studies are

necessary. Perhaps the Secretaries of Departments, senior officials and the Chief Executive need not refill their vehicles, such that they never know what we are paying are actually not value for money. While the international oil prices are seen to be dropping every day, domestic oil prices are instead going up. The promotional benefits are indeed useless as they are provided by the oil companies at their own discretion. Sometimes they are available, but sometimes not. They are not genuine discounts. Therefore, insofar as fuel price is concerned, I wonder if it is because the Government is totally unaware of public sentiments that it still claims that the issue of fuel prices going up quickly but coming down slowly has to be discussed.

Let me give you another example. In September 2007, the import price — I am now referring to import price to pre-empt the Secretary's accusation that I am only referring to the international oil prices — dropped by US\$0.24. And yet, not a single cent in reduction had been recorded throughout the year. Rather, they kept going up. This is crystal clear, and what else do we need to examine? It is apparent that the oil companies are monopolizing the market through collusive pricing, for the purpose of maintaining the fuel price at a high level. This has caused significant impacts on the Hong Kong economy. As we all know, fuel cost carries a very heavy weight in the overall transportation cost. All industries bear transportation cost and attach great importance to it. For the overall economy, particularly amid the present financial tsunami, a failure to cut the transportation cost will cause a serious problem.

While the industry called the oil companies "oil demons", the latter should be excused for this, President, because the objective of business operation is to reap the largest profits. Talking about corporate social responsibility with oil companies and the business sector is tantamount to asking a tiger for its hide, and it is, to a certain extent, in contravention of the economic theories. Economic theories require that the maximum profits should be reaped.

Having said that profit maximization is the natural instinct of the "oil demons" and all of them are evil, the Government is nonetheless obliged to fight these demons. However, it has failed to perform its duty to control fuel prices. While the Government is also obliged to combat collusive pricing, after all these years, it is only until now that the introduction of a fair competition law can be

expected. And yet, no one knows how long we will have to wait. It is precisely because the Government has been reluctant to do something that Hong Kong is still suffering from collusive pricing today.

Nonetheless, the Government has done one thing about which I would like to ask the Secretary if he considered himself a fool in it. It is the concession of diesel duty. We certainly support such a concession, but we expect to see the result of this concession to be reflected in fuel prices so that the transportation industry, the diesel user, could have some breathing space. We have however seen some strange phenomena, one of which being the price of diesel being higher than that of petrol. By all reasoning, the price of diesel should not be higher than that of petrol. Members can take a look at the table provided by the Government, which sets out the price of diesel in September — I have some figures in hand — the retail price after tax is US\$10.89 whereas the retail price of petrol after tax is US\$10.02. In other words, diesel is more expensive than petrol. Why is that so? Is it because the Government's concession has enabled the oil companies to pocket the reduced amount on the one hand, and reap further gains by raising the retail price on the other? If we review the prices in 2003, we will find they were comparatively more normal with the diesel and petrol prices being the same. After that, however, the price of diesel has been going up. Why? We wish to have an explanation from the Government to see if it has been made a fool? There is no reason that diesel is more expensive than petrol.

Last of all, I think that the Government is obliged to resolve these problems. As for the ways to bring down the prices, a Member mentioned the use of unleaded petrol of 95 octane rating yesterday. The petrol we presently use is of 98 octane rating. It should be sufficient to cater for the need of ordinary vehicles in Hong Kong if petrol of 95 octane rating is used instead, which is cheaper. Last but not least, I hope that the Government will genuinely address the issue of fuel prices to rescue our economy. Thank you, President.

**MS LI FUNG-YING** (in Cantonese): President, I still recall that when we debated the reduction of duties on auto-fuels in mid-June this year, an organization had staged a going-slow of coaches and container trucks. Today, when the same topic is discussed, there are again drivers staging a going-slow to protest and even boycott filling stations of a particular brand name, protesting the

oil company against its act to raise prices quickly but reduce them slowly. These have fully demonstrated the serious dissatisfaction of the professional drivers with the operation of the oil companies. A paper submitted by the Environment Bureau to the Legislative Council Panel on Economic Development last month pointed out that the trend movements and the rate of adjustments in local retail prices had been broadly in line with the average import prices in the previous month. The Environment Bureau was actually defending for the oil companies, saying that there was no question of the oil companies being "quick in raising prices but slow in reducing them" and engaging in "price cheating", the topic under discussion today and a query raised in the community. And yet, the controversies surrounding fuel prices cannot be settled simply by vindicating for the oil companies. If the Government succeeds in the vindication, we probably have to look at the issue of fuel prices at a deeper level.

Both diesel and auto-LPG are essential resources for professional drivers to make a living. However, simply by looking at the movements of diesel price in the last decade, we would appreciate the immense pressure of living borne by the professional drivers. Such pressure has grown significantly but dropped slightly in tandem with the movements in fuel prices without any sign of relief. President, I wish to discuss this problem with reference to the figures of the past decade so that Members will have a better understanding of their sentiments. The price of light diesel oil was \$0.66 per litre in 1998 and \$6.4 per litre in March this year, representing a ten-fold increase. When the Government introduced ultra low sulphur diesel (ULSD) in 2000, the price was \$2.08 per litre and it already went up to \$6.14 in March this year. Of course, the price should be even higher now. With this continual increase, the price has increased by nearly three folds. In 1998, the average salary in the transportation industry was some \$13,800. What is it now? The average income is only \$9,860, which has dropped rather than risen. Compared with 1998, it is about \$4,000 less. These figures tell us that workers in the industry have been facing the cruel reality in the recent decade with rising fuel prices but a lower income. Their standard of living is indeed worsening. We can therefore see how important adjustments of fuel prices are to professional drivers, and how gravely dissatisfied they are with the operation of the oil companies.

The Government said that there is no evidence showing that fuel prices are quick going up but slow coming down, or the oil companies are engaging in price cheating. Nonetheless, while professional drivers watched news about the price

of crude oil going down, they failed to benefit from a reduction of fuel prices offered by the oil companies. Coupled with the fact that the business environment is deteriorating, under which different problems have arisen, can the Government resolve the problem of high fuel prices by simply saying that oil companies are not quick in raising prices and slow in reducing them?

President, the United Nations released a report entitled "State of the World's Cities 2008/2009" at the end of last month, which states that the Gini Coefficient of Hong Kong has reached as high as 0.53 and is now categorized as an Asian region having the most serious wealth disparity. Many professional drivers are precisely the victims of this problem. To relieve the burden of fuel cost on the general public, the Government should not simply look at whether the oil companies are quick in raising prices but slow in reducing them, for it should also examine the overall market supply of fuel with a view to promoting competition. By ensuring reasonable pricing of fuels, the present situation where oil companies are enriched at the expense of the general public, especially the professional drivers, could be rectified.

President, I so submit.

**DR PRISCILLA LEUNG** (in Cantonese): President, in relation to the issue of fuel duty, an organization chaired by me — the Kowloon West New Dynamic — organized a protest drive in May. By simply making just one call at that time, I was able to invite more than 30 people, who belong to the middle class by Hong Kong standards and who have all along been apathetic to politics, to join the protest. What does this show? It shows that a large group of middle-class people found themselves being neglected by the Government. They do not mind paying tax nor serving as the mainstay of the community, but they do hope that the Government will note their needs, which are indeed not excessive demands. In fact, both the fuel duty and fuel prices aim to balance the interests of all parties in the community as motoring and environmental protection is always conflicting.

And yet, many people do have a genuine need to drive nowadays, either for business or personal reasons. For instance, middle-class people living in the

suburbs do not have many choices and have to drive as a matter of living. I also live in the suburbs and have to drive every day. Whenever I refill my car, I share the deep feeling of the middle class and even the lower class that, sooner or later, we will not be able to bear the rising fuel prices.

The middle class has a number of characteristics, namely to spend, to find leisure and to relax. On the other hand, they are also the ones supporting the economy. If they lost faith in Hong Kong, the economic cycle would be disturbed. I think that amid the present economic turmoil and financial tsunami, many middle-class people will soon become members of the proletariat. By that time, it would be too late for the Government to win over their hearts or restore their confidence. They will be forced to think that what they have done and all the efforts made have failed to gain the slightest recognition of Hong Kong society and the Government.

Therefore, I have all along said that while the middle class carries no original sin, crude oil is a necessity to the business operation of the small and medium enterprises.

Regarding the original motion and amendments proposed by four colleagues, I basically agree with them, for instance, the introduction of cheaper petrol of 95 octane rating or the provision of tax concessions to attract more companies to Hong Kong, and requesting the Government to step up supervision of fuel prices.

On the other hand, insofar as fuel price is concerned, I also agree that the Consumer Council should publish the relevant information in a more frequent manner so that people can be aware of the soaring fuel prices. In fact, the oil companies have failed to earn the sympathy of anyone. No one considers it an appropriate move to increase fuel prices at this moment. Furthermore, before I made it a point to refer to other fuel prices, as a consumer, I always think that they are charging an excessively high price whenever I refill my car.

President, most of the amendments ..... The current duty on unleaded petrol is \$6.06 per litre, which accounts for 36% of the pump price. I consider this totally unreasonable. What is more, no adjustment has been made since 1998. Even if the Government reduces the fuel duty by 50%, it will only reduce

its income from \$2.7 billion a year to about \$1.35 billion a year. A colleague pointed out earlier that the purpose of granting duty concession is to bring benefits to consumers; in other words, the price of petrol must be reduced too.

Among the several amendments, I only have a little reservation about Mr CHAN Hak-kan's amendment, which proposes to "assist the development of the local biofuel industry". As we can see, the trend of developing biofuel was also pretty popular in the United States a long time ago and caused the prices of such agricultural produce as corn, which is used domestically to refine ethanol, to soar. On the other hand, many research findings also pointed out that using large amounts of agricultural produce to refine biofuel is not cost-effective, and this has aroused the concern of farmers and consumers of a food crisis. As a result, the Americans also have reservation about this trend. Coupled with the fact that traditional fuel has to be used in the refining of biofuel, so before any detailed research report is published, I have reservations about this proposal.

Given that the oil companies are rooted in Hong Kong, taking advantage of the opportunities created by the present financial tsunami, oil companies, Hong Kong enterprises and the middle class should ..... so if the Government puts pressure on the oil companies, it will have the support of everyone. Therefore, it is now time to earn some credits. I eagerly hope that the Government will make good use of this opportunity to really save the middle class. Thank you.

**MR WONG YUNG-KAN** (in Cantonese): President, while international oil prices have plummeted recently, local fuel retail prices have only dropped by a limited extent, resulting in fuel prices remaining persistently high. It is also true that many oil companies have been criticized for raising prices quickly but reducing them slowly, and engaging in price cheating. Fishermen, whose fuel cost accounts for more than 80% of the total operating costs, have nonetheless nowhere to complain to. As we all know, the price of fuel for fishing boats is absolutely seasonal with no transparency at all. There is no way the industry can learn the retail price, and whether or not it is reasonable.

Although the Government has supplied fishermen with duty-free diesel (marked oil) in the past decade, the price of duty-free marine diesel has been rising continuously. When fuel prices were pretty stable before 1997, that is, a



decade ago, the price was \$180 per barrel. It then increased to \$240 in October 1999. By February 2000, it rose to \$350 per barrel. Subsequently, it further increased to \$460 in May 2004, \$800 in June 2006 and \$930 in January 2007. The price surged to beyond \$1,000 per barrel within a year, reaching \$1,200 in December. Came 2008, the fuel price hit a fresh high almost every day, or even twice a day. It then rose to \$1,300 in April and more than \$1,800 in June, which is the so-called fish moratorium. It is only until recently that fuel prices plummeted to about US\$55 per barrel following a slump in the international oil prices. The price has now dropped to nearly \$900 per barrel for duty-free diesel.

Persistently high fuel prices have seriously affected the operation of the fishermen. Take the example of a trawler of 1 500 horsepower, if it is used for fishing for 27 days a month, it will consume 150 barrels of fuel which cost some \$262,000 per month. A few years ago, when someone asked me about the percentage of fuel cost in the total, the reply was still 60%, 70% or 80%. It has however surged to beyond 90% in 2008, showing a stepped increase trend of 91%, 92% and 93%. Due to the high fuel price, half of the fishing boats have ceased operation even before the fish moratorium begins for they could hardly bear the heavy fuel expenses. As a result, the fishermen do not go fishing as frequent as before. At that time, I requested the authorities concerned and the Government to lend a helping hand, but unlike the Mainland, no action has been taken so far.

At present, fishing boats are using industrial fuel (that is, marked oil), which is a kind of duty-free diesel. Despite the provision of duty concession, no control mechanism has been put in place to monitor the pricing. In other words, there is an absence of government supervision. Also, I have questioned time and again in this Council why the posted prices of diesel or fuel for land transport are published to inform the ups and downs on a daily basis, but the price movements of marine fuel are not known to many people. Everyone knows that fuel prices are subject to manipulation by the oil companies, which are small-scale franchised operators after all. They purchase marine diesel from major suppliers and then sell it to the fishermen at oil barges at sea. According to the figures cited by the industry, it is about \$900 per barrel now. Compared with the all time high of some \$1,800, the price has actually gone down. Nonetheless, the pricing of marine fuel has pretty low transparency such that no one knows when it will go up or down. Not only fishing boats, some

comparatively smaller boats which purchase fuel from the oil barges also have to bear excessively high fuel costs. There is no way that the fishermen can learn the import price of diesel oil, except from the television or radio broadcast. Today, the price is US\$50-odd per barrel, which means that the international oil price has dropped. However, the fishermen may ask when the local fuel price will go down. Who knows? We hope that the Government will establish a monitoring mechanism to inform the fishermen of the relevant information, just as the fuel for land transport.

President, fishermen as consumers should have every right to know the price of the commodity they wish to buy, which should not be "seasonal prices" that fluctuate every day. The Democratic Alliance for the Betterment and Progress of Hong Kong hopes that apart from immediately calling on the oil companies to adjust the price of local marine fuel downward in the light of the falling international oil prices, the Government will also monitor oil companies' practices of raising prices quickly but reducing them slowly in the same way as filling stations on land. By so doing, fishermen will be informed of the unit price of fuel so as to prevent the oil barges from charging discretionary prices. Besides, I have pointed out time and again that very often the oil barges are actually not selling fuel to Hong Kong fishermen. Rather, the industrial oil that should have been sold to us is sold to mainland fishing boats. Is this reasonable? The Government has not exercised any supervision. Neither has it dealt with it. I have relayed this issue time and again to the Panel on Security and asked the Government if any supervision has been exercised. I hope that the Government will re-examine the issue from different perspectives.

President, I so submit.

**MR IP WAI-MING** (in Cantonese): President, this topic has been discussed in the Legislative Council for many times. Regarding the oil companies' practice of "raising prices quickly but reducing them slowly", we do not know if "helpless" or "enraged" is the appropriate description. Why do we have to discuss this topic time and again? Vehicles are nothing but a means of transport to some people, who may choose not to drive but take public transport instead. However, to many professional drivers, vehicles are a means of living. In order to make a living, they will have to drive. If they choose not to drive, no income would be generated, or they simply become jobless. In that case, professional drivers must refill their vehicles. Members of the Motor Transport Workers

General Union of the Hong Kong Federation of Trade Unions (FTU) have time and again relayed this issue to the Government, and pursued with the help of a number of Honourable colleagues.

And yet, it always seems to us that the professional drivers are very helpless and powerless on this issue. Secretary, we also feel how powerless the Government is on this issue as no achievement has been made so far. The oil companies always set their prices by resorting to the market, the invisible hand. While it is called the invisible hand, I would rather describe it as a hand operating in a black box. No one knows what it is. To the general public at large, however, it is little more than a hand taking advantage of them.

Looking around the world, as evident in the information published by the Department of Energy, the price of motor diesel with duty has plummeted significantly from the peak. At present, diesel prices in six Western European countries like Belgium, France and the United Kingdom have dropped by \$6.73 per litre on average. Likewise, the price in the United States has also dropped by 36% to \$3.43 per litre. In Hong Kong, on the contrary, the figures published by the Environment Bureau show that fuel prices have just dropped by \$2.64 during this period of time, representing a mere drop of 22% against 60% in other countries. Where did that 40% difference go?

The difference between the retail and import prices of diesel has been maintained at around \$3.5 since 2003. However, the latest data shows that the difference has risen to beyond \$4, which means that the problem of price cheating has become more serious. So, why is the Government still saying that further study is required to look into the practice of "quick in raising prices but slow in reducing them"?

According to the written explanation submitted by the oil companies to this Council, such practice of "quick in raising prices but slow in reducing them" is attributable to the other expenses incurred in the operation of petrol filling stations. However, just as I said earlier, the oil companies are operating in a black box, not subject to the same supervision as public organizations, it is therefore uncertain as to whether such practice is attributable to an increase in expenses or a deliberate action to reap the largest profit, or a sharp increase in costs. We hope that more will be done by the Government.

As regards the so-called rebates, oil companies very often merely provide rebates rather than reducing prices. However, just as many professional drivers said, such rebates do not serve any purpose. They only hope that the fuel prices can actually go down and that will genuinely help improve their living. Soaring fuel prices are actually undermining their quality of living.

For this reason, I support the Ms Miriam LAU's original motion and other Members' amendments. We think that an effective way to check the reaping of excessive profits by oil companies is to enhance the transparency of pricing. Only if we could compare international and local fuel prices, as well as their profit margin, we would be able to check the unscrupulous operators. Therefore, we welcome the implementation of measures by the Consumer Council to start monitoring fuel prices at the end of this month.

Nonetheless, in the long run, we still think that only by introducing a fair competition law, pre-empting market monopolization of oil products and introducing different oil products to provide more choices for the public can we make fuel prices fairer and more reasonable. The FTU also urges the Government to include certain terms to monitor the prices of oil products through the filling station tendering process, with a view to preventing the "price cheating" problem from worsening.

Under the existing operating environment and in the aftermath of the financial tsunami, we hope that people will all sail in the same boat to ride out such an economic downturn. Anyone who tries to gain profits from such a misfortune or take advantage of Hong Kong people will find themselves being spurned in the end, and the game is not worth the candle.

President, I so submit.

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

**MR RONNY TONG** (in Cantonese): President, first of all, I am very grateful to Ms Miriam LAU for proposing this motion, which is indeed very important to our economy, particularly amid economic hard times. Insofar as our economy is concerned, a slight change in the fuel market will trigger off changes in many sectors. High fuel price does not only cause sufferings to car owners, the community at large also suffers a lot because transport cost accounts for a significant cost in society.

President, I have all along felt pretty helpless about the fuel market for being exploited. Looking back at the fuel price not long ago, it was some US\$150 to US\$160 per barrel, but it has now dropped to some US\$50 per barrel. When the price was some US\$150 per barrel, the oil companies said that they were so miserable that fuel price must go up. However, when it has now dropped to some US\$50, the local price has yet to slump by two thirds. Why would our market operate in this way? I think this is simply because the Government has not handled the matter properly. In this translucent market, the Government has all along relied heavily on the economic philosophy of "big market, small government". This philosophy might be very popular at the end of the 20th century, but nowadays many people, including Alan GREENSPAN, consider it worthwhile to reconsider its applicability.

President, there are actually two different considerations in respect of a market with healthy operation. Firstly, is there any barrier of entry to the market? Can anyone who wishes to enter the market enjoy equal opportunities? Secondly, after entering the market, will they enjoy equal business opportunities?

President, Hong Kong has been reputed as one of the freest markets in the world. However, the Government has failed to appreciate the fact that this reputation is only confined to market entry owing to our less stringent requirements. In other words, it is indeed not difficult for foreign investors to enter our market. From this angle, Hong Kong is the freest market. But the difficulties that foreign investors encounter in doing business in Hong Kong mainly lie in the absence of a mechanism in the market to maintain the so-called equal business opportunities, precisely because of the absence of a fair competition law.

President, the fuel market of Hong Kong is comparatively small. Although the Government said that competition has recently been introduced, there are only a few suppliers in Hong Kong after all. Given that the market is so small ..... Sorry, the market is actually not small, just that there are only a small number of stakeholders. A market with such a small number of stakeholders is therefore conducive to market monopolization by these people or even the forging of agreements of collusive pricing which will undermine the competitiveness of our market and make Hong Kong people unable to benefit from a fuel market with fair competition. In this connection, apart from making the Government the culprit of the crime as a result of its failure to enact a fair competition law, it should also be made to do more in respect of the market barriers by promoting competition so that more people can engage in real competition in the market.

President, insofar as market entry is concerned, I wish to first point out that many of our existing business conditions do not appear attractive to foreign businesses in entering the Hong Kong market. First of all, our high land price policy has deterred foreign oil companies which intend to set up businesses in Hong Kong. In relation to this high land policy is the arrangement of land auction, which does not facilitate foreign companies in competing in Hong Kong. Regarding tendering, for instance, the Government has all along insisted on the use of the sealed, single-shot tender. As for the notice period, record shows that only a six-week notice period was given on the last occasion. I consider it too difficult for the bidders to decide in only six weeks if they are going to invest and operate a fuel supply business in Hong Kong. President, I hope that the Government will consider further relaxing the site use or tendering procedure of fuel land and enhance transparency. We hope that at least the notice period should be extended to three to six months so that anyone interested in Hong Kong's fuel market can enter more easily.

Furthermore, we also hope that market entry can be made more transparent, the planning, environmental and safety approval processes streamlined, and land lease restrictions in respect of the petrol fillings stations relaxed, so as to enable more interested foreign firms to enter our market.

President, what I just said were two ways to reduce the restrictions imposed on market entry. I hope that the Government will consider from a wider perspective to see how genuine competition can be introduced, such that our market will become a highly transparent and competitive market.

President, looking around the world, many governments are actually subsidizing their oil companies because they earn too little. And yet, the oil companies in Hong Kong are actually earning too much. In this circumstance, sorry, we can hardly agree with Mr CHAN Hak-kan's proposal to reduce fuel duty. I consider it too dangerous to reduce duty before a genuinely competitive market is put in place for this will only benefit the oil companies at the expense of the general public. Therefore, President, we find it very difficult to render our support to the part of the amendment proposed by "LEE Hak-kan" in this regard.

**PRESIDENT** (in Cantonese): Did you mean Mr CHAN Hak-kan?

**MR RONNY TONG** (in Cantonese): Yes, Mr CHAN Hak-kan. Sorry.

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

**MS AUDREY EU** (in Cantonese): President, as many Honourable colleagues who have spoken today have highlighted the fact that oil companies are quick in raising prices but slow in reducing them, so I am not going to repeat this point. However, there is one point I wish to add in particular, and that is, such practice applies not only to auto-fuel, but also the fuel surcharge imposed by airlines. In fact, when New York crude oil struck a record high of US\$147 per barrel in mid-July this year, different airlines raised the fuel surcharge of short-haul flights to \$231 in August in the name of soaring fuel prices. Compared with the previous \$171, there is an actual increase of as high as 35%. Meanwhile, the fuel surcharge for long-haul flights also increased from \$710 to \$924, representing an increase of 30%.

Now, international oil prices have dropped to about US\$60 per barrel and a further drop is on course. In spite of a decrease of nearly 60%, pulling the price to a level that is even lower than that of early this year, Hong Kong airlines still charge a fuel surcharge of \$832 for long-haul flights during October and November. But only a 10% reduction has been recorded, which is still 43% higher than the \$580 charged early this year. Such a discrepancy between international oil prices, which serve as a benchmark, and local pump prices, is really disheartening.

An analysis of the underlying meaning of these figures is actually tantamount to analysing the oil companies because the fuel suppliers also adopt a double standard in price adjustments. Regarding the fact that no price reduction has been recorded during economic downturns, one explanation given by suppliers of petrol, liquefied petroleum gas (LPG) or aviation fuel which I just mentioned is nothing new, that the long-established pricing mechanism of fuel cannot be changed lightly. Another explanation is that the fuel being supplied at the moment is future previously bought, so there is a lag in price adjustments.

Nonetheless, we saw that once the international oil price increased, the suppliers would immediately follow suit and there was no lag in price adjustments at all. Just as colleagues have said, fuel prices are quick going up

but slow coming down. In fact, many colleagues have stated the reason, and that is, oligopoly. There are only three consortia in Hong Kong (namely Shell, ExxonMobil and Caltex), altogether accounting for 90% and 80% of the petrol and diesel markets respectively. With negligible competition, these oil companies can therefore manipulate the prices. For this reason, the Civic Party has all along supported the introduction of fair competition. But after all these years, the relevant bill has yet to reach the legislative stage.

I wish to point out in particular that while the Government claims that transparency would be enhanced by all means through the publication of more data, including international oil prices, Singapore FOB prices, and import and retail prices, the data are often provided by different departments in a piecemeal manner. For instance, the Environment Bureau is responsible for publishing the retail prices of auto-fuel whereas the Electrical and Mechanical Services Department is responsible for auto-LPG. What is more, starting from December, the Consumer Council will publish information on the specific retail prices of different oil companies. I certainly understand that the data were compiled by different departments, but they are too scattered and unsystematic for the public to access. On the other hand, in the written reply given by Secretary Edward YAU in response to a question raised by a Legislative Council Member on 29 October, it was pointed out that as comprehensive breakdown data by the type of LPG users was not available from the industry, he could not provide data on the number of householders using LPG. In fact, the Government should render further assistance to consumers by providing more relevant information.

President, I wish to point out that, just as Mr Ronny TONG said in his speech earlier, today's proposed amendments have all incorporated the original motion, and the Civic Party has reservations about a certain part of the motion, that is, paragraph (g) of Ms Miriam LAU's original motion, which proposes to "reduce the duty on unleaded petrol to alleviate the burden on car owners". President, we in fact discussed a similar motion in the last term, during which the Civic Party pointed out that for environmental reasons, we had reservations about the reduction of duty on either unleaded petrol or petrol for this might encourage more frequent use of private cars.

It has been the style of the Civic Party that with regard to those so-called "Christmas tree motions" — important motions that have numerous proposals



attached to them — we cannot oppose them simply because there is something in, say, paragraphs (a) to (j) to which we disagree with. Discussions on this kind of motions, which carry no legislative effect, very often merely focus on the direction and general principles. We cannot treat them as bills and search carefully for points that we do not agree with, because people will be confused if we agree or disagree with the general direction of the motion, or we simply oppose part of it but not the general direction. After analysing this motion debate, we noted that it is of a different nature from that of the last time, which focused on the reduction of duty. According to the relevant paper, this motion aims at alleviating the fuel burden of members of the public and the industry. Also, in times of economic difficulties when no one will consider buying a car, it is actually out of keeping with the times to say that a reduction of duty will encourage people to buy new cars or replace their old ones with luxurious ones.

What is more, sometimes our votes will fail to reflect our holistic views on the motion. After consideration, we think that a more appropriate and reasonable approach is to state clearly in the speech that we have reservations about a certain part of the motion. Yet, we will not elaborate on the reason of our reservation because it was already stated in the last term, and that is, offering duty reduction at this moment will only benefit the oil companies without actually bringing any direct benefit to the consumers. For this reason, we must state clearly our reservations about the original motion and all amendments. But we will vote in favour of the original motion and all amendments to show our support for the general direction. Thank you, President.

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

(No Member indicated a wish to speak)

**PRESIDENT** (in Cantonese): Ms Miriam LAU, you may now speak on the three amendments. The speaking time is five minutes.

**MS MIRIAM LAU** (in Cantonese): President, my original intention of proposing this motion today is to discuss issues relating to the local fuel market and

particularly — particularly — auto-fuel. The motion itself does not exclude discussions on issues relating to other fuels, including LPG and even industrial oil.

However, it happens that both Mr CHAN Hak-kan and Mr Fred LI raised the issue of domestic LPG for discussion. Just as I said earlier on, we may also discuss LPG, be it auto-LPG or domestic LPG. Mr WONG Kwok-hing's amendment has also made additional points about auto-LPG. From the angle of the fuel market as a whole, these amendments have indeed extended the coverage of the original motion, giving a clearer description of the coverage of the word "fuel" proposed by me by including all kinds of fuel — even aviation fuel mentioned by Ms Audrey EU just now can be included in the word "fuel". Insofar as my motion is concerned, I would say these amendments have "gilded the lily" by enriching the substance of my motion. As they all agree to the principle of my original motion, the Liberal Party will therefore fully support these supplementary amendments.

Furthermore, just as Mr Tommy CHEUNG said earlier, the Liberal Party also agrees that the phenomenon of "prices rising quickly but coming down slowly" does prevail in the LPG market. It is probably more serious than auto-petroleum or auto-fuel and with even lower transparency. And yet, government supervision leaves much to be desired and change is necessary. During the days when LPG price is so hard to bear, the consumers at large, particularly the grassroots and the catering industry are living under immense pressure. Therefore, action must be taken by the monitoring authority to protect the interest of the general public.

Last but not least, I have all along suggested the Government to increase the number of "dedicated LPG stations". Soon after LPG was introduced, and since the establishment of the first LPG station to present 60 in number, I have been urging the Government to build more. A waiver of the land premium of these dedicated LPG stations by the Government has made it extremely attractive to the trade. Given the difficult business environment with the hiking gas price, many people will go to these dedicated stations to refill in order to alleviate the heavy burden. They would rather queue at these stations. In addition to the government concession in land premium, LPG price is also subject to control and calculated according to a price formula. Under the existing poor environment,

the industry considers that something could be done to provide protection however small to them. Hence, they eagerly hope that the authorities could build more dedicated LPG stations, which may serve as a threat to prevent those non-dedicated stations from increasing prices too wantonly. As a result, the price of auto-LPG can be slightly curbed. I therefore strongly support the amendment proposed by Mr WONG Kwok-hing.

President, I so submit.

**SECRETARY FOR THE ENVIRONMENT** (in Cantonese): President, with respect to speeches made on the motion on "Alleviating the burden of fuel costs on the public and relevant trades" proposed by Ms Miriam LAU as well as the amendments proposed by Mr CHAN Hak-kan, Mr WONG Kwok-hing and Mr Fred LI, although last night I was still in Australia, I managed to understand the arguments made by Members in detail through my colleagues. This morning other Members expressed many views on the motion. So I would like to spend some time to discuss them and respond in detail.

President, first of all, I wish to explain the role played by the Government in monitoring the prices of fuels and LPG. Many Members have mentioned that in a free market economy, the prices of fuel products and domestic LPG in Hong Kong have always been determined by the oil companies under the principle of commercial operation. The Government does not have the power to determine the price of fuel products. We believe Members and society as a whole may not agree that the Government should adopt an interventionist policy in various kinds of commodities. However, we understand and are concerned about what the public thinks are the impacts of the prices of these products on consumers, motorists, people who use various means of transport, drivers of commercial vehicles as well as various trades and industries such as the fisheries industry. Therefore, we have always adopted proactive measures to enhance transparency in pricing and urge the oil companies to address squarely the reasonable demands from consumers. In the policy address this year, we have advanced a number of plans to cope with this issue.

Looking back at the contents of speeches made by Members, I think that there are a number of important issues which I think should be clarified and that an explanation should be given on the position and stance of the Government. Let me try to summarize these arguments.

- (1) Some Members have asked about the kind of pricing criteria which should be adopted by the Government in examining the question of whether or not retail fuel prices in Hong Kong are adjusted in line with movements in international oil prices.

Actually, if we are to examine if fuel prices have deviated from international oil prices, the most direct way is to make a comparison between the retail prices of fuel, that is, the prices we see in the filling stations, and the actual import prices of the oil companies. In order to further examine these two sets of prices and the trend of international oil prices, we have benchmarked the Singapore FOB prices for refined oil which is a major source of fuel imports into Hong Kong. When we compare the import and retail prices, we should also consider the time gap between the purchase and import of refined oil and their sale at the filling stations. As far as I know, not many Members have mentioned this point and they would often make a comparison between the prices at the filling stations today and the prices of crude oil today. But there is actually a time gap here. According to our analysis of the data, and I have mentioned that before, in Hong Kong, this time gap is about four weeks. Therefore, we should not make a direct comparison between the retail prices today and the prices of crude oil or the export prices of crude oil. Instead, a more reasonable approach should be taken to compare the import prices and retail prices to see if there is any trend showing the difference between the two has widened.

Some Members mentioned the differences in oil prices during the past few years. As evident in the data given to Members on the last occasion and as some Members have said, for oil prices in 2003, for example, the price at the filling stations was about \$5 per litre and the import price was \$2 per litre. The difference was about \$3. In mid-2008, the oil price was about \$10 per litre when it was on the high side and the import price was \$6 to \$7. Over the past five years, the difference was about \$3 to \$4. Even if oil prices have increased, the difference remains more or less the same.

As I have said before, we do not use the prices of crude oil for comparison, for what we buy is refined oil. Therefore, we have chosen the prices of refined oil for comparison.

Ms Miriam LAU and other Members in their speeches have made a simple comparison between the retail prices and the Singapore FOB prices over a certain period of time or a particular time slot in the past. As found in the statistics cited by me just now, over the past five years, when oil prices went up, there was actually a shortfall in the rate of price increase by the oil companies in Hong Kong. Likewise, there was a shortfall when oil prices went down. But it is precisely because of these two sets of figures that we think we should attach more importance to the difference in the trend movement of these two prices.

The Government decided to use the prices of refined oil in the comparisons because we hope that there can be a reasonable and objective benchmark so that consumers and the Government can make some clear and appropriate comparisons and monitor the prices charged by the oil companies. This will also give us more justification and support when we present our views to the oil companies.

- (2) Some Members have asked whether or not the Government has exerted its best to monitor fuel prices and prevent oil companies from being quick in raising prices but slow in reducing them, and under what circumstances the Government will adopt measures to show that it is taking actions and apply verbal coercion.

With respect to this question, I have explained clearly in answering questions in the past that when the Government is to monitor oil prices, it would often pay attention to the trend and difference between the import and retail prices of the oil companies, while taking into account the time gap between the import and sale of such fuels. The most important point is whether or not the gap between the two is expanding. Should the gap get wider, the Government will express its concern to the oil companies and urge them to make a prompt adjustment to narrow down the difference. During the

past four months or so, when oil prices followed the international market and went down gradually, the Government had on many occasions taken action when it detected a widening of the gap between the two prices. The oil companies responded by revising the prices downwards.

After the delivery of the policy address, the Government makes the above price information and price movement charts public on a regular basis. The aim is to enhance transparency and enable the consumers and the Government to understand the movement of oil prices, so that direct actions can be taken to monitor price adjustments by the oil companies.

- (3) Some Members have asked whether or not the Government should take more and stronger measures to influence or even interfere with the retail prices of fuels direct.

As we have stated many times, the Government cannot and should not determine fuel prices for the oil companies. One of the considerations involves certain issues in our economic policies at a deeper level. If we are to intervene in the pricing of certain commodities in the market in a sudden or rash manner, the practice will run counter to the free market policies that we have always upheld. This will also bring some negative impact on our business environment in an unnecessary manner.

Yesterday, Mr Fred LI made special mention of the Oil (Conservation and Control) Ordinance of 1979 in which additional power was conferred on the Government on its enactment to influence oil prices. But it should be made clear that when the Ordinance was enacted at that time, the Government had stated clearly to the then Legislative Council that the object of that Ordinance was to enable the Government to take contingency measures should there be any problem in fuel supply. The Government pledged to the then Legislative Council that the powers vested in the Ordinance would only be invoked when there was a shortage in fuel supply. There is no shortage in fuel supply at

present and the fuel market is functioning well. Competition is greater now than the time when the Ordinance was enacted. Therefore, we do not see any need to invoke this Ordinance now.

Having said that, it does not mean that the Government is sitting on the problems pointed out by Members. On the major premise of protecting consumer interest, the Government has made a number of proposals, including making reference to the international price of refined oil and the import and retail prices of the oil companies in our analysis of the trend. This will hopefully enhance transparency in pricing by the oil companies. Then the information on the discounts and concessions offered by oil companies every week will be made public through the Consumer Council. This will start by the end of this month. Also, we will make use of the fair competition law which will be introduced soon. Hopefully, the problems can be addressed and both the Government and the consumers can monitor price adjustments by the oil companies more effectively, hence enhancing competition in the trade and help consumers make informed choices.

- (4) Some Members have queried whether or not the measures proposed by the Government are effective.

We have noticed that in the past few months, under the influence of the policies launched by the Government, plus the stand adopted by consumers and the choices they have made, some changes in the local fuel market have been seen.

There are a number of aspects to these changes. The first change is that through the new form of tendering adopted in the past few years, we have successfully introduced new competitors. Competition in the market is clearly evidenced by some figures. The market share of the top three operators in the market has dropped from 93% in 2003 to 76% this year. This is the first change and it is true that insofar as market entry is concerned, as Mr Ronny TONG has pointed out, facts have proved that new competitors have entered the market through this new form of tendering. Of course, we would be glad to consider other forms of tendering mentioned earlier.

The second change is the fall in retail prices in recent months. We can see that the order and rate of downward price adjustments made by the oil companies are quite different from those in the past. It can be said to be not quite uniform and this shows that a marked difference exists in the pricing tactics of the oil companies.

The third change is that while the oil companies have revised their retail prices downwards, they have also offered more cash rebates and discounts, the extent of which has increased. And there is a growing trend of offering unconditional concessions in the absence of membership cards or petrol cards. Some of these concessions involve discounts of up to 15% to 20%.

Of course, I also agree with some Members who said in their speeches that these cash discounts should best be transformed into actual cuts in retail prices so that consumers who patronize these filling stations can benefit. We think that with the weekly release by the Consumer Council of discounts offered by the oil companies, more consumers can make an informed choice. This could be a method which will offer more benefits to consumers than the oil companies offering discounts or making a direct price cut.

Various signs have shown that although the retail prices at the filling stations may be more or less the same during a certain period of time, with various kinds of discounts and rebates offered, and different pricing and price adjustment tactics used, the competition among oil companies has become more marked and consumers now have more information available to facilitate them in making better choices.

- (5) Some Members raised the point of whether or not the Government should take a further step such as reducing the duty, or waiving the land premium, and so on, in order to make fuel prices go down.

On the question of reducing fuel duty, it touches on the principle of public finance management and the impact on society and public revenue, so it must be considered in a holistic manner. The Government has in the middle of this year responded directly to



public demand and waived the diesel duty in full. On the same day, we could see that oil companies reduced the same amount of fuel prices for the benefit of consumers. The purpose was to alleviate the burden of owners of commercial vehicles by this tax concession. However, as to the question of whether tax concessions should be extended to fuels for use by private vehicles, I am aware that Members may have different views on that. I trust that there are indeed different voices in society. Speaking from the point of view of the Environment Bureau or environmental protection, I agree with the concern expressed by Ms Audrey EU, namely, so doing may run counter to our aim that the public should be encouraged to use as much public transport as possible and the growth in private cars should be curbed to reduce pollution.

Besides, the granting of fuel duty concession at a time when fuel prices are volatile — we appreciate the worries expressed by Mr LEE Cheuk-yan and Mr Ronny TONG earlier — may not benefit consumers in a direct and apparent manner. This is a factor we have to consider.

A concession in land premium will similarly touch on the public revenue and public finance management considerations that I have just mentioned and unfairness and confusion will arise in the old and new filling stations as a result of the different arrangements. The situation is quite different from the case when we introduced auto-LPG. In those days we made auto-LPG available in all the filling stations in Hong Kong. However, if we resort to using land premium to achieve this purpose, there is a question of not being able to reduce or waive the land premiums for all the filling stations at the same time. Some kind of confusion in administration might be created. This is a problem to be addressed and studied and this is exactly why we say in the policy address that the issue has to be carefully considered.

- (6) Some other Members also raised the question of whether or not the places of origin for fuel imports can be diversified or increased, thereby reducing the reliance on a particular place and hence lowering the fuel prices.

Actually, Hong Kong is now importing fuel products from many different countries and places. Besides Singapore which is our main importer country, we also import from the Mainland and South Korea. As for importing fuel products from places outside Asia, I am sure Members can see the obvious effect of shipment costs play on the prices. At the end of the day, we can say that the question of importing from which places should be left to the oil companies and they will decide on the basis of cost and price consideration. Should the Government overstep and make decisions for these oil companies?

- (7) Some Members including Mr WONG Yung-kan have expressed their views on the prices of diesel for use in commerce and industry and by vessels. As far as I know, the price of the abovesaid fuel products is determined between the oil companies and individual trade or industry and the shipping industry according to commercial principles. Hence different clients may enjoy different concessions and prices. Actually, they have some kind of direct bargaining system to go by. The clients may act in the light of their specific needs and compare prices and negotiate with different oil companies. Recently, some business associations of certain trades expressed the wish that the Government should convey their views on the prices to the oil companies on their behalf. We have done so and we hope that these trades can negotiate with the oil companies later on a collective basis.
- (8) On the other hand, Members mentioned and expressed their concern about the situation that international oil prices were going down and whether or not retail prices now and in the near future could be adjusted downwards.

According to comparisons of the latest trends on monthly import and retail prices, we think that the retail prices today are largely consistent with the trend in import prices of oil products last month. Therefore, the Government holds that there is room for retail prices to be further adjusted downwards. Over the last few days, despite my absence from the territory, my colleagues contacted the oil companies as usual to learn about what the situation was and they

urged the oil companies to adjust fuel prices promptly. We will watch the situation closely and monitor the reactions from the oil companies.

As for the issue of LPG for household use mentioned by some Members, as Mr Tommy CHEUNG has explained in great detail earlier, now there are five oil companies which supply LPG for household uses. One major supplier of LPG is the Shell Hong Kong Limited. Since 1999, the company has been using a pricing system at its own initiative to review prices and publish price information on a regular basis, in order to enhance pricing transparency. In order to follow closely the changes in LPG prices in the international market, Shell shortened in 2002 and 2007 the timeframe for adjusting fuel prices to once every three months and a review of its operating costs is conducted annually. In undertaking a review of the LPG prices, the company will determine prices according to forecasts on the import prices over the next three months. A review of the prices set is to be made after three months in the light of the actual situation at that time. If differences are found, adjustments will be made in retrospect. Given such a mechanism in place, the query raised by Mr Tommy CHEUNG about oil companies reaping benefits if oil prices rise first but fall later may not stand. On the contrary, if oil prices fall first and rise later, the consumer may not be able to reap any benefit. Although other companies have not set up any mechanism for a public review of prices on a regular basis or for public announcement, from the information which we get, prices of centralized LPG and wholesale prices of cylinder LPG all broadly follow a similar kind of price adjustment mechanism.

On 1 November 2008, Shell revised its LPG prices according to the above mechanism. Its price for centralized LPG fell by \$6.29 a cu m. The rate of price reduction was 17%. For cylinder LPG, its wholesale price fell by \$2.58 for each kg, the rate of reduction being more than 20%. We also note that on the very day this company made its price adjustment, some other oil companies also made the same kind of adjustment to their LPG prices.

Some Members suggested that the oil companies should conduct their reviews more frequently, such as once every month. We would be glad to convey this view to the oil companies, but we should also note that this idea has its pros and cons. As I have said, at a time when international LPG prices are volatile or on the rise, frequent price adjustments may have other impacts on the consumers.

With respect to auto-LPG, some Members think that more attention should be paid to the prices of auto-LPG. Now there are 57 LPG filling stations, including 12 dedicated LPG filling stations and 45 LPG filling stations which are non-dedicated. The maximum prices for these dedicated LPG filling stations are adjusted monthly according to the terms and conditions specified in the relevant agreement. Adjustments to the maximum prices of auto-LPG for each month reflect the changes in the prices of LPG in the international market during the previous month. The adjustment mechanism concerned is highly transparent and it can reflect changes in international prices of LPG promptly. We notice that there is a marked fall in the international LPG prices this month and under the existing mechanism of adjusting the maximum prices in the dedicated LPG filling stations each month, it is expected that the maximum prices in each dedicated LPG filling station will fall next month. The details of international LPG prices and the maximum prices for LPG sold in each dedicated LPG filling station have been uploaded onto the Electrical and Mechanical Engineering Department website and posted at each of these dedicated filling stations.

Prices in the dedicated LPG filling stations have a great impact on the LPG prices at the non-dedicated LPG filling stations. There is some kind of inherent competition between the two kinds of filling stations, and as a general rule, the non-dedicated LPG filling stations will follow the prices of the dedicated LPG stations in making price adjustments. The difference in prices in these two types of stations is generally maintained at about 30 cents. The latter type of filling stations is not required to pay land premium. However, both types of filling stations would adjust their prices broadly in line with international LPG price movements.

With respect to Members' suggestion to require oil companies to reintroduce octane 95 petrol, the Government has been encouraging oil companies to offer various kinds of petrol at different quality and prices, such as octane 95 petrol, for consumers to choose. However, owing to the small size of the filling stations in Hong Kong, it may not be possible to have various kinds of fuel products on sale at one and the same filling station. In this regard, the oil companies should determine, according to their respective market positioning and marketing strategies, if more affordable products can be introduced. This would foster competition and enable a company to benefit from the market niche it has chosen. So the choice should be left to the oil companies.

On biodiesel, some Members also suggested that assistance should be given to the development of the local biofuel industry in order to enhance competition in the market. I understand that the biodiesel discussions mentioned by Dr Priscilla LEUNG in the international community from an environmental protection perspective, however, our view is that biodiesel is a kind of renewable fuel and if it is used to replace fossil diesel, it can lead to reduction in the emission of greenhouse gases. So on the major premise of coping with climate change and reducing the emission of greenhouse gases, our policy is to make the duty waiver for biodiesel our policy in order to encourage more people to use it.

Also, if we want to see some development in this aspect, we will enact relevant laws and regulations to facilitate the use of biodiesel in vehicles. These include consequential legislation on quality specifications for pure biodiesel, quality specifications for auto-diesel containing more than 5% of biodiesel, and the labels attached to such products at sales points. If these are passed by the Legislative Council, the laws can be implemented in 2009.

President, with respect to filling facilities for auto-LPG, I have heard some Members suggest increasing the number of LPG nozzles. The Government always keeps a close watch on the demand and supply situation at the dedicated LPG filling stations. Currently, among the 422 LPG nozzles in Hong Kong, 190 are found in the 12 dedicated LPG filling stations. This means that on average, there are 16 nozzles at each station. The number doubles the five nozzles found in each of the non-dedicated LPG filling stations. Besides, vehicles will be waiting at certain dedicated filling stations and during the peak hours when taxi drivers change their shifts, the average waiting time as we have worked out is about 15 minutes. Only on some very rare occasions other than these times can we find long queues. It is estimated that the number of LPG-powered vehicles will not grow drastically, so we consider that the 57 LPG filling stations should be able to meet market demand for the moment. Of course, we will keep a close watch on the situation and make adjustments when necessary.

Some Members mentioned the issue of passenger fuel surcharge in the aviation industry. As far as I know, compared with the level of fuel surcharge collected by international airlines, the level of surcharge collected by the local airlines is actually on the low side. The surcharge for short trips is about 44% of

the international level; whereas the surcharge for long-haul flights is about 58% of the international level. Most airlines can only recover 40% to 70% of the additional fuel costs through the fuel surcharge. Therefore, airlines must use other methods such as keeping operation costs under control and increasing flights to gain more income, and so on, to address the problem of rising costs triggered by the increase in fuel prices.

Some Members have spoken in support of the competition law to be introduced by the Commerce and Economic Development Bureau. Our purpose in introducing a competition law is not to interfere with normal business practices or target any effective market structure. We are glad to see many Members agree that the competition law should be introduced to target collusive pricing or other anti-competitive conduct. We hope that this new policy direction can combat various kind of anti-competitive conduct so that market force can be brought into free play, hence raising economic efficiency and promoting free trade. The new competition law can combat anti-competitive conduct such as collusive pricing by certain retailers or the abuse of market force by big companies to prevent other companies from entering the market. Under this new competition law, we expect consumers would stand to benefit.

I wish to emphasize once again that the purpose of the Government in enacting a cross-sector competition law is to target anti-competitive conduct in various trades and industries, in the hope of creating a level playing field for the business sector. Normal commercial behaviour like pricing strategies is not included in the scope of regulation in the proposed competition law.

With respect to oil companies, after the enactment of the competition law, if the independent Competition Commission has reasons to believe that oil companies conspire to fix prices, then an investigation can be conducted. If it is proven that anti-competitive conduct does exist, the proposed committee or tribunal may take remedial measures as appropriate which may include imposing a fine or issuing an order to stop and prohibit.

President, summing up, I would like to thank Members once again for the views they have expressed on this topic. In the policy address, we have indeed given serious thoughts to this issue and we hope that through the various ways suggested by us, the movements in oil prices can be subjected to close scrutiny. We hope that sectors across the community can play an active part in the discussions and strike a good balance between promoting a fair business environment and giving protection to consumers. We will continue to promote measures that help increase transparency in the pricing of fuel products and will keep a close watch on various plans on price adjustments by oil companies. This is to ensure that local retail fuel prices can be adjusted in a timely manner in tandem with movements in international oil prices. I believe this is in the interest of consumers and the long-term economic development of Hong Kong. After the delivery of the policy address, the Environment Bureau will put the abovementioned measures into practice, including the release of certain information, and we hope that such information together with information on the discounts offered by different oil companies as published by the Consumer Council will all be made available within this November. I hope Members and the community can work with us to examine the effectiveness of these policies. We will continue to lend an ear to suggestions from Members and the public and take actions to follow up.

Thank you, President.

**PRESIDENT** (in Cantonese): I now call upon Mr CHAN Hak-kan to move his amendment.

**MR CHAN HAK-KAN** (in Cantonese): President, I move that Ms Miriam LAU's motion be amended.

**Mr CHAN Hak-kan moved the following motion: (Translation)**

"To add "oil and gaseous fuel" after "yet the local fuel"; to add "oil and gaseous fuel" after "resulting in fuel"; to add "oil and gaseous fuel" after "burden of fuel"; to delete "fuel" after "reduce the local"; to add "of

auto-fuel, marine fuel and industrial fuel as well as gaseous fuel" before "according to the level of reductions"; to delete "auto-fuel" after "effective regulation of the" and substitute with "fuel oil and gaseous fuel"; to add "oil and gaseous fuel" after "ensure that fuel"; to add "and assist the development of the local biofuel industry" after "processed oil" to add "and gaseous fuel" after "the prices of international oil"; to add "and gaseous fuel" after "import prices of local oil"; and to add "and gaseous fuel" after "the changes in oil".

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Mr CHAN Hak-kan to Ms Miriam LAU'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.

(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 amendment passed.

**PRESIDENT** (in Cantonese): Mr WONG Kwok-hing, as Mr CHAN Hak-kan's amendment has been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper which has been circularized to Members.



When you move your revised amendment, you may speak up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

**MR WONG KWOK-HING** (in Cantonese): President, I move that Ms Miriam LAU's motion as amended by Mr CHAN Hak-kan, be further amended by my revised amendment.

As I have given a clear explanation in my previous speech, I have nothing to add now. I hope Members will support me.

**Mr WONG Kwok-hing moved the following further amendment to the motion as amended by Mr CHAN Hak-kan: (Translation)**

"To add "; and (h) increase the number of dedicated liquefied petroleum gas (LPG) filling stations to alleviate the burden on drivers of LPG taxis and public light buses, and increase the number of auto LPG filling nozzles to shorten the queuing time for drivers to refill their LPG vehicles" immediately before the full stop."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That Mr WONG Kwok-hing's amendment to Ms Miriam LAU's motion as amended by Mr CHAN Hak-kan, 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.

(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 amendment passed.

**PRESIDENT** (in Cantonese): Mr Fred LI, as the amendments by Mr CHAN Hak-kan and Mr WONG Kwok-hing have been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper which has been circularized to Members. When you move your revised amendment, you may speak up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

**MR FRED LI** (in Cantonese): President, I move that Ms Miriam LAU's motion as amended by Mr CHAN Hak-kan and Mr WONG Kwok-hing be further amended by my revised amendment.

In fact, the revised amendment has retained paragraph (h) of my original amendment. To put it simply, it requests the oil companies to publish the pricing criteria for central LPG and domestic cylinder LPG, and review their prices once a month, so as to increase the transparency of the prices of LPG products. Just this point only. I call on Members to render unanimous support to it. Thank you.

**Mr Fred LI moved the following further amendment to the motion as amended by Mr CHAN Hak-kan and Mr WONG Kwok-hing: (Translation)**

"To add "; and (i) request oil companies to publish the pricing criteria for central LPG and domestic cylinder LPG, and review their prices once a month, so as to increase the transparency of the prices of LPG products" immediately before the full stop."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That Mr Fred LI's amendment to Ms Miriam LAU's motion as amended by Mr CHAN Hak-kan and Mr WONG Kwok-hing, 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.

(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 amendment passed.

**PRESIDENT** (in Cantonese): Ms Miriam LAU, you may now reply and you have one minute 54 seconds. This debate will come to a close after Ms Miriam LAU has replied.

**MS MIRIAM LAU** (in Cantonese): I am very grateful to the 12 Members who have spoken in today's motion debate. I wish to respond to the Secretary's reply on several points.

First of all, it is about the monitoring role of the Government. It was right for the Secretary to say that Hong Kong is a market economy, but I also want to tell the Secretary that when there is serious distortion or unfairness in the market, I believe we would certainly desire more active engagement of the Government. Though this cannot be said to be market intervention, after all the Government cannot just sit there and watch. This is the first point.

The second point is that, many colleagues have expressed their feelings about oil companies being quick in raising prices but slow in reducing them, and the promotional offers being too chaotic. As for pricing, detailed analyses have also been made of the data provided by the Government. The Secretary, however, said that our analyses were wrong because both the time gap and price movements have not been considered. Perhaps the Secretary has not listened carefully to my speech. Despite that all relevant factors and discrepancies have been taken into account, there is still a big question mark in my mind. If I fail to comprehend the data correctly, I hope that the Secretary can make them more comprehensible to Members and members of the public.

The last point which I would like to make is, to the transport sector, fuel is tantamount to the food for human beings. We do not always have debates on consumables in this Council. Will the Secretary please recall if the Council has ever had any debates on such goods as rice or edible oil? Although the prices of food and consumables have risen, choices are available to people thanks to market competition. Comparatively speaking, fuel users do not have any choice. This has given rise to unfairness and doubts, as well as repeated debates in this Council. Thank you, President.

**PRESIDENT** (in Cantonese): I now put the question to you and that is: That the motion moved by Ms Miriam LAU, as amended by Mr CHAN Hak-kan, Mr WONG Kwok-hing and Mr Fred LI, 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 as amended passed.

**PRESIDENT** (in Cantonese): Second motion: Supporting small and medium enterprises to tide over the financial tsunami.

Members who wish to speak in a debate on a motion will please indicate their wish by pressing the "Request to speak" button.

I now call upon Mr Vincent FANG to speak and move his motion.

### **SUPPORTING SMALL AND MEDIUM ENTERPRISES TO TIDE OVER THE FINANCIAL TSUNAMI**

**MR VINCENT FANG** (in Cantonese): President, I move that the motion, as printed on the Agenda, be passed. The motion today has been discussed in this Chamber for many times during the past month. Basically, a consensus has been reached on three points: First, Hong Kong will experience a relatively long and cold winter; secondly, while small and medium enterprises (SMEs) play a very important role in Hong Kong, they are least capable of resisting recession; and thirdly, SMEs are currently subject to the impact of banks' tightening of credit, so if the Government does not take any initiative to support SMEs and banks do not provide credit facilities to enterprises which have been operating soundly and steadily, a domino effect will definitely be triggered, which will cause the closing down of SMEs one after another.

It is on basis of the consensus on these three points that I am moving the motion of "Supporting Small and Medium Enterprises to tide over the Financial Tsunami". The need to support non-exporting local consumption industries is highlighted *inter alia* because it has always been the Government's policy to support export-oriented industries. Such policies include the setting up of the Hong Kong Trade Development Council and the Hong Kong Export Credit Insurance Corporation 42 years ago, both of which aimed at providing assistance to the then economic pillar — manufacturing sector.

As I also own a factory, of course I will not say that it is not right for the Government to support manufacturing industries operated by Hong Kong businessmen in the Mainland. Just that with the change of time and circumstances, and since the northward relocation of factories, Hong Kong has transformed into a service-oriented economy, with service industries accounting

for about 80% to 90% of Hong Kong's Gross Domestic Product. However, the Government has not made any adjustment in the provision of support in the light of the economic transformation. If a company has failed to adjust its business direction for 40 years, I am sure it will have long since ceased to exist.

Earlier, the Government introduced the first wave of support to SMEs, that is, the SME Loan Guarantee Scheme under which the loan limit is increased. Actually, its original purpose is to support external-oriented exporting enterprises. That is why I specifically call for support for non-exporting local consumption industries, which are very important for the Hong Kong employment market and local demand and supply.

The Government announced on this past Monday the establishment of the new Special SME Loan Guarantee Scheme of \$10 billion. However, while the maximum amount of loan is \$1 million, the wholesale and retail industries have to bear enormous costs to make little profits, so they need more capital with greater flexibility. Therefore, the Liberal Party still hopes that the Government can increase the guarantee under the Scheme from 50% to 70%. I have discussed this with banks, and they said that if the Government can provide an 70% guarantee, they will have greater peace of mind.

Besides, the wholesale and retail industries rely heavily on cash flow to promote the operation of the supply chain. All large, medium and small enterprises have relatively large amounts of accounts receivables. In the past, the industries generally relied on the long-established commercial financing operations of trust receipts or invoice financing provided by banks. Therefore, the role performed by banks in this supply chain is like that of the ligaments in our body, which hold the bones of our body in position. One can imagine how serious the consequence will be when they are broken. However, in providing such commercial financing now, banks will either require collateral or reduce the amount of financing or the loan tenure by half. Of course, there are even some cases in which loans are refused.

Regarding credit card payments, on the contrary, banks even do not reimburse such payments to merchants until after 60 days. In a way, merchants are required to provide invoice financing to banks with a repayment period of 60 days. If we have the means to provide loans to banks, does it not mean that we are even more powerful than the Hong Kong Monetary Authority?

Therefore, to enable hundreds of thousands of SMEs in Hong Kong to maintain normal business operation, the Government must encourage banks to provide reasonable and robust credit facilities to enterprises which have been operating soundly and steadily and restore credit card payment services to normal. We hope that the Government can also take measures to provide partial guarantee for trust receipts, invoice financing and accounts receivables to share some risks of banks in order to restore to normal commercial financing activities, or else the blockage of a portion in the trunk may cause the entire tree to collapse.

Some Honourable colleagues may worry that some SMEs may make use of the loans obtained with the Government's guarantee to repay their own loans. However, under the Special SME Loan Guarantee Scheme just announced by the Government, SME operators have to provide personal guarantees, that is, they will be held personally responsible for it. The bad debt ratios of the two loan schemes with full guarantee by the Government introduced after the Asian financial turmoil in 1998 and the SARS outbreak in 2003 were only 5.7% and 4.9% respectively. This shows that SME operators who obtained such loans were people with integrity, who repaid their loans.

Last month, a consultation on "Rescuing SMEs" held by the Liberal Party was attended by operators of some 300 large, medium and small enterprises. Besides hoping that banks would resume the normal provision of credit, everyone's greatest hope was that the Government would introduce initiatives to stimulate the economy. It is because even if loans are obtained, they have to be repaid.

Now, the State has taken the lead to introduce a two-year measure with \$4,000 billion to promote the domestic consumption market and the economy, and Macao will follow suit. Yet Hong Kong, which has always been in the leading position of the world, has failed to make any concrete recommendation so far. Therefore, the Liberal Party hopes that the Government can expeditiously establish an inter-departmental task force on sustainable development for supporting SMEs and revitalizing the economy. The task force, comprising members from the industries, should formulate measures to revitalize the economy in the coming two years, making reference to policies adopted by the State to promote local consumption, and implement such measures expeditiously. It is because the two major festivals for consumption — Christmas and Lunar New Year are approaching. If we cannot survive these two tests, I believe the Protection of Wages on Insolvency Fund will soon be depleted.

Actually, measures to revitalize the economy were introduced in Hong Kong after the Asian financial turmoil and the SARS outbreak. Therefore, I urge the Government to set up a committee outside the Task Force on Economic Challenges to take pragmatic approaches and formulate measures to revitalize the economy and local consumption, modelling on the approach adopted by the State to stimulate local consumption, to enable the sustainable development of the Hong Kong economy, so that we will not become the burden of the State, requiring the rescue of the Central Government whenever difficulty arises.

Regarding items (g) and (h) of my motion, they are proposed mainly because the Government has increased the rentals of two food markets by 11% just in the first half of this year. Although the Chief Executive eventually returned the rental of one month, there is still an actual increase in rentals. However, the current rentals of private markets and shops at street level as a whole have been adjusted downward. Many owners have taken the initiative to discuss with their tenants, with the hope of retaining their tenants to maintain a stable income. For this reason, I hope the Government can make corresponding adjustments in the light of the changes in the macro environment. Besides, if rentals of markets are reduced, the operating costs of hawkers and shop operators will decrease, and the general public will also be benefited.

When candies were handed out in the budget this year, the commercial licence fee territory-wide was waived for one year. However, no waiver was provided for hawkers' licence fees. President, hawkers are the lowest strata of small businessmen in Hong Kong. They are also part of the business sector. During this difficulty time, I hope the Government can reconsider waiving the hawkers' licence fees for one year.

At the same time, regarding various existing government administration fees, for example, as the Government has all along been charging commissions rather than rentals for markets under the Vegetable Marketing Organization (VMO) and the Fish Market Organization (FMO), such fees were not included whenever waivers were granted. Honourable colleagues may note that according to the report submitted by the VMO and FMO yesterday, there was a total surplus of \$34.8 million last year. Therefore, even if the Government waives the commissions for one quarter, the financial implication on the VMO and FMO will surely not be substantial.



Regarding the question of holding over SMEs' payment of provisional profits tax for one year, I already explained this in detail last week. It aims at allowing enterprises which have to make a tax payment of less than \$5 million to hold over their tax payment. On the one hand, it is because these enterprises' tax payment only accounts for 12% of the overall profits tax; and on the other, the market has taken an abrupt downturn since the middle of the year. Those running out of luck may have to fold, and even if they manage to survive, they may not be able to make any profits. Instead of requiring each SME to write to the Inland Revenue Department requesting the holding over of their tax payment, the Government had better do them a small favour by holding over their tax payment for one year.

Finally, the Secretary and the Under Secretary for Commerce and Economic Development are exhausted working on the issue of SMEs. On behalf of the SMEs, I would like to thank the Secretary and the Under Secretary for this. I am also aware that the proposals I put forward today, such as holding over tax payments or reducing market rentals, do not fall within the Secretary's ambit, but I hope the Under Secretary can convey our views to and continue to discuss them with the higher echelon within the Government, and continue to introduce the third and forth waves of measures to support SMEs and the economy of Hong Kong.

I so submit. Thank you, President.

**Mr Vincent FANG moved the following motion: (Translation)**

"That, being struck by the global financial tsunami, many small and medium enterprises (SMEs) and small shop operators in Hong Kong have to face diminishing consumers' confidence and shrinking business turnover, as well as the banks' recent substantial tightening of credit and delayed reimbursement of payment for customers' purchases, resulting in many SMEs and small shop operators which have been operating soundly and steadily being pushed to the brink of collapse; and in particular, for those non-exporting local consumption industries not supported by government policy, including the wholesale, retail, catering and service industries which employ over 1.2 million of the local workforce, should they close down because of the banks' tightening of credit, a severe domino effect will definitely be triggered; hence this Council urges the

Government to provide SMEs with more appropriate support, so as to enable them to tide over this difficult period; and the relevant measures should include:

- (a) establishing an inter-departmental task force on sustainable development for supporting SMEs and revitalizing the economy to take charge of the study and implementation of policies on supporting SMEs, as well as the formulation of measures to stimulate the economy, so as to enable SMEs to sustain their business;
- (b) in addition to the existing "SME Funding Schemes" which primarily aim at supporting export enterprises, formulating long-term plans to support the development of the industries engaging in local consumption, including the wholesale, retail, catering and service industries;
- (c) strengthening the liaison between the Government and the banks with a view to encouraging the banks to provide robust credit facilities and credit card payment services to enterprises which have been operating soundly and steadily, so that they can continue their operation;
- (d) providing guarantee for SMEs' trust receipts and accounts receivables by the Government, so as to enable them to continue utilizing the relevant financing arrangements;
- (e) increasing the loan guarantee provided by the Government under the "SME Loan Guarantee Scheme" from the current 50% to 70% or above;
- (f) extending the insurance coverage of the Hong Kong Export Credit Insurance Corporation to include local sales enterprises;
- (g) waiving the rentals of all food markets, government markets and shopping arcades for one quarter and waiving the hawkers' licence fees for one year to reduce the operational expenses of staple food operators, so as to curb inflation; and
- (h) holding over SMEs' provisional payment of profits tax for one year."

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

**PRESIDENT** (in Cantonese): Mr James TO, Miss Tanya CHAN, Mr WONG Ting-kwong and Mr Jeffrey LAM intend to move amendments to this motion. Ms Miriam LAU will also move an amendment to Mr WONG Ting-kwong's amendment. This Council will now proceed to a joint debate on the motion and the amendments.

I now call upon Mr James TO to speak first, to be followed by Miss Tanya CHAN, Mr WONG Ting-kwong, Mr Jeffrey LAM and Ms Miriam LAU; but no amendments are to be moved at this stage.

**MR JAMES TO** (in Cantonese): President, first of all, I am very grateful to Mr Vincent FANG of the Liberal Party for moving this timely motion on supporting SMEs to tide over the difficulties. Many of the proposals put forward by them are actually consistent with the ideas of the Democratic Party. However, we have indeed divergent views on one or two points, which I would like to talk about here.

Before talking about the divergent views, perhaps let me talk about the similarities between our ideas and theirs. As Mr Vincent FANG has gone through the details, I will not repeat them. However, Mr Vincent FANG has mentioned just now that banks have extended the settlement period for credit card payments made to retailers from T+2 to T+30 or more. I think this practice has really gone too far. Of course, Mr Vincent FANG has put it in a very funny way just now. He said that it seems the current situation has gone in the opposite direction in which capital is provided to banks by SMEs. That is, after receiving the money, banks will not reimburse the amount to SMEs until after a few dozens of days. That is to say, not only are SMEs not getting money from banks, they are even lending money to banks in the same way as in the inter-bank practice adopted by banks, and as in the case of inter-bank borrowing, which is indeed requiring clients to lend money to banks. I think this practice has gone too far.

I believe the relevant authority in the Government must address this problem squarely, or it is tantamount to stifling the SMEs' room of survival. Now, a lot of SMEs are already unable to make ends meet, and many of them are even struggling for survival. Of course, there are some which can borrow money from banks to repay their loans or maintain their cash flow.

For example, in these few days, the Government has announced a new scheme, that is, the \$1 million loan scheme. One of the requirements is for the borrower to take an oath or make a declaration that the money borrowed must not be used for repaying any loans. This should be handled very cautiously. I am worried that in the future, many people will just fill out the application form with information compliant this requirement. They will only consider the situation when something happens, for example, when their business collapse (God forbids, no matter how, some enterprises are bound to collapse). When the authorities carry out the so-called "coroners inquest", they will find that after receiving the loan, the applicants really used it (maybe just one tenth of the loan, which may only amount to tens of thousand dollars) to repay another person, who may be a relative or even a loan shark, to put it in a more vulgar way, to temporarily settle the repayment due during those few days, or else they will not be able to make it through. It is because when such sources of loans are cut and the overdraft amount is reduced, everything will go out of hand, so they are forced to make this move, only hoping that they can borrow some money for a few days for liquidity. However, it is possible that when they receive the money with the intention of returning it in a few days, they are charged for allegedly making false statements. Actually, no serious faults are involved in such cases. In the past, a few policemen or even police superintendents were involved in such cases and were prosecuted in the end, and they are still in jail now. Therefore, I hope the Government can really be more cautious and think more clearly about it. Of course, we also have to strike a balance carefully. So even though I would delete some of the proposals put forward by Mr Vincent FANG today, it is on such a ground that I do so.

On the other hand, for example, "providing guarantee for SMEs' trust receipts and accounts receivables by the Government" is proposed in item (d) of his motion. Regarding this, please forgive me for not being able to agree with it. Why? If this question is put to me and I have to give a reasonable answer to it, I have to consider how many accounts receivables in the total accounts receivables of all SMEs should be given a guarantee. I do not know whether the Government has such a figure in hand. I had asked my research assistant to

make every attempt to get this figure from various departments, but our efforts came to no avail. I do not know whether the Liberal Party or other Honourable colleagues can provide any supplementary information on this, but I really cannot get this figure, which is really a hard estimation to make. As it is such a hard estimation, how can we provide support? It is really difficult to do so.

Besides, I will not talk about the so-called risks of moral hazard because sometimes, one has to make the decision on whether or not to lend depending on the borrower. One has to know oneself and the other party. For example, one has to know how bad the other party's situation is in considering whether or not to provide credit facilities and the credit amount. However, if the Government provides guarantee for all these accounts receivables, I will also borrow money even if I am fine. Of course, to put it the other way round, if everyone has an abundant cash flow, one will lend to another and *vice versa*, there will then be free cash flow, right? However, the worst thing is that we do not have any idea of the number of such receivables. Of course, we can consider it from a more constructive perspective, for example, is there any way of finding out how high the risk is? Is it assessable? I think imposing a ceiling is of course one of the options. However, even if a ceiling is set, there is no way to find out how high the risk is because the risk of inter-borrowing is actually present among different enterprises, and even an actuary will find it difficult to work out. Therefore, on this point, please forgive me for not supporting it.

On the other hand, I know Mr Vincent FANG also has a creative idea, that is, as the Hong Kong Export Credit Insurance Corporation (ECIC) has been established in Hong Kong for a few decades, and we do not have so much export after all, there is no harm giving consideration to local consumption. It is because even in the market rescue plan of a few thousand billion dollars proposed by the Premier, many measures actually aim at boosting local consumption so that there is no need to rely on external help, in the hope that the problem can be fixed within the country. As the ECIC is already established, can it be changed to become the "local consumption credit insurance corporation"? It does not matter, we can study this issue. However, at this juncture and without delay, I wish to ..... the nature of the ECIC is very clear, that is, everyone who studies its relevant procedures and risk assessments has done so for a few decades with a clear idea of its nature, and I think it is impossible to make such an instant change by adding "local consumption" to "export" all of a sudden unless a better study has been carried out.

Of course, from a certain perspective, I concur with the view of Mr Vincent FANG, that even with export, the credit positions of overseas buyers have to be verified before guarantee is provided, right? Someone may ask whether it is feasible without this. Actually, it is easier to obtain information and other things in Hong Kong. Where can people flee, right? This is what I consider to be a strong point. However, with regard to studying what other complementary measures, legal framework, and so on, we have, I have to consider it more clearly. Nevertheless, as the current wording used is "extending" it at once, we have adopted a more cautious attitude for the time being. However, I think the Government should study and consider this instead of making such a change instantly without any thorough consideration.

I am afraid some Honourable colleagues may ask why we did not agree with holding over enterprises' payment of provisional profits tax for one year last week and a couple of weeks ago, while agreeing with allowing SMEs to hold over their payment of provisional profits tax for one year this time around. Actually, in this regard, Mr Vincent FANG has already mentioned that it is because the amount involved is very different. It only involves some ten percents, while we were talking about large enterprises. Frankly speaking, for the time being, I cannot see that those major large enterprises need our assistance in this way.

As regards the hawker licence, I think this is an obvious loophole. Why? The HSBC, the Cheung Kong Holdings, and so on, are granted a waiver of the business registration fee for one year. The hawker licence we are talking about is in a way a kind of business registration. It is because although those who are running the business are hawkers, if they do so as a business operation, and as profits may be involved, business registration should also be carried out. We know the actual situation is that the hawker licence is in a way equivalent to business registration. Therefore, if large enterprises are granted a waiver of the business registration fee, while hawkers' licence fees ..... they are actually enterprises of the smallest scale. I think it is problematic if their licence fees are not waived this time. Some people even said that as the levy on foreign domestic helpers has also been waived for five years, should not the hawkers' licence fees be waived for not only one year? Of course, in order to avoid alternative proposals on such minor details as waiving the fees for two years, three years, and so on (I do not want to go into such trivialities), I only hope that

the Government can listen to views in this regard. This actually concerns the livelihood of people from the lowest strata, which I hope can be take care of by the Government.

Besides, regarding our proposal for the Government to streamline the procedures for making payments to contractors, my idea is that abundant resources are now available in various areas — although we say that the Government does not have unlimited resources, we think it is still in a relatively sound position with fairly abundant resources. Therefore, I think the Government should settle the payments early upon receipt of the demand notes. It is because the Government is already the best employer and the best customer, it will be very disappointing if even the Government does not make payments and trigger the energy flow promptly (cash flows among financing activities in the same way as energy flows in the human body). I think, if possible, the Government should even endeavour to — that is, if the relevant government department can vet and approve the demands in time — settle payments within 30 days. Initially, when I considered this issue with my assistant, we think the time should be even shorter than that. That is, the Government may undertake to settle the payments even within a shorter period of time. It is really tedious to go on making calculations in this way. However, I might as well express my ideas here.

Moreover, I also propose "repealing the provision that requires SMEs to pay deposits when they bid for government contracts". Actually, the Government is also the largest customer, and we often talk about cash flow. I think when SMEs are not awarded the contracts, deposits will be returned to them anyway, right? If such a large amount of the SMEs' cash is held — relatively speaking, as payment will definitely be received, government projects are very appealing and a lot of contractors will be attracted to bid for the contracts — when everyone has to make a deposit, the Government can keep the cash for earning interests. I find this practice not at all fair. I think although what I propose are the so-called minor details, for a government which is relatively affluent, at least it should take up its expected role, and this will be helpful to our SMEs.

**MISS TANYA CHAN** (in Cantonese): Recently, I finally have the chance to have dinner and sit down and chat with some old friends. I thought that everyone would be very happy during the chats. However, I found that they were in such a bad mood that they even lost their appetite. Why? I found that many of my friends were owners or employees of SMEs. Some of them were very worried, for example, whether they could still obtain loans from banks, or whether suppliers would come again to collect payments the following day, and they were also worried whether their clients would default their payments, and all these have put everyone in constant anxiety.

Sometimes, looking back at this financial tsunami, I would think that it is like a financial epidemic. SMEs may have the same feeling as in the case of the SARS outbreak back in 2003 when everyone was in constant anxiety, not knowing when one would be infected. The same is true of the sentiments of SMEs today. For example, they do not know when the banks will call their loans, neither do they know whether their customers will default their payments or whether suppliers will raid their offices for payments. Everyone is very worried and there is widespread panic and fear.

Under this financial epidemic, even enterprises which have been operating efficiently and were not subject to panic during the financial turmoil or the SARS outbreak may also be or have even been infected. Among them, many are already critically ill, and some even warrant admission to the intensive care unit, requiring external help and rescue. There are also some, such as Tai Lin or Krispy Kreme, which had long been infected and had to be certified dead in the end. Witnessing the closing down of one enterprise after another, we can see that the impact of this epidemic is by no means smaller than that of the SARS epidemic.

During the SARS attack in Hong Kong, the Hong Kong Government deployed all the resources of the territory to deal with the disaster and studied remedies very actively in co-operation with the Central Government to fight the epidemic. In this epidemic of the enterprises, the Government should adopt the same attitude to help SMEs, which are already in an abyss of sufferings, and workers, who are on the verge of unemployment.

President, the Civic Party proposes this amendment this time not only because the Civic Party is very concerned about SMEs, but also because I think SMEs are very closely related to the young people I care for. Why do I say so?



It is because many young people have their first job at or started their career by working with SMEs, and for many young people who have the courage to start their own business, of course their first business operation will be one with a small amount of capital. Therefore, the amendment I propose for the first time is about SMEs.

Last week, I saw many graduates taking photographs in their gowns when I was at a certain university. When I looked at them, of course I was happy for them. However, when I thought about it, I think they were also in great despair. Why? Although they are young and strong, can they really fight against this epidemic of the enterprises and this financial epidemic because they are young? Actually, relatively speaking, they may be the most helpless group.

In fact, Mr Vincent FANG's motion is in itself a prescription which can help SMEs, in particular, it is a prescription to fight against the financial epidemic, with a few strong medicines. However, on top of this prescription, I would like to add some prescriptions for toning purposes so that the whole treatment will be suitable for SMEs.

The first prescription is that the Special Administrative Region (SAR) Government must "pump in energy" and carry out discussions with the Central Government and local governments in order to reflect to them the difficulties faced by SMEs in Hong Kong, and see how the Mainland can cater for the needs of enterprises in Hong Kong when studying measures to rescue the market. There is also a newspaper report today that when the Chief Executive visited Dongguan yesterday, the Dongguan Municipal Government also proposed some measures to help local factory owners. I hope those measures will be effective and I also hope that the Government can act expeditiously.

Last Sunday, Premier WEN also proposed 10 measures with a total amount of RMB 4,000 billion yuan to rescue the market, among which was the further expansion of CEPA. Since the Central Government has voiced this, would the SAR Government please follow this up as soon as possible? It should take a more active approach to reflect to the Central Government the kind of arrangements under CEPA which are suitable for SMEs in Hong Kong. If the Central Government prescribes some solutions which fail to target the problems in the end, the good intentions of the Central Government may eventually be wasted.

Besides, the new Labour Contract Law, the legislation and regulations on environmental protection, and so on, enacted in the Mainland recently have increased enterprises' operational costs and pressure. Coupled with the financial epidemic and banks' tightening of credit, SMEs have indeed been dragged into a mire of misery. Of course, we are certainly not in a position to request the Central Government not to enforce these laws because the rule of law is the core value of the Civic Party and many friends. However, the mainland authorities can surely alleviate the burden of SMEs with other measures, such as tax or fee reductions. Even though the storm is howling, we still hope that they will be given some empty buckets to collect the water from leakages.

This brings me to the second prescription, that is, the SAR Government should commit more resources to helping SMEs adapt to the new regulations in the Mainland and the significant increase in costs. Many SME operators in Hong Kong started their career as "apprentices". Actually, they have not received any formal education or acquired any knowledge on marketing or business management, and they all learn by themselves through work. For them, many new government policies may make the situation "get out of hand". Therefore, I hope that our Government can provide more professional support in this respect.

I suggest that the Government provide inexpensive or even free professional consultancy services to SMEs through the Hong Kong Productivity Council with regard to the new labour law and other environmental protection regulations, so that SMEs may receive expert advice, be it in technology or personnel management, so that costs can be reduced in compliance with the regulations. At the same time, the Government can provide special funding in the form of direct subsidies or low-interest loans to enable SMEs to modify or improve their operational facilities so as to meet the environmental protection requirements in the Mainland.

Regarding the third prescription — although the effect of this medicine is not strong, many SMEs have reflected to me that this is actually also very important to them — that is, further extending the existing scope of assistance provided under the SME Export Marketing Fund to enable SMEs to advertise through different channels in order to compete for more business from prospective local customers, in particular overseas customers.

The latest development is that the Government allows SMEs to use the subsidies under the SME Export Marketing Fund to advertise on the Internet.

However, the Government only allows enterprises to advertise on the websites of companies which have been organizing exhibitions. If my friends want to advertise on more large-scale and popular websites, such as Yahoo, Yellowpages or Alibaba, sorry, no subsidy will be provided by the Government.

I have made enquiries with the Government, but their response is that it is more difficult to assess the standard of internet service providers other than companies which have been organizing exhibitions and trade fairs, and therefore they do not want to relax the restriction casually. However, I believe that companies whose names have been mentioned by me just now will meet the requirements without much screening. If the Government really wants to help SMEs with their marketing and promotion, I hope it can help by listening to the views of SMEs and relax the restriction.

President, after talking about my three prescriptions, I would like to talk about my views on the three relatively "strong medicines" proposed by Mr Vincent FANG. As I have referred to them as three "strong medicines", which three "strong medicines" are they? Mr James TO also mentioned in his speech just now that there are three measures about which he has reservation.

I also agree that these three medicines are indeed relatively strong, and there may also be some potential side-effects, which were also mentioned by Mr James TO just now, including his brief mention of the risks of moral hazard. I agree that the provision of loan guarantee for trust receipts and accounts receivables by the Government and increasing the guarantee provided by the Government under the "SME Loan Guarantee Scheme" may involve some risks. However, we are now at an unusual time, and extraordinary measures have to be adopted at unusual times, and "strong medicines" have to be administered. In the face of this epidemic of the century, we can no longer adopt an indecisive and apprehensive attitude. If we refuse to administer "strong medicines" because of some potential side-effects, it is possible that every person will be infected in the end.

I think we can no longer close our eyes and refrain from turning to some measures with rapid and potent effect, though higher risks may involve. Besides, if we take away the three measures deleted by Mr James TO, all the measures will be more like medicines in the first-aid box, some of which may not even be able to fight this epidemic. We should provide a chance for the Government to study more aggressive measures.

Besides, if the Government really decides to "administer" these "strong medicines" eventually, it still has to go through the legislative process or the procedure of applying for funding approval, and we in the Legislative Council will definitely keep this gate. The Civic Party tends not to support Mr James TO's amendment.

President, we may be affected by this imminent financial epidemic for a longer period of time than in the case of SARS. Therefore, we have to care for the hundreds of thousands of SMEs and the some 1 million friends who work with SMEs, and sympathize with the young people who have just joined the employment market. I hope the Government can make reference to the views of Honourable colleagues.

I so submit. Thank you, President.

**MR WONG TING-KWONG** (in Cantonese): President, affected by the credit crunch arising from the unprecedented subprime crisis in the United States, the global economy has taken a sharp turn for the worse. The small and medium enterprises (SMEs) in Hong Kong are facing unparalleled challenges. To sum up, there are three sources of pressure: First, the major pressure currently faced by SMEs in Hong Kong is the capital crunch. On the one hand, orders and business have decreased significantly. For some enterprises, the orders have been reduced considerably while operating costs have risen at the same time. Great fluctuations in currency exchange rates and customers' default on their payments have caused a cash flow problem. On the other hand, banks are "taking umbrellas away on rainy days". Quite a number of enterprises have experienced banks' tightening of credit line and calling loans in advance. Besides, some banks have refused to provide discount to customers with letters of credit, and some banks have extended the settlement period of credit card payments for enterprises engaging in service industries from T+2 and T+3 days to 30 or even 60 days. All these have caused cash flow problems to enterprises. SMEs can only hope that they can make applications under the SME Loan Guarantee Scheme. However, as the Government only provides part of the credit guarantee, and with the lack of confidence among banks to provide loans, it is often not easy for SMEs to obtain such loans. Cash flow is the lifeline of enterprises. Whenever there is a cash flow problem, they may face closure.

The second source of pressure is the increase in operational risks. With the weakening of market demand and the tightening of cash flow, it is not uncommon for importers or purchasers to forfeit their deposits or default their payments and refuse to take delivery of goods with various excuses, and for suppliers to fail to perform the terms in the contracts. Besides, significant fluctuations in foreign currencies and the price of raw materials have greatly increased the operational risks. In the absence of mutual trust, business is very difficult, and there are also situations in which enterprises are too hesitant to take orders even when they are offered.

The third source of pressure is the difficulty in adapting to the incessant introduction of new policies and regulations in the Mainland. In recent years, the State has introduced quite a number of new policies and regulations, including abolishing the export VAT rebate or lowering the rebate rates, comprehensively implementing the Guarantee Shadow Margin Account system for products under the restricted category in processing trade, introducing stringent environmental protection requirements and the Labour Contract Law, levying various taxes and fees, such as the Tax on Land Use, the Embankment Tax, the Floating Population Deployment Fee and the Employment Protection Fund for the Disabled, and increasing the wages and benefits for employees, and so on.

To tackle the hardship currently faced by SMEs, the first and foremost task is to solve the problem of their financing difficulties. There is a need to change the over-cautious attitude adopted by banks in granting loans to SMEs, and the Government can assume a more active role in this. The Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) welcomes the establishment of the SME Special Loan Guarantee Scheme announced by the Government a few days ago, in which the Government will provide 70% loan guarantee for the first \$1 million loan for SMEs. However, with the banks' lack of confidence in lending, some members of the industry are still worried that even with the increase of the Government's guarantee to 70%, some SMEs which have been operating soundly may still be unable to obtain loans. We are glad to know that Mrs LAU, the Secretary for Commerce and Economic Development, undertook at the meeting of the Panel on Commerce and Industry yesterday morning that if the Scheme receives good response, the Government will discuss with banks about increasing the guarantee rate when necessary. The DAB will continue to keep a

watch on the situation and will urge the Government to consider introducing essential measures again when necessary, with the view to helping SMEs solve their pressing problems more effectively.

Secondly, SMEs' operating risks should be reduced and the confidence in business transactions among members of the industry has to be enhanced at the same time. The Hong Kong Export Credit Insurance Corporation should expand its insurance coverage to include the non-exporting business of suppliers and the service industries so that more industries will be covered and benefited.

Thirdly, regarding reducing operating costs, we suggest that the Government, property developers and property owners reduce their tenants' rentals as soon as possible; and the Government should provide relief on rates, Government rents, sewage charges and licence fees to enterprises, and hold over the payment of provisional profits tax for one year. Consideration may be given to granting tax rebates or temporarily reducing the profits tax rate, and so on.

Fourthly, regarding alleviating the difficulties of Hong Kong businesses operating in the Mainland, the State Council has just announced 10 measures to expand local consumption, among which is increasing credit support for enterprises, including Hong Kong businesses. Can the SAR Government approach the mainland authorities and banks for information and conduct negotiations to enable Hong Kong businessmen in the Mainland to receive the same treatment as mainland enterprises on credit terms, interest rates, and so on, so as to provide Hong Kong businesses with an alternative financing channel apart from banks in Hong Kong? With the significant drop in demand in the export market, enterprises run by Hong Kong businessmen in the Mainland have made recommendations on further developing the local consumption market. Business officials have indicated that studies could be carried out on making use of CEPA to develop the local consumption market. We hope that the vetting and approval and the qualification accreditation procedures can be streamlined. The SAR Government can take complementary measures and reflect this at the next stage of CEPA negotiation, so as to help expand the local sales of Hong Kong businesses in the mainland market. To put it simply, declarations can be made before vetting and approval, and tax filing will be carried out after the transaction is completed. It is also hoped that some of the tax items can be exempted or lowered so that the operating costs can be reduced.

Besides, there should also be communication with the mainland authorities on relaxing or suspending some provisions of the Labour Contract Law, such as Articles 14 and 47. We make this request only with the hope that some provisions which may be difficult to enforce can be relaxed or suspended in order to give enterprises some breathing space when business is difficult, so that they will not be forced to go into bankruptcy, or even "close down their business", or "abscond". This is an all-win situation for employees, employers and the Government.

In the long run, the higher echelons of the Government should attach importance to conducting a comprehensive review and establishing long-term industrial policies and measures to support SMEs and support the development of SMEs in terms of finance, taxation system, skills, marketing, communication and expertise. The Government may explore the possibility of establishing a long-standing SME credit organization or an import and export bank to provide low-interest loans and export financing to SMEs with development potential and promote direct financing channels to solve SMEs' financing difficulties. In assisting SMEs to upgrade and transform, consideration can be given to establishing an upgrading and transformation fund to encourage SMEs to engage in active upgrading and transformation. On research and development, concessionary taxation arrangements can be implemented to assist and encourage SMEs to carry out technological innovation and upgrading. A comprehensive review should be conducted of tendering policies on government procurement and works projects and assistance should be given to SMEs participating in these tendering exercises. Studies should be conducted on how to parcel out procurement or works projects and lower the bidding threshold without violating the terms of global tendering under the World Trade Organization Agreement. Websites should be set up to publish information on government tenders and counselling should be provided on bid-offering so that SMEs will stand better chances of securing government procurement and works contracts.

President, there are currently over 260 000 SMEs in Hong Kong, accounting for 98% of the total employed population (*The buzzer sounded*) .....

**PRESIDENT** (in Cantonese): Mr WONG Ting-kwong, the speaking time is up.

**MR WONG TING-KWONG** (in Cantonese): Thank you, President.

**MR JEFFREY LAM** (in Cantonese): President, the financial tsunami sweeping the world has hard hit the banking system, and it has also triggered off a knock-on effect, affecting all sectors and industries in Hong Kong. On the surface, people have seen retail shops closing down, but raw material producers, manufacturers and wholesalers at the head of the production chain have been crying out for help.

In the past two months, I, in conjunction with the Hong Kong General Chamber of Commerce (HKGCC) have repeatedly reflected to the Chief Executive, the Financial Secretary, Chief Executive Joseph YAM of the Hong Kong Monetary Authority and several Bureau Directors the plight of local enterprises. I am pleased that the Government has expanded earlier the Small and Medium Enterprise (SME) Funding Schemes; and that the Financial Secretary announced on Monday that a SME Special Loan Guarantee Scheme would be set up to provide 70% loan guarantee, while the Hong Kong Export Credit Insurance Corporation (HKECIC) will apply greater flexibility in processing applications made by SMEs and upgrade the underwriting limits for six emerging markets. These measures have positively responded to my aspirations and those of the HKGCC. I look forward to the early implementation of these schemes and hope that there will be more to come.

I hope the public will appreciate that the purpose of the Government in bailing out industrial and commercial enterprises is to safeguard the jobs of the people. Industrial and commercial enterprises in Hong Kong, especially SMEs which account for 98% of local enterprises, have all along generated enormous economic benefits and created many job opportunities in Hong Kong. But some banks have applied the credit crunch due to the financial tsunami, leaving these enterprises in unprecedented liquidity problems.

If we want to run away from tsunamis in nature, experts will simply advise us to stay away from the shore and run hard for high ground. The SAR Government, by launching measures to support the banking industry, was actually injecting a booster into the banks, so that they could run uphill in one breath and take a rest. The banks, however, did not bring all enterprises uphill with them but left some of them, which were healthy in operation but unfamiliar with the



environment and needed money to ease the cash flow, at the shore. These enterprises could only watch and wait for the waves to come pounding and billow over them. To put it plainly, they were left waiting for their death.

I thus propose in my amendment that the SAR Government should follow the approach of the United Kingdom whereby the United Kingdom Government injects funds into banks and designates such funds as loans for enterprises. British Prime Minister Gordon BROWN announced last month the injection of £37 billion (that is, about HK\$490 billion) into three commercial banks, provided that the banks would, among others, offer credit facility to enterprises at last year's rates. This is to ensure that banks will continue to offer loans to enterprises. Several countries and regions have already followed his approach. Thus, if Hong Kong adopts a similar approach, it will definitely kill two birds with one stone for banks can have sufficient funds to grant loans on the one hand, and the liquidity problem of these enterprises can thus be solved on the other.

At present, the credit crunch by local banks affects not only SMEs, but also other industrial and commercial enterprises which also have difficulty in securing loans. Given that winter is the low season for production despite all overheads being the same, it is a time of high capital demand. In the past, banks understood this cycle and mode of operation of these enterprises and would be more flexible in handling their loan applications. As the right to grant loans rests with the banks, I urge banks to provide as soon as possible new credit facility to enterprises with sound and steady business.

In my amendment, President, I also urge the Government to extend the insurance coverage of the HKECIC to include non-export loans. I wish to point out that non-export loans refer to loans for enterprises which do not export their products direct. In other words, these enterprises are responsible for other links of the production chain before export. Take exporting a small electrical appliance as an example, first of all, different suppliers will have to provide the raw materials, such as plastics, metals and package boxes, before the manufacturer can assemble the product, which is then exported to other places. These industries are, in fact, closely linked to the export enterprises. I thus hope that they can also be included in the insurance coverage.

Although the Government has launched a number of support measures, including the recommendations we proposed to the Trade Development Council earlier, such as assisting SMEs to secure more business, participate in more

exhibitions, launch more promotion, and so on, some SMEs still relayed to me that to date, banks have not substantially relaxed their credit facility. Thus, I hope the Government can launch more new measures, and make greater efforts to throw more buoys and lifelines out to the sea to save these enterprises which are now amid the tempest, so that they can run uphill to catch some breath.

Apart from tackling enterprises' difficulties in securing loans, I hold that the Government can address the problem by comprehensively reducing or exempting various types of business licence fees across the board. At present, various business licence fees account for a major part of the operating cost of these enterprises. If the Government can reduce or exempt the fees, enterprises can have more capital at hand. Moreover, I have also repeatedly urged the Government sometime ago to consider holding over SMEs' payment of provisional profits tax for one year, similarly for the hope that SMEs be given a break to save up for the rainy days.

Regarding support for Hong Kong enterprises in the Mainland mentioned in the other amendments, it is the same as what I have repeatedly relayed to the Central and SAR Governments in the past. Recently, I have met with mainland officials for a number of times to express the aspirations of Hong Kong businesses. These include reducing and exempting certain tax items and urging mainland banks to relax credit facility for Hong Kong enterprises with sound operation. I know that they are actively exploring different support proposals.

Earlier, State Council Premier WEN Jiabao mentioned the need to support Hong Kong SMEs in the Pearl River Delta. This includes instructing banks to step up credit support for SMEs to prevent Hong Kong enterprises from running into liquidity problems. The Dongguan Municipal Government has already stated that a RMB 3 billion yuan worth of package will be launched to help SMEs in financing. One of the features of the package is that if enterprises default on loan repayment, the authorities will shoulder half of the bad debts for the banks offering the loans, in a bid to encourage banks to offer loans to SMEs.

I know that many Hong Kong enterprises operating in the Mainland have encountered difficulties in obtaining loans in the Mainland. Some Hong Kong enterprises with sound and steady businesses were granted the licence to construct factories on the Mainland, but without the title of the land, they could

not use the factory premises as collateral to obtain loans from the banks. I earnestly hope that the SAR Government can reflect this situation to mainland authorities so that the latter can handle similar cases with discretion.

In fact, many Hong Kong business operators in the Pearl River Delta were already facing a bitter winter before the financial tsunami. The new policies launched in the Mainland in recent years, such as the Labour Contract Law, legislation concerning processing trade, and so on, have already greatly increased their operating cost; some enterprises were even requested to relocate or move their operations to other regions. However, it is hardly easy to start afresh in another place and rebuild a production chain as closely knitted as the one in the Pearl River Delta. Moreover, there are numerous taxes in the Mainland, such as those concerning import and export clearance, embankment maintenance, land use licence, social security, and some concerning right to use the road and tree planting, which I only came across recently. All these are major expenses born by Hong Kong-financed enterprises. I once again urge the SAR Government to make extra efforts in conveying this problem to the Central Government, and to actively consider holding over or reducing or waiving these taxes, so as lend a helping hand to these Hong Kong enterprises. I hope and trust that more relief measures will be launched shortly to help Hong Kong SMEs in the Mainland.

President, in face of the financial tsunami, I believe all industries and sectors will work in concert and echo the slogan of the United States President, OBAMA, "Yes, we can". I believe as long as we help and support each other, we can definitely overcome this difficulty and tide over this crisis. We can definitely do better.

President, I so submit.

**MS MIRIAM LAU** (in Cantonese): President, since the outbreak of the financial tsunami, the business environment of Hong Kong SMEs has been deteriorating every day and massive layoffs have happened, causing widespread anxieties in the community. In view of this, the Liberal Party supports the Government to take extraordinary actions at extraordinary times and strengthen support for SMEs which account for 90% of the enterprises in Hong Kong. My amendment to Mr

WONG Ting-kwong's amendment today seeks to urge the Government to draw reference from the practice adopted during the SARS outbreak and put forth a comprehensive package to assist the industries.

Some people, out of a lack of a comprehensive understanding of the current grim economic outlook, may hold that using public money to assist SMEs can be very risky and may thus object proposals on helping SMEs. However, if they have a good understanding of how critical the prevailing economic conditions are, if they understand the importance of SMEs to the Hong Kong economy, if they are aware that SMEs have employed half of the total working population, and if they realize the fact that assisting SMEs and boosting employment go hand in hand, I believe they will not say lightly that these proposals are too aggressive and may not hold that certain support measures are not feasible, too risky and thus have reservation about them.

Although the policy address this year has not mentioned the SMEs at all, the Government, after being repeatedly reminded and urged by the Liberal Party and the industries, finally realized the problem and launched support measures one after another. We hold that the measures, though better late than never, leave considerable room for improvement.

For example, the Government announced on Monday the new SME Special Loan Guarantee Scheme, under which each SME, regardless of its business type, is eligible to apply for a maximum loan of \$1 million for payment of salary or rentals, and the government guarantee ratio of this revolving loan is increased from 50% to 70%. However, this scheme is less favourable than the one offered during SARS. For instance, the authorities do not readily offer 100% guarantee for the loans. As such, SMEs still have to worry about whether banks will lend money to them, which is critical to sustaining their operation.

President, the Chief Executive also recognized this global crisis as the worst since the Great Depression of the United States. As far as the situation in Hong Kong is concerned, the present economy is worse than the one at the time of SARS. Then, should the Government's support measures not be at least modelled on the approach adopted during SARS? Apart from strengthening credit support, should the authorities not put forth some relief measures, such as

waiving rentals, rates and licence fees? We hope that the Government can be more decisive and make a greater effort to support the SMEs in tiding over this bitter winter.

Moreover, the Liberal Party holds that the Government should consider relaxing the present definition of a SME — that is, only manufacturing enterprises each employing no more than 100 staff and non-manufacturing enterprises each employing less than 50 staff are considered as SMEs — because the number of employees of many industries, such as the logistics, catering, and wholesale and retail trades, is relatively large, but they are, by no means, large enterprises. At present, many such enterprises simply cannot meet the definition of a SME. Their businesses have run into great difficulties because, under the present definition of a SME, they cannot benefit from the Government's policy on supporting SMEs. However, I wish to point out that they are also important economic pillars of Hong Kong. If these industries cannot benefit from the policy, and if they are affected, we should indeed reconsider whether they should be excluded from the policy.

Meanwhile, the Mainland will launch as early as next spring the first batch of SME credit securities, while Zhejiang Province, in a bid to mitigate the financing problems of SMEs, formally implemented on 1 November 2008 the arrangement of SME credit-backed security which is the first of such arrangement on the Mainland. The Liberal Party is thus of the view that the Government should draw reference from the practices in the Mainland as well as those in Europe, the United States and many Asia-Pacific countries to securitize the loans of SMEs, so as to facilitate SMEs in financing. For example, the Government can, on the premise of maintaining a healthy and steady financial system, allow mortgage corporations to buy out the loans of SMEs from banks and sell them in the form of securities. By so doing, the cash flow of banks can be eased, which in turn will become prepared to offer loans to SMEs.

At the same time, the Government should make better use of the Commercial Credit Reference Agency (CCRA). Established in November 2004 predominantly by the Hong Kong Association of Banks and the Deposit-taking Companies Association and with the assistance of the Hong Kong Monetary Authority, the CCRA provides reliable credit information on SMEs for lending institutions. It started with information of limited companies, but has extended its coverage since 1 March 2008 to sole proprietorship and partnership

companies. The coverage at present, however, only includes credit information of about 90 000 SMEs, which is not extensive enough as opposed to more than 260 000 SMEs in Hong Kong. The Government should take proactive measures to encourage SMEs to join the CCRA scheme and provide credit accreditation for those which have joined the scheme so as to facilitate SMEs in securing credit facilities from banks.

President, SMEs are the lifeline of Hong Kong; saving them is lifting the morale of Hong Kong, which is very meaningful indeed. The Government should spare no effort in this task.

With these remarks, President, I shall move the amendment.

**SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT** (in Cantonese): President, I thank Mr Vincent FANG for proposing this motion debate, and Mr James TO, Miss Tanya CHAN, Mr WONG Ting-kwong, Mr Jeffrey LAM and Ms Miriam LAU for proposing their amendments. Small and medium enterprises (SMEs) are a pillar of Hong Kong economy. The Government has attached great importance to their development and is concerned about all the difficulties they have encountered in the current financial crisis. The debate today offers another opportunity for us to put our heads together and consider how best to further support SMEs.

The Commerce and Economic Development Bureau has all along maintained close contact with the Legislative Council, major chambers of commerce, SME associations and representatives of all relevant trades and industries in order to heed their views and seize the initiative to study specific support measures for SMEs. Given the urgency of the matter, our current approach is to launch an immediate responsive measure which has been on our drawing board once it is ripe.

The first phase of measures to help SMEs solve their cash flow problem was announced on the 18th of last month after the financial tsunami. These measures include raising the flexibility of the loan amount of the SME Loan Guarantee Scheme and extending the maximum guarantee period of the "Working Capital Loans". Regarding the Export Marketing Fund, we have increased the

maximum amount of grant and expanded the scope of reimbursable items so that SMEs can open up more markets and engage in more promotional work. Here, we would like to thank the Legislative Council Finance Committee again for approving our proposal at the special meeting on the 28th of last month so that these measures can be implemented.

In addition, we convened an SME Summit with the sector on the 23rd of last month. On that day, we announced that the Hong Kong Export Credit Insurance Corporation (ECIC) would also enhance the support for exporters, such as freezing premiums for its insurance facilities, continuing to provide cover for the payment risks arising from buyers' failure to take delivery of goods which are usually not covered by other insurance companies in the market; providing a certain number of free buyer credit assessment service for exporters, and so on. At the summit, we gave audience to many valuable views. Afterwards, we and other relevant Policy Bureaux and departments have been actively considering their suggestions to examine whether more support measures can be launched.

My colleagues and I are fully aware of the sector's hope that the Government can provide further assistance to SMEs in solving their cash flow problems. In this connection, a further proposal formulated for this purpose was announced on this Monday. Our present plan can be divided into two parts.

First, we propose the setting up of the Special Loan Guarantee Scheme for SMEs. The Scheme will help provide a credit amount of \$10 billion to SMEs with \$7 billion being guaranteed by the Government. Under the Scheme, the maximum amount of loan that each SME may obtain is \$1 million, of which \$500,000 may be a revolving credit line. The Government will provide 70% guarantee to the loan, be it the total amount of loan or the revolving credit line. The application is open for six months starting from the date of implementation. A grace period of six months will be allowed, during which the borrowers may repay the interest only. Thereafter, the loan should be repaid on time over a maximum tenure of 24 months. We believe this special scheme will help resolve the credit crunch under the current severe circumstances.

Secondly, new measures will be launched by the ECIC to provide higher protection for exporters and SMEs' applications for export credit insurance will be possessed in a more flexible manner without affecting sound risk management.

Where the bearing of risk allows, the ECIC will also provide higher protection for exports to emerging markets. Moreover, the ECIC will expedite the processing of applications for small credit limits in a flexible way. The Government will also recommend that a resolution be passed by the Legislative Council to increase the ECIC's statutory maximum liability from the current \$15 billion to \$30 billion, thereby enhancing its underwriting capacity.

Yesterday morning, we briefed the Commerce and Industry Panel of the Legislative Council on the details of this proposal. We are most grateful for members' support. We also thank the Legislative Council Finance Committee for agreeing to convene a special meeting tomorrow afternoon. It is hoped that these recommendations can be approved and implemented as soon as possible.

The Government understands that Members and the industry have many specific proposals on further support for SMEs. The Financial Secretary has also set up an inter-departmental meeting to explore further support measures for SMEs. We will reflect to the Financial Secretary and the relevant Policy Bureau views expressed by Members today. President, I will speak again after listening to the speeches of Members. Thank you, President.

**MR WONG KWOK-HING** (in Cantonese): President, most of the enterprises in Hong Kong are small and medium enterprises (SMEs). As of June 2008, there are over 260 000 SMEs in Hong Kong, accounting for 98% of the total number of enterprises. SMEs employ over 1.2 million people; in other words, apart from civil servants, half of the Hong Kong workforce is working for SMEs. The survival of SMEs is thus directly related to the wage earners in Hong Kong.

With the onset of this financial tsunami, the SMEs have borne the brunt. Most SMEs in Hong Kong engage in the import and export trade. The deteriorating European and United States economies have weakened spending power and dealt a heavy blow to the import and export trade. Lack of business and orders have prompted them to cut staff, if not closing up for good. The second major trades which embody SMEs are the wholesale, retail, catering and hotel businesses. Many SMEs engaging in these sectors have closed down. Just the other day, a Chinese restaurant closed down and followed by another sushi chain-store.



The employees of that chain-store did not get any severance payment, nor did they get their preceding month's wages. The community understands that SMEs are in difficulty, but the operators of these SMEs, instead of shifting the responsibility of wage payment to the Protection of Wages on Insolvency Fund, should discharge their responsibility as employers and pay wages to their employees. I have to further point out that defaulting payment of Mandatory Provident Fund contributions is intolerable, and the Mandatory Provident Fund Schemes Authority should step up its enforcement efforts.

President, frankly speaking, the SAR Government has already launched many support measures for SMEs in Hong Kong. Such measures include increasing the maximum accumulative amount of grant under the SME Export Marketing Fund from \$100,000 to \$150,000, merging the overall loan guarantee for business installations and equipment and working capital to \$6 million, and extending the maximum guarantee period from two years to five years.

In June 2008, the Hong Kong Monetary Authority extended the maximum tenure of collateralized term lending from one month to three months, so as to urge banks to offer credit facilities to SMEs. A few days ago, the Government announced an injection of \$10 billion into the SMEs credit market and the provision of 70% loan guarantee, and that the Export Credit Insurance Corporation will be as accommodating and flexible as possible in handling insurance applications and increase the cover.

We seldom see the Government act so generously and offer assistance so frequently in response to the workers' aspiration. However, SMEs and workers' employment are closely related. We certainly welcome the Government to provide different support measures to the SMEs.

In addition, not only the SAR Government has launched support measures, the Central Government has also launched a \$4 trillion stimulus package to boost the economy, which also benefits Hong Kong businesses. We thus hope that Hong Kong SMEs can make full use of the assistance provided by the Government and sustain their business by all means and refrain from cutting staff until they have no alternative. I call on employers to fulfil their corporate social responsibility and not to shift the burden of this temporary economic difficulty onto the employees. Otherwise, this is very unfair to the wage earners.

President, although the Government has launched many measures, there is a particular measure in the original motion which I wish the Government would take on board readily, that is, "waiving the rentals of all food markets, government markets and shopping arcades for one quarter and waiving the hawkers' licence fees for one year to reduce the operational expenses of staple food operators, so as to curb inflation".

Small-capital businesses such as hawkers' stalls and traders in markets are, in fact, SMEs at the lowest echelon. These small business operations can hardly benefit from the Government's support measures. Even if the Government is prepared to guarantee their loans, banks may not be willing to grant loans to these small business operators at the lowest echelon. The most direct way to assist them is to waive their licence fees and substantially reduce their rentals. At present, as far as the 60-odd government markets in municipal services buildings are concerned, the rent freeze will expire in mid-2009. In face of their business plight, the most effective assistance the Government can offer them is to substantially reduce their rentals.

Moreover, in recent years, as compared with the lessees of rent-frozen stalls, the rentals of lessees of newly-bid market stalls have increased onefold to one and a half fold, or even twofold, making the latter hard to run their business. I hope that the Government, in formulating a policy on waiving or freezing rentals, can take these new lessees into consideration.

On another note, I urge the Government to expeditiously review the policy concerning re-issuance of licences and management of the same because many small business operators are now waiting for the result of this policy review by the Government. For example, of the original 30 hawker licences for frozen confections, that is, those hawkers selling ice-cream, there are now only 28 such licences left. If the Government keeps delaying the review, these small businesses carrying the collective memory of Hong Kong may vanish.

Furthermore, the Government has also failed to properly handle the issue concerning the licence of cigarette stalls, nor has it addressed their problem. I thus hope that the Government can pay more attention to these small businesses and expeditiously conduct the review, so that they can also find a way of survival. Thank you, President.

**DR RAYMOND HO** (in Cantonese): President, small and medium enterprises (SMEs) have all along been an important constituent in the economic development of Hong Kong. According to relevant statistics as at mid-2008, there were more than 260 000 SMEs in Hong Kong, accounting for 98% of the total number of local enterprises, and they employed over 1.2 million people, representing about 50% of the entire local employed population.

Since the financial tsunami sweeping the world in September this year, local SMEs have been stranded in an unprecedented crisis. To begin with, the negative impacts of the financial tsunami on the world economy are gradually emerging. Demands have dropped and the market has shrunk. The business environment of the SMEs is grim. Meanwhile, since the outbreak of the financial tsunami, financial institutions and banks have tightened their credit, leaving SMEs in severe financing problems. This has further worsened their situation.

To address their financing difficulty, the Hong Kong Monetary Authority launched earlier this week two enhancement measures, in a bid to provide low-cost capital to banks so as to increase the aggregate balance of the banking system. Although the money supply in the banking system has been eased, banks are still unwilling to relax the credit facilities for SMEs for risk minimization.

To address this issue, the Government announced early this week further measures to, first of all, establish a \$10 billion SME Special Loan Guarantee Scheme under which the Government will provide 70% guarantee to loans. Secondly, the Export Credit Insurance Corporation will be accommodating and flexible in handling SMEs' applications for export credit insurance and increase the insurance cover, and provide more cover for six emerging markets. In addition, the Hong Kong Trade Development Council will allocate \$120 million to assist local SMEs in sourcing overseas buyers. I very much support all of these measures, but the Government has to launch other measures to assist the SMEs.

Recently, many Hong Kong entrepreneurs with businesses in the Mainland have run into great difficulties. The majority of their business operations are SMEs. I hope the Government can strengthen liaison with the relevant ministries and commissions of the Central Government and various provincial

and municipal governments, in order to examine how best effective measures can be launched expeditiously to assist these Hong Kong-financed enterprises to tide over this crisis. If these enterprises collapse, not only will their employees in Hong Kong be affected, large numbers of workers employed by them in the Pearl River Delta will also lose their jobs. The implication is far-reaching.

While launching relevant measures to assist SMEs, it is imperative for the Government to strengthen support to industries serving local consumption, including the service industries. Take the construction industries with which I am familiar as an example, many engineering companies, be they specializing in design, project execution or material supply, are SMEs and they have employed many staff.

The SAR Government should seek to make appropriate arrangements when awarding works projects to increase their chances of securing these projects. In the past, because of administrative convenience, many large infrastructure projects were awarded through mega contracts, usually benefiting only a few large consultancies and engineering companies. In view of this, I have repeatedly urged the SAR Government not to set eyes only on administrative convenience, but parcel out as far as feasible projects so that more small and medium companies can have the opportunity to join the tender. Moreover, the SAR Government should launch more small and medium scale projects, including infrastructure maintenance and environmental improvement works, so that more small and medium engineering companies can benefit from them. The Government should also streamline payment procedures for small and medium companies which have secured government works contracts, so that they can receive payment soon after completion of the works projects and in turn help solve their cash flow problem.

Just as the advance warning given by the Government earlier about the financial tsunami, the worst time is yet to come. It is indeed imperative for the Government to continue to closely monitor our local economic development and its impact on the SMEs, and to launch relevant support measures to assist local SMEs in tiding over the crisis, such that the Hong Kong economy can be stabilized. President, I so submit. Thank you.

**MR LEE CHEUK-YAN** (in Cantonese): President, while I hold that the small and medium enterprises (SMEs) warrant support, I hope that more measures will be launched by the Government to help the workers. I do not know why assistance for the workers has been put on the back burner. The Government has bailed the banks and SMEs out, but not the workers yet. I am very anxious, but this issue is outside the Under Secretary's portfolio, but I will continue to fight for it.

Even if the Government has to rescue the SMEs, I wish that they, after being saved, will respect the existing labour laws in Hong Kong and not to shift the crisis onto the workers, given that large corporations are especially fond of taking the lead to do this. Members of the Task Force on Economic Challenges, noting the grim outlook, have cut staff immediately. Thus, we can see that corporations, whenever detecting the slightest sign of trouble, will often shift the crisis elsewhere. I do not wish to see such a phenomenon, but rather, I hope that we can work in concert to promote the economic development of Hong Kong and seek to achieve full employment. I will thus support the Government helping the SMEs.

Regarding the Government's help for the SMEs, I once said here that Mr John TSANG should not ask the employers and employees to tide over the crisis together because the ones to tide over the crisis with the public should be the developers, rather than the employers or the employees. I am glad to see that Secretary Mrs Rita LAU has urged The Link and the developers to reduce the rentals because using verbal coercion is better than sitting on her hands, though they are so dominant that they may not bother to take note of her appeal.

However, the most outrageous case should be The Link REIT. In its just released performance sheet for the last year, its net property proceeds have increased by 8.5%. Shareholders of The Link REIT will be able to receive dividends, but its tenants will have a hard time. Tenants who have just renewed their leases are subject to a 26% rent increase, while those renewed their leases last year had been subject to a 13.9% rent increase. In other words, the rate of increase is 26% this year and 13.9% last year. Can you imagine how difficult the past two years have been to these tenants? The average rent per square feet now is \$26.8, which has increased by 9.8%, that is, almost 10%. We can see that The Link REIT is now on the brink of getting out of hand. It only cares to drastically increase the rents, rendering the tenants unable to run their businesses. The Link REIT is really tyrannous. Expecting that many people will be willing

to take up the lease even if a particular tenant does not renew it, The Link REIT has maintained its high rents, paying little regard to the increase in vacancy rate, which has apparently risen now.

The Link has no regard for the Government either. Not only did it pay no attention to the appeal just made by the Government, it also refused to respond to any of the reporters' enquiries about rent reduction, or it just brushed aside the issue with a causal remark. We thus say that we have created a monster, The Link REIT, which will ultimately make the tenants and then the people suffer because the tenants will ultimately pass the cost onto the consumers. I hope that the Government will continue to discuss the issue with The Link. I do not know what other means the Government has, but merely writing a letter is not enough. The Government may really have to request The Link direct not to act in such an extreme manner. The Link REIT as well as the developers have to tide over the difficulties with the people. I hope the Government will use more channels to disseminate this message.

President, the second issue concerns the banks. Recently, I have received complaints from SMEs saying that their banks have increased the interest rates of their loans. While interest rates have been reduced everywhere in the world, and the Hong Kong Monetary Authority has done the same, banks have increased the interest rates from P+1.5% to P+3%. The SMEs concerned relayed to me that they had satisfactory repayment history, but the banks took no notice of that. Despite the Government saying that banks have to offer more loans and relax their credit facilities, banks have increased the interest rates instead. The banks have thus failed to tide over the difficult time with local SMEs. No matter how the Government has helped the banks, or how much money it has injected into them, they remain indifferent.

President, on the other hand, I hope the Government can relax the restrictions on certain matters. In fact, all governments have some sort of red tape which will increase the cost. I have an example for the Government to consider. The tendering of horticultural service of the Leisure and Cultural Services Department requires contractors to take out insurance cover for the tendered service, but SMEs have relayed to me that they have already taken out such insurance. They do not understand why they have to take out a separate insurance policy for the government works project, that is, they have to take out two insurance policies. The Government would obviously reply that this is for

additional protection, but frankly, it is useless to take out two insurance policies because if any mishap happens, the claimant will still go after the horticulture contractor, and the contractor will still need to compensate the claimant. This will only benefit the insurance companies and increase the cost of the contractors. Can something be done here? I believe there are many such examples. The Government indeed has to study whether it can reduce the cost of the SMEs in this regard.

President, last but not least, I wish to turn to the amendments. The Hong Kong Confederation of Trade Unions will object to Mr WONG Ting-kwong's amendment. Its major problem is the addition of the Labour Contract Law to the amendment, which requests to hold over its implementation. I hold that Hong Kong manufacturers have no ground to request the Central Government to hold over the implementation of the Labour Contract Law and shift their problems to the mainland workers. The Chinese Government has prepared the Labour Contract Law for years and we all know that it is about to be implemented. The Central Government, in its entire economic plan, seeks to introduce more economic restructuring in the Mainland so as to engage in high value-added industries which can bring more revenue to the entire economy. However, if Hong Kong manufacturers fail to catch up with the trend, they will ultimately be eliminated. Thus, we should not hold over the implementation of the Labour Contract Law and make the workers suffer. I urge Members to oppose Mr WONG Ting-Kwong's amendment in this regard. Thank you, President.

**MR ANDREW LEUNG** (in Cantonese): President, in the past few weeks, Members of the Legislative Council, who belong to different parties and groupings of different backgrounds, have called on the Government to launch at this extraordinary time different measures to help the small and medium enterprises (SMEs) in weathering the impacts of the financial tsunami.

I welcome the two new measures announced by the Government on Monday to assist the SMEs. I believe these measures will be very helpful to small enterprises, particularly the retail and catering trade. I hope Members of this Council will regard this as an urgent matter and deal with it as a matter of urgency, and approve the funding at the earliest opportunity, so as to relieve SMEs of the enormous pressure of their liquidity problem during Christmas and the New Year. Although the cover of the Hong Kong Export Credit Insurance

Corporation (HKECIC) has been increased to \$30 billion by the authorities, the increase is still considerably less than the \$50 billion proposed by the Federation of Hong Kong Industries (FHKI), albeit providing additional protection to SMEs. Meanwhile, the authorities have proposed providing higher cover for emerging markets as well. The measures have responded to the request of the SMEs of providing additional protection to banks so that the latter will continue to lend money to them. The Government has also responded to the FHKI's remark that the Government has to take strong and forceful actions at this extraordinary time to restore the market balance by all means. Next, I hope the authorities will proceed to amend the HKECIC Ordinance to benefit non-export industries.

President, the Government has done a lot of work to ease the cash flow of banks, and the banks should in return do something for the entire economy of Hong Kong by putting its credit facility for enterprises in order and granting loans to enterprises with good credit history.

In the past month, the FHKI and I have received many calls from SMEs, claiming that banks have tightened the credit, rejected new clients or new loans, and quickly lowered the loan ceiling of applications being processed due to the banks' tightened credit. The FHKI wrote to the Chief Executive and the Financial Secretary last month, reiterating that the credit crunch by banks would endanger the entire economy and people's employment, and proposing an adjustment of the credit insurance mechanism. The senior management of the FHKI has also contacted several major banks, for example HSBC, Hang Seng Bank and Bank of China, and reflected to them the plight of our members and requested them to resume granting collateralized loans to enterprises with good track records. Offering credit facility to enterprises is not like throwing a stone into a bottomless pit, whereby you can never get the stone back. On the contrary, enterprises and the banks should help each other like people in the same boat. The banks, while granting loans to enterprises in hard times, can take on these enterprises as their long-term clients.

If the two new government measures fail, I hold that Mr Jeffrey LAM's proposal is feasible, which proposes to follow the approach of the United Kingdom whereby the Government injects funds into banks and designates such funds as loans for enterprises.



Everywhere in the world is reducing interest rates to boost the economy. The Hong Kong Monetary Authority (HKMA) has followed suit and lowered the discount rate by one percentage point, in a bid to increase banks' cash flow and lower their cost. Thus, banks should lower their rates to relieve the pressure of the enterprises and mortgagors. These enterprises and mortgagors will then increase spending and in turn the economy can be boosted. The banks, having secured 70% credit guarantee from the Government, should reflect the reduced risk in the interest rates. And the Government and the HKMA should expeditiously launch measures to facilitate the lowering of interest rates.

President, many colleagues in the industrial sector travel between Hong Kong and the Mainland. The mainland authorities and banks can play a part in helping them out in terms of corporate financing. Last week, the FHKI wrote to Premier WEN Jiabao, reflecting the plight of Hong Kong businessmen and making a series of proposals to him. On Sunday, Premier WEN announced measures which would also benefit us. Concerning the reform to value-added tax (VAT), enterprises are allowed to offset or deduct VAT on new equipment purchased, while VAT for imported equipment and mainland-manufactured equipment procured by foreign-funded enterprises are also exempted. This has greatly lessened our burden.

President, the FHKI's assistance to the SMEs is more than lip-service. The senior management of the FHKI and I have visited the Mainland a number of times to liaise with mainland officials. After meeting with local officials in Dongguan for a number of times, the Dongguan Municipal Government, in response to our concern, came to Hong Kong on Tuesday to explain the latest \$3 billion support measures. On Monday, the Chairman and senior management of the FHKI and I went to Huizhou to meet with the municipal leaders and major bank chiefs, during which we reiterated the operating condition of Hong Kong businesses there and proposed a series of measures. I am pleased that the visit has secured positive feedbacks from the Huizhou leaders and their commitment to shortly launching a series of measures to minimize or exempt the fees and charges where appropriate. I hold that the SAR Government should follow this approach. The bank chiefs on the Mainland have also promised to offer Hong Kong-funded SMEs in the Mainland the same credit terms as those offered to mainland enterprises.

Having secured a loan does not mean that the business is sustainable. SMEs have to secure buyers in order to tide over this predicament. Last week, I

proposed in the financial committee of the Trade Development Council (TDC) that the TDC and the Government allocate \$100 million and \$200 million respectively for enterprises to source buyers, in particular attracting potential buyers from emerging markets to Hong Kong. I am glad that the TDC soon announced the allocation of \$120 million to assist SMEs in sourcing more overseas buyers, where \$80 million will be deployed to launch an air-ticket and hotel package for buyers from countries like Russia and Eastern Europe to come to visit Hong Kong's exhibitions. I expect this \$120 million can bring an additional 30 000 overseas buyers who will not only place orders, but also instantly bring \$360 million worth of additional business opportunities to Hong Kong. I hope the Government can beef up the funding so that these figures can be boosted.

President, Premier WEN just announced on Sunday 10 measures, amounting to \$4 trillion, to expand domestic demand and boost the economy. He also explicitly stated that the increased investment had to be launched quickly, forcefully, accurately and pragmatically. The Central Government is so determined, but the SAR Government, despite having launched new measures, has few strategies and is not vigorous enough. I know that the Government has maintained contact with the sector in the past two days to gain an understanding of the latest situation. I hope the Government can act faster and more vigorously, and not to fall behind other jurisdictions which have already taken a move. Thank you, President.

**DR LAM TAI-FAI** (in Cantonese): President, the Chinese Manufacturers' Association of Hong Kong (CMA) and I have reflected time and again the problems and difficulties encountered by the small and medium enterprises (SMEs) to the Government, particularly the Secretaries of Department and Directors of Bureau, by means of verbal presentation, interviews and written submissions. In spite of the lukewarm response of the Government, I am still very grateful to it for listening so attentively to our problems. I believe the Government should be well aware of the plight and predicament faced by the SMEs, which are struggling very hard for survival in view of a gloomy future.

Certainly, the present financial tsunami has not only aggravated the difficulties facing the entire trade, but also increased their already heavy burden. As a result of the banks tightening their credit, we face difficulties in taking orders. In fact, the entire SME sector is engulfed in sadness, and employees have developed a doomsday mentality which I think the Government should

know very well. A couple of large-scale summit meetings were held in this or last month for the purpose of meeting with the trade associations and Members to receive views. I think that sufficient information and plenty of suggestions have been provided to the Government for its consideration. On the other hand, written proposals were also submitted by the CMA. I believe the Government should have come up with some policies to address the situation. There is no reason that the Government still fails to formulate appropriate policies after receiving so much views and information. In my opinion, the reason why the Government has yet to prescribe a heavy dose of medicine is that it is timid, overcautious and afraid of being criticized for wasting or abusing public money. In fact, just as I said last time, a heavy dose of medicine should be given at the critical moment. What is more, rescuing the local SMEs is tantamount to rescuing the lower and middle classes in Hong Kong. The fact is that the majority of the lower and middle classes are employees of SMEs. For this reason, any instability of the SMEs will definitely drive up the rate of unemployment, then members of the public will suffer in the end. We therefore require a universal plan instead of one which rescues not only the SMEs but also the lower and middle classes. The Government needs to give a heavy dose of medicine to rescue the SMEs along the line of Premier WEN's administration.

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

Two new measures were introduced following the publication of the policy address, and yesterday the Special Loan Guarantee Scheme for Small and Medium Enterprises was introduced. Both the CMA and I welcome these initiatives. Yet, I consider that the intensity of these measures not good enough, especially the implementation details, which have reduced the flexibility of the initiatives. I believe not many people would dare to apply for the relevant loan. For instance, it is very obvious that the Government fears that the loan would be abused, which I also agree as there is black sheep in every sector. Although the number of SMEs is not large, checks and balances must be put in place to guard against abuse. The Government may, for instance, require the owners or shareholders to provide personal guarantee. While probably not all SME owners are willing to continue their business, the Government still requires them to provide personal guarantee. In so doing, not only will they go bankrupt once their business fails, they may also be liable to imprisonment. A Secretary once told me that some banks even require the borrowers' children to be held liable,

which really got me startled. SME owners are unwilling to secure loans now, why would they do so if they would probably become bankrupt? Therefore, such safeguards against abuse are not desirable.

Secondly, as the measure only suits the need of small enterprises, the Government should not call it the "Special Loan Guarantee Scheme for Small and Medium Enterprises". Rather, it should target solely at small enterprises for a \$1 million loan is utterly insufficient for medium enterprises and could not do much help. Actually, I do not understand why the Government did not work on the existing scheme by refining the \$6 million loan scheme, say, providing guarantee for the first \$1 million loan. Why bother to introduce a new scheme which will only benefit small enterprises? I really do not understand it.

Another example is that yesterday the Government increased the Hong Kong Export Credit Insurance Corporation's cover for six emerging markets, without mentioning the remaining nine of them. However, I can tell Members that many people are doing business with these nine markets. Does it mean that these nine markets are risky such that they are not covered by the Government? I hope that the Government will give a clear account of this.

I strongly agree with a remark often made by "Uncle Tat", that is, we should do practical things. Today, the Government should prescribe the right remedy rather than imposing so many restrictions, as these would only deter people from applying for loans under the schemes introduced to help the SMEs. These are not practical acts. Rather, it should step up control in the vetting and approval process, such that the SMEs can rest assured that the banks would not cause them to go bankrupt or imprison them for the debts.

Another point which I have mentioned time and again is that the Government should hold over certain tax payments and fees, or even waive them by all means. Many Members proposed to hold over the provisional tax payment for one year. Why is there a need for provisional tax payment when it has been forecast by all that substantial profits are unlikely next year? Furthermore, is it possible for the SMEs to pay this year's profits tax in instalments so as to help them tie over the difficulties? Next month is December when employees will receive an extra month of pay, which is immediately followed by January when we celebrate the Chinese New Year. Since it has been the established practice of the local SMEs, mostly run by Chinese or Hong Kong people, to settle all outstanding payments before the end of the year, this

would give rise to a serious cash flow problem. In view of this, will the Government hold over certain fees such that the SMEs can first settle other outstanding bills? Otherwise, the whole supply chain will be disrupted or even break down because no one dares to extend credit nowadays. Not only the banks dare not extend credit to the SMEs, even the SMEs dare not extend credit among themselves. People's confidence has been seriously undermined, giving rise to mutual distrust among all. The Government must have confidence in the SMEs, and lend them money to operate their businesses without holding them liable. Mutual trust is necessary to tie over the difficulties. Hardware support alone is not enough, for support in software is necessary, too. This is because the provision of software would give the SMEs confidence to continue running their businesses, and picture bright prospects for them, especially SME owners of the younger generation. Assistance is particularly important to them, or else Hong Kong will have no future.

I support today's original motion and amendments because I consider them helpful to the SMEs.

**MR WONG KWOK-KIN** (in Cantonese): Deputy President, in the face of the global financial tsunami, some 200 000-odd small and medium enterprises (SMEs) in Hong Kong are presently under immense pressure. The global economic downturn has not only seriously undermined the business of SMEs, banks have also been forced to tighten their credit and call for repayment of SME loans. Deputy President, once the local SMEs fail in their business and wind up, their employees will also be affected. Should the SMEs close down one after another, the unemployment problem in Hong Kong will trigger off a series of vicious chain reactions because the SMEs have employed more than 1 million local employees. For this reason, from the standpoint of the labour, the Hong Kong Federation of Trade Unions (FTU) considers that the Government should exert every effort to help the SMEs tie over the difficulties. This will not only preserve the local economy, but also protect the jobs of our workers.

In the past month or so, measures have been introduced by the Government to provide \$10 billion in liquidity and a 70% guarantee to the credit market for SMEs, and increase the capacity of the Hong Kong Export Credit Insurance Corporation in granting insurance cover. Earlier on, the Trade Development

Council also announced the spending of \$120 million to help the SMEs develop new markets, whereas the Hong Kong Monetary Authority has decided to lower the interest rate of collateralized term lending.

We welcome government assistance in such aspects as credit, insurance and marketing, and are looking forward to the provision of more timely measures to assist the SMEs so as to keep up with the changing economic environment. I nonetheless wish to point out that problems relating to the SMEs mainly lie in the unwillingness of the banks to lend, which has resulted in insolvency and closure of SMEs. The Government should therefore address this situation by making banks willing to lend money to the SMEs so that the latter can maintain their turnover.

Deputy President, meanwhile, voices have been calling for a halt to the legislation on minimum wage, saying that this would add to the heavy burden of employers and undermine Hong Kong's competitiveness amid the present state of the economy. We totally disagree with this. Members should understand that minimum wage is the most fundamental protection of workers' wages, with the objective of enabling the grass-roots workers to maintain the most basic and dignified living through labour. This is indeed the most fundamental request of the working class, particularly when a difficult time is ahead. This is precisely the moment when the grass-roots workers should be protected because some unscrupulous employers would often seize the opportunity posed by a poor economy to further exploit and suppress the grass-roots workers, who fear losing their jobs, have no bargaining power at all and are eager to keep their jobs. The FTU has received many new cases these days, among which are cases where food establishments are accused of paying only 90% of the specified wages. Furthermore, there are cases involving default wage payment or the suppression of wages to an unacceptably low level upon contract renewal.

Deputy President, the FTU fully appreciates the difficulties encountered by the SMEs and the business sector amid the present financial tsunami, and that employees and employers are actually in the same boat. We therefore support the Government helping the SMEs so as to alleviate their burden. However, I oppose any form of exploitation of employees by employers or calling a halt to the legislation on minimum wage on the pretext of the need to combat the financial tsunami. This is tantamount to allowing the captain to save himself by throwing his crew into the sea in stormy weather. Does this help? In the end,

one cannot survive without the other. So, in the face of the challenges posed by the financial tsunami, I call on the SME owners to unite with their employees but not to exploit them simply to protect their own interests.

Deputy President, minimum wage is not a scourge. We have just started the legislative process and there is still a long way to go, during which employers and employees will have to collect data, determine the wage level and draw up a minimum wage mechanism through discussions and exchanges. I do not wish to see the business sector overthrowing the minimum wage proposal on the pretext of the present economic predicament.

Regarding Mr Vincent FANG's motion and other amendments, we support most of them with the exception of Mr WONG Ting-kwong's amendment which proposes in item (j) that the mainland authorities be requested to hold over the implementation of the Labour Contract Law on Hong Kong's SMEs. The FTU does not support this. We consider that the objective of the Labour Contract Law is to protect labour interest so that the Mainland will not become a sweatshop operated by unscrupulous employers. For this reason, the FTU cannot support this amendment. While we support the other parts of Mr WONG Ting-kwong's amendment, we really cannot support his amendment for the abovementioned reason. Certainly, should any Hong Kong businessman consider that there are grey areas in the Mainland's Labour Contract Law, the Hong Kong Government could relay such view to the mainland authorities and request a clarification of the relevant provisions by the Central Government such that the Law can be perfected. And yet, we do not consider it desirable to hold over the implementation of this law.

Deputy President, I so submit.

**MR CHAN KAM-LAM** (in Cantonese): Deputy President, small and medium enterprises (SMEs) have long been an integral part of the Hong Kong economy. They do not only provide different parts of the world with a variety of import and export services, as well as production and sales services of daily necessities, but also satisfy Hong Kong people's needs in every segment of life. Furthermore, there are more than 260 000 SMEs in Hong Kong, accounting for over 98% of the total business units and providing job opportunities to over 1.2 million people. They are indeed feeding a large number of Hong Kong people.

Although the SMEs play an important role in Hong Kong, each of them is merely an entity of small to medium size. That is why they often feel so isolated and helpless when besieged by difficulties. As the financial tsunami sweeps the world, the Hong Kong market is also affected. As the market slows down, the banks immediately tightened credit without any advance notice. As a result, the SMEs do not only face a difficult business environment, they also have great difficulties in financing. These isolated and helpless SMEs could do nothing but to await their doom. The SMEs can now stand no more. Not long ago, the DAB accompanied a group of SME owners to stage petitions outside the Government Headquarter and the Liaison Office of the Central People's Government in Hong Kong to reflect their difficulties and aspirations. A number of proposals have been raised:

- to call on shop owners to adjust the rentals so as to enable their tenants to survive and tide over the difficulties;
- to negotiate with banks and formulate measures urging the banks to maintain the credit line for enterprises;
- to increase the loan guarantee provided by the Government under the SME Loan Guarantee Scheme from the current 50% to 90% for a loan of \$1 million or less, so as to boost the banks' confidence in extending credit to the SMEs;
- to urge the Government to continue providing packing loan to the SMEs;
- to urge the banks to restore the settlement period for shops providing credit card service to two or three days;
- we have even requested the Central Government to hold over the implementation of certain provisions of the Labour Contract Law;
- mainland banks should provide (to Hong Kong enterprises) the same credit term and interest rate as those granted to mainland enterprises;
- to relax the restrictions and help the enterprises to develop domestic sales market; and



- we have also requested the mainland authorities to waive certain tax payments.

In the past two days, the SAR Government has made positive responses to our requests. For instance, the Chief Executive visited Donguang personally to gain an understanding of the difficulties encountered by Hong Kong businesses and relayed our concerns to the Central Government. Also, the Government has written to owners of commercial buildings and The Link requesting a rent reduction. The DAB welcomes these moves and hopes that our efforts can actually help the SMEs tide over this financial tsunami.

Deputy President, a new loan scheme was recently introduced by the Government to assist the SMEs, under which a 70% guarantee will be provided to the lending institutions. We welcome the introduction of more of such preferential policies to encourage the banks to relax their credit, hoping that the banks will approve loans to help the SMEs to survive the prevailing credit crunch. Nonetheless, the initiative to grant loans still rests with the banks, and the SMEs still have difficulties in obtaining loans. I have received a case of request for assistance from a SME, in which the manufacturer concerned has just passed 65 years of age. Having been turned down by many banks for loans, he was forced to keep his goods in a warehouse and hence failed to obtain cash to maintain the turnover. We consider that banks should give concrete consideration to the merits of each case in a flexible manner.

Deputy President, apart from the difficulty in financing, the SMEs also face the predicament of inadequate local consumption and fewer orders. The Central Government proposed to boost local consumption earlier on, which is an important tactic to fight against an economic downturn. Many SMEs were saddened by the fact that even though adequate financing can be obtained, it is useless without sufficient orders. Although local consumption is influenced by the general economic environment, the Government can still help to boost product demand by further enhancing economic co-operation among the four places on both sides of the Strait. For instance, the Hong Kong Trade Development Council can take the initiative to beef up assistance to explore business opportunities for enterprises in the emerging markets and boost local consumption, as well as to provide different concessions with a view to alleviating the effect of reduced orders on the SMEs.

On the other hand, the Government can also help the SMEs tide over their difficulties by lowering their operating costs, including the provision of waiver of rates and licence fees; a freeze or reduction of public service charges and fees relating to the industrial and commercial sectors; streamlining and expediting the licence application procedures for food establishments and works projects, and relaxing the use of industrial land to attract the return of industries to Hong Kong.

In this financial tsunami, the SMEs appear pretty isolated and powerless. In the face of intense global competition, one can never enhance competitiveness effectively by fighting alone. The Government may consider adopting a systematic strategy to promote cross-sector production and technical research on a long-term basis, with a view to introducing a strategic alliance by learning the merits of others to offset one's weaknesses, increasing productivity, lowering costs, improving product quality, exploring new markets and enhancing the management ability, thereby helping the SMEs to unite for survival amid the economic downturn.

Deputy President, as Mr James TO's amendment has deleted a number of important credit and financing measures proposed in the original motion for some farfetched reasons, we therefore find it unacceptable. We support the original motion and other amendments.

I so submit.

**MR CHEUNG KWOK-CHE** (in Cantonese): Deputy President, numerous companies have folded recently, including listed companies, SMEs, and even vegetable stalls in the supermarkets. They were all swept away by the mighty waves of the financial tsunami. Every day, we can see people going to the Labour Department to seek help. The most pathetic case must be some restaurant workers. They think that they are going to work as usual and when they arrive at the restaurants, they find that the boss has shut down the place. All they can do is to go to the Labour Department for help. The motion today is about urging the Government to commit more resources to supporting the SMEs. Actually, there exists a very close tie between the SMEs and the lower and middle classes, therefore, I support the motion and some of the amendments today. However, I also hope that when the bosses of these SMEs have got assistance from the Government, they must not forget that there are many elementary staff in their companies who are working very hard in silence.

I know that many SMEs will transfer their losses or risks onto the staff whenever they face difficulties. When we look at the spate of layoffs now, we find that the real estate agents and the banks are never hesitant in sacking their staff. A chairman of a big corporation even put up the excuse that they are sacrificing some of their staff for the corporation's survival. I remember that not long ago some representatives of the SMEs came to this Chamber and complained that the banks were withdrawing their support for them by tightening their credit lines. I hope these people will not just complain about other people and they should not just resort to laying off their staff whenever they come across difficulties, for this is causing wage earners to suffer.

Deputy President, the Chinese New Year is just around the corner and the next couple of months will be the peak time for the banks to collect debts from the companies. It is therefore also very likely that companies will fold. If the SMEs tumble, the grassroots are often the ones who will suffer. So there is a need to protect the SMEs. I can see that the Government has heeded sound advice and on Monday it announced a package of measures to help the SMEs. Before we began our debate, the authorities had already raised the credit guarantee to 70% of the loans approved under the SME Loan Guarantee Scheme. The authorities are injecting funds into the banking system, enabling them to adjust their interest rates downwards. It can be seen that the Government has done a lot in the business sector. However, the number of jobless people is surging and the safety nets of the Protection of Wages on Insolvency Fund and the Comprehensive Social Security Assistance Scheme are always under pressure. When the Government extends a helping hand to the SMEs, is it equally generous to the grassroots? It must never cut its spending on welfare services because of the fiscal deficits it may have to face.

I hope that every employer, especially those owners of restaurants and other eateries, will tide over the difficulties with their staff. They should not fold up their companies recklessly and leave behind a group of employees whose wages, payments in lieu of notice and severance pay are in default. Lastly, I wish to state my objection to the proposal made by Mr WONG Ting-kwong of holding over the implementation of certain provisions of the Labour Contract Law. Deputy President, I so submit.

**MR IP KWOK-HIM** (in Cantonese): Deputy President, following the outbreak of the financial tsunami, governments of different places have proposed and

introduced measures to save their markets. The targets of these measures are nothing but, firstly, the financial market, and secondly, the real economy. And yet, while the financial tsunami is growing more fierce, the SAR Government has yet to introduce strong and effective measures to rescue the market. As we can see, the effect of the financial tsunami has spread rapidly beyond the financial market to all trades and industries.

People from the catering industry said that as a result of the double setback caused by the economic downturn and high food prices, the business turnover of the traditional peak season, which stretches from Christmas to New Year, is expected to drop by 20% to 30% when compared to the corresponding period of last year, be it companies providing outside catering service, hotels or restaurants. The predicament faced by the catering industry is precisely an epitome of the blow suffered by the real economy.

Just as many colleagues have pointed out, statistics show that there are presently more than 260 000 small and medium enterprises (SMEs) providing job opportunities to over 1.2 million people. More than 60 000 SMEs are engaging in wholesaling, retailing, catering and hotel businesses, and offering nearly 300 000 job opportunities.

Owing to their small size, the business operation of the SMEs has comparatively lower flexibility which makes them a disaster area. What they are facing is not the risk posed by the normal ups and downs in the market, but the systematic risk arising from the financial tsunami. The Government must therefore pool the resources and power of a number of departments to help the SMEs tide over this once-in-a-century crisis. Failing this, the SMEs will close down one after another or have to lay off their employees, which will smash the "rice bowls" of tens of thousands of wage earners.

Our neighbouring countries and regions have implemented a series of concrete measures to rescue the market. South Korea, for instance, which is also one of the Four Little Dragons in Asia, has introduced a number of measures in a row to support the SMEs. Following the implementation of the \$114.7 billion worth of proposals to stimulate the economy last month, South Korea again announced another round of measures totalling \$84.6 billion to stimulate the economy. Among such additional provision, \$27.6 billion will be used to expand infrastructure, whereas \$18 billion is set aside for the provision of tax concessions. Furthermore, the South Korean Government also provided

\$7.8 billion to state-owned banks, through which loans will be extended to SMEs and exporters. However, the SAR Government has reacted very slowly. It was not until Monday that the establishment of the \$10 billion loan fund for the SMEs was announced to alleviate the SMEs' pressure of financing. Furthermore, the Government will provide them with a \$500,000 revolving loan and a 70% loan guarantee, with a view to ameliorating the severe cash flow problems faced by the SMEs. The Hong Kong Export Credit Insurance Corporation (ECIC) will provide higher cover for emerging markets by increasing the maximum liability from \$15 billion to \$30 billion. These are the measures introduced by the SAR Government.

(THE PRESIDENT resumed the Chair)

In fact, more could be done by the SAR Government. Nowadays, banks have tightened their credit in order to protect themselves. Although the SAR Government will provide a 70% guarantee to the loans granted to SMEs, it is believed banks would still refuse to grant loans. We therefore hope that the Government can draw reference from the practice adopted during the SARS outbreak in 2003 and provide 100% loan guarantee for industries caught in difficulties, and further extend the coverage of the ECIC.

Traditionally, the fourth quarter of a year is the peak purchase season of the European and American markets which will place orders with the local manufacturers for the coming spring. However, the financial tsunami has seriously dampened consumption in these markets, hence resulting in a plunge in orders this year and causing a disruption to the business operation of the SMEs. Certain regions, however, still maintain their economic power as new buyers are still available in the market, and so are new markets. And yet, given the lack of capital and insufficient information, it is necessary for the Government to act as a bridge by taking the lead to develop new markets and establish new trade relations. It may set up an inter-departmental working group to support the SMEs and promote sustainable economic development by considering and implementing policies to support the SMEs, as well as formulating measures to stimulate the economy with a view to enabling the SMEs to sustain their operation. We think that these form a key area of work for the Government in the future.

Last but not least, I eagerly hope that the Government can think up ways to support the SMEs. I so submit. Thank you, President.

**MR RONNY TONG** (in Cantonese): President, during the Legislative Council election, I got to know a Mr NG in Sha Tin who asked me to assist in solving the management problems of a housing estate. Two months after helping him solve the problems, Mr NG contacted me for help again, but this time it was about his livelihood problems.

President, Mr NG runs a small construction material business and his company has 12 employees or so in Hong Kong and more than 50 employees on the Mainland. In the favourable economic circumstances at the beginning of the year, the rents of his Hong Kong factory increased by 25%. But the orders of his company had drastically decreased by 40% after the outbreak of the financial tsunami in September, which caused him cash flow problems. He asked the banks for additional loans but most of the banks turned down his requests. Such small and medium enterprises (SMEs) can only get loans with bricks and mortar as security. Nevertheless, it is generally very difficult for SME owners like Mr NG to get loans from the banks when the property market is weak. Mr NG has told me that he would have no alternative but to lay off staff if the situation persists in the next few months.

President, 98% of Hong Kong enterprises are SMEs and they have employed nearly 1.5 million people, accounting for half of the total employed population. Although the Chief Executive has not mentioned in his policy address anything about the situation of SMEs, the pressure of SMEs is obvious to all when there is enormous media pressure. In the wake of the financial tsunami, SMEs are now facing mainly three kinds of difficulties: (a) cash flow problems; (b) high rents; and (c) the newly launched labour rules and regulations on the Mainland. These difficulties have led to a continuous rise in the production costs of SMEs.

President, concerning the first difficulty, the SAR Government has implemented within a short period of time various measures to solve the credit problems of SMEs, and its quick response is praiseworthy. Yet, the effectiveness of these measures has yet to be proven. Using Mr NG as an example, following the announcement of the SME Special Loan Guarantee Scheme the day before yesterday, he immediately approached familiar banks asking if he might be offered loans but he got negative answers and no loans

could be offered. With capital in hand, the banks "take away umbrellas when it rains", but their action is affecting SMEs in Hong Kong in a critical way, albeit the Hong Kong Monetary Authority (HKMA) has urged the banks time and again not to take a sweeping approach towards tightening credit in the past few weeks. If the Special Loan Guarantee Scheme does not work, I hope that the SAR Government will put forward more pertinent and effective measures to help SMEs.

Besides increasing the loan guarantee, it is actually more important to increase the confidence of the banks in SMEs. There are two approaches to this: first, enhancing the awareness of the local market of the operation and health of SMEs; and second, dispersing the business risks of SMEs by various means. We consider it correct to expand the scope of business of the Hong Kong Export Credit Insurance Corporation (ECIC). The ECIC has the advantage of having a database of credit information on quite a lot of overseas companies trading with Hong Kong. On the basis of this database, we can develop a local database of credit information to assist local SMEs in getting protection in the course of trading, and to boost the confidence of banks. SMEs can also produce records from the database to support their financing attempts, which would enhance the banks' understanding of and confidence in them.

In addition, the Government should immediately shorten the settlement periods for all briefing-out contractors that have business dealings with the Government and public organizations, and expedite the cash flows of contractors of briefed-out government projects to ensure timely cash turnover for SMEs.

High rents are still the prime enemy of many SMEs having business difficulties. The Government must take the lead to reduce the rents of the markets and shopping centres managed by the Government with a view to inducing rent reductions by other major property developers. Actually, the shopping centres under The Link REIT are real headaches; as Honourable colleagues have just said, the figures provided by the Retailers Association show that the business turnover of shops has dropped sharply by 25% since September this year. As at July this year, the markets in two housing estates in New Territories East, the Choi Ming Market in Tseung Kwan O and the market in Yu Chui Court in Sha Tin, have suspended operation in protest against the rent increases. The rents for the market in Yu Chui Court have increased by three times, running contrary to the prevailing economic conditions. The Government must intervene as soon as possible in order to prevent rent increases by The Link

REIT under adverse market circumstances. The Link REIT as the biggest owner of the shopping centres in housing estates in Hong Kong cannot evade its social responsibilities.

As to the third difficulty mentioned by me earlier, Honourable colleagues have actually mentioned it and it has also been suggested in an amendment, that is, to hold over the implementation of the mainland law. Firstly, I do not think the SAR Government can do so; secondly, it is a breach of the rule of law to ask for the holding over of the implementation of the law at unusual times. On the contrary, I think Hong Kong should follow the example of the British Government in terms of the actions it has taken after the outbreak of the financial tsunami by providing Hong Kong-funded enterprises operating on the Mainland with free "company health professional advice services" and suggesting measures to help SMEs adapt to the new Labour Contract Law on the Mainland.

President, before using up the time allowed of me, I must express the views of the Civic Party on the amendments. Mr James TO's amendment is unacceptable because he will delete one of the three most important measures that is already in place. In my opinion, his position is incorrect.

President, as regards Mr WONG Ting-kwong's amendment, we cannot agree with the proposal for the Government to provide 100% credit guarantee. We think that this is very dangerous and an inappropriate use of public money. Furthermore, we do not agree totally with Mr WONG's view on the Labour Contract Law. President, for these reasons, we can hardly support the amendments of Mr WONG Ting-kwong and Mr James TO. Yet, we support the original motion and the other amendments. Thank you, President.

**MR LEUNG KWOK-HUNG** (in Cantonese): President, today I am not going to ask you again if you are a Communist Party member, but this has something to do with the remarks that I am going to make. I remember that I read the *Selected Works of MAO Tse-tung* when I was small, and "Who are our enemies? Who are our friends? This is a question of the first importance for the revolution" were the expressions in Volume I "Analysis of the Classes in Chinese Society". I will continue to make my remarks.

Are we saving the market, or the people, today? Who should be sacrificed in the economic crisis to save the people he did harm to? This is the



point at issue. Now, facing the market, it seems as though we are facing a dying patient on whom we indiscriminately used all medication, without bothering to look into the rights and wrongs. If a large number of Honourable colleagues have ties with consortia, they would urge the Government to spend money on saving the consortia first. This saved, the consortia are not going to die or collapse and the Government can then apply the trickling theory — at which Ronald REAGAN was most adopt — to save the big ones first because even their urine could save people from dying of thirst. We have been chasing a cycle of creating bubbles, and those who produced the bubbles are always saved when the bubbles burst.

We have the Hong Kong Monetary Authority (HKMA) which is claimed to be similar to a central bank — that is how it called itself and also specified in the relevant ordinance — but there is no legislation to regulate it; we only have legislation on the Currency Board. After all, the HKMA's work is easy for it only monitors the appreciation and depreciation of the Hong Kong dollar. Joseph YAM will buy certain currencies with foreign exchange on learning that some people have bought a lot of Hong Kong dollars. He does not need to do anything in respect of interest rates because Hong Kong always follows the United States. However, we do not have a central bank that can really apply the leverage theory — not for speculation but for saving enterprises. Although we do not have such a policy, the Mainland has such a policy. The Bank of Communications was previously used by the Kuomintang (KMT) for communications financing, and the same goes for the Yien Yieh Commercial Bank, too. Nevertheless, everyone knows that all the banks have now become the same. The so-called state-owned properties no longer exist for they have all been used on speculation, and there will be no more communications financing.

What are we talking about? It is not wrong for me to say that the DAB is the most shameless. The workers on the Mainland who have toiled hard for so many years are not protected by labour legislation. They have worked very hard to produce a big bubble. The Central Government realizes now that these workers must be protected or else there would be social unrest. Yet, the DAB has said that the law should not be implemented because we have to save the SMEs. This I cannot agree. The DAB and JIANG Jieshi of the KMT look

more and more alike. If there is a person from the left, the rightist will slap the leftist in the face; and if there is a person from the right, the leftist will slap the rightist in the face.

The DAB is the KMT; they do not have a class position though they call themselves nationals. Are you sick, for you now want to sacrifice mainland workers to save the SMEs? Those who have been laid off are really seriously ill. As we have observed, the 500 000 people crammed at the stations were sacrificed in the severe snow disaster. SMEs are killed by large consortia. Were they killed by workers? The problems of SMEs originate from the three "mountains" exploiting SMEs, namely the banks, property developers ..... those people should be sanctioned. Instead of causing the workers to use the money earned by hard toil to save the SMEs, they should spend money on saving SMEs. Therefore, I cannot agree to the remark made by the DAB and I cannot help saying that the DAB is the most shameless.

Second, we are now using all medication indiscriminately. The Government has been asked to provide 100% guarantee, but what for? We have to find the markets before providing credit. This is being done in Germany and Korea. What is the use of credit without markets? Should we lend money to people who lack money? A credit authority should lend money to these people. It is also useless to ask the banks for loans. There was a new Tokyo bank in Japan, but it has closed down already.

What is the problem faced by SMEs in Hong Kong which have 1.3 million people under their employ? It is the problem of high rents. Workers have to pay higher rents for their flats after the abolition of rent control by the SAR Government, and the rents have definitely increased. There are also high public utility charges. The public utilities are sucking blood, why has the Government not collected money from them? To save the people, the Government should collect from the public utilities taxes on exorbitant profits and capital gains, and a progressive profits tax. Why has the Government used public money to save those who have done evil? I am not saying that SMEs have done evil for I know that they have ceaselessly been tormented by those who have done evil.

I object to the actions taken by The Link. When I expressed my objections on the street, the DAB and the Hong Kong Federation of Trade Unions blamed me for causing harm to Hong Kong people. "Those who eat pig blood

will excrete black faeces". What they support is putting pressure on SMEs today. We must distinguish clearly between our enemies and our friends. We advocate reductions in public utility charges and rents in order to help SMEs survive. The banks should provide SMEs with credit to facilitate their business operation, but they should not ask clients who had money to borrow more for property speculation in order to get benefits.

Joseph YAM is not the head of the central bank and he only works for financial capitalism. He has deprived Hong Kong of an industrial policy but there is no financial leverage even if we have an industrial policy. Wake up! Without democracy, 800 rich people will do harm to Hong Kong people (including SMEs). The death of SMEs means the death of workers (*The buzzer sounded*) ..... Long live universal suffrage; long live democracy.

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

**MR LEUNG YIU-CHUNG** (in Cantonese): President, the subject of the motion under debate today is "Supporting small and medium enterprises to tide over the financial tsunami".

It is actually obvious to all and undeniable that small and medium enterprises (SMEs) are now in a pitiable plight. But it is already too late for this Council to discuss the issue today. The problems of SMEs arising from the so-called financial tsunami have not only emerged today, and they were already there when the policy address was delivered. It is a great pity that the lengthy policy address containing tens of thousands words — I have not counted the number of words — has not proposed any effective prescriptions to tackle the impacts of the financial tsunami that it referred to. We only know from the policy address that the financial tsunami has arrived and problems have surfaced. President, what has it reflected? I wonder if it has reflected that the Government is willing to help but unable to do anything about the problems, or it is powerless.

We have made so many proposals today; there are good and bad proposals but I wonder if the Government has asked itself whether it has belated awareness or what. Why has it not presented a good proposal for our discussion? In fact,

this basket of proposals should not be made by Honourable Members. The Government should demonstrate leadership. But why has it not made such proposals relating to our economy from a macroscopic perspective? Why have Honourable Members made the proposals? I express regret over the matter and I find this a great pity.

Most unfortunately, the Government has so far failed to propose a basket of proposals. The Government has worked mainly on two aspects; first, insofar as loans are concerned, many Honourable colleagues and I have referred to the amount of \$10 billion; second, the Government has become a letter writer. President, I really feel sorry that the Government has to write letters asking organizations to reduce rents. The worst bit of it is that these organizations have not shown due respect. The Secretary also said yesterday in reply to Ms Emily LAU's question that The Link was indifferent and it had not given the Government a reply. Not a word was said about the matter at the press conference yesterday. President, the fact that the Government has lost face is a great irony, and an enormous insult.

Even if the Government can overcome this so-called transient difficulty today, it should draw lesson from a bitter experience and consider comprehensive development in the future; otherwise, we have to hold discussions when similar problems emerge from time to time, and we cannot handle matters comprehensively. "Cutting toes to avoid worms" and being evasive are not effective ways to overcome the difficulty. As Mr LEUNG Kwok-hung said a moment ago, I voted in opposition when this Council debated the sale of shopping centres and car park facilities to The Link REIT a few years ago. We knew that these problems would emerge one day, but the Government lacked foresight and only sought material gains. The Government failed to consider the long-term problems and surrendered submissively. Now the Government is asking it for help now that the problems have emerged, but it is too bad that people would not bother even if the Government has asked for assistance.

About this problem, and insofar as the whole economic domain is concerned, we cannot continue to adopt the so-called *laissez-faire* policy and allow Hong Kong to be market-led without paying attention. The Secretary told us yesterday that the Government would uphold the "big market, small government" policy. I trust that adjustments must be made to these principles and policies. We have to learn a lesson from tackling these problems; otherwise, we may not be able to cope in case another crisis happens in the future.

So, I hope that the motion debate today would induce a serious introspection by the Government. This is the most important thing that I would like to say, and I hope the Government could hear me.

As we all know, SMEs engage mainly in two types of business: export of goods and local consumption. In respect of the export of goods, as a lot of Honourable colleagues have said earlier, there must be markets, or else SMEs cannot sell their goods; so even providing credit cannot help solve their problems. Thus, the Government must proactively engage in market development and consider how this can be done; I do not know how, but I hope the Government would make efforts in this direction.

The Government should really give serious consideration to local consumption. A worsening unemployment rate reflects that our spending power is weakening, and some SMEs will definitely run into problems. For instance, those in the consumer industries including food establishments and the garment industry will have difficulties. For this reason, it is most imperative for the Government to prevent the unemployment rate from worsening, and to consider how the unemployment rate can be stabilized and even reduced. If not, the consumer market will definitely shrink further. What should be done then?

During the outbreak of SARS, the Government created a lot of jobs for poverty alleviation which helped the unemployed find jobs. People will have spending power so long as they have a job and income. There are essential chain relations. If more people are employed, the pressure on local consumption would be eased slightly. Hence, the Government should step up efforts, that is, it should not simply provide \$10 billion loans for it is more important for it to consider how to create more jobs. If people are jobless, they will not have spending power and the domestic economy will only deteriorate. That is the most important and urgent task for us at this moment. The pressure cannot be relieved if jobs are not created.

I hope that the Government will expeditiously take actions just like what it did during the outbreak of SARS. It should consider creating jobs and it should not resort to briefing out anymore. I have talked to several government departments and found that they are still considering briefing out work now. But briefing out will actually cause serious problems and push up the unemployment rate, thereby aggravating the problems.

**MRS REGINA IP** (in Cantonese): After Mr Vincent FANG had proposed the original motion, Honourable colleagues proposed different amendments to his motion. And after going over Honourable colleagues' amendments, I found that most Honourable colleagues have made amendments on the basis of their contact with industry players and their understanding of the operation of small and medium enterprises (SMEs) or the demands of the labour sector. Many amendments are worth supporting and I only wish to make a few points for the Government's reference. I am not sure if they have been covered in the remarks made by other Members earlier in the debate.

First of all, many Honourable colleagues have suggested exploring new markets. It is true that we must explore new markets but we also need to improve our products because making our products more competitive is very important. The word "products" includes both goods and services.

Let me give an example in connection with the tourism sector. Mr Paul TSE is not in the Chamber now but his good friend, Mr CHIM Pui-chung, who is present may listen to my remarks on behalf of Mr TSE. As far as I know, the services currently provided by many travel agents in the tourism sector are uncompetitive; there are only a few employees who reserve airline tickets and hotel rooms for customers. This sort of services ..... Secretary Gregory SO has lived in North America before and he should know that these travel agents cannot stay in business in North America. Nowadays, we can directly reserve airline tickets on the websites of airlines and we will use expedia.com to reserve hotel rooms, and there are even online car rentals or other services. If the competitiveness of our products is not increased, it will be useless even if we have markets.

Although we are debating how to put out the fire and how to help people tackle the financial crisis, I hope the Government will pay attention to how best the SMEs can be encouraged and helped to enhance their ability to use information technology in the long run. They would then be able to expand their markets, provide worldwide services and improve their human resources quality; if not, they can hardly produce competitive products.

Talking about SMEs in Hong Kong with special features, they must be food establishments and I think we have highly competitive food establishments. Taking sushi as an example, Secretary Gregory SO who has lived overseas should be aware that many young people find the products of sushi shops in Hong Kong very special. Sushi is also available in Canada and salmon is served in large

portions at very inexpensive prices there, but young people love and welcome the new style of casual Japanese cuisine in Hong Kong. That is competitiveness and creativity. However, these shops are facing difficulties because the banks have tightened credit and rents are excessively high, just as several Honourable colleagues have pointed out earlier. When the Government considers ways to help SMEs, it should categorize SMEs and sort out the products they produce and the industries in which they are engaged.

I am not sure if Honourable colleagues have already mentioned the point that the Government can assist SMEs in integrating with mainland SMEs to facilitate more exchanges and mutual assistance. I trust that the Secretary knows that the Law Reform Commission and the Ministry of Commerce are the mainland authorities in charge of SME policies. The mainland definition of SMEs is certainly different from ours. Taking the manufacturing industry as an example, the Mainland defines enterprises with fewer than 2 000 employees as SMEs, but Hong Kong people already regard such enterprises as mega enterprises.

SMEs on the Mainland also want to have more dealings with SMEs in Hong Kong. While Hong Kong SMEs want to enter the mainland market, mainland SMEs want to explore the overseas market. Hong Kong SMEs have an advantage which is lacking on the Mainland because our SMEs have a deeper understanding of the international business environment. Since Hong Kong is more internationalized than the Mainland, and our SMEs are accustomed to dealing with foreign merchants, our SMEs can help mainland SMEs explore the overseas markets while mainland SMEs can help our SMEs enter the mainland market.

Owing to a shortage of resources, SMEs in Hong Kong have difficulties in entering the mainland market and they cannot sustain the impact of one towering wave. Compared with the Taiwan Merchants Associations — the Secretary may know that Taiwan merchants manage to have dealings with and bargain with the government officials on the Mainland because they are united and they have established Taiwan Merchants Associations, but that is not the case with SMEs in Hong Kong. Some SMEs have set up companies in the Pearl River Delta but many SMEs of smaller scale were given the cold shoulder when they attempted to enter the mainland market. This is worth the Government's consideration.

My response to the amendments proposed by several Honourable colleagues is similar to those made by Honourable colleagues who have already spoken. I do not support Mr James TO's amendment because he has deleted the credit easing arrangements badly needed by SMEs.

There is no problem with Mr WONG Ting-kwong's amendment because he is not asking the National People's Congress to amend or revoke the Labour Contract Law; he is only requesting holding over the implementation of certain provisions. We all know that many provisions of the Labour Contract Law have created problems for SMEs in Hong Kong and mainland SMEs, as well as large mainland enterprises. For example, the restrictions on overtime work and the arrangement for overtime pay have made SMEs in Hong Kong ..... Hong Kong SMEs on the Mainland are engaged not only in the manufacturing industry; some of them are engaged in software outsourcing. They have to work around the clock seven days a week and they carry out data input such as coding and inputting at night after they have received orders including insurance and health care documents from Europe and the United States. This provision on overtime work has given them a hard time. Another factor for consideration is the appreciation of Renminbi.

Certainly, the implementation of a number of legislation in a hurry in the first half of the year has affected our SMEs. For example, the mainland authorities have implemented the legislation on environmental protection and abolished the drawback arrangements for the processing and assembly enterprises, and adjustments are being made now. Thus, it would be fine for us to discuss the matter with the mainland authorities to find out whether it would hold over the implementation of certain provisions of the Labour Contract Law.

I so submit. I support the original motion of Mr Vincent FANG and the amendments proposed by a few Honourable colleagues except the amendment of Mr James TO. Thank you, President.

**MR CHIM PUI-CHUNG** (in Cantonese): President, Hong Kong enterprises are, in theory, small and medium enterprises (SMEs) which basically have an intimate relation with members of the public and the community. We should understand



that factors affecting the operation of the SMEs are, first, rentals; second, wages; third, transportation; fourth, facilities of a company; fifth, product sales; sixth, entrepreneurship of the owner of the SMEs, and seventh, capital.

Seeing that a number of Members often mention capital, so just now I have stated the factors affecting the conditions of survival of a business, an industry or a factory. Is it the present financial tsunami that has caused the temporary shortage of capital and hence given rise to the need for financial assistance? If this is the case, concrete figures must be provided to justify how long financial assistance would be required. Perhaps short-term loans for, say, three months, six months or even a year are required. If the period is as long as 10 years, we should not attribute this to the present financial tsunami, for the SMEs actually have a long-term need for capital.

Therefore, being the Government, it should undeniably have foresight in enabling the balanced development of SMEs in all respects. Nonetheless, as a common Chinese saying goes, "It is difficult for us to take care of those in poverty for a prolonged period of time". If the business itself is outdated and beyond cure, financial assistance is unnecessary. We must understand that the Government is using public money, and it should therefore be spent effectively. Regardless of what dosage is used, it can be considered effective only if the disease is cured. I am not being cold-blooded as to think that appropriate government action is not necessary, but as Legislative Council Members, we must have an overall view of the situation before urging the Government to take actions to facilitate social development.

President, as I am a representative of the financial services sector, I am obliged to tell the Government the predicament faced by the financial services sector. As we all know, the existing Hong Kong Stock Exchange is the product of a merger of the four stock exchanges in 1986. As a result of the listing and securitization of the Hong Kong Exchanges and Clearing Limited (HKEx) in 2000, the Government hoped to develop Hong Kong into an international financial centre. In that circumstance, a number of businesses were introduced and even liberalized to allow competition from major world-class financial institutions. We understand that local stock brokers only engaged in small-scale operation in the past, so how could they have the financial power, facilities and technology to compete with others? According to the publication of the HKEx, the market share of Category C brokers (local small and medium brokers) is only about 8%. Subsequent to this latest direct blow, they are now left with little

room of survival. Certainly, they will not close down at once as they still have some influence. What is more, they have already prepared for the rainy days. Nonetheless, the Government must take care of the industry and its future development as it has over 20 000 employees. It is absolutely necessary for the Government to pay attention to the blows they may suffer in the future.

What preparations should be made for the rainy days then? First of all, we know that the HKEx and the Securities and Futures Commission (SFC) will receive a fee from the levy on transactions. In this connection, the Government has reduced it from 0.005% to 0.004% a year ago, which means a 0.4% surcharge. In fact, the Government has already signed a contract with the SFC. Should the SFC have reserve, it would reduce the relevant levy. This is the first thing that the Government should do right away.

Secondly, insofar as licence fee is concerned, given that the SFC has a surplus, a reduction of licence fee is absolutely necessary in view of the pressure borne by members of the trade. Thirdly, if any new company goes public in Hong Kong in the future, 30% of its shares must be set aside for distribution by local Chinese brokers so as to enhance their room of survival. And despite Mr Donald TSANG undertaking to abolish the stamp duty in his office as the Financial Secretary, it is downright impossible to raise this proposal again at this moment. No matter what, in the existing environment, we consider it absolutely necessary for the Government to look after the financial services sector, particularly the room of survival of the local Chinese brokers. So doing is all too reasonable.

**MR PAUL CHAN** (in Cantonese): In the past two weeks, motion debates of the Legislative Council's have been revolving around the theme of the financial tsunami and ways to help all sectors or trades. Although not all of them are focused on the small and medium enterprises (SMEs), their contents are more or less related to how the Government should strengthen its support to SMEs.

This past Monday, the SAR Government announced further measures to support SMEs, including the launching of a \$10 billion Special Loan Guarantee Scheme to ease the financing difficulties of SMEs, so that each SMEs may obtain

\$500,000 as a revolving credit line. The Government also announced that it would provide 70% guarantee for loans, and the repayment period would be as long as two years.

I remember that in last month's Finance Committee (FC) meeting, I told the Government that, at present, the biggest challenge for SMEs was cash flow, but after obtaining a loan, they have to repay the principal and interest. I have asked the Government whether, at these extraordinary times, it should urge banks to consider the possibility of allowing SMEs to repay the interest but not the principal for the time being, so as to alleviate the liquidity pressure on SMEs and help them to tide over the difficulties. I have also requested the Hong Kong Monetary Authority (HKMA) to conduct random checks during on-site inspections of banks, in order to find out whether banks have forced SMEs to use the money borrowed under guarantee by the Government to repay any original loan owed to the bank.

I am glad to hear in the Government's Monday announcement that SMEs would be allowed to repay the principal six months after the loan was secured, and during that interim, they might repay interest only. In the paper submitted by the HKMA yesterday, the HKMA also agreed that it would conduct random checks during regular on-site inspections of banks. Nevertheless, I think the most important thing is still the attitude of these banks. I hope the Government and the HKMA will continue to urge and monitor banks, just as I said in the Finance Committee that if banks cannot give reasonable explanations or justifications for delaying the settlement of payments to SMEs from credit cards repayments, the HKMA should take action or even issue warnings.

One can also see from yesterday's papers provided by the authorities that, in terms of industry categorization, 78% of the loan applications under the Special Loan Guarantee Scheme loans are made by SMEs from the manufacturing sector. In other words, the proportion of the service sector only accounts for 22%, which can be described as critically low, and it is entirely detached from the existing industrial structure of Hong Kong. If we look at the types of loans, we can see that the guarantee for business installations and equipment loans accounts for 87.9%. In other words, the percentage of liquidity SMEs can borrow is only 12%. I hope the authorities and the HKMA will closely monitor the situation to ensure that banks will not put too much emphasis on business installations and equipment loans, instead, they should be bold enough to provide loans to SMEs so that SMEs can get the liquidity to tide over the difficult times.

I hope the Government can submit documents to the Finance Committee expeditiously and respond to questions raised by Members of the Panel on Commerce and Industry yesterday as soon as possible, so that Members can deal with these urgent matters speedily by endorsing the funding request. Granting this, the SMEs can tide over the imminent cold winter as well as the critical and difficult year-end situation.

With regard to the original motion of Liberal Party's Mr Vincent FANG and amendments of the Democratic Party's Mr James TO, the Civic Party's Miss Tanya CHAN, the DAB's WONG Ting-kwong, as well as Mr Jeffery LAM, I agree with most of them.

However, President, just as I said in last week's motion debate on "preventing the lower and middle classes from being trapped in hardship amid the financial tsunami", I have reservations about holding over of provisional profits tax for one year, because this is not tax paid in advance; it is not tax prepaid for revenue they have not yet earned. The companies concerned have already earned the income, but technically speaking, it has not been assessed by the Inland Revenue Department, so it is only known provisional tax. Under the Inland Revenue Ordinance, there is already a mechanism which allows companies with earnings having dropped 10% from that of the previous year to apply for holding over, so I think that the across-the-board approach to hold over provisional tax is inappropriate. In addition, the financial difficulties Hong Kong is facing may last for more than one year, and they are likely to stay for two to three years. In that event, if these SMEs are required to make a one-off payment for these unpaid taxes accumulated over the years, it will be very difficult for them to make the payment. Besides, Hong Kong's major types of taxes are very limited, so we should first strike the right balance between any concession or holding over of tax and the overall government income.

However, given that Hong Kong economy has entered a recession, I think the Government should consider allowing SMEs with a specific level of income, say less than \$1 million, to pay tax in interest-free instalments. At the same time, it should streamline the procedures to prevent cumbersome and complicated red tape.

President, I so submit in support of the original motion and all the amendments.

**DR SAMSON TAM** (in Cantonese): President, after looking up the records, I found that in the past 10 years, four motion debates on assisting small and medium enterprises (SMEs) had been conducted in this Chamber. The first two debates were held in 1999 and 2001, that is, right after the financial turmoil, and then two more debates were proposed in 2003 and 2005 after the SARS outbreak. Today, Mr Vincent FANG's motion was proposed also because of the financial tsunami. In these four motion debates proposed in the past, a number of measures to support SMEs were suggested. I am glad some of them have been adopted by the Government. This time around, dozens of recommendations are made among the original motion and amendments. However, I would like to ask why SMEs have to bear the brunt, suffer the biggest blow, or even face the fate of closure every time when Hong Kong economy changes for the worse? Where exactly does the problem lie? Could we find an ultimate solution, so that we need not raise the same motion of supporting SMEs in the Legislative Council again and again in future? I do not know whether or not the authorities have the answers?

After all, SMEs should pursue stable and sustainable development, such that even in the face of difficulties, they can still have sufficient capability to resist. At the same time, I believe that whether the ecosystem of the entire sector is in good health is also a very crucial factor. A healthy enterprise ecosystem should be able to accommodate different enterprises, be it large, medium or small, and they can interact and co-exist. However, it seems that the present government policy tends to protect large enterprises and strangle the development of SMEs. I think the Government should conduct a comprehensive review of its existing policies. Especially in these extraordinary times, the Government should assume an extraordinary role to support SMEs by all means, so that they can tide over these difficulties this time around.

With the global economy deteriorating, the Hong Kong Trade Development Council has estimated that this year's export growth would drop from 7% to 5%, and negative growth would be registered next year, which means that SMEs would receive less orders. For this reason, the expansion of markets is a problem that must be addressed urgently besides the issue of corporate financing.

President, export orders of Hong Kong's SMEs mainly come from Europe and the United States, but the financial tsunami has the biggest impact on markets in Europe and the United States. Hence when these traditional and large export markets dwindle, the impact on Hong Kong is inevitable. To survive in times of adversity, we must help SMEs to find a way out. Then, where exactly is the way out?

Recently, the Central Government announced that it would make an investment of RMB 4,000 billion yuan in the next few years to stimulate and develop the economy and to boost domestic demand, and it also specifically stated that Hong Kong's SMEs were welcomed to enter the mainland market. On the one hand, the Central Government was giving special consideration to facilitate local SMEs; but on the other, what was the reaction of the SAR Government? What policies do the SAR Government have to help SMEs to enter the China market? What support would the Government give in the course of leading us to enter the China market? I hope the Government can really help SMEs to find a way out.

Lastly, I want to say that the SAR Government should have new thinking with regard to giving support to SMEs. In fact, apart from looking for capital and markets for SMEs, it should also help SMEs to increase their competitiveness. We often say that we have to move towards a new economy, and intellectual capital is one of topics of worldwide discussions currently. For that reason, the European Commission formed an expert group in 2004 to assist the transformation of SMEs within the European Union (EU) in the course of moving towards a new economy, in particular the application of intellectual capital to enhance their competitive edges. In March 2006, the expert group published a study report entitled "Reporting Intellectual Capital to Augment Research, Development and Innovation in SMEs"(RICARDIS). RICARDIS describes how SMEs should make use of intellectual capital in value creation, and to make such efforts in product enhancement, brand building, market innovation, as well as the attraction of investors and talents. Since the traditional accounting model on financial capital cannot fully reflect the full value of enterprises, the EU has to teach these enterprises to examine and use their intellectual capital with a view to increasing their competitiveness. May I ask the Secretary whether he has heard of RICARDIS? Has the Secretary conducted any study on

RICARDIS? When will Hong Kong have a long-term policy to lead Hong Kong in various aspects, in particular in the transformation of SMEs, so as to enable Hong Kong to move towards a real knowledge-based economy?

President, I so submit.

**MR ALBERT CHAN** (in Cantonese): President, over the years, small and medium enterprises (SMEs) in Hong Kong have all along been ignored by the Government. Sometimes, they were even discriminated against and made targets of criticism. The establishment of SMEs in Hong Kong will face quite a number of hurdles. The applications for licences are basically very difficult, for they will take a long time to process, a cause of frequent complaints by the catering industry. Earlier on, I have made an application for a performance venue licence on behalf of a company. I have spent two years, but I have not yet been successful. Before the company can open business, it has already registered a loss in excess of \$10 million. These are the dire circumstances faced by local SMEs.

President, the number of SMEs is quite startling. SMEs in Hong Kong, by registration number, number at more than 265 000, and the number of people employed by these enterprises exceeds 1 210 000. These are the relevant figures. With regard to the industrial sector, it accounts for more than 90 000 people. The service industry accounts for more than 410 000 people, which involves businesses engaging in the import and export trade. The wholesale, retail and catering sectors account for more than 290 000 people. The financial, real estate and insurance sectors that we often talk about only account for 200 000 people, which is only one fifth of the total. However, very often, it appears as if the Government only works for these people, and it seems as if the existence of Hong Kong as a whole is only for the purpose of serving the financial and property sectors, but the number of people employed by them accounts for only 200 000 people. The number of companies are even less, only a little more than 50 000. I think that basically, they are controlled by those few large consortia. For that reason, the whole society, especially those tilted government policies, are only helping the corporations and large banks, to the neglect of SMEs.

We can see that after the outbreak of the financial tsunami, many shops have closed down. Some large chain stores have also closed down. President,

let us take a look at what the Government has done. When compared with other places, like our neighbour Macao, Macao's Chief Executive has just announced 10 measures to alleviate people's hardship, including a substantial tax cut, increased spending and giving away money (MOP\$ 5,000 per person). For two years in a row, the League of Social Democrats (LSD) has proposed that the Hong Kong Government should grant to the public \$5,000 per person, but the Government did not accept the proposal. Instead, Mr Edmund HO, has listened to the LSD's advice. He has given away money to the public twice. President, the LSD can well become a ruling party in Macao. Macao has put forth many innovative proposals, including the provision of interest subsidies and mortgage guarantee for first-time homebuyers. It has also set up large-scale social enterprises to employ unemployed workers directly. These are the ways employed by the Chief Executive of Macao to deal with their problems.

Yet our Government has "cut back on funding". When it has cash, it will give away cash to the people; and when it has no money, it will cut back on funding. Chief Executive, does the Government need your governance? When you have cash, you will give away cash, is that the best endeavour you can ever make? Even the offering of cash was in a terrible mess, giving rise to popular discontent. In terms of the history of governance, this is really beyond compare. On the contrary, given the economic downturn and the financial tsunami, the Government does not have any new measures to stimulate the economy with substantial financial expenditure.

We can see that in 1989, there was a political confidence crisis. At that time, David WILSON announced the launching of 10 core projects. They were announced in the midst of a political confidence crisis and economic turmoil. Now, the Hong Kong Government has scraped together 10 projects, and they were announced last year when Hong Kong still had a surplus of few hundred billion dollar surplus. Up to the time after the financial tsunami had emerged, no new measures could be seen, and the only measure was an increase of the "fruit grant" by \$300, subsequent to the throwing of bananas. Therefore, all the policies of the Government, when compared with those of our neighbouring regions, such as our motherland and Macao, are extremely deplorable.

SMEs are now facing three major problems. The first is monopolization, the second is rent, and the third is the issue of loans. The rent issue has been discussed for so many times, and after the Government had sold the assets to The



Link REIT, the situation of SMEs became even worse. Yesterday, The Link admitted that rents for commercial tenants had increased 30%, 30%, and it has no intention to lower the rents. A large number of shops and the operation of shops in districts where more than 2 million public rental housing (PRH) tenants are living are involved in this case. Moreover, the number of unemployed among PRH tenants has increased because many of them are SME operators who are facing many dire circumstances. It could be said that the difficulties faced by SME shop operators in The Link REIT's premises have been doubled, just like catching a cold on bitter winter days, which is most unbearable to them. Under such circumstances, since the Government simply has no solution to deal with the rent issue, the SMEs really have nowhere to turn for help.

In addition, due to monopolization, we have been talking about an anti-trust law for quite a long time, but the Government has yet tabled anything to the Legislative Council for debate, allowing the problem of monopolization to continue to plague Hong Kong. After The Link REIT had obtained the divested retail facilities, it rented them out to large supermarket chains which are controlled by big consortia. Now there are no small-scale drug stores and other shops have disappeared, so these supermarket chains have strengthened their monopolization, plunging the SMEs into a bitter cold winter.

There is also the issue of loans. The so-called loan guarantee policy in Hong Kong is a far cry from that in Macao. Recently, I have received many complaints from the public about the fact that banks' debt recovery activities are getting worse. These debt recovery activities have not been relaxed in the light of the financial tsunami and along the line of tiding over the difficulties together.

Therefore, President, in such circumstances, if the Hong Kong Government continues to rigidly ..... today, unfortunately the Administration has sent a new Deputy Secretary to respond, I do not know what he will say. Traditionally, the entire bureaucratic system and the administration are run by rigid bureaucrats, who lack the creativity and demeanour of a politician. If this situation persists, President, (*The buzzer sounded*) ..... Hong Kong will only be led into a cul-de-sac. Thank you, President.

**MR WONG YUK-MAN** (in Cantonese): President, my fellow partisan has already finished his speech, now it is my turn to speak.

Many of the amendments have proposed a number of specific measures to assist the small and medium enterprises (SMEs). In fact, whenever a financial crisis strikes the Asian region, various Asian governments will propose specific measures to assist their SMEs. The Hong Kong Government always talks about "big market, small government" and the least possible government intervention. If someone is going to hang himself, it will at most give you a rope, and it is already the biggest help. The so-called credit guarantee scheme is a similar measure, the last straw that kills you.

Just now, when I was listening to the speeches delivered by a number of Members, I thought of Dr SUN Yat-sen. Yesterday was the 143rd birthday anniversary of Dr SUN Yat-sen. Dr SUN Yat-sen had never thought of starting a revolution in his twenties, his was only hoping for reform, therefore he wrote a letter to LI Hongzhang — which can be found in libraries — "Address to Li Hongzhang, 1894." I think 16 words in his letter are worthy food for thought for the SAR Government in the face of this economic or governance crisis, because these 16 words still have significance in this era. Dr SUN Yat-sen said: "make the best use of people, geographical advantages and everything, allow the free flow of goods"; these four doctrines form the major veins and arteries of a country. As long these four guidelines are adhered to, a country will certainly perform well.

With regard to making the best use of people, if we push Dr SUN Yat-sen's meaning to a higher level, of course it was referring to education. President, we now substitute SMEs into the equation, then the Government should think about whether it has trained the people necessary to support the SMEs? People are very important, we must make the best use of them.

As to making the most of geographical advantages, then it is a major problem because rent is the most expensive cost, as Mr CHIM Pui-chung has commented on that just now, right? The biggest burden for SMEs is high land premium and exorbitant rents. In Mong Kok, the rent for ground floor shop of a few hundred square feet in area can be nearly a hundred thousand dollars. Let us take a look at Central, the rent of a shop which sells luxury watches is nearly \$1 million, which is definitely higher than the salaries of the staff, right? How many luxury watches should be sold in order to cover the \$1 million rent? How

many people here can afford that? I assume the shop has to hire five employees, and even if the monthly salary of each of them is as high as \$100,000, that only accounts for a monthly expenditure of \$500,000. Besides, it is impossible for an ordinary staff to earn a monthly salary of \$100,000, right? Rents are much higher than salaries, how can they do business? For that reason, we can see that the high land premium issue is a deadly blow to SMEs.

Today the Secretary for the Environment said in this Chamber that there was room for a downward adjustment of oil prices, and it would then be reported by newspapers and television stations — but what good does it do? He said there was room for a downward adjustment, but has it been dealt with? He has just told us that he would see what he can do. It is very clear that the oil companies are engaging in "price cheating", they are acting stealthily and abusing the system. Have the oil prices ever fluctuated in such a large magnitude within a short period of time like that? Oil prices were as high as US\$140, US\$150 per barrel, but now they are just a little more than US\$50. What has the Government done? This is only a very simple example.

The Government cannot make the best use of people, nor can it make the most of the geographical advantage, because of high land premium, then how can it make the most of the geographical advantage? The geographical advantage only benefits the developers. Make the best use of everything is the most ridiculous thing. Let us all think about it, because my speaking time is limited. What I want to say is that Mr Albert CHAN just now mentioned our neighbouring regions, we really have a capable neighbour. I think Mr Edmund HO is really a capable person, he therefore can accomplish the legislation on Article 23, now we people cannot set foot on his soil, as the legislation will certainly be passed. He has made achievements which are indisputable, because he has really given away money to the people, making the people feel comfortable.

I consider the statement made by Mr Edmund HO at a press conference most "amusing": "In difficult times, the most important point is to preserve one's vital energy" — that is, to keep the arms and legs intact, if one usually has four or five meals a day, he will now have only three to four meals a day, losing weight is no problem at all, as the most important thing is to keep the arms and legs intact, if one has lost one or two fingers or toes, even if there are pieces of gold scattered at the roadside a few years later, that person will not be able to pick them up. What is the figurative meaning of arms and legs? Figuratively, they are SMEs, people have to keep their arms and legs intact and should avoid losing

a single finger or toe. People who have had their fingers or toes broken know very well that a person will have some problems in picking up anything without a finger. Although it looks as if it is no big deal at all, the fingers and toes ..... Has Mr Gregory SO ever broken a finger or toe of his own, should he try to see whether or not he has to limp around with a broken toe?

I think this guy is really persuasive, but our Chief Executive was just silently enduring all the reprimands, doing nothing at all. Every time when there is something wrong, he will simply back out. He has already backed out on several occasions; he has backed out of the fruit grant proposal, and he has backed out of the proposal on the levy on foreign domestic helpers after being bluffed by Mrs Regina IP. However, he will not let Mrs Regina IP profit from that, he will only let DAB profit from that ..... now only you are left? Am I not allowed to say that? President, am I not allowed to say it? I beg your pardon.

Both are SAR Governments, but upon comparison, one will be able to see the difference between the two sides, especially their attitude towards SMEs. Some people may say that they are not the same, for the scale of Macao is much smaller than Hong Kong, that they only have a population of several hundreds of thousands of people and we have 7 million people, but it should not be put that way. Therefore, our Chief Executive and the Chief Executive of Macao ..... in fact, in those years when TUNG Chee-hwa was Hong Kong's Chief Executive, we had urged both sides to swap between "Brother Hwa" and "Brother Wah", and see if the circumstances would change, right? What the Government has been doing now is to save the market without rescuing the people — this is a frequent slogan of "Long Hair" — I also find it very interesting: "to save the market without rescuing the people, shame on you." How could it not rescue the people?

At the end of my speech, one or two very important proposals are raised by the League of Social Democrats. Regarding The Link REIT, I really want to speak foul. Under the present circumstances, it has been increasing the rents shamelessly. It is simple. When the Government sold to The Link REIT shopping malls and car parks in public rental housing (PRH) estates and drive a lot of the so-called SMEs operating in those PRH estates to an impasse (*The buzzer sounded*) .....

**PRESIDENT** (in Cantonese): Mr WONG Yuk-man, your speaking time is up. Please sit down.

(Mr WONG Yuk-man kept standing)

**PRESIDENT** (in Cantonese): Please sit down.

**MR WONG YUK-MAN** (in Cantonese): My speaking time is up?

**PRESIDENT** (in Cantonese): Your speaking time is up. Please sit down.

(Mr WONG Yuk-man sat down)

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

**MR ALBERT HO** (in Cantonese): President, today, a number of my colleagues have raised abundant views on the subject of helping small and medium enterprises (SMEs), and they have made a lot of specific suggestions. I will not reiterate my support for these various proposals. I just want to talk about one point, which is also the point the Democratic Party wishes to make in particular about Mr WONG Ting-kwong's amendment on "reflecting to the mainland Government to urge ..... hold over the implementation of certain provisions of the Labour Contract Law."

Whenever there are financial difficulties, just like the previous Asian financial turmoil and the SARS outbreak, some people in the industry, especially the business people, would ask us to hold over the implementation of some policies which have been implemented all along, like holding over contributions under Mandatory Provident Fund schemes. According to this logic, later on, some people will suggest that we should suspend the implementation of the minimum wage or to discontinue the legislation on competition. With regard to these proposals, we find them simply unacceptable. These policies and systems are proposed for the long-term stability of a place. We should not implement some so-called stop-gap measures as a result of transient economic upturn or

downturn or when the pace of economic growth fluctuates, with a view to bringing these long-standing policies to a halt, or holding them over, not implementing them, or even shelving them. All of these should not be measures adopted by a society or a far-sighted administrator.

Of course, the power rests with the mainland authorities, but we feel that it should not be proposed in this way. As we all know, the Labour Contract Law has gone through prolonged discussions on the Mainland, and many scholars and experts who are concerned about the working class on the Mainland have been exhausting every effort to champion for it, and many advocates of human rights have ended up in prison. Then, since the government is willing to implement it now, why should we hold it over?

At present, the biggest problem on the Mainland is — we can see a sustained momentum in economic growth over a rather long period of time at 8% to 9%, or even a double-digit growth — the disparity of wealth. Many grass-roots workers are unable to share the fruits of the country's economic development. In this regard, we need to exert more efforts, so that the working class in society can lead a more secured life. Frankly speaking, the proposal was made in the hope of maintaining social stability. If there were people who really want to engineer a revolution, they would wish that the more chaotic the government the better, then they can seize the opportunity to start the guerrilla warfare. However, as we all know, we hope our country can develop in a steady manner. If we are so short-sighted as to suppress the rights of the workers with a view to buying some time for those business operators, it is absolutely a witless and short-sighted move.

The State has adopted different attitudes towards two international conventions. The National People's Congress swiftly ratified the International Covenant on Economic, Social and Cultural Rights (ICESCR) soon after the initial signing, but the International Covenant on Civil and Political Rights (ICCPR), having been signed for 10 years, has not yet been ratified to date. It is because they know that there is a huge gap between the expectations of the international community and the actual implementation of human rights or civil rights requirements in China, therefore they do not have the courage to ratify the ICCPR. There will definitely be a lot of questions remain unanswered once it is ratified. However, it feels relatively confident in complying with the provisions of ICESCR. Insofar as the equality between men and women and many social

and economic rights are concerned, we can see that the Central Government has exerted the best possible efforts, even though there is still a big gap to people like us who have greater expectations.

The Labour Contract Law is a significant progress. Next time when a report on ICESCR is submitted again, if the Central Government is questioned, this will be a concrete and important policy in the interest of Chinese workers. If we ask the mainland authorities to hold over the implementation of the particular law, in fact, it will only do harm which will make the delegation of the Central Government open to questions, rebuttal and strongly criticisms.

In conclusion, I feel that the Government should definitely exert more efforts to assist SMEs in difficulties, but it should not target on those workers who have been toiling hard to make their hard-earned money. We consider that we should support the State in implementing the Labour Contract Law. For this reason, the Democratic Party opposes Mr WONG Ting-kwong's amendment.

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

(No Member indicated a wish to speak)

**PRESIDENT** (in Cantonese): Mr Vincent FANG, you may now speak on the amendments. You may speak up to five minutes.

**MR VINCENT FANG** (in Cantonese): President, four Members have moved amendments to my motion. I have some opinions about three of the amendments, but in the interest of the overall situation, and Hong Kong's sustained economic development and social stability, so that Hong Kong's SMEs may continue to make a decent living through self-reliance, the Liberal Party will therefore support all but the amendment moved by Mr James TO.

I told some small business operators the day before yesterday that Mr TO had proposed to delete items (d), (e) and (f) of my motion, they asked, "How well

does Mr TO know about the situation of the industrial and commercial sectors?" As those eligible bidders for government contracts are definitely not small businesses, the number of medium-sized enterprises is equally scarce.

Perhaps the Democratic Party is concerned that SMEs may use the money of taxpayers to fill up the debt abyss. However, these SMEs are also taxpayers and employers, so if they are unable to tide over the difficulties this time around and resulting in massive wind-ups, the employment market as well as government revenue would be significantly affected. Mr TO's amendment is blind to the deteriorating global recession and the difficulties faced by grass-roots businesses.

I do not mind Mr TO's proposed deletion of my proposal, but I hope that he will be able to put forward more effective proposals which are useful and constructive in providing support to SMEs. Therefore, we oppose this amendment.

With regard to Miss Tanya CHAN's suggestion of including some recuperating measures for consolidation purpose, the Liberal Party agrees with her proposal. But since the mainland authorities, including the Central Government and local governments have introduced various measures, I therefore only raised the part that the Hong Kong Government has overlooked.

With regard to the amendments by Mr WONG Ting-kwong and Mr Jeffrey LAM, by sheer coincidence, both of them proposed to delete three items proposed by me, including "and in particular, for those non-exporting local consumption industries not supported by government policy", "which primarily aim at supporting export enterprises" in item (b) as well as "local sales enterprises" in item (f). I find it very strange because, for one thing, the Government has not been supporting local consumption industries over the years, which is an undisputed fact. And for another, although Mr WONG represents the import and export sector, many of my constituents are also members of his trade union, and coincidentally, they have asked me to put forward this request to the Government.

As to the request on the Government to provide 100% credit guarantee, the Liberal Party has also made the same proposal in the past, but unfortunately, our power and influence is weak. With the DAB's support this time around, I believe the Government will consider the proposal more assiduously.



Mr LAM represents the Hong Kong General Chamber of Commerce, many members of which are oriented towards the domestic market, so in case more SMEs engaging in local consumption business wind up, I believe it will do more harm than good to the demand for electricity and the property market.

However, I am glad to note Mr LAM's amendment proposing to extend the insurance coverage of the Hong Kong Export Credit Insurance Corporation (ECIC) to include non-export loans, so that we suppliers can also benefit. Since Mr LAM is the Chairman of the Board of ECIC, perhaps it was a piece of good news broken in advance.

As I said earlier, the Liberal Party hopes to show its consideration for the overall situation, therefore I hope that all the Members present will support my motion on the premise of ensuring Hong Kong's social stability and economic development. Thank you, President.

**SECRETARY FOR COMMERCE AND ECONOMIC DEVELOPMENT** (in Cantonese): President, I am glad and grateful to Members for their valuable views on how to further support small and medium enterprises (SMEs). The Government, the Legislative Council and the industry are very much concerned about their current situation. We hope to continue to co-operate with Members and the industry in proactively meeting the challenges posed by the financial tsunami.

In order to closely monitor the impact of the financial tsunami and global economic slowdown on Hong Kong and put forward concrete measures to turn crisis into opportunities, the Task Force on Economic Challenges chaired by the Chief Executive convened its first meeting on the 3rd of this month to discuss in detail the global economic situation and its possible impact on our economy. Measures for addressing the challenges faced by SMEs will also be proposed for the consideration of the Government and the industry. Besides, the Task Force agreed that it is imperative to relieve the impact of credit crunch on the business sector and the retail industry so as to explore new business opportunities and upgrade Hong Kong's competitiveness.

The Special Loan Guarantee Scheme for SMEs proposed by us can help provide a credit amount of up to \$10 billion to SMEs. Under the provision of 70% guarantee by the Government and the allowance of a revolving credit line,

we believe the Scheme will serve as a positive incentive to banks, thus making loan approval more flexible. As I said earlier, we are grateful to the Legislative Council Finance Committee for convening a special meeting tomorrow afternoon. Subject to the endorsement of our proposal, we will enter into contracts with banks expeditiously so that the Scheme can be implemented as soon as possible. I invited Mr Ronny TONG's friend, an entrepreneur, to re-apply for a loan upon implementation of the Scheme. However, his application was rejected possibly because the Scheme had yet to be endorsed by the Finance Committee when his application was submitted. Mr WONG Ting-kwong mentioned the credit guarantee scheme for industries affected by the SARS outbreak in 2003. I would like to point out that the measure was meant only to assist four industries most affected by SARS and the applicants should prove that their business in that period had dropped by at least 30%. At the beginning of the scheme, the loan must be used for paying staff salaries and was allowed to cover other operating expenses such as rentals only at a later stage. There are no such restrictions in the Special Loan Guarantee Scheme for SMEs proposed by us now. Regarding Mr Vincent FANG's mention of the Government's guarantee for trust receipts and accounts receivables, we believe the revolving credit arrangements under the Special Loan Guarantee Scheme can take care of such need in this aspect and provide greater flexibility to the industry. Regarding Ms Miriam LAU's proposal that the definition of SMEs be broadened, I would like to emphasize that the current definition by the Government has been widely accepted and covers 98% of the enterprises in Hong Kong.

As far as banks are concerned, the Administration will continue to maintain close communication with them and provide liquidity to the banking system if necessary so as to ensure that they will continue to play the role as money lenders and help maintain the normal operation of SMEs.

The Hong Kong Monetary Authority (HKMA) issued a circular on 29 October urging banks to support their SME customers and help them tide over the current financial crisis. In its circular, the HKMA pointed out that authorized institutions (including banks) should be accommodative and flexible in handling SMEs' loan applications while in strict adherence to the principle of prudent risk assessment. Authorized institutions should vet and approve their SME customers' loan applications in the light of their specific situations and should refrain from any hasty and indiscriminate tightening of credit to SMEs. Any tightening of credit to an SME customer should, as far as practicable, be considered on a selective basis. In other words, credit facilities should be

reviewed in the light of the customers' credit position and credit to SMEs should not be tightened across the board within the same industry or sector. The HKMA will, if necessary, look into actions taken by authorized institutions in order to review whether such actions are reasonable and meet the actual needs. If banks are found to have tightened credit for SMEs indiscriminately, the HKMA will discuss with them their credit policies and urge them to make revision where appropriate.

In its circular, the HKMA also pointed out that if the authorized institutions consider it necessary to curtail credit to their existing SME customers, they should explain the grounds clearly to their customers and discuss with them whether there are any other feasible ways to address their credit concerns or concerns in other aspects. Authorized institutions should revise credit to their customers gradually so as to minimize as far as feasible the immediate impact on their SME customers.

As we all know, the HKMA circular is well received by the banking sector. After the issuance of the circular, the HKMA discussed with some authorized institutions on SME loans and was told that SMEs' loan applications would be assessed on their merits. An authorized institution which has earlier extended the credit card settlement period for making payment to individual retailers has also shortened such period from 60 days to 14 days. Several other authorized institutions have also indicated their willingness to negotiate with the affected merchants.

To ensure that the banking system has sufficient liquidity, the HKMA announced that five temporary measures would be implemented from 2 October until the end of March 2009 in order to provide liquidity support to licensed banks in Hong Kong. On 14 October, the Financial Secretary also announced that through the contingent bank capital facility, additional capital would be provided to banks if needed (effective until the end of 2010). On 6 November, the HKMA introduced two further refinements whereby the maximum tenure of term lending against collateral will be extended from one month to three months and the applicable interest rate will also be lowered in order to further relieve the pressure faced by the interbank market, thus creating an easier credit condition to various sectors.

Both Mr Jeffrey LAM and Mr Andrew LEUNG hold that the Government should follow the approach of foreign countries whereby the Government injects funds into banks and designates such funds as loans for enterprises. In fact, governments of various countries will determine the form and terms of fund

injection after fully considering the financial position of their banks or financial institutions and their own economic conditions. In Hong Kong, our banking system is very sound and the banks' capital adequacy ratios are well above international standards. So far, no banks have requested fund injection from the Government. Besides, the HKMA launched a Contingent Bank Capital Facility on 4 October for the purpose of providing additional capital to locally incorporated banks should this become necessary.

Regarding the Hong Kong Export Credit Insurance Corporation (ECIC), I already introduced their new support measures in my first speech. Under such measures, more protection will be provided to exporters, in particular, the cover will be increased on the premise of not compromising prudent risk management, and the applications for small credit limits will be processed expeditiously in a flexible manner. I would also like to point out that apart from providing insurance cover for credit risks associated with exports to overseas buyers, the ECIC also provides insurance cover to local suppliers or manufacturers for risks associated with supplies to local exporters and credit risk. Recently, we have come to realize that many shop operators do not know the provision of such service. So we have asked the ECIC to step up publicity so that the take-up rate can be increased.

With regard to the proposal that the insurance coverage of the ECIC be extended to include local sales enterprises and loans be provided to non-exporting trades, we opine that careful study is necessary and implementation at this stage is not appropriate mainly because such business is entirely different from that being currently carried out by the ECIC which does not have the expertise and manpower required to take up the task in this respect.

We are of the view that the ECIC should now concentrate its resources on its fundamental business, that is, to support Hong Kong's exports. It should implement the foregoing new measures and exert its utmost to help Hong Kong's export enterprises, SMEs in particular, so that they can maintain their business and continue to develop overseas markets.

Some Members mentioned that more support should be provided to SMEs. In fact, our Trade and Industry Department (TID) has set up a Support and Consultation Centre for SMEs (Consultation Centre), providing free consultation and information services for them.

In respect of advisory services, the Consultation Centre is now launching the "Meet-the-Advisors" Business Advisory Service, which will allow people with rich business experience and experts from all trades to provide SMEs with free guidance and counselling on a one-to-one basis in order to help them solve operational problems. Under the "Meet-the-Advisors" Business Advisory Service, consultancy services in 24 areas, such as legal services, marketing and financial accounting will be provided. SMEs in need are encouraged to make good use of this service platform and consult relevant experts in respect of finance and fund raising. Or they may listen to expert advice in respect of product quality enhancement and innovation as proposed by Mrs Regina IP.

The Government understands that SMEs are facing a lot of difficulties amid the financial crisis. Many of them may need to acquire some practical knowledge and skills for survival in adversities. In this regard, the Consultation Centre will hold more seminars and workshops with SMEs in the future so as to explore business strategies and skills of survival in adversities such as looking for new business opportunities, opening up emerging markets, risk management, financial management, and so on.

Miss Tanya CHAN has proposed a further extension of the scope of assistance provided under the SME Export Marketing Fund. In fact, the SME Export Marketing Fund has introduced enhancement measures in March and November this year respectively, including the extension of funding from the original exhibitions and study tours to advertisements on exports promoting publications and websites of exhibition organizers. These enhancement measures will facilitate more flexible use of funds to tie in with SMEs' marketing strategies.

As reflected by the figures, such enhancement measures are welcomed by the industry. Since the introduction of these measures in March 2008, the average weekly number of applications received by the TID has increased from 180 to 324, representing a nearly 100% increase. The average weekly amount of approved funding has also increased from \$2.65 million to \$3.61 million, representing an increase of 36%.

Since the introduction of new measures by the SME Export Marketing Fund on the 3rd of this month, the applications received by the TID has reached a record-breaking number of 695 in the first week, almost four times the number in the corresponding period last year. We consider that the current scope of funding can meet the market needs.

Regarding the operational difficulties of Hong Kong businesses in the Mainland, Members indicated their utmost concern just now. The SAR Government has all along maintained close contact with the relevant ministries and commissions of the Central Government and various provincial and municipal governments to reflect the difficulties and concerns of Hong Kong businessmen and examine measures to assist Hong Kong-funded enterprises. For example, after considering our recommendations, the Mainland has temporarily put on hold individual measures and increased the export tax rebate rates of some 3 000 commodities. Moreover, in order to assist SMEs in the face of credit crunch, the Central Authorities have announced a \$1.8 billion exclusive credit guarantee for SMEs (including Hong Kong-funded SMEs in the Mainland). Hong Kong-funded SMEs in the Mainland will also be covered by the measure as long as the relevant conditions are met. On the other hand, individual provinces and municipalities such as Guangdong and Dongguan have also introduced support measures including concession and waiver of administrative levies, establishment of special funds, enhanced facilitation in customs clearance and provision of one-stop service for industrial upgrading and restructuring, with a view to reducing the operating costs of enterprises and helping them raise funds. The SAR Government will continue to strengthen communication with the mainland authorities at various levels through different channels to provide appropriate assistance to the Hong Kong businesses, SMEs in particular, in face of the prevailing economic environment.

Regarding the holding over of payment of provisional profits tax, the Inland Revenue Ordinance has provisions that allow flexible arrangement to cater for changes in taxpayers' income. If a taxpayer estimates that his/her income or profits for the current year would be less than 90% of that of the previous year, he/she may, within 28 days before the due date for tax payment, apply to the Inland Revenue Department to hold over all or part of the provisional tax. If an individual taxpayer is unable to pay tax on time due to financial difficulties, he/she may also apply to the Department for paying tax in instalment.

I also understand that rental is a relatively significant operating cost for SMEs. Currently, the overall rental policy for public markets, shopping malls and shops owned by the Government is to charge tenants according to the open market rental. However, in respect of markets managed by the Food and Environmental Hygiene Department, the rentals of stalls have been frozen since the rental reduction of 30% in 1998 in response to the economic downturn, and

the rentals have been maintained at the current levels ever since. In April this year, the Government announced the extension of rental freeze for one year to 30 June 2009. Subsequently, the current market stall rentals are generally lower than the open market level.

In respect of hawker licence fees and rentals for government wholesale food markets, they are determined on a cost recovery basis under the current policy. There has been no adjustment to the hawker licence fee since 1998 and the Government is currently unable to achieve full-cost recovery for licensing. The rentals of government wholesale food markets are based on the costs calculated every two years. Taking into account the views of the trade earlier, the Government has announced a one-month waiver of rentals for 2008 and 2009 respectively. The rental levels after adjustment are still slightly lower than that in 2002-2003.

The Government understands the requests of Members and the trade in respect of government rentals and other charges. The Government will continue to monitor the business environment of all sectors and review the rental and fee charging policy if necessary.

Ms Miriam LAU has proposed that the Individual Visits Scheme be further expanded so as to attract more mainland tourists to spend money in Hong Kong. The Individual Visits Scheme has so far covered 49 mainland cities through gradual expansion since its implementation five years ago and the total number of visitors under the scheme has exceeded 32 million as at September this year. The proportion of mainland visitors with visa under the Individual Visits Scheme visiting Hong Kong has also increased year on year, reaching 57%. The Government will exchange views with the relevant mainland authorities on the implementation and expansion of the Scheme and will continue to make efforts in this regard.

I would like to respond to Dr LAM Tai-fai's comment that it is too stringent to require the proprietor or major shareholder of an SME applying for a loan under the Special Loan Guarantee Scheme for SMEs to provide personal guarantee. My response is that as the percentage of guarantee provided by the Government has increased, we consider it necessary to put in place adequate safeguards to ensure that only SMEs in genuine need and with reasonable business prospects can benefit from the proposed scheme, and they should also be committed to their business. The banks' representatives, in our exchange of

views, indicated that the provision of personal guarantee, as a normal condition for granting credit and a relevant factor in determining credit risk and interest rate, will usually not be opposed by SMEs. Members of the SMEs Committee have also indicated that the personal guarantee requirement is acceptable.

Mr James TO mentioned that the Government should draw up a performance pledge to streamline the payment procedures of various government departments so that payment to SME contractors can be completed within 30 days on receipt of invoices. Currently, contractors or suppliers of goods and services for various government departments must be paid through the Treasury. According to the Treasury's current performance pledge, 98% of the payments will be made within 30 days upon receipt of goods/provision of services or receipt of invoices. In 2006-2007, 99% of its payments were made within 30 days upon receipt of goods/provision of services or receipt of invoices.

Mr James TO also requested that the term requiring SMEs bidding for government contracts to pay deposits be revoked. According to the Government's Stores and Procurement Regulations, contract bidders are usually not required to pay a tender deposit. However, government departments may, in such cases as inviting tenders for revenue contracts, require that a deposit be paid by bidders as they think fit in order to avoid arbitrary withdrawal of offers.

President, Members have raised a lot of proposals in support of SMEs today. As I mentioned in my opening speech, these proposals will be referred to and considered by the relevant bureaux, as well as the inter-departmental meeting chaired by the Financial Secretary. In the light of actual circumstances, the Government will continue to consider launching more support measures to help SMEs tide over the difficulties so as to revitalize the economy.

Thank you, President.

**PRESIDENT** (in Cantonese): I now call upon Mr James TO to move his amendment to the motion.



**MR JAMES TO** (in Cantonese): President, I move that Mr Vincent FANG's motion be amended.

**Mr James TO moved the following amendment: (Translation)**

"To add "in anticipation of" after "That,"; to add "the Hong Kong economy is about to enter into recession; and" after "financial tsunami,"; to delete "providing guarantee for SMEs' trust receipts and accounts receivables by the Government, so as to enable them to continue utilizing the relevant financing arrangements; (e) increasing the loan guarantee provided by the Government under the 'SME Loan Guarantee Scheme' from the current 50% to 70% or above; (f) extending the insurance coverage of the Hong Kong Export Credit Insurance Corporation to include local sales enterprises; (g)" after "(d)"; to delete "and (h)" after "inflation" and substitute with "(e)"; and to add "; (f) formulating performance pledges to streamline procedures of government departments for making payments to SMEs which have been awarded government outsourced contracts so that payments will be settled within 30 days upon receipt of demand notes; and (g) repealing the provision that requires SMEs to pay deposits when they bid for government contracts" immediately before the full stop."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Mr James TO to Mr Vincent FANG'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 IP Kwok-him rose to claim a division.

**PRESIDENT** (in Cantonese): Mr IP Kwok-him has claimed a division. The division bell will ring for three minutes.

**PRESIDENT** (in Cantonese): Will Members please proceed to vote.

**PRESIDENT** (in Cantonese): Will Members please check their votes. Voting shall now stop and the result will be displayed.

Functional Constituencies:

Mr CHEUNG Man-kwong, Ms LI Fung-ying, Mr Paul CHAN, Mr CHEUNG Kwok-che and Mr IP Wai-ming voted for the amendment.

Dr Raymond HO, Dr Margaret NG, Mrs Sophie LEUNG, Dr Philip WONG, Mr WONG Yung-kan, Ms Miriam LAU, Mr Timothy FOK, Mr Abraham SHEK, Mr Vincent FANG, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong, Prof Patrick LAU, Dr LAM Tai-fai, Mr CHAN Kin-por and Dr Samson TAM voted against the amendment.

Mr CHIM Pui-chung abstained.

Geographical Constituencies:

Mr Albert HO, Mr LEE Cheuk-yan, Mr Fred LI, Mr James TO, Mr LEUNG Yiu-chung, Mr Andrew CHENG, Mr Albert CHAN, Mr LEUNG Kwok-hung, Mr KAM Nai-wai, Mr WONG Sing-chi, Mr WONG Kwok-kin and Mr WONG Yuk-man voted for the amendment.

Mr CHAN Kam-lam, Mr LAU Kong-wah, Ms Emily LAU, Ms Audrey EU, Mr CHEUNG Hok-ming, Mr Ronny TONG, Ms Cyd HO, Mr CHAN Hak-kan and Miss Tanya CHAN voted against the amendment.

THE PRESIDENT, Mr Jasper TSANG, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 23 were present, five were in favour of the amendment, 17 against it and one abstained; while among the Members returned by geographical constituencies through direct elections, 22 were present, 12 were in favour of the amendment and nine against it. Since the question was not agreed by a majority of each of the two groups of Members present, he therefore declared that the amendment was negatived.

**MS MIRIAM LAU** (in Cantonese): President, I move that in the event of further divisions being claimed in respect of the motion on "Supporting small and medium enterprises to tide over the financial tsunami" 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.

(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.

I order that in the event of further divisions being claimed in respect of the motion on "Supporting small and medium enterprises to tide over the financial tsunami" 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): Miss Tanya CHAN, you may move your amendment.

**MISS TANYA CHAN** (in Cantonese): President, I move that Mr Vincent FANG's motion be amended.

**Miss Tanya CHAN moved the following amendment: (Translation)**

"To add "small and medium enterprises (SMEs), which employ a large number of workers, are the important pillars of Hong Kong economy, and" after "That,"; to delete "small and medium enterprises (SMEs)" after "financial tsunami, many" and substitute with "SMEs"; to delete "and" after "inflation,"; and to add "; (i) discussing with the Central Government and governments of those provinces and municipalities where there is a relatively large number of factories set up by Hong Kong SMEs, with a view to encouraging them to provide more support and concessions to SMEs; (j) providing more support for SMEs, including consultancy services and designated loan schemes, so as to assist them in complying with newly passed legislation and regulations amid the difficult business environment; and (k) further extending the scope of assistance provided under the SME Export Marketing Fund to enable SMEs to launch various types of promotional campaigns with greater flexibility" immediately before the full stop."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Miss Tanya CHAN to Mr Vincent FANG'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.

(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 amendment passed.

**PRESIDENT** (in Cantonese): Mr WONG Ting-kwong, as the amendment by Miss Tanya CHAN has been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper which has been circularized to Members. When you move your revised amendment, you may speak up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

**MR WONG TING-KWONG** (in Cantonese): President, I move that Mr Vincent FANG's motion as amended by Miss Tanya CHAN, be further amended by my revised amendment.

President, a number of Members have put forward their views on my proposed amendment, in which the Federation of Trade Unions, the Confederation of Trade Unions and the Democratic Party have put forward different views on my proposal of holding over the implementation of certain provisions of the Labour Contract Law. I have to explain my proposal. Since I have proposed to hold over clauses 14 and 47, in which clause 14 provides that: when an employee has served an enterprise for more than 10 years, the employer shall enter into a non fixed-term contract with the employee on contract renewal. This may give rise to a situation resembling a "communal pot" system, and it

would be rather detrimental to the operation and management of a business. All of our contracts should be fixed-term contracts, non-fixed-term contracts are not sensible.

**PRESIDENT** (in Cantonese): Mr WONG Ting-kwong, instead of defending your proposed amendment, you should make use of these three minutes to explain the wording in your revised amendment.

**MR WONG TING-KWONG** (in Cantonese): Thank you, President. If that is the case, I just move my revised amendment.*(Laughter)*

**Mr WONG Ting-kwong moved the following further amendment to the motion as amended by Miss Tanya CHAN: (Translation)**

"To add "; (l) drawing reference from the practice adopted during the SARS outbreak in 2003 for the Government to provide 100% credit guarantee for industries with difficulties; and (m) reflecting to the Mainland Government to urge mainland banks to provide Hong Kong's SMEs with the same credit terms and interest rates as those granted to mainland enterprises, extend the domestic sales of Hong Kong's SMEs in the mainland market, reduce tax and tariff, and hold over the implementation of certain provisions of the 'Labour Contract Law'" immediately before the full stop."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That Mr WONG Ting-kwong's amendment to Mr Vincent FANG's motion as amended by Miss Tanya CHAN, be passed.

**PRESIDENT** (in Cantonese): I now call upon Ms Miriam LAU to move her amendment to Mr WONG Ting-kwong's amendment.

**MS MIRIAM LAU** (in Cantonese): President, I move that Mr WONG Ting-kwong's amendment be amended.

**Ms Miriam LAU moved the following amendment to Mr WONG Ting-kwong's amendment: (Translation)**

"To delete "for the Government to provide" after "2003" and substitute with "to launch a series of new relief measures, including reducing government fees and charges, providing"; and to add "by the Government and extending the period for credit applications by at least one year, and allowing revolving loans for enterprises, at the same time, broadening the definitions of SMEs under the SME Funding Schemes to cover more enterprises and small shop operators, and striving for the Central Government to further expand the Individual Visit Scheme at an early date so as to attract more mainland tourists to spend money in Hong Kong" after "difficulties"."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Ms Miriam LAU to Mr WONG Ting-kwong's amendment, 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 Fred LI rose to claim a division.

**PRESIDENT** (in Cantonese): Mr Fred LI has claimed a division. The division bell will ring for one minute.

**PRESIDENT** (in Cantonese): Will Members please proceed to vote.

**PRESIDENT** (in Cantonese): Will Members please check their votes. The voting shall now stop and the result will be displayed.

Functional Constituencies:

Dr Raymond HO, Mrs Sophie LEUNG, Dr Philip WONG, Mr WONG Yung-kan, Ms Miriam LAU, Mr Timothy FOK, Mr Abraham SHEK, Mr Vincent FANG, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong, Mr CHIM Pui-chung, Prof Patrick LAU, Dr LAM Tai-fai, Mr Paul CHAN, Mr CHAN Kin-por, Mr IP Kwok-him and Dr Samson TAM voted for the amendment.

Dr Margaret NG, Mr CHEUNG Man-kwong, Ms LI Fung-ying, Mr CHEUNG Kwok-che and Mr IP Wai-ming voted against the amendment.

Geographical Constituencies:

Mr CHAN Kam-lam, Mr LAU Kong-wah, Mr TAM Yiu-chung, Mr CHEUNG Hok-ming and Mr CHAN Hak-kan voted for the amendment.

Mr Albert HO, Mr LEE Cheuk-yan, Mr Fred LI, Mr James TO, Mr LEUNG Yiu-chung, Ms Emily LAU, Mr Andrew CHENG, Mr Albert CHAN, Ms Audrey EU, Mr LEUNG Kwok-hung, Mr Ronny TONG, Mr KAM Nai-wai, Ms Cyd HO, Miss Tanya CHAN, Mr WONG Sing-chi, Mr WONG Kwok-kin and Mr WONG Yuk-man voted against the amendment.

THE PRESIDENT, Mr Jasper TSANG, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 23 were present, 18 were in favour of the amendment and five against it; while among the Members returned by geographical constituencies through direct elections, 23 were present, five were in favour of the amendment and 17 against it. Since the question was not agreed by a majority of each of the two groups of Members present, he therefore declared that the amendment was negatived.



**PRESIDENT** (in Cantonese): I now put the question to you and that is: That Mr WONG Ting-kwong's amendment to Mr Vincent FANG's motion as amended by Miss Tanya CHAN, 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 WONG Ting-kwong rose to claim a division.

**PRESIDENT** (in Cantonese): Mr WONG Ting-kwong has claimed a division. The division bell will ring for one minute.

**PRESIDENT** (in Cantonese): Will Members please proceed to vote.

**PRESIDENT** (in Cantonese): Will Members please check their votes. The voting shall now stop and the result will be displayed.

Functional Constituencies:

Dr Raymond HO, Mrs Sophie LEUNG, Dr Philip WONG, Mr WONG Yung-kan, Ms Miriam LAU, Mr Timothy FOK, Mr Abraham SHEK, Mr Vincent FANG, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr WONG Ting-kwong, Mr CHIM Pui-chung, Prof Patrick LAU, Dr LAM Tai-fai, Mr Paul CHAN, Mr CHAN Kin-por, Mr IP Kwok-him and Dr Samson TAM voted for the amendment.

Dr Margaret NG, Mr CHEUNG Man-kwong, Ms LI Fung-ying, Mr CHEUNG Kwok-che and Mr IP Wai-ming voted against the amendment.

Geographical Constituencies:

Mr CHAN Kam-lam, Mr LAU Kong-wah, Mr TAM Yiu-chung, Mr CHEUNG Hok-ming and Mr CHAN Hak-kan voted for the amendment.

Mr Albert HO, Mr LEE Cheuk-yan, Mr Fred LI, Mr James TO, Mr LEUNG Yiu-chung, Ms Emily LAU, Mr Andrew CHENG, Mr Albert CHAN, Ms Audrey EU, Mr Alan LEONG, Mr LEUNG Kwok-hung, Mr Ronny TONG, Mr KAM Nai-wai, Ms Cyd HO, Miss Tanya CHAN, Mr WONG Sing-chi, Mr WONG Kwok-kin and Mr WONG Yuk-man voted against the amendment.

THE PRESIDENT, Mr Jasper TSANG, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 23 were present, 18 were in favour of the amendment and five against it; while among the Members returned by geographical constituencies through direct elections, 24 were present, five were in favour of the amendment and 18 against it. Since the question was not agreed by a majority of each of the two groups of Members present, he therefore declared that the amendment was negatived.

**PRESIDENT** (in Cantonese): Mr Jeffrey LAM, as the amendment by Miss Tanya CHAN has been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper which has been circularized to Members. When you move your revised amendment, you may speak up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

**MR JEFFREY LAM** (in Cantonese): President, I move that the amended motion be further amended by my revised amendment.

President, Miss Tanya CHAN's amendment mainly concerns SMEs with factories on the Mainland. As I have said in my speech earlier, these are also

what I have been fighting for, and I have recently met and communicated with mainland officials for a number of times, reflecting to them how difficult these Hong Kong enterprises have been in running their businesses and securing loans. Mainland officials have made active responses, stating that they have started looking into the feasibility of different plans, including securing loans from mainland banks.

Certainly, I also hope that the Government can actively consider my two proposals, which are, first, to follow the approach of the United Kingdom whereby the Government injects funds into banks and designates such funds as loans for enterprises; and second, reduce various types of business license fees across the board. I hope Members will support my amendment.

I so submit. Thank you, President.

**Mr Jeffrey LAM moved the following further amendment to the motion as amended by Miss Tanya CHAN: (Translation)**

"To add "; (l) following the approach of the United Kingdom whereby the Government injects funds into banks and designates such funds as loans for enterprises; and (m) reducing various types of business license fees across the board" immediately before the full stop."

**PRESIDENT** (in Cantonese): I now propose the question to you and that is: That Mr Jeffrey LAM's amendment to Mr Vincent FANG's motion as amended by Miss Tanya CHAN, 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.

(No hand 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 amendment passed.

**PRESIDENT** (in Cantonese): Mr Vincent FANG, you may now reply and you have two minutes 54 seconds. This debate will come to a close after Mr Vincent FANG has replied.

**MR VINCENT FANG** (in Cantonese): President, first of all, I am grateful to the 19 Members who have spoken today on my motion and put forth more effective measures to support small and medium enterprises (SMEs) to weather the days of economic downturn caused by the banks' credit crunch. I am particularly grateful to Mr James TO who had changed his attitude when he spoke in support of my proposals. There is a characteristic of the Chinese people. They can better demonstrate their spirit of unity in face of a predicament. The impact of this financial tsunami is definitely unprecedented and it will be a long battle. I thus hope that Members can let go of our past competitive attitude and work in concert to request the Government to formulate an economic stimulus package which is conducive to the Hong Kong's economy, employment and the people.

In addition, the business environment of Hong Kong has been deteriorating. In recent years, the Government has imposed many constrains, restrictions and management measures on our local business environment. As I always say, the law is used for restraining the law-abided, and the offender will always find a strategy to circumvent it.

Thus, I hope the Government can, in times of SMEs being in dire need of assistance now, relax some duplicated and unreasonable administrative measures, streamline vetting procedures, and review and reduce where appropriate current government fees and charges, so as to achieve the ultimate goal of improving Hong Kong's business environment and upgrading Hong Kong's competitiveness. Finally, I hope the Government can achieve bold and decisive policymaking as stated by Premier WEN.

I thank Honourable colleagues for supporting my motion. Thank you, President.

**PRESIDENT** (in Cantonese): I now put the question to you and that is: That the motion moved by Mr Vincent FANG, as amended by Miss Tanya CHAN and Mr Jeffrey LAM, be passed. Will those in favour please raise their hands?

(Members raised their hands)

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

(No hand 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 as amended passed.

#### **NEXT MEETING**

**PRESIDENT** (in Cantonese): I now adjourn the Council until 11.00 am on Wednesday, 19 November 2008.

*Adjourned accordingly at twenty-six minutes to Three o'clock.*