



Ref: G2012 – 033

30 May 2012

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Mr Jat Sew Tong SC
Chairperson
Minimum Wage Commission
1/F., Harbour Building
38 Pier Road
Central, Hong Kong

Dear Mr Jat,

Review of Statutory Minimum Wage (“SMW”) Rate

Thank you for inviting the Employers’ Federation of Hong Kong to express our views on the review of the statutory minimum wage rate.

While regular review of the statutory minimum wage rate is one of the duties of the Minimum Wage Commission, we believe that it is difficult to make a fair assessment at this stage without observing the full impact of SMW on the community, which will only fully surface over the next two years. The initial minimum wage was introduced in May 2011, and statistics collected currently only reveal its initial effects. Needless to say, there is time lag in the data collection, and it is essential that the focus be not just on past evidence, but also on forward-looking, qualitative views on economic projections. During various focus group meetings held with a number of labour intensive industries employing less skilled workers, there were common concerns that an increase in the SMW will further diminish the survival (and employment) of such businesses as they are already experiencing a significant decline in profit margins since the introduction of SMW last year. This situation, we believe, is particularly commonplace among SMEs.

We are confident that the Commission will make every effort to review the SMW rate on an evidence-based approach, and we expect that the objective for the introduction of a statutory minimum wage will be strictly observed in the review exercise. As explicitly stated in the Ordinance, the statutory minimum wage is to:

“maintain an appropriate balance between the objective of forestalling excessively low wages and minimising the loss of low-paid jobs; and to sustain Hong Kong’s economic growth and competitiveness.”

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We wish to reiterate that the statutory minimum wage is a wage floor for our employees to prevent unreasonably low wages, and should not be linked to whether such a wage can support family needs, which anyhow varies from one individual to another. It should also be set at a level that allows employers flexibility in formulating their wage strategies to meet changing business and economic circumstances. In the current environment of full employment, employers have had to adjust their remuneration packages according to their affordability in order to acquire and retain talent. In fact, many traditionally low-paying jobs are now offered at pay levels far higher than SMW, reflecting the current tight labour supply situation, and the unintended knock-on effects of raising the wage floor.

The Federation believes the objectives for creating the SMW have been achieved, and reviews of the current minimum wage level should not become a collective bargaining process nor should adjustments be automatic or formulaic. Adjustments should only be considered after more time has elapsed and the full impact of SMW (including the knock-on or consequential impacts) is known.

If an economic downturn occurs (and the economic turmoil in Europe makes this a very real possibility in the next 18 months), the costs of doing business, including labour costs may need to be adjusted downwards to maintain employment and maintain Hong Kong's competitiveness in the regional and world economy. Should the SMW be raised, it will remove the flexibility to maintain Hong Kong's competitiveness and keep jobs by adjusting one of the key costs in our service-based economy.

A ripple effect has affected most organisations since the introduction of SMW. It is common practice that employees of different levels of skill and seniority are differentiated by relatively narrow pay scales. The introduction of SMW has resulted in not only an increase of wages for our lowest paid employees, but also knock-on pay scale compression as well as unplanned for pay increases for employees at more senior levels in order to maintain pay differentiation. In some cases, this additional cost is greater than the direct cost incurred i.e. Increase of pay for minimum wage earners.

The Federation conducted periodical surveys from last August to assess the impact of SMW on business. The latest one, completed in February 2012, contains data from 120 companies with a total employment of over 109,651 employees. Though it may not reflect the full picture on the impact of SMW, it does give us a better understanding of the matter.

- Among those companies being affected, 54.2% simply absorbed the cost and 8.3% were able to transfer the cost to customers, the others just could not pass on the cost and did not absorb the cost fully.

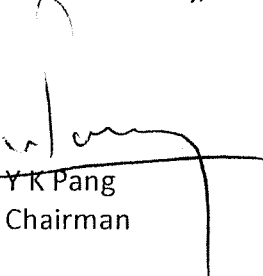
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- The internal ripple effect discussed earlier has emerged, as 27.5% of companies have had to review upwards the remuneration packages of employees who were already earning higher than the SMW level, and 21.6% of companies also intend to review the packages of these employees in the coming three to six months.
- One-third (32.7%) of the companies claimed that their service contractors have increased the price of the service contracts in order to offset the cost impact of SMW. The general increase was around 10% to 15% and is expected to escalate in the next two years.
- The numbers of those reducing other staff costs (reducing training and development costs, outsourcing, reducing staff, relocating and downsizing) was limited (only 7.5%) at this early stage, but there will likely be an increase in the utilisation of such measures in the coming three to six months (increasing to 16.3%).
- About one-third of the companies encountered difficulties in arranging extra manpower for handling the increased workload and the administrative measures required by SMW (35.2%). The recording of hours is also considered as another burden (33.3%).
- About 10% of companies indicated that there were changes in their employment practices after the implementation of SMW, such as engaging more part-time employees, change in employment mode from monthly to daily and hourly, and an increase in the frequency of hiring activities.

The Federation supports achieving a fair balance between the needs of employees, employers and the competitiveness and overall employment situation in Hong Kong. We believe the review should not trigger any adjustments automatically, and that adjustments to pay should be left to the market now that a floor has been established. Adjustments to the SMW should only be considered if certain criteria are met, which may include an extended period of inflation, a clear trend of economic growth, sustainable enhancement in business competitiveness, increased affordability, and relatively minor impact on employment etc.

The Federation is more than happy to help channel employers' views to ensure balanced debate on the matter. Please do not hesitate to contact Mr Louis Pong, CEO of the Federation at 2528 0033 for any further clarification and elaboration.

Yours sincerely,



YK Pang
Chairman

c.c. Mr Matthew Cheung, GBS, JP, Secretary for Labour and Welfare
The Hon Lee Cheuk Yan, Chairman, LegCo Panel on Manpower