

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 5th January 1972****The Council met at half-past Two o'clock**

[Mr PRESIDENT in the Chair]

PRESENT

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, KCMG, MBE
THE HONOURABLE THE COLONIAL SECRETARY
SIR HUGH SELBY NORMAN-WALKER, KCMG, OBE, JP
THE HONOURABLE THE ATTORNEY GENERAL
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DONALD COLLIN CUMYN LUDDINGTON, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, JP
THE HONOURABLE DAVID RICHARD WATSON ALEXANDER, CBE, JP
DIRECTOR OF URBAN SERVICES
THE HONOURABLE JAMES JEAVONS ROBSON, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE JOHN CANNING, JP
DIRECTOR OF EDUCATION
DR THE HONOURABLE GERALD HUGH CHOA, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE DENIS CAMPBELL BRAY, JP
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE PAUL TSUI KA-CHEUNG, OBE, JP
COMMISSIONER OF LABOUR
THE HONOURABLE IAN MACDONALD LIGHTBODY, JP
COMMISSIONER FOR RESETTLEMENT
THE HONOURABLE ERNEST IRFON LEE, JP
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE SIR YUET-KEUNG KAN, CBE, JP
THE HONOURABLE WOO PAK-CHUEN, OBE, JP
THE HONOURABLE SZETO WAI, OBE, JP
THE HONOURABLE WILFRED WONG SIEN-BING, OBE, JP
THE HONOURABLE WILSON WANG TZE-SAM, OBE, JP
THE HONOURABLE HERBERT JOHN CHARLES BROWNE, OBE, JP
DR THE HONOURABLE CHUNG SZE-YUEN, OBE, JP
THE HONOURABLE LEE QUO-WEI, OBE, JP
THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP
THE HONOURABLE GERALD MORDAUNT BROOME SALMON, JP
THE HONOURABLE ANN TSE-KAI, OBE, JP
THE HONOURABLE LO KWEE-SEONG, OBE, JP

ABSENT

THE HONOURABLE ELLEN LI SHU-PUI, OBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL
MR RODERICK JOHN FRAMPTON

Papers

The following papers were laid pursuant to Standing Order No 14(2): —

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Audit Ordinance 1971 (Commencement) Notice 1971	166
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Prisons Ordinance.	
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Exportation (Certificates of Origin and Commonwealth Preference Certificates) (Amendment) Regulations 1971	170
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Import and Export Ordinance.	
Importation and Exportation (Registration of Imports and Exports) (Amendment) Regulations 1971	172
Pilotage Ordinance 1971.	
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First Schedule) Order 1971	181
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Importation and Exportation (Strategic Commodities)	
Regulations.	
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(Amendment of Schedule) Order 1971	183
Workmen's Compensation Ordinance.	
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Sessional Papers 1971-72: —	
No 29—Annual Report by the Director of Broadcasting for the year 1970-71 (published on 5.1.72).	
No 30—Annual Report by the Director of Social Welfare for the year 1970-71 (published on 5.1.72).	
No 31—Annual Report by the Administrative Commissioner for the Government of Hong Kong in London for the year 1970-71 (published on 5.1.72).	
No 32—Annual Report by the Community Relief Trust Fund Trustee for the year ending 31st March 1971 (published on 5.1.72).	

Oral answers to questions

Bank holiday on 20th December 1971

1. DR S. Y. CHUNG asked: —

Is Government aware that, whilst people understand the necessity for suspending foreign exchange transactions on 20th December due to uncertainties of world currency

[DR CHUNG] **Oral Answers**

parities, they nevertheless were bewildered by the complete closure of all banks on that particular day? Will the Government explain why it was necessary to declare that particular day a bank holiday thereby depriving the public of normal bank services to pay in and withdraw money on their deposit, current and savings accounts?

THE FINANCIAL SECRETARY (MR C. P. HADDON-CAVE): — Sir, lest my honourable Friend thinks otherwise, let me say at the outset that the decision to declare Monday 20th December a bank holiday was not taken lightly and with scant concern for the convenience of the public. Certainly, it would have been theoretically possible to ask banks to suspend foreign exchange dealings until further notice, but we could not have done more than *ask* them to do this for there is no mechanism whereby the foreign exchange markets can be closed, other than by declaring a bank holiday. I have no doubt that the authorized banks would have responded to a request from the Exchange Banks' Association to close their foreign exchange departments for the day. Cover rates on London would not, in any case, have been available for the transaction of business. However, as honourable Members are well aware, US dollar/Hong Kong dollar exchange transactions are handled in the free market by the unauthorized banks, by money changers and by brokers. We could not really have expected the unauthorized banks to exercise a restraint similar to the authorized banks and so the result would probably have been that the free market would have been at least partly operational, and subject to speculative pressures as dealers took a view on the outcome of our consideration of the future of the Hong Kong dollar. In all these circumstances, we considered that for banks to be closed for the day would be the most satisfactory arrangement. Before Executive Council was asked to make appropriate regulations under the Emergency Regulations Ordinance, representatives of the banking community were consulted and concurred with this view; and they, of course, took into account the inconvenience which would be caused to their customers.

DR CHUNG: —Sir, will my honourable Friend explain, as I myself do not think he has explained in his reply, why the banks were not permitted to provide services for paying-in and limited withdrawals on their accounts in Hong Kong dollars?

THE FINANCIAL SECRETARY (MR HADDON-CAVE): —I think in all fairness to the banks, Sir, they did not have time in the circumstances to make such *ad hoc* arrangements. On the other hand, I have no doubt that any customer who presented himself at the doors of his bank would have been offered accommodation if it had been an emergency.

DR CHUNG: —Sir, my question is not whether they would have been able to meet the situation but why did Government not allow in the beginning?

THE FINANCIAL SECRETARY (MR HADDON-CAVE): —I think I have nothing further to add, Sir, except to say that we took the decision to close the banks completely on that day.

Capital expenditure on roads

2. MR G. M. B. SALMON asked: —

Will Government state what capital expenditure was incurred on roads in the financial year 1970-71, and give an estimate of the same expenditure for both 1971-72 and 1972-73?

MR J. J. ROBSON: —Sir, by the term "capital expenditure" I assume my honourable Friend is referring to Public Works Non-Recurrent expenditure on highways items, and that is he is not interested in the expenditure on roads maintenance.

For the fiscal year 1970-71 actual expenditure amounted to \$62 million, whilst for the current financial year I am expecting to spend over \$80 million. In the next financial year I am anticipating continued expansion by asking for a sum of around \$125 million in my returns for the Draft Estimates.

MR SALMON: —Sir, in welcoming the figures given, may I ask my honourable Friend for an assurance that the momentum will be sustained, if not improved upon, in the years to come?

MR ROBSON: —I will certainly give that assurance, Sir.

Protection for investors

3. SIR YUET-KEUNG KAN asked: —

Could the Government state what progress has been made with the processing of the Companies Law Revision Committee's report on the protection of investors and with the drafting of any necessary legislation?

Oral Answers

THE FINANCIAL SECRETARY (MR HADDON-CAVE): — Sir, processing of the Companies Law Revision Committee's Report on the protection of investors has been continuing since the publication of the Report. Good progress has been made in the drafting of legislation on the basis of the more urgent of the Committee's recommendations. Drafts of a Companies (Amendment) Bill dealing with company prospectuses and of a Protection of Depositors and Investors Bill have been completed and are being considered in the Colonial Secretariat and in the Registrar General's Department. Drafting of a Mutual Funds Bill and a Unit Trusts Bill is in hand.

As I have said before in this Council, the First Report of the Companies Law Revision Committee is a most comprehensive document which contains a large number of recommendations, some of which are perhaps rather contentious particularly those dealing with the licensing of dealers. Obviously, consideration of all the recommendations, and drafting of legislation to give effect to those which it is proposed to accept, will impose a considerable burden on the staff both of the Secretariat and of the Legal Department. I am conscious, however, that there is a considerable degree of urgency in enacting suitable legislation to protect the investing public. In order to accelerate the processing of the Report, arrangements have been made for the temporary attachment to the Colonial Secretariat of Mr George SELWYN, a recently retired Adviser to the Bank of England; he will be arriving in Hong Kong within the next few days. Mr SELWYN has had a lifetime's experience in the Bank of England and is well versed in the operations of companies and financial institutions including, of course, stock exchanges. He will work in the Economic Branch of the Colonial Secretariat and will be responsible for the preparation of drafting instructions, on the basis of which the Law Drafting Section of the Legal Department will proceed to prepare the necessary draft bills, which the Secretariat can then take through to the stage of submission to the Governor in Council for policy approval and, thereafter, to this Council for enactment. In other words, Sir, and I would like to stress this, Mr SELWYN's task will not be to prepare a report on a report: rather his task will be to consider the recommendations in the Committee's Report and, if necessary, to modify them after discussion with those concerned. He will then assist the Economic Branch to turn them into appropriate and coherent drafting instructions for the preparation of draft legislation.

SIR YUET-KEUNG KAN: — Sir, in view of the proliferation of stock exchanges at this moment, will Mr SELWYN be advising the Government on the whole position regarding stock exchanges and, if so, will he

be asked to do so as a matter of some urgency before the present rather unsatisfactory position gets worse?

THE FINANCIAL SECRETARY (MR HADDON-CAVE): —The answer to both my honourable Friend's questions, Sir, is "Yes".

Government business

First reading

**RENT INCREASES (DOMESTIC PREMISES) CONTROL
(AMENDMENT) BILL 1972**
GASHOLDERS EXAMINATION (AMENDMENT) BILL 1972
STAMP (AMENDMENT) BILL 1972

Bills read the first time and ordered to be set down for second reading pursuant to Standing Order No 41(3).

Second reading

**RENT INCREASES (DOMESTIC PREMISES) CONTROL
(AMENDMENT) BILL 1972**

THE COLONIAL SECRETARY (SIR HUGH NORMAN-WALKER) moved the second reading of: —“A bill to amend the Rent Increases (Domestic Premises) Control Ordinance.”

He said: —Sir, when I moved the second reading of the earlier bill amending the Rent Increases (Domestic Premises) Control Ordinance last December, I explained that while that bill provided only for the extension of the current rent increase control legislation by two years, it was the intention to introduce as soon as possible a second bill which would provide for further rent increases during the extension period. I also said that it was proposed that landlords should be entitled to impose two such further increases of rent, each not exceeding 5%. The first of these further increases would not take effect until at least two years after an increase allowable under the principal Ordinance had taken effect, and the second further increase would only take effect at least twelve months after the first. The tenant would gain security of tenure for an additional year from the date of each further increase.

Several of my honourable Friends referred to these proposals when speaking on the second reading of the earlier bill and were kind enough

[THE COLONIAL SECRETARY] **Rent Increases (Domestic Premises) Control
(Amendment) Bill—second reading**

to suggest that they had their support. My honourable Friend, Mr P. C. Woo, did however also point out that difficulties arise over the requirement in the principal legislation that a notice to quit should be on actual display for 72 hours on the door of the premises concerned. The bill now before Council, Sir, in addition to setting out the provisions relating to permissible increases of rent during the extension period, also includes an amendment which will make it necessary merely to post a notice to quit for three successive days, thus obviating the need for the notice actually to remain in position during this period.

Question proposed.

Motion made (pursuant to Standing Order No 30). That the debate on the second reading of the bill be adjourned—THE ATTORNEY GENERAL (MR D. T. E. ROBERTS).

Question put and agreed to.

Explanatory Memorandum

The purpose of this Bill is to enable a landlord of premises protected by the principal Ordinance who has increased the rent of the premises, to impose two further increases of a maximum of 5% each. However, the first of these further increases may only take effect if two years have elapsed from the date of the first increase, and the second further increase may only take effect at least one year after the date of the first further increase (clause 4).

2. Where a tenant or sub-tenant has had his rent increased under clause 4, he is given security of tenure for a further period of one year from the date of the increase (clause 2).

GASHOLDERS EXAMINATION (AMENDMENT) BILL 1972

THE FINANCIAL SECRETARY (MR HADDON-CAVE) moved the second reading of: —“A bill to amend the Gasholders Examination Ordinance.”

He said: —Sir, in March 1966 a structural failure occurred in the Hong Kong and China Gas Company's gasholder at North Point, causing a minor explosion. There was, fortunately, no injury or damage to person or property. The gasholder was emptied and subsequently totally dismantled.

As a result of this incident a small working party was established to consider the desirability of amending existing legislation dealing with the safety of gasholders. This bill and the Gasholders Examination Regulations, which will shortly be submitted to Executive Council, are the outcome of the deliberations of this working party.

The bill has three purposes: the first is to amend the definition of gasholder, since it is desirable to bring all types of low pressure gasholders within the scope of the Ordinance. I would mention that both the present definition, which is included in the Gasholders Examination Regulations, and the proposed definition, exclude liquefied petroleum gasholders, which are the subject of separate legislation at present being drafted.

The second purpose is to increase the maximum penalty for breach of any regulation from one thousand to ten thousand dollars, since it is felt that the present penalty does not reflect the possible consequences of any such breach.

Similarly, the third and final purpose is to make the offence under section 4 of the principal Ordinance, namely the continued use of a gasholder which the Governor in Council has declared unfit for use, a continuing offence with a maximum penalty of one thousand dollars per day.

MR SZETO WAI: —Sir, I welcome this bill because it is designed to improve the existing safety measures and precautions in respect of gasholders as provided under the principal Ordinance. The amendment is overdue because well over five years have elapsed since the structural failure of a gasholder had occurred, and four years after the Working Party, as mentioned by my honourable Friend, had completed its investigation and submitted its recommendations. These recommendations, though in general more stringent and comprehensive than the provisions in the United Kingdom Factories Act 1961 and our own existing laws, are desirable both in regard to the operation of existing gasholders and siting of future ones in view of the dense development of our urban areas where all our existing gasholders are situated.

One of the purposes of the bill, in the words of my honourable Friend, is to increase the maximum penalty for breach of any regulation in the present Ordinance to reflect the possible consequences of a failure. It is to be realized, Sir, that the principal Ordinance was enacted in 1938 when development in Hong Kong was nothing like what it is today. Whilst I support raising the maximum penalty tenfold for contravention of any regulation as proposed in clause 3, I feel the proposed maximum fine of a mere \$1,000 per day in clause

[MR SZETO] **Gasholders Examination (Amendment) Bill—second reading**

4 grossly inadequate for a continuing offence after a gasholder has been declared by your Excellency in Council as unfit for use in view of its threat to life and property in the event of failure. This is, to my mind, analogous to a building which has been declared by the competent authority as dangerous. In both cases urgent action is called for to terminate the use of the structures to prevent disaster, and therefore continuing contravention of an Order in the case of a condemned gasholder should not be lightly tolerated.

Another recommendation of the Working Party was that Government should exercise control over the development of areas adjacent to sites reserved for future gasholders. Residential development as well as other development of fairly high density should not be permitted in such areas in order to maintain public safety. This is important in the light of a proposal to erect a gasholder of twice the capacity of the largest existing in the Colony in Quarry Bay, which is an area of rapidly increasing residential density. Both from the town planning point of view and public safety, gasholders should in future only be permitted in areas zoned for their special use in the outline zoning plans and, in my view, opportunity should be taken to include this provision in the present bill. I hope my honourable Friend will give consideration to these two points I have raised before the committee stage of the bill.

THE FINANCIAL SECRETARY (MR HADDON-CAVE): —Sir, I thank my honourable Friend for his remarks and for his general support of this bill.

I have taken note of his comments in relation to clause 4 and his suggestion that the opportunity be taken to include in the bill a clause to the effect that gasholders should in future only be permitted in areas zoned for such use in outline zoning plans.

My honourable Friend's suggestions will be carefully examined, Sir, by myself and by the Attorney General and dealt with when the relevant clauses are considered at the committee stage.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order No 43(1).

Explanatory Memorandum

This Bill effects three minor amendments to the principal Ordinance, namely—

- (a) the definition of "gasholder" previously contained in the regulations is included in the Bill in a modified form;
- (b) the maximum penalty which may be provided for in regulations is increased from one thousand dollars to ten thousand dollars; and
- (c) the offence under section 4 is made a continuing offence with a maximum penalty of one thousand dollars per day.

STAMP (AMENDMENT) BILL 1972

THE FINANCIAL SECRETARY (MR HADDON-CAVE) moved the second reading of: —"A bill to amend the Stamp Ordinance and to make other consequential amendments. "

He said: —Hardly a year passes, Sir, when the Stamp Ordinance is not amended, not in any fundamental sense but there are always, it seems, loopholes to be closed, anomalies to be removed and obscurities to be clarified. This bill is in that honourable tradition. It contains a number of proposals, the most important one of which is aimed at closing a loophole and removing an anomaly in section 5A of the principal Ordinance. The others are designed to clarify the wording of certain sections and to grant exemptions from duty payable on certain documents.

To begin with *clause 3(b) and (c)*: section 5A, as it stands at the moment, exempts from *ad valorem* duty any transfer of fixed property between associated limited companies, the test of association being that one of these companies owns no less than 90 per cent of the issued share capital of the other or that a third company owns at least 90 per cent of the issued share capital of both. It was the intention that relief should only be granted to transfers of assets between associated companies, *where the ultimate beneficial ownership of the assets remained unchanged*. To this end, section 5A contains a provision designed to exclude from relief transactions where outside investment is involved, that is to say, where the consideration for the transfer is to be provided directly or indirectly by anyone other than, an associated company. This safeguard has recently been shown to be defective, because it does not refuse relief where the consideration for the transfer takes the form of an issue of shares, some or all of which are to be passed on to outsiders. In some recent public flotations,

[THE FINANCIAL SECRETARY] **Stamp (Amendment) Bill—second reading**

there has been an antecedent transfer of fixed property between associated companies which have been able to avail themselves of the relief accorded by this section, although the required degree of association ceased to exist within a matter of days after the conveyance took place and it was intended indeed from the outset that finance should be provided by the public. From the stamp duty point of view, this means that the 2% *ad valorem* duty under Head 19 of the Schedule to the Ordinance on the sale of the property cannot be charged and that only 40 cents per \$100 under Head 48(1) of the Schedule is paid on the sale of the shares to the public. It is estimated that the cost of this loophole has, in the last twelve months, been in excess of \$5 million.

Legislation was introduced five years ago to close just such a loophole in the United Kingdom legislation and the amendments now proposed in this bill have been modelled on the United Kingdom Finance Act of 1967. It is proposed that, in future, relief from duty should be denied where the consideration for the transfer is to be passed on to anyone other than an associated company, or where the transferee ceases to be an associated company.

A further amendment is proposed to section 5A of the principal Ordinance by *clause 3(a)* of the bill to provide relief from *ad valorem* duty under Head 53 of the Schedule to the Ordinance on voluntary disposition *inter vivos* of property between associated companies. The existing provision is anomalous in that a transfer for adequate consideration enjoys full exemption, whilst a transfer for less than adequate consideration is subject to duty on the full value of the property. It is proposed to remedy this position by extending the existing relief to voluntary disposition *inter vivos*. The loss to the revenue resulting from this amendment will be about \$100,000 per annum.

The other clauses in the bill are designed either to clarify the wording of certain sections in the Ordinance or to grant exemptions of a minor nature. Thus *clause 4* extends exemption from duty under section 26(11) of the Ordinance to cases where Hong Kong currency is remitted to or from Hong Kong. *Clauses 5 and 6(a)* put it beyond doubt that Letters of Renunciation are treated as transfers on sale which attract *ad valorem* duty either under Head 18A or under Head 48(1) of the Schedule to the Ordinance, in addition to the fixed duty of 15 cents charged under Head 33. *Clause 6(b)* makes it clear that if an allotment of newly issued shares is made in exchange for old shares, contract duty is only payable in respect of the old shares. *Clause 7* amends several of the heads in the Schedule to the Ordinance,

including Heads 43 and 44: the amendment here is designed to grant exemption from duty on certain documents which are executed by the public in their dealings with Government.

Question proposed.

Motion made (pursuant to Standing Order No 30). That the debate on the second reading of the bill be adjourned—THE COLONIAL SECRETARY (SIR HUGH NORMAN-WALKER).

Question put and agreed to.

Explanatory Memorandum

Clause 2 amends the definition of "exempted institution" to achieve consistency with the Inland Revenue Ordinance and Estate Duty Ordinance.

Clause 3. Relief from stamp duty under section 5A of the Ordinance is extended by clause 3(a) to voluntary dispositions *inter vivos*.

Section 5A was introduced by the Stamp (Amendment) Ordinance 1968 to make provision for the granting of relief from the payment of stamp duty on the transfer of property, other than shares or marketable securities, between associated companies which satisfy the requirements set out in subsection (4) of section 5A. The section was derived from section 42 of the Finance Act 1930 and section 50 of the Finance Act 1938. Section 50 of the Finance Act 1938 has been repealed and replaced by section 27(3) of the Finance Act 1967 and the proposed amendments to section 5A in clause 3(b) and (c) follow this subsection closely.

The object of the amendment is to counteract attempts to obtain relief from transfer duty notwithstanding that under the arrangement in pursuance of which the transfer was executed either—

- (a) the consideration for the transfer was to be provided by an unassociated person; or
- (b) an unassociated person was in due course to receive the consideration for the transfer; or
- (c) the beneficial interest was previously conveyed or transferred by an unassociated person; or
- (d) the transferor and the transferee were to cease to be associated by the allotment of shares in the transferee company to an unassociated person.

Stamp (Amendment) Bill—second reading*[Explanatory Memorandum]*

Clause 4 extends the exemption under section 26(11) of the Ordinance to cases where Hong Kong currency is remitted to or from Hong Kong. As the subsection now reads, the exemption only covers currency other than the currency of Hong Kong, by virtue of the definition of "exchange contract" in section 3 of the Ordinance.

Clause 5. Letters of renunciation are treated as transfers on sale which attract *ad valorem* duty either under head 18A or head 48(1) of the Schedule to the Ordinance, in addition to the fixed duty charged under head 33. *Clause 5* puts this matter beyond doubt in those cases where the transaction operates as a voluntary disposition *inter vivos*.

Clause 6 contains two new definitions—

- (a) "instrument of transfer" is defined to include a letter of renunciation to make it clear that *ad valorem* duty under head 18A is payable on renunciations at market value;
- (b) the phrase "sale or purchase" is defined to include an exchange, to make it clear that an exchange of shares attracts *ad valorem* duty under head 18A of the Schedule in the same manner as sales and purchases of shares to which section 30 of the Ordinance applies.

Clause 6(b) will ensure that, where there is an exchange of an allotment of shares in a company for existing shares, a contract note shall only be required in respect of the sale or purchase of the existing shares.

Clause 7 amends the Schedule as follows—

- (a) the new head 14(2) is consequential on an amendment to the Contracts for Overseas Employment Ordinance which makes the employer liable for any stamp duty payable on an overseas contract, bond or guarantee.
- (b) the amendment to head 18A will enable the value of shares to be ascertained where there is an exchange of shares for shares.
- (c) the list of documents exempt from duty payable under head 43 is extended by including a power of attorney to third parties to receive any refund made by or on behalf of the Government.
- (d) the list of receipts exempt from duty payable under head 44 is extended by including all receipts given for refunds made by or on behalf of the Government.

- (e) head 52 is extended to provide for vesting orders consequential on an order for sale including vesting orders consequential upon an order for sale under the Partition Ordinance, and vesting orders consequential upon an order for partition under that Ordinance.

Clause 8 makes a consequential amendment to the Partition Ordinance.

Adjournment

Motion made and question proposed. That this Council do now adjourn—
THE COLONIAL SECRETARY (SIR HUGH NORMAN-WALKER).

2.58 p.m.

Revaluation of Hong Kong Dollar

MR T. K. ANN: —Sir, the decision of the Government to up-value the Hong Kong dollar to the extent of 8.57% against the US dollar on 20th December has caused grave concern to local industry in that this large up-valuation will be at the expense of weakening our ability to compete in our exports to overseas markets.

While it may be true that the main effect of this up-valuation will be on our exports to the United States, it must be remembered that the United States is our main market, and that since 1968 Hong Kong's domestic exports to that country have been lingering at a staggering level of 42% of our total domestic exports.

We must not forget that about 70%, it is estimated, of our domestic exports, including exports to the United States, are contracted in US currency; thus Hong Kong domestic exports sold in terms of US dollars could have reached a total, equivalent to HK\$8,800 million in the year 1970.

My honourable Friend, the Financial Secretary, when announcing the up-valuation, was reported to have written off competition from Taiwan and South Korea for our export markets as being minimal. I feel I must disagree with him. In recent years, Hong Kong has encountered intensified competition in our traditional markets, not from Japan, but from Taiwan and South Korea. Both the latter countries have now also devalued their currencies with the US currency. Thus both Taiwan and South Korea have in the world adjustment of currencies strengthened their competitive positions in world markets *vis-a-vis* us.

One of the arguments given for up-valuing by 8.57% was that it would not seriously affect the cost of our raw material imports for

[MR ANN] **Revaluation of Hong Kong Dollar**

industrial production chiefly from Japan. However, during the year 1970, Hong Kong's net imports from Japan and West Germany, that is excluding re-exports, whose currencies have up-valued most, of commodities which could be classified as raw materials (that is crude materials, inedible, except fuels; mineral fuels; lubricants and the related materials; chemicals; manufactured goods classified chiefly by material) consisted of only 60% of the total net imports from those countries. The absolute sum was only HK\$2,490 million or 28% of our total domestic exports, as estimated above, contracted in US currency.

The prevailing situation is that of a buyer's market, and such being the case it is more likely that, in case the Hong Kong dollar was slightly devalued against sterling and in line with the US currency, we can bargain down our suppliers' prices rather than now that we can obtain a raise in price from our buyers, especially at a time when the US is exercising price controls.

The above argument is on a premise that our domestic manufactured exports, furnishing a high level of employment to this community, are fundamentally more important to our economy than imports of certain consumer goods that are above the reach of average people.

Faced with these problems, industry is now in a very vulnerable position, particularly as our manufacturers and, by extension, our exporters who contribute to our domestic exports, have to carry labour whose income in the form of wages is not subject to down-scaling by a change in exchange rates.

In context with the foregoing is the fact that according to published figures the net profit after taxation of Hong Kong manufacturers /exporters is generally in the region of 7% of their total turnover and an up-valuation of 8.57% for 70% of the business negotiated in US currency must reduce such business enterprises to a marginal existence.

One other point which I wish to stress is that the open market rates of the US dollar prevailing in Hong Kong during the period from 15th August to 18th December cannot reflect a situation which has taken our "trading" with the United States under normal conditions into account, because the United States dock strikes started on 1st July on the West Coast and on 1st October on the East Coast and the Gulf ports.

Sir, the above weighs strongly in favour of a lesser up-valuation of our currency than 8.57%, a course of action which a developed

country in the Commonwealth such as Australia has decided to take, and a course of action also open to us, but which we have not taken. Government may have very good reasons for deciding on its course of action, and if so, the public is entitled to know officially what these reasons are and that these reasons do weigh more importantly than what we have seen in the above, even to the extent of disregarding the adverse effects to our manufacturing industry.

3.05 p.m.

THE FINANCIAL SECRETARY (MR HADDON-CAVE): —Sir, I am afraid I cannot agree with my honourable Friend's view that the Government's decision to maintain the gold parity of the Hong Kong dollar, thereby revaluing against the US dollar by 8.57%, was mistaken. But I do welcome this opportunity of explaining the decision in greater detail. I am sure honourable Members will understand that the press statement issued on the evening of Monday, 20th December, had to be, inevitably, rather superficial—but it was not, I hope, entirely unhelpful.

The decision, Sir, was not an easy one to take: we had for some four months realized that, once a realignment of the world's major currencies had been worked out by the Group of Ten in consultation with the International Monetary Fund, we would have to choose an appropriate position for the Hong Kong dollar in the new complex of exchange rates. Accordingly, we had given considerable thought to what this position should be, having regard to the expressed willingness of the United States Government to consider devaluing the US dollar in terms of gold, and the realignment which the markets had been effecting in the exchange rates of floating currencies. But the settlement announced in Washington on the evening of Saturday, 18th December, took everyone, I think, somewhat by surprise inasmuch as the increase in the US dollar price of gold from US\$35 to US\$38 an ounce, involving a devaluation of the US dollar in terms of gold of 7.89%, was more than was thought likely to be acceptable, particularly to the United Kingdom to whose currency of course the Hong Kong dollar is linked. The consequence was that much of our contingency planning was rather wasted and we had to do a good deal of rethinking. This we did on Sunday and Monday and we were greatly assisted in this by the declaration of Monday as a Bank Holiday and by the helpful advice freely offered by many members of the banking, commercial and industrial communities; though, of course, it was the Government which took the actual decision.

Essentially, we had four choices open to us: *first* of maintaining the existing Hong Kong dollar/US dollar parity, involving a devaluation of 7.89 % in terms of gold and, therefore, in the Hong Kong dollar/sterling parity; *secondly* of revaluing the Hong Kong dollar

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against the US dollar, but to a lesser extent than sterling, involving a devaluation of the Hong Kong dollar; sterling parity of less than 7.89%; *thirdly* of maintaining the present gold parity of the Hong Kong dollar, involving a revaluation against the US dollar of 8.57% and the maintenance of the present Hong Kong dollar/sterling parity; *fourthly* of revaluing the Hong Kong dollar against the US dollar by more than, 8.57%, involving some revaluation also against sterling.

We considered the various effects of each choice to the extent that these could be predicted. I cannot spell out here the merits and demerits of each choice as we saw them; so I shall concentrate, Sir, on justifying our conclusion that the balance of advantage lay with maintaining the present gold parity of the Hong Kong dollar, involving a revaluation of the Hong Kong dollar against the US dollar of 8.57% and the maintenance of the present Hong Kong dollar/sterling parity.

To begin with the all-important trade effects: the cost of *imports* from countries revaluing their currencies against the US dollar by more than the Hong Kong dollar will increase by amounts ranging up to 8% in the case of Japan, the source of 24% of our imports and certainly our main supplier of such vital raw materials, semi-finished products and industrial equipment as man-made fibre yarn and fabrics, iron and steel, plastic materials and equipment of various kinds. As the renminbi/sterling parity is to remain unaltered, as we anticipated, the cost of foodstuffs and consumer goods from China representing 22% of such imports will remain stable in terms of Hong Kong dollars; as also will the cost of imports from other countries which have maintained the gold parities of their currencies such as the United Kingdom. These countries supply 25% of our total imports. By contrast, the cost of imports from the US and other devaluing countries, supplied by 26% of our total imports, will fall. Overall the cost of our imports should not increase by more than 1%; and even this might be eliminated if switching of our sources of imports occurs in response to shifts in relative prices. If, on the other hand, we had only revalued the Hong Kong dollar by, say, 6%, as recommended by some commentators, the increase overall in the cost of our imports might well have been of the order of 3½% or more. Any revaluation of less than 6% would increase the overall cost of imports even more; and the higher cost of imports of raw materials from Japan, for example, would begin to bite sharply into the cost of our exports and so would the higher cost of foodstuffs and cheap consumer goods from China.

As regards the *competitiveness of our exports*: this will be improved *vis-a-vis* domestic industries in the countries which have

revalued by more than Hong Kong such as Japan and Germany. Altogether such countries take 15% of our exports. Our competitiveness in these countries will also improve in relation to their imports from other countries which have revalued by more than Hong Kong, and will remain unchanged in relation to their imports from countries revaluing by as much as Hong Kong. Our competitiveness in these countries will only decline in relation to imports from the United States and other devaluing countries such as Taiwan and Korea, but the product areas in which we are in competition with such countries are fairly limited and the significant increase in the cost of their imports from, for example, Japan will be reflected in their export prices. Furthermore, quota restrictions on certain textile products will continue to provide us with a degree of protection (whatever their other undoubted disadvantages) that quota restrictions may have in other respects.

In countries which have revalued by as much as Hong Kong which take 35% of our exports, our competitiveness *vis-a-vis* domestic industries will not be affected; and in one of these countries, namely Britain, which takes 14% of our exports, our performance this year at the present Hong Kong dollar/sterling parity has been very good despite the depressed economic conditions in that market. In relation to imports into these countries from countries revaluing by more than Hong Kong, such as Japan and Germany, our competitiveness should also improve, and certainly will only suffer in relation to imports from devaluing countries. On balance, our competitiveness in these markets should remain more or less the same.

Only in the US and other devaluing countries taking, it is true, nearly 50% of our exports, will we lose competitiveness *vis-a-vis* domestic industries. However, prior to the realignment, the Hong Kong dollar had already floated upwards by about 5½% against the US dollar so there will not be a sudden substantial increase in the prices of Hong Kong exports to these countries. We will also lose competitiveness in these markets in relation to their imports from other devaluing countries. I know there is a good deal of understandable concern about our loss of competitiveness in the US and other markets *vis-a-vis* Taiwan and Korea, but these countries take between 43% and 45% of their imports from Japan and another 24-25% from the United States. Thus the cost of their imports from Japan will increase by more than Hong Kong's and the cost of their imports from the United States will not fall in terms of their local currencies, and may well increase if US export prices do not fall by the full amount of the dollar devaluation, as seems likely. It follows that their newly found competitive advantage arising from their devaluing with the US dollar could be quickly eroded. Furthermore, one of the main product areas in which these countries are in direct competition with Hong Kong is textiles, now unhappily restricted across the board from cotton to

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man-made fibres to wool by quota arrangements. We will gain competitiveness in the devaluing countries in relation to imports from countries revaluing by more than 8.57% and we will not lose competitiveness in relation to countries, such as Britain, which have revalued by as much as ourselves. I can understand my honourable Friend's implied criticism that we had too much concern for internal costs and too little for our external price competitiveness, but I am afraid I cannot agree with him. With our type of economy higher import costs are reflected, and quickly, in higher selling prices which are also likely to be further inflated by higher wage costs, especially at a time of full employment. We could thus very soon lose whatever competitive advantage we might gain initially and give a further twist to the inflationary spiral at the same time. In any case—and I would lay stress on this—the wider exchange margin of 2.25% either way will act as a safeguard. If sterling tends to move towards the lower point in its band it will automatically carry the cross rate between the Hong Kong dollar and the US dollar down with it. The lower limit of HK\$5.71 to US\$1 is about the same as the free market rate before revaluation.

Turning now to the effect on our foreign exchange reserves: our decision to maintain the present gold parity of the Hong Kong dollar involved neither an appreciation or depreciation of the value in Hong Kong dollar terms of our foreign exchange reserves given that they are almost entirely held in the form of sterling assets. If we had revalued by *less* than 8.57% then, under the terms under which the sterling assets of the Hong Kong banks are brought into official hands for the purposes of the sterling guarantee arrangement, the Exchange Fund would have benefited in terms of Hong Kong dollars or sterling to an equivalent amount; but there would have been a very real risk that the Hong Kong dollar would come to be regarded as undervalued. On the other hand, if we had revalued by *more* than 8.57%, say to a round figure of 10%, the effect would have been quite expensive for, under the terms of the guarantee arrangement, the Exchange Fund has to compensate the banks in the event of a fall in the value of sterling in relation to the Hong Kong dollar. In addition, there would have been a direct loss to the Exchange Fund itself of the value of the sterling cover of the note issue; and a fall in the Hong Kong dollar value of securities held for the General Revenue Account, the Coinage Security Fund and the Rehabilitation Loan Sinking Fund. Altogether the drain on official resources would have amounted to about HK\$134 million or £ 9.2 million; and, of course, substantial losses would have been sustained by the general public and business firms.

As regards the internal monetary and social effects, we were concerned that the decision we took should be at least neutral in these terms. We sought to avoid an inflationary situation caused by demand for our exports exceeding our capacity to supply or by higher import prices pushing up costs. Inflation, be it demand-pull or cost-push, would cause social hardship because incomes would not move up evenly and there would be a redistribution of incomes in favour of profits and against some of the poorest elements in the community. More particularly, if we had not revalued the Hong Kong dollar by as much as sterling, the price of foodstuffs and other consumer goods from China would have risen in terms of Hong Kong dollars. (And, incidentally, at no time did I suggest that there was a simple relationship between any amount by which we devalued against sterling and the consumer price index, though one commentator in a magazine article entitled "Government blow to Hong Kong exports" tried to argue that I at least implied this). We sought also to avoid a deflationary situation caused by a deficiency of demand due to an over-valuation of the Hong Kong dollar against the US dollar; theoretically, and in the longer term, our economy should be able to adjust to almost any pattern of exchange rates, but lower import costs would take some time to work their way through the economy (and wages are not as flexible downwards as upwards). So a revaluation of, say, 10% while it would have switched the terms of trade further in our favour, might have involved painful problems of adjustment in the short and medium term.

Finally, Sir, we had to consider certain international aspects when deciding where to slot in the Hong Kong dollar in the new pattern of exchange rates. Here we run up against the argument that it is always better to have a slightly under-valued rather than over-valued currency. I can understand this argument but we had to avoid giving any impression that we were seeking an unfair advantage by undervaluing the Hong Kong dollar. One of the consequences of doing this might be further quantitative restrictions on our exports. Indeed, it would have been tragic if we had brought this reaction on our heads for a gain which could only have been temporary. Furthermore, given the total volume of our international trading transactions, I have no doubt that we were *expected* by our trading partners and by the International Monetary Fund to make an appropriate contribution to the settlement of the international monetary crisis. This settlement will, I hope, mean the beginning of a new chapter in world trading relationships and halt the recent deplorable retreat into restrictive trade policy measures to solve economic and monetary problems. Let us not forget that the 10% surcharge was lifted on a non-discriminatory basis, though there had been hints that the US Administration did not necessarily feel obliged to do so. The settlement can also be expected to lead to a revival of the United States economy which should more

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than offset any marginal loss of competitiveness, for the demand for imports in the United States is more sensitive to income levels than to price differences. Elsewhere in, say, Britain and Europe the ending of uncertainty should remove any impediment to private investment decisions and stimulate these economies, thus providing us with new export opportunities. In addition, the very large revaluation of the yen should provide our exporters with greater opportunities in the Japanese market, which I hope they will be quick to seize. Lastly, to the extent that our analysis of the internal effects of revaluing by as much as, but by no more than, sterling and other currencies maintaining their gold parities is correct, confidence in Hong Kong's future will not be at risk. I believe it would have been if we had not revalued at least by as much as sterling; and we were mindful also of the fact that our image as an aspirant financial centre might also be damaged.

I can only conclude, Sir, by reiterating what I said in my statement to the press on the evening of Monday, 20th December: I am confident that the decision taken will in no way weaken our trading position and, internally, financial stability will be maintained. The fact that we have kept the gold parity of the Hong Kong dollar unchanged is a sign of the strength of our currency and of our economy, and a mark of the Government's confidence in Hong Kong's economic future; this future the Government will endeavour further to secure by the adoption of appropriate policies tailored to our underlying circumstances and to our needs.

Question put and agreed to.

Next sitting

HIS EXCELLENCY THE PRESIDENT: —Accordingly I now adjourn the Council until 2.30 p.m. on Wednesday 19th January.

Adjourned accordingly at twenty-four minutes past three o'clock.