

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 27th March 1974****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
MR DENYS TUDOR EMIL ROBERTS, CBE, QC, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP
THE HONOURABLE THE ATTORNEY GENERAL (*Acting*)
MR GARTH CECIL THORNTON, QC
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DENTS CAMPBELL BRAY, JP
THE HONOURABLE DAVID RICHARD WATSON ALEXANDER, CBE, JP
DIRECTOR OF URBAN SERVICES
THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP
SECRETARY FOR THE ENVIRONMENT
THE HONOURABLE JOHN CANNING, JP
DIRECTOR OF EDUCATION
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP
DIRECTOR OF MEDICAL AND HEALTH SERVICES
THE HONOURABLE IAN MACDONALD LIGHTBODY, CMG, JP
SECRETARY FOR HOUSING
THE HONOURABLE DAVID HAROLD JORDAN, MBE, JP
DIRECTOR OF COMMERCE AND INDUSTRY
THE HONOURABLE LI FOOK-KOW, JP
SECRETARY FOR SOCIAL SERVICES
THE HONOURABLE DAVID AKERS-JONES, JP
DISTRICT COMMISSIONER, NEW TERRITORIES
THE HONOURABLE DAVID WYLIE MCDONALD, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE LEWIS MERVYN DAVIES, CMG, OBE
SECRETARY FOR SECURITY
THE HONOURABLE WOO PAK-CHUEN, CBE, JP
THE HONOURABLE SZETO WAI, CBE, JP
THE HONOURABLE WILFRED WONG SIEN-BING, OBE, JP
THE HONOURABLE WILSON WANG TZE-SAM, 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 ANN TSE-KA1, OBE, JP
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP
THE HONOURABLE PETER GORDON WILLIAMS, JP
THE HONOURABLE JAMES WU MAN-HON, JP
THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP
THE HONOURABLE GUY MOWBRAY SAYER, JP
THE HONOURABLE LI FOOK-WO, OBE, JP

ABSENT

THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL

MR KENNETH HARRY WHEELER

Papers

The following papers were laid pursuant to Standing Order 14(2): —

<i>Subject</i>	<i>LN No</i>
Subsidiary Legislation:	
Births and Deaths Registration Ordinance.	
Births and Deaths Registration (Amendment of First and Second Schedules) Order 1974	51
Prisons Ordinance.	
Training Centres Ordinance.	
Chatham Road Centre Order 1974	52
Drug Addiction Treatment Centres (Amendment) Ordinance 1974.	
Drug Addiction Treatment Centres (Amendment) Ordinance 1974 (Commencement) Notice 1974	53
Adoption Rules 1956.	
Delegation of Powers	54
Protection of Women and Juveniles Ordinance.	
Delegation of Powers	55
Interpretation and General Clauses Ordinance.	
Rectification of Errors (No 2) Order 1974	56
Revised Edition of the Laws Ordinance 1965.	
Revised Edition of the Laws (Correction of Error) Order 1974	57
Wild Birds and Wild Mammals Protection Ordinance.	
Wild Birds and Wild Mammals (Amendment of Schedule) Order 1974	58

Sessional Papers 1973-74:

No 55—Hong Kong Polytechnic Annual Report 1972-73 (published on 27.3.74).

No 56—Report of the Finance Committee on the Draft Estimates of Expenditure for 1974-75 (published on 27.3.74).

Report: —

Report of the Commission of Inquiry into the Ap Lei Chau Oil Spill (published on 27.3.74).

Oral answers to questions

Future of Murray House

1. MR WOO asked: —

Has Government any plans for the future of Murray House?

SECRETARY FOR THE ENVIRONMENT: —Sir, the land on which Murray House presently stands is earmarked as part of the site for the development of a large car park, Government offices and the new Supreme Court, Murray House must, therefore, either be incorporated in the design of the proposed complex, dismantled and re-erected elsewhere, or demolished. The proposals for the complex are currently being re-examined but it is likely that a revised scheme combining the new Supreme Court and the new office block and car park will be submitted to Public Works Sub-Committee of Finance Committee of this Council, Sir.

In Hong Kong terms, Murray House is an old building and although of no great architectural merit it is nevertheless attractive in form and detail and because of this and because of its comparative antiquity considerable thought has been given to its preservation.

Honourable Members are probably aware of the way in which the building has had to be propped up and strengthened over the years. It seems that the ordinary deterioration of the fabric of the building is being accelerated by the vibrations from the ever increasing density and weight of traffic in the adjacent roads. The Director of Public Works has now advised that apart from expensive maintenance (the cost of which over the past four years has averaged \$27,000 per annum), there is danger of structural failure, particularly in typhoons or

[SECRETARY FOR THE ENVIRONMENT] **Oral answers**

while engineering works are proceeding in the area. If the building is to be preserved therefore the sensible course of action would be to dismantle it and re-establish it with suitable reinforcement on another site where, incidentally, it could be better appreciated than on its present site where it is isolated and screened by roadworks and flyovers.

To dismantle and re-erect the building would cost approximately \$6.5 million and in addition any reasonably central site capable of accommodating the building would have a value of at least \$40 to \$50 million. Consideration has been given to re-erecting the building within an open space but because of the need for open space as such in all areas of Hong Kong, the Urban Council has advised Government that it could not support such a proposal as it would mean alienating open space already in short supply in the urban areas.

We have, therefore, with considerable reluctance, decided that unless any private benefactor comes forward with a suitable scheme and site for its reconstruction, Murray House will have to be demolished as soon as practicable in order not to impede the development of the New Supreme Court Building.

Sterling reserves

2. MR WOO asked: —

Will Government make a statement on the renewal of the agreement covering Hong Kong's sterling reserves?

THE FINANCIAL SECRETARY: —I am afraid, Sir, I am not in a position to make a statement at this time for the technical documents relating to the proposed extension of the present arrangement to the end of this year, announced by Her Majesty's Treasury on 15th March last, have not yet arrived in Hong Kong. Clearly, these documents must be studied carefully and of course Executive Council consulted before the Government can come to a view. I would ask my honourable Friend, therefore, to accept my assurance that I shall make a statement to this Council as soon as I am in a position to do so.

Combatting triads

3. MR CHEONG-LEEN asked: —

What new steps are being taken to combat the growing triad menace over which the public are now so widely concerned?

SECRETARY FOR SECURITY: —Sir, the Commissioner of Police has impressed upon me the fact that there is no immediate, short term, full or new solution to the problem. The level of counter action against such criminal elements is being increased and in addition the Commissioner is conducting an examination of the structure of CID with the object of improving crime prevention methods. Such changes which will be implemented shortly are aimed at improving the floor of criminal intelligence, with particular emphasis on triad type of activity, the strengthening of the Triad Society Bureau and increased disruptive effort against unlawful gangs based on more intimate knowledge of their activities.

The effect of counter gang action by Police is illustrated by the numbers of persons prosecuted for unlawful society offences; in 1972 a total of 836 were prosecuted and in 1973 this figure rose to 1,146. By the end of February this year a further 284 had been prosecuted. Pressure aimed at countering criminal gang activity continues to be exerted and honourable Members may have seen the reports of the arrest of 215 persons last weekend for suspected unlawful society association.

In the long term the Education, Home Affairs and the Social Welfare Departments, amongst others play an important role in the guidance of youth to try to ensure that they do not become involved with the criminal elements of society.

Finally increased public participation with the Police in combating the activities of triads will have a most beneficial effect.

MR CHEONG-LEEN: —Sir, is there any increasing relationship between triad activity and crimes of violence as well as extortion rackets?

SECRETARY FOR SECURITY: —I think that is the case, Sir. It is, of course, difficult to be definite on this subject. It is, as I have said to this Council, a matter which the Commissioner is re-examining and the relationship of triad activities, of course, is the aim of that particular examination.

Statements

Report of the Finance Committee on the Draft

Estimates of Expenditure for 1974-75

THE COLONIAL SECRETARY: —Sir, on the 27th February this year, the draft Estimates of Expenditure for 1974-75 were referred under Standing Order No 60(8) to the Finance Committee for examination. The Committee has completed its examination and its report has been laid on the table today.

I should like to take this opportunity of expressing my appreciation to those Members of this Council who, as Members of the Finance Committee, devote so much of their time and effort to the scrutiny of public expenditure. I refer not only to their examination of the annual Estimates but also to the fortnightly meetings of the Finance Committee which are held throughout the year to consider requests for supplementary expenditure. I can assure them that this most valuable public service is greatly appreciated by the Government.

Report of the Commission of Inquiry into the

Ap Lei Chau Oil Spill

SECRETARY FOR THE ENVIRONMENT: —Sir, in tabling the Report of the Commission of Inquiry into the Ap Lei Chau Oil Spill, I should perhaps first mention the action so far taken by Government to deal with the pollution and the damage caused by the oil spill: this is outside the terms of reference of the Commission and therefore not covered by the report but should, nevertheless, be recorded.

The clean-up operation (for a variously estimated amount of 2,000 to 4,000 tons of oil and the largest ever taken) was launched by the Marine Department, with substantial assistance from the Shell Company. By far the greater part of the spill was cleaned up within 10 days. Fortunately, due to favourable weather conditions, major pollution of the main beaches on the south side of Hong Kong Island did not occur. The bill of \$1.15 million for the expenses incurred by Government for the clean-up, has been sent to the Shell Oil Company for settlement.

To strengthen the existing machinery for oil pollution operations, orders have been placed for the purchase of additional equipment and resources recommended by "SCOOP" (which is the code name of the Special Committee of the Port Executive Committee on Oil Pollution). The cost of these will be about \$850,000.

Also the contingency plan has been considered in detail by all those concerned and a new plan has been issued. Extension of this contingency plan to cover the landward side and the need for further resources for oil pollution operations are being examined by the Marine Department in conjunction with "SCOOP".

Under the auspices of the New Territories Administration and the Home Affairs Department, agreement has been reached between the Shell Company and the fish farmers at Picnic Bay and Aberdeen Harbour for payment of some \$6 million for losses suffered by the fish farmers.

The Agriculture and Fisheries Department is re-examining the existing legislation relating to mariculture with a view to bringing fish farming under proper control. Also the marine ecologist, Dr TOKUDA, commissioned by Government to study the damage to marine life, has submitted his interim report. On his suggestion further research is being conducted by the Agriculture and Fisheries Department into the long-term effect of the spill on marine life in the surrounding waters.

The prompt and efficient manner in which the Government departments reacted to the incident has indicated that the existing Government machinery does have adequate ability to deal with any major oil spill in our waters. Nevertheless, in the light of experience gained from this exercise this machinery, as I have already mentioned, is being modified and strengthened.

May I now turn to the Report of the Commission of Inquiry which has concluded that:

- (a) the tank rupture was caused by the failure of the foundations due to excessive localized settlement of the ground; and
- (b) the pollution was caused by the oil that escaped into the sea primarily because of human error compounded with inadequate safety devices and partially because the floor of the bunded area was not impervious.

To prevent a repetition of similar incidents the Commission has recommended that:

- (a) an adequate investigation of the underlying soil strata should be conducted before any major oil storage installation is constructed;
- (b) suitable materials and construction methods should be adopted to ensure that bunded areas are impervious;

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- (c) regular settlement records should be taken of each new oil storage tank to ensure that appropriate remedial action is taken as soon as defects have been detected; and
- (d) adequately designed gate valves should be provided to control surface drainage outlet through the bund wall and the valve system should normally be kept in good working order by regular operation, testing and maintenance.

These recommendations have all been accepted by Government and a copy of the report is being sent to all the companies with oil tank farms drawing their attention to these recommendations.

Although the Commission recommended no change in the existing legislation and system of control it is felt that some degree of Government control should be introduced in view of the risks involved and the seriousness of a further oil spill.

Subject to the approval of the Finance Committee of this Council, it is intended that consultants should be employed to examine existing oil storage installations and to draw up a code of practice to be followed by the oil companies. It would then be for consideration in the light of these recommendations whether these installations should be brought under closer Government scrutiny and control and if so, how this control should be exercised.

May I conclude, Sir, by saying that the Ap Lei Chau oil spill has been a timely lesson for us all, especially in the light of proposals for more oil storage farms and the possibility of potentially polluting industries, such as refinery and petrochemical plants, in future. We escaped heavy pollution on this occasion by a combination of favourable weather conditions and the very efficient way in which all the Government departments involved, ably assisted by the Shell Company, tackled their various jobs. I take this opportunity Sir of thanking them publicly for their efforts confident that, with the experience they now have in dealing with oil spills and the additional equipment they need, they will be ready to deal with any incident in the future.

Hong Kong Polytechnic Annual Report 1972-73

DR CHUNG: —Your Excellency, among the various papers laid on the table of this Council today is the Hong Kong Polytechnic First

Annual Report covering the academic year from 1st August 1972 to 31st July 1973.

The first Board of Governors was appointed by you, Sir, in March 1972 and on the 1st August the same year the Polytechnic Board and Director assumed responsibility for the former Hong Kong Technical College. As there was insufficient lead time for expansion, the academic activities during the year 1972-73 have on the whole been maintained on the same level as in the previous year in the Technical College.

High priority has, however, been given to prepare plans for development and this is reflected in two major planning exercises carried out during the year. The first was the preparation of the Academic and Administrative Development Plan for the three immediate academic years ahead, 1973-74—1975-76. The second was the Building Development Plan for the temporary accommodation up to 1976-77 and for a permanent campus to cater for 8,000 full-time day students and 20,000 part-time evening students.

Staffing is one of the most critical factors in the development of the polytechnic. In order to ensure that the polytechnic will have the necessary qualified teaching manpower in time to carry out its academic development, two major recruitment drives were mounted, on a worldwide scale, in late 1972 and early 1973. By the end of the year under review, the number of teaching staff in post had risen from 137 to 180 and offers of appointment had been made to a further 49.

Sir, I would like to take this opportunity to make two acknowledgements. First, all members of the polytechnic are much honoured by your gracious consent, Sir, to become the first President of the Hong Kong Polytechnic. Secondly, we are most grateful to Her Majesty's Government for the very generous grant of £ 500,000 sterling to the polytechnic for the provision of library books and equipment of the Learning Resources Centre and for equipping the engineering workshops and laboratories. It is hoped that other Governments and large international companies will follow this good example and make contributions either in money or in kind to the polytechnic which will be one of the most important institutions for fostering industrial, commercial and economic development in the future of Hong Kong.

Government business**Motions****MAGISTRATES ORDINANCE**

THE ATTORNEY GENERAL moved the following motion: —

That the Magistrates (Forms) (Amendment) Rules 1974, made by the Chief Justice on the 19th February 1974, be approved.

He said: —Sir, I move the first resolution standing in my name on the Order Paper.

Section 133 of the Magistrates Ordinance empowers the Chief Justice, with the approval by resolution of this Council, to make rules for the carrying into effect of the Ordinance.

In accordance with these powers, the Chief Justice has made the Magistrates (Forms) (Amendment) Rules 1974. The purpose of these rules is to expand the information contained in a prescribed form which is used in connection with prosecutions for offences against Part III of the Public Health and Urban Services Ordinance (which deals with general sanitation and cleanliness) or against the Public Cleansing and Prevention of Nuisances By-laws.

Question put and agreed to.

OFFENCES AGAINST THE PERSON ORDINANCE

THE ATTORNEY GENERAL moved the following motion: —

Pursuant to section 47A of the Offences Against the Person Ordinance, that the said section 47A shall expire on the 31st March 1976.

He said: —Sir, I move the second resolution standing in my name on the Order Paper. The purpose of this resolution is to extend the duration of section 47A of the Offences Against the Person Ordinance for a period of two years from the end of this month.

When moving the second reading of the bill which enacted section 47A in March 1972, the Attorney General emphasized that the section was not intended to legalize abortion in any general way. The purpose was a limited one—to do no more than protect doctors who

undertake therapeutic abortions in certain specified circumstances and in Government or approved hospitals or clinics.

This is a subject on which many people hold strong views. At that time, and indeed more recently, the Government and honourable Members have been assisted by expressions of those views, some urging that legislation be tightened or dropped, others urging greater liberalization. In 1972 there was some anxiety that the legislation might be abused by unscrupulous persons. For this reason the law was enacted for a trial period to enable the Director of Medical and Health Services to keep a close watch on its operation.

To enable the Director to do this, regulations were enacted requiring medical practitioners to provide him with certified information regarding all cases in which pregnancy is terminated. It appears from the certificates sent to the Director in 1973 that the total of pregnancies terminated under section 47A in that year was 184.

It is too early to draw conclusions from this figure, drawn from one 12 month period, but clearly it is not large and does not suggest that there has been abuse of the legislation. Because the figure is small, and the fact that the certificates have been coming in for little more than a year, the Government considers that a longer trial period is desirable. This would enable firmer conclusions to be drawn about the way section 47A is operating and its value and effectiveness.

The Director of Medical and Health Services supports a longer trial period so that further returns may assist in the analysis of information on such matters as age, socio-economic status and family size of the women concerned, the duration of pregnancy prior to termination, the medical conditions leading to the doctor's decision to operate and the numbers of women subsequently opting for sterilization.

For these reasons, a two-year extension of the legislation is proposed. This would ensure that the working of the section is again reviewed early in 1976 in the light of fuller information extending over a more meaningful period.

Question put and agreed to.

Second reading of bills**APPROPRIATION BILL 1974****Resumption of debate on second reading (14th March 1974)**

Question proposed.

MR CANNING: —Sir, usually in the debate on the budget the subject of education figures largely in the speeches which are made. This year however there have been few comments on education and only two Members spoke at any length on the subject. I should not like the public to think however that the Unofficial Members have lost interest in education and I am happy to report that this is not the case.

This year differs from previous years in that this financial year saw the publication of the green paper on secondary expansion or to speak in more formal terms saw the publication of the Report of the Board of Education on the proposed expansion of secondary school education in Hong Kong over the next decade. The public at large were invited to comment on the green paper and the debate which ensued was lively, stimulating and threw up some very constructive ideas. The Unofficial Members of the Legislative Council gave the green paper very serious consideration and an *ad hoc* group presented to Government a paper setting out the agreed views of Members. It is this, Sir, which explains, I think, the relative absence of comment on education during this debate.

The situation we have now reached in our general handling of this matter is that the views which have been expressed, by the public at large, by interested professional bodies and by UMELCO are being collated and it is intended to present these views to the Board of Education for their further advice.

A good deal of preparatory work has been done for the proposed white paper on education and when the Board's advice has been received the finalization of the draft white paper should not be long delayed.

The next stage, as I see it, is that the draft white paper will be considered by you, Sir, in Council. The finalized form will then be laid on the table of this Council and be debated. I hope this process will not be too long and that the resultant policy will indicate clearly the direction in which secondary education should move during the next decade. It is also my firm belief that the procedure we have

adopted to arrive at future expansion policies has been perfectly sensible, perfectly proper and suited to the needs, aspirations and wishes of the people of Hong Kong. The invitation to the community to become involved in the decision making process has proved successful and although the process is somewhat lengthy it has proved very well worthwhile.

There is however one message which has come through loud and clear in all the comments which have been made on the green paper and it is this "What is being proposed seems very fine but why do we have to wait so long".

Mr Wilson WANG in his speech caught the mood of this general response. He requested that urgent attention be given to alleviating the anxiety facing parents of children in Primary 6 over the future prospects of their children's education after this summer. He went on to argue the case for maximizing the usage of present facilities so as to achieve the highest enrolment possible within existing facilities.

I do not wish to comment too closely on this suggestion or indeed other suggestions which have been made on the green paper on education. It would not be proper to do so, as I may be accused of pre-empting the discussions on the paper I shall shortly be presenting to the Board of Education. (*Laughter*). May I, Sir, in parenthesis as it were, apologize for the use of the word pre-empting once more in this debate.

I feel however that I should say that as far as this year is concerned there are difficulties in the way of formulating new policies regarding entry to secondary schools to be implemented from September but plans for the expansion of secondary education up to 1976 in accordance with existing policy will, in any event, take place. I am sure my honourable Friend Mr WANG would agree that as far as secondary expansion is concerned we are at the cross-roads and that it would be imprudent to turn in any one particular direction without a careful examination of the long-term effects on our children's future. This examination is being carried out as fast as possible but many factors, not the least where the qualified teachers or where the money to finance the massive expansion would come from, have to be taken into account. But I am sure I can rely on my honourable Friends to chide me constantly if they feel that the delay is becoming too long.

SECRETARY FOR SOCIAL SERVICES: —Sir, my honourable Friend Mr Hilton CHEONG-LEEN asked Government to watch the employment

[SECRETARY FOR SOCIAL SERVICES] **Appropriation Bill—resumption of debate on second reading (14.3.74)**

situation; he felt that, since the oil crisis, there has been an increasing level of unemployment and under-employment in Hong Kong.

There is no system for actually registering persons who are underemployed or unemployed but there are a number of reasonably reliable indicators of the situation. One of these is the number of persons actually employed in industrial undertakings and the returns for the quarter ending December 1973 show industrial employment at the highest level ever recorded. Another guideline is the public assistance statistics; these too show that the number of new public assistance cases has tended to decline slightly in recent months. The families of unemployed persons may be helped under that scheme while the individual is automatically referred to the Employment Service of the Labour Department. There has been no increase in the numbers referred from this or other sources such as the City District Officers.

From what I have just said, Sir, it would appear that there is little evidence to support my honourable Friend's contention. But the situation can change and can change quickly. Consequently, I agree that it is important that Government should be keeping a close watch on the employment situation and I can assure honourable Members that steps are being taken where necessary to improve co-ordination between departments in publicising the Employment Services of the Labour Department.

Sir, I have pleasure in supporting the motion before Council.

THE COLONIAL SECRETARY: —Sir, as honourable Members have mainly confined themselves to financial and economic subjects, there is happily little for me to say, though there have been some comments on the public service to which I should briefly reply.

The honourable Mr CHEONG-LEEN has suggested that, when civil service salaries are reviewed, back-pay should not be given. Although I agree that the payment of arrears for long periods is undesirable, some back-dating is unavoidable.

An important factor, which must be taken into account in any review of public service salaries, is the need to ensure that they do not lead the private sector. Therefore, the usual practice is to collect information on the salaries payable in private businesses at a particular

date and it therefore seems fair that this date should be the effective one for changes made in public service salaries.

In any event, the procedures which have to be followed make some delay inevitable. The information on salaries which are paid to employees in private firms has to be processed, discussions are usually conducted with Staff Associations and proposals have to be submitted to the Finance Committee. Therefore, although we will do our best to ensure that the period of arrears is as short as possible, some back-dating is usually difficult to avoid.

The honourable Mr WILLIAMS asked the Government to consider pre-engagement courses for various grades in the public service, in order to find out if applicants are of the right material. There are several student grades in the public service, which serve the functions which I think the honourable Friend has in mind and we will investigate the possibility of establishing further grades of this nature when the opportunity arises.

The same honourable Member also enquired whether, when considering promotions, we place too much emphasis on age and length of service, thus failing to make the best use of the talents of outstanding officers early enough in their careers. There certainly is Sir a constant danger, in any large organization, that a practice will grow up of promoting the next most senior person, though it must be admitted that this method is popular with many employees, who see merit in certainty of advancement. We must seek to strike a proper balance between promotion which gives too much weight to seniority and the risk of advancing officers to positions of responsibility before they have the experience and judgment necessary to occupy them successfully.

I agree with the honourable Mr LI that the Government should build and own its own accommodation, in preference to leasing. We accept this as our objective, but we are likely to have to meet a part of our requirements by leasing, sometimes because a need arises for accommodation in a new location, and sometimes because there is a considerable lag between established demand and the completion of the buildings which are required to meet that demand.

I accept the honourable Mr CHEUNG's comment that the standard of housing provided for civil servants should be reasonable, without being lavish, and I can assure him that the scales of accommodation for Government quarters are scrutinized from time to time with this in mind. Those for type I and type II quarters were reviewed by the Public Works Sub-Committee only last year and we shall continue to

[THE COLONIAL SECRETARY] **Appropriation Bill—resumption of debate on second reading (14.3.74)**

re-examine standards to make sure that they do not exceed those which are applicable to comparable employees in the private sector.

The honourable Mr CHEUNG also doubted the desirability of painting double white lines on our roads. I doubt whether the number of specially trained police officers, whose lives are dedicated to the service of these marks, constitutes a serious drain on the economy, and I believe that we can confidently rely on the eternal vigilance of the Financial Secretary to prevent this happening. In any event, I hope that the honourable Member, however dubious he may be of the value of white lines, will observe them, so that we may continue to enjoy his witty and amusing remarks in this Council. (*Laughter*).

The honourable Mr WILLIAMS advanced the intriguing suggestion that I should require a report to be submitted to me on any meeting which lasts over one and a quarter hours, in the hope that this practice will expose some of the slow moving and inefficient areas of the Government.

While this idea has attractions, I must point out that, on the day on which the honourable Member himself spoke, this Council sat for two hours and 25 minutes. On the previous day, when we had the pleasure of listening to his colleagues, the meeting lasted for two hours. Perhaps this illustrates the fact that quantity does not necessarily involve a sacrifice of quality. (*Laughter*).

While therefore, I agree with the honourable Member's general view that too much time is spent in meetings, I find myself in the position of the Irish forger who was discovered with a suitcase full of 12 dollar notes, that is to say, with an excellent idea which I don't quite know how to use. (*Laughter*).

With these remarks Sir I support the motion.

THE RICE CONTROL SCHEME

MR JORDAN: —Sir, my honourable Friend the Financial Secretary will be speaking at length on the subject of inflation—and particularly price inflation—but, since I am the statutory authority responsible for the Government's Rice Control Scheme, it seems clearly necessary that I should speak at some length about rice, in view of the concern expressed

by Unofficial Members, and by the press and public, about both supplies and prices of this staple commodity, and indeed I welcome the opportunity to do so and to explain the policy which determines the administration of the Rice Control Scheme.

I should like to deal separately, as far as possible, with the two aspects—supplies and prices. The scheme is, as I have said before in this Council, basically a scheme to ensure supplies and to guard against sudden fluctuation in prices.

I think it will be helpful if I provide first a few significant facts and figures.

Background

The scheme was introduced in 1955 and replaced an earlier system of import control which involved the bulk purchase of rice by the Government. Although that system had provided a reasonably adequate supply of rice, substantial financial losses had occurred, basically because bureaucrats do not make the best businessmen. The present scheme was therefore devised and it was intended to provide the maximum freedom for importers to buy rice in bulk from exporting countries, subject only to supervision by the Commerce and Industry Department. The importers registered under the scheme were selected because of their proven experience of the rice trade. There were enough of them to provide for imports from most of the traditional sources of supply and to maintain a good degree of market competition. The department applied a number of conditions to the registration of importers and the principal of these was, and still is, the requirement on each registered importer that he shall maintain a specific stock of rice at all times. The aggregate basic stockholding has been for many years 44,000 metric tons. By means of issuing mandatory additional and supplementary quotas, however, the department has been able to ensure that larger stocks should be held when the international supply situation has seemed to justify or require this. This situation changes, of course, from year to year and even with the seasons in any one year. When supplies are plentiful, forecasts are good, and prices are static, near static or declining, it is not necessary to maintain a very large additional stockpile. When supplies are uncertain, harvest forecasts are gloomy and prices are erratic or increasing substantially, it is prudent for Hong Kong to have a large reserve stock of rice. In all these fine calculations and assessments, of course, the department must also have regard to the cost of storage in Hong Kong. The higher the stockpile the longer the storage time, the greater the amount of capital tied up in stock and therefore the

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greater the overhead cost element in the sale price to the consumer. So there has to be very careful assessment of many complicated factors, both international and internal, before quotas are issued every quarter to the registered importers. I can assure my honourable Friends that these calculations are done very carefully. When the assessment has been made it comes to me and I decide what the import quota requirement shall be for each quarter.

Consumption

Hong Kong consumes about 350,000 metric tons of rice annually and this is an almost static figure. Per capita consumption of rice has therefore steadily decreased over the years. What is more significant perhaps is that there has been for many years a steadily increasing demand for the higher qualities of rice. The proportion of top grade rice in our total consumption has increased from 40% in 1962 to 63% in 1973.

A year ago the retail price of rice ranged from \$1.00 to \$1.45 a catty. The range is now, I'm sorry to say, from \$1.70 to \$2.40 a catty. And yet even in the past twelve months the demand for top quality rice has continued to increase.

At present prices, Hong Kong's annual consumption of rice represents well over \$650 million in import trade. I have no doubt that Hong Kong must be seen by exporting countries to be a market worth cultivating. It is all the more surprising therefore that one major supplier saw fit last year to apply, without prior warning or discussion with us, a total ban on exports of rice. I will refer to this again later in the context of the effectiveness of the Rice Control Scheme.

Government Policy

The Government policy in establishing and maintaining this scheme is, I hope, well known. It has certainly been explained many times in this Chamber. It is that the supply of this basic foodstuff, beyond all others, must be maintained at the level of current consumption and that a stockpile is necessary in case imports are in any way suddenly and adversely affected. In such circumstances the stocks can be run down whilst our importers seek out alternative sources of supply. The scheme is essentially a supply mechanism and was not

intended to be, or to incorporate, a price control. In normal circumstances, the degree of competition among 38 importers and down through the trade to the several thousands of retailers will ensure that prices at the consumer end reflect reasonable markups and profits at the various levels. I will however come back to the question of prices a little later.

Supply Position

The prime function for this scheme is, then, to ensure an adequate *supply* of rice. Let me make the claim now that, during the 19 years it has been in operation, the scheme has worked remarkably well. Despite fluctuating harvests in Asia and famine from time to time in many areas during this period, Hong Kong has never had to resort to rice rationing nor has there been, to my knowledge, any time at which our stockholding was materially below the basic reserve figure.

We have just passed through the most difficult supply year in our recollection. We were aware, at the beginning of last year, that supplies might become difficult during the year and we increased the stockholding accordingly. During June 1973, an export ban on rice was suddenly imposed by the Thai authorities and this would have had the gravest effects on our supply and consumption if we had not had a relatively large stockpile here. Thailand was our main supplier for many years and during 1972 had supplied 64% of our total imports. It does not need much imagination to see what would have happened if there had been an inadequate stock of rice in Hong Kong at that time.

Honourable Members are aware that a little earlier in June 1973 we had removed the previous quantitative restriction on the import of rice from China. We were then able to overcome the supply difficulties caused by the Thai ban, thanks, as I have said before in this Council, to the resourcefulness of our importers and to the readiness of the authorities in the People's Republic of China to increase their supplies to Hong Kong.

Thus, although we consumed as usual about 350,000 metric tons of rice in 1973, we ended the year with a stockpile, which, at 99,000 tons, was 12,000 tons higher than we had at the beginning of the year.

I decided therefore to reduce the first quarter of 1974 rice quotas in order to bring down the stockpile to a more normal level of about 70,000 metric tons. Market forecasts for 1974 were good and they remain good and I do not at present foresee any difficulty in maintaining

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the *supply* of rice to the market at a rate which meets consumer demand. On the 12th of March our rice stockpile stood at 68,000 metric tons and imports are coming in at a satisfactory rate.

In terms of the *supply* of rice (and that is what the Rice Control Scheme is all about) I must therefore reject the assertion of my honourable Friend Mr SZETO that reports and allegations of speculation and profiteering clearly show that our control system is ineffective. I hope he is now, or will he be by the time I come to the end of this rather long speech, satisfied that we are "seen to be genuinely concerned with the situation".

May I also refer briefly here to my honourable Friend Dr CHUNG's suggestion that wholesalers should be eliminated? The consumer always finds it difficult to see what useful function a wholesaler performs and yet in every reasonably sophisticated community wholesalers exist because I believe they do perform a useful, indeed essential, function. I think that what we must do is to ensure that they do not abuse their position, rather than try to eliminate them. I shall try to describe later what we have done in this respect by opening up alternative channels of trade.

Prices

May I now turn, Sir, to the question of prices because, although there have been some suggestions that supply was inadequate, prices are what most people are complaining about. As I have said, the scheme was not devised to control prices but only to provide a cushion against violent fluctuations. It cannot prevent the general trend of prices being in line with world market prices. In normal times, the element of competition in the system keeps speculation to a minimum and hoarding is unnecessary. The present times, however, are not normal, despite the completely adequate overall supply situation. The movement of rice prices across the world, in common with those for many other commodities, has been completely abnormal for many months. The import price for Thai 100% whole 3rd Grade rice in January 1973 was \$1,152 a metric ton. In January 1974 this was \$2,679 a metric ton, and today it is over \$3,100 a metric ton. Chinese See Mew rice in January 1973 cost \$1,421 a metric ton to import. In January 1974 it was \$2,603 and today it is over \$3,200 per metric ton.

I hope everyone understands that the Rice Control Scheme cannot insulate the consumer from the world—retail prices of rice must reflect the price movement in the international market for rice. At the same time, the public is understandably concerned about the possibility of deliberate manipulation of stocks, supplies and prices by importers, wholesalers or retailers within the rice trade, using the Rice Control Scheme in order to squeeze unreasonably high profits from the consumer. They have a right to be concerned and I have a responsibility to make sure that this does not happen or that if it does—if some malpractice arises—that it is quickly stopped.

There have been times in the past when there was evidence that importers and wholesalers were withholding supplies from retailers to obtain higher returns in a rising market. My predecessors were able to deal with these situations by reminding importers of the statutory powers that the Director holds. We thus secured the release of more rice to the local market. It was not necessary to try to establish maximum prices.

The present problem with prices however is much more serious than the earlier ones. Firstly, rice prices across the world have during the past year increased continuously and massively. Despite good harvests and the prospect of very good crops again this year, prices are likely to continue to rise. Exporting countries face massively increased bills for imported oils and oil-based products and must try to earn more from their exports to balance their accounts. Worldwide inflation has its effect on every commodity.

I cannot see any early end, therefore, to the upward movement of rice prices and we must plan on the basis that the trend will continue for some time. The opportunity for speculation is, of course, much greater in a rising market.

I should be failing in my duty to the public if I did not recognize this fact and accept that a Government-administered Rice Control Scheme must protect the public from malpractices of any kind. To increase the supply to the market is not enough in these unusual circumstances: I must also be able to influence prices to the consumer. That means an internal system by which I can control the maximum markup taken by the importer, wholesaler and the retailer. It also means that I must have the most comprehensive advice from the trade and from the public about supplies and prices. Finally, it means that I must be able to monitor the results of any controls I impose and ensure that people who break the rules are penalized. It

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goes without saying that any such controls should be dismantled as soon as possible.

It may be helpful if I set out very briefly the course of events which brought the department rather unwillingly into an area of partial price controls on rice.

International rice prices began to move fairly sharply upwards during the second half of 1972, in concert with prices for other commodities and reflecting the general trend of inflation across the world. This trend accelerated slightly towards the end of 1972 when a diminished Thai harvest was reported. Rumours of a possible suspension of rice exports from Thailand in January 1973 led to uncertainty in the Hong Kong market and of course in other markets to which Thailand was a major supplier. It became clear to me in early 1973 that some importers and wholesalers were taking advantage of this uncertainty to sell rice at prices substantially above levels which could be accepted as reasonable. These increases of course were being passed on to the consumer. The wholesale prices at the time reflected an excessive level of profit and in February 1973 I addressed a meeting of all the registered rice importers and the Chairman and Committee Members of the Hong Kong Rice Merchants Association (the wholesalers) and warned them that I could not permit exploitation of uncertainty in this way. I said I would have no hesitation in using the legal powers vested in me under the Import and Export (Reserved Commodities) Regulations to take whatever action I thought necessary to ensure that there was no manipulation of the Rice Control Scheme to obtain excessive profits at any level of the trade. Rice prices in fact were reduced after this warning.

However, import costs of rice continued to rise during 1973, and in order that the department should be kept fully aware of the prices being charged by importers to wholesalers, an arrangement was agreed in June 1973 between the department and the registered rice importers that further increases in their sales prices would not be brought into effect without prior consultation with the department.

This amounted of course to a form of price control and this arrangement has been maintained up to the present time. I have been able to determine fairly accurately what the margin of profit might be for the importers within the maximum prices permitted. In my calculations I have naturally taken account of the cost of storage of

our very large stockholding, bank charges, insurance, handling charges and other overheads for the importers. The margin of profit allowed is not, I believe, excessive.

Recent Events

In recent months, and despite a fully adequate supply of rice to the market, I have been aware of temporary shortages occurring from time to time at the consumer end of the trade. These shortages were caused by the expectation within the trade of retail price increases, as one supplier or another announced increases in their prices. The shortages were artificial and some of them were undoubtedly contrived in order that people holding stocks of rice at all levels of the trade could profit from higher prices. Until recently, however, this sort of thing had only a slight effect on trade and prices. Towards the end of February, however, the situation deteriorated sharply. Everyone in the trade was aware that prices must soon be increased again and many were trying to take advantage of this situation, while blaming the artificial shortage they created on the fact that I had reduced the import quota for the first quarter of the year. It was of course well known to the trade that I had, as I have already explained, done this to reduce our stockpile from the unnecessarily high level it had reached at the end of 1973.

My predecessors and I have always tried to keep our intervention in the trade to the minimum consistent with the satisfactory operation of the scheme. However, I could not accept that this sort of thing should be allowed to continue. We therefore took a number of measures which we thought should together provide an effective damper on speculation and price manipulation. In taking these measures I have been less concerned with proving who is the guilty party than with establishing a system which will ensure that the malpractices do not recur.

Action Taken

To this end I established a Rice Advisory Committee on the 12th of March, with representatives of all sectors of the trade and officials from the Commerce and Industry Department. I hope to have at least one representative of consumers on the committee shortly. I expect the committee to be able to pinpoint the problems, suggest solutions and secure the support and understanding of each sector of the trade. It will serve as a channel of communication between the respective associations and the department. I should, however, say,

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with reference to my honourable Friend Mr SZETO's suggestion that the committee should have some statutory teeth despite its advisory status, that I do not envisage this. The committee has already met four times and is proving most useful but I believe that I should retain my statutory authority—and responsibility.

I would not like it to be thought that we have up to now been trying to operate the Control Scheme in a vacuum. We have always been in touch with the trade: what we have done now is to formalize these contacts and to provide a forum for consultation with and between the three levels of importers, wholesalers and retailers, whereas previously we consulted with each separately.

In order to ensure that the public shall have access to rice of specified qualities and weights and at reasonable prices—by which I mean prices that are reasonable in relation to import costs—we have extended and re-organized a scheme under which major retail outlets, particularly those willing to sell packaged rice, can register with the Commerce and Industry Department to buy rice directly from importers. I will guarantee their supplies in return for their written undertaking to charge no more than \$40 per picul markup on the importer's selling price, which is also under control. The actual markup being taken by the participating companies is proving in many cases to be less than \$40. I intend to expand this scheme as far as is necessary to establish a fair price outlet in every district of the Colony. If there is any difficulty over supplies of rice to registered retail outlets I shall use the quota system to have supplies imported especially for them. There is quota available for this purpose and we are in discussion with one major supplier of rice about this possibility.

Another scheme which has been revived relates to the supply of rice direct from importers to large businesses. This has been in existence on a small scale for many years. We are now working out the ground rules for a permanent system and this scheme too has considerable potential for ensuring supplies to consumers at fair prices. There are other measures which are open to me within the provisions of the legal framework of the present scheme and I will not hesitate to use these powers as and when necessary.

I have however had to look again at the existing legislation to see whether it contains adequate powers to enable me to deal with problems arising within all three sectors of the trade. I have adequate

control over importers but I have come to the conclusion that my authority to influence supplies on their way to the consumer must be extended to wholesalers if I am to be able to prevent this section of the trade from hoarding and anticipating price increases. I propose therefore to seek some amendment to the Reserved Commodities Regulations. As far as the retailers are concerned, I hope that we can maintain a sufficiently strong influence on their prices by ensuring adequate supplies to them on the one hand and through the Direct Retail Scheme on the other.

As my honourable Friend Mr CHEONG-LEEN suggested, publicity for the measures taken to ensure fair market prices for rice is important. I hope my honourable Friend will agree that we have very widely publicized the various measures taken including information on the maximum fair prices for different grades of rice. In this regard, the press, radio and television stations have all been very helpful.

I apologize for the length of time I have taken to explain some of the basic philosophy and the changing character of the Rice Control Scheme. It has been, in my view, one of the most important and successful trade controls ever established in Hong Kong. It is flexible enough, I think, to permit adaptation to changing circumstances and differing problems. It will, I know, continue to ensure an adequate supply of rice to our population and, in the present inflationary situation, it can be used to protect the public against price manipulation. I shall certainly do everything possible to this end.

I hope, Sir, that I have said enough already for it to be unnecessary for me to spell out in detail why I must also reject the allegations of my honourable Friend Mr CHEONG-LEEN that we had 'until last week' been helpless, unimaginative, uncourageous and ostrich-like; and given unsatisfactory answers to questions asked in this Council. My honourable Friend has, I think, asked not several but only two questions in the past year. On 1st August last year he asked how many complaints of overcharging in retail shops had been received. We had had two and we had dealt with them, presumably to my honourable Friend's satisfaction since he asked no supplementaries. In February this year I answered my honourable Friend's question about keeping prices stable and dealing with complaints. In a supplementary he asked whether we had investigated complaints by rice retail associations of profiteering by wholesalers. I mention all this because it brings out a point that I would like to make. It relates also to my honourable Friend's suggestion that we should seek more public cooperation in "the fight against profiteering in rice".

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Although it is widely known that the Commerce and Industry Department is responsible for the Rice Control Scheme and although we have made it clear that we accept responsibility for seeing that the scheme works satisfactorily—that is to say, that supplies are adequate and that retail customers can buy rice at prices that are reasonable in relation to import costs—despite this and although the newspapers have carried many generalized complaints about malpractices by importers, wholesalers and retailers—we have, apart from those two anonymous telephoned complaints last summer, received only two other specific complaints. These were made only a few days ago by a retailer and we were able to bring about an immediate improvement through the Rice Advisory Committee.

The other day a prominent local figure was quoted in the newspapers as saying that he knew—he had specific information about particular people. I instructed one of my officers to telephone him. He confirmed that he had this information but declined to give it on the telephone. We arranged an appointment to see him: he has failed to keep it.

My point is this: so long as people will not make specific complaints but just go in for general grumbling with dark hints of malpractice, all we can do is to devise and implement general rules and procedures designed to avoid or prevent malpractices. We can't take any action against any individuals unless we have evidence that points at them.

There have been a lot of allegations of 'under the counter' payments, and I have little doubt that these payments have been made. Only one person has been prepared to give us any specific information and even he refused to be named in our enquiries with the wholesaler concerned. Now complainants may have very good reasons for their reluctance to be named but to coin a phrase—'without evidence we can't prosecute'.

Finally, — at least on rice, Sir, I don't understand why my honourable Friend said that we had previously said we could do nothing about retail prices. The whole object of our actions on prices over the past year has been to influence retail prices, by ensuring that the importers' and wholesalers' markups are not unreasonable and by ensuring that supplies are adequate. I won't repeat myself any more but in order to deal with that 'previously', may I just refer my honourable

Friend to my reply to Mr Wilfred WONG's question on 14th March 1973, to the Financial Secretary's reply to Mr P. C. WOO on 20 June, to Mr Ho's reply that I have already quoted, to my speech on Your Excellency's address on 28th November, and finally to my reply to my honourable Friend's question on 13th February this year.

LIQUOR AND TOBACCO DUTIES

If I may turn now, Sir, to another aspect of my responsibilities: my honourable Friend Mr WILLIAMS has suggested that our action on restricting withdrawals from bond of liquor and tobacco in the week or so before the budget had bad effects in that it signalled budget proposals leading to profiteering and hoarding.

It also had one good effect: it protected the revenue.

I might add that although we had to stop withdrawals on 19th February, we resumed them very quickly, except for those few companies that had already withdrawn large quantities of dutiable commodities in that month. I had widespread checks made at the retail level and there was very little sign of profiteering or shortage during the time when withdrawals were limited. Indeed, in some shops liquor continued to be available at pre-budget prices well after budget day.

My honourable Friend has suggested that the Commerce and Industry Department should get together with the liquor and tobacco trade to establish a mutually acceptable method of regulating releases from bond prior to each budget day so as to protect both the revenue and the pattern of the trade. He will be glad to know that I had already held preliminary discussions with representatives of the Liquor and Provisions Importers' Association before the budget proposals were announced, and we shall of course discuss the matter with the tobacco manufacturers as well.

COMMERCE AND INDUSTRY

Finally, Sir, I should like to say a little about commerce and industry generally and about the department's role and organization in particular. I am grateful to my honourable Friend Mr Q. W. LEE for his kind remarks about the departments performance of its role in protecting Hong Kong's access to its overseas markets and in assisting industrial output. My honourable Friend expressed some concern

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about our staff resources and organization, and consequently our ability to cope with our increasing responsibilities. His remarks were supported by several other Members. I am grateful for these indications of support and concern.

The department has of course expanded steadily over the years. During the past year we have established our new Industrial Promotion Branch and have set up a new Trade Division, whose responsibilities take in certification and licensing and the Trade Investigation Branch. Nevertheless, I would agree with my honourable Friends that our responsibilities are tending to increase rather faster than our establishment, particularly at the senior management levels. Indeed I had, before my honourable Friend spoke, already submitted my proposals for a fairly radical re-organization and strengthening of the department.

Most of the problems, difficulties, challenges that we face in 1974 have received some mention in this debate. There is, however, one more that has not been mentioned. Now that we have acceded to the new International Arrangement on Trade in Textiles we have to renegotiate all our existing agreements with other countries, which cover about half our textile exports or about one-quarter of our total exports. In this situation we shall rely heavily on the experience and advice of the members of the Textiles Advisory Board. It is for this reason that, although I know some of the long-serving members of the Board were considering retiring from it on the 31st March, I have asked them to permit me to put their names forward to Your Excellency for one more year. Their advice and support have been of great value to the department, as has been the contribution of the Trade and Industry Advisory Board. Two long-serving members of the latter board are retiring from it on 31st March—my honourable Friends Mr ANN and Mr WILLIAMS—and I should like here to acknowledge the debt we owe them.

As the only Official Member of this Council who is also a member of the Trade Development Council, I should like also to comment briefly on my honourable Friend Mr Q. W. LEE's proposal that the Trade Development Council should, among other things, devote more attention to securing better and cheaper sources of raw materials, machinery and so on for our steadily expanding industries. The Council was, in fact, on to this already, as was made clear by the

Chairman, Sir Y. K. KAN, in a statement released to the press the day after my honourable Friend spoke. A series of buying missions was included in the Council's programme announced at the beginning of this year.

In addition, the network of TDC offices around the world and the experience of the TDC officers concerned have already proved valuable in finding additional sources of raw materials and in assessing supply conditions and possibilities. I have no doubt that this aspect of the TDC's work will increase as the circumstances require.

My honourable Friend Mr James WU also suggested that the Commerce and Industry Department should be upgraded and enlarged and additionally staffed with people possessing industrial experience and technological expertise to help promote industrial development. I should like to discuss this further with my honourable Friend but I think I should say that I should be wary of getting very far into the direct promotion of industrial development. The Government's responsibility is, I think, rather to create and foster an environment in which industrial development can proceed rather than directly to promote that development itself. Our industrial land policy, for instance, must be designed to facilitate that development. Our establishment of the Polytechnic and technical institutes are another example.

But wherever possible I believe we should continue to work with or through the private sector and the other institutions. We have a very wide network of relationships that enables us to do this.

As my honourable Friend Mr P. C. WOO said, and his remarks were echoed by Dr CHUNG, "our belief is that the flexibility and initiative of the Colony's business and industrial community and of its skilful and hard-working employees will prevail". It is our job in the department to remove obstacles to this and to do everything we can to facilitate it.

Sir, I support the motion.

3.30 p.m.

HIS EXCELLENCY THE PRESIDENT: I think perhaps at this point and before the Financial Secretary speaks Members might like a break. Council will resume in 15 minutes.

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3.50 p.m.

HIS EXCELLENCY THE PRESIDENT: —Council will resume.

Introduction

THE FINANCIAL SECRETARY: —Sir, I am grateful to honourable Members for the several bouquets handed out in this debate on the presentation of the 1974-75 Estimates of Revenue and Expenditure in the budget speech and, on behalf of my hard working colleagues, I am glad honourable Members found the 1-3-10 concept as worked out in the green pages of the Estimates helpful. Before dealing with the brickbats and scratching out some of the not-so-hidden thorns that my honourable Friend Mr SAYER referred to, I would like to identify eight general principles which I think should be borne in mind when dealing with the major themes of this debate.

General Principles

First, whereas I believe that the experience of the past must be drawn upon to help solve the problems of the present and the future, and whereas I firmly believe that there is an essential continuity about policy, I do not think it is very profitable to argue about alleged sins of past omission. A corollary of this principle is that I do not propose to engage in a debate with my honourable Friend Mr SZETO Wai as to whether water development, for instance, was accorded an undue priority over road works in the sixties.

Secondly, the process of Government in Hong Kong is a process of consultation and consent, a process which is based on a network of advisory councils and committees and on a system of keeping the public informed and seeking their views by various means, including the issue of green papers. But this process must be directed towards firm decisions and the formulation of explicit policies. It is one thing, for example, for a green paper to turn yellow, since comment and criticism is vital to the process; but it is quite another for the result to be indecision.

Thirdly, with this system of Government it is only right that sectional groups should express views on declared policy stemming from their sectional interests before, or even after, it is implemented. The Government has an obligation to listen to these sectional groups

and to take careful note of their views. This is a well understood part of the process of government in Hong Kong and has been followed on many occasions. (A recent example of how it works was the Securities Bill: before and after the bill was published its provisions were the subject of lengthy consultations with relevant sectional groups and this continued right up to the committee stage). But, equally, the Government has an obligation to define and pursue the broad public interest and in a consistent way. That is to say, an obligation to listen does not necessarily carry an obligation to change our minds or modify our proposals, though we should always of course admit mistakes. We have such an obligation only if a sectional group can argue its case persuasively and demonstrate an identity of interest with the broad public interest (or, at least, an absence of conflict with the broad public interest).

Fourthly, I do think we must beware of the dangers of surrendering to subjective judgments on financial and economic issues, particularly if those judgments involve demands for action the consequences of which are at best uncertain and at worst positively dangerous.

Fifthly, debates on all policy questions must be based on a clear understanding of the inexorable dictates of our circumstances. We are dependent on external trade: that is to say, we are dependent on our ability to buy as cheaply as we can, combine our labour productivity and capital with imported raw materials as efficiently as we can and sell in the most profitable markets as competitively as we can. We must protect, therefore, at all times, what my honourable Friend Mr P. C. Woo has described as our "flexibility and initiative". As my honourable Friend so rightly said at the conclusion of his speech "what counts in the long run is our ability to export".

I must interpolate here, Sir, that I detected a certain concern in several speeches that, perhaps, I did not really understand the essential requirements of a high growth rate of the Hong Kong economy; and that in my pathological anxiety to balance the books, so to speak, I would readily raise the standard rate of earnings and profits tax. At the same time, certain honourable Members did not see fit to suggest a further slowing down of the rate of growth of expenditure, but to express hopes that other financial resources could be found. Nor did they hesitate to advocate, in the most general terms, a variety of controls on the economy in response to certain difficulties we are facing at the moment. Yet our economy is just not susceptible to macroeconomic management and attempts to control costs, prices and aggregate demand would run the danger of upsetting what my honourable

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Friend Mr SAYER has described as our "finely balanced" economy and damaging the flexibility of the market mechanism. Furthermore, once a Government has introduced regulatory controls, it is extremely difficult to withdraw them when they have served their purpose and equally difficult to do so if they have failed in their purpose. So in the sphere of economic policy the acid test of good Government in certain circumstances is a willingness to run the gamut of short term criticism and decide *not* to do something. All in all, I find it rather strange that there should be this concern that I am wrongly prescribing for the Hong Kong economy considering that I earned many rebukes in this Chamber, and outside it, in 1973 for being a doctrinaire exponent of so-called *laissez faire*. The fact is that the right economic and fiscal policies for Hong Kong are almost entirely dictated by our circumstances and we should face up to that fact—and be thankful too.

This is not to deny that, sixthly, there is an interplay between economic growth and social development. As my honourable Friend Mr Q. W. LEE Put it: "economic development in the next ten years will not be possible without social development"; and he also clearly implied that the converse equally applies. And, as my honourable Friend Mrs SYMONS said so perceptively "the will" (and I personally would add -the ability) "the will to be ready financially must be there in letter and in spirit".

But, seventhly, given the complexities of the world we presently live in, economic growth requires a growing degree of involvement by the Government in the affairs of the community generally. This must not mean interference with the way in which the economy fundamentally operates. But there is a need for the Government to ensure first that the private and public sectors are in harmony and secondly that there are no constraints on, or imperfections in, the operation of the system which are detrimental to economic efficiency or to the legitimate interests of the individual.

There is also a need for the Government to ensure, and this is my eighth and last principle, that there is a consistency between fiscal and spending policies, on the one hand, and economic policies, on the other. Otherwise, social planning and aspirations could start running ahead of fiscal possibilities and the capacity of particular sectors of the economy, with attendant dangers for the continuing stability and growth of the economy as a whole.

Major and Minor Themes

In their speeches, Sir, honourable Members were concerned with four major themes and several minor themes. The four major themes are budgetary strategy; taxation of road users; the related questions of interest withholding tax, finance companies and banking licences; and, finally, inflation and rising prices. The minor themes, apart from those already dealt with by my colleagues, relate to the need to associate Unofficials with the Government's continuing analysis of developments in the economy; subvention policy; relief for depreciation; my concern about the erosion of our profits tax base; and financial control. I shall deal first with these five minor themes and then go on to deal with each of the major themes taking pains to pick up any specific points raised by honourable Members to the extent that they are not covered by my treatment of the theme generally.

*Minor Themes**Economic Analysis*

My honourable Friend Mr P. C. Woo adverted to the idea of an Economic Advisory Committee and he was supported by several other honourable Members including, not unexpectedly, my honourable Friend Mr Wilfred WONG. I have acknowledged the essential role which our network of advisory councils and committees plays in assisting in the decision making process in Hong Kong but, before adding to the network, I think we must be very clear in our own minds as to the objects we would be trying to achieve with such a committee and the way in which it would fit into the existing network. I am, I must confess, far from clear precisely what my honourable Friends have in mind and no move should be made which, in theory or in practice, erodes the authority of Executive Council in respect of general policy questions. But I see merit in my honourable Friend Mr Q. W. LEE's suggestion that a study group should examine whether the present consultative arrangements need to be altered or extended and if so, how.

Meanwhile, I should like to take up my honourable Friend Mr P. C. Woo's reference to the need "to keep constantly under review the economic problems of the day". This the Government has been doing for some time now based on the re-establishment of a central statistical department in 1968 and the formation of an Economic Analysis Unit of the Economic Branch of the Secretariat in the autumn of 1972. The end products of the activities of the staff concerned are to be found in the Monthly Digest of Statistics, the annual estimates of the gross domestic product and the annual publication known as

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the Economic Background to the Budget. This latter document is designed to review the developments in the economy over the past year and to set the stage, so to speak, for the forecast of our economic prospects for the coming year so that the budget can be constructed on a rational basis. We also intend to publish interim reviews on the state of the economy during each year—probably in April, July and October and the first issue for this year is now in hand. The annual review and the interim reviews are drafted by the Economic Analysis Unit with the assistance of the departments concerned, particularly the Census and Statistics Department, and then vetted by a caucus of senior officers concerned with economic policy under my chairmanship. If Unofficial Members would like to be associated with the production of these annual and interim reviews, I would very much welcome this and would propose for Your Excellency's consideration the establishment, on a formal basis, of an economic review committee whose membership would include, say, four Unofficials and three Officials including myself. Other officials could be in attendance as required. I suggest, Sir, that before any other form of consultative machinery is established, we should wait and see whether, in practice, the committee I have proposed does not go a long way to meeting the wish of honourable Members to be associated at an earlier stage, and in a more intimate way, with our studies of the economy and the evolution of economic policies.

Subvention policy

My honourable Friend, Mr LI Fook-wo, referred to the difficulties of organizations subvented on a discretionary grant basis when salaries in the public service are raised. I dealt in detail with the rationale behind the two main forms of subvention, deficiency and discretionary, during the budget debate in 1972. I do not propose to do more now than to refer honourable Members to what I then said as recorded on pages 603 to 605 of Hansard for that year and to repeat those elements in the system of discretionary grants that make it difficult to meet my honourable Friend's point.

Discretionary grants are lump sum grants which the voluntary agencies concerned may use as they please towards the recurrent costs of the activities for which they are being subvented. Whether they spend the money on staff or on other recurrent requirements is up to them. If, for one reason or another, they have savings (say they are

unable to recruit staff or prices for medical supplies fall), they are not required to make refunds. In return for this freedom, they are expected to organize their affairs in such a way that they can meet unforeseen developments during the year. They are also expected to draw on such other sources of revenue as fees and the generosity of the community.

Against this background and, in particular, in the absence of any control over the staffing of these agencies, I clearly cannot accede to my honourable Friend's request that the voluntary agencies concerned (that is to say those on discretionary grants) should be provided with sufficient funds in the middle of a financial year to enable them automatically to pay salaries equivalent to those in the public service.

But what I would be willing to consider would be an arrangement similar to that we have adopted for supplementary grants to the universities—and the universities I might add also have staff for whose salaries the Government accepts no automatic obligation. If the University and Polytechnic Grants Committee can establish that substantial increases in costs generally are inhibiting the universities' programmes, then we consider the possibility of a mid-quadrennium increase in the grant. Applying a similar principle to voluntary agencies subvented on a discretionary basis, I would be willing to consider seeking supplementary provision for additional grants provided that the voluntary agencies can persuade the departments concerned and they in turn can persuade the Secretariat that substantial (and I mean substantial) increases in costs during a financial year are affecting the agencies' ability to provide the services for which they are subvented.

This proposal must not be taken as imposing an obligation on the Government to provide supplementary grants even if the adverse effects of increased costs can be established. We are talking about supplementary provision during a financial year and whether or not the additional grants can be approved must depend, as all other applications for supplementary provision will, in future, depend on the budgetary position of the moment.

Depreciation relief

My honourable Friend Dr S. Y. CHUNG renewed a plea made several years ago for changing the existing basis of calculating depreciation allowances for tax purposes from the "reducing balance" to the "straight line" method. This question was considered at some length

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by the last Inland Revenue Ordinance Review Committee and rejected and I do not see any case for taking another look at it. I must, however, point out to my honourable Friend that I cannot see how the introduction of a straight line method would further encourage industry to re-equip because it is inherent in the straight line method that the rate of allowance which would be offered must be lower than the rate offered under the reducing balance method and so the allowance in the early years of use would be less than under the reducing balance method.

My honourable Friend also raised the question of so-called "inflation accounting". I trust he will forgive me if I turn down his pressing invitation to enter into a debate on this highly controversial subject on which not even accountants can reach agreement. I shall, however, say this: in my opinion the increased depreciation allowances which I announced in the budget speech, coupled with the low standard rate of tax in Hong Kong are such that the more esoteric forms of relief are unnecessary. May I also remind my honourable Friend that when developing his comparison between his fictitious real estate company and his fictitious manufacturing company, he failed to take into account the fact that his fictitious real estate company would only be granted an annual rebuilding allowance of three-quarters of one *per cent* of the cost of its principal assets; whereas his fictitious manufacturing company, in addition to an initial allowance of 25%, would be granted annual depreciation allowances at rates ranging up to 20%. I would also like to take issue with him when he says that the higher depreciation allowances announced will *only* defer tax payments. Surely, as a businessman, he must agree that, in these days of inflation, high interest rates and cash flow problems "deferral" is the name of the game.

Restoring or redefining the ambit of the profits tax charge

I should now like to make a specific reference to the suggestions made both inside and outside this Chamber that, by redefining the profits tax charge and restoring the base to the width which our post-war predecessors properly intended it to be, I shall be chasing away business from Hong Kong. I do not consider that these fears have any real foundation. Tax rates have been going up all over the world and tax nets have been widened. The universal tendency, Hong Kong

being the notable exception, has been to extend charges, previously limited to a territorial source, to a charge on worldwide income. This being the case, where can these businessmen go?

A comparative table of tax rates in 167 countries published in January last year in a very reputable journal shows that, excluding certain tropical island tax paradises, Hong Kong at 15% has the lowest rate of tax on company profits in the non-Communist world and it is on a territorial source basis only. Supposing, however, that a business does migrate to one of these tropical island paradises? Tax rates in these countries are low or taxes are non-existent for a very simple reason. They do not have an expensive infrastructure to maintain; nor do they have, in consequence, an infrastructure to offer the prospective migrant. Supposing, however, to develop the argument further, the business concerned does not need an infrastructure anyway. I know there are certain categories of business which could be transferred out of Hong Kong tomorrow morning by means of a telex message. If so, it would be the shadow rather than the substance of a business which we would be losing.

To sum up, therefore, I cannot see that the restoration of the profits tax charge will chase businesses away, but if some are chased away, they would not be of the type that means very much to Hong Kong in terms of either genuine investment or jobs.

Financial control

Finally, Sir, I am delighted that my honourable Friend Mr Li Fook-wo mentioned the Director of Audit's report on the Colony's accounts because this important document, together with the Accountant General's Annual Report, deserves more attention than it has traditionally attracted. He referred among other things, to the arrears of revenue of \$88.6 million outstanding at 31st March 1973. Of this figure, overdue earnings and profits tax amounted to \$39 million. Whilst every effort is being made to keep these arrears to a minimum and whilst the increase in the late payment surcharge announced in my budget speech and other changes to the law which the Commissioner has suggested to me are aimed at reducing arrears, they will inevitably tend to increase when yields are rising.

As regards my honourable Friend's reference to property tax, the Commissioner of Inland Revenue informs me that a thorough review of existing procedures has been carried out to prevent a recurrence of the misunderstanding. I must, however, point out that there has been

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nothing like a revenue loss of \$16 million because, as anticipated in the Director of Audit's report, most of the assessments concerned fell to be discharged anyway under the exemption provisions of the Inland Revenue Ordinance and the balance is being recovered.

Major Themes

Budgetary strategy

Turning now, Sir, to the four major themes of this debate and beginning with budgetary strategy: I am not too certain that there is complete understanding of the bases of some of my estimates and of the assumptions underlying some of my forecasts. I say this because I detect a number of inconsistencies in some of the comments made by some honourable Members. They are opposed to what my honourable Friend Mr P. C. Woo somewhat misleadingly described as a "scaling down of targets", but they exhibited a certain nervousness about my tentative package of proposals for raising additional revenue in the three year forecast period. They coupled this nervousness with reference to the possible impact of my package on the economy. Only my honourable Friend Mr Wilfred WONG explicitly recognized what I had said, namely that I shall not allow fiscal considerations to override economic realities. I also said at another point in the budget speech that "the fundamental necessity of our tax system and the rate of growth of public expenditure not damaging the rate of growth of the economy will be my constant pre-occupation".

It is true that honourable Members were not backward in coming forward with alternative suggestions for financing expenditure: improve the efficiency of the existing tax system, tap unspecified sources of indirect taxation, seek loan funds. Yet I have already taken these three suggestions into account and have given what I regard as sound reasons for keeping our reserves intact in case my optimistic assumption about the growth rate of the economy in the forecast period is not borne out and expenditure cannot be cut back or even *further* revenue raised quickly enough. I have assumed, remember, as my honourable Friend Mr Q. W. LEE rightly reminded us, that the economy will revert to a 7% growth rate in real terms in the forecast period. I suppose we could do even better than that but, in this event—and assuming physical and/or economic constraints do not concern us—in that event less rephrasing of expenditure will be necessary.

And, further to the use of our available fiscal reserves: let us remember, with my honourable Friend Mrs SYMONS, that they now represent only 53% of our much larger expenditure budget; let us agree with my honourable Friend Mr Q. W. LEE that we live in a world of unforeseen contingencies; and let us not forget that in 1974-75 our reserves, our physical reserves, will earn us \$360 million or the equivalent of the yield from more than four extra percentage points on the standard rate of profits tax. Thus our reserves are an end in themselves to some extent and I would ask my honourable Friend Mr Wilfred WONG not to overlook the earning power of our reserves in his anxiety to see them spent (and he would admit, I am sure, that they can only be spent once). I would also remind him that one of the considerations I bore in mind in my tax relief measures in 1972 and 1973, amounting in all to \$163 million worth of relief per annum, concerned the way in which the present generation of taxpayers has contributed in recent years to the financial resources available for spending in the future.

But to return to budgetary strategy: on the revenue side, I have been applauded (and criticised) for being too optimistic and criticised for being too pessimistic (though one or two honourable Members, I suspect, thought I had hit just the right note). My honourable Friend Mr SZETO Wai, for instance, considers I have been unduly cautious in my estimate of revenue from earnings and profits tax in 1974-75. It is extremely difficult for even me to be categorical until the returns for this year are received. But I did attempt to make it clear in the budget speech why yields from 1974-75 assessments are not expected to be such a high proportion of the gross domestic product in 1973 as yields from 1973-74 assessments were of the gross domestic product in 1972. This was because the large amount of tax on profits from the 1972-73 stock exchange boom had come to an end by 1st April 1973 (that is to say the beginning of the basis period for the profits which would normally be brought to charge in 1974-75 assessments).

My honourable Friend also argued that my estimate of revenue from stamp duties is unduly pessimistic. The yield from this head of revenue is, of course, even more difficult to estimate, depending as it does so much on future stock market turnovers and the state of the property market. All I can say is that based on current trends, this estimate is, if anything, on the optimistic side. The same applies to my estimate of revenue from land sales.

The fact is our ability to spend has now caught up with our ability to finance spending after the former lagged in the immediate post-1967 years and then the latter led.

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At the same time, optimism or pessimism apart, there is an unusual degree of uncertainty about our economic prospects and, as a consequence, not only must our available fiscal reserves be kept intact, but also we must proceed cautiously in 1974-75 in order to safeguard—or try to safeguard—our position in the three year forecast period. For let there be no misunderstanding on one point in particular: we are locked in to a very high proportion of recurrent expenditure and capital works cannot be stopped or even slowed down once contracts have been let. Quoting my honourable Friend Mr WILLIAMS somewhat out of context "it is not easy to slow down committed Government expenditure". And, further I would remind honourable Members that, unlike the revenue forecast, the expenditure forecast is not based on an assumption as to the trend, but has been carefully compiled from departmental returns.

Now I would be the first to admit that the outturn for 1974-75 could be below or above my estimate of a \$21 million surplus. The Finance Branch will monitor revenue carefully and try to take steps to trim expenditure during the year to avoid a deficit, for an avoidable deficit at these very high levels of expenditure would be undesirable on both fiscal and economic grounds. But should those revenue heads which are sensitive to the level of economic activity in the current fiscal year show signs of producing yields above our expectations then this will not mean that this year's tax increases were, after all, unnecessary for, clearly, additional resources are going to be needed in the three year forecast period.

Let me now deal, Sir, with each of the three suggested substitutes for my outline package of proposals for the three forecast years: my honourable Friend Mr SAYER suggested that further thought should be given to better collection of taxes within the existing tax framework. I can assure him that both the Commissioner of Inland Revenue and I are in complete agreement with him. The references in my budget speech to the need for strengthening the investigation powers and the penalty provisions of the Inland Revenue Ordinance are directed to this very end. So, in a way, are my proposals regarding the ambit of the profits tax charge, because these will do little more than repair a framework which has received such a severe battering over the years from the lawyers and accountants in our midst. I should, however, sound a warning that there is a limit to the amount of additional revenue which can be raised by these several means.

My honourable Friend Mr P. C. Woo suggested that more emphasis should be placed on indirect taxation. He rightly eschews those indirect taxes which would affect the cost of living and would readily concede, I presume, that we must remain a free port. So we are left with excise duties on such luxuries as liquor and tobacco, and sales taxes on locally consumed durable consumer goods. It is true that, even after allowing for the extra \$117 million to be raised in 1974-75 from increased duties on liquor and tobacco, increased first registration tax on vehicles and rating in the New Territories, the ratio of direct to indirect taxation will still be 47:53 as opposed to my target of 45:55. Before my 1972 and 1973 budget proposals, which relieved a wide range of hydrocarbon oils from duty and abolished duty on table waters and entertainment tax, the ratio was 43:57. In 1973-74 the ratio moved to 49:51 leaving plenty of room for more indirect taxation. As I have just said, this year's budget proposals will bring the ratio back to 47:53 but no further. So I am not opposed on fiscal policy grounds—that is to say on the grounds of equity and the balance of the fiscal system—I am not opposed to a further increase in the relative importance of indirect taxation, but I certainly cannot guarantee that extra revenue will not have to be found from the direct tax field too. The fact is that over and above the net increase of \$175 million in taxation proposed for 1974-75 a further \$500 million a year has to be found in the forecast period. And this is on the assumption that the economy will be growing at 7% per annum in real terms and that the tax system generally will be producing yields consistent with this high growth rate.

I also made certain quite heroic assumptions about capital revenue and I must here challenge the logic of my honourable Friend Mr P. C. Woo's plea to sell more land. He said "we have repeatedly urged the speeding up of the sale of much more land for private development". True, but in the past this plea has been linked with allegations that the Government was manipulating the land market to keep prices up. Now we are being urged to sell more land, the effect on land prices notwithstanding, to raise more revenue! The plain fact is that the land we offer for sale is offered when it is available and assuming that the market is not in a particularly depressed state at the time (for it would not be in the public interest to depress further asset values).

So I come to the other easy way out suggested by some honourable Members: the raising of loans. Apart from my honourable Friend Mr Wilfred WONG, all who referred to loan financing agreed with me that we should limit ourselves to directly self-liquidating projects, that is to say, projects which generate an identifiable cash flow.

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I do not believe it will be difficult to find a number of such projects in the public works programme but, equally, I do not believe that there is an unlimited market to be tapped. For one thing, the Mass Transit Railway Corporation will have to raise over HK\$2,000 million in the forecast period from the open market and so the Government should limit itself, so far as is possible, to raising loans from development banks. And development banks do not have unlimited funds to offer (though I shall press the point home with the Asian Development Bank next month in Kuala Lumpur that we are an under-borrowed developing member country).

So there are no easy solutions on the revenue side and this unpalatable fact must be faced. A package approach is essential: extra revenue must be squeezed out of fees and charges of all kinds by updating them regularly and I include here the fees and charges raised by our public utility type undertakings and by our licensing system. I have no doubt that every proposed updating exercise be it for water supplies or railway fares or postal services will involve cantankerous argument with my colleagues, with public bodies, with trade associations and, or course, with honourable Unofficial Members, though I am grateful to my honourable Friend Mr Q. W. LEE for volunteering acquiescence in a steep rise in the fee for banking licences and I am happy to inform him that I propose at least to double it. (*Laughter*). Rate revenue must be maintained in spite of postponements of revaluations. Our reserve of indirect tax taxability will have to be progressively tapped. Loans for self-liquidating projects must play their appropriate role. And, finally, there is our reserve of direct tax taxability which must be exploited by increased administrative efficiency, by rectifying the eroding effect of case law and accounting devices on the width of the tax base and, as a last resort, by raising the standard rate.

Most honourable Members, Sir, seem to be opposed to any increase in the standard rate of earnings and profits tax, or at any rate that is the message I got loud and clear, but I am opposed to increasing the standard rate as well if it can be avoided and I am on public record as saying this long before honourable Members said it. And I repeat that I am very conscious of the overriding need to maintain a high growth rate of our economy and I can assure honourable Members that I understand the role of fiscal policy in helping to achieve this. Nevertheless, the incidence of direct taxation in Hong Kong remains low absolutely and in relation to other countries. I have already

demonstrated how favourably Hong Kong stands in relation to other countries and territories in the profits tax league table. The same applies incidentally, to personal tax. (A married man with two children would pay 1.5% of his \$3,000 a month monthly income in salaries tax in Hong Kong compared with 16% of a similar income in Britain, 10% in Australia and 8% in Singapore.

I fear some increase in the standard rate of earnings and profits tax is inevitable unless the economy takes off at an unprecedented rate, for the other elements in the package are unlikely to be sufficient to meet our needs and there are considerations relating to the balance of the fiscal system which are very important. In this connection, I would refer honourable Members to the guidelines I laid down in paragraphs 57 to 59 of my budget speech.*

Equally we must not delude ourselves into believing that tighter control over expenditure will make more than a marginal contribution. It is policy which really determines the level of public expenditure, not extravagant standards, though I fervently believe in modest standards, adherence to conventional rules and cost-efficiency and I am grateful to my honourable Friends Mr P. C. WOO and Mr James WU for saying, in effect, that the Finance Committee of this Council will assist the Finance Branch and heads of departments in achieving this and dampening down the flow of applications for supplementary provision during the course of a financial year.

I have just said Sir that it is policy which determines the level of public expenditure: that is to say, objectives and the speed at which those objectives are to be achieved, having regard to available resources and the inter-relationship between the public and the private sectors. The 1-3-10 concept I developed in the budget speech of the coming year's revenue and expenditure estimates, set in the context of a forecast of revenue and expenditure, on both recurrent and capital account, over the following three years, set in the context of an order of cost of projected capital works over a ten year period, this 1-3-10 concept is designed to enable honourable Members to take a view on policy questions well in advance of whatever decisions have to be taken on fiscal questions.

I was under no obligation to develop this concept: I could have just dealt with the coming year's budgetary problems alone. But that would have been entirely irresponsible. I had to draw together the financial implications of approved policies, on the one hand, and a whole range of developing policies and programmes on the other, as

* 1973/74 Hansard, page 568 final paragraph and page 569 paragraphs 1-2.

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best I could and present the results to honourable Members for their due consideration.

Now, whereas the draft Estimates of Expenditure for 1974-75 as such have been carefully examined by the Finance Committee under the procedure provided for in the Standing Orders of this Council, I must frankly admit that, in this debate on the second reading of the Appropriation Bill, I had expected honourable Members to pay more attention to the financial implications of our developing policies and programmes now laid out before them. I see no possibility of these policies being implemented at the rate envisaged in Appendices V and XI of the estimates, but not for the reasons put forward by my honourable Friend Mr SZETO Wai, namely, delays in planning and construction. The fact is that my honourable Friends the Director of Public Works and the Secretary for Housing are confident that they can spend at an annual rate of \$2,200 million a year at 1974 prices from 1975-76 onwards, but the forecast in these appendices envisages an annual rate of \$2,850 million or thereabouts and this is more than we can afford (or manage).

So we do have a budgetary problem coming up and my honourable Friend Mr SZETO Wai for all his arithmetic skills so often employed to my temporary discomfort, cannot just wave it away. Something along the lines of my package of proposals will be required if we are to finance expenditure of the order proposed in my budget speech for the forecast period. And we also have a rephrasing *cum* priorities problem, possible solutions to which I sketched out in paragraphs 105-108 of the budget speech.* These ideas have been developed further by the Finance Branch and are now being examined by the Secretariat and departments under the general guidance of my honourable Friend the Colonial Secretary. And over and above this we have to determine the general economic implications of spending at an annual rate of \$2,200 million on capital works. As my honourable Friends Mr Q. W. LEE and Mr WILLIAMS warned us there could be internal inflationary consequences of an over-ambitious capital works programme.

Taxation of road users

Introduction

Sir, judging from the content and tone of some of the comments made on the second major theme in this debate, namely, my proposals

* 1973/74 Hansard, page 581 final paragraph and page 582, paragraphs 1-3.

to raise additional revenue from road users, I sense that honourable Members are not exactly happy with them. (*Laughter*). But I am not entirely clear precisely why: some, like my honourable Friend Mr P. C. Woo, say they are "premature in view of the imminent publication of the green paper on transport" and he argued, quite illogically, that "decisions should first be taken on the policy to be adopted in relation to various types of public transport". He was generally supported in this view by my honourable Friends Mr SZETO Wai, Dr S. Y. CHUNG, Mr WILLIAMS and Mr LI Fook-wo. My honourable Friend Mr SZETO Wai with his penchant for the colourful, if not very flattering, phrase has accused me of being "unfair and ungallant". He also accused me of seeking "to increase revenue under the pretext of policy objectives". I flatly deny this. Others, namely, my honourable Friends Mr Hilton CHEONG-LEEN, Mr James WU and Mr WILLIAMS have objected to certain aspects of the proposals themselves, whilst my honourable Friend Mr SZETO Wai has added vehemence to his attack on the introduction of these proposals at this time by implying that the totality of the proposals is too much for what he somewhat euphemistically describes as "the long suffering motorists" to bear.

Obviously, something has gone wrong with my presentation. This is a great pity for my proposals have attracted far more attention than they deserve, particularly in the general context of our financial and economic situation—complex as it is, though exciting too, provided we keep our nerve. I thought I had made it abundantly clear that additional revenue is required in 1974-75 and that, in order to raise what was required painlessly in terms of the economy, I had to look to road users for at least two-fifths of the extra \$206 million gross required and a miscellany of other direct and indirect taxpayers and users of services for the other three-fifths. I thought I had also made it abundantly clear in paragraphs 156-157* of my budget speech that it was not my intention to preempt the debate on transport policy. If, by engaging in a degree of reform of the present rather antiquated system of levies on road users, I have given the impression that I was doing so, I can only apologise: I thought that, even if honourable Members did not appreciate my distinction between reform as such and restructuring in the pursuit of a policy objective, they would have accepted that revenue proposals, whose success depended on patterns of transport remaining largely unchanged, could not have any possible bearing on transport policy. But I was obviously wrong.

As an earnest of my good faith, I would be happy to eschew reform and raise the additional revenue required by applying an appropriate

* 1973/74 Hansard, page 594, paragraphs 3-4.

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factor to existing platform rates. I do not wish to be in an ambiguous position in this matter. I am only concerned to raise extra revenue in a way which makes fiscal sense and which is neutral in economic terms. As regards car licences, I chose the dividing line of 1,500 c.c. simply because it produced the maximum amount of revenue consistent with the object of distinguishing sensibly between large and small cars. I was simply not interested in dampening down the number of cars on the roads. But we simply cannot do without the revenue if honourable Members pass the Appropriation Bill for there can be no question of budgeting for a deficit, given our somewhat uncertain economic prospects.

In these circumstances, to defer—to defer—the raising of additional revenue until after the debate on transport policy would be too dangerous and quite illogical too, for my road taxation proposals have nothing to do with transport policy and the green paper. And to look for other sources of indirect taxation, as my honourable Friend Mr P. C. Woo has suggested, would simply not be practicable in the time available; and the administrative machinery necessary for exploiting them would take far too long to set up. In any case, such other possible sources of indirect taxation as durable consumer goods should only be tapped as a matter of deliberate policy and not in response to opposition to higher taxes on road users. Nor do I think it would be equitable to place the load on other existing sources of indirect taxation at this time.

But, to repeat, to remove any ambiguity from my motives, I am certainly willing to revise my original proposals so as to raise the same revenue with the minimum of changes to the present structure.

Vehicle Licences

Dealing first with cars of all classifications and motor cycles, this could be done by increasing the present six rates for private cars by 176%. Rounding off to the nearest \$50 and maintaining reasonable progression, the rates would then be—

up to 1,000 c.c.	\$ 350
up to 1,500 c.c.	\$ 500
up to 2,500 c.c.	\$ 750
up to 3,500 c.c.	\$1,000
up to 4,500 c.c.	\$1,250
over 4,500 c.c.	\$1,500

At \$49 million, the increase in revenue from these proposals will be \$3 million less than the increase from my original proposals and this is the result of rounding off and establishing a reasonable progression.

Public cars would continue to pay on the same basis as private cars plus \$30 for each seat for a passenger.

The same increased revenue from taxis could be achieved by doubling the fee for the driver and for each seat for a passenger to \$20 and \$60 respectively. In other words, not changing the system there either.

I still think the pre-budget licence fee of \$70 for motor cycles is quite unrealistically low and that my original proposal to raise it to \$200 was very fair. However, I propose to reduce it to \$175 which is equal to half the fee for a small car. This is outstandingly reasonable, particularly as motor cyclists have the advantage of being able to park free of charge. The lower fee of \$175 will mean that the additional revenue from this class of vehicle will be about \$500,000 less than under my original proposal.

Secondly, as regards goods vehicles, and without wishing to be misunderstood I do think we must simplify the present system. The present system involves applying the fee to as many as 47 platforms by unladen weight. The reduction to three platforms in my original proposals would reduce administrative overheads and, in any case, the increases I proposed were relatively modest and they should stand for that reason.

Thirdly, there has been some reaction from the owners of public light buses, even though the proportionate increase I proposed for them was less, much less than for most other vehicles. But so that there can be no doubt that my motives were simply to raise revenue and for no logical reason whatever, I propose to reduce the increase for public light buses from \$3,000 to \$2,000. This, as I said, is a completely illogical move but is done to protect my good name so to speak. (*Laughter*). It will be at a cost of \$4 million to the revenue.

Drivers' licences

My honourable Friends, Mr Hilton CHEONG-LEEN and Mr James WU have represented that paid drivers will be hard hit by my proposal to charge \$50 for each endorsement on a driving licence. Perhaps, but one reason why I went along with the Commissioner for Transport's proposal was that there is, at the present time, a very long waiting

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list of applicants wanting endorsements related to means of earning a living. For example, the waiting time for a licence to drive a goods vehicle is over a year in Hong Kong and over three years in Kowloon. I hoped that by charging a fee for each endorsement, frivolous applicants would be deterred thus reducing the waiting time for those with more serious motives.

But I have no wish to hurt unduly paid drivers and I would be prepared to adjust my proposals to \$50 for the original licence and \$10 for each subsequent endorsement up to five with free endorsements thereafter. In other words, the maximum a driver would pay for a licence and its endorsements would be \$100 a year. In view of the number of endorsements licences now carry, I must insist on some charge for each endorsement. And I do not think that the \$5 my honourable Friend Mr Hilton CHEONG-LEEN has proposed is high enough. Allowing for a reduced dampening effect on the number of endorsements than the \$50 charge would have had, I estimate the additional revenue from these revised proposals will be \$2 million, compared with \$4 million under my original proposals.

Off-street parking charges

I was somewhat irked, to put it mildly, that the proposals in the budget speech for higher car parking charges were criticised. Not only are they a perfectly logical extension of existing approved policy, but they were not even my proposals! Not one single honourable Member saw fit to recognise this. As I said in the budget speech, they were the recommendations of the Transport Advisory Committee—except that I modified the Committee's proposals on charges for open-air car parks by actually reducing them! But it does seem that there is opposition to the Committee's recommendation that monthly car park tickets should be abolished. I have no wish to defend the Committee's position and in the circumstances, I would accept the suggestion made by my honourable Friend Mr WILLIAMS that monthly passes be continued at a higher rate of \$500 a month. I do not think this will significantly affect my estimate of the increased revenue for this must remain in any case something of a guess until we know more about the impact of the new charges generally on drivers' habits.

Handicapped persons

Finally, Sir, I have received a representation from the Automobile Association, couched in uncharacteristically moderate and polite terms, (*laughter*) to the effect that handicapped people who cannot use public transport will be hard hit by increased levies on vehicles. The Commissioner for Transport is now considering the possibility of some form of relief for these cases and will be in touch with the Association in due course.

Revised estimate of outturn for 1974-75

I consider then, that my budget proposals for increased fees for licences for private cars, motor cycles, public cars, taxis, public light buses, drivers' licences and for car parking charges should be revised. My original proposals in respect of vehicle licences have already been implemented in accordance with an order made under the Public Revenue Protection Ordinance. Your Excellency has now signed a further order which replaces the previous order and introduces the revised proposals from 28th March 1974. Those who have renewed their vehicle licences since 27th February at higher rates than the ones I am now proposing will be entitled to a refund. Those lucky enough to have renewed at lower fees will not be required to pay any more on this occasion. (*Laughter*).

The effect of these revisions is to reduce the yield from my revenue proposals, the net yield from \$175 million to \$165.5 million (\$3.5 million less in respect of vehicle and motor cycle licences, \$4 million less in respect of public light buses and \$2 million less in respect of drivers' licences). Thus the small surplus of \$21 million I estimated as the outturn for 1974-75 is reduced to \$12 million or thereabouts.

This, Sir, is a small surplus, indeed, to be budgeting for these days, particularly as there have been developments in the past month that could give rise to higher expenditure. For instance, we may have under-estimated the amount of leased accommodation we shall require and I have suddenly been presented with a request for funds to acquire additional property in the urban areas to enable redevelopment to proceed in accordance with statutory and draft outline zoning plans.

Financial sector

I now turn to the third major theme of this debate, namely, the related questions of withholding tax on interest payments, finance companies

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and our policy on banking licences. My honourable Friends Mr SAYER and Mr James WU considered that abolishing interest tax completely would bring greater business to Hong Kong. My honourable Friend Mr SAYER thought that the loss of \$66 million in revenue would not be too important, while my honourable Friend Mr James WU thought that it would be made up from other sources, mainly profits tax. For this to be so, however, net profits of the order of \$440 million would need to be generated and, given the relatively small margins made on offshore borrowing and lending transactions, a market equivalent to perhaps Hong Kong \$100,000 million would have to be built up. I doubt whether even the most optimistic would expect a market of this order of size to develop very quickly. So there would undoubtedly be a significant loss of revenue.

It has been suggested in some quarters, as an alternative, that interest paid by licensed banks should not be subject to withholding tax. However, in practice, this would amount to very much the same thing, because already more than three quarters of our revenue from interest tax is generated from deposits with licensed banks and, if such a concession were to be made, this proportion would naturally tend to increase. And to remove withholding tax in respect of foreign currency deposits with the licensed banks, but not in respect of Hong Kong dollar deposits, would surely increase the risk of erosion of the Hong Kong dollar deposit base.

Let me say at this point that, although I can understand the argument that deposits in foreign currencies placed outside Hong Kong can tend to erode the Hong Kong dollar deposit base, I also believe that the remedy lies in the banks' own hands. For, if they pay competitive interest rates and reduce their margins, money can be attracted back to Hong Kong dollar deposits, even with the withholding tax. If competitive rates were paid and withholding tax were not applied, then—without exchange control—the possibility would be opened up of large external flows exercising a destabilizing influence on our foreign exchange market and external trade. I should just interpolate here incidentally that it is simply not true that there is a communication gap between Government and the financial sector, particularly the banks, whatever has been said, or rather written, to the contrary.

My honourable Friends Mr LI Fook-wo and Mr SAYER argued for the registration and control of finance companies. I am still inclined to believe that any action here must involve a large element

of voluntary association and self-policing by the companies themselves, in contrast to the complications involved in statutory control. And, in any case, we must first concentrate on the amendments to the Banking Ordinance and the Protection of Depositors Bill, which I referred to in the budget speech.

Nevertheless, having said this, I must admit that my mind is not completely closed on this question and I am most anxious to tap all available advice on the whole issue of how, and to what extent, control over the activities of finance companies should be strengthened; and of course the Banking Advisory Committee is one source I am tapping.

As regards the limited moratorium on banking licences, I am glad to see that my tentative thoughts on greater freedom, or a degree of greater freedom, have generally been welcomed by honourable Members; subject, of course, in the case of a foreign applicant to the question of reciprocity which is, and will remain, a part of our policy. That is to say, having established a case for accepting an application for a licence it will only be actually granted if the applicant's country of origin would grant a licence to a Hong Kong incorporated bank satisfying similar criteria.

Inflation and rising prices

Introduction

And now, Sir, I turn to the fourth major theme of this debate and the one which has, perhaps, loomed largest, namely, inflation and rising prices.

Most honourable Members seem to accept that our inflation is largely externally induced, but they also argue that it is (or could be), to a degree, generated internally. This cannot be denied and I accepted this in paragraph 31 of my budget speech*; but I also claimed, in paragraph 32*, that it was now largely under control. And I stand by this. Let there be no mistake: internally generated inflation is not at the root of the present phenomenon of rising prices and even the most authoritarian measures to obliterate such internal inflation as does exist would only have a modest impact on the rate at which consumer prices are rising.

Consumer Price Index and foodstuffs

In the Economic Background to the Budget publication, a whole chapter was devoted to consumer prices and this, supported as it was

* 1973/74 Hansard, page 561, paragraphs 2-3.

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by a wide range of statistics, showed very clearly where the main pressures behind our current inflationary situation are to be located. It is in the area of foodstuffs that we have to look because expenditure on food items represents such a high proportion of household expenditure as a whole; and, because most of our food is imported, and because prices at the import level have increased so rapidly, it is clear that the principal forces at work in 1973 lay abroad (although, in the case of marine fish and fresh vegetables, prices of domestic production were considerably influenced by abnormal—and I mean really abnormal—weather conditions).

I should like to take this opportunity to update the picture presented in the Economic Background publication, for I have a suspicion that some honourable Members feel that the situation has changed rather since the autumn of 1973 and that, somehow, purely local factors have, relatively speaking, grown in importance. This is not the case. The Economic Background publication will, as I have already said, be rolled forward in the form of three interim reports during each year and I would like to quote some of the figures that are in the draft version of the first interim report which will appear next month.

I shall use the General Consumer Price Index as my reference point—and let me just say here that, although this index is being re-based, there are no grounds for assuming that the current index is a poor indicator of rates of change in the retail prices of the commodities and services in the basket. The index increased, on a seasonally adjusted basis, by 20.5% in the year ending February 1974. The retail prices of foodstuffs as measured by the index increased, however, by as much as 28% in this period, on a seasonally adjusted basis. The increase in the prices of foodstuffs accounted for 77% of the total increase in the index, that is to say, of the increase of 20½ percentage points in this period nearly 16 points were on account of prices of foodstuffs. While, therefore, fuel prices and, for that matter, the prices of most other consumer items, have been rising rapidly in recent months, there can be no doubt that it is still foodstuffs on which attention should be focussed.

Now, most of our foodstuffs are imported, 50% by value coming from China. And, although prices of foodstuffs from China were low and stable for many years prior to 1971-72, they have since been rising more or less in line with world prices. The proportion of domestic

consumption, in quantity terms, represented by imports in 1973 was as follows: cattle, 99%; rice, 98%; pond fish, 92%; pigs, 88%; and eggs also 88%. Even for fresh vegetables and poultry the proportions were quite high at 60% and 58% respectively. In the case of marine fish, of course, most of what we consume is caught by our own fleet and the proportion supplied by imports is as low as 10%.

But what has happened to the import prices of our foodstuffs? Figures for the first quarter of this year are not yet available, but the fourth quarter figures for 1973 have been compiled and these, when combined with the figures for the first nine months of last year shown in the Economic Background publication, produce some startling results for 1973 as a whole. I have already mentioned that, in the twelve months to February of this year, seasonally adjusted food prices at the retail level increased by 28%. For the calendar year 1973 the increase was about 24%. But, at the import level, the increase in 1973 was 32%. In the case of rice, it was nearly 120%. In the case of wheat and flour, it was over 50%. In the case of vegetables it was over 30%. In the case of pond fish (and fish preparations), and meat and meat preparations, it was about 25%. These increases in import prices are almost unbelievable; but truth is often stranger than fiction.

When it is realised that import prices for foodstuffs in 1972 increased by only 5%, compared with 32% for 1973, the sheer enormity of the increases we have recently been observing becomes even more striking and it must, surely, be appreciated that these cannot have been unconnected with the extraordinarily rapid increases in the retail prices of foodstuffs over the last year or so. On a seasonally adjusted basis, these increases in retail prices over the last year amounted to 75 % in the case of rice, 36% in the case of bread and cakes, 19% in the case of fish (marine and pond fish together), 24% in the case of fresh pork, 31% in the case of fresh beef and nearly 60% in the case of vegetables.

In the case of marine fish, which is not, for the most part, imported, retail prices have also increased rapidly in the past year: by 22% on a seasonally adjusted basis. But here it was the exceptionally bad weather in the third quarter of 1973 when prices increased by 16%, it was the exceptionally bad weather which played such a significant role. The bad weather was also significant in the case of fresh vegetables (where domestic production makes up 40% of total consumption): prices increased by 70% in the third quarter. And I would point out that, although the retail prices of fresh vegetables reached unprecedented levels in the third quarter of 1973, they plunged sharply (by 40%) in the fourth quarter with the seasonal increase in supplies

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we then enjoyed. There was also a decline, though less noticeably, in the prices of marine fish in the fourth quarter; and the prices of both fresh vegetables and marine fish have continued to fall this year, despite seasonal increases around the lunar new year season.

Internal inflationary influences

But, I fear, in spite of these figures showing the influence of import prices and bad weather, some will still claim that internal inflation is even now playing a significant role. I would not deny the *possibility* of internal inflation playing a role as it did in the latter months of 1972 and the early months of 1973. But I do not think that internally generated inflation is now significantly aggravating the situation.

Rents

Theoretically, Sir, there are a number of ways in which inflation could be generated internally and I shall now deal with six which could be possibly operating at this time, beginning with rents.

In 1973 the Government introduced a rent freeze for domestic premises and this was followed by the enactment of extensive new controls limiting, in most cases, increases in rents to a maximum of 10% per annum. The only premises excluded from these controls are new premises built after 14th December 1973; and, of course, post-war commercial and industrial premises.

This has led to a renewed attack on rents for non-residential premises. My honourable Friend Mr Hilton CHEONG-LEEN, for example, argues that these rents have risen rapidly. This was the case in the first half of 1973 and the rates of increase are shown clearly in the Economic Background publication. To an extent these were the result of the very sharp increases in the money supply in 1972 and in the early part of 1973, which not only had an influence on share prices but on property prices as well. I have consistently maintained that the slowing down in the rate of growth of the money supply to 6½% in 1973 compared with 29% in 1972 and 24% in 1971 would itself have a stabilising influence on property prices and on commercial rents, and the latest figures assembled by the Commissioner of Rating and Valuation amply support my confident expectations. In the case of shops, rental increases in the second half of 1973 amounted to only

3% compared with 18% in the first half. In the case of offices, the increase in the second half was 11% compared with 38% in the first six months, whilst, in the case of commercial flatted factories, the increase was only 1% in the second half compared with 6% in the first half. I hope honourable Members can agree that the situation is now easing up.

I am opposed in principle to the general proposition of controlling rents of non-residential premises, on the grounds that it is manifestly unfair, illogical and unwise to restrict the profits of one business sector—property owners—in favour of another. Neither am I convinced that such controls, *per se*, are likely to have much, if any, effect on the general rate of inflation. I would also, at this juncture, be concerned that the extension of rent controls to the non-residential sector could result in a loss of confidence in the construction industry, with consequent channelling away of investment in new buildings.

As is traditional in winding up the budget debate, I would like to digress a little on the property market generally, now that the results of the Commissioner of Rating and Valuation's 1974 Property Review are to hand. Although the supply of domestic accommodation in 1973 was, for a number of reasons, rather less than expected, improved supply, coupled with the tighter money situation, has resulted generally in a topping out of rents and, towards the end of last year, there were clear indications of a downturn in asking rents for new domestic premises, particularly in the case of the more expensive type of accommodation. Sale prices, too, are reportedly down by as much as 15-20% over the year. Vacancies in the private sector in the urban area, at just over 10,000 units, are the highest since 1968 having risen steadily from a low of 2,400 at the end of 1969 to 7,000 at the end of 1972; and thus I am fairly hopeful that we shall see some further downward movement in domestic rents over the coming year. Honourable Members will recall that we have already taken measures to impose full rates on vacant domestic premises from 1st January last and these should now be beginning to bite.

In the case of retail trading premises, the position is also similar for, although rents have continued on an upward course over 1973, vacancies at the beginning of this year accounted for some 1.28 million square feet of space, that is a 63 % increase over the year, and this figure is very nearly equal to the total space completed during the year. Most of the vacant shops were located in the peripheral areas, thus tending to force down rents in these areas, but there were also reports of rents being reduced in the more central shopping areas. There is

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likely to be an ample supply of new accommodation both this year and next.

Office space in the central areas is still hard to find and the supply this year is not expected to meet demand. Thus, for the time being, rents seem likely to continue on an upward course. However, 1975 and 1976 look to be record years with the prospect of some 7 million square feet becoming available. Landlords, I suggest, who press too hard for large rent increases now may well find themselves in a reverse position in a year's time, particularly as much of the space now being built will be in the low-rental areas which, if rents in the central areas of the urban area continue to increase, will begin to look more and more attractive.

While space vacant in flatted factories, at 2.24 million square feet, is rather less than last year, there seems to be more than sufficient available to meet demand and there are clear indications that rents in the less popular industrial areas are coming down. Estimates of supply this year and in 1975 and 1976 indicate that sufficient is planned to meet the probable demand although, of course, in this sector, demand is very much dependent on the state of the economy generally.

My honourable Friend Mr Hilton CHEONG-LEEN has, nevertheless, pressed for a form of control on rents in the business sector. My reading of the situation does not lead me to conclude that there is a need for such controls at this time. Market forces seem likely to have the effect generally of containing inflationary trends and, in certain areas, rents may well take a downward turn. The then Colonial Secretary indicated in this Council on 28th January and 20th May 1970 that the Government was prepared to consider measures to provide security of tenure for business tenants but, for the reasons I have stated, we have long set ourselves against restricting rents below market levels and to provide for statutory security of tenure without rent control would be a waste of time.

A Fair Rents Tribunal, or some other similar panel would, of course, only be one facet of the administrative machinery necessary if measures were taken to control rents of non-residential premises. However, although the word "fair" has been mentioned as part of the title I am sure that what most of the advocates of such controls are after is a restriction of rents below market levels. Determining market rents for non-residential premises would be difficult enough without

trying to decide on fair rents, and the legion of valuers and other experts likely to be needed to administer any such measures would be quite beyond our resources at the present time, even if the idea was a sound one, which it certainly is not.

Government expenditure

A second possible cause of internally generated inflation was mentioned by my honourable Friend Mr WILLIAMS: Government expenditure increasing at a faster rate than the gross domestic product. As he pointed out, this could lead to such competition for available resources that pressures would build up on costs and prices.

I am well aware of the increase in the ratio of Government expenditure to the gross domestic product that has recently taken place (from 13.4% in 1971 to about 16.3% in 1973 as shown in Table 4 of the Economic Background publication). This ratio is still low by world standards and I would not wish to be dogmatic here but, as part and parcel of our budgetary strategy, we must ensure that Government expenditure does not grow for any significant length of time at a rate substantially at variance with that for the gross domestic product. Were it to do so it would soon outstrip the growth in revenue at existing tax rates and could only be maintained by raising extra taxation, which, in turn, could have consequences for the growth rate of the economy.

Government pay policy

Thirdly, internally generated inflation could arise if pay awards for the public service were to lead those given by the private sector. In this connection, I can only go along with the thinking of my honourable Friend Mr Hilton CHEONG-LEEN, namely, that Government pay awards should, in general, be related to increases in the cost of living, provided three conditions are met: namely, that the increase in the cost of living is permanent, that private sector wages and salaries are being similarly adjusted (having regard to profitability and the state of the labour market) and that the cost of such awards is acceptable on budgetary grounds.

The Economic Background publication shows that in the year ending September 1973, wage rates, in manufacturing at least, increased by about 11%, whereas consumer prices in the same period increased by about 15%. In fact, wage rates increased only marginally faster in this period than in the previous twelve month period, and at a substantially slower rate than in 1971 and 1970. This reflects the rather slack demand for labour at the present time. Although the Government

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does not *have* to operate within the disciplines of the market forces operating in the private sector, it would clearly be irresponsible for the Government to ignore the economic realities of the present situation in the labour market and for its pay policy to lead the private sector and, thereby erode the economy's external competitiveness.

I am aware that, at the present time, firms' internally generated funds are growing rather more rapidly than wages (again, as indicated in the Economic Background publication). But this means that additional funds are available for fixed capital investment and such investment is taking place on a substantially increased scale. As a result, productivity has been increasing. At the same time, manufacturers have been seeking out cheaper sources of raw materials (as evidenced by the substantial switching that took place last year from one source to another). Thus, the Hong Kong economy will be ready to take full advantage of a renewed growth of world demand. Then wages will not only increase again at a faster rate than at present but also, as was the case until recently, at a faster rate than firms' internally generated funds. I should make another point: bearing in mind that manufacturers appear determined to increase productivity and contain the upward movement of unit costs and the fact that the labour market is currently rather slack, the Government could, by leading in its pay awards, bring about an increase in unemployment. At the present time, manufacturing employment is at least holding steady and we must keep it that way.

Cost-push inflation

Fourthly, I have heard it said that rapid inflation leads to higher demands for wages which in turn further push up prices leading to yet more wage demands, and so on and so forth. I think this can be dismissed in Hong Kong's case, simply by reference to the figures in the Economic Background publication on wages and prices that I have just cited. Indeed, I would suggest that it is the very fact that this cost-push type of inflation is *not* occurring here that is at the root of the current anxieties about prices and the cost of living that honourable Members have sought to represent. But, of course, if cost-push inflation could and did occur the economy could be seriously endangered and the prospect of renewed growth seriously diminished.

Tax system

Fifthly, there is the tax system. Several honourable Members have suggested that certain of my 1974 revenue proposals could be inflationary. I hotly dispute this. Let me emphasise, once again, that our tax system is non-inflationary, and that my 1972 and 1973 revenue proposals were designed to relieve the cost-price system of tax levies which could be reckoned to be inflationary. Further, my 1973 personal tax reform proposals were also designed to update the system to present day cost/income levels. It should also be remembered at this point that our budgetary policy eschews deficit financing through Government bond issues which are taken up by banks and accepted as eligible liquid assets, and that is a policy we propose to persevere with.

"Profiteering"

Sixthly, and I know this is on the minds of many of my honourable Friends, there is the question of "profiteering". I could easily define this away and say that "profiteering" does not constitute inflation as such. But I have no wish to get involved in a terminological argument. Certainly, at a time when prices are rising rapidly, the scope for "profiteering" becomes greater and, certainly when wages are rising less rapidly than prices, "profiteering", even though it may have always existed, may become that much more noticeable.

Before elaborating on this theme perhaps I should say that, whilst there are certain activities that can be unambiguously *described* as "profiteering", it is, in practice, very difficult to define the term—or, at least, to find a widely acceptable definition on which to base proposals for action.

My honourable Friend Dr S. Y. CHUNG, for example, appears to regard "profiteering" as a situation in which a dealer increases his markup, in absolute terms, by more than the increase in the price at which it is supplied to him. If this definition is generally acceptable then, as he claims, there certainly has been "profiteering" in the case of locally slaughtered pork and beef and live poultry. But is there likely to be general support for such a definition?

Using the official figures tabled by my honourable Friend for what he described as "the worst of these three cases" namely, beef, and taking average prices at the import, wholesale and retail levels for the years 1972 and 1973 it can be shown that, in 1973, import prices increased by 24%, wholesale prices by 28% and retail prices by 20%. From these figures, there can be no doubt that the percentage markup at the

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retail level on both the wholesale and the import price declined. This was also the case in the twelve months to September 1973 as can be seen from the Economic Background publication and, although my honourable Friend appears to take some exception to the relevant table in that excellent publication, I would point out that it is simply designed to show, as paragraph 85 makes clear, that retailers were not increasing their percentage markups.

But, reverting to the question of "profiteering" as such, if my honourable Friend's definition is to be adopted, then, of course, use must be made of absolute increases in margins. In 1973, the import price of beef (by dressed weight) increased by HK\$64 per picul, but the wholesale price (also by dressed weight) increased by HK\$92 per picul implying, on this definition, "profiteering" to the extent of HK\$28 per picul by the wholesaler. The retail price (by saleable weight) increased by HK\$120 per picul implying further "profiteering" of, again, HK\$28 per picul by the retailer. But it could be argued that the wholesaler and the retailer almost certainly incurred additional costs in 1973 and that they were entitled to make allowance for this in their prices. Furthermore, in a period when other people's money incomes are rising, it is reasonable that the trader should be able to increase his absolute, but not his percentage, margin to allow for an increased contribution to his own trading surplus. I can bear my honourable Friend already retorting that accepting this, it nonetheless represents a source—a source—of internally generated inflation.

Well, he may be right but the practical point to be considered is this: has there really been "profiteering" in the case of beef when allowance has been made for these factors? And, incidentally, I am ignoring certain conceptual problems here such as the fact that import and wholesale prices are expressed in relation to dressed weight (which includes bones and so on) whereas the retail prices relate to saleable weight. This fact alone can be expected to result in absolute increases in retail prices being higher than the absolute increases in wholesale prices. However, ignoring this point, as my honourable Friend chose to do, it can be shown that the increase in the absolute margin of the retail price over the wholesale price in 1973 (HK\$28 per picul) amounted to 10.3%. But what of the total contribution to the retailers' overheads and profits in 1973? The Economic Background publication shows that, in the twelve months to September 1973, the consumption of beef declined in quantity terms. There was also a decline for

1973 as a whole (of over 11%). When allowance is made for this, but still ignoring the conceptual point I have already mentioned, it is estimated that the total contribution to retailers' overheads and profits declined by about 2%. We still do not know how much of the total contribution is absorbed by costs, but, of course, on this arithmetic, it could easily be concluded that total retail profits on beef were actually lower in 1973 than in 1972. I do not wish to press this too far because the assumptions are a bit on the tenuous side, but I trust I have demonstrated, using the same figures as my honourable Friend that, whether or not there has been "profiteering" in this instance depends very much on the criteria adopted. I must confess that I would not be prepared myself to level an accusing finger at Hong Kong's beef retailers solely on the basis of these figures. Equally, however, I would be reluctant to argue that the figures I have just quoted are, as they stand, all that conclusive the other way.

So "profiteering" is difficult to define and frequently, in everyday life, we are forced back on subjective judgments which can be very unfair indeed. For example, I am sure my honourable Friend Mr P. C. Woo, and my honourable Friend Mr Oswald CHEUNG and my honourable Friend Mr SZETO Wai would be most upset if I were to describe the outrageous fees they charge for their professional services as containing an element of "profiteering". (*Laughter*).

Control of "profiteering"

What then is "profiteering"? "Profiteering" can, in my view, unambiguously occur in situations where either there is a degree of monopoly power, or consumers are unable effectively to exercise their combined influence on prices as a result of some failure in the market information process.

In the first situation, the Government has a clear obligation to redress the balance, in favour of the consumer if the Government itself has been instrumental in providing any body of persons with the potential power to manipulate prices or supplies to their own advantage.

An obvious example is our privately owned public utility undertakings and here I can assure my honourable Friends that the Government does exercise a great deal of control either on prices or on profits. A less obvious example, however, is that relating to rice. Here, as my honourable Friend, the Director of Commerce and Industry has pointed out, the Government has been mainly concerned to maintain supplies

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and it has achieved this through an import licensing system. Since the end of 1972, however, import prices have been rising whereas earlier they had been falling. As a result there has been some scope for abuse at the expense of the consumer. It is a matter for regret that some traders in this field should recently have been taking advantage of their privileged position, but I hope honourable Members have been reassured by my honourable Friend's determination to ensure that there are adequate safeguards against exploitation of this kind.

I know there have been suggestions for the regulation of other essential and non-perishable commodities, such as cooking oil and flour. But I think it will be obvious that, in the absence of controls on supplies in areas other than rice, the question of Government action does not arise in quite the same way. And let me say a few words on supplies. As I said in this Council on 29th November last, there are no shortages of foodstuffs in Hong Kong in the sense that consumers are unable to obtain them at the going price. It is certainly true that consumption of many foodstuffs, including locally slaughtered pork and beef and fresh vegetables, has been lower in the past year or so than previously and this, too, is shown in the Economic Background publication, but this reflects the fact that prices have advanced rapidly on a broad front and have thereby resulted in some fall in demand.

But although, for example, flour and many other commodities are not in the same category as rice and, therefore, do not call for the same type of supervision, this does not mean that there is no room for action designed to help the consumer to become more effective in dealing with "rapacious" merchants. It is to this second type of situation in which "profiteering" can unambiguously occur that I now turn.

I have already said, Sir, that, whilst it may not be easy to *define* "profiteering", there would seem to be scope for what would generally be described as "profiteering" where consumers lack full market information. Let me take four examples: first, panic buying. This has probably only been of any great significance in the case of rice, and the likelihood of this recurring has been reduced as a result of the various measures outlined by my honourable Friend, the Director of Commerce and Industry. But consumers put themselves at the mercy of retailers when they seek to buy in excess of their needs because they feel they must secure their position for a period of time ahead. If they were better informed as to the true facts of the supply situation they might well refrain from rushing in.

Secondly, unreasonable rounding up of prices by wholesalers and/or retailers following upon increases in landed costs or excise duties: this does happen and has happened very recently. Following upon the budget proposals to increase the duty on spirituous liquors, some dealers have rounded up the additional duty when applying it to their prices. For example, one company which imports, wholesales and retails certain proprietary brands wrote to its customers a letter starting "The Government Excise Tax on all liquor has been very substantially increased as from 28th February 1974" and ending "We genuinely regret this increase in selling price which is brought about by circumstances quite beyond our control". Between these two statements was a list of increases per bottle. For all the increases to the prices for wines and spirits, the extra duty has been rounded up by up to 60 cents to the nearest dollar. For beer, the increase was five to seven times the additional duty. If the reason for this was a coincidental increase in costs the letter should have had the courage to say so, but it did not.

Thirdly, to the extent that individual consumers limit their daily shopping to a few retail outlets, they could tend to be unaware of the level of prices elsewhere (and some retailers doubtless take advantage of this); but easy access to information would improve their purchasing efficiency.

Fourthly, in a period in which prices are rising rapidly and continuously, consumers tend to get into the habit of assuming that they will regularly have to pay more and, are therefore, vulnerable in the sense that merchants, sensing this expectation, respond to this expectation whether or not costs so warrant, thereby confirming the expectation and helping to ensure its continuance.

Last November I introduced a consumer advisory service covering, in addition to rice, several items of fresh foodstuffs (namely, fish, vegetables and pork). These were the items for which retail price increases had made the largest contributions to the increase in food prices as a whole over the last year. The Service provides daily information on both supplies and wholesale prices and forms a basis on which it is possible to assess the adequacy of supplies and the extent to which individual retailers are, in their pricing policies, operating at variance with more general market conditions.

However, this service has not been as well received as I had hoped. Its purpose appears to have been misunderstood: it was never intended, for example, that it should put out recommended retail prices. Equally the media have, at best, simply published the information as it stands

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without attempting to analyse it or provide guiding commentaries. It could be argued, of course, that the Government itself should provide some kind of analysis and commentary and I have been looking into this and other ways of making the service more helpful.

But I have come to the conclusion that something rather more than this is required. Although I do not think that "profiteering" is as widespread as some would imagine, and although I do not believe for one moment that even its total elimination would make any very great difference to the rate at which prices are rising, the fact that it exists at all is a cause for considerable anger and frustration. As I have said, people tend to be more aware of "profiteering" in a situation of rapidly rising prices. Perhaps this is because, in a rather emotional way, they simply identify rapidly rising prices as such with "profiteering". Be that as it may, the very fact that prices are, unfortunately, continuing to rise rapidly has aroused public feelings on "profiteering" which need to be channelled constructively.

Proposed Consumer Council

Given that the public feels so strongly on this matter, it is likely that there would be considerable support for some private initiative. In other places, where support is forthcoming, consumer councils, consumer advisory councils, consumer protection councils—call them what you will—tend to emerge with three objectives; first, the building up and maintenance of a storehouse of information on prices of a selected range of commodities; secondly, acting as a clearing house for complaints and drawing attention to what, by common consent, are clear-cut cases of what might be described as "profiteering"; and thirdly, acting as sounding boards for consumer opinions to arrive at a reasonable idea of what the public, at any one time, regards as an unscrupulous practice.

I think Hong Kong now clearly feels the need for a body of this kind and I am sure that private individuals would have little difficulty in obtaining the support they would need to form one. The Government, for its part, stands ready to help such a body get off the ground with the speed the public mood demands.

Accordingly, the advice of Executive Council is to be sought next week as to how a Consumer Council might be established, what its role should be, how it should operate and what form Government

assistance should take. My own personal and preliminary views are that Your Excellency should appoint a nucleus of a Chairman and a few other members (all, of course, would be Unofficials) whose initial task would be to advise Your Excellency as to further membership, which should, of course, include persons with the necessary expertise as well as others able to represent directly the views of consumers. At the same time, these founder members might wish to advise on whether any Government officers should be appointed on a personal basis, having regard to their official duties and experience. The full Council, having been formed, would then settle down to develop an information service on prices and evolve techniques for identifying and exposing "profiteering".

To this end, the Government would be prepared to make available, on a regular basis, all information on supplies and prices of various commodities collected by the Census and Statistics Department, the Commerce and Industry Department, the Urban Services Department and the Agriculture and Fisheries Department for their own purposes. The Government would also be prepared to seek vote provision for an annual subvention to the Council and, if the Council so desired, to second Government officers to it to enable it to get to work quickly. The Council could act on its conclusions by publicity or by persuasion or by recommending action to the Government. The Government would also be happy to hear any views the Council may develop as to how relations between the public and those distributors of essential commodities who are in a semi-monopolistic position (for example, the oil companies) could be improved.

I am convinced that with vigour and imagination something can be done. But I am sure honourable Members will support me when I say that the Government would be extremely reluctant, to put it very mildly, to accept any recommendations for general price controls or bulk buying arrangements. We have seen the effect of such measures elsewhere: the end result is always confusion and distortion in the market and, furthermore, at a huge cost to public funds.

Conclusion

Sir, this has been an interesting and, to some extent, a rather surprising debate. I hope honourable Members will feel able to support the motion now that I have endeavoured to remove any misunderstanding that may have occurred over some of my revenue proposals. I have tried to do this by being as responsive and as flexible as the Hong Kong economy itself. (*Laughter*) I hope also honourable Members are now satisfied that the Government is concerned with the problem

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of inflation, whatever may have been said to the contrary in this Chamber and outside it. I regret I did not deal with this subject at greater length in the budget speech though I certainly did not ignore it. But I have learned my lesson: and so I promise honourable Members that, next year, I shall not be at such pains to keep the budget speech short. (*Laughter*).

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

INLAND REVENUE (AMENDMENT) BILL 1974

Resumption of debate on second reading (14th March 1974)

Question proposed.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

**QUARANTINE AND PREVENTION OF DISEASE
(AMENDMENT) BILL 1974**

Resumption of debate on second reading (14th March 1974)

Question proposed.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

**LANDLORD AND TENANT (CONSOLIDATION)
(AMENDMENT) BILL 1974**

Resumption of debate on second reading (14th March 1974)

Question proposed.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

EMPLOYMENT (AMENDMENT) BILL 1974

Resumption of debate on second reading (14th March 1974)

Question proposed.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

WORKMEN'S COMPENSATION (AMENDMENT) BILL 1974

Resumption of debate on second reading (14th March 1974)

Question proposed.

DR CHUNG: —Your Excellency, the Workmen's Compensation Ordinance is designed to provide financial compensation to two types of employee in the private sector when they receive personal injuries by accident arising out of and in the course of employment. The first type of employee are those employed as manual workers and for this type the principal Ordinance is applicable to all employees regardless of their wages.

The second type of employee covered by the Workmen's Compensation Ordinance are those engaged as non-manual workers such as factory assistants, clerks, supervisors, technicians, *etc.* For this type of employee, the principal Ordinance is only applicable to those whose

[DR CHUNG] **Workmen's Compensation (Amendment) Bill—resumption of debate on second reading (14.3.74)**

average earnings at the time of the accident do not exceed \$1,500 per month. This salary limit of \$1,500 per month was fixed in 1969 and since then salaries for this class of employee have increased much. One major objective of this amending bill is to raise the earning limit of this type of employee to \$2,000 per month, ~~to~~ to restore their entitlement for such financial compensation.

Sir, whilst I support this amending bill, I would like to take this opportunity to draw the attention of Government to two deficiencies in the principal Ordinance. There are in Hong Kong industry many technical and supervisory personnel who are also facing the danger of personal injuries through accidents during the course of their employment. However, because their monthly earnings are over \$1,500 (for \$2,000 if this bill is passed), they are not covered by the principal Ordinance and their employers are not liable by law to pay any compensation. These employees if injured in the course of employment are therefore at the mercy of their employers. In my humble opinion, Sir, this is a serious deficiency and I suggest that Government should consider the abolition of any salary ceiling or cut-off level for this type of employee in the principal Ordinance.

Part IV of the principal Ordinance deals with compulsory insurance against employers' liability for workmen's compensation but this part is not yet in operation. The UMELCO have received from time to time complaints from injured employees against their employers for non-payment or late-payment of compensation. It is considered that this is another deficiency and a suggestion was made to Government over a year ago to enact Part IV of the principal Ordinance. It is rather disappointing that Government has so far not showed any positive response.

It has been said to me that if Part IV of the principal Ordinance were brought into operation, many large companies would have to incur extra expenses to take out insurance policies. It is argued that compulsory insurance should only be applied to smaller businesses which are more likely to be incapable of paying compensation to injured workers but should not be forced upon the larger companies particularly those of sound financial standing. Sir, I take this point but there is sufficient flexibility provided in the principal Ordinance to exempt any employer from compulsory insurance. I say this because under section 41 of the principal Ordinance, an employer, if approved

by the authority, can enter into a bond with or furnish sureties to the Commissioner of Labour in lieu of a policy of insurance.

With these comments, Sir, I support the motion.

SECRETARY FOR SOCIAL SERVICES: —Sir, my honourable Friend, Dr S. Y. CHUNG, will be interested to know that the Commissioner of Labour is presently engaged on a comprehensive review of the entire Workmen's Compensation Ordinance and the need to retain the maximum salary ceiling for the entitlement of non-manual workers will certainly be carefully considered in that context.

When moving the second reading of the Workmen's Compensation (Amendment) Bill 1969, the then Commissioner of Labour indicated in this Chamber that there was no necessity at that time to impose compulsory insurance generally or for any particular employment but the situation would be continuously kept under review and the powers invoked should such action ever become necessary. Sir, active consideration is being given to this particular matter and recommendations will soon, I hope, be submitted for consideration by you in Council.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

Committee stage of bills

Council went into Committee.

APPROPRIATION BILL 1974

HIS EXCELLENCY THE PRESIDENT: —We shall consider the Schedule first in accordance with Standing Order 55, taking the Heads in groups. The question is that the sums of money for the following Heads stand part of the Schedule.

Heads 21 to 38 were agreed to.

Head 39.

Appropriation Bill—committee stage

MR SZETO: —Sir, in Item (42) in the Establishment and Salaries for the Chinese Language Branch, 6 calligraphists are provided. Such posts are also provided, though of smaller number, in the Government Information Services, Judiciary, Labour Department, Marine Department and the Kowloon-Canton Railway. May we know the duties and workload of these officers? If their work merely consists of copying or fairing of Chinese correspondence, would it not be less laborious and more business-like by employing Chinese typing machines which are now being more widely used?

SECRETARY FOR HOME AFFAIRS: —Sir, calligraphists are concerned with conveying thought by means of the written Chinese language. They operate Chinese typewriters, transcribe Chinese, do simple translations and routine clerical work. In many cases their concern is not only with mere words but with the beauty of presentation. I am afraid I cannot give my honourable Friend the statistics he is no doubt expecting to distinguish those communications in which the beauty of calligraphy enhances the eloquence of the message from those in which the paucity of thought requires decent clothing to justify the postage.

No machine will replace the beauty of the language inscribed by an artist. Important letters will continue to rely on calligraphy, style, special paper, as well as their content for their impact.

Unfortunately today there are circumstances when speed and economy have become so important that mere intelligibility is all that is required of a letter. The Information Services Department does its best to produce the Daily Information Bulletin with a typewriter clacking away at 25 characters a minute. Two newspaper offices I have visited have expensive type setting machines of the most cunning invention decently shrouded in plastic covers while old men potter about with frames in one hand picking out characters from vast racks of lead type at the rate of about 1,000 characters an hour—just like those in other newspaper offices where they have not acquired these status symbols. The ball point scrawl beats all that.

The Chinese typewriter at present is neither as fast as the most dexterous pen pusher nor as beautiful as the most accomplished calligraphist. It is a convenient compromise between the two and is found in several departments. It still requires a calligraphist to work it. The six calligraphists in the Chinese Language Branch all have these typewriters on which they spend about 40% of their time. In a month the average output is 340 sheets of about 450 characters each.

I do however hear rumours of a technological break-through involving a computer driven type setting machine which will produce immense advances in speed and beauty of presentation. Should such a monster ever appear in front of the Tender Board they will no doubt embrace each other in an ecstasy of efficiency and economy.

All that will then be needed will be to think of what to say.

Head 39 was agreed to.

Head 40.

MR SZETO: —Sir, the approved establishment of the Construction Branch of this department for 1973-74 was 41 to which 94 have been added by supplementary provision. The 1974-75 Estimates provide for an establishment of 134 of which 111 are professional and technical grades. What is the present establishment in respect of these grades, and is it likely that the provision requested will be filled in view of the general shortage of these personnel; and what effect will any serious under-strength in this branch have on the expenditure, or more importantly, on our housing target?

SECRETARY FOR HOUSING: —Sir, before the major expansion approved in October last year, the Housing Department's Construction Branch had 32 professional and technical staff. In October 79 additional professional and technical posts were added, and since then, as a result of a sustained recruitment drive both locally and overseas, 26 of these posts have been filled. Recruitment is going ahead vigorously to fill the remaining 53 approved posts. The most difficult grade to fill is the Architectural Assistant, in which there are 30 vacancies, and for which we must have experienced staff; very close consideration is being given to finding a remedy for this shortage.

Given the Branch's present strength, and the prospects for recruiting new staff over the next few months, the Branch should be able to cope with its planned expenditure for 1974-75; but the situation needs careful watching to ensure that constructive action is taken in good time to resolve any particular or persistent shortfalls in recruitment, for example, in filling the Architectural Assistant vacancies. Quite obviously, a serious shortfall in recruitment will have matching effects on housing production for which the employment of private architects is not a good solution; but, as I have said, we are optimistic that this situation can be avoided.

Appropriation Bill—committee stage

5.59 p.m.

THE ATTORNEY GENERAL: —Sir, as it is nearly six o'clock may I interrupt a moment. I move that Standing Order 8 be suspended in order that the remaining business on the Order Paper may be completed this evening.

Question put and agreed to.

Head 40 was agreed to.

Heads 41 to 50 were agreed to.

Head 51.

MR SZETO: —Sir I apologize for prolonging the meeting.

In the items of Establishment and Salaries, it is noted that the provision for the current year for the Lai Chi Kok and Princess Margaret Hospitals for 1974-75 there is only one additional permanent post and that is for a caretaker for the senior departmental quarters.

As we understand that the new hospital building will be ready for handing-over in June this year and that it is scheduled for partial operation in November this year and full operation in February 1975, why then are no additional permanent medical and technical staff proposed? This question was prompted by the provisions in the 1970-71 and 1971-72 Estimates which called for 437 and 721 posts respectively for the Lai Chi Kok Hospital alone. The increases in 1972-73 and 1973-74 to 855 and 934 respectively were presumably in preparation for the opening of the new Princess Margaret Hospital.

DR CHOA: —Sir, because of the size of the project it was decided that the department's request for additional posts for the new Princess Margaret Hospital should be dealt with outside the context of the 1974-75 draft staff Estimates. Accordingly six papers have been submitted separately to the Complementing and Grading Division of the Finance Branch recommending the creation of the new posts for Princess Margaret Hospital with effect from the 1st April 1974 by supplementary provision. The total number of new posts requested is 1,612 covering all categories of staff.

Sir, may I add that in reply to a question by my honourable Friend Mr Wilfred WONG a few weeks ago on the commissioning of

the Princess Margaret Hospital, I said that we hope the staff quarters would be ready by November this year and that we may start phasing operation in February 1975.

Head 51 was agreed to.

Heads 52 to 69 were agreed to.

Head 70.

MR SZETO: —Sir, while I am pleased to see that the total expenditure including next year's provision for sub-head 1(4)—Urban Renewal is approaching 90% of the approved 1972 estimate of \$112 million, and that we are informed that the bulk of this work will be completed during 1974-75, the situation with sub-head 1(3)—Urban Improvements Yau Ma Tei and Wan Chai districts appears to be much less satisfactory. The total expenditure since the approval of their plans including next year's provision of \$15 million amounts to only one third of the approved 1972 estimate. At this rate, it will be many years before the serious deficiency in urban amenities in those two areas could be improved, while owners whose properties had been zoned for public use for almost 3 years now will continue to suffer the hardship of having their lands remain frozen for re-development. The reason given by my honourable Friend the Director of Public Works in the past was that the slow implementation was due to shortage of staff in handling the negotiations and resumption. I do not consider the reason valid and plausible as \$15 million is a small sum when land is concerned.

MR McDONALD: —Sir, my honourable Friend is correct in assuming that there is no new staff shortage reason for not negotiating acquisitions. If lessees approach Government requesting acquisition of their properties to a value in excess of \$15 million, additional provision will be sought provided there is an obligation to do so.

Head 70 was agreed to.

Head 71 was agreed to.

Head 72.

MR SZETO: —Sir, in the items for highways, it is noted that several projects which were upgraded to Category A in 1972 or 1973, such as the Garden Road round-about improvements, the Garden Road/Queensway flyover, the Tai Hang Road/Stubbs Road junction

[MR SZETO] **Appropriation Bill—committee stage**

flyover, the proposed pedestrian bridge across Queen's Road East near Wah Yan College and Lung Cheung Road reconstruction in Kowloon have been axed. While appreciating the honourable Financial Secretary's wish to reduce deficit, the exclusion of these projects must be detrimental to our general well-being and economy since all of them had been given high priority and their construction was scheduled to commence either in 1972-73 or 1973-74 in the Public Works Department Road Priority Programme.

MR CHEUNG: —Sir, I regret that the policy under this head is one of considerable retrenchment. There are a number of highways projects in Category A of the Public Works Programme, some of which have already been detailed by my honourable Friend Mr SZETO which are absolutely essential to the growth of the economy for which no provision, or only token provision, has been made in the current year. I won't go into more details, except to mention one example and that one is a truly outrageous omission and that is the Tuen Muen Road Stage 1, a project approved last year, for which the estimate is \$213 million. So far no more than \$8 million has been spent, and nothing has been provided in this year's Estimates for expenditure on it. May I ask how Government is to exploit Castle Peak without building that road and building it fast.

My Friend the Financial Secretary has spent five hours in two polished and long speeches justifying his position, but I have not even begun to be persuaded that his philosophy is right. I find it impossible to be reconciled to this policy of retrenchment, even if it means budgeting for a deficit. May I point out, Sir, that our aggregate surpluses over the past 12 years, not to go further back than that, amount to \$3,300 million. \$800 million have been transferred to the underground project, leaving \$2,500 million surplus in the account. A deficit incurred in the course of heavy but essential capital investment financed from these accumulated surpluses would not in my submission be the first step to ruin.

MR McDONALD: —Sir, it could be said that the exclusion of any highways item must be detrimental to our general well-being but it must be recognized that due to financial constraints it is not possible to proceed with all programme items. It has therefore been necessary to examine commitments and re-establish priorities with top priority being given to projects which will provide the greatest overall benefits to the community.

Head 72 was agreed to.

Heads 73 to 84 were agreed to.

Head 85.

MR CHEONG-LEEN: —Sir, under Standing Order 55(3), I wish to refer to the increases in vehicle licences, drivers' licences and off-street car parking charges some of which came into force on 27th February under the Public Revenue Protection Bill, and the balance of which are due to be brought into force some time after 1st April 1974.

While the honourable Financial Secretary has professed views to the contrary in his budget speech, it is to be regretted that in practical effect he has sought to pre-empt, admittedly with the best of fiscal intentions, the conclusions of the Unofficial Members by seeking increases in such licences and parking charges without the "Transport in Hong Kong" green paper even being made available to Unofficial Members of this Council, not to mention the general public.

In paragraph 157* of his budget speech, the honourable Financial Secretary has frankly implied that it would have been short-sighted if he did not take the opportunity to raise additional revenue by adopting certain proposals in the green paper on transport.

I would respectfully suggest that by "jumping the gun", as it were, the honourable Financial Secretary has in practical effect done what he has professed he wanted to avoid, that is, to take a short-sighted stand in regard to the wider public interest.

After all, what is the announced policy of Government in regard to green papers? It is to have more "open communication" with the people in the making of policy on major issues, such as is contained in the green paper on transport?

I would urge that the contents of the green paper on transport be debated in this Council at an early date after its release for public comment, preferably before the end of July, by which time the provisions of the Public Revenue Protection Bill will no longer apply.

In the meantime, Sir, I would reserve my position in regard to the various levels of increases in vehicle licences, drivers' licences and off-street car parking charges.

* 1973/74 Hansard, page 594, paragraph 4.

Appropriation Bill—committee stage

SECRETARY FOR THE ENVIRONMENT: —Sir, the honourable Financial Secretary took a long time to explain that the increases in vehicle charges, licences and parking charges were a means of raising revenue that did not pre-empt the green paper. The green paper is nearing completion and when it is completed, it will be dealt with in the usual way for green papers, in other words, to introduce it to the public, to get public reaction, and it will be processed in that way.

Head 85 was agreed to.

Heads 86 to 89 were agreed to.

Question put that the Schedule stand part of the bill and agreed to.

Clauses 1 and 2 and the Preamble were agreed to.

INLAND REVENUE (AMENDMENT) BILL 1974

Clauses 1 to 3 were agreed to.

**QUARANTINE AND PREVENTION OF DISEASE
(AMENDMENT) BILL 1974**

Clauses 1 to 8 were agreed to.

**LANDLORD AND TENANT (CONSOLIDATION)
(AMENDMENT) BILL 1974**

Clauses 1 to 6 were agreed to.

EMPLOYMENT (AMENDMENT) BILL 1974

Clauses 1 and 2 were agreed to.

WGRKMEN'S COMPENSATION (AMENDMENT) BILL 1974

Clauses 1 to 5 were agreed to.

Council then resumed.

Third reading of bills

THE ATTORNEY GENERAL reported that the

Appropriation Bill 1974

Inland Revenue (Amendment) Bill 1974

Quarantine and Prevention of Disease (Amendment) Bill 1974

Employment (Amendment) Bill 1974 and

Workmen's Compensation (Amendment) Bill 1974

had passed through Committee without amendment and moved the third reading of each of the bills.

Question put on each bill and agreed to.

Bills read the third time and passed.

Adjournment and next sitting

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday 10th of April.

Adjourned accordingly at fifteen minutes past six o'clock.