

1ST MARCH, 1916.

9.15 A.M.

PRESENT:—

HIS EXCELLENCY THE GOVERNOR, SIR FRANCIS HENRY MAY, K.C.M.G.

HIS EXCELLENCY MAJOR-GENERAL F. VENTRIS (General Officer Commanding the Troops).

HON. MR. CLAUD SEVERN (Colonial Secretary).

HON. MR. J. H. KEMP (Attorney-General).

HON. MR. A. M. THOMSON (Colonial Treasurer).

HON. MR. E. R. HALLIFAX (Secretary for Chinese Affairs).

HON. MR. W. CHATHAM, C.M.G. (Director of Public Works).

HON. MR. C. MCL. MESSER (Captain Superintendent of Police).

HON. MR. WEI YUK, C.M.G.

HON. MR. H. E. POLLOCK, K.C.

HON. MR. E. SHELLIM.

HON. MR. D. LANDALE.

HON. MR. LAU CHU PAK.

HON. MR. P. H. HOLYOAK.

MR. A. G. M. FLETCHER (Clerk of Councils).

Minutes

The minutes of the last meeting were confirmed.

Finance

THE COLONIAL SECRETARY, by command of H.E. the Governor, laid on the table the report of the Finance Committee, No. 1, and moved that it be adopted.

THE COLONIAL TREASURER seconded, and this was agreed to.

Paper

THE COLONIAL SECRETARY, by command of His Excellency the Governor, laid on the table the Jurors' List for 1916.

The Colony's Liquor Duties

HIS EXCELLENCY—I am sorry to have been obliged to call you together in a somewhat unceremonious way. It will be within your recollection that after the last meeting of the Council I explained to you, behind closed doors, the necessity of imposing additional taxation in the way of increasing the duties on alcoholic liquors. Well, somehow or other, the intention to make those additions has leaked out. I cannot say where the fault lay, but the result was that yesterday morning there was a rush to remove alcoholic liquors from bond, with considerable loss to the revenue which we hoped to gain. A large quantity of stuff has been taken out that would have been subject to the new duties in consequence of the resolution which I am proposing. Therefore, to stop further loss I had to call you together this morning to pass the necessary legislation. I explained to you last Thursday that we had estimated for the year on the basis of a deficit of \$473,000, and that that deficit had been increased by the removal of the prisoners-of-war to Australia. The expenses incurred in that removal were the passages of the 300 and odd prisoners and their guard of 75 men and 4 officers, and certain medical details, and the return of the guard to this Colony, and a consideration for the fact that the ship did not touch at any neutral port on her way down to Sydney or on her way back. That has been an inclusive sum of £10,750. The necessity of providing accommodation for so large a number of special passengers and their guard involved very considerable structural alterations, resulting in an expenditure of about £3,000. There was also a necessary expenditure for providing accommodation in Australia for these persons; that amounted to £750. That comes to a total of £14,500. The maintenance of the prisoners in Australia is estimated at about £1,000 per month, and I am glad to say that it is not very much in excess of the cost of their maintenance here. By some oversight the provision in the esti-

mates for the maintenance of the prisoners of war during the current year was only \$58,000. There was also a sum of \$12,000 under another vote which could be used for the same purpose, but on the whole there would have been a deficit if the prisoners had remained here the whole time. Therefore, in the result, covering the probable deficit here and the expense of the removal to Australia there would have been a total deficit of \$200,000 excess on the votes in the estimates. Therefore, our deficit this year would have been swelled to the sum of \$673,000. We have already provided for \$350,000 of that deficit by increasing the price of our prepared opium. This leaves a deficit of \$323,000 still to be provided for. Economies have been made in the public services particularly in the Police Department, by the gratuitous and valuable services of the Special Police Reserve, which amount this year, I hope, to about \$50,000; and I propose to omit from the programme of Public Works Extraordinary the road No. 36C in the estimates, the road from Kam Tin to Fanling through the Ha Tsia Gap. That amounts to \$33,000 and certain other economies in minor works principally recurrent will bring the economies in Public Works to \$60,000. I also anticipate an annual increase in the revenue from land sales and otherwise, amounting to \$125,000. Those three sums amount to \$235,000, which still leaves about \$100,000 if we wish to establish equilibrium between revenue and expenditure. To provide that it is proposed to increase the liquor duties in the manner described in the resolution before you. Those increases and the alterations made in Clause 3 are estimated to produce \$175,000 yearly. That, for the ten months of this year which have still to elapse, amounts to \$120,000, nett, so with these additions and the economies I have mentioned we should arrive at rather more than equilibrium. In turning now to the resolution before you, you will see that the increases are not very considerable, considering the low rates of duty in this Colony on alcoholic liquors. They are low compared with the duties in many other places. I am informed by the Superintendent of Imports and Exports, who has expert knowledge of this subject, that these duties can easily be paid. The only item of principle involved in the Resolution is in Clause 3 towards the end. That effects an alteration in the unit of taxation. When these liquor duties were imposed here, this

Council decided to make the basis of taxation the gallon without any regard to its strength. It is an unusual method of taxation, not followed in England or in some other colonies—for instance, in the neighbouring colony of Singapore. The result, as you will easily see, is that spirits—whisky and brandy are the principal spirits consumed—are taxed in two different ways. The importer in bottle pays on the gallon but his whisky, we find from experience since this system has been in force, is about 18 degrees below proof, which is the ordinary strength of whisky used as a beverage. The importer in bulk who breaks down his whisky and bottles it imports at proof, about. He pays at proof and bottles it at a strength of about 20 degrees or 22 degrees below proof, and retails it to the consumer, charging him the full duty. It is obvious, therefore, that he gains an undue advantage; the seller pays less than he ought to and the revenue suffers. It is not an equitable method of taxation, and it is proposed to alter it and make the basis of taxation on spirits at a strength of 18 degrees below proof, with extra taxation for any excess over that standard of strength. That ought to fit local circumstances extremely well, because, as I have already told you, the bulk of the whisky brought in here in bottle is about that 18 degrees below proof. At the time that we decided to take the gallon instead of the proof gallon as the basis of taxation there were some who contended that if we taxed the proof gallon we should injure the trade of the port by discouraging the import of liquor in bulk and bottling it here for export and otherwise. One argument used was that it would be very difficult for us to examine all liquor brought out in bottle and find out what its strength was. That we find, is not so, because all such whisky is about the same strength and all we need to do with any consignment is to take a sample. We do not anticipate any difficulty about that and we are prepared to accept the responsibility of working out the taxation on that basis. The other principal argument was that those who imported liquor in bottle would not be put to the same expense in the matter of licensed warehouses as those who import in bulk. That we find, from experience, is a prognostication that has not been realised. The space required for bottling liquor is extremely small, and

those who import spirits and other alcoholic liquor in bottle are obliged, in order to keep a reasonable stock, to have licensed warehouses just as much as those who import it in bulk. Therefore, the importers in bulk are not penalised in any way in the matter of duties. I think that is all I have to say on this subject. I cannot give you an estimate of what the resulting increase in the revenue will be by this alteration, but it will be worth having, and at any rate I think that all fair-minded men will agree that the alteration is reasonable and therefore to be commended. I, therefore, beg to move the resolution, but before I do so I would like to introduce a small amendment, that is, the addition after the word "liquors" in paragraphs 1 and 3, of the words "stored in a general bonded or licensed warehouse" be inserted.

THE COLONIAL SECRETARY seconded.

THE ATTORNEY-GENERAL moved the addition of the words "at the date of the passing of this resolution."

This was agreed to.

The resolution was then adopted in the following form:—

That there shall be paid upon intoxicating liquors stored in a general bonded or licensed warehouse at the date of the passing of this resolution, imported into, distilled, made, or prepared in the Colony the duties following, namely;—

On all brandy and liqueurs.....	\$6.00 per gallon.
On all whisky, gin, rum, and other spirituous liquors	4.00 "
On all champagnes and other sparkling wines.....	4.00 "
On all port, sherry, and madeira.....	3.00 "
On all other still wines in bottle	2.00 "
On all other still wines in wood	1.50 "
On all other intoxicating liquors excepting spirits of wine and native wines and spirits	0.30 "
On all spirits of wine and arrack.....	4.00 "

On all native wines and spirits:—

- (a.) 40 cents a gallon on the native liquors known as Liu Pun and Sheung Ching and on the following sweetened, prepared, and medicated wines:—

No Mai Tsau, Hak No Mai, Mau Kan, Yuk Lan, Ning Mun Tsau, Tsing Mui, Muk Kwa, Sun Fung, Wu Tau, Shut Li Tsau, Shan Kat, Lung San Tsau, Tei Kuk, Sam Pin, Tit Ta, Fung Shap, and Wai Shang.

All such liquor shall contain not more than 25 per cent. of alcohol by weight.

- (b.) 50 cents a gallon on the native liquor known as Sam Ching, containing not more than 35 per cent. of alcohol by weight.

- (c.) 60 cents a gallon on the native liquor known as Fa Tsau and on the following sweetened, prepared, or medicated wines:—

Ng Ka Pei, Mui Kwai Lo, Sz Kwok Kung, Fu Kwat Muk Kwa, Yan Chan Lo, and Ko Leung Kon.

All such liquor shall contain not more than 45 per cent. of alcohol by weight.

- (d.) 80 cents a gallon on the native liquor known as Fan Tsau, if containing 50 per cent. or under of alcohol by weight, with the addition of two cents for every one per centum between 50 per cent. and 55 per cent. of alcohol by weight.

- (e.) \$1.00 a gallon with the addition of eight cents for every one per centum above 55 per cent. of alcohol by weight on any native liquor containing above 55 per cent. of alcohol by weight.

- (f.) 10 cents per gallon on all native liquor distilled in the New Territories, not including New Kowloon and the Island of Cheung Chau, for consumption in the said Territories.

Further resolved that—

- (1.) On native wines and spirits declared or labelled as belonging to any of the above divisions the appropriate duty therein laid down shall be paid except that on any native liquor however declared or labelled found by the Government Analyst or such person as the Governor may from time to time appoint in that behalf to contain more alcohol than is permitted in the division to which it is declared or labelled as belonging there shall be paid the appropriate duty of the division in which the amount of alcohol found has placed it: each division in such case shall represent native liquor of the limit of strength in alcohol therein stated and irrespective of any definition or description of such liquor, and on any native wines and spirits not declared or labelled as belonging to any division there shall be paid the duty appropriate to the division in which the amount of alcohol found by the Government Analyst or such person as the Governor may from time to time appoint on that behalf has placed it.

(2.) Stills in the New Territories (not including New Kowloon and the Island of Cheung Chau) shall be prohibited from sending liquor produced in these stills to Hongkong or to New Kowloon: provided that any licensee of a distillery who desires to send such liquor to Hongkong or New Kowloon may be granted a permit to do so, upon payment of the duties charged in Hongkong or New Kowloon.

(3.) On intoxicating liquors, other than spirits of wine, arrack, and native wines and spirits, stored in a general bonded or licensed warehouse at the date of the passing of this resolution, imported into, distilled, made, or prepared in the Colony above the strength of 18 degrees under proof there shall be paid an additional duty of 6 cents for every degree above such strength in the case of brandy, and of 5 cents for every degree above such strength in the case of any other liquor.

The Resolution made by the Legislative Council under the provisions of Section 3 (1) of the Liquors Ordinance, 1909, on the 16th day of March, 1911 (published in the *Government Gazette* of the 17th day of March, 1911, Government Notification No. 769, and on pages 288 and 289 of the "Regulations of Hongkong, 1914,"), is hereby cancelled.

False Passports

THE ATTORNEY-GENERAL moved the second reading of a Bill intituled, "An Ordinance to prevent the use of false passports, and to confer on

the Governor-in-Council power to order the internment of certain suspected persons." In doing so he said—The second clause of the Bill, Sir, makes it an offence to be in possession of a false passport and an offence for every person who is an alien enemy to pass under an assumed name. The section makes the offence of possessing a false passport retrospective, going back to the beginning of the present war. It is an unusual thing to make a criminal provision retrospective, but that appears to be the result of the enactment in force in the United Kingdom from which this is copied. It is a paraphrase of a regulation under the Defence of the Realm Act. Clause 3 gives power to the Governor-in-Council to order the internment of any person whose conduct gives rise for suspicion that such person is acting, or is about to act, in a manner prejudicial to the defence of the Colony, or to the public safety of any part of His Majesty's Dominions. That power, of course, is a very unusual and extreme one, but I submit it is justified by the circumstances of the present time, when the safety of the State must be the supreme consideration.

THE COLONIAL SECRETARY seconded, and the Bill passed through all its stages.

HIS EXCELLENCY—Council stands adjourned *sine die*.