

**OFFICIAL REPORT OF PROCEEDINGS****Meeting of 29th November 1967****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)  
SIR DAVID CLIVE CROSBIE TRENCH, KCMG, MC  
THE HONOURABLE THE COLONIAL SECRETARY (*Acting*)  
MR DAVID RONALD HOLMES, CBE, MC, ED  
THE HONOURABLE THE ATTORNEY GENERAL  
MR DENYS TUDOR EMIL ROBERTS, OBE, QC  
THE HONOURABLE THE SECRETARY FOR CHINESE AFFAIRS (*Acting*)  
MR PAUL TSUI KA-CHEUNG, MBE  
THE HONOURABLE THE FINANCIAL SECRETARY  
MR JOHN JAMES COWPERTHWAITTE, CMG, OBE  
THE HONOURABLE ALEC MICHAEL JOHN WRIGHT, CMG  
DIRECTOR OF PUBLIC WORKS  
DR THE HONOURABLE TENG PIN-HUI, CMG, OBE  
DIRECTOR OF MEDICAL AND HEALTH SERVICES  
THE HONOURABLE WILLIAM DAVID GREGG  
DIRECTOR OF EDUCATION  
THE HONOURABLE ROBERT MARSHALL HETHERINGTON, DFC  
COMMISSIONER OF LABOUR  
THE HONOURABLE ALASTAIR TODD  
DIRECTOR OF SOCIAL WELFARE  
THE HONOURABLE TERENCE DARE SORBY  
DIRECTOR OF COMMERCE AND INDUSTRY  
THE HONOURABLE GEOFFREY MARSH TINGLE  
DIRECTOR OF URBAN SERVICES  
THE HONOURABLE KENNETH STRATHMORE KINGHORN  
DISTRICT COMMISSIONER, NEW TERRITORIES  
THE HONOURABLE DHUN JEHANGIR RUTTONJEE, CBE  
THE HONOURABLE KAN YUET-KEUNG, CBE  
THE HONOURABLE FUNG HON-CHU, OBE  
THE HONOURABLE TANG PING-YUAN, OBE  
THE HONOURABLE TSE YU-CHUEN, OBE  
THE HONOURABLE KENNETH ALBERT WATSON, OBE  
THE HONOURABLE WOO PAK-CHUEN, OBE  
THE HONOURABLE GEORGE RONALD ROSS  
THE HONOURABLE SZETO WAI, OBE  
THE HONOURABLE WILFRED WONG SIEN-BING, OBE  
THE HONOURABLE ELLEN LI SHU-PUI, OBE  
THE HONOURABLE JAMES DICKSON LEACH, OBE  
DR THE HONOURABLE CHUNG SZE-YUEN

**IN ATTENDANCE**

THE DEPUTY CLERK OF COUNCILS  
MR DONALD BARTON

**MINUTES**

The minutes of the meeting of the Council held on 15th November 1967 were confirmed.

**PAPERS**

THE COLONIAL SECRETARY, by Command of His Excellency the Governor, laid upon the table the following papers:—

<i>No</i>	<i>Subject</i>	<i>LN</i>
Subsidiary Legislation:—		
	Coroners Ordinance 1967.	
	Coroners Ordinance 1967 (Commencement) Notice 1967 .....	176
	Coroners Ordinance 1967.	
	Medical Practitioners (Fees) Order 1967 .....	177
	Coroners Ordinance 1967.	
	Places for Post-Mortem Examination <b>Order</b> 1967 .....	178
	Coroners Ordinance 1967.	
	Coroners (Forms) Rules 1967 .....	179
	Emergency Regulations Ordinance.	
	Emergency (General Holiday) Regulations 1967 .....	180
	Interpretation and General Clauses Ordinance.	
	Notice under section 10 .....	181
	Industrial and Reformatory Schools Ordinance.	
	Reformatory School (Amendment) Rules 1967 .....	182
	Hong Kong Airport (Regulations) (Amendment) Ordinance 1967.	
	Hong Kong Airport (Regulations) (Amendment) Ordinance 1967 (Commencement) Notice 1967 .....	183
	Road Traffic (Amendment) (No 2) Ordinance 1967.	
	Road Traffic (Amendment) (No 2) Ordinance 1967 (Commencement) Notice 1967 .....	184
	Young Offenders (Miscellaneous Provisions) Ordinance 1967.	
	Young Offenders (Miscellaneous Provisions) Ordinance 1967 (Commencement) Notice 1967 .....	185

Sessional Papers 1967:—

No 26—Annual Report by the Hong Kong Housing Authority for the year 1966-67.

No 27—Annual Report by the Postmaster General for the year 1966-67.

No 28—Annual Report by the Commissioner of Rating and Valuation for the year 1966-67.

No 29—Annual Report by the Registrar, Supreme Court for the year 1966-67.

## **FACTORIES AND INDUSTRIAL UNDERTAKINGS ORDINANCE**

MR R. M. HETHERINGTON moved the following resolution: —

Resolved that the Factories and Industrial Undertakings (Amendment) Regulations 1967, made by the Commissioner of Labour on 21st November 1967, under section 7 of the Factories and Industrial Undertakings Ordinance, be approved.

He said:—Sir, “The regulations now before honourable Members . . . represent a considerable step forward . . . in Hong Kong’s labour legislation and one which will not only safeguard the health and working conditions of a large section of our industrial population but which is also in the long term interests of the industries which now play so important a part in Hong Kong’s economy”. \*These words, Sir, are not mine but those of my predecessor, Mr SEDGWICK, when he spoke in this Council nine years ago in November 1958. They are, I suggest, equally appropriate for the present regulations now before Council.

At the same time Mr SEDGWICK also said that the Factories and Industrial Undertakings (Amendment) Regulations 1958 did not bring hours of work for women and young persons in Hong Kong completely into line with internationally accepted standards and positive advances would have to be made in due course. He and his successors in office devoted very many hours of painstaking work to seek ways in which these advances could be made. I do not propose to give an account of the many difficulties which have been surmounted in the past years to reach this present stage. At times they appeared intractable in the face of divided opinion and of external developments adversely affecting Hong Kong. In spite of everything, my predecessors continued with a dogged determination to find a solution acceptable and reasonable for all concerned. It falls to me to speak on the resolution now before Council which, if agreed to, will result in Hong Kong generally coming

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\* 1958 Hansard, page 287.

into line with internationally accepted standards in respect of hours of work for women and young persons in industrial employment. Contrary to views which I have seen expressed, instant legislation which adequately resolves local problems in this field is not readily available. The crystallization of ideas, their arrangement in ordered concepts, and the incorporation of these concepts into a body of law are time-consuming and complex processes. What is contained in the regulations before us is not the fruits of hasty discussions in the immediate past but the yield of careful and, at times, protracted consultations with a range of opinion widely representative of those whose interests are directly concerned with the true welfare of Hong Kong.

Sir, I would have been happier if, last week, when I made these regulations and submitted them to you, I could have presented a less bulky set. They appear to be a formidable piece of legislation and I doubt if, in the course of this speech, I will be able fully to allay understandable misgivings about their complexity. The main reason for their length is that they deal successively with five stages of a comprehensive plan covering the next four or more years. As the plan takes its course the regulations for each stage supersede those for the previous stage until, at the end, only the residue of the regulations will remain. Consequently, only about one fifth part of these regulations will be operative at any one time. The purpose of presenting them in a form covering all stages is to ensure that the unfolding of a comprehensive plan over the next four years is clearly set out for the advance information of both labour and management in order that they may have prior notice of changes to be brought into effect up to December 1971.

The comprehensive plan which is incorporated into these regulations has two main parts. The first part concerns industrial undertakings where the present maximum standard working hours are ten a day and 60 hours a week. The second part concerns industrial undertakings which work less than present maximum standard hours.

For industrial undertakings working the present maximum standard working hours a phased programme for the progressive reduction of hours will come into effect on 1st December 1967. Over a period of four years from that date, the maximum standard working hours will be reduced annually on 1st December by 30 minutes a day and three hours a week in each of the first two stages and by 20 minutes and two hours a week in each of the remaining stages. On 1st December 1971, the maximum standard working hours will then stand at eight hours a day and 48 hours a week. Concurrently with this progressive reduction of maximum standard working hours, the aggregate period of overtime permitted annually will be increased annually on 1st December in each year by 50 hours a year in the first two stages, 40 hours in the third stage, and 30 hours in the remaining stages. On 1st December 1971,

the aggregate period of overtime permitted annually will then stand at 300 hours. The total effect of this phased programme, when it is completed on 1st December 1971, will be to reduce the maximum standard working hours from ten hours a day and 60 hours a week to eight hours a day and 48 hours a week and to increase the aggregate overtime permitted annually from 100 hours to 300 hours.

In order to give reasonable time for individual undertakings to adjust their working schedules, the Commissioner of Labour is given similar transitional powers for each stage of the programme to permit undertakings which apply for a period of grace to operate on the basis of the provisions for the previous stage. The permission which the Commissioner of Labour is authorized to grant under these transitional powers must be given by him in writing and may not extend beyond 31st May of each year. This period of grace of six months is allowed for in each stage of the programme. Because of the very short notice given of the effective introduction of these regulations it would be my intention to exercise these transitional powers sympathetically during the next six months for all reasonable requests. I expect that, during the later stages, managements will find it possible to adjust themselves in advance to the phased programme and that requests for the exercise of transitional powers by me will rapidly decrease in future years.

At present there is a limitation on overtime of six hours a week in not more than 25 weeks in any one year up to an aggregate of 100 hours annually. With the progressive increase in permitted hours of overtime it becomes arithmetically impossible to insist on such a limitation. Instead, a simple limitation of not more than two hours a day is substituted except for the first stage and subject, of course, to the maximum aggregate overtime permitted annually for each stage of the programme. For the first stage, the simple limitation on overtime which may be worked on a single day is fixed at one and a half hours. The reason for this special measure is as follows. At present the maximum total hours of work inclusive of overtime are limited to eleven a day. During the first year of the phased programme the maximum standard working hours will be nine and a half. If overtime was permitted up to two hours a day it would become possible for the maximum total hours of work inclusive of overtime to total eleven and a half hours, that is half an hour in excess of the present total. This situation would be contrary to the whole spirit of the new regulations. Consequently, overtime will be limited to not more than one and a half hours a day for the first year of the phased programme. In the second year, the maximum standard hours fall to nine hours. It will then be possible in that year and in succeeding years to permit up to two hours of overtime a day because the maximum total hours of work inclusive of overtime can never exceed and will eventually fall below the present maximum of eleven hours.

For industrial undertakings working less than the present maximum standard hours a scheme of limitation is introduced. Normal working hours in individual factories will be determined as those which were actually in operation on 1st October 1967 and no increases in these hours will normally be permitted during the next four years. The hours in individual factories will be progressively caught by and become subject to the general restrictions imposed by the phased programme which I have described earlier until, by 1st December 1971, all factories will work according to the common standard of eight hours a day and 48 hours a week.

Normal working hours in individual factories on any particular date can be calculated from a notice which it is compulsory for a proprietor to post in the factory. This notice sets out, among other information, the period of employment and of intervals for meals or rest for each day of the week. From these notices it is possible to determine the normal working hours actually in operation on 1st October 1967 for every industrial undertaking. Additional provisions have been added to regulation 9 to prevent any increases in periods of employment or any decreases in intervals for meals or rest and, consequently, any increases in hours of work beyond those in operation on 1st October 1967 without the consent in writing of the Commissioner of Labour. Contravention of these provisions becomes a new offence. In consequence, further additional provisions are also added to regulation 9 to permit a copy of the posted notice to be produced in court as conclusive evidence for the purpose of prosecuting for such an offence.

It is recognized that some factories may have been working on 1st October 1967 in special circumstances arising from seasonal demands or from unusual causes. In order not to penalize them unfairly, discretionary powers are given to the Commissioner of Labour whereby, after acknowledging these special circumstances which can be discovered from a study of official records of past practices, he may agree in writing to different normal working hours from those actually in operation on 1st October 1967. I expect that it will be necessary to use these discretionary powers in a limited number of cases but probably only during the early stages of the scheme.

In order not to penalize the factories subject to the limitation scheme *vis-à-vis* the factories subject to the phased programme, the factories in the first group will be permitted, without restriction, to work such overtime as may be calculated by deducting normal working hours effective as on 1st October 1967 from the maximum standard working hours appropriate to each stage of the phased programme. In addition, they will be permitted to work overtime up to the aggregate annual maximum hours permitted for each stage of the phased programme and subject, of course, to the appropriate limitations for each stage.

Although men working in the same factories as women may be indirectly affected, the comprehensive plan applies directly to only women and some young persons employed in industrial undertaking. At the end of the third quarter of 1967 the number of women reported as employed in industry was 202,937. The number of young persons was 4,605. All, except for 638 young persons aged 14 years and 15 years, will be affected at some stage. The small number of young persons aged 14 and 15 years will not be affected because they are already restricted to eight hours a day and 48 hours a week and, in addition, may not be employed on overtime.

No changes are made in the existing provisions in respect of meal or rest periods except that, in certain circumstances, they may not be reduced without the authority of the Commissioner of Labour and in respect of overtime to meet seasonal or other special pressure or necessitated by the breakdown of machinery or plant or other unforeseen emergency, of one rest day in every seven days, of shift work, and of other miscellaneous matters to which I have not referred in this speech.

The explanatory note to the regulations describes concisely and clearly the main purport of each regulation. It reveals that substantive changes in the law are embodied in progressive changes of only regulations 9 and 11. As far as possible the text of existing regulations is followed. The whole of regulations 9 and 11 is repeated for each of the five stages of the comprehensive plan for ease of reference and it is this repetition which accounts largely for the bulk of the document before us. Regulation 9A is a new regulation which is necessary to provide transitional powers to be exercised during a period of grace of six months at the beginning of each annual stage. The whole of this regulation is repeated for each of the five stages of the comprehensive plan for ease of reference. This repetition also adds to the bulk of the document. The text of regulation 9A follows, as far as possible, that of a similar regulation carrying transitional provisions incorporated into the 1958 amending regulations.

There is one consequential amendment necessary to Regulation 45 which prescribes penalties for the contravention of various regulations. Because of the addition of a new section to regulation 9 it is necessary to include a reference to this section in paragraph (c) of regulation 45.

There are two further points to which I must draw attention. The first is that existing regulations provide that for calculating hours of overtime employment any fraction of an hour less than half an hour shall be treated as half an hour and any fraction of an hour greater than half an hour shall be treated as an hour. As I have explained earlier, the later stages of the phased programme will be carried out by reductions of 20 minutes in the maximum standard working hours.

In the circumstances of working to minutes of an hour for standard hours it follows that it would be reasonable to work also to minutes of an hour for overtime. For this reason the existing regulation on calculating hours of overtime is rescinded. The second is that there is a requirement at present for notices concerning hours of employment and rest periods to be conspicuously posted at a place conveniently accessible to all employees. The new regulations now require that these notices shall be posted and kept posted. This modification, I suggest, explains itself.

Sir, I apologise for the length of time which I have taken in addressing you about the regulations now before us. Although the basic concepts of the comprehensive plan are fairly simple, I do not pretend that they are easy either to explain or to understand. The regulations will present individual problems to individual factories and it would be unreasonable to expect both labour and management to solve them at short notice. During the next few months I offer the sympathetic help and guidance of the Labour Department in resolving difficulties which must inevitably arise. In turn, I seek the willing co-operation of labour and management in carrying out the changes which these regulations bring about. I have received the unanimous endorsement of the Labour Advisory Board and the major organizations of employers for these proposals. I would like to take this opportunity of thanking these bodies for the willing assistance which they have given me in finding a solution to this difficult problem. The Labour Advisory Board recommended that I should report in due course on how the first stage was carried out. I agreed to make such a report about July of next year and, subject to your approval, Sir, I would like, at an appropriate time, to give a similar account in this Council.

THE COLONIAL SECRETARY seconded.

DR S. Y. CHUNG addressed the Council: —

He said:—Your Excellency, much has been said during the past few years, both domestically and externally, about the hours of work for women and young persons in Hong Kong. The motion before Council for a phased programme of reduction of hours of work to 48 per week will, I believe, be endorsed by all who have the true interests of Hong Kong at heart.

To reduce hours of work from 60 to 48 per week in one step would have resulted in an immediate increase of 25% in labour costs—if the reduction in hours of work is to be accompanied by no loss of workers' earnings. There would also have been a corresponding increase of 25% upon fixed overhead charges. On the average this would have meant an increase of 10% to 20% in total cost of production,

depending on the type of industry. In addition there would have been a loss of production of 20%.

No industry in Hong Kong can absorb such an abrupt increase in production cost on the one hand and stand such a drastic cut in productive output on the other. It is, therefore, absolutely essential that a planned programme of reduction of hours of work over a reasonable number of years be introduced, to give employers time to adjust to the increase in cost of production, to obviate the risk to employees of reduced earnings and unemployment and, finally, and most importantly, to prevent disruption of Hong Kong's economy.

Within the next four years labour conditions in Hong Kong, as far as hours of work are concerned, will be more advanced and progressive than in some other countries—including some industrially advanced ones. In France, South Korea and Taiwan, for example, the total permissible hours of work, including both standard time and overtime, can reach 60 a week throughout the whole year. In Hong Kong the corresponding maximum will be only 54 hours per week.

We are also at a disadvantage when compared with the United States of America where, in some States, women are allowed to work at any time of the day or night. This freedom to work around the clock is particularly important and desirable in some industries such as the electronics industry, where the capital invested per worker is relatively high and where female workers are definitely preferred. In the United States it is possible to mount three full 8-hour shifts for women and work around the clock, whereas in Hong Kong the maximum we are permitted is two 8-hour shifts, as female workers are not allowed to work earlier than 6.00 o'clock in the morning, or later than 11.00 o'clock in the evening, on shift work.

Moreover, we in Hong Kong are not able to make full use of the 17-hour period between 6.00 a.m. and 11.00 p.m., as no overtime is allowed in shift work. In this respect I hope that Government will, at the appropriate time, examine the situation and make the necessary amendments.

Sir, with these remarks I beg to support the motion before Council.

MR HETHERINGTON replied as follows:—

Sir, I can only say at the present moment that I will take note of the points made by my honourable Colleague, Dr CHUNG, and examine the situation as he has requested.

The question was put and agreed to.

**SECRETARY OF STATE FOR DEFENCE (SUCCESSION TO PROPERTY) BILL 1967**

THE ATTORNEY GENERAL moved the First reading of:—"A Bill to make such provision as is necessary in consequence of the Defence (Transfer of Functions) Act 1964."

He said:—Sir, this Bill is made necessary by the Defence (Transfer of Functions) Act 1964, of the United Kingdom, whereby a unified Ministry of Defence was established to take over control of and responsibility for the armed forces of the Crown.

That Act constituted the Secretary of State for Defence a corporation sole. Unfortunately, by Hong Kong law, which is based on common law, leaseholds and the benefit of contracts vested in a corporation sole do not automatically pass to his successor, as they do in England by virtue of a section of the Law of Property Act, which does not apply here. Clause 2 of the Bill will ensure that property which is vested in a Secretary of State for Defence will automatically pass to his successors in that office.

Clause 3 of the Bill seeks to remove doubt as to the title to Rural Building Lot 369 and to provide that it shall vest in the Secretary of State for Defence for the residue of the term of years created by the Crown lease which relates to it.

Clause 4 repeals three Ordinances which are no longer effective, since property held by the Commissioners of the Admiralty or the Secretaries of State for War or Air is now vested in the Secretary of State by virtue of the 1964 Act.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read a First time.

*Objects and Reasons*

The "Objects and Reasons" for the Bill were stated as follows: —

By virtue of the Defence (Transfer of Functions) Act 1964, which established a unified Ministry of Defence responsible for the naval, military and air force services of the Crown, the Secretary of State for Defence is constituted a corporation sole.

2. Clause 2 of this Bill seeks to make certain consequential provisions in relation to landholdings and contracts of the Secretary of State for Defence in Hong Kong. The clause follows

closely section 180 of the Law of Property Act 1925, which forms part of the general law of England.

3. Clause 4 repeals the Admiralty (Vesting of Property) Ordinance, the War Department (Vesting of Property) Ordinance and the Secretary of State for Air (Vesting of Lands) Ordinance. These Ordinances have ceased to have effect as the property formerly held by the Admiralty Commissioners, the Secretary of State for War and the Secretary of State for Air is now vested in the Secretary of State for Defence by virtue of section 2(2) of the Defence (Transfer of Functions) Act 1964.

4. Some doubt has arisen as to whether Rural Building Lot 369 vested in the former Secretary of State for Air by virtue of the Secretary of State for Air (Vesting of Lands) Ordinance, which means that it may not have vested in the Secretary of State for Defence by virtue of the Defence (Transfer of Functions) Act 1964. Clause 3 seeks to remove the doubt by specifically vesting the land comprised in this Lot in the Secretary of State for Defence.

### **LION ROCK TUNNEL BILL 1967**

THE COLONIAL SECRETARY moved the Second reading of:—"A Bill to provide for the control and regulation of vehicular and pedestrian traffic in the Lion Rock Tunnel and for matters connected therewith."

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 to 10 were agreed to.

Council then resumed.

THE COLONIAL SECRETARY reported that the Bill before Council had passed through Committee without amendment and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Third time and passed.

**POLICE CHILDREN'S EDUCATION TRUST BILL 1967**

THE COLONIAL SECRETARY moved the Second reading of:—"A Bill to establish a trust fund for providing assistance in, and facilities for, the higher education of the children of junior police officers of the Hong Kong Police Force and for the due administration of such fund and for purposes connected with the matters aforesaid."

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Second time.

Council then went into Committee to consider the Bill clause by clause.

HIS EXCELLENCY THE GOVERNOR:—With your concurrence, we will take the clauses in blocks of not less than five.

Clauses 1 to 8 were agreed to.

Clause 9.

MR P. C. Woo: —Sir, I rise to move that clause 9 be amended as set forth in the paper before honourable Members.

The present clause 9 proposes to give the Police Children's Education Trust Committee power to invest in equities other than trust investments but the approval of the Financial Secretary has to be first sought.

This clause is a standard clause for a very large number of other public trusts like the Community Relief Fund. As the clause at present stands the Financial Secretary will have to devote a large part of his valuable time and energy to investigate into the prospects of the financial position of the public companies in Hong Kong but such companies may change from time to time. The Financial Secretary has indicated to me that he would find it invidious to decide upon proposals to invest in shares in local public companies. Such being the case it is advisable that Your Excellency should appoint an Investment Advisory Board to take the place of the Financial Secretary. This proposed amendment I am glad to say has the support of the members of the Police Children's Education Trust Committee.

THE ATTORNEY GENERAL said:—Sir, I would like to support the amendments which are proposed by the honourable Member. The effect of them will be, as he has said, to relieve the Financial Secretary

of the duty of approving any investments which fall outside the Trust Investments Committee by the Trustee Ordinance. The discharge of such a duty conscientiously might well take up an appreciable amount of time and it is not a duty which he might feel he could properly delegate. It is hoped that it will be possible to persuade persons with wide experience of commercial and financial matters to accept appointment to the Investment Advisory Board which is proposed.

I am glad to hear that these amendments do' meet with the agreement of the interim Trustees who have been managing the Fund pending the enactment of this legislation.

*Proposed Amendments*

- (a) Clause 9 to be renumbered as clause 9(1);
- (b) Clause 9(1) to be amended by deleting "Financial Secretary" and substituting "Investment Advisory Board";
- (c) A new clause 9(2) to be added as follows—

“(2) The Governor shall, for the purposes of subsection (1), appoint an Investment Advisory Board, which shall consist of not less than three nor more than five persons.”.

Clause 9, as amended, was agreed to.

Clauses 10 to 12 were agreed to.

Council then resumed.

THE COLONIAL SECRETARY reported that the Bill before Council had passed through Committee with certain amendments and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Third time and passed.

**POLICE EDUCATION AND WELFARE TRUST BILL 1967**

THE COLONIAL SECRETARY moved the Second reading of:—“A Bill to establish a trust fund for providing assistance in, and facilities for, the general education of the children of police officers of all ranks, including auxiliary police, and for welfare purposes general benefit to all such police officers, and for the due administration of such fund and for purposes connected with the matters aforesaid.”

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Second time.

Council then went into Committee to consider the Bill clause by clause.

HIS EXCELLENCY THE GOVERNOR: —With your concurrence, we will take the clauses in blocks of not less than five.

Clauses 1 to 8 were agreed to.

Clause 9.

MR P. C. Woo: —Sir, I rise to move that clause 9 be amended as set forth in the paper before honourable Members for the same reasons as just stated by me in moving the amendments of clause 9 of the Police Children's Education Trust Bill.

THE ATTORNEY GENERAL said:—I beg to support these amendments also.

*Proposed Amendments*

- (a) Clause 9 to be renumbered as clause 9(1);
- (b) Clause 9(1) to be amended by deleting "Financial Secretary" and substituting "Investment Advisory Board";
- (c) A new clause 9(2) to be added as follows—

“(2) The Governor shall, for the purposes of subsection (1), appoint an Investment Advisory Board, which shall consist of not less than three nor more than five persons.”.

Clause 9, as amended, was agreed to.

Clauses 10 to 12 were agreed to.

Council then resumed.

THE COLONIAL SECRETARY reported that the Bill before Council had passed through Committee with certain amendments and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Third time and passed.

**CRIMINAL PROCEDURE (AMENDMENT) BILL 1967**

THE COLONIAL SECRETARY moved the Second reading of:—"A Bill to amend further the Criminal Procedure Ordinance and to make consequential amendment to the Magistrates Ordinance."

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 to 7 were agreed to.

Council then resumed.

THE COLONIAL SECRETARY reported that the Bill before Council had passed through Committee without amendment and moved the Third reading.

THE ATTORNEY GENERAL seconded.

The question was put and agreed to.

The Bill was read the Third time and passed.

**OFFENCES AGAINST THE PERSON (AMENDMENT) BILL 1967**

THE ATTORNEY GENERAL moved the Second reading of:—"A Bill to amend the Offences against the Person Ordinance."

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read the Second time.

Council then went into Committee to consider the Bill clause by clause.

Clauses 1 and 2 were agreed to.

Council then resumed.

THE ATTORNEY GENERAL reported that the Bill before Council had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read the Third time and passed.

**WIDOWS AND ORPHANS PENSION (AMENDMENT) (NO 2)  
BILL 1967**

THE FINANCIAL SECRETARY moved the Second reading of: —“A Bill to amend further the Widows and Orphans Pension Ordinance.”

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read the Second time.

Council then went into Committee to consider the Bill clause by clause.

HIS EXCELLENCY THE GOVERNOR:—With your concurrence, we will take the clauses in blocks of not less than five.

Clauses 1 to 13 and the Schedule were agreed to.

Council then resumed.

THE FINANCIAL SECRETARY reported that the Bill before Council had passed through Committee without amendment and moved the Third reading.

THE COLONIAL SECRETARY seconded.

The question was put and agreed to.

The Bill was read the Third time and passed.

**ADJOURNMENT**

THE COLONIAL SECRETARY moved the adjournment.

THE ATTORNEY GENERAL seconded.

MR DHUN J. RUTTONJEE addressed the Council.

He said:—Your Excellency, however much one may have regretted the see-saw method by which Hong Kong's dollar standard was arrived at last week, let us be thankful at least that the end-result appears to be the best possible in the circumstances. It really *was* a case of now it's down, now it's up . . . . or nearly up! Not quite all the way!

I must confess to have been one of the many, many people of Hong Kong who was *dismayed* at the first decision—to follow sterling down, down *all* the way. But the decision arrived at later to

revalue was so patently a step in the right direction that one must applaud a Government which had the political courage to correct the situation with such promptness.

There do, however, remain several questions which bother *me, and* a very large number of other people, about all this, and which give me considerable food for thought in the, admittedly very hypothetical, event that such a problem should ever face us again.

*Firstly: Do* we have the assurance that, in Government's Financial Branch, world financial trends are carefully followed and that the situation in Hong Kong is constantly evaluated vis-a-vis their probable effects on our own economy? I mention this because, when all is said and done, talk of possible devaluation of sterling has been in the air for some time and it was obvious that, loathe though the British Government must have been to take so drastic a step, it *has*, for a long time been a possibility well on the cards. We must NEVER again find ourselves in a position of feeling that we "have" to act on "insufficient information". . . .

*Secondly: Do* we have adequate machinery in motion promptly to feel the pulse of the effects of such currency value changes not only on Government, banking and commercial interests (and, of course, on the possible secondary effects of the position of these last upon their depositors, customers, and so on); but ALSO promptly to feel the pulse of the effects on Hong Kong's population at large? I ask this because it apparently did seem to many people in all circles of our community that the decision to devalue was perhaps made without sufficient thought having being given to this vital consideration. One has only to read the letters-to-the-newspapers recently to realize that this was a genuine worry . . . . not what we have come to term "inspired" comment, but an honest expression of doubt by ordinary people; and here it may well be worth while to note with gratitude that the population of Hong Kong did *not*, despite their anxiety, react in the violent fashion shown in some other parts of the Region affected by devaluation.

*Thirdly: (and this really follows from my second question): Are* we satisfied that enough was done at this particularly important juncture to acquaint the public adequately of the reasons for the actions taken? It was a momentous decision which was obviously going to affect every single one of us, and certainly the people of Hong Kong were entitled to be brought into the picture as fully and clearly as possible. If we have learned nothing else over the last few months, we should certainly have recognized that public confidence and cooperation is our greatest assets. The public at large backed Government in a tremendous show of solidarity earlier this year in very difficult circumstances. They declared this in every way, vocal and by document for the very first time in the history of Hong Kong. Let us never put this great asset in jeopardy.

*Fourthly:* In view of the fact that there was a brief pause between the de- and re-valuation of the Hong Kong dollar, I believe there is a lurking suspicion in some people's minds that some banks may have been in a position to put themselves in the market for I quote, "compensation". In bald terms, this lurking suspicion is that certain banks may have had the opportunity of making profitable adjustments during the period between devaluation on Sunday and the announcement of revaluation of Thursday morning. I greatly deplore this sort of ugly rumour mongering, for directly or indirectly it casts a slur on the integrity of all of us members of UMELCO, and I most earnestly beg that this slur be removed most urgently. Indeed, at this moment the latest exchange control returns are no doubt in the hands of my honourable Friend the FINANCIAL SECRETARY, and so it is in his knowledge and power to put our minds at rest on this immediately.

I now turn to the present position. And here I ask for a much fuller explanation than has been so far vouchsafed for the decision to, in effect, make good the authorized banks' losses consequent upon our partial devaluation. There are in Hong Kong, three banks authorized to issue notes and these notes that they have issued have to be backed 105% by reserves, either in Hong Kong or in London. This is the law, and few would complain if their losses, some of which will have been incurred because they had to hold sufficient reserves to back future note requirements, are made good. They perform some of the roles of a central bank and it would be manifestly wrong if they were to suffer. But the picture is entirely different in respect of other bank reserves held in London. Because the banking ordinance requires that all banks must be at least 25% liquid and because the exchange control provision means that the liquid banks reserve of authorized banks must be held in Hong Kong or London. A good argument can be made for agreeing to compensate authorized banks for losses sustained by them in respect of their statutory reserves. But, and it is here that I join issue with the arrangements that have been announced, is it appropriate, let alone proper, to compensate banks any further? If it is, then I suggest that such further compensation should be limited to authorized banks having definite provable forward commitments in sterling in respect of the normal functions of a properly run commercial bank. But thus far and no further. I think it is a gross misuse of public funds to compensate those banks who decided, for reasons best known to themselves, to carry large reserves in London, rather than to seek to invest the money locally. They decided to use these funds for purposes other than stimulating Hong Kong trade and industry and now they are to be compensated with money.

Finally, I would like to sum up by saying that although, in my opinion. Government put itself on a very dangerous tightrope last week, it seems that Government has arrived safely on the ground. The decision to revalue has demonstrated to the world the strength of the Hong

Kong dollar and this strength is derived, in no small part, from the FINANCIAL SECRETARY'S wise custodianship of our finances over the past few years—a strength that has been impaired not one wit by the events of recent months.

Hong Kong has ever thrived on a challenge and if we all work together to make this smaller adjustment, I am sure we can eventually turn it to our advantage through the solidarity, industry and skill of our people.

DR S. Y. CHUNG addressed the Council.

He said: —Your Excellency, I wish to supplement the remarks of my honourable Friend Mr RUTTONJEE relating to the devaluation of the Hong Kong currency last week. In the statement made by the honourable Financial Secretary on the evening of the 19th November, he made it very clear that there were only two different courses of action we could pursue, namely, full devaluation by 14.3 per cent and non-devaluation.

Government must have realized that these two were extreme courses. Generally speaking, those sections of the community which stand to gain on full devaluation will be the ones sustaining losses in not devaluing, and those which were losers in full devaluation will become gainers in non-devaluation. It should have been natural to consider the possibility of taking a moderate course of action, and I find it hard to believe that Government did not in fact consider this possibility from the very outset.

Nevertheless, this third and moderate course of partial devaluation which the Government eventually adopted on last Thursday morning, was not even mentioned in the long explanation given by Government on Sunday to devalue the Hong Kong dollar to the full extent of 14.3 per cent. Government must have had very good reasons for not pursuing this third alternative at that time, and I believe the public has the right to know what these reasons were and why no mention of this third possibility was included in the Honourable FINANCIAL SECRETARY'S statement on Sunday evening.

There is an erroneous belief in some circles that full devaluation of the Hong Kong currency would benefit our export-oriented industries. As Hong Kong has absolutely no natural material resources and all our raw materials, fuel and foodstuffs are imported mostly from non-devalued countries, there is no real advantage in devaluing our own dollar. Devaluation will not benefit Hong Kong exports of domestic manufactures unless there is a freezing of wage and price levels, and the people of Hong Kong accept lower living standards and worse working conditions than those at present prevailing. This,

of course, is wholly undesirable and even unnecessary as Hong Kong is successful in its industrial and economic development. Our present healthy and prosperous state of economy was reflected in this Council early this afternoon when approval was given to the progressive reduction of hours of work in factories and industrial undertakings.

Many people are bewildered by the two-step process taken by Government within 'three days to reach the definitive value for the Hong Kong dollar subsequent to the devaluation of sterling. There are many rumours of which I am sure the Government is aware and which I believe have no foundation. My honourable Friend, Mr RUTTONJEE has already raised this particular point and I support his view that it would 'be in the interests of the community if Government were to make known the details of the Hong Kong in-and-out sterling transactions during the period between the announcement of full devaluation of the Hong Kong dollar on Sunday evening and that of the subsequent re-valuation on Thursday morning, and the corresponding transaction figures under normal conditions.

Finally I must mention of the severe short-term hardship which will be experienced by some sectors of Hong Kong industry as a result of devaluation and revaluation. The burden falls most heavily on those who have long-term selling contracts in sterling and buying contracts in non-devalued currencies. While I am fully aware that they could have covered their exchange position, this does not in any way lessen their hardship. If they are unable to ride out their current contracts the future will be indeed bleak for them, and I hope that all those who are in a position to do so including our overseas partners, will give most sympathetic considerations to their problems.

Sir, with these remarks, I beg to support the motion.

THE FINANCIAL SECRETARY replied as follows:—

He said:—Sir, it is not easy, within the confines of an adjournment debate, to do justice to this subject and to the points my honourable Friends have made.

Let me first make one point clear. The situation was not of our creating. The decision of Her Majesty's Government in London to devalue sterling caused Hong Kong immediate financial damage and it was our endeavour to do what we could to absorb that damage with the least detrimental effect on our social and economic situation and prospects. We had no soft option; only choice of evils and conflict of interests.

The decision on Sunday night to retain our traditional parity with sterling was not only the only possible one at that time, but it may

be said also that it was technically the right reaction to the devaluation of sterling in terms of our existing economic structure. At any time the Hong Kong dollar's exchange rate is in a sense irrelevant, so long as it is stable, because the cost and price structure of our economy, including wages, adjusts itself automatically to rates of exchange; while, on the other hand, the long and stable relationship with sterling and our established use of it as both a trading and a reserve currency, had set up a complex of financial relationships, and had evolved trading practices, based on the existing rate, which it was likely to be disruptive, and possibly dangerous, to upset. My honourable Friend, Dr CHUNG, referred to these latter dangers, which were at first rather pooh-poohed by critics of devaluation; although they have been caused not, as he seemed to imply, by devaluation *and* revaluation but by our final decision to follow sterling only a small part of the way.

But adjustments to new exchange rates, even if automatic in a fairly short space of time, are painful and there tends to be a time-lag in the response of wage rates, etc. to the higher cost of imported goods which not only can bear hard on labour (a point particularly in our minds) but also tends to reduce the foreign exchange value of exports for a time. Furthermore, the resolution on hours of work for women and young persons, which we passed to-day, also requires a readjustment of our production and wage patterns and the two together could have been too much taken at the same time. On the other hand, we had to think not only of the effect on confidence in banks and on the future strength of the currency but also of the effect on those I have already spoken of who were exposed to losses if we revalued in terms of sterling. It would have been ironic to protect the public from increased costs of living if in the process we so damaged the economy as to destroy their source of livelihood. We had to think, too, of the fiscal loss of development finance if we drew on the Exchange Fund surplus to meet some of the cost in reserves.

My honourable Friend, Mr RUTTONJEE, asks for an assurance that we carefully follow world financial trends and will never again have to act in his words on "insufficient information" again. There is some confusion here about what we did not have sufficient information about. Certainly we were aware of the pressures on sterling—and, also, of course, of Her Majesty's Government's declared policy of no devaluation which made it very difficult even to get into conversation in London about its possible consequences. But it is, in practice, not easy for a Government without international relations or representation to have the up-to-the-minute direct knowledge of developments that major sovereign powers enjoy.

We have a genuine problem here. Her Majesty's Government in London is constitutionally responsible for our currency arrangements. It is indeed one of the subjects for which, according to the Royal

Instructions, the Governor may not assent to a Bill without the approval of the Secretary of State. In 1949, when sterling was last devalued, we were merely informed by telegram that the Hong Kong dollar had been devalued along with sterling. More recently we had been trying to find out for some time whether we would or would not be free to take our own decision in the event of a devaluation of sterling. The answer, in the affirmative, came only at 1.30 a.m. on Sunday the 19th November, four hours before the devaluation of sterling was to be announced. We were thrown in at the deep end with a vengeance. In the existing constitutional conditions, we had certainly expected much earlier warning and substantial advice and assistance.

Vital information we did not have until that Sunday morning was the extent of devaluation; and vital information we did not have completely by Sunday evening was the decisions of other countries to follow or not to follow. For these points were vital in assessing the consequences for costs in Hong Kong and the immediate change in our competitive position in export markets; and therefore the degree of structural readjustment necessary if we remained with sterling. Some decisions by other countries seem to have been touch and go and some could be altered even now.

My honourable Friend, Mr RUTTONJEE, also asks if there is adequate machinery for promptly feeling the pulse of business interests and the general public. I am afraid that it is in the nature of changes in exchange rates that such pulse-feeling is simply not practicable on any scale. I should have been delighted myself had it been possible to set up an advisory committee to report a month hence. But one cannot talk openly in advance of devaluation or of revaluation and, when the time comes; one must decide without delay. This is a responsibility that cannot be evaded.

But the trouble is not only, as my honourable Friend Dr CHUNG has pointed out, the direct conflicts of interest which are at once evident (and much, if not most, expression of public opinion was based on interest) but also that in our free, open, and wide-ranging economy we can never be in a position to have as much data at our command as in a controlled one. Certainly I had given much prior thought to possible developments and their repercussions but, apart from keeping an eye on the Exchange Fund and the banks (which in itself has not been easy with the substantial movements in bank funds since May this year) there is not very much that one can do in terms of detail. For example, a vital question is the effect of devaluation of sterling on those with sterling export contracts. It would certainly have been impossible to require the registration of all such export contracts entered into or of all orders taken by factories without covering their raw material requirements. But these facts are of the essence in the circumstances we faced.

My honourable Friend, Mr RUTTONJEE also wants to be satisfied that enough was done to acquaint the public adequately of the reasons for the action taken. Devaluation is an extremely difficult matter to explain in simple terms, particularly in Hong Kong where it has so many immediate repercussions. All I can say personally is that, from Sunday to Thursday midday, I seemed to spend more time in front of microphones, television cameras and the press, than at my desk or for that matter in my bed. If I failed to get the facts across, that is largely my own fault.

Both my honourable Friends Mr RUTTONJEE and Dr CHUNG have spoken of rumour-mongering about advantage being taken on Tuesday and Wednesday, particularly by banks, to offload sterling. I must deny this categorically. There is an exchange control on movements of funds between sterling and Hong Kong dollars and there is no evidence in the records of any abnormal movements of sterling in respect of these days. In fact, the volume of transactions was abnormally low during this period as one would expect immediately after a major change in rates. I should add that there is no exchange control on sterling transactions between authorized exchange banks but again there is no evidence of any unusual transactions; these would have certainly come to the notice of the note-issuing banks.

My honourable Friend, Mr RUTTONJEE, objects to our covering from the Exchange Fund surplus the exchange positions of the authorized exchange banks other than the note-issuing banks. I agree that there is a distinction between them and that the case of the former is not so overwhelming as that of the latter, in that, unlike the note-issuing banks, they can to some extent decide their own sterling positions. (In this connexion I might make it clear that I had informed the note-issuing banks more than a year ago that in the event of a rise in the value of the Hong Kong dollar against sterling they would be generally covered by the Exchange Fund) in their general banking function. But I do not think that my honourable Friend has appreciated the whole argument. The authorized exchange banking system as a whole must keep its liquid reserves in sterling. The great bulk of this is in the hands of the note-issuing banks but it would clearly be inappropriate to require other authorized banks to maintain no sterling balances at all in their accounts, and therefore have to put all their sterling transactions through the note-issuing banks. They must be accorded the right to keep reasonable sterling balances to finance their trade and, in so doing, they are in fact performing part of the central banking function. I would agree that, if there is evidence that they have transferred exceptionally large sums from Hong Kong into sterling to take advantage of exceptionally high rate of interest in London, some account should properly be taken of this when assessing payments.

My honourable Friend, Dr CHUNG, has asked why we said nothing on Sunday night about a third course between full devaluation and no devaluation. I am sorry if my rather hastily prepared analysis of our problem did not mention this, although I should have thought it was fairly obvious. But I can assure him that the possibility was discussed. The difficulty then was, as I hope is clear now, that we were in no position at that stage to make an intelligent decision on where precisely to set the rate if neither extreme were chosen. And I think, in any case, that it was better, in the light of the danger of speculation, to speak only of these extremes.

I sometimes wonder if it is fully appreciated what a momentous and indeed revolutionary decision we finally made on Wednesday night, with all its incalculable ramifications, to abandon a parity with sterling that had stood for 30 years, and to set at such short notice and with only a minimum of consultation possible, a permanent new relationship with the pound. How successful and rapid a readjustment we make to the new parity remains to be seen. While I am sure that we have kept fully adequate reserves of strength in our currency and our banking system and that the cost of living will not be seriously affected, I remain a little concerned about the possible effects of sterling devaluation on those industries and exporters with sterling contracts. I have heard rather more cheerful news during the last few days about this but I would all the same appeal to those unauthorized exchange banks to whom we have afforded uncovenanted protection, not for their own sakes but for the sake of the whole community, to play their part by seeing their constituents through any difficulties they are facing, even if this means assuming rather greater risks than usual.

I should like to finish by saying that we shall be having a very close look at our future monetary arrangements. But I am afraid that it is not easy for a currency in an economy like ours to function as it should without a strong link with an established reserve currency or with gold. Over our whole history the Hong Kong dollar has been tied either to sterling or to silver. Dollars, sterling, gold or a mix all have their problems; and there are political aspects, too. It is not going to be easy to choose between flexibility and stability. But I think I can make one claim—that the Hong Kong dollar came of age last week.

I apologize, Sir, for running over the time conventionally allotted for this debate. I must support the motion.

The question was put and agreed to.

### **NEXT MEETING**

HIS EXCELLENCY THE GOVERNOR:—Council will now adjourn. The next meeting will be held on 13th December.