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Our Ref. : FIN CR 7/2201/00
Your Ref. : CB2/BC/15/00

21 May 2001

Ms Doris CHAN
Clerk to Bills Committee
Legislative Council Secretariat
Legislative Council Building
8 Jackson Road, Central
Hong Kong

Dear Ms Chan,

Bills Committee on Revenue Bills

As agreed at the Bills Committee meeting on 11 May 2001, I write to provide the following information for the Committee's reference.

I. Estimated number of driving and vehicle licences affected by the proposed 10% increase in licence fee

The estimated number of licencees affected by the fees increase based on the licensing statistics of 2000-01 are set out below:

Driving licences

Table A

Licence	Estimated number of affected licences	Existing fee level	Proposed fee level	Fee increase
New driving licence	60,000	\$520	\$570	\$50
Renewable driving licence	20,000~	\$520	\$570	\$50
Learner driving licence	77,000	\$510	\$560	\$50
International driving permit	53,000	\$80	\$90	\$10
Duplicate driving licences/ driving instructor's licences	25,000	\$110	\$120	\$10
Driving instructor's licence	950	\$760	\$835	\$75
Temporary driving licence	100	\$250	\$275	\$25
Total	236 050			

~ The number of driving licence renewal per annum is estimated by assuming that the holders of the expired licences eligible for renewal will come for service on a pro-rata basis in 3 years' time i.e. from 2001-02 to 2003-04.

As at May 2001, there are about 1 539 000 full driving licences. A vast majority of these licences (about 1 437 000 licences or 93.4%) are 10-year driving licences issued since June 1997. These licences will only be affected when they are progressively due for renewal starting from June 2007.

Vehicle licences

Table B

Licence	Estimated number of affected licences	Existing fee level	Proposed fee level	Fee increase
Private car licence	340,000	To be elaborated in <i>Table C</i>		
Motor cycle/motor tricycle licence	28,000	\$1,200	\$1,320	\$120

Table C

Private car licence	Estimated number of affected licences*	Existing fee level	Proposed fee level	Fee increase
<1 500 cc	108 120 (31.8%)	\$3,815	\$4,200	\$385
1 501 - 2 500 cc	161 160 (47.4%)	\$5,680	\$6,250	\$570
2 501 - 3 500 cc	52 020 (15.3%)	\$7,550	\$8,305	\$755
3 501 - 4 500 cc	9 860 (2.9%)	\$9 420	\$10 360	\$940
>4 501 cc	8 840 (2.6%)	\$11,215	\$12,340	\$1,125
Total	340 000			

II. Estimated revenue increase as a result of the proposed 10% increase in driving and vehicle licences fees

As regards the magnitude of revenue gain arising from the

* The percentages in this column are extrapolated from the split among private cars of different engine capacity shown in the record of car registrations as at March 2001.

proposed 10% increase in driving and vehicle licences fees. We estimate that the proposal will bring about an additional revenue of about \$160 million in 2001-02. This additional revenue was computed on the basis of the estimated number of driving licences and vehicle licences that will be issued in the year. Given the increase is expected to take effect several months after the beginning of the financial year, we have also applied a discount factor to the full-year effect by assuming an effective period of 8 months. Thus, the estimated revenue increase due to the rise in licence fees is about \$160 million in 2001-02, while the full-year effect of this increase proposal is \$240 million.

III. Utilisation of on-street parking meters

At present, there are about 16 900 metered parking spaces in the territory. The policy objective of metering the parking spaces is to ration the heavy demand for the parking spaces in order to reduce traffic congestion arising from vehicles circulating for parking spaces in the area. To this end, it is the Government's target to contain the utilisation of the metered parking spaces to below 85%.

According to surveys on the utilisation of the metered parking spaces in March 1999 and 2001, the utilisation of on-street parking spaces was persistently high. The survey carried out in 1999 was restricted to urban areas only. A comparison of the two survey results indicates that the utilisation rates of the majority of the on-street parking spaces have increased in 2001 with most utilisation rates being well over 85% during peak hours. Survey results are shown in the attached *Tables D and E*. The proposed modest meter charge increase would help achieve the objective of maintaining a 15% availability of the metered parking spaces at any time, while bringing about additional revenue for the Government.

IV. Response to Hong Kong Beer Industry Coalition's comments on the proposed increase in duty rate on beer

As requested, I attach at annex our written response to the Hong Kong Beer Industry Coalition, setting out the Government's policy

considerations behind the proposed increase of liquor duty.

Should you have any questions relating to them, please feel free to contact the undersigned, or Miss Maisie CHAN at 2810 2229 of this Bureau.

Yours sincerely,

(Ms Esther LEUNG)
for Secretary for the Treasury

c.c.	S for T	(Attn: Ms Doris Cheung)
	C for T	(Attn: Mr Peter Luk)
	Law Draftsman	(Attn: Mr K F Cheng)

Table D

Parking Meter Utilization Surveys in March 1999

Region	District	No. of Metered Parking Space	Average Utilization Rate	Utilization Rate during Peak hours*
Hong Kong	Central & Western	459	65%	75%
	Wan Chai	1,021	90%	90%
	Eastern	631	75%	74%
	Southern	521	53%	75%
	Total	2,632	71%	79%
Kowloon	Yau Tsim Mong	2,336	89%	91%
	Sham Shui Po	1,528	65%	73%
	Kowloon City	2,880	66%	77%
	Wong Tai Sin	499	85%	93%
	Kwun Tong	522	81%	92%
	Total	7,765	77%	85%
Overall Total		10,397	74%	82%

(* Peak hours from 1900 to 2100 hours on weekdays)

Table E

Parking Meter Utilization Survey, March 2001

Region	District	No. of Metered Parking Space	Average Utilization Rate	Utilization Rate during Peak hours*
Hong Kong	Central & Western	487	68%	80%
	Wan Chai	985	81%	87%
	Eastern	666	66%	77%
	Southern	527	80%	91%
	Total	2,665	74%	84%
Kowloon	Yau Tsim Mong	2,148	93%	95%
	Sham Shui Po	1,545	69%	77%
	Kowloon City	2,823	70%	81%
	Wong Tai Sin	499	68%	89%
	Kwun Tong	491	84%	90%
	Total	7,506	77%	86%
NT NT(E)	Sai Kung	929	69%	88%
	Sha Tin	1,233	75%	85%
	Tai Po	977	84%	85%
	North	864	64%	67%
	Sub-total	4,003	73%	81%
NT(W)	Tsuen Wan	579	96%	98%
	Kwai Tsing	480	85%	89%
	Tuen Mun	956	89%	92%
	Yuen Long	658	92%	94%
	Lantau Island	39	-	-
	Sub-total	2,712	91%	93%
	Total	6,715	82%	87%
Overall Total		16,886	78%	86%

(* Peak hours from 1900 to 2100 hours on weekdays)

LETTERHEAD OF SECRETARY FOR THE TREASURY

Annex

7 May 2001

Mr Jan-Kees Nieman
General Manager
Heineken Hong Kong Ltd
22/F, Lincoln House
979 King's Road, Quarry Bay
Hong Kong
[fax: 2259 7001]

Dear Mr Nieman,

Thank you for your letter of 17 April 2001, and for attending a meeting with Martin Glass, my deputy and other colleagues on 27 April 2001. I now write to formally set out our response to your letter. I understand that you have sent a similar letter to the Financial Secretary. This letter serves as the co-ordinated reply from the Government.

As explained by the Financial Secretary in the 2001-02 budget, we have to consider raising additional revenue when enhancing productivity and controlling expenditure alone cannot achieve fiscal balance. This is especially important in the face of successive operating deficits from 1998-99 to 2004-05. However, the Financial Secretary is also aware that we should not impose too great a burden on the community at this time. This is why he has proposed to make only modest adjustments to a small number of revenue items that do not impact on economic growth and have a negligible effect on people's living standards.

It was against this background that the Financial Secretary proposed, among other things, to increase from 30% to 40% the duty rate on liquors with an alcoholic content of 30% and below. As far as beer is concerned, the proposed increase is very mild. For the more popular brands of beer, the proposal will only increase the duty amount per can of beer in a range from less than 10 cents to around 26 cents. You may also wish to note that the duty rate on liquors with an alcoholic content of 30% and below has not been adjusted ever since the existing *ad valorem* system was put in place in 1994. Indeed, based on the consumption pattern in 2000-01, the duty rate on beer per can (0.33 litre),

even after the proposed adjustment, is still lower than that under the previous system by around 30%.

Given the very modest nature of the proposed increase, we do not believe that this would cause any significant adverse impact on the consumption of beer. On this basis, we estimate that the proposal would generate a revenue increase of around \$90 million for the Government in 2001-02. Whether we will eventually be able to achieve that amount of additional revenue depends on a host of other factors apart from the direct impact of the duty increase, including concurrent changes in consumer preferences and the pace of our economic recovery. We will examine the actual effect of the proposed increase on our duty revenue from liquor when we prepare the Budget for the next year.

We have not proposed a similar increase in duty rates on strong spirits or wine because their duty rates are already very high at 100% and 60% respectively. Given that the ex-factory price of such products is far higher than for beer, the impact of a duty increase in absolute terms would be much more significant for such products. The risk of a switch to the consumption of cheaper products should be relatively higher, hence defeating the objective of increasing revenue.

You have expressed concern at the meeting on 17 April that the proposed increase would lead to smuggling of beers. I would like to assure you that the Customs and Excise Department is committed to combating all kinds of smuggling activities. The Department will continue to take vigorous enforcement measures against the supply and use of duty-not-paid goods.

You pointed out in your position paper that there had been no consultation with the beer industry on the proposed increase. I hope you will understand that for reasons of budgetary sensitivity, it is not possible for us to consult the industry on the details of any revenue proposal before the announcement of the Budget. However, in preparing the Budget, we did take into account views from different sectors of the community expressed during the budget consultation exercise. Specifically, my colleagues met with the Liquor and Provision Industries Association in January this year to discuss issues relating to the duty on alcoholic liquors. The beer industry was also represented at the meeting. We welcome any updated market information specifically on beer consumption from the industry in future budget consultation exercises, which will be useful to our consideration of budget revenue proposals.

I hope this letter will help to clarify the policy considerations behind the proposed increase of liquor duty in the 2001-02 Budget.

Yours sincerely,

(Miss Denise Yue)
Secretary for the Treasury