立法會
Legislative Council

LC Paper No. CB(1)2058/00-01
(These minutes have been seen by the Administration and cleared with the Chairman)

Ref: CB1/PL/ES/1

Legislative Council
Panel on Economic Services

Minutes of meeting held on
Monday, 28 May 2001, at 10:45 am
in the Chamber of the Legislative Council Building

Members present	:	Hon James TIEN Pei-chun, JP (Chairman) Dr Hon LUI Ming-wah, JP (Deputy Chairman) Hon Kenneth TING Woo-shou, JP Dr Hon David LI Kwok-po, JP Hon Fred LI Wah-ming, JP Hon CHEUNG Man-kwong Hon HUI Cheung-ching Hon CHAN Kam-lam Hon SIN Chung-kai Hon Howard YOUNG, JP Hon LAU Chin-shek, JP Hon Mrs Miriam LAU Kin-yee, JP Hon CHOY So-yuk Hon Abraham SHEK Lai-him, JP Hon Henry WU King-cheong, BBS Hon Audrey EU Yuet-mee, SC, JP
Non-Panel member Attending	:	Hon LEUNG Yiu-chung
Members absent	:	Hon Eric LI Ka-cheung, JP Hon Mrs Selina CHOW LIANG Shuk-yee, JP Dr Hon Philip WONG Yu-hong

Public officers Attending : **Agenda Item IV**

Economic Services Bureau

Ms Sandra LEE
Secretary for Economic Services

Ms Maria KWAN
Deputy Secretary for Economic Services (1)

Ms Irene YOUNG
Principal Assistant Secretary for Economic Services (C)

Post Office

Mr P C LUK
Postmaster General

Mr Allan CHIANG
Deputy Postmaster General

Mrs CHAN NG Shiu-may, Violet
Chief Treasury Accountant, Hongkong Post

Agenda Item V

Economic Services Bureau

Ms Sandra LEE
Secretary for Economic Services

Mr Alex FONG
Deputy Secretary for Economic Services (3)

Marine Department

Mr K M LEE
Assistant Director of Marine/Port Control

Mr K M VARGHESE
Assistant Director of Marine/Shipping

Agenda Item VI

Economic Services Bureau

Ms Sandra LEE
Secretary for Economic Services

Ms Maria KWAN
Deputy Secretary for Economic Services (1)

Mr James WONG
Principal Assistant Secretary for Economic Services (Financial Monitoring)

Ms Irene YOUNG
Principal Assistant Secretary for Economic Services (C)

Environment and Food Bureau

Mr Howard CHAN
Principal Assistant Secretary for the Environment and Food (C)

Finance Bureau

Ms Esther LEUNG
Principal Assistant Secretary for the Treasury (Revenue)

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)2

Staff in attendance : Ms Alice AU
Senior Assistant Secretary (1)5

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I Confirmation of minutes and matters arising

(LC Paper No. CB(1)1222/00-01 - Minutes of meeting held on 26 March 2001)

The minutes of meeting held on 26 March 2001 were confirmed.

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II Information papers issued since last meeting

(LC Paper No. CB(1)1131/00-01 - Tables and graphs showing the import and retail prices of major oil products from April 1999 to March 2001)

2. Members noted the above information paper issued since last meeting.

II Items for discussion at the next meeting scheduled for 26 June 2001

(LC Paper No. CB(1)1334/00-01(01) - List of outstanding items for discussion; and

LC Paper No. CB(1)1334/00-01(02) - List of follow-up actions)

3. Members agreed to discuss the following items at the Panel meeting scheduled for 26 June 2001:

(a) Air Navigation (Dangerous Goods) Regulations and Dangerous Goods (Consignment by Air) (Safety) Regulations;

(b) Civil liability for unsafe products; and

(c) Regulation of deceptive, misleading and unfair practices in consumer transactions.

(*Post-meeting note*: The meeting was subsequently rescheduled to be held on 18 June 2001 and item (b) above had been replaced by the item on "Mid-stream Fees".)

IV Hong Kong Post

(LC Paper No. CB(1)1334/00-01(03) - Information paper provided by the Administration; and

LC Paper No. CB(1)1338/00-01(01) - Gist of information paper provided by the Administration)

4. At the invitation of the Chairman, the Postmaster General (PMG) briefed members on the plan of the Post Office (PO), a trading fund, to revise some postage rates in October 2001 as set out in the Administration's paper on the subject (LC Paper No. CB(1)1334/00-01(03)). He advised that the revisions included both increases and reductions and the weighted average net increases amounted to 6.5%. With these revisions, the revenue of the PO would increase by about $59 million in 2001-02. Notwithstanding this, the PO was still projected to operate at a loss of $44 million in 2001-02.

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5. PMG further said that postage rates were last increased in September 1996. The operating costs had since increased by about 8.6% from $3,341 million in 1996-97 to $3,627 million in 2000-01. Overall increase in mail traffic of 14% over the last five years had led to increase in operating costs but corresponding revenue did not match operating cost because some of the mail services did not achieve full cost recovery.

6. The Secretary for Economic Services (SES) also drew members' attention to the cross-subsidization among postal services as outlined in paragraphs 12 and 13 of the paper. As a result of recent changes in the payment system for the delivery of international mail, the despatching postal administration could request the postal administration at destination to link the rate of payment for mail delivery to the latter's domestic tariff. The implementation of these changes in Hong Kong meant that overseas mailers would be subsidized by local customers. As such, there was clearly a need to reduce cross-subsidization so as to maintain the overall viability of postal services. She further said that as the PO was operating as a trading fund, it would have to provide its services on a self-financing basis

Cross-subsidization among postal services

7. Mr Kenneth TING expressed grave concerns about the problem created by other postal administration taking advantage of the lower domestic tariff through bringing in international mail for direct posting at local post offices and asked whether any measures could be taken to address the problem. He pointed out that apart from eroding the PO's revenue, such practice might result in slower delivery thus affecting the efficient operation of Hong Kong's business sector. Mr LUI Ming-wah also enquired about the estimated loss of revenue created by the problem.

8. In response, PMG advised that the estimated loss of revenue was about $24 million per year. However, it would be very difficult to deter such practice as international mail brought into Hong Kong for direct posting was no different from bona fide local mail in appearance. The Deputy Secretary for Economic Services (1) added that it was exactly for this reason that the PO should take the opportunity to ensure that a more equitable pricing structure was in place to handle the requests made by overseas postal authorities.

9. In reply to Mr CHAN Kam-lam, PMG advised that the cost of handling local mail was $1.65 per letter while the postage was only $1.3. Hence, the provision of local mail service had resulted in a deficit of $ 227 million in 2000-01. However, it was intended that full cost-recovery for loss-making mail services would be achieved in phases. In response to members' requests, PMG agreed to provide members with supplementary information on the following after the meeting: a) the unit cost and percentage of recovery for major mail categories; and b) a comparison of domestic postage rates in Hong Kong and overseas countries.

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(*Post-meeting note*: The requested information was circulated to members vide LC Paper No. CB(1)1537/00-01(01).)

Maintaining the PO's viability and competitiveness

10. Members in general acknowledged that with increasing operating costs and decreasing revenue, the operation of the Post Office Trading Fund (POTF) had become quite difficult. In this connection, they considered that it would be most important for the PO to increase competitiveness and maintain operational viability by creating additional sources of revenue and enhancing productivity.

11. The Chairman pointed out that with widespread e-substitution and diversion of international mail from the normal international mail exchange, the core services provided by the PO were facing some fundamental changes. However, he cautioned that such problems could not be resolved simply by postage revision and long-term solutions were required to ensure the POTF's healthy financial position. Mr LAU Chin-shek also expressed concern about the continuing trend of operating deficit of the PO. Mr CHEUNG Man-kwong concurred with the Chairman's views and cautioned the PO to be vigilant about the bleak development prospects of postal services in general. He thus called on the PO to explore every opportunity to develop new services to meet the changing needs of the society and asked whether consideration would be given to the provision of money-depositing service at post offices as requested by the Tuen Mun District Council (TMDC), as well as e-certification service, etc.

12. In response, PMG stressed that the PO would continue to identify new sources of revenue such as the PayThruPost service introduced in April 2000 to accept counter bill payment for utility companies. This service would be further extended by the end of the year to accept payment for government bills. In the coming years, the PO would continue to develop its e-certification service following the establishment of Hongkong Post as Hong Kong's first recognized public Certification Authority in 2000. Logistics service would also be a main target of business development for the PO. However, under the existing legislation, it would not be possible for the PO to provide money-depositing service at post offices. The Chairman suggested that the Government should consider looking into the feasibility of TMDC's request.

13. Mr Howard YOUNG suggested that the PO should also make reference to overseas experience in exploring new opportunities for service expansion, such as the renewal of driving and vehicle licences. In reply, PMG advised that there had been active discussions between the PO and the Transport Department on the matter.

14. Mr CHAN Kam-lam opined that more should be done to enhance productivity. Mr LUI Ming-wah also asked whether the PO would consider contracting-out the mail despatch service to local couriers and employing more temporary staff. In response, PMG highlighted the major initiatives taken by the

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PO which had resulted in 4% savings on total operating costs in 2000-2001 and assured members that the PO was mindful of the need to achieve productivity gains to cut costs. Over the last five years, productivity index in terms of "handling rate per man-hour" had increased by 7.4% which helped to absorb the 14% overall increase in mail traffic. Apart from conducting reviews on workflow and rationalizing the staff structure, the PO would contract out more services where appropriate, including the increased use of hired vehicles. However, major security considerations would be involved in the contracting-out of mail delivery services.

15. PMG added that although the mail market might have declined to a certain extent, the PO had seen new business opportunities emerging. With the trading fund operation, the PO was able to pursue these opportunities with a greater degree of flexibility than a vote-funded department. In this connection, the Business Development Branch was established to take up relevant responsibilities. For example, with the additional mail handling capacity brought by the new Air Mail Centre at Chek Lap Kok International Airport, the PO would be in a better position to promote and develop the business of international letters and parcels. Furthermore, the reduction of 10 cents for all non-bulk airmail items under the present proposal would also help foster the competitiveness of Hongkong Post.

16. Mr Fred LI however pointed out that Hong Kong's postal services were in fact losing its competitive edge. Citing the case where many local people would prefer to bring their parcels to Shenzhen for posting to destinations in the Mainland because of the lower postage, he sought the PO's assessment of the situation and asked about the measures to be taken to increase Hongkong Post's competitiveness in this area. In reply, PMG explained that as such parcels would be handled as international mail in Hong Kong and local mail in the Mainland and hence, different cost components were involved, it would not be appropriate to make a direct comparison on postage. However, under the present proposal, no change was effected on the postage rates of parcels.

17. Concerned about the impact of the present operation on Hong Kong's businesses, Ms Audrey EU asked whether the business community and users of bulk mail services had been properly consulted. PMG replied that the Business Development Branch would maintain close contact with the PO's major corporate clients and they had been consulted accordingly on the present proposal. In reply to Mr HUI Cheung-ching, PMG agreed to provide supplementary information on the traffic and revenue generated from the local printed papers service to be abolished under the present proposal.

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(*Post-meeting note*: The requested information was circulated to members vide LC Paper No. CB(1)1537/00-01(01).)

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Use of the development reserve of the POTF

18. In reply to Mr LAU Chin-shek, PMG advised that in 1996-97 and 1997-98, $1,200 million exceptional windfall profits from philatelic services were transferred to the development reserve. The funds had subsequently been spent to finance major capital projects of the PO including the new Air Mail Centre, various computer systems and new plant and machinery. As at 31 March 2001, the balance of the development reserve stood at $368 million. He added that given the numerous projects planned and committed by the PO to improve service standard and to develop new business, the balance of the development reserve might not be adequate for the purpose. Hence, the PO would need to explore ways to increase revenue and cut costs.

19. Mr Fred LI opined that in that case, the Government should bear the cost of providing essential infrastructure for Hong Kong's postal services, such as the new Air Mail Centre. As the PO had to pay for the construction costs from the development reserve, pressures were indirectly created on the PO to increase postage rates.

20. The Chairman was concerned about the expected return on investments financed by the development reserve. Ms Audrey EU opined that if a return could be achieved on such investments shortly, the pressure of postage increases faced by the PO might be relieved. In reply, PMG assured members that the PO would carefully assess the projected return for its investments and generally speaking, return was expected within five years except for certain infrastructural projects. For example, the PO estimated that the extended PayThruPost service to collect government bills would bring in about $20 million per year. However, actual income would very much depend on patronage and public acceptance. SES added that it would be most important to ensure that the development reserve had adequate funding to meet the future development needs of the PO.

Members' stance on the proposal

21. Mr LAU Chin-shek sought the Administration's stance as to whether the present proposal would directly affect people's livelihood. SES replied that both the people and business activities would in some way be affected by the postage revisions proposal. However, it was estimated that the Composite Consumer Price Index would only increase by about 0.002% as a result. Also, as postage constituted only a small proportion of business cost in general, the impact on inflation would not be significant.

22. Mr LAU however was concerned that under the prevailing economic conditions, any increases in fares and charges proposed by the Government, no matter how small it might seem, would have a tremendous impact on the livelihood of the general public. Hence, he was opposed to the PO's present proposal. Sharing similar views, Mr Fred LI, on behalf of Members of Democratic Party, also expressed opposition to the proposal. The Chairman, on behalf of Members of the

Liberal Party, said that the Liberal Party had reservation on the present proposal. Ms Audrey EU considered that given the expected return on the PO's investments, she was doubtful as to whether the PO was indeed facing great pressure to increase postage rates. Mr LUI Ming-wah opined that in the long-term, the PO's operation might have to be privatized. Mr HUI Cheung-ching supported the proposed reduction of non-bulk airmail postage rates.

23. In view of members' views and given that the postage increases would have a cumulative effect on consumer prices, Mr LAU Chin-shek asked whether the Government would consider deferring the postage revision proposal to provide relief to the Hong Kong people, say until April 2002. In reply, SES said that the Administration would carefully consider the views expressed by members on the planned proposal before making a final decision.

> (*Post-meeting note*: According to the Legislative Council Brief issued to members on "Revision of Postage Rates" (File Ref: ESB CR25/1096/51(00)), the PMG had decided to defer the postage revision from October 2001 to April 2002.)

V Subsidiary legislation under the Merchant Shipping (Local Vessels) Ordinance

(LC Paper No. CB(1)1334/00-01(04) - Information paper provided by the Administration)

24. The Deputy Secretary for Economic Services (3) (DS for ES(3)) briefly introduced the Administration's paper on the subject (LC Paper No. CB(1)1334/00-01(04)) which set out the regulations/rules proposed to be made under Merchant Shipping (Local Vessels) Ordinance (the Ordinance) (Cap. 548) to improve the safety, control and regulation of local vessels. The four regulations/rules, to be introduced to the Legislative Council shortly, were as follows:

(a) Merchant Shipping (Local Vessels) (General) Regulation;

(b) Merchant Shipping (Local Vessels) (Dwelling Vessels) Regulation;

(c) Merchant Shipping (Local Vessels) (Ferry Terminals) Regulation; and

(d) Merchant Shipping (Local Vessels) (Conduct of Inquiry) Rules.

25. DS for ES(3) added that the full implementation of the Ordinance would entail the enactment of six more subsidiary legislations to cover various areas including maritime insurance and regulatory control on pleasure vessels being used for commercial purposes. In this connection, Mrs Miriam LAU called for the early implementation of compulsory third party risks insurance for all local vessels.

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26. In response, DS for ES(3) explained that while such a requirement was already applicable to some licensed vessels in Hong Kong, the Administration was aware that those vessels from the Mainland and Macau which were permitted to enter and remain in the Hong Kong waters might have great difficulty in complying with the requirement and they would prefer a phased approach in implementation. Hence, the Administration would continue to consult the trade on this issue to ensure that both the passengers and operators would be protected properly while the operation of the trade would not be adversely affected.

27. Expressing concern about the serious problem on rubbish disposed by local vessels at sea, the Chairman called on the Administration to take the opportunity to review whether the relevant legislation was adequate to tackle the problem. Mrs Miriam LAU considered that more stringent enforcement actions were required. In response, the Assistant Director of Marine/Port Control (AD of M/PC) explained that the existing law had already provided sanctions against such acts. Apart from calling on the trade to comply with the law, the Marine Department would also hold discussions with them regarding the collection of rubbish from vessels.

Control and regulation of Mainland vessels

28. Responding to Mrs Miriam LAU's enquiry, AD of M/PC explained that in the past, fishing vessels were permitted to enter Hong Kong waters through an exemption granted by the Director of Marine (D of M). The arrangement would be formalized under the proposed Regulation, and annual multiple entry permits would be issued to fishing vessels. He added that for the purpose of improving safety of vessel operation, the manning requirements of vessel crew specified by D of M would also apply to Mainland vessels permitted to enter and remain in the Hong Kong waters. Addressing the member's concerns, he said that the Mainland in fact had higher requirements in respect of the manning level, inspection and safety standards of vessels than those applicable in Hong Kong.

29. Mr CHAN Kam-lam was concerned about the control and regulation of Mainland fishing vessels which entered Hong Kong waters to engage in unlawful or unauthorized activities. While acknowledging grave public concerns about the security risks involved, AD of M/PC said that the subject matter was out of his purview. However, he was aware that the Agriculture, Fisheries and Conservation Department was contemplating some form of control through licensing. Separately, the issue on regulating small sampans from the Mainland would be followed up by the Security Panel. However, he advised that a general control mechanism had already been provided in Shipping and Port Control Ordinance (Cap. 313) under which any vessel expected to arrive in Hong Kong waters was required to notify D of M not less than 24 hours, or as early as practicable, before the arrival of the vessel.

30. Mr Kenneth TING expressed concern about the control of smoke emission from Mainland vessels. AD of M/PC responded that under the existing law, no vessel in the Hong Kong waters should emit smoke in such quantity as to be a

nuisance. However, the provisions would need to be reviewed to set out the relevant requirements more clearly.

31. Concluding the discussion, the Chairman invited the Administration to take note of the Panel's support for the proposed regulations/rules.

VI Retail price of ultra low sulphur diesel and the concession on diesel duty

(LC Paper No. CB(1)1334/00-01(05) - Information paper provided by the Administration)

32. SES introduced the Administration's paper on the subject (LC Paper No. CB(1)1334/00-01(05)).

Concession on diesel duty

33. Members noted that between July and October 2000, the price differential between the weighted average monthly import price of ultra low sulphur diesel (ULSD) and regular motor diesel was around $0.42 per litre. Between July and mid-December 2000, the accumulated retail price reductions by oil companies for ULSD were around $0.40 per litre. The Administration considered that together with $0.09 per litre passed on to the consumers at the outset, oil companies could by then be considered to have passed on all of the duty concession of $0.89 per litre to consumers.

34. Notwithstanding the price reductions, Mrs Miriam LAU said that according to her calculations, the operating costs/profits of the oil companies for ULSD were on average some 20 cents higher than for regular motor diesel. As the specific costs associated with the introduction of ULSD into Hong Kong, such as those for tank cleaning, etc. should have been amortized, the operating costs/profits for the two types of fuel should be comparable. Given their commitment to pass on the full benefits of the duty concession to consumers, the oil companies should account for the higher operating costs/profits for ULSD. Mr LUI Ming-wah considered that an increase of 20 cents in profits was indeed quite significant.

(*Post-meeting note*: A note provided by Mrs Miriam LAU showing such calculations was tabled at the meeting and subsequently issued to members vide LC Paper No. CB(1)1373/00-01.)

35. In response, SES stated that it might not be appropriate to compare the prices of ULSD against a historical benchmark. As ULSD had replaced regular motor diesel in the retail market, the Administration had moved away from tracking the import price differential between ULSD and regular motor diesel since December 2000 but continued to keep track of the import price trend of ULSD. It had also been watching the daily movement of the Singapore diesel price. It could be seen from paragraph 8 of the information paper that the movement of the pump price of ULSD was broadly in line with the industry's weighted average

import price. She further said that individual oil companies' import price might well be different from the industry's weighted average figure and could be higher. To supplement, the Principal Assistant Secretary for Economic Services (Financial Monitoring) said that given the volatile import costs of oil products, it might not be appropriate to form an opinion on the basis of a snapshot comparison. In view of members' concerns, the Administration agreed to consider the calculations provided by Mrs Miriam LAU and revert to the Panel in due course.

Admin.

(*Post-meeting note*: The Administration's reply was circulated to members vide LC Paper No. CB(1)1781/00-01.)

Duty rate for ULSD on or after 1 July 2001

36. The Principal Assistant Secretary for the Treasury (Revenue) (PAS for T/R) advised that according to the existing Dutiable Commodities Ordinance, the duty rate for ULSD would automatically be adjusted to $2.00 per litre on 1 July 2001 and then to $2.89 per litre on 1 January 2002. In view of the projected overall budget deficit in 2001-02 and successive operating deficits during the medium range forecast period until 2004-05, the Administration had originally no plan to defer the adjustment of the duty rate beyond 30 June 2001. However, in view of the views expressed by the transport industry recently, the Administration would be prepared to consider their concerns before a final decision was made in June 2001.

37. Mrs Miriam LAU welcomed the Administration's move to consider the grave concerns raised by the transport trade. In this connection, she invited the Administration to take into account the motion carried by the Legislative Council unanimously in November 2000 urging the Government to extend the effective period of the concessionary duty rate $1.11 for ULSD to 31 December 2001. Reiterating the Democratic Party's support for the motion, Mr CHEUNG Man-kwong stated that the present duty concession of $0.89 per litre should be maintained until the end of the year.

38. Mrs LAU also recalled that the Government had undertaken to review the appropriate duty level of ULSD for 2002 when the resolution on concessionary duty rate for ULSD was proposed, and enquired about the progress of the review. The Principal Assistant Secretary for the Environment and Food (C) (PAS for EF(C)) replied that the Administration had undertaken to take all relevant factors into account before deciding whether the concessionary duty rate should be maintained or revised from 1 January 2002. The review was still on-going. PAS for T/R added that the Administration would also consider the impact of any duty rate revisions on the transport trade and the economy as a whole.

39. Mr LEUNG Yiu-chung opined that the Government should consider maintaining the duty concession from the point of view of environmental protection. He said that at present, only taxis were encouraged to switch to liquefied petroleum gas (LPG). The Administration however had no plan to extend the scheme to other commercial vehicles, such as minibuses or light vans. Hence, until the

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operators of such vehicles were given the same choice to switch to LPG or other more environmentally-friendly fuels, the present duty concession should be maintained. For this would not only ensure the sustained environmental benefits from the use of ULSD, but it would also ease the hardship of the transport industry in their operations. In response, PAS for EF(C) advised that while the Administration had recently completed a trial on alternative-fuelled light buses, the study on other types of vehicles was still on-going. It was hoped that a proposed way forward on alternative-fuelled light bus could be put forward to members for consideration by the end of the year.

40. In response to the Chairman's question on the wider use of LPG vehicles in Hong Kong, PAS for EF(C) explained that apart from technical feasibility, the Administration would have to consider whether adequate supporting facilities such as LPG filling stations were available. In this connection, both Mr LEUNG Yiu-chung and the Chairman called on the Administration to carefully study the issues involved and formulate its policies accordingly.

VII Any other business

41. There being no other business, the meeting ended at 1:05 pm.

Legislative Council Secretariat
19 September 2001