

立法會
Legislative Council

LC Paper No. CB(1)1557/03-04
(These minutes have been seen
by the Administration)

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Panel on Economic Services

**Minutes of meeting held on
Monday, 22 March 2004, at 10:45 am
in the Chamber of the Legislative Council Building**

Members present : Hon James TIEN Pei-chun, GBS, JP (Chairman)
Dr Hon LUI Ming-wah, JP (Deputy Chairman)
Dr Hon Eric LI Ka-cheung, GBS, JP
Hon Fred LI Wah-ming, JP
Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon CHEUNG Man-kwong
Hon HUI Cheung-ching, JP
Hon SIN Chung-kai
Dr Hon Philip WONG Yu-hong, GBS
Hon Howard YOUNG, SBS, JP
Hon LAU Chin-shek, JP
Hon Miriam LAU Kin-ye, JP
Hon CHOY So-yuk
Hon Abraham SHEK Lai-him, JP
Hon LI Fung-ying, JP
Hon Henry WU King-cheong, BBS, JP
Hon LEUNG Fu-wah, MH, JP

Non-Panel Member attending : Hon Mrs Sophie LEUNG LAU Yau-fun, SBS, JP

Members absent : Hon Kenneth TING Woo-shou, JP
Dr Hon David LI Kwok-po, GBS, JP
Hon CHAN Kam-lam, JP

Public Officers attending : Agenda item IV

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Mr Duncan PESCOD
Acting Commissioner for Tourism

Ms Kinnie WONG
Assistant Commissioner for Tourism

Agenda item V

Mr Stephen IP
Secretary for Economic Development and Labour

Ms Sandra LEE
Permanent Secretary for Economic Development and Labour (Economic Development)

Ms Miranda CHIU
Deputy Secretary for Economic Development and Labour (Economic Development)

Ms Brenda CHENG
Principal Assistant Secretary for Economic Development and Labour (Economic Development)
Financial Monitoring

Attendance by invitation : Agenda item V

The Hongkong Electric Co., Ltd.

Mr K S TSO
Group Managing Director

Mr Francis L Y LEE
Director & General Manager (Engineering)

Mr Andrew J HUNTER
Group Finance Director

Mr Steve NG
Deputy Chief Accountant

Clerk in attendance : Miss Polly YEUNG
Chief Council Secretary (1)3

Staff in attendance : Ms Debbie YAU
Senior Council Secretary (1)1

Miss Winnie CHENG
Legislative Assistant 5

Action

I Confirmation of minutes and matters arising
(LC Paper No. CB(1)1321/03-04 - Minutes of meeting held on
23 February 2004)

The minutes of the meeting held on 23 February 2004 were confirmed.

2 The Chairman recapped that at the last special meeting held on 2 March 2004, Mr LEUNG Fu-wah had proposed that the Panel should meet with deputations on issues related to the privatization of the Airport Authority, notably the arrangements for staff working in the airport. However, as the Administration had indicated that it would not introduce the relevant legislative proposal on privatization within the current legislative session and the Secretary for Economic Development and Labour (SEDL) had undertaken at the special meeting that the Administration would be prepared to listen to the views of the staff unions concerned, he had therefore invited members to consider Mr LEUNG's proposal and decide on the matter at this meeting. Such being the case, Mr LEUNG Fu-wah agreed that for the time being, the Panel should deal with other more time-critical issues. If necessary, he would raise the proposal again for members' consideration.

II Information paper issued since last meeting
(LC Paper No. CB(1)1194/03-04(01) - Tables and graphs showing the
import and retail prices of major
oil products from February 2002
to January 2004 furnished by the
Census and Statistics
Department)

3. Members noted the information paper issued since last meeting.

Action

III Items for discussion at the next meeting scheduled for 26 April 2004

(LC Paper No. CB(1)1320/03-04(01) - List of outstanding items for discussion

LC Paper No. CB(1)1320/03-04(02) - List of follow-up actions)

4. Members agreed to discuss the following items at the next meeting scheduled for Monday 26 April 2004:

- (a) Stanley Waterfront Improvement Project;
- (b) Reconstruction of Sha Tau Kok, Wong Shek and Ko Lau Wan public piers; and
- (c) Transfer of certain statutory powers and functions of the Chief Secretary for Administration and the Financial Secretary to the Secretary for Economic Development and Labour (deferred from meeting on 22 March 2004).

5. Ms Miriam LAU was concerned about the way forward for the proposed item of "modern cruise terminal" in Hong Kong in the light of the recent court judgment on reclamation in the Victoria Harbour. Members in general agreed that the Administration should be invited to brief the Panel on the development of a cruise terminal at a suitable site. The Panel further agreed to consider the item at the regular meeting in May 2004.

IV Hospitable Hong Kong

(LC Paper No. CB(1)1320/03-04(03) - Information paper provided by the Administration)

6. At the invitation of the Chairman, the Acting Commissioner for Tourism (Atg C for Tourism) briefed members on the Administration's proposal to extend the "A Hospitable Hong Kong" Campaign (the Campaign) for two years at an estimated cost of HK\$12.8 million to achieve the objective to promote a hospitable culture among those working in the tourism sector and in the community at large. He outlined the new initiatives proposed under the Campaign, including the Hong Kong Young Ambassador Scheme, general publicity targeting the community, service quality seminars and campaigns, and the service quality audit. Members noted that the Administration planned to seek the Finance Committee's funding approval in April 2004.

Measures to enhance Hong Kong as a shopping paradise

7. Mr LEUNG Fu-wah expressed support for the proposal since the tourism projects under the Campaign could boost local employment. However, he was concerned that some tourists, notably Mainland visitors under the Individual Visit Scheme (IVS), had encountered unpleasant shopping experience or had even been cheated when they patronized certain retail shops or dining outlets in Hong Kong. As these visitors might spread the message about such experience when they

Action

returned home, the reputation of Hong Kong would be tarnished. Mr LEUNG therefore urged the Administration to strengthen current measures, including the complaint mechanism, to curb the unscrupulous practices of these shops. One option was to step up the publicity on available complaint channels in major shopping areas such as Tsim Sha Tsui and Causeway Bay.

8. Mr CHEUNG Man-kwong shared Mr LEUNG's view. He noted that there had been an increase in the number of complaints made by tourists since the implementation of the IVS. There were also reports about unscrupulous retail shops, exorbitant service fees charged by money exchangers in certain hotels and some restaurants offering two different price lists for the same dish and charging tourists for the higher prices. Mr CHEUNG urged the Administration to devise effective measures to sanction these "black shops" and publicize the effectiveness of such efforts to boost the confidence of visitors to spend in Hong Kong.

9. In response, the Atg C for Tourism highlighted that a number of initiatives had been put in place to safeguard tourists' interest. The Quality Tourism Services (QTS) Scheme launched by Hong Kong Tourism Board (HKTB) aimed to assist visitors to identify quality service providers, and to give recognition to the participating merchant's excellence in service and products. The QTS Scheme was underpinned by stringent assessment criteria and a complaint resolution mechanism that enhanced consumer protection. It had served as an important source of reference to help individual visitors, notably those travelling under the IVS, to shop with confidence. Besides, under a "100 per cent refund policy" introduced by the Travel Industry Council of Hong Kong since February 2002, visitors whose shopping activities were arranged by their travel agents were entitled to a full refund within 14 days if they were not satisfied with their purchases. Visitors travelling individually in Hong Kong might lodge their complaints with the Consumer Council (CC), HKTB or the Police. Depending on the circumstances of individual cases, the tourist concerned might lodge a claim with the Small Claims Tribunal. At present, special arrangements were in place to enable a visitor's claim to be heard by the Tribunal within 48 hours. In addition, during peak periods such as the "golden week" holidays, posters and banners were put up conspicuously along the central divide of the main roads in key shopping area to remind visitors of the HKTB visitor hotline and CC enquiry hotline.

10. On measures to deal with "black shops", SEDL and the Atg C for Tourism stressed that strategy-wise, it was more worthwhile to promote the positive aspects of tourism in Hong Kong by maximizing the reach of the QTS Scheme to visitors so that they could patronize the more reputable and reliable shops. Referring to his reply to a recent LegCo question on 10 April 2004 on the number of complaints received from tourists, SEDL pointed out that for visitors' complaints received by the CC, cases would be investigated and mediation undertaken. If the complaints indicated possible elements of fraud or criminal activity, the CC would refer them to the Police or the Custom & Excise Department (C&ED) for follow up investigation. Prosecution action would also be taken by the Police or C&ED against shops found to be committing criminal offences. Nevertheless, SEDL

Action

reiterated that efforts should be directed to promote quality service providers to tourists instead.

11. The Chairman was concerned whether the malpractice such as offering differential pricing on the same product could be penalized and asked whether there was any useful information on overseas practice to draw on as far as the regulation of malpractice in the tourism sector was concerned. Notwithstanding the enforcement difficulties which might be encountered, Mr CHEUNG Man-kwong reiterated his concern that suitable sanctions, on top of promotional efforts, should be taken against unscrupulous merchants.

12. In response, SEDL considered that promoting good business practice and enhancing awareness of consumer rights would provide the best safeguard for tourists and consumers. He highlighted that the HKTb would continue to implement the QTS Scheme as part of their ongoing efforts to enhance service quality and make Hong Kong a tourist-friendly and preferred destination for business and leisure. To maximize the reach of the QTS Scheme to visitors, publicity for the QTS Scheme would be stepped up both overseas and in the Mainland. The objectives were to reinforce Hong Kong's image as a quality destination in source markets, to increase visitors' awareness of the QTS Scheme prior to their departure and upon arrival in Hong Kong, and to encourage higher spending in Hong Kong. In particular, the HKTb would launch a Visitor Awareness Programme in the Mainland, Japan and Korea; a Visitor Patronage Stimulation Programme to maximize visitors' spending at QTS-accredited merchants; and a Merchant Booster Programme to drive merchant recruitment. In addition, SEDL said that the Administration planned to conduct service quality audits in the hotel, travel and transport sectors to ensure that all sectors of the industry worked towards achieving and maintaining the highest standards. SEDL further pointed out that according to recent surveys, shopping was still one of the top attractions of Hong Kong to the majority of visitors and they remained confident of obtaining genuine products at a reasonable price in Hong Kong.

13. Mrs Selina CHOW declared that she was the Chairman of HKTb. She appreciated the Administration's efforts in making QTS Scheme a renowned brand name. While large companies could attract business on their own standing, small and medium enterprises (SMEs), which usually could not afford large-scale publicity, would be able to gain worldwide recognition under the auspices of QTS. In fact, the Mainland National Tourism Authority had recently endorsed the publicity of the QTS Scheme among travel agencies in the Mainland. Notwithstanding the achievement of the QTS Scheme, Mrs CHOW urged that suitable sanctions should be taken against unscrupulous shops for the sake of preserving Hong Kong's reputation as a major tourist attraction since a few notorious incidents would cause significant damage to the image of Hong Kong.

14. Mr SIN Chung-kai shared Mrs CHOW's view. While expressing support for the Administration's proposal, he considered it equally important to sanction unscrupulous shops. To strengthen the complaint mechanism, he suggested that

Action

more resources should be allocated to CC in handling and investigating into complaints lodged by visitors, in particular Mainland visitors. Consideration might also be given to setting up dedicated counters for Mainland visitors at border control points to receive and follow up complaints.

15. In response, the Atg C for Tourism said that the Administration had conducted a series of meetings with relevant retail and restaurant associations to promote good business practices. While a significant number of visitors came to Hong Kong on group tours and could be covered by the "100 per cent refund policy", he assured members that many of the individual visitors under IVS came from Guangdong province and they were very familiar with the practices of the retail markets in Hong Kong. Notwithstanding, following the extension of the IVS to other parts of the Mainland, promotion on the QTS Scheme would be stepped up. On enforcement, the Police had carried out undercover investigation to collect evidence and where an offence could be substantiated, would take out prosecution against unscrupulous shops. Besides, CC also published the names of those shops which had been successfully prosecuted so as to achieve a deterrent effect.

16. The Permanent Secretary for Economic Development and Labour (Economic Development) (PS/EDL(ED)) informed members that the Administration was conducting an internal review to see if relevant legislation should be tightened to combat undesirable or illegal practices which might victimize tourists. The Administration would consult the industry after it had formulated its recommendations.

17. Referring to leaflets publicizing consumer complaint hotlines available inside guest rooms in some overseas hotels, Mr Henry WU asked the Administration to consider promoting a similar practice in local hotels. In response, the Atg C for Tourism pointed out that HKTb had published a number of informational leaflets and guide books in many languages for distribution at major locations such as the airport, hotels and land boundary crossing points. While the Government would continue to monitor the trend of complaints received from tourists and step up consumer protection, SEDL reiterated that it was most desirable to adopt a proactive approach to assist visitors to identify quality service providers through the QTS Scheme.

Hong Kong Young Ambassador Scheme

18. Recalling that some years ago, university students studying abroad had been recruited by the former Hong Kong Tourists Association to promote Hong Kong at their places of study while young people in Hong Kong had been appointed by local organizations such as District Councils to guide visitors at popular tourist spots such as Repulse Bay or Stanley, Mr Howard YOUNG sought clarification on whether the Hong Kong Young Ambassador Scheme (HKYAS) was a combination of the past two schemes. He noted from participants of HKYAS that apart from receiving circulars soon after joining, they had not been very much

Action

involved in the activities of HKTb. Since these young people had acquired the necessary training and practical experience in promoting tourism, Mr YOUNG considered that HKTb or the Administration should consider enlisting their assistance, in particular during the summer holidays, in the activities of HKTb.

19. In response, the Atg C for Tourism confirmed that the previous Youth Ambassador Scheme and Student Ambassador Scheme were merged in 2001 to become HKYAS as similar training was provided to both groups of participants. HKYAS aimed at giving the younger generation basic knowledge of the tourism industry and encouraging them to organize or participate in activities that promote Hong Kong. A total of 484 participants, comprising students studying in Hong Kong and overseas, had successfully completed training and were appointed as Young Ambassadors (YAs) between 2001 and 2003. HKYAS had successfully built up the hospitality culture among participants who had in turn helped spread the message to their friends and peers. Apart from intensive training during the summer, participants were also given the opportunity to participate in tourism promotion activities. They were deployed to assist tourists at various tourist attractions. Besides, these young ambassadors also participated in mega events organized by HKTb and organized promotional activities in their schools. They had contributed over 2 040 service hours, organized 228 overseas and 61 local promotional activities and participated in 17 mega events, including the New Year Parades and Rugby Sevens. Currently, there were 246 active YAs to help spread the message of a hospitable culture in Hong Kong and overseas.

General publicity reaching the community

20. Members noted that in view of the positive feedback on the last Announcement of Public Interest (API) broadcast in January 2003, the Administration planned to produce a new API at an estimated cost of \$1 million further to promote a hospitable culture in Hong Kong through TV broadcast and various media channels offered by public transportation networks. Mr Fred LI enquired about ways, if any, in assessing the feedback on the last API. He did not consider it appropriate to use the average rating points of the TV Quiz Game Show as a reflection of the popularity of the API.

21. In response, Atg C for Tourism highlighted that it was difficult to assess the popularity of a particular API or TV Show. However, hearsay feedback about the short TV series comprising eight episodes featuring visitors' experience in Hong Kong were very favourable. He said that the core message of the series was to encourage the people in Hong Kong to be hospitable to visitors, thereby creating a friendly image for Asia's World City. The new API aimed at sustaining the impact at the community level. In this regard, Mrs Selina CHOW reminded members about the often quoted phrase in one of the episodes featuring the filmstar Mr Andy LAU, which might be indicative of the success of the series.

Action

Service quality seminars and campaigns and service quality audit

22. Mr Fred LI expressed support for the proposed service quality audit. He urged the Administration to expedite the plan with a view to providing the audited list for tourists' information. As regards the conduct of sector-specific seminars and campaigns in collaboration with the relevant services sectors to promote excellence in service quality, Mr LI questioned the cost-effectiveness of these seminars and campaigns and considered it more worthwhile to deploy the \$5 million earmarked for these activities for conducting more service quality audits.

23. On the importance of service quality seminars and campaigns, SEDL pointed out that they would provide a direct forum for effective communication and exchanges of views among industry stakeholders, in particular among those who had direct contact with visitors. He added that the need for service quality audits had been identified through discussions at such seminars.

24. Noting that the Administration planned to conduct service quality audits in the hotel, travel and transport sectors, Ms Miriam LAU was concerned about ways to conduct the quality audits on the transport sector, given the different modes of ownership and operation among various transportation means such as railway, bus, mini-bus and taxi.

25. On service quality audits, the Atg C for Tourism remarked that in order to ensure that all sectors of the tourism industry worked towards achieving and maintaining the highest standards, it was necessary to take stock of the situation in each sector. He advised that the coverage of the exercise in each sector would be as wide as manageable. The Administration would consult the trade and relevant bodies, such as the Hong Kong Productivity Council in drawing up practical and realistic targets for assessment. As regards the methodology of conducting the audits, the Atg C for Tourism said that they would be conducted to allow the industry to assess the standards already achieved, identify strengths and weaknesses in their performance and take steps to address the weak areas and build on the strong ones. In this connection, Mrs Selina CHOW shared with members that HKTb had considered accrediting quality taxi service operators under the QTS Scheme. However, unlike shops which operated at a fixed location, taxis were highly mobile and there was practical difficulty in encouraging visitors to use those taxis which were QTS accredited. Hence, the QTS Scheme was relatively less appealing to taxi operators. However, HKTb was looking into other ways to promote the service of QTS-accredited taxis to visitors.

Other concerns

26. Mr LEUNG Fu-wah noted that apart from about 200 Tourism Development Assistants (TDAs) who would be assigned to assist visitors at border control points, the short-term contracts of some 2 000 TDAs were not renewed due to fiscal deficits. Mr LEUNG Fu-wah considered that assigning TDAs to take up duties at

Action

border control points was not an effective deployment. Instead, they should be deployed as ambassadors or guides at popular tourist spots such as Tai O and Wong Tai Sin.

27. In this regard, the Atg C for Tourism recapped that the temporary jobs of TDAs had been created in the wake of the outbreak of the Severe Acute Respiratory Syndrome and one of their duties at that time was to help distribute information leaflets on personal health and hygiene. The feedbacks from the public, tourists and user agencies had suggested that the deployment of TDAs at the border check points had proved to be effective and should continue. As regards those TDAs whose contract would expire, the Atg C for Tourism said that during their temporary employment as TDAs, these young people had acquired the basic knowledge and skills in the tourism industry. As the tourism industry had been on a rapid course of recovery, it was envisaged that more permanent job openings would become available for interested young people to further their career in the tourism and related industries.

28. The Chairman drew the Administration's attention to the presence of an increasing number of beggars in the city and asked whether their begging activities were conducted on an organized scale. In response, PS/EDL(ED) advised that the Security Bureau, the Police and the Immigration Department had been monitoring the situation very closely and had stepped up enforcement actions such as checking the identity of these beggars. They would continue to explore suitable measures to deal with any problem which might arise.

V An electricity-related item

(LC Paper No. CB(1)1363/03- - Power-point presentation material
04(01) -*tabled and subsequently* provided by Hongkong Electric Co
issued on 23 March 2004 Ltd)

Presentation by Hongkong Electric Co Ltd

29. With the aid of power-point presentation, Mr K S TSO, Group Managing Director of Hongkong Electric Co Ltd (HEC) recapped that when HEC briefed members on 16 December 2003 on its electricity tariff for 2004, it had indicated that in view of the volatility in coal prices, it might be necessary to adjust its Fuel Clause Rebate (FCR) to reflect the actual cost of fuel incurred during 2004. He remarked that as coal prices had surged by 100% in the past 12 months, coupled with a 200% increase in freight charges, HEC would reduce the FCR by two cents per unit (kilowatt hour) with effect from 1 April 2004. He stressed that such adjustment would not increase the profits attributable to shareholders. Mr Andrew HUNTER, Group Finance Director of HEC explained that following the adjustment, the average net tariff would be increased by 2% from 101.3 to 103.3 cents per unit (kilowatt hour). For some 70% of HEC's domestic customers, whose monthly electricity consumption did not exceed 500 units, the adjustment represented an additional payment of \$10 or less each month. For non-domestic

Action

customers consuming 1 700 units or less every month (again accounting for about 70% of non-domestic customers), the increase would be \$34 or less a month.

Level of tariff

30. Mr LAU Chin-shek remarked that as HEC was making an annual profit of several billions, he was shocked to note that HEC would seek to reduce the FCR, which would result in an increase in average net tariff, at a time when unemployment was still high and the general public was expecting public utilities to reduce their charges. He urged HEC to defer contracting for additional coal until the coal prices and freight charges returned to lower levels. Mr Howard YOUNG also expressed his disappointment as an increase in electricity tariff would add to the financial burden of SMEs and industries with high electricity consumption.

31. In this connection, Mr K S TSO pointed out that the increase in coal prices and freight charges was beyond HEC's control. HEC was not in a position to predict the future trend of coal prices. Moreover, HEC could not operate without coal as it was the major fuel used to generate electricity.

32. Ms CHOY So-yuk expressed the strong dissatisfaction of Members of the Democratic Alliance for Betterment of Hong Kong on the forthcoming increase in average net tariff. She did not see any justification for HEC, which was making a profit of several billions, to transfer the small amount of additional fuel cost to customers. Referring to her motion on "Corporate Social and Environmental Responsibility", Ms CHOY called on HEC to take up its corporate social responsibility and consider deferring the FCR adjustment or lowering the basic tariff to offset the reduction in FCR.

33. Mr Fred LI expressed disappointment at the decision made by HEC to reduce the FCR. He noted that in 2003, HEC had made a profit of \$6.075 billion, which was about \$200 million short of its level of profit under the permitted rate of return of 13.5%. Mr LI urged HEC, as a responsible corporate citizen, to consider deferring the adjustment as HEC might be able to sell more electricity in 2004 due to the significant economic rebound in Hong Kong in recent months. Recalling that HEC had previously indicated that the adjustment in FCR, if any, would account for less than 1% of the monthly tariff payment, Mr LI was very concerned that HEC's present proposal would result in an increase in the level of tariff by about 2%.

34. Mr Andrew HUNTER acknowledged that HEC had previously advised that subject to their being no unforeseen circumstances, any FCR adjustment would likely be within 1% of HEC's tariff. However, following the drastic increase in demand for coal in the Mainland and a spate of incidents including strikes in Indonesia, coal prices and freight charges had escalated. These unexpected circumstances had necessitated a higher reduction in FCR.

Action

35. On members' concern that FCR adjustment be deferred, Mr HUNTER said that under the Scheme of Control Agreement (SCA), the fuel clause account maintained by HEC would be used to smooth tariff. However, following several shipments of coal at high prices, the fuel clause account had more or less been exhausted. HEC had no alternative but to reflect the contracted coal prices through a reduction in FCR. Nevertheless, he assured members that as the contracts for coal supply in 2004 had been finalized, it was unlikely that further reduction in FCR would be necessary unless unforeseen circumstances arose, such as non-delivery on the part of suppliers and the need to place new orders.

36. Mr K S TSO further advised that if the adjustment was to be deferred for three months to take effect from 1 July 2004 instead of 1 April 2004, the extent of the monthly increase would amount to 3% of HEC's tariff during the six-month period from July to December 2004, instead of the current 2% increase over a nine-month period from April to December 2004.

37. In reply to the Chairman, Mr Andrew HUNTER informed members that the FCR adjustment was purely a cost-recovery arrangement and the total amount resulting from the adjustment was about \$200 million. In this regard, Mr Fred LI queried that the amount was broadly equivalent to the shortfall in HEC's permitted profits for 2003 under the SCA. Given the current deflation, Mr LI remained unconvinced that HEC would not agree to defer its FCR adjustment.

38. SEDL appreciated members' concern about the increase in electricity tariff for HEC customers as a result of the reduction in FCR. He pointed out that the Administration did not wish to see tariff increase by power companies and had made great effort in the past two years' tariff reviews which brought about the freeze on electricity tariffs by the two power companies. With a view to alleviating the burden on users, the Administration had also discussed with HEC on the feasibility of deferring the reduction in FCR until Hong Kong's economy had substantially recovered. However, SEDL stressed that as a party to the Agreement, the Administration had to abide by the terms of the SCA which stipulated, inter alia, that the fuel cost of electricity supply would be borne by customers.

39. Mr Abraham SHEK stated that one of HEC's key social responsibilities was to ensure the reliability of electricity supply. He stressed that the availability of electricity must not be disrupted as a result of escalating coal prices and freight charges in the international market. As the FCR adjustment would only result in an additional monthly payment of \$10 or less and \$34 or less for the majority of domestic and non-domestic customers respectively, Mr SHEK did not consider that the financial impact on the general users would not be unbearable. He said that HEC's profit in 2003 should not be considered in the context of the present adjustment. He highlighted the general importance of upholding the spirit of contract in boosting investors' confidence in Hong Kong.

Action

Coal prices

40. Mrs Selina CHOW agreed with Mr SHEK on the need to abide by contracts and believed that both HEC and the Administration had acted in accordance with the SCA. While appreciating the concerns of some members and the general public about the forthcoming rise in electricity tariff, Mrs CHOW nevertheless reckoned that HEC had to balance the interests of its shareholders and customers. Notwithstanding that the amount of additional monthly payment for customers on this occasion might be small, Mrs CHOW was concerned about further reduction in FCR if coal prices and freight charges continued to rise.

41. Mr LEUNG Fu-wah highlighted the importance to strike a balance between ensuring a reliable supply of electricity and providing electricity to customers at a reasonable price. Mr LEUNG expressed his concern that in the longer term, coal prices in the market was on an upward trend because of great demand in Asia.

42. On coal prices, SEDL remarked that he was not in a position to forecast the future trend but he shared the general hope that they would level off in due course. As any modifications to SCA, including the mechanism in tariff adjustment, could only be made with the agreement of the contracting parties, the Administration was mindful of the need to improve the existing arrangements in the post-2008 electricity regulatory regime. SEDL reiterated that the Administration would examine the feasibility of increasing interconnection between the two power companies in reviewing the post-2008 electricity market. As previously indicated, the Administration would conduct a public consultation on the post-2008 electricity market in 2004.

43. In reply to the Chairman, Mr Andrew HUNTER advised that the coal prices and freight charges had been driven to unprecedented high levels. While the industry expected that the freight charges would be moderated over the next few months based on the assessment of supply and demand, no guarantee could be provided.

44. While HEC could not disclose the contract prices of coal because they were commercially confidential information, Mr TSO assured members that the contract prices of HEC were far below the prevailing market prices and such information had been made available to the Administration. Mr Howard YOUNG also enquired if the freight charges currently paid by HEC were also lower than the market rates.

45. In response, SEDL and the Deputy Secretary for Economic Development and Labour (Economic Development) (DS/EDL(ED)) confirmed that HEC had made available the relevant data on coal prices and freight charges in its coal contracts to the Administration. The same had been forwarded to the Administration's consultant for perusal. According to the consultant, HEC's projected fuel cost for 2004 and the contract coal prices and freight charges were considered reasonable.

Action

Fuel clause account

46. Mr LAU Chin-shek recalled that in order to enable the permitted rate of return for the power companies to stand at 13.5%, the structure of tariff components had been revised in 2000 and since then, a negative balance in the fuel clause account had been recorded. He enquired whether the Administration had taken the opportunity of the 2003 Interim Review of the SCAs to rectify the situation with the two power companies.

47. In response, DS/EDL(ED) advised that the account had registered a negative balance even before 2000 because there were differences between the actual fuel cost, the projected fuel cost as well as the standard fuel cost. The differences had not been fully reflected in the rebates of the respective years. She assured members that in case the coal prices in the international market fell to the extent that the actual fuel cost incurred for 2004 by the end of this year was lower than the fuel cost committed by HEC in their contracts, the difference would be duly reflected in the electricity tariff for 2005. Mr K S TSO stressed that the reduction in FCR on this occasion had reflected the actual fuel cost incurred for 2004. He confirmed that there was no question of any connection between the present reduction and the restructuring of tariff components in 2000.

Interconnection

48. Referring to HEC's higher unit cost of electricity than that of CLP Power, Mr HUI Cheung-ching was concerned about the progress of increasing interconnection between the two power companies so that customers on Hong Kong Island could also avail themselves of the supply by CLP Power.

49. In response, SEDL advised that according to an earlier study, there could be overall economic benefits if increasing interconnection was installed between the two power companies. The Administration would consider the findings of the 2003 technical study together with other related issues when examining options in the review for the future development of the electricity market after 2008. In this connection, Mr LEUNG Fu-wah remarked that members might wish to listen to the views of the staff unions of the two power companies when considering issues related to increasing interconnection between the two companies.

50. On HEC's higher unit cost of electricity than that of CLP Power, Mr K S TSO pointed out that unlike CLP Power which could benefit from the economy of scale by selling electricity to a much bigger market covering Kowloon and the New Territories, HEC had mainly been operating in a smaller market of Hong Kong Island.

51. Regarding the debate on the motion on the "Corporate Social and Environmental Responsibility" on 17 March 2004 referred to by Ms CHOY So-yuk, on which the Liberal Party had abstained, Mrs Selina CHOW stated that the Liberal

Action

Party had reservation on urging the Government to "direct" other parties in the public sector to take the lead in implementing initiatives to develop the concept of corporate social and environmental responsibility. The Chairman also pointed out that whether Members supported Ms CHOY's motion or not should not be taken as their stance on upholding corporate social responsibility.

Summing up

52. The Chairman shared the view that HEC should seek to balance the interests of its shareholders and customers. He urged the Administration to monitor closely the contract coal prices of HEC for 2004 with a view to ensuring that any reduction in fuel cost would be duly reflected in the electricity tariff for 2005. He added that the Panel would consider the options to be drawn up by the Administration for the development of the post-2008 electricity market in due course.

VI Any other business

53. There being no other business, the meeting ended at 12:50 pm.

Council Business Division 1
Legislative Council Secretariat
23 April 2004