

OFFICIAL RECORD OF PROCEEDINGS

Wednesday, 15 February 2006

The Council met at Eleven o'clock

MEMBERS PRESENT:

THE PRESIDENT

THE HONOURABLE MRS RITA FAN HSU LAI-TAI, G.B.S., J.P.

THE HONOURABLE JAMES TIEN PEI-CHUN, G.B.S., J.P.

THE HONOURABLE ALBERT HO CHUN-YAN

IR DR THE HONOURABLE RAYMOND HO CHUNG-TAI, S.B.ST.J., J.P.

THE HONOURABLE LEE CHEUK-YAN

THE HONOURABLE MARTIN LEE CHU-MING, S.C., J.P.

THE HONOURABLE FRED LI WAH-MING, J.P.

DR THE HONOURABLE LUI MING-WAH, S.B.S., J.P.

THE HONOURABLE MARGARET NG

THE HONOURABLE MRS SELINA CHOW LIANG SHUK-YEE, G.B.S., J.P.

THE HONOURABLE JAMES TO KUN-SUN

THE HONOURABLE CHEUNG MAN-KWONG

THE HONOURABLE CHAN YUEN-HAN, J.P.

THE HONOURABLE BERNARD CHAN, J.P.

THE HONOURABLE CHAN KAM-LAM, S.B.S., J.P.

THE HONOURABLE MRS SOPHIE LEUNG LAU YAU-FUN, S.B.S., J.P.

THE HONOURABLE LEUNG YIU-CHUNG

THE HONOURABLE SIN CHUNG-KAI, J.P.

DR THE HONOURABLE PHILIP WONG YU-HONG, G.B.S.

THE HONOURABLE WONG YUNG-KAN, J.P.

THE HONOURABLE JASPER TSANG YOK-SING, G.B.S., J.P.

THE HONOURABLE HOWARD YOUNG, S.B.S., J.P.

DR THE HONOURABLE YEUNG SUM

THE HONOURABLE LAU CHIN-SHEK, J.P.

THE HONOURABLE LAU KONG-WAH, J.P.

THE HONOURABLE LAU WONG-FAT, G.B.M., G.B.S., J.P.

THE HONOURABLE MIRIAM LAU KIN-YEE, G.B.S., J.P.

THE HONOURABLE EMILY LAU WAI-HING, J.P.

THE HONOURABLE CHOY SO-YUK, J.P.

THE HONOURABLE ANDREW CHENG KAR-FOO

THE HONOURABLE TAM YIU-CHUNG, G.B.S., J.P.

THE HONOURABLE ABRAHAM SHEK LAI-HIM, J.P.

THE HONOURABLE LI FUNG-YING, B.B.S., J.P.

THE HONOURABLE TOMMY CHEUNG YU-YAN, J.P.

THE HONOURABLE ALBERT CHAN WAI-YIP

THE HONOURABLE FREDERICK FUNG KIN-KEE, J.P.

THE HONOURABLE AUDREY EU YUET-MEE, S.C., J.P.

THE HONOURABLE VINCENT FANG KANG, J.P.

THE HONOURABLE WONG KWOK-HING, M.H.

THE HONOURABLE LEE WING-TAT

THE HONOURABLE LI KWOK-YING, M.H.

DR THE HONOURABLE JOSEPH LEE KOK-LONG

THE HONOURABLE DANIEL LAM WAI-KEUNG, B.B.S., J.P.

THE HONOURABLE JEFFREY LAM KIN-FUNG, S.B.S., J.P.

THE HONOURABLE MA LIK, G.B.S., J.P.

THE HONOURABLE ANDREW LEUNG KWAN-YUEN, S.B.S., J.P.

THE HONOURABLE ALAN LEONG KAH-KIT, S.C.

THE HONOURABLE LEUNG KWOK-HUNG

DR THE HONOURABLE KWOK KA-KI

DR THE HONOURABLE FERNANDO CHEUNG CHIU-HUNG

THE HONOURABLE CHEUNG HOK-MING, S.B.S., J.P.

THE HONOURABLE WONG TING-KWONG, B.B.S.

THE HONOURABLE RONNY TONG KA-WAH, S.C.

THE HONOURABLE CHIM PUI-CHUNG

THE HONOURABLE PATRICK LAU SAU-SHING, S.B.S., J.P.

THE HONOURABLE ALBERT JINGHAN CHENG

THE HONOURABLE KWONG CHI-KIN

THE HONOURABLE TAM HEUNG-MAN

MEMBERS ABSENT:

DR THE HONOURABLE DAVID LI KWOK-PO, G.B.S., J.P.

THE HONOURABLE TIMOTHY FOK TSUN-TING, G.B.S., J.P.

PUBLIC OFFICERS ATTENDING:

THE HONOURABLE HENRY TANG YING-YEN, G.B.S., J.P.
THE FINANCIAL SECRETARY

THE HONOURABLE MICHAEL SUEN MING-YEUNG, G.B.S., J.P.
SECRETARY FOR HOUSING, PLANNING AND LANDS

THE HONOURABLE STEPHEN IP SHU-KWAN, G.B.S., J.P.
SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR

THE HONOURABLE FREDERICK MA SI-HANG, J.P.
SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY

DR THE HONOURABLE YORK CHOW YAT-NGOK, S.B.S., J.P.
SECRETARY FOR HEALTH, WELFARE AND FOOD

THE HONOURABLE DENISE YUE CHUNG-YEE, G.B.S., J.P.
SECRETARY FOR THE CIVIL SERVICE

CLERKS IN ATTENDANCE:

MR RICKY FUNG CHOI-CHEUNG, J.P., SECRETARY GENERAL

MS PAULINE NG MAN-WAH, ASSISTANT SECRETARY GENERAL

MRS JUSTINA LAM CHENG BO-LING, ASSISTANT SECRETARY
GENERAL

MR RAY CHAN YUM-MOU, ASSISTANT SECRETARY GENERAL

PRESIDENT (in Cantonese): A quorum is not present now. Will the clerk please ring the bell to summon Members.

(After the summoning bell had been rung, a number of Members came into the Chamber)

PRESIDENT (in Cantonese): A quorum is now present, the Council meeting starts.

TABLING OF PAPERS

The following papers were laid on the table pursuant to Rule 21(2) of the Rules of Procedure:

Subsidiary Legislation/Instruments	<i>L.N. No.</i>
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Legal Aid (Assessment of Resources and Contributions) (Amendment) Regulation 2005 (Commencement) Notice	21/2006
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Legal Aid (Charge on Property) (Rate of Interest) Regulation (Commencement) Notice	22/2006
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Other Papers

No. 66 — Report of the Public Accounts Committee on the Reports of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2005 and the Results of Value for Money Audits (Report No. 45)
(February 2006 - P.A.C. Report No. 45)

Report on working poverty by the Subcommittee to Study the Subject of Combating Poverty

ADDRESSES

PRESIDENT (in Cantonese): Address. Dr Philip WONG, Chairman of the Public Accounts Committee, will address the Council on the Committee's report on the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2005 and Report No. 45 on the Results of Value for Money Audits.

**Report of the Public Accounts Committee on the Reports of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2005 and the Results of Value for Money Audits (Report No. 45)
(February 2006 – P.A.C. Report No. 45)**

DR PHILIP WONG (in Cantonese): Madam President, on behalf of the Public Accounts Committee (PAC), I have the honour to table our Report No. 45 today.

The PAC Report tabled today corresponds with the Report of the Director of Audit on the Accounts of the Government of the Hong Kong Special Administrative Region for the year ended 31 March 2005 and his Report No. 45 on the results of value for money audits, submitted to you on 26 October 2005 and tabled in the Legislative Council on 16 November 2005.

The PAC Report contains three main parts:

- (a) the assessment of the PAC of the actions taken by the Administration in response to our recommendations made in the previous PAC Report Nos. 42 and 43;
- (b) our observations on the Report of the Director of Audit on the Accounts of the Government for the year ended 31 March 2005; and
- (c) the conclusions reached by the PAC on the Director of Audit's Report No. 45.

On the Director of Audit's Report No. 45, as in previous year, the PAC does not consider it necessary to investigate in detail every observation contained

in the Report. The PAC has therefore selected for detailed examination only the chapter on "Development of a site at Sai Wan Ho" which, in our view, contained more serious allegations of irregularities or shortcomings. A total of six public hearings have been held by the PAC to receive evidence on the Director of Audit's findings and observations on this chapter.

I now report the PAC's main conclusions and recommendations.

Development of a site at Sai Wan Ho

In respect of the provision of Government Accommodation, the PAC is greatly dissatisfied that, from the outset, when the Architectural Services Department (ASD) said that the net operational floor area of the marine police operational area (MPOA) was not adequate, the Lands Department (LD) and the ASD did not take any action to resolve the problem.

The PAC is seriously disappointed that the Control Drawing attached to the lease conditions was "for information only" and was "not to scale". As a result, the ASD considered that there were no grounds to reject the Authorized Person (AP)'s proposed layout of the MPOA although it deviated from the original design in the Control Drawing.

As regards site classification, the PAC is gravely concerned that, in deciding the classification of the site at Sai Wan Ho (the Site) before the land sale, the Buildings Department (BD) had not sought classification from the Planning Department about the planned use of Area II. However, the Building Authority (BA) had subsequently relied on such information as one of the considerations for accepting the AP's submission that the Site was a Class C site without the need to exclude Area II from the site area calculation.

The PAC is dissatisfied that other tenderers in the sale of the Site might have been unfairly treated in the change of site classification after the land sale, which resulted in an increase in the Site's development potential.

Regarding the granting of exemption areas, the PAC is alarmed, strongly resents, and finds it unacceptable that, in deciding to exercise his discretionary power to exclude the public transport terminus (PTT) from the gross floor area (GFA) calculation, the BA had not attached due weight to the factors for

consideration in exercising discretionary approval. These factors were listed in Practice Note 23 issued by the BD, including lease restrictions, views of other government departments, effect of the development on the adjoining sites and the district, and fairness.

When considering public interest, the BA had adopted a very restrictive view and confined himself to the question of whether the provision of the PTT was in the public interest, without due regard to other factors that might be relevant. Such factors included the fact that the lease had already required the Developer to provide the PTT, the difficulty likely to be faced by the LD in charging additional premium, as well as the visual impact, increased development intensity and obstruction to air flow resulting from increased building bulk and building height.

Because the BA had viewed his role as distinct from that of a civil servant holding the post of Director of Buildings, he had not adequately taken into consideration such public interest and government policies that might be relevant.

In addition, the BA had not attached due weight to the views of other government departments which had raised objection to the exclusion of the PTT from the GFA calculation. The representatives of the LD, the Transport Department (TD), the Highways Department (HD) and Fire Services Department had not been invited to the important BA Conference held on 22 October 2001, at which the BA decided on the Developer's application for exclusion of the PTT from the GFA calculation.

The BA had not sought clarification on the legal advice of the Department of Justice, although he had relied on the advice in discounting considerations that might be relevant, and the advice did not make specific suggestion in that respect.

The PAC is gravely dismayed at the BA's decision to exclude the PTT from the GFA calculation of the Site, and finds the decision unacceptable for the reasons below:

- (a) the decision had negative financial implications, as the value of the Site would be affected by whether any of the Government

Accommodation would be included in or excluded from the GFA calculation. The tender price offered might have been higher if the PTT had been excluded from the GFA calculation at the outset;

- (b) the LD's assessment of the tender reserve price of the Site was on the basis that the Government Accommodation would be included in the GFA calculation. The reserve price could have been higher if it had been decided before the land sale that the PTT would be excluded from the GFA calculation;
- (c) the PAC notes that the prospective tenderers who received written confirmation that the Government Accommodation "shall be included in the GFA calculation" subsequently offered the second highest bid. That tenderer might have put forward an even more competitive bid if he had been informed that the PTT would be excluded from the GFA calculation; and
- (d) as the BA's decision increased the value of the Site after the land sale, the decision might be unfair to other tenderers in the sale of the Site because it was contrary to the advice, given to some tenderers before the close of the land sale, that the Government Accommodation would be included in the GFA calculation.

To address the problems identified, the PAC strongly urges the BA to ensure that, when exercising his discretionary power in his consideration of an application, he will include the factors listed in any applicable Practice Note issued by the BD. The PAC also strongly urges the Administration to review the criteria for deciding whether or not the maximum GFA of a site should be specified, with a view to removing any ambiguities about the development potential of the site.

In respect of the granting of bonus areas, the PAC notes that the BA Conference decided on 1 August 2001 that the Developer's proposed dedication of the Reserved Areas in return for bonus areas should be approved subject to the layout of the PTT being acceptable to all relevant government departments. The PAC is gravely dismayed that, although no LD's endorsement had been obtained after the BA Conference's decision, the BA approved the granting of bonus areas on 1 September 2001 without offering any explanation.

The PAC notes that the ASD, the TD and the HD considered that the Government Accommodation could be constructed according to the Control Drawings and the Technical Schedules and the extension of the PTT into the Reserved Areas stemmed from the Developer's design and not from a requirement of the MPOA. The PAC is gravely dismayed that despite these views, the BA approved the granting of bonus areas to the Developer on the basis that the proposed provision of landscaped areas and a larger PTT would benefit the public.

The PAC is seriously dismayed that, when considering the AP's application for bonus plot ratio as a result of the Developer's revised design of the Government Accommodation, the relevant government departments had not evaluated the implications of the proposal on government revenue and development intensity against the benefits.

I should like to mention that it is the PAC's established practice to invite any relevant persons, including the relevant former post holders, to appear personally before it to assist it in its consideration of a Director of Audit's report.

As Mr LEUNG Chin-man was the BA during part of the period covered by the Director of Audit's Report No. 45, the PAC decided at the outset to invite him to appear before it to provide information and explanations. On the morning of the day of the first public hearing, Mr LEUNG declined to attend the hearing on the ground that he was in the course of filing an application to the High Court for leave to apply for a Judicial Review on the Director of Audit's Report. The PAC decided that he could not be excused from attendance. Although Mr LEUNG later attended the hearing at the direction of the Secretary for Housing, Planning and Lands, he refused to answer questions put to him by the PAC.

Under the circumstances, the PAC exercised, for the first time, its power under the Legislative Council (Powers and Privileges) Ordinance to summons Mr LEUNG to appear before it to give evidence and to examine him on oath. Mr LEUNG subsequently attended the public hearings as summonsed and answered the PAC's questions under oath.

The PAC assures this Council of its resolve to perform its duties with the best efforts. The PAC urges the public officers or any other persons invited by

the PAC to render their full co-operation and give information or explanation which the PAC requires in the performance of its duties.

In accordance with an agreement of the PAC, no member of the PAC shall make any public comments on its work in the course of its consideration of a Director of Audit's report, and before it makes its report to the Legislative Council. Regrettably, before the PAC completed its work and report, there had been newspaper reports which appeared to speculate on the results of the PAC's internal deliberations.

The PAC has conducted an investigation to ascertain if any of its members had breached that agreement by making any comments to the press that might have given rise to the newspaper reports. All members of the PAC have declared that they have not made any such comments. Each of the members has also signed a declaration that, in relation to the newspaper reports concerned, he/she has not, by any means of communication, produced, disclosed or confirmed the contents of, or any documents for, the internal deliberations to any person who has not been authorized to have access to such information.

The PAC takes a serious view of members' undertaking to maintain confidentiality in the interest of its credibility. We will continue to explore ways to further safeguard against unauthorized disclosure of confidential information. We recommend that the Committee on Rules of Procedure should study, as soon as possible, the practicability of establishing, for the Legislative Council as a whole, a mechanism for that purpose.

Madam President, as always, the PAC has made its conclusions and recommendations in this Report with the aim of ensuring value for money in the delivery of public services may be achieved.

I wish to record my appreciation of the contributions made by members of the PAC. Our gratitude also goes to the representatives of the Administration who have attended before the PAC. We are grateful to the Director of Audit and his colleagues as well as the staff of the Legislative Council Secretariat for their unfailing support and hard work.

Thank you.

ORAL ANSWERS TO QUESTIONS

PRESIDENT (in Cantonese): Questions. First question.

Regulation of Construction Works Undertaken for Owners of Private Buildings

1. **MR JAMES TO** (in Cantonese): *President, regarding the regulation of construction works undertaken by works contractors and Authorized Persons (APs) for owners of private buildings, will the Government inform this Council:*

- (a) *whether it is against the law for works contractors and APs to carry out unauthorized construction works for owners of private buildings; if it is, of the number of prosecutions instituted against them over the past three years, and the penalties imposed by the Court on the convicted persons;*
- (b) *of the legal liability of works contractors and APs in respect of the quality of the works carried out by them which have been approved by the relevant authorities; and the number of prosecutions instituted against them in connection with such liability over the past three years, as well as the penalties imposed by the Court on the convicted persons; and*
- (c) *given that the Administration had made a legislative proposal in 2003, which was subsequently withdrawn due to the lack of consensus on its implementation details, to introduce a minor works control regime and a registration system for minor works contractors, of the latest progress on this issue?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): President, my response to the three parts of the question is as follows:

- (a) Under the Buildings Ordinance (BO), except for the exempted building works, no one shall commence or carry out any building works in private buildings without having first obtained the approval and consent from the Building Authority (BA). Otherwise, the

person concerned shall be guilty of an offence and shall be liable on conviction to a maximum fine of \$400,000 and imprisonment for two years, and also to a maximum fine of \$20,000 for each day during the continuing commitment of the offence. Therefore, any contractor or AP who has carried out building works for a private building owner without having first obtained approval from the relevant authorities would have committed an offence.

In the past three years, the BA instituted prosecutions under the BO against three concerned parties. These three defendants were later convicted in Court with a fine ranging from \$5,000 to \$7,000.

- (b) If the building works of a private building comply with the requirements of the BO, including the appointment of an AP for co-ordination, design of building works and submission of plans, the approval of the BA, and the requirement for a registered contractor to carry out and complete the works in accordance with the approved plans with the standards and safety specifications required by the BO under the supervision of the AP, the quality of works will have a certain degree of guarantee.

If the works approved by the BA is not carried out according to the approved plan or the standards and safety specifications required by the BO, the parties concerned may still be held liable. According to the BO, where any building works are found to be in breach of the BO including use of materials which are defective or not complying with the requirements and standards of the BO, or the works have deviated in a material manner from the approved plan, or the works have been carried out in such a manner that causes injury to any person or damage to any property, the Government may prosecute such persons who shall be liable on conviction to a maximum fine of \$1 million and imprisonment for three years.

In the past three years, the BA instituted prosecutions in three cases against concerned parties, among which the defendant of one of the cases was convicted and fined \$40,000. As regards the remaining two cases, the Court acquitted the defendant in one case while the Department of Justice offered no evidence for prosecution in another case.

- (c) The work in relation to the legislative amendments to introduce the minor works control regime and the minor works contractors registration system is actively in progress. A working group set up by the Buildings Department (BD) comprising representatives from the BD, various building professional institutions, the Hong Kong Construction Association and the Minor Works Concern Group is working out the specific proposals of the minor works control regime. The relevant consultation work has also achieved considerable progress. As some relatively complicated details are involved in the proposals, we need sufficient time for the drafting of the bill. We intend to report the results of the consultation with the building industry as well as the details of the proposal of the minor works control regime to the Panel on Planning, Lands and Works in the middle of this year. The target is to introduce the proposals in a Buildings (Amendment) Bill into the Legislative Council by the end of this year.

MR JAMES TO (in Cantonese): *President, the reason for me to raise this question is that, in the past few years, the problem of building safety has become a matter of great concern to many property owners. The Government is equally concerned about this problem, and it has issued many orders to require property owners to commission contractors to carry out building works. However, the biggest problem at present which property owners find frustrating is that despite the fact that they had commissioned professionals to carry out the works, they were the one being prosecuted when something went wrong after the completion of the works. We can look at the figures. According to the figures stated in part (b) of the main reply, in the past three years, only one case was successfully prosecuted by the Government, but, in fact, numerous cases involving small property owners were prosecuted.*

May I ask, in the past three years, how many cases in which the small property owners were prosecuted for causing injury to any person or damage to any property? Yet, these small property owners had already commissioned professionals to carry out the works which in the end led to an accident. Why did the Government only institute prosecutions against small property owners whereas the professionals did not have to bear any liability? What explanation does the Government have for this disproportionate number of prosecutions?

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): When it comes to legal liability, both works contractors and parties involved in the construction are liable. I have already explained just now that contractors are required to carry out building works in accordance with the details of the plans approved by the BA. If they have commenced the works without having first obtained the approval and consent of the BA, they would have committed an offence. There is no question about that.

With regard to problems concerning the quality of works, or any accident, injury or death, or property damage caused in the course of works, they may of course be attributable to many factors. For example, if it was caused by the negligence of parties involved in the works, the parties concerned would have to shoulder a certain degree of legal liability. If it involves affairs of the property owners or owners' corporations, it would depend on their own wishes. In other words, it would depend on the result they wish to achieve. Therefore, in the legal context, all parties directly or indirectly involved in the works, in particular the parties who commissioned these works, will have to shoulder the legal liability. It thus often differs from case to case in respect of the requirement of the adduction of evidence. Of course, if small property owners wanted to carry out unauthorized building works, such as erecting an unauthorized structure, no one would know it better than themselves that it is illegal. Under this situation, we would have to examine the nature of the case. Perhaps because of this, small property owners had to shoulder part of the responsibility when we instituted prosecutions in cases involving unauthorized building works. That is the situation.

MR JAMES TO (in Cantonese): *President, the Secretary has been beating around the bush without answering my supplementary question. That is, during the same period of time, how many small property owners, despite having commissioned contractors to carry out the works, were prosecuted by the Government? In addition, why is there such a difference in the number of prosecutions? Small property owners, who had relied on professionals to carry out the works for them, were prosecuted. On the contrary, there was only one case in the past three years in which the professionals were prosecuted. Why was it so? I hope the Secretary can, anyhow, provide us with some statistics for comparison.*

PRESIDENT (in Cantonese): Mr James TO, your question to the Secretary on the number of small property owners prosecuted for this reason bears little relevance to the topic. If the Secretary does not have such information at hand, he may choose to provide a written answer. I am going to ask the Secretary on this.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): I will provide a written answer to this supplementary question. (Appendix I)

MR JAMES TIEN (in Cantonese): *President, I wish to raise a question in relation to part (a) of the Secretary's main reply. The Secretary stated in that part of the main reply that any person who carries out modifications to the design of the building without prior application shall be liable on conviction to a maximum fine of \$400,000 and imprisonment for two years. However, the Secretary also stated in the main reply that only three concerned parties were prosecuted in the past three years and imposed a fine ranging from \$5,000 to \$7,000. May I ask the Government, in that case, how deterrence could be achieved? Despite the fact that the maximum penalties can be a fine of \$400,000 and imprisonment for two years, the parties prosecuted were not sentenced to imprisonment but were only imposed a fine ranging from \$5,000 to \$7,000. May I ask the Government whether this problem will be dealt with in the legislative work concerning the minor works contractors registration system, as mentioned in part (c) of the Secretary's main reply, which will be introduced into the Legislative Council by the end of this year?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): In fact, this is our second attempt at legislating in this respect. In 2003, we introduced a bill to the Legislative Council for Members' scrutiny, but we encountered many problems. The problem mentioned by Mr James TIEN just now is only one of them. The problem we had at that time was where to find these contractors. At present, we require that the contractors have to be registered contractors, which is a stringent requirement.

The types of works at issue now very often are minor works or works that do not require major modifications to the building, such as installing the brackets

for air-conditioners or laundry racks. Mr James TIEN was right in saying that works carried out inside the premises do not required the BA's approval. The property owners are not required to submit plans for approval before carrying out the works. Who then should undertake such works?

As I have said just now, we have set up a working group to take stock of problems in this respect. Its major aim is to make the minor works contractors registration system dovetail with the details of the Construction Workers Registration Ordinance which took effect last year. According to the Construction Workers Registration Ordinance, construction workers are categorized but the requirements for categorization in the Ordinance is different from ours. We thus have to make the details, such as the types of works, under the two systems dovetail with each other. In this way, when the legislation on the minor works contractors registration system is implemented, we will know where to find the required type of registered workers to carry out the works. Work in this respect is underway with considerable progress achieved. The working group has approved of the general principles. We are now working on the details and on how to draft the legislation concerned. We are working on these issues right now. The relevant panel will be briefed of the details of the progress by the middle of this year and hopefully a bill will be tabled before the Legislative Council by the end of this year.

MR CHEUNG HOK-MING (in Cantonese): *The Secretary mentioned in the main reply that the work in relation to the legislation introducing the minor works contractors registration system is actively in progress and he believes that it will not be ready until the end of this year. May I ask the Government: Does it have any provisional measures in the interim before the registration system is finalized, such as issuing some guidelines, to remind owners of private buildings the proper ways to carry out these minor works?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): In fact, we have disseminated information online to inform the public, but this may not be a very useful way. At present, we have uploaded onto the Internet a list of qualified contractors under the current registration system. Moreover, with the help of the relevant organizations, we have set up four building management resource centres where people can find relevant leaflets as well as

information on building management and other issues, such as the types of workers qualified for carrying out certain types of works. However, in the absence of a registration system, the result is not entirely satisfactory. We hope that after the introduction of the system, the entire system can be legalized.

MR LEE WING-TAT (in Cantonese): *President, as the BD has been vigorously carrying out clearance of unauthorized buildings in recent years, it is very likely for property owners to receive removal orders.*

I have this question for the Secretary. In the event of pedestrians being injured by objects fallen from a building during or after its construction, other than prosecuting the property owner, do the authorities have an internal standard instruction to examine whether the APs or contractors are also attributable to the accident? Do the authorities have such a standard instruction? I am astonished when the Secretary stated that only one defendant in one of the cases has been convicted so far.

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): I have already pointed out in the main reply just now that, according to the provisions of the BO, works contractors and APs are prohibited from endangering the safety of the public in the course of carrying out works. Under the law, if the works cause any damage to any property, or causes any injury or death to any person, the parties involved shall be held legally liable. Moreover, guidelines have been issued to require them to adhere to the code of practice and instructions, with a view to minimizing incidence of injury or death. There will indeed be incidence of negligence and failure to observe the regulations. If accidents occurred in such incidents, they would be sanctioned in accordance with the law.

MR LEE WING-TAT (in Cantonese): *My supplementary question is, in fact, very simple. I was only asking the Secretary whether his colleagues responsible for instituting prosecutions have formulated an internal standard instruction to examine whether works contractors or APs should be held liable under the BO and thereby they need to institute prosecutions against them. Is there such an instruction?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): I have already pointed out just now that under the existing law, they have to bear criminal liabilities.

MR LEE WING-TAT (in Cantonese): *Let me say it again. I certainly know that works contractors or APs have such legal liabilities, but if you do not conduct investigation or institute prosecutions against them, they will not have to bear the liability. My question is: Does the BD have a standard instruction which stipulates that it is imperative to investigate whether the APs and works contractors have breached their professional responsibilities? Is the Secretary still unable to catch my supplementary question? I have already made it very clearly in Cantonese.*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese): It is not that I do not understand the supplementary question, but that if there is such a requirement in the legislation, they will have to comply with it. As regards whether our department has taken the initiative to check every one of them, the responsibility should lie in the opposite parties. Despite the fact that this is one of the items that we would check in our inspections of construction sites, we do not send staff out every day to inspect every site. We only conduct random inspections of these sites. We do have such an instruction for our colleagues to conduct inspections in this respect.

PRESIDENT (in Cantonese): We have spent more than 18 minutes on this question. Last supplementary question now.

MR CHAN KAM-LAM (in Cantonese): *President, the Secretary may be referring to major construction works just now, which are relatively easy to be dealt with. However, in relation to minor works, such as illegal structures which can be seen everywhere now, works should also be carried out in accordance with the BO. Yet, property owners carrying out these minor works often have not applied for an approval beforehand. In other words, such works are unauthorized. May I know if the Government considers it possible to cover these matters in the future Buildings (Amendment) Bill? As a matter of fact, these matters cannot be solved at the moment. Does the Government have the confidence to have this done?*

SECRETARY FOR HOUSING, PLANNING AND LANDS (in Cantonese):

In fact, this matter should brook no delay. As I have said just now, we attempted to introduce a bill into the Legislative Council for scrutiny in 2003, but it was unable to pass through the Council due to problems with the detailed arrangements and registration. We have to ensure that a sufficient number of workers are registered to carry out these works lawfully. With the previous experience, we have been working with the industry to examine these problems. Moreover, we already have the Construction Workers Registration Ordinance now to help us in laying down a worker registration regime. I thus said just now that we need to explore ways to make the two systems dovetail with each other, in order to ensure that when the legislation takes effect, every type of works will be able to be conducted by qualified workers in a safe and legal manner.

PRESIDENT (in Cantonese): Second question.

Combating Poverty

2. **MS EMILY LAU** (in Cantonese): *President, since the establishment of the Commission on Poverty (the Commission) in January last year, the authorities have only developed a set of 24 poverty indicators to reflect the poverty situation in Hong Kong. However, they have failed to specifically set a poverty line for defining the population living in poverty. Besides, the Hong Kong Council of Social Service (HKCSS) has estimated that the population living in poverty is currently around 1.25 million in Hong Kong. In this connection, will the executive authorities inform this Council:*

- (a) *how they can implement measures to combat poverty without identifying the size of the population living in poverty;*
- (b) *whether they will take the size of population living in poverty estimated by the HKCSS as a reference for planning and implementing measures to combat poverty; if not, of the reasons for that; and*

- (c) *whether they will set specific targets for combating poverty with a view to reducing the population living in poverty to a particular level within a certain number of years?*

FINANCIAL SECRETARY (in Cantonese): Madam President,

- (a) Understanding poverty and measuring poverty is one of the important tasks of the Commission. In compiling the 24 poverty indicators, the Commission has reviewed local and overseas experience, and drawn on expertise within and outside the Commission, including the HKCSS.

Ms Emily LAU's question focuses on the size of the poor population based solely on income. In this connection, Members may draw reference to the second and tenth indicators compiled by the Commission, which indicate that with sustained economic recovery, the number of persons aged 0 to 59 living in households with income below average Comprehensive Social Security Assistance (CSSA) payment has fallen to 730 000 in the third quarter of 2005. The size of the poor elderly is estimated at 220 000¹. Together, the "poor" population amounts to 950 000. I have to stress that this "poor population" is in quotation.

Pointing this figure out is simple. However, I consider it is far from adequate for policy deliberation and planning. The figure does not cast light on the specific needs of the disadvantaged groups, nor address the nature and risk of poverty from the perspectives of health, education/training, employment, living conditions and community/family support. For instance, households with the same income can have very different needs depending on a host of factors, such as whether they have dependent children, elderly and whether they are living in public housing. Indeed, practically, poverty alleviation must be delivered through relevant policies such as housing, health care, welfare provision, education and training.

¹ For reference: Indicators (16) and (18). Since assessing income of elderly people entails technical difficulties, some other methods have been adopted for measuring the size of elderly poor.

Specific needs must be addressed by specific and directly relevant policy measures. Only a multi-dimensional approach could make this possible.

This explains why the Commission, after detailed deliberation, has adopted a multi-dimensional cum life-cycle approach for measuring and sizing the problem of poverty. This is also the approach adopted by the more developed overseas countries as indicated in the Legislative Council Secretariat's research report in May 2005².

- (b) We have made reference to the size of population living in poverty as estimated by the HKCSS. In fact, in the course of drawing up the poverty indicators, the HKCSS has been consulted throughout the process and their views were duly incorporated among the others.

In compiling the income-related poverty indicators, we have made reference to the level of CSSA payment which is widely used and recognized as the level needed to meet the basic living requirements in our community. This is in a way a *de facto* "poverty line" as far as income-related indicators are concerned. For reasons explained in part (a) of my main reply, there is little additional practical need for establishing a new poverty line.

The HKCSS has adopted "half of the median household income" as the poverty line for estimating the number of poor people. Although the HKCSS and the Commission apparently adopt different income benchmarks for sizing the poor, they are in fact similar. For example, half of the median monthly household income for a three-person household is \$8,000 in the third quarter of 2005, while the average monthly CSSA payment for a three-person household is \$7,664, just 4% lower than that of the HKCSS benchmark.

- (c) The macro poverty indicators are meant to give an overview of how the poverty situation evolves over time. By giving *prima facie*

² Research report provided by Research and Library Services Division of the Legislative Council on "Poverty Combating Strategies in Selected Places" [RP05/04-05] (19 May 2005).

suggestions of areas deserving focused study, these indicators provide useful reference in policy formulation. For instance, the size of non-engaged youths would reflect the extent to which our basic education and training programmes are effective in preparing youths for further study or work.

We understand some Members consider that the Government should set measurable targets for combating poverty, drawing reference to examples notably in some countries of the European Union. However, overseas experience should always be analysed in context. For instance, the United Kingdom has succeeded in having significant measurable impact in reducing the number of children in relative low-income households by changing in the tax and benefit system (such as introducing tax credits to working families). But such is not applicable in Hong Kong given all low-income employees are already outside the salaries tax net.

In the Hong Kong context, it would not be prudent for the Government to set arbitrary policy targets without taking into account the full policy implications. For instance, the number of children living in workless households should fall with more single parent CSSA recipients working. However, the Government would not set specific policy target without taking into account various implementation concerns, for example, whether this may inadvertently deprive some young children of their much-needed parental care.

I shall discuss with Members in greater detail later this afternoon on the motion proposed by Mr Frederick FUNG on the Report on Working Poverty. Suffice to say at this moment that we welcome the Report which highlights areas for continued efforts. The Government is committed to working with the Legislative Council to combat poverty in ways appropriate to Hong Kong's context.

MS EMILY LAU (in Cantonese): *President, in the main reply, the Financial Secretary stated that it would not be prudent to set arbitrary policy targets without taking into account the full policy implications. I believe we all agree*

with this. However, Financial Secretary, the Commission has operated for a year, but it still fails to know the size of population living in poverty. The Financial Secretary also said that the adoption of a multi-dimensional approach tied in with specific policies would not only make the task possible but also easier. But when will the task be made possible? What benchmarks will be used to assess whether the task can be accomplished in future? President, I really cannot tell after reading the existing main reply.

FINANCIAL SECRETARY (in Cantonese): Madam President, we have developed 24 indicators to access the poverty situation. Just as I have said in the main reply earlier, we do not agree to arbitrarily setting specific targets for combating poverty. Moreover, the Commission has reached a consensus that these 24 indicators carry substantial representativeness and we have drawn reference from the opinions expressed by the HKCSS on these poverty indicators. Therefore, we consider that these indicators can adequately reflect the situation.

As to how we will make use of this set of indicators to accomplish our poverty alleviating work, the Commission is now conducting a comprehensive review of the effectiveness and co-ordination of the poverty alleviation initiatives implemented by the Government in various aspects. I have to reiterate that the Commission is not the only channel the Government uses to alleviate poverty. Various Policy Bureaux, such as the Health, Welfare and Food Bureau and the Education and Manpower Bureaus, have already put in place a number of policies to alleviate poverty or help the underprivileged. Hence, the primary task of the Commission is in fact to co-ordinate, examine and formulate some long-term initiatives. At present, the Task Force on Children and Youth has been set up to work on the prevention of inter-generational poverty.

Therefore, on the whole, the Government has adopted a multi-pronged approach. It is not our practice to adopt a single-pronged approach.

PRESIDENT (in Cantonese): There are altogether 12 Members wishing to raise supplementaries. Will Members who have the chance to raise supplementaries please be as concise as possible.

MR BERNARD CHAN (in Cantonese): *President, it has been nearly one year since the establishment of the Commission. Now and then, it is heard that the Commission is criticized by many for focusing only on small programmes but has yet conducted any comprehensive policy review. May I ask the Financial Secretary of his response regarding this?*

FINANCIAL SECRETARY (in Cantonese): Madam President, such accusation is ill-founded. *(Laughter)*

The prevention and alleviation of poverty have all along been an indispensable part of our public policy, and the work of the Commission should not be detached from it. The present policy is a result of the Government engaging in prolonged discussions and negotiations with the persons concerned and through continuous improvement. As a responsible government, we must consider the implications that the implementation of any policy may have on various sectors, and avoid substantially undermining the existing policies in this respect, as well as the work done by persons in alleviating poverty or helping the underprivileged.

Though the public often think that the Government and the Legislative Council hold divergent views during discussions on motions on poverty alleviation, we have indeed had a great consensus in many aspects. In the report of the Legislative Council on working poverty, many practical recommendations which warrant our continuous efforts of follow-up have been put forth. Examples include: first, to step up district-based poverty alleviation work and reinforce the district networks; second, to reinforce training and placement services, considering increasing the incentive to work; and third, to promote the development of district economy and social enterprises. All these recommendations are in line with the primary framework of the duties of the Commission, and have been the work vigorously promoted by the Government and the Commission all along. However, when we examine the recommendations and propose relevant policies, we must give serious consideration to the implications of the full implementation of the relevant policies, for, more often than not, problems do arise from the details of the policy, as a saying goes, the devils are always in the details. Therefore, without a clear understanding of the details of the policy, we can in no way ensure that the policy target can be attained as expected. We will thus continue with our poverty alleviation work in a pragmatic and proactive manner.

MS LI FUNG-YING (in Cantonese): *The Financial Secretary said that it would not be prudent to set arbitrary policy targets without taking into account the full policy implications. However, at the meetings of the Commission, extensive discussions focusing on those who are poor but not on CSSA have been conducted. If no specific targets on combating poverty are set in respect of this group of people, on what basis can we assess the effectiveness of our work eventually?*

FINANCIAL SECRETARY (in Cantonese): Madam President, the work of the Commission is fairly diversified for the needs of the underprivileged are many and varied. The proposal put forth by Ms LI Fung-ying is indeed very good. For the so-called working poor and the underprivileged who are poor but not on CSSA, we must give due attention to them and examine how support or assistance can be provided to help them break away from poverty. Therefore, the Commission is now focused mainly on examining the issue of working poverty. The issue can neither be solved nor fully understood in a single meeting, for this is a fairly complicated and deep-rooted issue.

At the last meeting of the Commission, the first round discussion was held to examine the issue, and Ms LI Fung-ying knows this very well. The Commission will then enter into more in-depth discussions on this. We have already planned to examine at the next meeting of the Commission the measures or policies we may adopt now to encourage some of the poor to stay in employment. Therefore, at the next meeting of the Commission, we will examine the so-called disregarded earnings, in other words, wages earned by the poor that will not be deducted from their CSSA payment. This is a very important consideration in encouraging some of the working poor to stay in employment.

MR FREDERICK FUNG (in Cantonese): *President, in the third paragraph of part (b) of the main reply, the Financial Secretary stated certain conclusions: first, the Financial Secretary stated explicitly that the poverty line was almost the same as the level of CSSA; second, the difference between the proposal put forth by the HKCSS and the Government was only \$336; and third, the Government had indeed accepted certain poverty indicators. I think these three conclusions are very important, for a substantial number of people in Hong Kong who are now working are earning salaries lower than the level of CSSA payment.....*

PRESIDENT (in Cantonese): Mr FUNG, excuse me, please come to your supplementary direct for many Members are still waiting for their turns.

MR FREDERICK FUNG (in Cantonese): *My supplementary question is related to the indicators which have already been set out. There are some people earning salaries below the level of CSSA payment but have yet applied for CSSA. So basing on the relevant indicators, how can the Government assist this group of people? Are these indicators used solely for the purpose of study or for the actual implementation by government departments? If government departments have actually adopted these indicators, why has no policy been put in place by these departments to assist these people? The indicators have been set out, that means a decision has been made*

PRESIDENT (in Cantonese): Mr FUNG, you may sit down after you have put forth your supplementary question.

FINANCIAL SECRETARY (in Cantonese): Madam President, in the main reply, I mainly pointed out that, in general, the level of CSSA payment had actually been regarded as a poverty line by society at present, and I thus pointed out that the criteria of "half of the median household income" now adopted by the HKCSS was in fact similar to the CSSA payment. Therefore, the amounts of \$8,000 and \$7,664 I quoted earlier are in fact similar. Actually, when income alone is used as the reference for poverty indicators in society, generally speaking, this line has indeed been adopted as the poverty line. However, just as I have said earlier, we do not rely solely on this line to define who are living in poverty. Therefore, in respect of poverty indicators, the Commission does not only rely on the drawing of one single line but has adopted 24 indicators.

In fact, many developed countries have adopted this multi-dimensional approach to examine and define who in society are the underprivileged, the poor or in need of assistance, so that these people can be identified for provision of assistance.

MR FREDERICK FUNG (in Cantonese): *The Financial Secretary has not answered my supplementary question. May I ask the Financial Secretary how these indicators are applied? Take one of these indicators, the indicator on housing, as an example. According to this indicator, recipients of CSSA will immediately be granted a rental waiver. However, for those earning wages less than CSSA payment but not on CSSA, they have to pay a monthly rent of \$2,000 to \$3,000 for their private premises. This is thus related to the housing indicator, so in what way have the relevant departments applied the indicator? They actually have not applied the indicator. This is the point which the Financial Secretary has not answered.*

FINANCIAL SECRETARY (in Cantonese): Madam President, Mr Frederick FUNG is one of the members of the Commission, so he should know clearly the purpose of this poverty indicator. For details of application, we have set out very clearly on our web page. Just in case that he has forgotten the address, I may remind him, the address is < <http://www.cop.gov.hk> >

MR FREDERICK FUNG (in Cantonese): *President, I did not ask for the website address. I asked the Financial Secretary to reply how these indicators are applied. For example, I am poor and my earning is below the level of CSSA payment*

PRESIDENT (in Cantonese): Mr Frederick FUNG, I understand your point.

MR FREDERICK FUNG (in Cantonese): *in what way are these indicators related to me?*

PRESIDENT (in Cantonese): I understand it; please be seated first. Financial Secretary, do you have anything to add?

FINANCIAL SECRETARY (in Cantonese): Madam President, I believe the explanation I have given earlier is very clear. I have nothing to add.

PRESIDENT (in Cantonese): We have spent more than 19 minutes on this question. Last supplementary question now.

MR LEUNG KWOK-HUNG (in Cantonese): *Secretary, President, thank you, President.*

In the main reply, the Financial Secretary said (and I quote) "indeed, practically, poverty alleviation must be delivered through relevant policies such as housing, health care, welfare provision..... Specific needs must be addressed by specific and directly relevant policy measures. Only a multi-dimensional approach could make this possible." May I ask the Financial Secretary whether you consider tax revenue should be increased to meet the increase in the various expenditures mentioned above, thereby achieving the target of alleviating poverty by a multi-dimensional approach?

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, excuse me, we are discussing the poverty indicators, and the supplementary question now raised by you is in fact

MR LEUNG KWOK-HUNG (in Cantonese): *It is related.*

PRESIDENT (in Cantonese): In fact, it bears no direct relevance. But if you do want to ask this question, you may do so by asking another new question.

MR LEUNG KWOK-HUNG (in Cantonese): *President, let me explain it to you. The Financial Secretary is holding two offices, one is the Financial Secretary and the other is the Chairman of the Commission. He said that a multi-dimensional approach has to be adopted, and I think this is right, but if he continues to cut government expenditures, the realization of this target will not be made possible. That is why I have to put this supplementary question to the Financial Secretary. He, in his capacity as the Chairman of the Commission, wants to alleviate poverty by a multi-dimensional approach, but in his capacity*

as the Financial Secretary, he has to cut expenditures. In such case, it appears his soul has been separated from his body, and he is saying totally different things to different people. This is the crux of the problem

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, please be seated first. The Financial Secretary comes to the Legislative Council today to answer Members' questions and he is thus the representative of the Government. Despite his other capacities, he is after all the representative of the Government.

Mr LEUNG, regarding the supplementary question you intend to ask, you may perhaps allow the President to give you a hand; will you? You may put your question in this way: Does the approach, the multi-dimensional approach and the matching policy in various aspects, adopted by the Government to deal with the issue as a whole include taxation measures?

MR LEUNG KWOK-HUNG (in Cantonese): *Well, I will ask the question direct. Thank you, President.*

I now change my question and ask the Financial Secretary direct: Does he consider the Government should increase the various expenditures mentioned above with a view to achieving the target of alleviating poverty by a multi-dimensional approach?

FINANCIAL SECRETARY (in Cantonese): All along, the Government has attached great importance and been very much committed to helping the underprivileged. Therefore, in the past 10 years, our welfare expenditure has far exceeded the increase in expenditures in other areas. I believe an overwhelming majority of the public do notice that even during the time when the Government had to cut its expenditures, the expenditure on welfare had basically remained intact.

Moreover, our poverty alleviation policy focuses on four main areas: first, to improve our economy to increase job opportunities. It is evident that remarkable achievements have been made in this respect in the past two years,

with the number of jobs having increased by more than 240 000. Second, enhance education to help to relieve the public of poverty. In respect of education, despite the cutting of government expenditures, the expenditure on education has not been reduced but has indeed been increased in reality. Third, better equip the public to meet the requirement of a knowledge-based economy by means of training and retraining. A number of programmes in this respect are being carried out by the Government. Fourth, enable some of the underprivileged and the needy to live in dignity with the support of a safety net. In this respect, the Commission is now reviewing the safety net to examine how the co-ordination and organization of different policy areas can be improved.

PRESIDENT (in Cantonese): Mr LEUNG Kwok-hung, which part of your supplementary question has not been answered?

MR LEUNG KWOK-HUNG (in Cantonese): *President, my point is whether the Financial Secretary considers that it should be increased? I do not care what the present case is; the question is whether the increase should continue.*

PRESIDENT (in Cantonese): Do you mean to ask whether the Government should increase the support in various aspects?

MR LEUNG KWOK-HUNG (in Cantonese): *Yes, sure, this is actually a very simple question of logic. No matter how much funding is provided at present, but regarding whether it should be increased*

PRESIDENT (in Cantonese): You need not explain any further, it is more than adequate. Financial Secretary, do you have anything to add?

FINANCIAL SECRETARY (in Cantonese): Madam President, I have to add one point. Actually, the decision on the amount of resources provided for a certain area is made according to the need of that area, and this is not directly

linked with our revenue. The explanation given by me earlier can fully manifest our principle of "spending where necessary and saving where possible".

PRESIDENT (in Cantonese): Third question.

Implementation of Five-day Working Week

3. **MR TOMMY CHEUNG** (in Cantonese): *President, the Chief Executive indicated earlier at a Legislative Council meeting that a working group comprising representatives from the Civil Service Bureau, Financial Services and the Treasury Bureau as well as the Efficiency Unit would be set up to actively study the proposal of implementing the five-day working week in the Government from July this year and the specific implementation plan. In this connection, will the Government inform this Council:*

- (a) *whether the above working group will study if the progress of work undertaken by various bureaux and government departments will be affected by the implementation of the five-day working week, and whether additional manpower and resources will be required; whether five-day working week will be implemented where the findings of the study indicate that the above effects will arise and additional manpower and resources will be required;*
- (b) *given that Saturdays will not be regarded as working days under the proposed five-day working week scheme, whether this will have any impact on the performance pledges made by various bureaux and government departments; how it will address the problem that the public can only transact business with various bureaux or government departments between Mondays and Fridays upon the implementation of the scheme, and whether the Government will assess the impact of implementing the scheme on the services provided by private organizations; and*
- (c) *whether the Government will, after implementing the five-day working week scheme, extend the scope of the scheme to public and subvented organizations, and consequently increase the subsidies or funding to such organizations?*

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): President,

- (a) The working group set up by the Government, in collaboration with bureaux and departments, is examining the operational and staffing arrangements required to implement the five-day week initiative. Our primary concern is to maintain the overall level and efficiency of public service. We shall adhere to the following basic principles in taking forward this initiative:
- (i) no additional staffing resources;
 - (ii) no reduction in the conditioned hours of service of individual staff;
 - (iii) no reduction in emergency services; and
 - (iv) while in general all offices will cease operation on Saturdays, a limited number of essential counter services may continue to be provided on Saturdays.

We will consult staff through the various established channels in the formulation of the implementation details. The working group will co-ordinate and address the various issues in the planning process and report progress to the Chief Secretary for Administration. The Civil Service Bureau will brief the Legislative Council Panel on Public Service on work progress at an appropriate juncture.

- (b) In pursuing the five-day week initiative, we will ensure that quality services will continue to be delivered to the community; we shall give due regard to the service needs of the private sector. We shall safeguard the overall level and efficiency of our public services. As there is no reduction in the conditioned hours of work of individual staff, we do not expect the implementation of the five-day week initiative would have any significant impact on performance pledges. For example, while certain non-emergency or non-essential services will cease operation on Saturdays, we will extend the working hours in weekdays as appropriate. Steps will also be taken to improve the delivery of services to the public,

including, for example, a wider use of internet service, business process re-engineering and transferring enquiries and complaints services to the Integrated Call Centre which operates on a 24-hour basis. All these measures will ensure that the impact of the Government adopting a five-day week on the general public and the private sector will be minimal. We will keep under review the community's demand of public services, and make adjustments as necessary, after the implementation of the five-day week.

- (c) We welcome initiatives by public and subvented organizations to examine the feasibility of introducing the five-day week in their organizations. They may determine the appropriate way forward, subject to the overriding principles that the overall service level and efficiency are maintained and that emergency services are not affected. The Government has no plan to increase the level of subvention to organizations that adopt the five-day week.

MR TOMMY CHEUNG (in Cantonese): *President, in part (b) of my main question, I asked whether the five-day working week scheme would have any impact on the Government's performance pledges. I may cite an example here. The Building Department requires 30 working days to approve a plan from the catering industry. There are currently six working days in a week, so the waiting period now is five weeks. If a five-day week is implemented in the future, the waiting period will become six weeks, or 42 calendar days. Since the Secretary has mentioned in the discussions on this topic that there will be no change to anything, will she consider reducing the working days required, so as to maintain the exiting performance pledge?*

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): President, many thanks to Mr Tommy CHEUNG for his follow-up question. I have pointed out very clearly in the main reply that when implementing a five-day week, our primary concern is to maintain the overall level and efficiency of public service. One of the ways in which the Government's efficiency can be assessed will be our performance pledges. I believe that in the course of studying the detailed technicalities for implementing a five-day week, heads of departments will take account of their current performance pledges, and in cases where performance

pledges are based on the working days required, the departments concerned will consider whether Saturdays are counted as working days as well. I have tentatively explored the situation in this regard, and from the replies I have received, I know that in some departments, Saturdays are not counted as working days, but in some others the opposite is the case.

Mr Tommy CHEUNG referred to the Food and Environmental Hygiene Department (FEHD). I believe the FEHD will study its current computation of required working days under its various performance pledges. I believe it will also examine whether there is any need to appropriately adjust its performance pledges after the introduction of a five-day week.

PRESIDENT (in Cantonese): There are 11 Members waiting for their turns to ask supplementary questions. Once again, I hope that those Members who have a chance to ask supplementary questions can be as concise as possible.

MR KWONG CHI-KIN (in Cantonese): *President, it is mentioned in the Secretary's main reply that staff will be consulted through the various established channels in the formulation of implementation details. As a Member from the labour sector, I do welcome this approach of the Secretary. However, since many departments, ranks and grades will be involved in the process of consultation, may I ask the Secretary what forms of consultation she intends to adopt? What is the timetable for consultation? When can we expect to see the completion of consultation and the implementation of the five-day week scheme?*

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): President, many thanks to Mr KWONG Chi-kin for asking this supplementary question. Actually, consultation is already underway. We are now having preliminary communication with staff and collecting their views mainly through the staff consultative mechanisms of individual departments. We have therefore requested heads of departments to submit their tentative implementation schemes in the near future. We hope that heads of departments have already conducted some sort of preliminary staff consultation and will also reflect the views of their staff in their tentative implementation schemes. I believe this process of communication will be an ongoing and interactive one.

Actually, I do not rule out the possibility that even after the implementation of a five-day week on 1 July this year, we may continue to look at the situation of staff in actual operation and collect their views. After the implementation of a five-day week, we may still improve the mode of operation or the working environment, so as to ensure that civil servants can work smoothly after the introduction of this new measure, and that the general public and private organizations, that is, the users of public service, will not think that a five-day week has caused them any unnecessary inconvenience.

MR KWONG CHI-KIN (in Cantonese): *The Secretary has not answered the part of my question on timing, that is, the timing of implementation. When will consultation be completed?*

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): As far as my understanding goes, Mr KWONG Chi-kin's question was about the timetable for consultation. Maybe my reply just now was not clear enough. Actually, consultation has already started, and heads of departments are currently consulting their staff. We hope that this can continue in the several months to come. Even after the implementation of a five-day week on 1 July, consultation and communication will continue.

MR CHIM PUI-CHUNG (in Cantonese): *President, it is emphasized in the Secretary's main reply that first, there will be no reduction in the conditioned hours of service of individual staff and second, departments may appropriately lengthen the service hours of the working day. This means that the several working hours on Saturday will have to be absorbed during the week from Monday to Friday. What appropriate steps will the Secretary take to make the public understand that there will be no reduction in public service? Will the working hours on Saturday be shared out? In other words, will the working time during Mondays to Fridays be lengthened by roughly 40 minutes each? Is there such a requirement?*

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): President, many thanks to Mr CHIM Pui-chung for his question. On this question, I suppose I must also study the implementation schemes submitted by heads of departments. From the perspective of the Civil Service Bureau, I would think that the details of implementation may have to differ from case to case depending on the actual situation.

In regard to what Mr CHIM Pui-chung said a moment ago, we also think that it is possible for certain offices or back-end teams not to operate on Saturdays. One possibility is that the three working hours currently worked by civil servants on alternate Saturdays can be shared out among 10 working days. This is one of the possibilities. However, I believe that departments may adopt other modes in the light of their actual operational needs. For example, I do not rule out the possibility that some departments may propose to transfer the three working hours on Saturday to one of the five working days, say, Wednesday, lengthening their hours of counter services to 8 pm on that day while maintaining the existing working hours on Monday, Tuesday, Thursday and Friday. Heads of departments must make their decisions after assessing the nature of their services and how these services are being used. They must also identify the best way of making a five-day week easily acceptable to their clients.

In a nutshell, I do not think that there will be any uniform approach. I believe that the idea raised by Mr CHIM Pui-chung will certainly be one of the modes adopted by us. But there will also be other modes. President, this explains precisely why we must make more publicity efforts before 1 July, with a view to giving users of public service, that is, the general public and private sector, a clear understanding of the operation of government departments after 1 July.

MR LEUNG YIU-CHUNG (in Cantonese): *The idea of a five-day week is very good, and I approve of it very much. The Secretary has mentioned staff consultation, but can she tell us how the general public will be consulted? In many cases, members of the public are already used to the present service hours and modes of service delivery. The Government has only consulted its staff on this change of mode, but how about the general public? In the case of postal services, the Hong Kong postal authorities have already said that it is possible for them not to operate on Saturdays. Therefore, may I ask*

PRESIDENT (in Cantonese): Mr LEUNG, I am sorry to interrupt you. Your question is already well understood.

MR LEUNG YIU-CHUNG (in Cantonese): *I see. May I, first, ask the Secretary whether she will consider the possibility of consulting the general public? Besides, the reduction of working days may increase the workload of some staff members. How will the Secretary tackle this problem?*

PRESIDENT (in Cantonese): Mr LEUNG, you have actually asked two supplementary questions. Which one do you want the Secretary to answer? The first one is about how the general public are to be consulted. The second one is on the increase in workload.

MR LEUNG YIU-CHUNG (in Cantonese): *President, if service hours are lengthened, workload may increase.*

PRESIDENT (in Cantonese): In any case, which supplementary question do you want to ask? I do not think that these two supplementary questions are entirely

MR LEUNG YIU-CHUNG (in Cantonese): In that case, the Secretary may decide which one she is going to answer.

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): President, I shall answer the first supplementary question asked by Mr LEUNG Yiu-chung. I am just following the ordering of Mr LEUNG Yiu-chung's questions. Therefore, I shall try to answer the first supplementary question asked by him.

I have already pointed out in the main reply that in implementing a five-day week, the primary concern of the Government is to maintain the overall level and efficiency of public service. Under this very principle, we have instructed heads of departments that in the tentative implementation schemes they

submit, they should give consideration to the nature and usage of their services and how the general public may be affected by the introduction of new modes of service delivery. When they design their actual operation frameworks for the five-day week scheme, they must also consider how to minimize the impacts to be sustained by the general public as a result of changes to their modes of service delivery. I know that some departments have set up service target groups or service liaison groups. I do not rule out the possibility that heads of departments may communicate with their service targets and collect their views through these established channels. I believe every head of department fully understands the requirements of their service targets. However, I still think that the Government should step up its publicity on the five-day week scheme, with a view to making the general public understand the changes in the Government's modes of service delivery.

With such a change, members of the public and private organizations may also have to slightly adjust their pattern of using public service. The reason is that while the majority of the public use public services provided by the Government Monday to Friday, a minority of them may have to do so on Saturday. Therefore, this minority of people may have to change their pattern of using public service. We will step up publicity in the process of implementing a five-day working week.

MRS SELINA CHOW (in Cantonese): *The Secretary has talked about the majority and the minority just now. In her main reply, emergency services and essential counter services were also mentioned. But all this may just be a matter of opinion. She may think that some services are essential, but members of the public may not think that way. And, when the public consider certain services essential, she may not necessarily agree. May I ask how the relevant criteria should be defined? Members of the public may find some services essential, but she may not think so and may even stop the provision of such services on Saturdays. In that case, the general public will be greatly inconvenienced.*

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): President, many thanks to Mrs Selina CHOW for her supplementary question. This supplementary question hits precisely at the crux of the problem. It is exactly because of this problem that the Civil Service Bureau does not find it advisable

for the central government to set down any regulations on defining essential and non-essential services. All will have to depend on the nature of the services concerned and the decisions of the persons most experienced in making judgements on this issue — the relevant heads of departments responsible for service delivery. This was also what I said when replying to Mr KWONG Chi-kin's question just now. We very much hope that we can continue to review the situation after the implementation of the new measure on 1 July, so that any inadequacies at the initial stage of implementation can be rectified. We do not rule out the possibility of implementing a five-day week in phases. In other words, in the first phase, we may implement a five-day week for those services whose providers are fairly confident that there is no absolute need for their availability on Saturdays. Afterwards, we may proceed with the second stage based on the experience in the first phase, replacing the existing modes of delivery for other public services by the five-day week scheme. This is the approach in which we have greater confidence in regard to the implementation of this new measure.

PRESIDENT (in Cantonese): We have spent more than 19 minutes on this question. Last supplementary question.

MR JASPER TSANG (in Cantonese): *President, in regard to the implementation of five-day week and its insistence on no reduction in the conditioned hours of service of individual staff, will the Government review the existing conditioned hours of service by, for example, taking reference from the total working hours of government employees in places already implementing a five-day week? Will it consider the impacts of lengthening working hours on staff efficiency?*

SECRETARY FOR THE CIVIL SERVICE (in Cantonese): President, at this stage, we have no intention of taking any reference from other places or private organizations to determine whether it is necessary to adjust the conditioned hours of service of staff. At this stage, we have no intention of taking any such reference. However, when designing and implementing new modes of operation after the introducing the five-day week scheme, heads of departments will certainly take account of staff acceptability to the five-day week scheme, including the impacts on staff occupational safety and, naturally, efficiency. In

regard to staff efficiency, the general guideline issued by the Civil Service Bureau to heads of departments is that the overall efficiency of public service must not be compromised in any way by the five-day week scheme.

PRESIDENT (in Cantonese): Fourth question.

Coverage of Travel Industry Compensation Fund

4. **MRS SELINA CHOW** (in Cantonese): *President, late last month, a travel agent which had been operating for 30 years and had six branches closed down suddenly, affecting about 200 clients. It was reported that except for a few clients who could apply for ex gratia payments from the Travel Industry Compensation Fund (TICF) because they had purchased hotel-cum-air ticket packages or joined group tours, the remaining majority of clients who had only bought air tickets were ineligible. Hence, they would not receive any compensation. As it is increasingly common for people to buy air tickets through travel agents, will the Government inform this Council whether it will consider amending the legislation to extend the coverage of the TICF to include clients who buy only air tickets through travel agents?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): President, according to the Travel Agents Ordinance (TAO), travellers procuring outbound travel services arranged by travel agents are entitled to *ex gratia* payment under the TICF in case of default of travel agents. The ceiling of the *ex gratia* payment is 90% of the outbound tour fare paid. "Outbound travel service", as defined in section 32(A) of TAO, comprises at least two of the following items:

- (i) carriage on a journey which is to commence in Hong Kong to a place outside Hong Kong;
- (ii) accommodation at a place outside Hong Kong;
- (iii) an activity arranged by travel agents which is to take place outside Hong Kong.

The TAO also stipulates that the TICF is formed by the levy collected from the tour fares of the above outbound travel service and the rate of levy is 0.3% of the tour fares paid. If a consumer purchases only one of the above service items, for example, purchasing an air ticket through a travel agent, the transaction will fall outside the definition of "outbound travel services". The consumer will not be required to pay the levy and will not be entitled to any *ex gratia* payment under the TICF. This is similar to the case where a consumer purchases an air ticket direct from an airline or accommodation from a hotel abroad, where that transaction does not fall within the scope of the TICF.

On the proposal to extend the coverage of the TICF to include consumers who purchase only air tickets through travel agents, we need to consider carefully various issues involved, for example, possible increase in the risk exposure of the TICF as a result of the extension of its coverage and the impact on its rate of levy. We have invited the Travel Industry Council of Hong Kong (TIC) to undertake a study to assess the impact of the proposal to extend the coverage of the TICF, taking into account factors such as the current mode of operation of travel agents, the liability of the parties involved, risk exposure, cost and consumer protection, and so on. We have also requested the TIC to examine whether it is necessary to establish guidelines for the trade to regulate the operation of travel agents in selling air tickets, including setting the level of deposit required and the timing of issue of tickets, and so on. We expect the TIC, in the course of studying these issues, to consult its members and discuss with the airlines and the Consumer Council. After receipt and consideration of TIC's report and recommendations, we will decide whether it is necessary to extend the coverage of the TICF to include consumers who buy only air tickets through travel agents.

MRS SELINA CHOW (in Cantonese): *President, in view of the fact that more and more Hong Kong people prefer DIY tours, meaning that they only buy air tickets or hotel-cum-air ticket packages instead of joining group tours, may I ask whether the Government will speed up the review progress, whether there is a timetable specifying when the TIC will come to a conclusion, or when the Government will formulate a timetable for offering protection to this category of travellers?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): We hope the TIC can complete the consultation and studies in the next few weeks. After receiving their report and proposal in the next few weeks, we will consider them and decide whether it is necessary to extend the coverage.

MR SIN CHUNG-KAI (in Cantonese): *President, this issue is really worth studying and consideration. But I hope the Government can further consider another point because, as far as the TICF is concerned, a person who has joined an outbound group tour and encountered an accident abroad will be provided with support by the TICF. Assuming that a customer who has purchased air ticket or hotel accommodation is also required to pay the levy in future, vis-a-vis the current situation where only those who have joined a group tour are required to do so, has encountered an accident abroad, will he be given compensation by the TICF? As these are travellers on DIY tours, if they are also included, the implications will be very great. May I ask the Secretary whether the Government will consider the problem in this aspect?*

PRESIDENT (in Cantonese): Mr SIN Chung-kai, I do not quite understand your question.

MR SIN CHUNG-KAI (in Cantonese): *I am prepared to explain.*

PRESIDENT (in Cantonese): Fine. But please be brief and ask your supplementary question direct. A long elaboration will only lead to confusion instead.

MR SIN CHUNG-KAI (in Cantonese): *At present, travellers who have joined a group tour can get two kinds of protection after paying the levy, one of them is the protection that is currently provided. In other words, if an accident occurs to a person who has joined a group tour, the TICF will provide assistance. However, Mrs Selina CHOW now proposes to extend the coverage of the TICF in order to include those who have only purchased air tickets and those who have*

booked hotel accommodation through travel agents. If so, will this imply that this category of people will be provided with compensation if they encounter an accident abroad?

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I thank Mr SIN for his supplementary question. Precisely because of this reason, I said in the main reply that we had to consider the possibility of extending the coverage of the TICF so as to include customers who have only purchased air tickets through travel agents. As Mr SIN just said, according to the existing legislation, should an accident occur to a traveller who has joined a group tour, he will be provided with compensation by an emergency and accident fund. But travellers who have only purchased air tickets are not included in the coverage. So, Mr SIN's supplementary question is: If those who have only purchased air tickets are also included in the coverage, will they be given compensation by the emergency and accident fund if an accident has occurred to the plane they took? In this regard, we must consider the financial implication. Precisely because this question will be considered by the authorities and the TIC, so, President, the Government will decide whether the coverage should be extended after the TIC has completed the consultation and the studies and submitted a report to us.

MISS CHAN YUEN-HAN (in Cantonese): *Madam President, I have been listening to the Secretary's reply and I have also received similar complaints. I share Mrs Selina CHOW's view that more and more people prefer to buying air tickets only when travelling abroad. In fact, the Government is playing a passive role. Last year, I received a complaint against an airline which was complained again this year on the same ground that the air tickets it issued had problems and the flights had delayed, thus causing a lot of inconvenience to many Hong Kong travellers. In my opinion, the Government seems to be very passive by leaving all decisions to the TIC. The Government should have its own policy regarding.....*

PRESIDENT (in Cantonese): Miss CHAN, please ask your supplementary question direct.

MISS CHAN YUEN-HAN (in Cantonese): *Yes, Madam President. In my opinion, the Secretary should not leave all decisions to the TIC. He must have his own views. As local people's mode of travel has changed, what policy does the Government have? Madam President, may I ask the Secretary what attitude the Government has adopted?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): Of course, the Government has its own policy, but we also have the TIC. I hope Miss CHAN can also understand that the TIC, which has its own functions, has set up a compensation fund for this particular purpose. In this respect, Miss CHAN should be aware of it. The fact that the compensation fund is managed by a management committee will have a direct bearing on the operation and protection for the tourism industry. So, we must consult the TIC, through which the views of the industry and the Consumer Council can be solicited. The final decision, as I just said, still lies with the Government. So, it is for us to decide whether the proposal should be accepted or not. Having said that, I think the industry and the Consumer Council should be fully consulted on the matter.

MR FRED LI (in Cantonese): *President, may I ask the Government whether it has grasped the annual number of local people who buy air tickets or hotel accommodation through travel agents? Because if they buy hotel-cum-air ticket packages, they are included in the coverage, but those who only buy air tickets or hotel accommodation are not. Now the question is: Under the current trend, how many Hong Kong travellers only buy air tickets or hotel accommodation through travel agents, thus being excluded from the coverage and unable to get compensation in case the travel agent concerned closes down or an accident occurs during their trip? May I ask whether the Government has grasped the percentage in this respect?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): President, concerning Mr LI's supplementary question about the number of Hong Kong travellers who only buy air tickets or hotel accommodation, we do not have a breakdown of these figures. However, in terms of the overall outbound travel services, according to our data, outbound

flights and hotel services are to the tune of \$8 billion a year. But we do not have a further breakdown of this figure.

Regarding the number of complaints about air tickets, in the past three years, we (the TIC and the Consumer Council) have received a total of 760 complaints in this respect. But complaints about closure of travel agents are just a few. Concerning the number of complaints about closure of travel agents alone, the amount of compensation from 1993 up to the present is more than \$16 million. In the past three years, the TICF has paid out around \$2.13 million in *ex gratia* payments for the closure of 10 travel agents.

MR FRED LI (in Cantonese): *The Secretary has not answered my supplementary question which is actually based on his main reply. In his main reply, he said that outbound travel service comprises at least two of the following items, which refer to at least two items from (i) to (iii) in the main reply. But just now I asked a question concerning a situation where only one of the requirements is met. My supplementary question is whether the Secretary has any figure concerning the number of travellers who have met only one of the requirements. Since the authorities are now considering the possibility of offering protection to people who encounter problems in this respect, so I ask whether the Government has information on this. But the Secretary has not answered this part of my question at all.*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I think Mr LI did not catch my supplementary reply just now clearly. At the beginning, I already answered the question. I said we did not have a breakdown of the figures, meaning that we only have a total instead of any breakdown. So, I have already answered the question.

MR HOWARD YOUNG (in Cantonese): *President, the Secretary said that the TIC would be consulted. However, has the Secretary considered that some Hong Kong people will buy air tickets on their own — perhaps I can answer Mr Fred LI's question just now — in fact, about 10% to 20% of the people will buy air tickets direct from airlines. If the levy is imposed on travel agents alone and airlines are exempted, this may lead to an inclination in the market. May I ask*

the Secretary whether the airlines' association will be consulted on this question so as to collect its views on the levy?

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I am sure that people have a greater confidence in airlines and no levy is imposed on the air tickets purchased direct from airlines. I am sure Mr YOUNG is also very clear about this. People who buy air tickets from airlines on their own are not required to pay any levy because, as I believe, it is generally considered that protection is already offered once an air ticket has been issued by an airline. And since closure of airlines is very rare, they are not included in our consultation. The consultation has, instead, included the situation where the air tickets are purchased through travel agents. In other words, the consultation will not ask people whether the levy should be imposed on air tickets purchased from airlines. This question is not included in the consultation.

MR HOWARD YOUNG (in Cantonese): *The thrust of my supplementary question just now is not this. I asked the Secretary whether he would consider the possibility that it would lead to an inclination in the market if the levy is imposed only on travel agents as this would discourage people from buying air tickets through travel agents.*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): President, I do not think it will lead to an inclination in the market because the levy now under discussion accounts for only 0.3% of the outbound tour fares. The price of an ordinary air ticket for short-haul flight is around \$2,000 to \$3,000. On that basis, we can calculate the amount of the levy, which is just a few dollars, a very small sum. I do not think this will lead to an inclination in the market. I believe the consumers should be allowed to decide which travel agents are reputable, which travel agents can provide quality and more reliable service. The decision should be left to the market ultimately.

MR LAU KONG-WAH (in Cantonese): *President, in his reply to Members' supplementary questions, the Secretary said that in the past three years, there*

were 700-odd complaints related to the purchase of air tickets. May I ask the Secretary, among these complaints, if there are any which are related to failure to meet descriptions of service? Should people suffer loss, how will the authorities offer protection to them?

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I thank Mr LAU for his supplementary question. The complaints mainly include cases where the travel agents failed to provide the air tickets as scheduled or their services were unsatisfactory, such as refusing to change the flights and refusing to disclose the charges of the airlines.

MR LAU KONG-WAH (in Cantonese): *President, the Secretary has not answered who will offer protection to the people when they have suffered loss. Is there no protection at all? Are the victims unable to pursue their cases?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): I am sure that if people want to pursue their cases, they can take legal action through the Small Claims Tribunal, for instance. However, President, I do not have any detailed information concerning losses.

DR KWOK KA-KI (in Cantonese): *Madam President, I agree with what the Secretary has planned to do, that is, to conduct a review of the coverage of the TICF shortly. However, I would like to ask the Secretary a question. Very often, it seems that such compensation has only penalized those travel agents which are reputable. For those which have intended to cheat the clients or those which only sell air tickets, the Government seems to be at its wits' end. It seems that the TICF has given them an advantageous position. May I ask the Secretary what specific measures are in place to help the industry and the consumers, as well as to identify and penalize the black sheep in the industry?*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): President, I do not think the reputable travel agents are victimized.

I think Dr KWOK will also understand that the levy is not paid by the travel agents, rather, it is paid by the consumers. As the levy only accounts for 0.3% of the outbound tour fares, I believe people will consider it worthwhile to pay it because they will get protection in return. Mrs Selina CHOW asked whether the coverage could be extended because some consumers are willing to pay the levy. In that case, even though they have only purchased the air tickets, they will also get the protection. However, I think one of Dr KWOK's points is still valid. According to my initial understanding, there are different views in the industry. Some opine that if the coverage is extended, the public may think that they will get protection no matter through which travel agents the air tickets are purchased. Then it is not necessary for them to select a travel agent in a prudent manner because they will get compensation when the travel agent closes down no matter it is a reputable one or not. So, we have to consult the industry and the Consumer Council in this respect before making any decision.

DR KWOK KA-KI (in Cantonese): *Madam President, the Secretary has made it clear that each and every outbound traveller is required to subsidize the travel agents which are unscrupulous or try to cheat people intentionally. However, the Secretary has not answered whether he is at his wits' end to deal with them or whether he has no intention to penalize them.*

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): President, I think it depends on the situation. If a travel agent closes down due to financial loss, it will not be regarded as a crime. However, if it intends to cheat the clients, for instance, by deliberately selling some particularly cheap air tickets and then disappears after collecting the money, this is fraud with intent which is a violation of the laws of Hong Kong. Regarding the case mentioned by Mrs Selina CHOW in her main question, we have referred the case of the travel agent to the police for investigation in order to determine whether criminality is involved.

PRESIDENT (in Cantonese): We have spent more than 19 minutes on this question. Now the fifth oral question.

Working Condition of Front-line Doctors

5. **DR KWOK KA-KI** (in Cantonese): *Madam President, some front-line doctors of the Hospital Authority (HA) have told me that they have to face situations of heavy work pressure, disparity in pay among doctors performing the same duties and low morale. In this connection, will the Government inform this Council whether it knows:*

- (a) *the respective average weekly working hours and on-call frequencies of doctors in various HA departments and resident doctors in various HA hospitals in each of the past three years; and in the ten HA departments with doctors working the longest hours at present, the changes in their doctors' average weekly working hours and on-call frequencies as compared to those over the past three years, and the reasons for such changes;*
- (b) *the respective numbers of doctors who left and newly joined the HA in the past three years, with a breakdown by hospital and rank; and among such new recruits, the respective numbers of those who have been deployed to alleviate the workload of other doctors, to replace doctors who had left, and to provide new or additional services; and*
- (c) *the specific proposals and plans the HA has regarding the provision of reasonable remuneration, parity, and improvement in the work environment, in order to attract, motivate and retain front-line doctors?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese):
Madam President,

- (a) The Government and the HA have been paying close attention to the workload and working hours of doctors in public hospitals. In the past few years, the HA has been working towards improving the working conditions of doctors through the deployment of additional staff and rationalization of work arrangements. The HA conducted two internal surveys on the working conditions of front-line doctors in 2000 and 2005 respectively. Generally speaking, the working

hours and frequency of on-call duties of front-line doctors vary from one specialty to another due to differences in the nature of their work and variations in the demand for different specialist services. The surveys revealed that the average weekly working hours of front-line doctors (that is, the sum of normal daytime working hours and resident on-call hours at nights and during weekends) improved considerably in the past five years. A breakdown of the survey findings by major specialties showed that only the working hours of doctors in Pathology increased slightly over the five-year period. The working hours of all other specialties decreased by 2.2% to 23.2%.

The two surveys also revealed that there were overall improvements in the frequency of on-call duties by front-line doctors. Owing to operational needs for attending to patients with emergency and acute medical needs, hospitals will usually draw up a roster for doctors to take turn in serving on-call duties at night. Most of the specialties have doctors serving on-call duties within hospital premises, but there are also arrangements where the on-call doctors do not remain in the hospital and only return upon request when an emergency arises. The workload of on-call doctors is not fixed and is unpredictable. When an on-call doctor is free, he can rest in the hospital. All public hospitals have rest facilities for use by on-call doctors. According to the surveys, doctors in the majority of specialties were arranged to serve on-call duties once every four to five days in 2000. In 2005, the frequency of on-call duties in the majority of specialties has reduced to once every four to seven or eight days.

The survey findings on the weekly working hours and on-call frequencies of the front-line doctors broken down by major specialties are set out in Annex A.

- (b) In the past three years (that is, from 2003-04 to 2005-06 (up to December 2005)), the numbers of new resident doctors recruited by the HA each year were 312, 297 and 297 respectively. The numbers of doctors who departed the HA for various reasons within the same time periods were 252, 298 and 240 respectively. Most

of the new recruits had been deployed to replace departed staff. The rest were mainly for strengthening services relating to infectious disease and development of family medicine.

Generally speaking, the HA would fill vacancies at the levels of Consultants, Senior Medical Officers and Associate Consultants through internal promotions.

The numbers of promoted staff, new recruits and staff departures at the HA in the past three years broken down by ranks and hospital clusters are set out in Annex B.

- (c) The HA has already formulated some concrete plans to further improve the working conditions of front-line doctors in public hospitals and to address the issue of pay disparity amongst contract front-line doctors.

In response to the situation where some doctors work over 70 hours a week, the HA is planning to implement a number of initiatives to reduce the working hours of doctors within three years with the target of keeping the work hours under 65 hours per week.

As for the issue of pay disparity amongst front-line doctors, the HA is planning to improve the remuneration packages of contract front-line doctors in April 2006, with a view to narrowing the disparity in pay amongst front-line doctors over the next few years and to providing contract doctors with greater job security. The aim of implementing these measures is to reward and retain quality doctors with good performance. The main features of the improvement measures include:

- Awarding doctors with good performance an annual salary point increment from the beginning of their fourth year of service;
- Awarding one salary point increment to doctors who have successfully passed the intermediate examination for their specialist qualification and two salary points increment for the exit examination;

- Retaining contract resident doctors with good performance for a total of nine years, so that they can pursue their specialist training with peace of mind and to give them the opportunity to gain more experience in public hospitals after attaining their specialist qualification; and
- Offering longer-term employment to doctors who have successfully secured the Resident Specialist posts, subject to service needs and the financial constraints of the HA.

It is the HA's hope that through the above measures it could become more effective in providing front-line doctors with the appropriate incentive and motivation for good performance and in retaining high calibre doctors within the public medical sector.

Annex A

<i>Specialty</i>	<i>Weekly Working Hours (normal working hours and residential duty)</i>		<i>On-Call Frequencies (interval in terms of days)</i>	
	<i>2000</i>	<i>2005</i>	<i>2000</i>	<i>2005</i>
Family medicine	-	44	*	*
Emergency Medicine	45	44 (-2.2%)	*	*
Pathology	48	50 (+ 4.2%)	-	-
Ophthalmology	69	53 (-23.2%)	5 days	6 - 7.5 days
Psychiatry	63	54 (-14.3%)	7 days	7 - 18 days
Intensive Care	-	55	-	3 - 10 days
Anaesthesiology	58	55 (-5.2%)	5 days	5 - 12 days
Diagnostic Radiology	59	56 (-5.1%)	14 days	8 days
Clinical oncology	64	57 (-10.9%)	8 days	12 days
Medicine	71	64 (-9.9%)	7 days	4.5 - 30.5 days

<i>Specialty</i>	<i>Weekly Working Hours (normal working hours and residential duty)</i>		<i>On-Call Frequencies (interval in terms of days)</i>	
	<i>2000</i>	<i>2005</i>	<i>2000</i>	<i>2005</i>
Ear Nose Throat	77	64 (-16.9%)	4.5 days	3.5 - 7 days
Paediatrics	73	66 (-9.6%)	5 days	4 - 6.5 days
Obstetrics and gynaecology	75	68 (-9.3%)	5 days	4 - 7 days
Orthopaedics	79	69 (-12.7%)	5 days	5 - 10 days
Surgery	84	70 (-16.7%)	4.5 days	4 - 8 days

* For these specialties, residential duty and on-call frequencies are not applicable

- This specialty was not included in the surveys

Annex B

Appointment and Turnover of Doctors in the Hospital Authority from Year 2003-04 to 2005-06

<i>Cluster</i>	<i>Rank</i>	<i>2003-04</i>		<i>2004-05</i>		<i>2005-06 (up to December 2005)</i>	
		<i>Promotions/ New Recruits</i>	<i>Departures</i>	<i>Promotions/ New Recruits</i>	<i>Departures</i>	<i>Promotions/ New Recruits</i>	<i>Departures</i>
HKE	CONS	1	3	1	2	2	0
	SMO/AC	7	8	10	5	9	3
	MO/R	24	25	41	19	37	21
HKE Total	HKE Total	32	36	52	26	48	24
HKW	CONS	2	4	3	2	5	2
	SMO/AC	9	7	10	8	14	6
	MO/R	24	29	31	30	37	16
HKW Total	HKW Total	35	40	44	40	56	24
KC	CONS	0	5	0	1	0	1
	SMO/AC	5	8	5	3	12	7
	MO/R	39	13	34	22	35	20
KC Total	KC Total	44	26	39	26	47	28

<i>Cluster</i>	<i>Rank</i>	<i>2003-04</i>		<i>2004-05</i>		<i>2005-06</i> <i>(up to December 2005)</i>	
		<i>Promotions/ New Recruits</i>	<i>Departures</i>	<i>Promotions/ New Recruits</i>	<i>Departures</i>	<i>Promotions/ New Recruits</i>	<i>Departures</i>
KE	CONS	1	1	1	3	0	0
	SMO/AC	1	4	5	8	8	4
	MO/R	54	19	36	24	37	25
KE Total	KE Total	56	24	42	35	45	29
KW	CONS	0	10	1	10	1	5
	SMO/AC	3	8	11	5	12	6
	MO/R	39	36	55	63	72	43
KW Total	KW Total	42	54	67	78	85	54
NTE	CONS	3	2	6	6	5	4
	SMO/AC	13	9	12	6	17	7
	MO/R	72	32	52	48	48	37
NTE Total	NTE Total	88	43	70	60	70	48
NTW	CONS	1	0	0	1	1	4
	SMO/AC	5	6	3	6	4	3
	MO/R	60	23	48	26	31	26
NTW Total	NTW Total	66	29	51	33	36	33
Overall Total		363	252	365	298	387	240

Note:

Figures on "Recruited/Appointed" doctors -

For CON and SMO/AC - refers to the no. appointed (excluding lateral transfer); doctors appointed were predominantly existing HA staff.

For MO/R - refers to the no. recruited to join the HA in the annual recruitment exercises.

Legend:

HKEC - Hong Kong East Cluster

HKWC - Hong Kong West Cluster

KCC - Kowloon Central Cluster

KEC - Kowloon East Cluster

KWC - Kowloon West Cluster

NTEC - New Territories East Cluster

NTWC - New Territories West Cluster

CONS - Consultant

SMO - Senior Medical Officer

AC - Associate Consultant

MO - Medical Officer

R - Resident

DR KWOK KA-KI (in Cantonese): *President, as we all know, quite a number of resident doctors who have completed training intend to leave the HA this year. They told me this is partly attributed to the long-standing disparity in pay among doctors performing the same duties. In part (c) of the main reply, the Secretary said that he wished to reduce the disparity in pay, which, however, definitely cannot eliminate the disparity in pay among doctors performing the same duties. May I ask the Secretary whether there are further plans to improve the situation of pay disparity or resolve the problem? Does the Secretary consider these measures effective in retaining front-line doctors?*

PRESIDENT (in Cantonese): Dr KWOK Ka-ki, you have put two supplementary questions, which of them would you wish the Secretary to reply?

DR KWOK KA-KI (in Cantonese): *Up to the Secretary.*

PRESIDENT: Fine.

DR KWOK KA-KI (in Cantonese): *Thank you, Madam President.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, in relation to the first supplementary question, it should be noted that the HA's differential pay system has a history of six to seven years. And since different initiatives have been implemented every year, I believe it is impossible to solve the problem in one stride. Since all public utilities or services have encountered the same problem under the stringent fiscal position over the past few years, I do hope that at least the first step will be taken within this year, whereby from April onwards, more attractive packages will be offered to doctors to enable them to make longer-term planning. For those doctors who have chosen to serve in the public sector for a sufficiently long period of time, they will be better informed of their prospects. As the wastage of senior doctors is rather high this year, the opportunities of other doctors being appointed by the HA on a permanent basis will therefore be significantly increased.

MR LI KWOK-YING (in Cantonese): *President, the Secretary pointed out in the main reply that there was a specific plan to reduce the doctors' average weekly working hours from 70-odd hours to 65 hours. The work of doctors is very professional, which very often requires accurate diagnosis of patients. May I ask the Secretary why the weekly working hours was set at 65 hours? Does it imply that a weekly workload of 65 hours will help free the doctors from their work pressure, while their performance at work will remain unaffected?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as I know, the reason why the HA set the average weekly working hours at 65 hours is to impose a limit. Of course, as Members can see from Annex A, doctors in specialties such as Emergency Medicine and Family Medicine need to work every minute while on duty, therefore the number of working hours must not exceed the current level. However, given that certain services must have doctors on duty, coupled with the needs of patients, it is very often impossible for the doctors to leave their patients unattended even though they are off duty. Therefore, the 65-hour work week arrangement is indeed designed for specialists who are currently working more than 65 hours per week, which will guarantee sufficient rest time for them on the one hand and, on the other, ensure that the working hours per shift will not be too long. Moreover, it can also prevent fatigue in professional doctors and hence minimize the risk of incorrect diagnosis. From the general medical profession's point of view, limiting the weekly working hours to 65 hours is fairly reasonable.

MR LEE CHEUK-YAN (in Cantonese): *President, the Secretary just now said that disparity in pay among doctors performing the same duties is a long-standing problem of the HA. May I ask the Secretary if he agrees that "different fates for the same kind of people" is another long-standing problem of the HA? It is because, as shown in Annex A, the weekly working hours of doctors in Family Medicine is 44 hours, while that of doctors in Surgery, Orthopaedics, Obstetrics and gynaecology and Paediatrics are very long, and this is precisely "different fates for the same kind of people". Furthermore, I noticed from the main reply that the Government has recruited additional doctors, and there was a net growth of about 100 doctors in the past three years. The Secretary, however, said that they would be deployed to services relating to infectious disease and Family Medicine. May I ask the Secretary whether special measures are in place to increase the number of doctors who have to*

work long hours, rather than deploying the new recruits to Family Medicine alone? Moreover, how can the disparity in remuneration be reduced and the problem of "different fates for the same kind of people" be solved?

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): President, I believe that the saying "different fates for the same kind of people" applies well to everyone. However, from the medical profession's point of view, doctors should have the right to choose. Members may find that specialty which appears to have extremely tough work or very long working hours will, however, attract more applicants. I think doctors will not mind the work in each hour because what is most important and valuable to them — especially young doctors — is the opportunity to receive training, through which the necessary experience and knowledge can be acquired within a short time, with a view to taking better care of the patients. Therefore, we must strike a balance among various aspects: firstly, the professional needs; secondly, professionalism should not be undermined; and thirdly, the need to take good care of our staff. They are, after all, human beings and therefore should avoid overwork. In this connection, it is necessary for us to set a limit for weekly working hours, and limits should also be imposed on duty hours and working hours as well. As supervisor, the Chief Medical Officer or Associate Consultant is responsible for looking after his subordinates. When his subordinates are overworked and fatigued, he should either grant them early leave or find substitutes for them. These are necessary arrangements, and I believe each and every hospital and department should have put in place such a flexible mechanism.

MR LEE CHEUK-YAN (in Cantonese): *President, I hope that the Secretary should refrain from abusing the profession of doctors. Yet, he has not answered my question. Given that there are 100 newly recruited doctors, will he increase manpower by deploying more doctors to departments which have the heaviest workload and the toughest work, rather than increasing the number of doctors in Family Medicine alone?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I believe all HA clusters and hospitals have put in place mechanisms which would allow appropriate deployment to be made when the

need for additional manpower for certain services is identified. Nevertheless, the working hours of doctors is not the sole concern, for there is also the importance or urgency of services. If there will be continuous growth in a particular service need for some time in the future, the HA will have to increase manpower. However, if the number of a certain kind of patient keeps dropping, the staff required for such service will certainly be reduced.

MR ANDREW CHENG (in Cantonese): *Madam President, the Secretary said "different fates for the same kind of people". It does not matter if the fates of the management who enjoys high position and generous remuneration are different from that of the front-line doctors, what does matter is that patients' lives are also valuable. If the working hours of doctors are so long, the quality of the service they provide will definitely be affected. I was stunned when I heard the Secretary say that limiting the weekly working hours to 65 hours is fairly reasonable. If the standard working hours adopted by the Secretary are 44 hours, then a 65-hour work week will necessitate a daily overtime of around four to five hours. May I ask the Secretary whether he will reduce the so-called fairly reasonable limit of working hours from 65 hours to 55 hours in the next three years? According to my own calculation, a 55-hour work week necessitates a daily overtime of two hours, and yet, we still consider this limit fairly reasonable.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, of course, we hope that doctors will not be required to work overtime. Similarly, we also hope that doctors, in particular those who are young or receiving training, can acquire the necessary expertise and experience within a short time. As far as I know, specialist training in the medical profession usually requires doctors to work relatively long hours to enhance their endurance and stamina, and this is a traditional practice. However, I understand that the arrangement may vary with different departments, professions and specialties. I think it is necessary to negotiate with the trade or doctor unions on the reasonable working hours and duty arrangement. Many doctors are currently providing more than 40 hours of service per week, but in most cases, they include the duty hours of doctors. The doctors may not necessarily be working every minute while on duty, for sometimes they are merely on call.

MISS TAM HEUNG-MAN (in Cantonese): *President, I would like to ask about the working hours. Has the Government studied and reviewed the work pressure faced by front-line doctors.....*

PRESIDENT (in Cantonese): Miss TAM, have you finished putting your question?

MISS TAM HEUNG-MAN (in Cantonese): *.....in order to find the right cure to the problems of doctors' work pressure and morale?*

I stopped because I saw the President shaking her head.

PRESIDENT (in Cantonese): I was only indicating to another Member that he would not have the chance to put a question. *(Laughter)*

MISS TAM HEUNG-MAN (in Cantonese): *Thank you, President. I thought I was asked to stop.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, the answer is yes. Before the HA formulated the measures I mentioned in part (c) of the main reply, discussions had been held with the Hong Kong Public Doctors' Association and members of some of its trade unions on the relevant arrangements. Furthermore, communications and consultations have also been conducted. Of course, the matter is still under discussion.

PRESIDENT (in Cantonese): We have spent more than 18 minutes on this question. Last supplementary question.

MS LI FUNG-YING (in Cantonese): *President, according to the rationale of the Secretary's reply, it appears that the doctors were asked to "give without taking". May I ask the Secretary whether there are concrete yardsticks for*

"good performance", given that only doctors with good performance will be awarded an annual salary point increment beginning with their fourth year of service? Are the doctors aware of these yardsticks? What will the HA do in relation to doctors who are considered to have performed poorly?

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese):

Madam President, as far as I know, an annual performance appraisal of each doctor or employee will be conducted by the HA, which is open and transparent. It is also subject to certain yardsticks, and most of them are of course professional considerations. For instance, whether the appraisee can work independently and make judgements in certain respects, the level of professionalism, and so on. We will certainly conduct the appraisal in consideration of these respects, and I believe there should not be any problem. If the performance of a doctor, who has been in service for a couple of years, is below standard, I think his supervisor should have the responsibility to alert him or advise him to change to other specialties. The officers-in-charge are responsible to look after their subordinates in this regard because doctors may not necessarily have to serve out in the specialty which they were deployed to work on the first day of their service. Very often, a number of doctors may find that their interests or abilities need to be changed after working for a period of time, and they will then request a transfer to other specialties. Therefore, in respect of specialist services, it is sometimes necessary to make the relevant arrangements.

PRESIDENT (in Cantonese): Sixth question.

Construction of Integrated Medical and Health Centre in Tin Shui Wai

6. **MR CHEUNG HOK-MING** (in Cantonese): *I have learnt that the Government had planned to build an integrated medical and health centre in Area 109, Tin Shui Wai for completion in 2004. Nevertheless, there has not been any timetable for building the centre so far. In this connection, will the Government inform this Council of:*

(a) *the commencement date of the works to build the centre;*

- (b) *the measures taken by the authorities to ease the acute shortage of medical services and facilities in Tin Shui Wai before the commissioning of the centre; and*
- (c) *the medical services to be provided by the centre upon its commissioning, and whether such services will include specialist out-patient service and Chinese medicine out-patient service?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese):
Madam President,

- (a) The Administration and the Hospital Authority (HA) have all along been studying various options available to enhance the provision of medical services in Tin Shui Wai, including assessment of the need to build new medical facilities in Area 109, Tin Shui Wai North in the long run. We will continue to closely gauge the needs of the residents in the district for medical services so as to determine the type of clinic to be built and the timing as well.
- (b) As a short-term measure, the HA has enhanced the capacity and service quality of the Tin Shui Wai Clinic on various fronts. On top of the general out-patient places, the New Territories West Cluster now runs eight additional nursing and consultation sessions in the Tin Shui Wai Clinic each week to provide follow-up service to hypertension patients and those requiring wound dressing. The Cluster also makes available in the Tin Shui Wai Clinic two extra consultation sessions attended by specialists of medicine and paediatric. With the introduction of these two services, a total of about 100 additional places are provided each week to patients in the Tin Shui Wai Clinic.

On general out-patient (GOP) service, the HA has planned to provide new GOP service in the Pok Oi Hospital Chinese Medicine Clinic in Tin Wah Estate, Tin Shui Wai starting from the third quarter of this year. In the first phase, 100 new GOP places will be offered each week. This new GOP service will not affect the present throughput of the out-patient Chinese medicine service in

Pok Oi Hospital. The existing level of out-patient service in the Tin Shui Wai Health Centre will also be maintained.

- (c) In planning medical services at district level, the Administration would place special emphasis on developing community-based nursing service, fostering day care and outreaching services and putting in place a health care service network which covers every aspect of primary health care to achieve our goal of better public health. To work towards this goal, the HA is now considering the proposal of building a health centre in Area 109, Tin Shui Wai North. If it is materialized, we will give thorough consideration of the services to be provided in the proposed centre taking into account the factors such as population and the medical facilities and services currently available. At the same time, we will take full account of the recommendations made in the discussion paper "Building a Healthy Tomorrow" by the Health and Medical Development Advisory Committee (HMDAC), including the recommendation that part of the primary medical care service (for example, GOP service) being offered by the public sector may be provided through purchasing such service from the private sector.

MR CHEUNG HOK-MING (in Cantonese): *President, the Secretary mentioned in the main reply that the Government had planned to build an integrated medical and health centre for completion in 2004, but there had not been any timetable for building the centre so far. The Secretary only said that the proposal was being considered. May I ask the Secretary, as it stands now, whether the considerations made in the past were not accurate and when a new proposal can be presented to the public?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as I know, this application was considered by the Department of Health before it transferred its out-patient departments to the HA. After the HA had taken over the out-patient departments, a full-scale study was undertaken to determine policies on primary and hospital care services. Meanwhile, as we know that Pok Oi Hospital in Yuen Long will be completed in 2006 and there would be increases in throughput and other specialist services

consequently, therefore, we should try to get a clear picture of the demand for health services in the entire district. Although at present the utilization rate for the out-patient service in Tin Shui Wai is as much as 93%, there is still some room. Besides, in the short term, as we can increase out-patient service in Tin Shui Wai North, we think that public demand in this regard can be met for the time being. Of course, I have to make one point clear and that is, for the long term, I also hope to draw up a long-term and comprehensive plan for Tin Shui Wai and to offer health care services in an integrated centre.

MR ALBERT CHAN (in Cantonese): (in Cantonese): *President, the delays concerning the Tin Shui Wai Clinic show that it is a victim of the review of health care policies. Tin Shui Wai has a population of 300 000 and health care facilities are in severe shortage. The Secretary has said just now that the utilization rate of the out-patient services is only 93% and there is still some room and that the demand for out-patient services can be met in the short term, and so on. Is the Secretary aware of the fact that in order to get a chip for consulting a doctor, the elderly people have to start queuing up before daybreak and sometimes they cannot even get a chip? This is a common phenomenon. Could the Secretary explain this? Is he aware of this problem in the first place? He has said just now that the demand for out-patient services can be met in the short term. On what basis did he make that statement? As a matter of fact, there are indeed cases of queuing for chips and a shortage in the supply of chips.*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as we know, at present about 30% of the out-patient services in Tin Shui Wai are used by residents in Tin Shui Wai North, so we have decided that in the near future, that is, in about summer this year, GOP services will be increased in Tin Wah Estate in Tin Shui Wai North. By so doing, the quota for out-patient services in Tin Shui Wai South will not be taken up. We believe this increase will at least help residents of the district in the short term.

It remains, of course, that there is no health care service that will give a 100% guarantee that the people will not have to queue up. I think there are queues for out-patient services in many other districts, not just in Tin Shui Wai alone. However, we hope that as long as the people will queue up, they will get

a chip for service. If they cannot get a chip, they can be assisted in other ways, for example, when the quota for the day in some other clinics is not yet exhausted, our colleagues will inform the patient concerned that he could go to other clinics for service.

MR ALBERT CHAN (in Cantonese): *President, could the Secretary make a clarification as to whether the clinic to be opened in Tin Wah Estate in the middle of this year is a clinic for Chinese medicine or a new clinic for out-patient services? This is because in the main reply, the Secretary says that Chinese medicine out-patient service will be offered in Tin Wah Estate.*

PRESIDENT (Cantonese): Mr Albert CHAN, it is a new out-patient service. Would you please take a closer look at the second paragraph of part (b) in the main reply? However, the out-patient service in Tin Wah Estate is not the same as the one mentioned in your question. You may wait for another turn.

MR WONG TING-KWONG (in Cantonese): *President, the population in Tin Shui Wai now reaches as many as 300 000 and the number is increasing all the time. Given such a population size, the authorities should build a hospital there in order to offer a long-term solution to the ardent demand for health care services by the residents of Tin Shui Wai. Will the authorities reconsider the proposal to build a hospital or a poly-hospital in Tin Shui Wai?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, of course we will not rule out the possibility of considering the building of a hospital in Tin Shui Wai, but insofar as the hospital cluster and Yuen Long District are concerned, the most important thing now is to fully utilize Pok Oi Hospital after its completion. Pok Oi Hospital should be able to offer new services at the end of this year and overall speaking, services such as accident and emergency services or other new specialist services would be increased by and by in the coming two or three years or so. Generally, the utilization rate of a new hospital would only be saturated after four to six years. Therefore, we may use these few years to consider the needs of the entire population there to determine if the services should be increased. We may consider building a new hospital or enhance the throughput of Pok Oi Hospital.

MR ALBERT HO (in Cantonese): *President, the method being used by the Government now is to increase the quota for out-patient services partially, such as increasing the quota in Tin Wah Estate by 100 places. Any plan for the long term is to consider a general and comprehensive service plan with reference to the layout plan. When considering these things, has the Government ever thought that Tin Shui Wai is a very remote place and the gap between north and south as well as that in geographical terms is quite large. In addition, the residents there are poor and their transport expenses are high. In such circumstances, since there are so many people living in the north and south of Tin Shui Wai and since there are as many as close to 100 000 people living in Tin Shui Wai North, why can some district-based health centres not be built there as soon as possible, instead of waiting for some plans at a macro level to materialize? How long do we have to wait?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): *Madam President, since we think that in the case of health care services in particular, if a clinic, say one with two or three storeys, is built on a piece of land, the actual benefits would not be too great. For this reason, we hope that if any works is to be carried out, it should dovetail with other health care or welfare services, or other kinds of services. Therefore, the long-term plan will not be building a clinic whenever one is needed, we should consider building a centre to tie in with other kinds of health care or welfare services. This will enable a fuller use of the piece of land as well as government resources. So some time is needed to study into it. I think that there is some room for some short-term measures to be put in place. I have pointed out in part (b) of the main reply that this is a short-term measure and I hope this will address the concern and need of residents of Tin Shui Wai North.*

MR LAU KONG-WAH (in Cantonese): *President, all along we have advocated that a Chinese medicine clinic be set up in every district. The main question asks, if a medical and health centre is to be built, whether a Chinese medicine clinic would be included. It seems that the Secretary has not answered this. Could the Secretary say clearly now whether or not there will be one? Moreover, before such a new clinic comes into operation, where can the residents get such kind of Chinese medicine service?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as far as I know, the Pok Oi Hospital Chinese Medicine Clinic in Tin Shui Wai North has been commissioned and such service has not showed any signs of saturation. However, looking at Yuen Long District as a whole, we hope that Chinese medicine service of a larger scale can be provided. The Government and Pok Oi Hospital are presently studying into how in the new Pok Oi Hospital or its vicinity, a location can be identified for the provision of such service. It is the Government's wish that Chinese medicine service can be provided in all the 18 districts. We think this plan should be put into force.

MISS TAM HEUNG-MAN (in Cantonese): *President, with the continuous increase in the population of Tin Shui Wai, a tremendous pressure is exerted on health care services in Northwest New Territories. Moreover, many of the residents in Tin Shui Wai are believed to be grassroots and so they rely heavily on public health care services. Have the authorities conducted any studies or forecasts on the demand for public health care services in the district so that long-term planning can be undertaken? If so, what is the timetable with respect to such long-term planning?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, as I have explained earlier, we will decide on the planning in each district with reference to the characteristics of the population and the cases of diseases found. The planning of services by the HA is based on the clusters of hospitals which serve as focal points. It follows that such planning will be decided by the New Territories West Cluster and within such a cluster, the districts of Tuen Mun, Yuen Long and Tin Shui Wai will be used as the basis for overall planning. Of course, we will also consider where patients would choose to go for treatment. It is because patients from newly developed areas may not necessarily choose to consult a doctor in the district where they live. The patients may have moved in from an older district and they are used to seeing the doctors there and there are also patients who would prefer to go to the urban areas for consultation. Therefore, when we are to introduce new services, we need to proceed step by step in the hope that patients will be attracted to consulting a doctor in the district where they live. Such a process would take some time. As to whether there is a timetable, I am afraid we do not have a definite timetable for the moment showing when a plan will be completed. But

we will work closely with the HA to see how long-term plans can be formulated for such districts as New Territories North and Northwest New Territories where population is fast growing, so that the delivery of health care services, especially accident and emergency services and family medicine services, can be assured.

MR ALBERT CHAN (in Cantonese): *President, I would like to pursue the real causes behind the delay in the completion of the medical and health centre concerned in Tin Shui Wai. After the Department of Health had transferred the works project to the HA, I had a number of meetings with the HA in which I asked questions on the construction works. Though on many occasions the authorities said that the project was still at the planning stage, there was no timetable available. Could the Secretary tell us whether or not the clinic in Tin Wah Estate has replaced the original plan for Area 109, or if there is a new timetable and new development with respect to such a plan?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I can stress again that this is no replacement but a new plan. This is a short-term measure devised by us to meet the needs of residents in Tin Shui Wai North. The 100 new places offered are GOP places, not out-patient Chinese medicine service places. This is the point I wish to correct. We will continue to study the plan for building a health centre in Tin Shui Wai North. And as I have already said, we will undertake a detailed study of the future developments and we will make an analysis of the impact on the New Territories West Cluster and Pok Oi Hospital after its expansion is completed.

PRESIDENT (in Cantonese): We have spent 17 minutes on this question. Last supplementary question.

DR KWOK KA-KI (in Cantonese): *Madam President, the Secretary points out in part (c) of the main reply that the authorities will take full account of the recommendations made by the HMDAC, including the recommendation to purchase services from the private sector. Would the Secretary tell us in detail whether or not consideration will be made to adopt such a method in Tin Shui Wai in order to enhance service delivery?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, we will consider this recommendation which we think is feasible in different districts and as a whole. Of course, as the average income of people in Tin Shui Wai is on the low side and as compared to other districts, they may use a lesser amount of services from the private sector. When coupled with the fact that many of the residents there are on Comprehensive Social Security Assistance, it is believed that they will rely on public health care services. Therefore, in this regard, we need to be very careful in deciding whether or not to adopt this practice. If we are to purchase services from the private sector, then we need to decide whether to hand over some patients to the private sector or to employ other options. All these have to be given careful consideration. I will not rule out the possibility that when a more concrete proposal is available, we will submit it to the Panel on Health Services.

PRESIDENT (in Cantonese): Oral questions end here.

WRITTEN ANSWERS TO QUESTIONS

Outstanding Projects of Former Municipal Councils

7. **DR YEUNG SUM** (in Chinese): *President, among the outstanding projects of the former Municipal Councils, 25 projects were identified for priority implementation by the former Chief Executive in his policy address in January 2005, and 24 projects were shelved or deleted after consultation with the District Councils concerned. Regarding the remaining projects, will the Government inform this Council of the names of the projects rejected, completed, under construction or still under planning and the responsible government department concerned; the anticipated completion and construction dates for the projects in the last two categories and, among these projects, those that had been designated as "priority projects" by the former Municipal Councils?*

SECRETARY FOR HOME AFFAIRS (in Chinese): President, among the 169 outstanding projects of the former Provisional Municipal Councils (ex-PMC), 139 projects involved leisure and cultural services facilities and the Leisure and Cultural Services Department (LCSD) is the responsible department. The

remaining 30 projects involved environmental hygiene facilities and the Food and Environmental Hygiene Department (FEHD) is the responsible department.

Projects under the LCSD's responsibility

Of the 139 projects involving leisure and cultural services facilities, 12 projects have been deleted (Annex 1), 19 projects have been completed (Annex 2), 15 projects are either under construction or still under planning (Annex 3). Of the 25 projects recommended for priority implementation in the 2005 policy address, 21 projects are among the 139 ex-PMC projects (Annex 4). Two other projects are tried out under the "Private Sector Finance" approach (Annex 5). The remaining 70 projects, together with four projects previously shelved but now requested by the District Councils to be included (not ex-PMC projects), are put under review (Annex 6). Regarding these 74 projects put under review, after the completion of consultation with the District Councils early this year, the LCSD will report and present the next batch of projects proposed for implementation to the relevant subcommittee under the Legislative Council Panel on Home Affairs in March.

Projects under the FEHD's responsibility

Of the 30 projects involving environmental hygiene facilities, 12 projects have been deleted (Annex 7); six projects have been completed (Annex 8); two projects are under construction (Annex 9); and 10 projects are under review (Annex 10).

Annex 1

12 Deleted Projects Involving Leisure and Cultural Services Facilities

<i>Item No.</i>	<i>Project Title</i>
1	Chai Wan Vehicle Depot, Eastern District
2	Chung Hau Street Garden, Kowloon City
3	Temporary Recreational Development at Ma Yau Tong West Landfill
4	Recreational Development at Wong Chuk Hang
5	Sports Ground Package 6 at Mui Wo, Lantau
6	Indoor Recreation Centre Area 10B, Kwai Chung
7	Regional Indoor Stadium Area 11A, Fan Ling/Sheung Shui
8	District Open Space Area 30, Tai Po

<i>Item No.</i>	<i>Project Title</i>
9	District Open Space Area 52, Tung Chung, Lantau
10	District Open Space Tsuen Wan Bay Further Reclamation
11	Waterfront Promenade Tsuen Wan Bay Further Reclamation
12	District Open Space Lo Wai Area 39, Tsuen Wan

Annex 2

19 Completed Projects Involving Leisure and Cultural Services Facilities

<i>Item No.</i>	<i>Project Title</i>
1	District Open Space Between Hang Hong Street and Heng On Estate Area 92, Ma On Shan (Implemented as minor works item)
2	Renovation of the Wu Kwai Sha Youth Village of YMCA, Ma On Shan
3	Improvement to the Jockey Club Wong Shek Water Sports Centre (Implemented as minor works item)
4	Ma On Shan Sports Ground - Phase 2
5	District Open Space in Areas 3 and 8, Tsing Yi
6	Local Open Space in Area 14 (Mouse Island), Tuen Mun
7	Local Open Space in Ping Shan, Yuen Long
8	Local Open Space in Area 15, Tin Shui Wai
9	Local Open Space Area 75, Ma On Shan (Territory Development Department Greening Project)
10	Tong Fuk Beach Building, Lantau (Implemented as minor works item)
11	Improvement to Lok Wah Playground, Kwun Tong
12	District Open Space in Area 5, Tai Po
13	Football Pitch in Area 5, Tai Po
14	District Open Space in Area 7, Tung Chung
15	District Open Space Area 18, Tuen Mun
16	Improvements to Butterfly Beach Area 44 (Ferry Pier), Tuen Mun (To be implemented as minor works item)
17	Tung Wan Beach Building, Cheung Chau (To be implemented as minor works item)
18	District Open Space Area 16 (Yau Oi South), Tuen Mun (Funded by CLP Power Hong Kong Limited)
19	Local Open Space in Areas 18 and 21, Fan Ling

Annex 3

**15 Projects Under Construction/Planning
Involving Leisure and Cultural Services Facilities**

<i>Item No.</i>	<i>Project Title</i>	<i>Actual/Anticipated Works Start Date</i>	<i>Actual/Anticipated Works Completion Date</i>
1	Cherry Street Park, Tai Kok Tsui	12/2003	10/2006
2(i)	Renovation of libraries - Phase 1 works	02/2005	01/2007
2(ii)	Renovation of libraries - Phase 2 works	02/2007	11/2008
3	Hin Tin Swimming Pool - Phase 2, Sha Tin	03/2005	05/2007
4	458CR Sheung Lok Street Rest Garden (Site B), Kowloon City (To be implemented as minor works item)	04/2005	08/2006
5	320LS Local Open Space in Areas 25, 25A and 25B, Tin Shui Wai, Yuen Long	11/2005	08/2007
6	District Open Space Area 2, Tung Chung, Lantau	02/2006	11/2007
7	District Open Space in Area 39, Fan Ling/Sheung Shui	02/2006	02/2008
8	District Open Space in Area 35, Tsuen Wan - Phase 2	02/2006	02/2008
9	Tseung Kwan O Sports Ground	03/2006	02/2009
10	Local Open Space Area 52 (Ching Chung), Tuen Mun (Implemented as minor works item)	09/2006	09/2007
11	Sham Shui Po Park (Stage II)	12/2006	11/2008
12	District Open Space Area 40A, Tseung Kwan O	12/2006	12/2008

<i>Item No.</i>	<i>Project Title</i>	<i>Actual/Anticipated Works Start Date</i>	<i>Actual/Anticipated Works Completion Date</i>
13	Indoor Recreation Centre (Type C) cum Library in Area 17, Tung Chung, Lantau	12/2006	10/2009
14	Local Open Space Area 16 (Yau Oi South), Tuen Mun	02/2007	01/2009
15	Improvement to Victoria Park - Swimming Pool Complex	11/2008	02/2013

Annex 4

**25 Projects Recommended for Priority Implementation
in 2005 Policy Address**

<i>Item No.</i>	<i>Project Title</i>	<i>Anticipated Works Start Date</i>	<i>Anticipated Works Completion Date</i>
1	Open Space at Tai Kok Tsui Temporary Market (To implement as minor works item)	Late 2006	Early 2008
2	Non ex-PMC Project Improvement works to Victoria Park Tennis Centre	Mid-2007	Mid-2009
3	Local Open Space Sham Tseng Area 50, Tsuen Wan	Mid-2007	Mid-2008
4	Local Open Space Area 28, Fan Ling/Sheung Shui	Mid-2007	Late 2008
5	Ma On Shan Waterfront Promenade	Mid-2007	Late 2010
6	Recreational Development at North Ap Lei Chau Reclamation	Late 2007	Early 2009
7	Non ex-PMC Project Shek Yam Estate Phases I and IV District Open Space Development	Late 2007	Mid-2009

<i>Item No.</i>	<i>Project Title</i>	<i>Anticipated Works Start Date</i>	<i>Anticipated Works Completion Date</i>
8	District Open Space Area 107, Tin Shui Wai	Late 2007	Mid-2009
9	District Open Space Area 9, Tsing Yi	Late 2007	Late 2009
10	Recreational facilities on Jordan Valley former Landfill, Kwun Tong	Early 2008	Mid-2010
11	Ngau Chi Wan Recreation Ground	Early 2008	Mid-2010
12	District Open Space Area 18, Tung Chung, Lantau	Mid-2008	Late 2010
13	District Open Space at Po Kong Village Road, Wong Tai Sin	Mid-2008	Early 2011
14	Siu Sai Wan Complex	Mid-2008	Early 2011
15	Non ex-PMC Project Development of an artificial beach at Lung Mei	Late 2008	Late 2010
16	Non ex-PMC Project Construction of an Annex Building for the Ko Shan Theatre	Early 2009	Mid-2011
17	Swimming Pool Complex Area 2, Tung Chung, Lantau	Early 2009	Late 2011
18	Tin Shui Wai Public Library cum Indoor Recreation Centre	Early 2009	Late 2011
19	Sun Yat Sen Memorial Park (Phase II)	Early 2009	Early 2012
20	Swimming Pool Complex Area 1 (San Wai Court), Tuen Mun	Early 2009	Early 2012
21	Leisure Centre Area 33, Tai Po	Late 2009	Late 2011
22	Public Library and Indoor Recreation Centre, Area 3, Yuen Long	Early 2010	Late 2012
23	Tseung Kwan O Complex, Area 44, Tseung Kwan O	Early 2010	Early 2013

<i>Item No.</i>	<i>Project Title</i>	<i>Anticipated Works Start Date</i>	<i>Anticipated Works Completion Date</i>
24	Indoor Recreation Centre Area 28A, Fan Ling/ Sheung Shui	Mid-2010	Late 2012
25	Ecological Park (Tso Kung Tam Valley, Tsuen Wan)	Mid-2010	Late 2012

Annex 5

Two Projects to be Tried Out Through Private Sector Finance

<i>Item No.</i>	<i>Project Title</i>
1	Leisure and Cultural Centre in Kwun Tong
2	Ice Sports Centre in Tseung Kwan O

Annex 6

74 Projects Put Under Further Review

<i>Item No.</i>	<i>Project Title</i>
1	Quarry Bay Park Phase II (Stages 2 and 3)
2	Improvement of camping facilities in Lei Yue Mun Park and Holiday Village
3	Proposed Park in Aldrich Bay
4	Replenishment of the Stanley Main Beach
5	Leisure Centre at Wah Fu
6	Proposed Education Centre cum Office Accommodation at Hong Kong Zoological and Botanical Gardens
7	"LO" site at Chung Yee Street
8	Lo Lung Hang Garden
9	Open Space Development in West Kowloon Reclamation at Road D10
10	Regional Park at West Kowloon Reclamation
11	Improvement to Cheung Sha Wan Playground
12	Lai Chi Kok Park Stage III (Indoor Games Centre-Phase IB)
13	Tung Chau Street Complex
14*	Conversion of the Secondary Pool of the Lai Chi Kok Park Swimming Pool into an Indoor Heated Pool
15*	Redevelopment of Cheung Sha Wan Road/Cheung Shun Street Playground
16	Kai Tak Park

<i>Item No.</i>	<i>Project Title</i>
17	Lam Tin Park (Phase II) (that is, Ma Yau Tong Central Landfill)
18	Lam Tin North Family Leisure Centre
19*	Temporary Recreational Development at Ma Yau Tong West Landfill
20	New Tennis Centre cum Carpark at Moreton Terrace
21	Local Open Space Area 6, Tai Po
22	Recreation Ground Area 33, Tai Po
23	Indoor Recreation Centre Area 6, Tai Po
24	Tai Mei Tuk Water Sports Centre Extension, Area 74, Tai Po
25	Ha Hang Village Playground Area 31, Tai Po
26	Local Open Space Area 32, Tai Po
27	Golf Course in Shuen Wan Landfill, Tai Po
28	Tai Po New Civic Centre
29	Local Open Space Hung Shui Kiu Phase I
30	Hung Shui Kiu Town Square
31	Sports Complex and District Open Space Area 12, Yuen Long
32	Indoor Recreation Centre Area 12, Yuen Long
33	Leisure Centre Area 101, Tin Shui Wai
34	Local Open Space Kau Hui, Yuen Long
35	Swimming Pool Complex, Kam Tin
36	Indoor Recreation Centre, Kam Tin
37	Local Open Space Hung Shui Kiu Phase II
38	Hung Shui Kiu Complex
39	District Square Areas 33A and 29, Tin Shui Wai
40	Recreation Ground Area 17 (Industrial City), Tuen Mun
41	Recreational Facilities in Green Belt Area, Tuen Mun Phases I and II (Ching Chung)
42	District Open Space in Area 27 (Sam Shing), Tuen Mun
43	Recreational Facilities Western Extension Area (Tap Shek Kok), Tuen Mun
44	Local Open Space in Area 40 (Tsing Shan), Tuen Mun
45	Indoor Recreation Centre Area 14 (Siu Lun), Tuen Mun
46	Hung Lau Park (former Castle Peak Farm)
47	Local Open Space Area 20, Fan Ling/Sheung Shui
48	District Open Space Area 17, Fan Ling/Sheung Shui
49	District Open Space Areas 47 and 48, Fan Ling/Sheung Shui
50	District Open Space Area 27D, Fan Ling/Sheung Shui
51	Local Open Space Area 25, Fan Ling/Sheung Shui
52	District Open Space Area 4 (Remainder), Fan Ling/Sheung Shui
53	District Open Space Area 37, Fan Ling/Sheung Shui
54	Civic Centre for North District
55	District Open Space Area 90, Ma On Shan

<i>Item No.</i>	<i>Project Title</i>
56	Indoor Recreation Centre-cum-Library Area 14B, Sha Tin
57	District Open Space Area 11, Sha Tin
58	Indoor Recreation Centre Area 24D, Sha Tin
59	Indoor Recreation Centre Area 103, Ma On Shan
60	Local Open Space Area 4C, Sha Tin
61	Redevelopment of Fo Tan Cooked Food Market, Sha Tin
62	Expansion of Sha Tin Central Library
63	Indoor Recreation Centre Area 4, Tsing Yi
64	Indoor Recreation Centre Area 9H, Kwai Chung
65*	Kwai Chung Park
66	Kwun Yam Wan Beach Building, Cheung Chau
67	Civic Centre for Islands District
68	Indoor Recreation Centre in Area 4, Sai Kung
69	Civic Centre for Sai Kung District Area 66, Tseung Kwan O
70	District Open Space in Area 37, Tseung Kwan O
71	District Open Space Area 3, Tsuen Wan
72	District Open Space and Indoor Recreation Centre Area between Tsuen Wan Park and Tsuen Wan Road
73	District Open Space Area 2, Tsuen Wan
74	Improvement to the facilities in Approach Beach

* Non ex-PMC Project

Annex 7

12 Deleted Projects Involving Environmental Hygiene Facilities

<i>Item No.</i>	<i>Project Title</i>
1	Siu Sai Wan Complex
2	Redevelopment of Cheung Sha Wan Temporary Cooked Food Market
3	Multi-purpose Building at Wing Hong Street
4	Fuk Wing Street Complex
5	Lai Wan Market Extension
6	Cooked Food Centre, Refuse Collection Point and Public Toilet in Area 10G, Kwai Chung
7	Tseung Kwan O Complex
8	Sai Kung Vehicle Depot
9	Redevelopment of Fo Tan Cooked Food Market
10	Reprovisioning of Kam Tin Market
11	Reprovisioning of Lau Fau Shan Market
12	Local Open Space, Public Toilet and Refuse Collection Point in Area 40, Tuen Mun

Annex 8

Six Completed Projects Involving Environmental Hygiene Facilities

<i>Item No.</i>	<i>Project Title</i>
1	Temporary Off-street Refuse Collection Point cum Public Toilet at Ma Tau Kok Road (After review, the Public Toilet has been excluded from the project scope)
2	Retrofitting of Air-conditioning to Bowrington Road Cooked Food Centre
3	Retrofitting of Air-conditioning to Yue Wan Market and Cooked Food Centre
4	General Improvement Works to Ngau Tau Kok Market and Cooked Food Centre
5	General Improvement Works to Ngau Chi Wan Market and Cooked Food Centre
6	Refuse Collection Point in Area 10B, Kwai Chung

Annex 9

Two Projects Under Construction Involving Environmental Hygiene Facilities

<i>Item No.</i>	<i>Project Title</i>	<i>Works Start Date</i>	<i>Anticipated Works Completion Date</i>
1	General Improvement Works to Aberdeen Market and Cooked Food Centre	11/2004	03/2006
2	Market and Public Toilet in Aldrich Bay Reclamation Area	02/2002	07/2007

Annex 10

10 Outstanding Projects Put Under Further Review
Involving Environmental Hygiene Facilities

<i>Item No.</i>	<i>Project Title</i>
1	General Improvement Works to Sheung Wan Market
2	Chai Wan Vehicle Depot

<i>Item No.</i>	<i>Project Title</i>
3	Reprovisioning of Sai Yee Street Depot at West Kowloon Reclamation
4	Retrofitting of Air-conditioning to Fa Yuen Street Market and Cooked Food Centre
5	General Improvement Works to Kwun Chung Market and Cooked Food Centre
6	General Improvement Works to To Kwa Wan Market
7	General Improvement Works to Po On Road Market and Cooked Food Centre
8	Tung Chau Street Complex
9	Hung Shui Kiu Complex
10	Redevelopment of Existing Public Toilet at Ngong Ping, Lantau (After review, the scope of this project has been revised to Construction of a New Public Toilet at Ngong Ping)

Note: These projects are pending funding approval or further review on the need or scope of works of the projects.

Riding Bicycles on Pavements

8. **MS MIRIAM LAU** (in Chinese): *President, I have noticed that many people ride bicycles on pavements, endangering the safety of pedestrians. In this connection, will the Government inform this Council:*

- (a) *of the number of prosecutions instituted in each of the past three years by the police against persons for cycling on pavements, broken down by administrative districts, as well as the respective annual numbers of traffic accidents involving cycling on pavement;*
- (b) *whether it will step up prosecution actions in this regard; if so, of the relevant details; if not, the reasons for that; and*
- (c) *whether there are other measures to curb cycling on pavements; if so, of the details?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS (in Chinese): President, we do not have the prosecutions figures and the number of traffic accidents involving cycling on pavements, broken down by

administrative districts. However, such prosecution figures in the past three years, broken down by police regions, are as follows:

<i>Police regions</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Hong Kong Island	-	4	2
Kowloon East	9	1	63
Kowloon West	39	35	112
New Territories South	339	432	455
New Territories North	1 073	1 485	1 779
Total	1 460	1 957	2 411

We do not have the number of traffic accidents involving cycling on pavements, but the numbers of traffic accidents involving bicycles in the past three years are as follows:

<i>Police regions</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
Hong Kong Island	47	4	53
Kowloon East	59	1	66
Kowloon West	114	35	126
New Territories South	477	432	531
New Territories North	973	1 485	870
Total	1 670	1 957	1 646

The number of prosecutions against cycling on pavements has continued to increase in the past three years, from 1 460 in 2003 to 2 411 in 2005, representing an increase of 65%. The police will continue to step up enforcement actions.

Apart from strengthening enforcement, we will also continue to enhance our publicity and education efforts, with particular emphasis on educating the public not to cycle on pavements at popular cycling spots and during summer holidays. The police will also organize campaigns jointly with the District Councils to promote cycling safety from time to time.

Search for Missing Children

9. **DR FERNANDO CHEUNG** (in Chinese): *President, it has been reported that the three-year-old girl taken to Guangzhou by her mother had been left stranded in Guangzhou upon the suicide and death of her mother, while the girl's father had sought assistance from the Social Welfare Department (SWD) about*

his missing wife and daughter. Regarding the search for missing children, will the Government inform this Council:

- (a) whether there are concrete measures to handle cases reported to the SWD, relating to Hong Kong residents' children aged below 12 and missing in the Mainland; if so, of the details; and*
- (b) whether it will adopt the practice of other countries, such as Canada, whereby if either of the parents disagrees to their children being taken away from the territory, or children are suspected to having been abducted, the information of the children concerned will be displayed publicly on the border, so that the public can help prevent them from being taken away from the territory?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
President,

- (a) In cases where the SWD receives reports from Hong Kong residents that their children aged below 12 are missing in the Mainland, it will, in the light of the prevailing circumstances and the wish of the parties concerned, offer assistance where necessary to them including seeking assistance from the police as well as providing emotional counselling and other support services.

If the circumstances so warrant, the police will, with the consent of the family members of the missing children, pass on relevant information to the Mainland's enforcement agencies and seek their assistance in locating the missing persons.

Besides, the Hong Kong Police Force (HKPF), in collaboration with the Shenzhen Public Security Bureau, has also put into place the Shenzhen-Hong Kong Land Boundary Police Co-operation Scheme (the Scheme) since 19 January 2003. The Scheme aims at enhancing liaison on police matters in the four land boundary crossing points, so that the police authorities of both sides can co-operate more effectively to combat criminal activities and deal with relevant cases, and provide immediate assistance to boundary crossers falling victim to crimes that occur in the boundary area. Both sides will continue to utilize the existing police reporting centres or public security facilities located within the land boundary

area to serve the boundary crossers. Members of the public who have lost touch with their young children in the boundary area may seek assistance through the Scheme.

- (b) After taking over cases involving missing children aged below 12, the Regional Missing Persons Units of the police or relevant officers in charge of case will, having regard to the circumstances of individual cases and with the consent of the family members of the missing children, issue missing-person notices through the media and disseminate information of the missing children via the HKPF webpage as soon as possible. They will also consider liaising with all major public transport operators, for example, the Kowloon-Canton Railway and Light Rail Transit, for posting information of the missing children in the appropriate areas of their stations.

People Cheated into Gambling

10. **MR TAM YIU-CHUNG** (in Chinese): *President, I have received requests for assistance from members of the public who suspect that their children have been cheated into gambling and threatened by loansharks to repay the gambling debts. In this connection, will the Government inform this Council:*

- (a) *of the number of cases handled by the police in each of the past three years in which people were suspected to have been cheated into gambling and, among such cases, the respective numbers of those which occurred within and outside Hong Kong as well as involving victims who were minors;*
- (b) *whether the cases mentioned in (a) are on an upward trend; if so, of the reasons for that; and*
- (c) *of the measures to prevent members of the public, in particular young people, from being cheated into gambling, so as to enhance the protection of the interests and safety of the public?*

SECRETARY FOR SECURITY (in Chinese): President,

- (a) In 2003, 2004 and 2005, the police recorded a total of 14, 13 and 11 local cases of deception in gambling and blackmail relating to deception in gambling. None of the victims in these cases was

non-adult. The police do not maintain separate statistics regarding those reported cases of deception in gambling which occurred outside Hong Kong and where police assistance was sought.

- (b) Figures over the past three years indicate that these cases are rather few and do not suggest a rising trend.
- (c) The Administration will closely monitor the trend of these cases and step up enforcement actions when necessary. Besides, on the public education front, the Administration has been implementing measures, including producing different television and radio commercials, posters, banners and television docu-dramas, to educate the public and young people about the adverse consequences of engaging in excessive and illegal gambling, and to enhance public awareness and understanding of gambling-related problems. In addition, through the education campaign entitled "Say No to Gambling Action", anti-gambling educational materials are provided through an online portal to primary and secondary school students. Interactive dramas, creative competitions and concerts have also been organized to enhance young people's understanding of the risks and problems of gambling.

Letters and Numerals Displayed on Vehicle Licence Plates

11. **DR RAYMOND HO** (in Chinese): *President, it has been reported that while the forms required of the letters and numerals on the plates displaying the registration marks of motor vehicles are prescribed by the existing legislation, the majority of motor vehicles running on the roads in Hong Kong are carrying registration plates that do not comply with the provisions concerned. In this connection, will the Government inform this Council:*

- (a) *of the number of cases in which owners of motor vehicles were prosecuted in the past five years, for breaching the above provisions as well as the number of successful prosecutions; and*
- (b) *as the relevant legislation was enacted 50 years ago, whether it will consider amending it to specify more clearly the forms required of the letters and numerals on the plates, so as to facilitate compliance by owners of motor vehicles and enforcement by law-enforcement agencies?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President, under the Road Traffic (Registration and Licensing of Vehicles) Regulations (the Regulations), the letters and numerals of vehicle registration marks shall comply with the form, proportions, arrangement and height requirement specified in Schedule 4 to the Regulations. The Schedule also stipulates the requirements regarding the colours, construction, fitting and illumination of vehicle registration marks. These provisions aim to ensure that law-enforcement officers can clearly identify the registration mark of individual vehicles.

In the past five years, the police issued 14 373 fixed penalty tickets for failure to comply with the relevant regulations. In addition, there were 524 successful prosecutions and convictions through summons. The police do not have record of the number of prosecutions for failure to comply with the required form of letters and numerals of vehicle registration marks. The Regulations, which were enacted in 1983, are reviewed from time to time. We will consider the need for legislative amendments should there be any ambiguities that cause enforcement problems.

Waste Separation Bins

12. **MS AUDREY EU** (in Chinese): *President, will the Government inform this Council:*

- (a) *of the respective numbers of waste separation bins of three different colours (recovery bin) currently placed in various districts throughout the territory, and the respective quantities of different types of waste collected from such bins in each district over the past three years;*
- (b) *whether it has drawn up any guideline regarding the distribution of recovery bins in public places; if it has, of the details; and;*
- (c) *whether it has regularly reviewed the process and frequency of collecting wastes from the recovery bins to avoid their overflow?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President,

- (a) Currently, the Government has placed about 28 000 three-coloured waste separation bins at various locations throughout the territory.

These waste separation bins are placed at public places, by the roadside, in parks, sports venues, leisure and cultural facilities, country parks, schools, public/private housing estates, government quarters/office buildings and hospitals/clinics. The number of waste separation bins in various districts is as follows:

<i>District</i>	<i>Public Places (including roadside, parks, sports venues, leisure and cultural facilities, country parks, government office buildings, hospitals, clinics)</i>	<i>Schools</i>	<i>Public Housing Estates and Government Quarters</i>	<i>Total</i>
Wan Chai	400	130	50	580
Central and Western	450	100	140	690
Eastern	420	160	1 280	1 860
Southern	320	120	230	670
Kowloon City	230	250	310	790
Yau Tsim Mong	370	120	110	600
Sham Shui Po	290	170	520	980
Wong Tai Sin	180	180	510	870
Kwun Tong	230	230	1 110	1 570
Tai Po	590	150	90	830
Yuen Long	320	230	1 340	1 890
Tuen Mun	380	270	420	1 070
North	350	170	150	670
Sai Kung	530	150	260	940
Sha Tin	520	270	1 420	2 210
Kwai Tsing	150	220	570	940
Tsuen Wan	500	110	180	790
Islands	330	60	140	530
Total	6 560	3 090	8 830	18 480*

* In addition, over 9 520 waste separation bins are also placed in 1 250 private housing estates to facilitate residents to participate in waste recovery.

From 2003 to 2005, the quantities of recyclables collected from the waste separation bins at public places and schools through contractors are as follows:

<i>Year</i>	<i>Waste Paper (tonnes)</i>	<i>Aluminium Cans (tonnes)</i>	<i>Plastic Bottles (tonnes)</i>	<i>Total (tonnes)</i>
2003	690	10	210	910
2004	550	20	160	730
2005	323	23	142	488

Starting from April 2003, the collection service also covers schools and government clinics; and starting from May 2005, recyclables collected include plastic materials.

For housing estates, the Environmental Campaign Committee (ECC) has organized the Waste Recycling Campaign since March 1998. The campaign aimed at raising residents' environmental awareness, encouraging them to reduce waste and form the habit of separating waste paper, aluminium cans and plastic bottles for recycling. Over 1 400 public and private housing estates have joined the Campaign. The quantities of recyclables collected from the waste separation bins placed under the Campaign in the past three years are as follows:

<i>Year</i>	<i>Waste Paper (tonnes)</i>	<i>Aluminium Cans (tonnes)</i>	<i>Plastic Bottles (tonnes)</i>	<i>Total (tonnes)</i>
2002-03	140 700	5 900	1 200	147 800
2003-04	140 100	7 800	1 000	148 900
2004-05	97 900	1 200	900	100 000

The three-coloured waste separation bins are usually placed at the ground floor lobby of a building or at the public area of a housing estate, not particularly convenient for the residents who participate in waste separation. In view of this, the Environmental Protection Department (EPD) rolled out the "Programme on Source Separation of Domestic Waste" in January 2005 to encourage housing estates/buildings to provide waste separation facilities on each building floor to facilitate source separation of waste by residents, and to cover more types of recyclables in addition to those collected by waste separation bins. As at the end of December 2005, a total of 223 housing estates (including 160 private housing estates, 35 public housing estates and 28 government quarters) throughout the territory have signed up for the programme (representing 350 000 households or a population of 1.1 million).

The initial results of the programme were encouraging. Forty-two of the estates implementing the "Programme on Source Separation of Domestic Waste" have achieved over 50% increase in the quantity of recyclables collected and a 3% reduction in the quantity of waste for disposal. The EPD will extend the programme to other housing estates in the territory progressively. The target is to

have 80% of the population in Hong Kong participating in the programme by 2010; and to increase the domestic waste recovery rate from the present 14% to 20% by 2007 and 26% by 2012. We hope that the quantity of recyclables collected from participating estates can increase by 50% during the first year of implementation of the programme. The target number of participating housing estates are as follows:

<i>Types of housing estates</i>	<i>2005</i>	<i>2006</i>	<i>2007</i>	<i>2008</i>	<i>2009</i>	<i>2010</i>
Public Housing Estates	30	70	100	120	140	160
Private Housing Estates (including government quarters)	150	400	600	800	1 000	1 200
Total	180	470	700	920	1 140	1 360 [#]

[#] representing 80% of the population

- (b) Government departments will increase or reduce the number of waste separation bins and their locations in the light of the actual situation and needs of the place, such as pedestrian flow, the quantity of recyclables and the holding capacity of the bins, and so on. Members of the public can contact the relevant departments if they have any comments on the number and locations of the waste separation bins.
- (c) Currently, the Government has contracted out the collection service of recyclables from the waste separation bins at public places and schools. According to the contractual requirements, contractors collect recyclables from various collection points at least once a week. At the same time, the Government inspects the waste separation bins at public places to see if they are overflowing, and conducts reviews and requests the contractors to increase the frequency of collection according to the situation and needs so as to prevent the bins from overflowing. For public and private housing estates, the management of the waste separation bins and the collection of recyclables are arranged by the property management companies or the cleansing service contractors of the housing estates concerned.

Mainlanders Coming to Study in Hong Kong

13. **MR SIN CHUNG-KAI** (in Chinese): *President, will the Government inform this Council of:*

- (a) *the respective numbers of mainlanders who came to Hong Kong on student visas over the past three years to study courses offered by University Grants Committee-funded institutions for associate degree, diploma/higher diploma, bachelor's degree, taught master's degree, research master's degree and doctor's degree, with a breakdown by institution; and*
- (b) *the length of time currently required for processing mainlanders' applications for student visas to study in Hong Kong?*

SECRETARY FOR SECURITY (in Chinese): President,

- (a) Statistics on mainland residents who were issued with entry permits by the Immigration Department (ImmD) to study in full-time post-secondary programmes offered by University Grants Committee-funded institutions in the past three years are set out in Table 1 and Table 2 below.

Table 1: Breakdown by programmes

	2003	2004	2005
Sub-degree programmes ^{Note1}	-	-	108 ^{Note2}
Undergraduate programmes	424	946	1 283
Post-graduate programmes ^{Note3}	452	1 308	1 775
Total	876	2 254	3 166

Note 1: Statistics include associate degree, higher diploma and professional diploma. The ImmD does not have the detailed breakdown by these programmes.

Note 2: Before the academic year of 2005, mainland residents were not allowed to enter Hong Kong to study in programmes at below the degree level. Since the academic year of 2005, mainland residents may apply to come to study at locally accredited full-time programme at sub-degree level.

Note 3: The ImmD does not have the detailed breakdown by taught postgraduate, research postgraduate and PhD programmes.

Table 2: Breakdown by institutions

	2003 ^{Note4}	2004	2005
University of Hong Kong	-	423	666
The Chinese University of Hong Kong	-	550	608

	2003 ^{Note 4}	2004	2005
The Hong Kong Polytechnic University	-	351	562
City University of Hong Kong	-	356	537
The Hong Kong University of Science and Technology	-	425	450
Hong Kong Baptist University	-	125	270
Lingnan University	-	14	49
The Hong Kong Institute of Education	-	10	24
Total	876	2 254	3 166

Note 4: The ImmD does not have the breakdown by institutions in 2003.

- (b) The ImmD can normally finalize processing of applications for visas/entry permits to study in Hong Kong within six weeks upon receipt of all necessary documents.

Floodlights Around Swimming Pools

14. **MR HOWARD YOUNG** (in Chinese): *President, recently I have received complaints from members of the public that the floodlights around the swimming pool of the estate in their vicinity were excessively bright and not focused on the pool, thus affected their sightlines. In this connection, will the Government inform this Council:*

- (a) *of the number of complaints received by the authorities in the past three years concerning excessively bright floodlights around swimming pools;*
- (b) *of the difference in the brightness requirements imposed by the authorities regarding the floodlights around swimming pools in private estates and hotels, and those around public swimming pools;*
- (c) *whether the authorities will consider requiring the fitting of lampshades on the floodlights around swimming pools in densely populated areas; if not, the measures adopted by the authorities to*

reduce the impacts of the light from such floodlights on the residents nearby; and

- (d) *as the utilization rates of swimming pools in private estates and hotels are relatively low at night, whether the authorities will consider relaxing the brightness requirement for the floodlights around the swimming pools concerned as long as the safety requirements of such pools are met?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
President,

- (a) The Leisure and Cultural Services Department (LCSD) had received four complaints against the illumination level of public swimming pools between 2003 to 2005 and taken immediate follow-up actions to address the problems. The Food and Environmental Hygiene Department (FEHD) also received three complaints against the excessively bright floodlights around private swimming pools.
- (b) According to the Architectural Services Department (ASD), there is currently no legal standard for lighting of public swimming pools. The current lighting requirement for public swimming pools has been drawn up with reference to the guidelines issued by the British Chartered Institution of Building Services Engineers (CIBSE). The current average illumination for public swimming pools generally lies within the range of 300 to 500 lux.

For swimming pools in private housing estates and hotels that are governed by the Swimming Pools Regulation (Cap. 132, sub. leg. CA), the illumination for both the sidewalks and water surface of the pool must be maintained at an average of 200 lux or above. The above licence condition for illumination of swimming pools floodlights was set by the FEHD after consultation with the ArchSD.

- (c) On receiving a complaint about the level of illumination in a public swimming pool from residents in the neighbourhood, the LCSD would liaise with the ASD to conduct on-site visits. When necessary, the ASD would take the following improvement measures as appropriate:

- (i) reposition the headset of the existing lighting system or change its angle to adjust the area of its illumination; or
- (ii) add lampshade or filter to the existing lighting system to reduce the glare.

For private swimming pools, the FEHD recorded only three complaints against excessively bright pool lighting over the past three years. In line with the licence condition on illumination of swimming pools, the management had resolved the problems by adjusting the angle or brightness of the lighting systems.

- (d) For swimming pools in private housing estates and hotels that have low utilization rate during night-time, the management may apply to the FEHD to relax the requirements for pool lighting. The FEHD would take into account the conditions of the subject swimming pool and the safety of swimmers in processing the application.

Regulation of Slimming Services

15. **DR JOSEPH LEE** (in Chinese): *President, a survey conducted by the Consumer Council has revealed that slimming service providers often use exaggerated language to persuade the public to join slimming treatment programmes. The charges for such treatment programmes may be as high as \$50,000, but their effectiveness remains questionable. Some members of the public have even had their legs scorched. Meanwhile, the Consumer Council is drawing up a Beauty Industry Code of Practice (the Code) to provide guidance to the industry on matters such as trade practice and service quality. In this connection, will the Government inform this Council:*

- (a) *of the number of complaints received by the authorities concerned about injuries caused by cosmetic/slimming treatment programmes last year;*
- (b) *of the expected effectiveness of the Code which has no legal effect; and*
- (c) *whether it plans to introduce legislation to regulate matters such as the use and sale of slimming treatment devices, the professional qualification requirement for and conduct of the operators of such*

devices, the use of drugs and chemicals by slimming service providers, the contents and marketing tactics of slimming advertisements, and the charging level and mode of slimming services; if it does, of the details of the plan; if not, the reasons for that?

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Chinese): President, having consulted the Health, Welfare and Food Bureau (the Bureau), our consolidated reply is as follows:

- (a) In 2005, the Department of Health (DH) did not receive any complaints concerning injuries caused by beauty or slimming treatment programmes. The Consumer Council received a total of 38 such complaints, of which 30 were related to beauty treatment while the eight others were related to slimming treatment. These cases involved allergy, pain and the appearance of marks on the skin after treatment.
- (b) The drafting of the relevant Code has just been completed. The Code covers areas such as service quality, complaint handling and prepayment for services. Throughout the drafting process, the Consumer Council has consulted the trade and acted as the convenor of the task force responsible for the drafting of the Code. All 11 task force members are representatives of the beauty industry, and the industry representatives have promised that they will actively promulgate and abide by the Code. Accordingly, the Consumer Council is confident that the Code will help enhance service quality of the beauty care industry.
- (c) There is no specific legislation governing the provision of slimming and beauty care services. However, consumers are protected by general consumer protection legislation including:
 - (i) the Unconscionable Contracts Ordinance, which empowers the Courts to refuse to enforce, or to revise unconscionable terms in consumer contracts for the sale of goods or supply of services;
 - (ii) the Supply of Services (Implied Terms) Ordinance, which stipulates that a supplier of a service is obliged to carry out

the service with reasonable care and skill and within a reasonable time; and

- (iii) the Sale of Goods Ordinance, which provides that where a seller sells goods in the course of a business, there is an implied condition that the goods supplied are of merchantable quality and that a buyer has the right to reject defective goods unless he or she has a reasonable opportunity to examine the goods.

The Bureau advises that a Medical Device Administrative Control System (the System) has been implemented in phases by the DH since 2004. The System is intended to administer the sale and use of medical devices, instead of slimming devices. The definition of medical device is adopted from the recommendations of the Global Harmonization Task Force. A device is only regarded as a medical device if its intended use, as claimed by the manufacturer, involves actual modification of body structure.

The Bureau further advises that where the use of pharmaceutical products is concerned, the current Pharmacy and Poisons Ordinance regulates the supply, dispensing and use of such products. Under this Ordinance, prescription drugs can only be prescribed and administered for use by registered medical practitioners or dispensed by registered pharmacists on receipt of valid prescriptions issued by medical practitioners. Other controlled pharmaceutical products are required to be supplied in pharmacies registered under the Ordinance.

Handling of Bird Carcasses

16. **MR WONG KWOK-HING** (in Chinese): *President, will the Government inform this Council whether:*

- (a) *the Food and Environmental Hygiene Department (FEHD) has organized training programmes for its staff and employees of its service contractors on how to handle carcasses of birds and the related work; if so,*
 - (i) *of the contents and formats of such programmes;*

- (ii) of the ranks of staff invited to participate in such programmes, and whether the staff appointed on different terms of employment (such as civil servants, non-civil service contract staff and employees of contractors) enjoy equal opportunities to participate in such programmes and have the same number of hours of training; if not, of the basis for making the relevant arrangements; and*
 - (iii) of the number of programmes organized since last year, the number of participants in such programmes, as well as the percentage of participants in the total number of the staff concerned; and*
- (b) staff appointed on different terms of employment are provided with the same protective gear when handling carcasses of birds and the related work; if not, of the reasons for that?*

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Chinese):
President,

- (a) The FEHD has formulated a package of contingency measures against avian influenza, covering work procedures for the culling of poultry, cleansing and disinfection of premises, and guidance notes on collection procedures for bird carcasses. These procedures have already been incorporated into a code of practice and safety guidelines issued to officers in charge in various districts.

As for the collection of bird carcasses in public places, the FEHD has briefed the staff in detail on the procedures for handling bird carcasses and disinfection as well as general knowledge of personal protective gear and personal hygiene. A code of practice and safety guidelines on these issues has also been issued. Relevant information is also posted in district environmental hygiene offices and roll-call points for easy reference of staff.

To enhance the vigilance of the staff and to ensure that they understand the precautionary measures against avian influenza, the FEHD has organized annual large-scale briefings over the past two years on detailed contingency measures against avian influenza

(including the procedures for handling bird carcasses) and distributed information booklets to them.

Workmen IIs in the FEHD are staff responsible for collection of bird carcasses. The FEHD has distributed a code of practice and safety guidelines to these staff (about 1 200) and their supervisors. In addition, nearly 1 000 FEHD staff have also attended the aforesaid large-scale briefings on the preparedness plan for avian influenza (which also covered ways to handle bird carcasses). The FEHD has also instructed its contractors for street cleansing service to remind their staff of the need for strict compliance with the code of practice and safety guidelines in handling bird carcasses.

- (b) Apart from providing suitable protective gear to civil servants and contract staff of various ranks for handling bird carcasses, the FEHD also requires its service contractors to provide the same protective gear for their employees.

Removal of Christmas Lightings Causing Damages to Trees

17. **MISS CHOY SO-YUK** (in Chinese): *President, on the 3rd of last month, I saw workers using brutal means to remove the Christmas lighting decorations from the trees at Statue Square in Central, which resulted in numerous branches and flowers being snapped off. I gave out advice immediately. As the person in charge of the work was not found at the scene, I subsequently lodged a complaint with the Hong Kong Tourism Board (HKTb) which had put up such lighting decorations. In this connection, will the Government inform this Council:*

- (a) *whether the Leisure and Cultural Services Department (LCSD) and HKTb have deployed staff to supervise the hanging and removal of these lighting decorations; if they have, whether warnings have been issued to the contractors for damaging the trees; if not, the reasons for that;*
- (b) *whether the LCSD and HKTb know the extent of the damage caused to the trees in the vicinity of Statue Square; if so, of the results and whether they have requested the contractors to bear the relevant expenses; if not, the reasons for that; and*
- (c) *of the measures to prevent the recurrence of similar incidents?*

SECRETARY FOR HOME AFFAIRS (in Chinese): President, the Administration's response to the three parts of the question are as follows:

- (a) The Statue Square Gardens and Chater Garden of the LCSD were hired by the HKTb for holding the "2005 Hong Kong WinterFest" (the WinterFest) from 9 November 2005 to 14 January 2006. During the WinterFest, a Santa's Town was set up in Statue Square Gardens and Chater Garden with decorative lightings. The WinterFest was concluded on 2 January and the dismantling work commenced on 3 January.

The HKTb had appointed a contractor to design, set up, maintain and dismantle the venue decoration of the WinterFest. The contractor was required to observe all rules and regulations in respect of the use of the venues and to bear all costs or to make good any damages caused to the venue facilities as a result of their works. The LCSD had also arranged staff to observe the construction and dismantling works carried out by the contractor.

During our inspection, the LCSD staff had found that the contractor had caused damage to some plants while dismantling the lightings. The LCSD staff immediately warned the contractors of their improper act and requested the HKTb to tighten up supervision of their contractor. The HKTb had also warned the contractor at once and reminded them to exercise extreme care during dismantling so as to avoid damage to plants. Upon receiving the referral from the Honourable CHOY So-yuk's office, the HKTb immediately conducted site inspection again and warned the contractor accordingly.

- (b) After the incident of 3 January, both the staff of the HKTb and LCSD had conducted site checks. It was found that a few small branches of the tree in question were broken but its general condition was satisfactory. Upon completion of all dismantling works, the LCSD conducted a site check again with the HKTb and the other relevant departments and observed that some damage had been done to a few shrubs. In accordance with the conditions of hire, the LCSD had requested the HKTb to follow up the case with the contractor. The HKTb is considering further action to hold the contractor liable for the incident.

- (c) To prevent recurrence of similar incident, the LCSD would require venue hirers to strengthen supervision of their setting up and dismantling works. The LCSD would also strengthen on-site inspections to ensure that plants and properties are adequately and suitably protected.

Quarantine Requirements on Importing Dogs and Cats

18. **MR LI KWOK-YING** (in Chinese): *President, currently, the authorities classify various countries or regions into three groups to impose different quarantine requirements on importing dogs and cats. The requirements in respect of Group III countries or regions are the strictest, as dogs and cats from these places are subject to a four-month quarantine in an approved Animal Management Centre after arrival in the territory, resulting in each importer having to bear fees in excess of \$10,000. Some members of the public have pointed out that while there has been no confirmed rabies case in Macao in the past several decades, the region is still classified as a Group III territory. In this connection, will the Government inform this Council of the criteria adopted for determining the groups into which individual countries or regions are classified, and whether it regularly reviews the classification?*

SECRETARY FOR HEALTH WELFARE AND FOOD (in Chinese): President, the risk of introducing rabies by the importation of animals from different countries varies. Currently Hong Kong places countries or areas into one of three groups based on a risk assessment of rabies being introduced from those countries by the importation of animals. The current classification was last reviewed in 1994. Hong Kong is recognized by the World Organization for Animal Health (OIE) as free of rabies.

The risk assessment is based on scientific reasoning. Factors taken into consideration include the presence of a well established veterinary service in the country where the animal comes from, maintenance of a rabies surveillance system, effective border control measures to prevent introduction of rabies, history of reports to the OIE on rabies cases and control measures, implementation of disease control measures such as vaccination and stray dog control, presence of rabies in neighbouring countries/territories, as well as presence of rabies in wildlife and control measures applied. When the Agriculture, Fisheries and Conservation Department (AFCD) decided the

classification of different countries or areas, the same criteria was adopted. Information used for risk assessment is obtained from a wide variety of sources, including the OIE country reports, the World Health Organization rabies survey, reports published by national, state, provincial or territory administrations, published papers and responses from countries about their rabies status and control measures applied.

According to the current classification of the AFCD, Group I includes countries where rabies has been absent for a very long time and where neighbouring countries are free of rabies. This group currently includes six countries, all of which are islands such as Australia, the United Kingdom and Ireland. Group II includes countries where rabies is absent, or present at a very low level in wildlife and control measures such as import control, vaccination and disease surveillance are strictly implemented. There are currently 40 countries/territories in this group, such as France, Spain and Canada. Group III includes all remaining countries or territories, including Macao, Argentina, and so on. We have been communicating with the Macao authorities to seek information on matters concerned with rabies there.

In the light of changes of the situation of rabies in other countries and new developments in scientific measures in controlling rabies, the Government reviews the country classification and the classification of individual countries or areas from time to time. The latest review is almost completed, including the classification of Macao.

Permitting Taxis and Green Minibuses to Access Lok Ma Chau Control Point

19. **MR LAU KONG-WAH** (in Chinese): *President, the Administration has implemented a trial scheme since March 2003, permitting taxis and green minibus (GMB) on four routes to access the Lok Ma Chau Control Point (LMCCP) for picking up and dropping off passengers between 12 midnight (advanced to 11 pm since 26th January 2005) and 6.30 am every day. In this connection, will the Government inform this Council:*

- (a) *of the respective daily average numbers of passengers taking urban taxis, New Territories taxis and GMBs of various routes to and from the LMCCP;*

- (b) *whether it will consider implementing the above arrangement on a long-term basis, as well as extending the relevant access period to the whole day; if so, of the details of its consideration; if not, the reasons for that; and*
- (c) *whether it has considered implementing similar schemes at other boundary control points; if so, of the details of such schemes; if not, the reasons for that?*

SECRETARY FOR THE ENVIRONMENT, TRANSPORT AND WORKS

(in Chinese): President, replies to the question are as follows:

- (a) According to the survey conducted by the Transport Department, the average number of passengers taking GMBs to and from the LMCCP between 11 pm and 6.30 am each day is 4 200. The numbers of New Territories and urban taxi patrons during the period are 1 200 and 300 respectively.
- (b) We have to ensure that cross-boundary traffic, particularly freight traffic, which is of paramount importance to the economic development of Hong Kong, would not be affected by the trial scheme. Cross-boundary traffic via LMCCP has been increasing rapidly in recent years. Traffic in the vicinity is heavy. At San Sham Road and the San Tin Interchange nearby, the traffic remains busy until night-time. Moreover, there is very limited space and facilities for the operation of public transport services at the control point. We therefore consider it undesirable to extend the operating hours of the scheme to the whole day. Also, we consider that keeping the scheme as a trial arrangement will give us more flexibility in adjusting the scheme having regard to the traffic conditions of the control point.
- (c) Due to the physical constraints at the other three land boundary control points, that is, Lo Wu, Man Kam To and Sha Tau Kok, we cannot provide public transport interchanges (PTIs) or pick-up and drop-off facilities. We therefore cannot carry out similar trial schemes at those control points. However, we have reserved spaces for providing PTIs at the control points at the Hong

Kong-Shenzhen Western Corridor and Kowloon-Canton Railway Corporation Sheung Shui to Lok Ma Chau Spur Line, both of which are under construction. Upon the commissioning of these new control points, franchised buses, GMBs and taxis will be able to access them during their operating hours.

Chief Executive's Remarks on Monitoring of Executive Authorities by Legislature

20. **MR LEUNG YIU-CHUNG** (in Chinese): *President, when attending a radio programme on the 5th of this month, the Chief Executive said that while it was provided in the Basic Law that the legislature had the function of monitoring the executive authorities, he "hoped that its monitoring would not overstep the line and become a case of acting primarily out of political rather than practical considerations". In this connection, will the Government inform this Council:*

- (a) of the reasons for the Chief Executive making the above remarks; and*
- (b) whether there have been any specific examples showing that the Legislative Council, in monitoring the operation of the Government, has acted ultra vires and primarily out of political considerations; if not, whether it will review if the above remarks were rash and would harm the relationship between the legislature and the executive authorities, and whether the Chief Executive will apologize to the Legislative Council for having made such remarks?*

SECRETARY FOR CONSTITUTIONAL AFFAIRS (in Chinese): President, according to the design of the Basic Law, the political structure implemented in the Hong Kong Special Administrative Region (HKSAR) is an executive-led system. The executive authorities and the legislature have their respective functions. They should both complement, and keep a check and balance on, each other's functions.

The political structure of the HKSAR is an executive-led system headed by the Chief Executive, as realized in the following provisions of the Basic Law:

- (i) The Chief Executive shall be the head of the HKSAR (Article 43 of the Basic Law).
- (ii) The Chief Executive is at the same time the head of the HKSAR Government (that is, the executive authorities) (Article 60 of the Basic Law).
- (iii) The Chief Executive is responsible for the implementation of the Basic Law (Article 48 of the Basic Law).
- (iv) The Chief Executive leads the government of the Region; decides on government policies; issues executive orders; nominates and reports to the Central People's Government for the appointment of principal officials and recommends to the Central People's Government the removal of them; appoints or removes Judges of the Courts at all levels and holders of public office in accordance with legal procedures; and conducts, on behalf of the HKSAR, external affairs and other affairs as authorized by the Central Authorities (Article 48 of the Basic Law).
- (v) The Chief Executive leads the HKSAR Government to exercise relevant powers and functions, which include formulating and implementing policies; conducting administrative affairs; drawing up and introducing budgets; drafting and introducing bills, motions and subordinate legislation (Article 62 of the Basic Law).
- (vi) The land and natural resources within the HKSAR shall be State property. The Government of the HKSAR shall be responsible for their management, use and development and for their lease or grant to individuals, legal persons or organizations for use or development. The revenues derived therefrom shall be exclusively at the disposal of the government of the Region (Article 7 of the Basic Law).
- (vii) The roles played by the Chief Executive in the legislative process include the signing of bills and the promulgation of laws (Articles 48 and 76 of the Basic Law) and are set out in other relevant provisions (Articles 49, 50 and 51 of the Basic Law).

- (viii) Members of the Legislative Council may not introduce bills relating to public expenditure or political structure or the operation of the government. The written consent of the Chief Executive shall be required before bills relating to government policies are introduced by Members (Article 74 of the Basic Law).

The powers and functions of the Legislative Council are clearly stipulated in Article 73 of the Basic Law: to enact, amend or repeal laws in accordance with the provisions of the Basic Law and legal procedures; to examine and approve budgets introduced by the government; to approve taxation and public expenditure; to receive and debate the policy addresses of the Chief Executive; to raise questions on the work of the Government; to debate any issue concerning public interests; to endorse the appointment and removal of the judges of the Court of Final Appeal and the Chief Judge of the High Court; to receive and handle complaints from Hong Kong residents; to pass a motion of impeachment regarding charges against the Chief Executive for serious breach of law or dereliction of duty when he or she refuses to resign; and to summon, as required when exercising the abovementioned powers and functions, persons concerned to testify or give evidence.

On the other hand, Article 64 of the Basic Law stipulates that the Government of the HKSAR must abide by the law and be accountable to the Legislative Council of the Region: it shall implement laws passed by the Council and already in force; it shall present regular policy addresses to the Council; it shall answer questions raised by Members of the Council; and it shall obtain approval from the Council for taxation and public expenditure.

According to the above Basic Law provisions, whilst the executive authorities and the legislature have their respective functions and powers, they should both complement, as well as keep a check and balance on, each other's functions. The bills and budgets proposed by the Government of the HKSAR must be examined and approved by the Legislative Council before they are implemented. The executive and the legislature play their respective roles. The relationship between the executive and the legislature has been clearly set out in the 2005-06 policy address announced by the Chief Executive in October last year. The remarks made by the Chief Executive on the radio programme reaffirmed the long-standing position of the Government that we hoped that the executive and legislature could co-operate closely and deal with issues of public concern together in a practical and pragmatic manner.

MOTIONS

PRESIDENT (in Cantonese): Motion. Proposed resolution under the Pharmacy and Poisons Ordinance to approve the Pharmacy and Poisons (Amendment) Regulation 2006 and the Poisons List (Amendment) Regulation 2006.

PROPOSED RESOLUTION UNDER THE PHARMACY AND POISONS ORDINANCE

SECRETARY FOR HEALTH, WELFARE AND FOOD (in Cantonese): Madam President, I move that the Poisons List (Amendment) Regulation 2006 and the Pharmacy and Poisons (Amendment) Regulation 2006 as set out under my name in the paper circulated to Members be approved.

Currently, we regulate the sale and supply of pharmaceutical products through a registration and inspection system set up in accordance with the Pharmacy and Poisons Ordinance (the Ordinance). The Ordinance maintains a Poisons List under the Poisons List Regulations and several Schedules under the Pharmacy and Poisons Regulations. Pharmaceutical products put on different parts of the Poisons List and different Schedules are subject to different levels of control in regard to the conditions of sale and keeping of records.

For the protection of public health, some pharmaceutical products can only be sold in pharmacies under the supervision of registered pharmacists and in their presence. For certain pharmaceutical products, proper records of the particulars of the sale must be kept, including the date of sale, the name and address of the purchaser, the name and quantity of the medicine and the purpose for which it is required. The sale of some pharmaceutical products must be authorized by prescription from a registered medical practitioner, a registered dentist or a registered veterinary surgeon.

The Amendment Regulations now before Members seek to amend the Poisons List in the Poisons List Regulations and the Schedules to the Pharmacy and Poisons Regulations for the purpose of imposing control on five new medicines.

Arising from the applications for registration of five pharmaceutical products, the Pharmacy and Poisons Board (the Board) proposes to add five substances to Part I of the Poisons List and the First and Third Schedules to the Pharmacy and Poisons Regulations. Pharmaceutical products containing any of these substances must be sold in pharmacies under the supervision of registered pharmacists and in their presence, with the support of prescriptions. We propose that the Amendment Regulations take immediate effect upon gazettal on 17 February 2006 to allow early control and sale of medicines containing these substances.

The two Amendment Regulations are made by the Board, which is a statutory authority established under section 3 of the Ordinance to regulate the registration and control of pharmaceutical products. The Board comprises members engaged in the pharmacy, medical and academic professions. The Board considers the proposed amendments necessary in view of the potency, toxicity and potential side effects of the medicines concerned.

With these remarks, Madam President, I move the motion.

The Secretary for Health, Welfare and Food moved the following motion:

"RESOLVED That the following Regulations, made by the Pharmacy and Poisons Board on 19 January 2006, be approved -

- (a) the Pharmacy and Poisons (Amendment) Regulation 2006;
and
- (b) the Poisons List (Amendment) Regulation 2006."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by the Secretary for Health, Welfare and Food be passed.

PRESIDENT (in Cantonese): Does any Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): I now put the question to you and that is: That the motion moved by the Secretary for Health, Welfare and Food be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority of the Members present. I declare the motion passed.

MEMBERS' MOTIONS

PRESIDENT (in Cantonese): Members' motions. Three motions with no legislative effect.

First motion: Implementing the recommendations in the Report on Working Poverty by the Subcommittee to Study the Subject of Combating Poverty.

IMPLEMENTING THE RECOMMENDATIONS IN THE REPORT ON WORKING POVERTY BY THE SUBCOMMITTEE TO STUDY THE SUBJECT OF COMBATING POVERTY

MR FREDERICK FUNG (in Cantonese): President, the Report on Working Poverty of the Subcommittee to Study the Subject of Combating Poverty was endorsed at the House Committee meeting of the Legislative Council last Friday. If we look at the contents and the process, the endorsement of this Report carries two shades of significance: First, the significance of the Legislative Council's internal discussion process; second, the significance of the recommendations made in the Report. I will discuss with Members these two shades of significance in two parts.

Firstly, the first shade of significance. As pointed out in the part on conclusion of this Report, the Subcommittee agreed that a definition must be given to working poverty. Paragraph 3.3 of the Report stated that those households with a monthly income below 50% of the median income of households of the same size and with at least one member working are working-poor households. This definition is unanimously agreed by members. I believe you, President, are also aware that when other panels or subcommittees discuss issues relating to the people's livelihood, views are always rather diverse and in particular, when motions on this topic are debated in this Council, it seems that they are often negated. So, being the Chairman of the Subcommittee, I am very glad that a unanimous consensus can be reached, because I could see that different parties and factions had arrived at a common conclusion in a most understanding and accommodating manner.

I believe Members may know that in compiling this Report, the Subcommittee had divided the entire process into three stages. At the first stage, the Subcommittee, with the assistance of the Secretariat, collected comments and opinions expressed by various parties and factions and independent Members of the Legislative Council on working poverty over the past few years, and these comments and opinions were then collated and compiled. At the second stage, the Subcommittee received 13 social organizations in 2004 to listen to their views and suggestions on working poverty. At the third stage, the Subcommittee conducted closed meetings to discuss, analyse and decide on the direction of the Report. In the meantime, we had, for many times, sought the relevant statistics, reports and information from the Census and Statistics Department (C&SD). These three stages have basically paved the way for consensus, because during these three stages:

- (1) the Subcommittee had presented the opinions and positions of various parties and factions, independent Members, as well as members of the community, to give an overview of issues on which they shared a common view and those on which they held different views;
- (2) the Subcommittee had obtained statistics and information from the C&SD on different opinions and positions, in order to understand more clearly the actual situation. Under the principle of presenting facts and reasoning things out, it was basically unnecessary to hold discussion on many issues and circumstances; and

- (3) the Subcommittee was basically prepared to make decisions with the attitude of seeking common grounds while reserving differences. For this reason, the Subcommittee decided initially to conduct discussions in closed meetings, because members were of the view that when discussing different opinions, closed meetings could facilitate discussion more effectively and communication between members would also be easier. But after holding one closed meeting, members found that there was consensus among them on quite many issues and so, it was decided that the subsequent meetings would be conducted openly.

(THE PRESIDENT'S DEPUTY, MS MIRIAM LAU, took the Chair)

I hope that the Government of the Hong Kong Special Administrative Region (SAR) can attach importance to and respect this Report, for it is the second report with the greatest consensus in this term of the Legislative Council — the first being the report on West Kowloon Cultural District. This has reflected that the contents and recommendations of this Report are agreed by Members returned by geographical constituencies through direct elections and those returned by functional constituencies, and also by various parties and factions. The SAR Government considers it necessary to co-operate with the Legislative Council in many aspects and work with one heart and one mind in poverty alleviation. I think as the Report on Working Poverty has already been endorsed by the House Committee and if it is endorsed today, it would be a very good beginning. I hope that the SAR Government can join hands with us to face this problem.

Since the Chief Executive has the objective of working for the well-being of the people, as suggested in the title of his policy address, the SAR Government should understand and keep tabs on the actual situation of working poverty with an objective, rational attitude, and consider ways to address the problem focusing on the causes, so that people who wish to stand on their own feet can truly become self-reliant by making a living on their own and providing for their families. The Report of the Legislative Council has put forward effective proposals to the SAR Government. We hope that the executive and the legislature can work in concert to face this problem and help the working poor resolve their difficulties. If the SAR Government still fails to address this

issue, face up to this issue, respect this issue and solve this issue, I think the conflict is not just between the executive and the legislature. It will even be a conflict between the SAR Government and the working poor.

As I now proceed to the second part of my speech, I wish to talk about the contents of the Report. The Subcommittee has basically made reference to the definition of working poverty provided in "A Statistical Profile of Low-income Households in Hong Kong" by the Hong Kong Council of Social Service (HKCSS). According to that definition, it means a household with at least one member working and a monthly income below 50% of the median income of households of the same size. In reply to a question this morning, the Financial Secretary basically admitted that if the household income is lower than the level of Comprehensive Social Security Assistance (CSSA) payment — in fact, the CSSA line is basically widely considered as the poverty line, and this so-called CSSA line or poverty line is only about 4% lower than the definition suggested by the HKCSS. If this CSSA line, or this widely accepted poverty line, is used by the Financial Secretary as an indicator in drawing up measures to help the poor in the future, then I think it would be an improvement.

Besides, according to the statistics provided by the C&SD, in the second quarter of 2005, there were in Hong Kong 417 000 families with a monthly income below 50% of the median monthly household income. These families accounted for 18.33% of the total number of families and showed an increase of 13% when compared to the 370 000 families in 1998. Among these 417 000 families, 170 000 had at least one member working, accounting for 7.48% of the total number of households in Hong Kong, and as many as 70% of these families are three-member or four-member families.

After we had collected such data and information, detailed discussion was conducted for many times and consensus was reached on those eight points as set out in Chapter 6 of the Report. Members can refer to Chapter 5 if they wish to know more details behind the consensus and the views of various parties and factions on the consensus. I will not explain the contents of the Report to Members chapter by chapter here. However, I would like to read out the eight proposed directions in Chapter 6 for a better understanding by Members and for the record of this Council:

- (a) Enabling community participation and empowerment of the working poor in formulating strategies to reduce working poverty;

- (b) Developing the economy and creating employment opportunities;
- (c) Providing community support and developing local economies;
- (d) Reviewing the contracting-out arrangements for government services;
- (e) Safeguarding employees' benefits;
- (f) Enhancing the competitiveness of the working poor through education and training;
- (g) Providing financial assistance to the working-poor households; and
- (h) Providing support services for working-poor households. On this point, I hope that such services can include relaxing the eligibility requirement for applying for government resources, such as the eligibility requirement for public housing applications.

Apart from these eight recommendations, actually there is also a ninth recommendation but as some members took exception to it, it was, therefore, not included. The ninth recommendation is about setting a minimum wage. We consider that on this issue, our different opinions can be discussed in this Council in future and then, we will see if we can reach a consensus on it. Let me reiterate that these are directions, and these recommendations are explained in detail in Chapter 5 and so, I am not going to repeat them here.

I also wish to compare this Report with the proposals made by the Government's Commission on Poverty (CoP) on the same subject. A fortnight before this Report was passed by the Subcommittee, the CoP established by the Government had also discussed a paper titled "Policies in Assisting Low-income Employees". To compare this paper with our Report, I think it is worthwhile to draw a comparison in four aspects. I will try to draw a comparison with the paper of the CoP in relation to these four aspects and share my views with Members:

- (1) The CoP published last month the policy proposals on working poverty in a paper titled "Policies in Assisting Low-income

Employees". This paper did not examine whether poverty alleviation work under the existing policies is adequate and if not, what the inadequacies are. Nor did it examine whether the Government's policies are creating poverty.

- (2) In the paper of the CoP, working poverty is measured by personal earnings. We consider that in order to reflect the problem of working poverty, working poverty should be defined on the basis of household income, which is more reasonable and consistent with the actual circumstances in society than measuring it by personal earnings.
- (3) The statistics provided by that paper are different from ours. The Government's paper drew a comparison based on the earnings of low-income employees between 2003 and 2005, whereas we drew a comparison using the statistics over a period of 10 years, and given the longer time trend in a period of 10 years, the actual situation or the background can be reflected more realistically. Moreover, as we estimated and considered the future trends based on data in the last 10 years, statistics covering a period of 10 years are more convincing than those covering just three years.
- (4) Despite continued increase in public expenditure by the Government, the paper did not examine whether working-poor households can be provided with the relevant benefits. For example, some households do not apply for the CSSA even though they live below the CSSA line or their household income is below 50% of the median household income, but as these households refused to apply for CSSA, they are not provided with assistance in terms of housing, social welfare and health care services. If these households are defined as working-poor households, is it necessary to revise government policies? The paper has not made any proposal in this regard.

Finally, Deputy President, while I am the Chairman of the Subcommittee, I have proposed this motion in my personal capacity, and I wish to make a number of suggestions which are not related to the Report of the Subcommittee. My five suggestions are as follows:

- (1) I hope the Government can make reference to the Tax Credit Scheme of the United Kingdom (the details of which are set out in an appendix to the Report), in order to provide financial assistance to working-poor households and encourage employment;
- (2) Efforts should be made to encourage the development of some new industries (such as the recycling industry) and also the returning to Hong Kong of the manufacturing industry, in order to create employment opportunities for low-skilled workers;
- (3) Travel allowances should be provided to the working poor living in the remote parts of the territory;
- (4) A fund should be set up for provision of assistance to children, in order to provide children of working-poor families with sufficient learning and development opportunities; and
- (5) Funding should be resumed for adult education and training be enhanced for low-skilled workers to add value in them, so as to help them seek employment and increase their income to support themselves and their families.

Finally, Deputy President, I have two hopes. First, I hope that the eight-point consensus reached by various parties and factions and Members of the Legislative Council as set out in this Report can be supported, respected and implemented by the Government; second, as the Chairman of the Subcommittee, I would like to openly invite the Chairman of the CoP, Mr Henry TANG, the Financial Secretary, to formally meet with the Subcommittee to exchange views on the issue of working poverty. Thank you, Deputy President.

Mr Frederick FUNG moved the following motion: (Translation)

"That this Council endorses the Report on Working Poverty by the Subcommittee to Study the Subject of Combating Poverty, and urges the Government to implement the recommendations therein."

DEPUTY PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Mr Frederick FUNG be passed.

MR ALBERT HO (in Cantonese): Deputy President, we believe it is undeniable that one important aspect in combating poverty and helping the poor is to seek ways to assist people with low income.

This Report submitted by the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) has indeed provided a lot of important and valuable information for Members' reference. The Report also sets out a lot of views that the Democratic Party fully agrees with. We hope that these views can serve as reference for the CoP in its work in future and even become the objectives of its work.

Deputy President, let us first look at some important figures disclosed in this Report. On the definition of poverty, we have adopted an international standard. Firstly, those households with a monthly income below 50% of the median income of households of the same size and with at least one member in employment are classified as working-poor households. According to statistics, there were 417 600 such households in 2005, a 13% increase over that in 1998 when there were 369 500 such households. Moreover, the number of people in working poverty was 1.3 million in 2004, representing an increase of 300 000 over the figure 10 years ago. This figure is a cause for concern.

The second set of important figures revealed by the Report is that in terms of income, in the second quarter of 2005, there were 74 100 persons earning less than \$5,000, a two-fold increase over that in 1998 when there were 37 900 persons in this income bracket. In addition, among these 74 100 persons, 39 100 persons earned less than \$3,000 monthly in the second quarter of 2005, so there was a significant increase compared to 17 000 persons in this income bracket in 1998. At the same time, there was also a decrease of 57% in the number of employed persons earning a monthly income above \$10,000, from 22 200 persons in 1998 to 3 300 persons in the second quarter of 2005. Members can see that incomes have dropped drastically and we find this a serious cause for concern. Of course, the working poor among women is also a very serious problem and there are 410 000 women with a monthly income of less than \$5,000.

Deputy President, of course, there is also the problem relating to the Gini Coefficient, which we have mentioned a number of times in the Legislative Council. On the one hand, we are facing the problem of impoverishment, and on the other, the disparity of wealth is also posing a problem. The Gini Coefficient in Hong Kong had risen from 0.472 in 1991 to 0.518 in 1996, and by 2001, it had already reached 0.525. According to statistics, the proportion of high-income earners is rising fairly rapidly in Hong Kong when compared with the rest of the world.

Deputy President, it is necessary for us to help the working poor because we have to encourage these poor people to continue working. We do not want to see even more people choosing to rely on the Government instead of working, such that the Government has to make an even greater expenditure on social welfare. Moreover, people who have lost their jobs or who are unwilling to work will not be able to gain a sense of satisfaction or dignity through work. Furthermore, work will also enable them to integrate into society.

Deputy President, the Democratic Party fully agrees with the eight recommendations made by the Subcommittee. As regards the ninth recommendation, on which a consensus could not be reached, namely, that of prescribing a minimum wage, the Democratic Party is also in favour of it. Of course, we are in favour of introducing it in some trades as a start instead of adopting an across-the-board approach and I believe that this measure will certainly prevent incomes from falling drastically any further. Deputy President, concerning the issue of a minimum wage, the Government has actually taken the lead and done something, for example, by setting the requirement of a minimum wage in its tenders, which I consider a fairly good arrangement. Unfortunately, so far, I have not seen the Government put in place any plan to extend this arrangement to statutory organizations and all publicly-funded organizations. I believe that in this regard, it is possible for the Government to play a leading role. If those organizations can do the same, we believe that society will in fact find the demand to establish a minimum wage acceptable. In that event, people opposed to this proposal will no longer have any strong justification for their claim that this measure will affect commercial operation. Besides, in times when wage levels are falling rapidly, we believe the authorities should be particularly cautious in outsourcing their services and slow down the progress.

In addition, the Democratic Party also agrees that it is necessary to assist low-income families, in particular, given the problem of inter-generational poverty. The Government has already allocated funds for the Head Start Programme on Children Development under which some programmes have been launched to finance activities of children. Although the direction and goal are correct, the potency is not strong enough. The Democratic Party demands that the Government allocates about \$250 million to support children who are receiving textbook assistance, so that each of them can receive a subsidy of not more than \$3,000 each year for the purpose of taking part in activities, so as to give children equal development opportunities. Of course, I must stress that it is absolutely important to improve the economy and create jobs, however, it is unacceptable that the existing disparity in wealth and the policies and systems enable only a small group of people to enjoy the economic benefits, while the lower strata of society cannot enjoy a fair share of the benefits. Therefore, the introduction of a progressive profits tax and progressive income tax is a policy that merits consideration. *(The buzzer sounded)*

DEPUTY PRESIDENT (in Cantonese): Your speaking time is up.

MR LEUNG YIU-CHUNG (in Cantonese): Deputy President, the Chinese New Year has just passed, and everyone thinks that the economy is very good this year. Many shop owners also said that their business has been very good, and even the Government and the media have kept on saying that the economy is good. Moreover, many people said when they were interviewed by the media that they would put more money into their red packets. All these make us feel and see that the economy is prosperous and thriving.

That said, Deputy President, on the third day of the Chinese New Year, some 100 to 200 family members marched to the Government House in the early morning to wish the Chief Executive a Happy New Year, telling the Chief Executive that the efforts of the Government in helping the poor had been indeed inadequate and wondering if significant improvement could be made or not. Indeed, the situation of many people is really not as happy as that described by the media. During the Lunar New Year, some families were forced to hide in their home, not daring to go out. Why? It is because they do not have spare money to spend and so, in such a helpless state, they can only isolate themselves.

Deputy President, speaking of poverty, many people may have different views and different definitions and positions. But I believe in today's society, when we talk about poverty, its meaning is no longer as simple as not having enough food to eat and not having enough clothes to keep warm. In fact, when we talk about poverty, we will ask: Are there some people living without dignity? This is a more important point. In fact, we can see that in Hong Kong society nowadays, many people do not have to suffer from not having enough food to eat and enough clothes to keep warm, but where is the problem? The problem is that they cannot lead a dignified life. This is the most important point. We have seen before that some elderly people had to divide \$10 or so to buy food for several meals. Is this living in dignity? So, today, we cannot handle this issue with this mentality and such conservative attitude anymore.

In fact, we can see that in Hong Kong society, poverty is still a very serious problem and there are signs that the problem is worsening. Let us take a look at this. In 1999 or before the reunification, there were not many people receiving Comprehensive Social Security Assistance, as there were only about 100 000-odd recipients. But in 2005, how many recipients were there? The number increased to almost 200 000 to 300 000, showing that many people were, in fact, facing difficulties in their living. But regrettably, the positive attitude adopted by the Government is also open to question. In this connection, we hope that the Government can do more. In fact, we in the Legislative Council have been working very actively. As we can see, we would have almost two or three motion debates on poverty every year, and we have proposed some directions, hoping that the Government can deal with the problem seriously, but the Government established the Commission on Poverty (CoP) only in 2005.

Earlier on during the question time, many colleagues said that they were gravely worried that the CoP would carry out work superficially only without solid results. Why? It is because the CoP actually does not have much power and so, all it can do is to engage in empty talk or at most, conduct visits. What has it done in substance? So far, we have not seen anything. So, I am very worried that the Government will only do some "window-dressing" work to respond to the aspirations of the Legislative Council or members of the community. As for how much substantive result can be achieved, we can see that the result is not very significant.

It is because we, Members of the Legislative Council, have seen this phenomenon and feel angry about it that we set up on our own the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) to conduct substantive discussions on the subject and make concrete proposals to the Government, in the hope that the Government can truly implement them. As pointed out earlier by the Chairman of the Subcommittee, Mr Frederick FUNG, we have put forward at least eight demands, and in fact, there is also the ninth one, just that our views may be different. However, we hope that the Government can truly implement these eight areas of work in concrete terms, in order to improve the situation.

As Mr Albert HO pointed out earlier, the problem of working poverty is indeed very important. As I said just now, when we look at the problem of poverty, we can no longer use the standard of whether a person has enough food to eat and enough clothes to keep warm. Rather, we must look at whether this person can lead a dignified life. We are very much worried that when a person can only earn meagre wages from his work and is unable to obtain from the Government other forms of assistance, such that apart from exerting themselves to save and scrimp in their daily lives, the living of their next generation, the development of their next generation and the growth of their next generation will also be affected. This is why we must raise the issue of inter-generational poverty, in order to study how we can ensure that these young people living in poverty can lead a healthy and normal life, so that they can grow up properly. Therefore, it is indeed imperative to help members of low-income families by providing them with assistance, subsidies or support. On this issue, the Government can no longer shirk its responsibilities. It should face the problem seriously.

As I said earlier, I am most worried that the Government will only work perfunctorily and pay lip-service to our demands. Why do I say so? In relation to the problem of working poverty which was mentioned earlier, when the Government saw that our Subcommittee was discussing this issue, it immediately said that it would also hold discussions, reacting as if it would not be put in a disadvantageous position. But the point is that we do not hope that the Government will adopt this attitude in dealing with this issue, because in this way, the Government would only say as a matter of formality that they have discussed the issue and done something, but in effect, nothing could be done to address the substance of the problem and to identify a solution.

Of course, what is the substance of the problem? How can it be solved? The Subcommittee has made eight points, and the Neighbourhood and Workers Service Centre wishes all the more to make the ninth point. What is it? It is setting a minimum wage system and a limit in respect of maximum working hours, and also the cessation of the outsourcing system by the Government. If only all these can be done, more results can be achieved. Certainly, we are not saying that the ninth measure is a panacea capable of solving any problem, but it is indispensable. Without this, many measures will not be effective enough to solve the problem. Recently, we can see that the employees hired by some contractors make an income of some \$3,000 only. Under such circumstances, how can the problem be solved? How can people lead a dignified life? So, we must set a minimum wage. In the meantime, if we hope that the next generation can grow up healthily, but if parents have to work for more than 12 hours a day, how can parent-child education be possible? How can there be good family education? So, these are what must be done. Finally, I must say that in any case, outsourcing is a problem. Multi-layer subcontracting can have very significant and a lot of consequences. We do not hope to see these happen anymore. So, I hope that the Government will cease the outsourcing system.

Deputy President, I so submit.

MS EMILY LAU (in Cantonese): Deputy President, I speak in support of Mr Frederick FUNG's motion.

Deputy President, this Report is the second report compiled by an inter-party subcommittee of the Legislative Council recently. The first one is the report on the West Kowloon development, whereas this one is about working poverty. I am very much worried that as the relationship between the Legislative Council and the executive authorities is on the verge of collapse, these two reports may meet the same fate, and I do not know if they will be used as heat insulation mats for cookers or be dumped into the garbage bin. This is so distressing. Deputy President, even different parties and factions in the Legislative Council can reach a great consensus on such an important issue, and to borrow the words of the Chief Executive, this has not come by easily. But what we get in return for this consensus that has not come by easily is the authorities turning a deaf ear to us.

However, Financial Secretary Henry TANG is certainly better than Chief Secretary Rafael HUI, because at least he would come here to attend meetings and answer questions. This is better than Chief Secretary Rafael HUI who comes here only for meals — Deputy President, he was sitting next to you on that occasion — but refuses to come here to answer questions. Alas, I just do not know what to do.

In fact, earlier on, Mr Frederick FUNG, Mr Albert HO and Mr LEUNG Yiu-chung already said many things that I had wished to say, and we have a high degree of consensus among us on many issues. Deputy President, although the Liberal Party may not support a minimum wage, they still support the other recommendations. That is why we very much hope that the authorities can do something as soon as possible. Deputy President, in respect of the minimum wage, I hope that I can convince the Liberal Party and the authorities. If we look at paragraph 3.13 — Mr Albert HO already read out the whole paragraph earlier on — we will find that there are increasingly more people making a very meagre income. As at the second quarter of last year, there were 40 000 workers whose monthly income was below \$3,000. I think this wage level is very much a shame.

I very much agree with what Mr HO said earlier. He said that people who could only make such a meagre income might think: Should I work in order to make this amount of money? They have to work very hard and yet, what they can earn is still not enough for them to lead a dignified life, as Mr LEUNG has said, so they might as well apply for Comprehensive Social Security Assistance (CSSA). However, many people think that they should work if they have the ability to, and they themselves think the same way too. But their earnings cannot make ends meet and they still need assistance. Why? Should we provide some protection in law in respect of the wage level and working hours? On this point, I believe there are some differences in opinion in this Council, but I hope that the authorities will not respond that there are these differences in opinion and then think that it can sit by doing nothing.

Deputy President, with regard to the oral question that I asked earlier, the Financial Secretary said that there are 24 indicators. I believe some of them must involve working poverty, but some Members already asked further questions about the purpose of these indicators and whether they are just decoration. The most important function of those indicators should be

reference for the CoP in work and then, after some time, this category of poor people will gradually decrease in number or even disappear, in which case the objective is considered achieved.

Even though this is so easy, the Financial Secretary refused to say this. As he refused to say this, it means that he is not going to do this. The CoP chaired by the Financial Secretary has been established for a year or so, but all that has been achieved is just a bunch of indicators. Members asked what the Financial Secretary had done, but he could not tell us anything in concrete terms. I do not know if it is due to a lack of consensus between the Financial Secretary and his colleagues, thus precluding him from providing support to the recommendations of the CoP. Apparently, there is not much consensus between them.

Colleagues mentioned inter-generational poverty earlier. Deputy President, when the Financial Secretary and his colleagues came here to attend a meeting, we asked him what measures he had adopted to help eliminate inter-generational poverty if he wishes to help the children of poor families. One of the measures is to implement small-class teaching. In fact, Deputy President, most of us, including your party, wish that small-class teaching can be made a policy, but the authorities are unwilling to do so. The authorities had proposed to select some schools for implementing small-class teaching and some 70 to 80 schools were selected subsequently. But then, they said that it could be implemented only in schools with 40% or a certain proportion of students drawing CSSA. While it sounds very scientific, it has turned out that only 20 to 30 schools have applied for implementing small-class teaching.

I asked why the situation was like that. Secretary Prof Arthur LI said on that day when he was here that schools do not wish to be labelled and so, they certainly will not submit an application. He said that under the present circumstances, if a school applied for implementing small-class teaching, it is tantamount to telling parents and the whole world that there are many students drawing CSSA in the school, in which case, Deputy President, some people would not wish to send their children to that school. But this has been discussed long before. The problem will not exist if small-class teaching can be implemented in all schools in Hong Kong but now, the Government has suggested selecting some schools with poor students to implement small-class teaching and no school is willing to submit an application. What should we do?

I do not know what theories the Financial Secretary based on in working out those indicators, but all of them are useless and cannot tie in with other bureaux. So, Deputy President, I believe the Financial Secretary owes us an explanation; I mean in respect of the indicators. We consider that he has carried out work in this area for one year, and he also said that he had discussed this with the Hong Kong Council of Social Service (HKCSS), but the HKCSS said that the population of the working poor is 1.25 million whereas the Financial Secretary said that it should be some 900 000. I think the HKCSS is not convinced of his views either.

Now, a consensus has already been reached to a large extent in society as a whole and in the Legislative Council. If the authorities still do nothing and take no action to set targets for gauging how much work they can carry out up to a certain time — for instance, the Government can say that it expects the number of people in poverty (let us not argue at the moment whether it should be some 1.2 million according to the calculation of the HKCSS or some 900 000 as admitted by the authorities) to drop or to increase continuously two or three years later — I think the problem cannot in the least be addressed.

The Subcommittee will certainly continue with its work, and after we have completed this project on working poverty, we will carry on with various other projects, such as women in poverty. But the authorities also have to give a response, in order to show that it is actively following up our work and earnestly working for this cause. It should not do what it did in respect of the report on West Kowloon or other issues, in that the executive authorities did not care about the work of the legislature and refused to have any involvement in it. I hope that the authorities will not do this. Otherwise, our relationship will continue to deteriorate.

I fully support the recommendations of this Report and I also support Mr Frederick FUNG's motion. I hope that the Financial Secretary can give a positive and encouraging response to the Legislative Council. Thank you, Deputy President.

DR KWOK KA-KI (in Cantonese): Deputy President, I speak in support of Mr Frederick FUNG's motion and accept the Report on solving working poverty in Hong Kong as well as the recommendations therein.

In fact, during the Question Time earlier today, many colleagues put many questions to the Financial Secretary on how the poverty indicators and the poverty line were set. But much to our disappointment, the Financial Secretary completely did not address the core of the problem in his answers. We asked the Financial Secretary how poverty was defined; he said that they would not draw a poverty line and that they had set 20-odd indicators of poverty. We asked him what outcome he would expect in alleviating poverty, and he could not give us an answer. When the CoP was established last year, the community, including colleagues in the Legislative Council, did have high hopes for the Financial Secretary and his CoP.

But one year has lapsed. What have we seen? We can see that during the past year, the CoP did conduct some studies, some of which were rather similar to academic researches, including how a task force could be set up, so as to understand the problems of the poor and help them solve the problems through this task force. Regrettably, many people and families are living in dire straits and yet, the Financial Secretary and his colleagues are taking their time conducting studies. This is not a university, and what matters is not conducting academic researches or whatsoever. We only hope that such a high-level CoP can do something. Otherwise, why should the Financial Secretary be made its Chairman? It is precisely because the Financial Secretary is a senior official with great powers, and he is the controller of public finance who is in a position to co-ordinate the work of all the departments under him that we expect the Financial Secretary to play a leading role and do some pragmatic work. But in reality — I do not wish to talk about it. Now, the CoP is more and more like some "all-talk-but-no-action committees". Under the Commission on Strategic Development there are already some super "all-talk-but-no-action committees". Now, this CoP will soon degenerate into an "all-talk-but-no-action commission". Does this Government think that the problem can be solved by continuously appointing committees and continuously creating "all-talk-but-no-action committees"? This is certainly not a solution.

Just when we are holding discussions or the Financial Secretary is conducting his studies, the gap between the rich and the poor in Hong Kong has continued to widen, as the number of low-income households in Hong Kong has never ceased to rise. In the second quarter of 2005, there were 417 600 families with a household income below 50% of the median income, and 170 400 of these families have at least one family member working.

This precisely points to the problem of working poverty. That is not a small percentage, for it accounts for 7.48% of the total number of families in Hong Kong. These families are living in very straitened circumstances every day. Everyone knows the song "Under the Lion Rock", and many people know from their own experience what it is like to be poor. Those people who used to be poor could improve their living through their own efforts. But the times have changed, and in the past, although our society was said to be like a jungle and not many policies were formulated then, poor families that did not have the chance to receive education still had many opportunities to strive for improvement.

However, this is no longer the case in the present-day society, for things have already changed. Will the Government still use the same old mindset to tackle the problem now? To many poor people, especially those from families in such districts as the northwestern parts of Hong Kong, Tin Shui Wai, and so on, it is actually impossible for their family members, especially the young generation, to get rid of poverty. They will be trapped in this circle forever, and the plights will roll from one generation to the next.

We said that we must eliminate inter-generational poverty. We said that we have to give these young people a chance to go out of their district for employment and learning, so that they can get rid of poverty, but are they going to have this chance? Certainly, we will discuss this later, and we will also discuss our views on tax reduction. But if we simply look at what the Government did in the past few years, we can see that as the Government had to solve the fiscal problem, not only was there no increase in the many services that should be provided to the disadvantaged groups, the services were even reduced year after year. Some concrete proposals that can practically tackle the problem of working poverty, including the setting of a minimum wage, the use of taxation measures to improve the situation of low-income families, the provision of other social services, and so on, are entirely lacking.

The only thing that we can see is the second product of the Financial Secretary and that is, personalized vehicle registration marks. In fact, one would laugh at this proposal on hearing it. To address poverty, the Financial Secretary proposed a method invented by himself — in fact, this is a rather innovative proposal which will generate a revenue of \$60 million to subsidize the work of the CoP. Let us think about this: A government which has a colossal

amount of resources and a reserve of close to \$1,000 billion and which spends over \$200 billion on public expenditure per annum has to employ a gimmick, that is, personalized vehicle registration marks, to generate \$60 million to provide funding for the CoP. The Government should really be shameful in making this suggestion. I think the Government must not muddle through on false pretences as such. Nor do I hope the Government will think that it has already done its part.

I think Members do not mind how the Government will carry out its work, but we all hope to finally see an outcome and that is, through the efforts of the Financial Secretary and the CoP, many low-income earners and the working poor can, in the foreseeable future — "foreseeable future" does not mean telling them to wait patiently and saying that I will help and save you; it certainly means in a short time, say, within a year or two — see light at the end of the tunnel and see how they can overcome their difficulties, such as not being able to get rid of poverty even though they have work and not being able to improve their living and that of their family even though they are in employment. I do not know how the Financial Secretary will look at this Report. Perhaps as some colleagues have said earlier, the Report might end up in the rubbish bin. If he is really going to do that, then I would feel extremely sorry for Mr Frederick FUNG and his colleagues because their hard work should end up this way.

However, judging from the Government's past performance, I think efforts will still be made separately. I do not expect the Financial Secretary to come up with any heartening proposal but in any case, I still support the Report on Working Poverty and its recommendations, and hope that the Government will consider and implement them. Thank you, Deputy President.

MR WONG KWOK-HING (in Cantonese): Deputy President, just now I heard Mr Frederick FUNG put forward the various recommendations of the Subcommittee to Study the Subject of Combating Poverty in his capacity as its Chairman. But a minimum wage was not included in the recommendations — I did not hear him wrongly, right? I really find this very regrettable. Why is it that even the Subcommittee of our Legislative Council has failed to endorse this proposal? In order to tackle the problem of working poverty, a law must be enacted to specify a minimum wage. If not, the low-income strata will forever be embedded at the bottom of society and we will be unable to help them

extricate themselves from poverty or climb up the social ladder. Therefore, I hope that Mr Frederick FUNG, as the Chairman of the Subcommittee, can continue to follow up this issue and make further efforts.

Deputy President, it is not my main intention to discuss the issue of a minimum wage in my speech. I wish to focus on the provision of transport allowance to those poor citizens who must go from one district to another for work. I wish to concentrate on this topic today, and I also hope that the Financial Secretary can take note of what I have to say — the employment difficulties and situation faced by residents of the Northwest New Territories and remote new towns (such as Tung Chung). It is hoped that the matter can thus be brought to the attention of society as a whole.

We have compiled an incomplete statistical analysis for Tung Chung, and this indicates that in Yat Tung Estate alone, there are already 2 014 Comprehensive Social Security Assistance (CSSA) cases. This is quite an alarming figure. Our incomplete estimation — I must make it very clear that it is just an incomplete estimation — is that 40% of the residents are CSSA recipients. This is really a very frightening figure. In a housing estate resembling a deserted island, nearly 40% of the residents are CSSA recipients. This is a dereliction of duty and also a shame on the part of the SAR Government.

For a few consecutive days starting from the third day of the Chinese New Year, Miss CHAN Yuen-han and I collected residents' signatures in the streets, asking them to express their new wishes in the Chinese New Year. These residents told us that in the Chinese New Year, they hoped that they could really feel the effects of the economic recovery and social prosperity claimed by the Government instead of just hearing empty talks. The problems faced by Tung Chung residents are employment difficulties and exorbitant transport fares. If they are fortunate enough to get a job, they must at least spend 30% of their monthly salaries on transport. From available information, we can see that the lowest single trip fare from Tung Chung to Tsuen Wan is still as high as \$10. And, this is not to speak of the fares of feeder transport before and after the journey. The highest fare is as much as \$21. Again, this is not to speak of the fares of feeder transport before and after the journey. In other words, a "wage earner" living in Tung Chung will have to spend \$30 to \$40 on transport every day if he has to work outside Tung Chung. This is already the minimum

expenditure. Exorbitant transport fares have made residents of new towns such as Tung Chung unwilling to go outside, and they would rather stay in their own neighbourhoods. But can they find any jobs in Tung Chung? The answer is "no".

A community survey conducted by us reveals a very common phenomenon there. In the case of a family of four, if both parents are fortunate enough to have a job, they may earn respectively some \$6,000 and \$7,000 after working hard for a month. In other words, the combined monthly income will be \$13,000 or \$14,000. We notice that the parents of such a family must usually work outside their home areas, in Mong Kok and Kwun Tong, at the nearest. And, their two children must also go to school. The monthly income of such a family of four is about \$13,000 or \$14,000, but transport expenses already account for some \$4,000. There is also the expenditure of some \$2,000 on public housing rent. These two items already account for half of the family income. They still have to eat, and they must therefore spend about \$10 to \$20 on meal boxes every day. How much can then be left? Besides, their two children must go to school and pay school fees. This is a very common phenomenon, one which can illustrate the present situation of "wage earners". Therefore, I hope that after listening to me, the Financial Secretary can offer some genuine help to them.

I still wish to cite another example, the case of a single-parent family. I have recently come into contact with a certain woman whose husband has recently passed away after being sick for a year or so. She has two children, but it is fortunate that both of them are very nice and good. One of them is working and the other wants to read for an associate degree. The elder child works as a shop assistant and earns a basic salary of \$6,000 a month plus sales commission. If he works hard enough, he may earn a thousand dollars or so in commission. The total monthly income will thus be about \$7,000, enough to support a family of three. If the members of this family must go to work and school in another district, how much can be left after the rent payment of some \$2,000 is deducted from the monthly income of \$7,000 or so? Besides, there is also a need for deducting some \$2,000 as transport fares. Because their mother is still jobless, we have tried to help her apply for CSSA. But she is not qualified. As a result, their financial situation (*the buzzer sounded*) has turned increasingly difficult. I therefore hope that the Financial Secretary can

DEPUTY PRESIDENT (in Cantonese): Mr WONG Kwok-hing, the time limit is over.

MS LI FUNG-YING (in Cantonese): Deputy President, I am a member of the Legislative Council Subcommittee to Study the Subject of Combating Poverty and the Commission on Poverty (CoP) chaired by the Financial Secretary. When I prepared my speech for this debate today, I had to review the work of the Subcommittee and the CoP over the past year or so, but the more I reviewed, the more mixed feelings were aroused in me. On the one hand, I support the poverty alleviation measures of the Subcommittee and the CoP, and on the other, I think these measures are still a long way from the targets that I wish to achieve and therefore, I am not optimistic about the work of aiding the poor. I have compared the eight recommendations made by the Subcommittee to Study the Subject of Combating Poverty in its Report on Working Poverty (the Report) with the work that has been launched by the CoP, and I found that there are many things in common between them.

For example, among the recommendations made in the Report there are: (a) enabling community participation and empowerment of the working poor in formulating strategies to reduce working poverty, and with regard to "enabling community participation", the Government has a diversity of funds under many names, such as the Partnership Fund for the Disadvantaged, under which concerted efforts are made to help the disadvantaged through tripartite co-operation from the Government, the business sector and the social welfare sector; and with regard to "empowerment of the working poor", the CoP has also promoted social enterprises to help the disadvantaged become self-reliant; (b) developing the economy and creating employment opportunities, and this is always on the mind of the Government; (c) providing community support and developing local economies; the Government has the Community Investment and Inclusion Fund to enhance the ability of local communities. I do not plan to go down the list and cite more examples here, because it is not difficult for us to find that the Government already has corresponding measures for implementing the recommendations made in the Report. I believe the Financial Secretary, in his reply later, will certainly give a detailed account of a huge stack of projects and measures, in order to prove that the Government has actually taken steps to implement the recommendations made in the Report.

While we have reached these consensuses and the Government has taken steps to implement the recommendations, does it mean that the problem of working poverty in Hong Kong will hence be solved? I am not at all optimistic about this, for the Government and people with vested interest are still unwilling to address squarely the deep-rooted causes of poverty, as in the case of some deep-rooted problems in Hong Kong over which Premier WEN Jiabao has expressed concern and which have remained unresolved.

When he attended a Question and Answer Session of the Legislative Council last month, the Chief Executive said in response to the concern of Premier WEN that Hong Kong is a capitalistic market and some deep-rooted problems, such as a high cost of doing business, a gap between the rich and the poor, wealth disparity, and so on, are bound to arise in any capitalistic or socialist society.

I do not know how the Chief Executive drew such a conclusion. But when even the Chief Executive considered a gap between the rich and the poor inevitable, how can we expect the CoP, which is set up by the Government purely on its own, to be able to solve the poverty problem? How can we expect the vested interest groups in the community to make compromises? I am not championing for a society of equal wealth, but I must point out that wealth disparity in society is not equivalent to a gap between the rich and the poor. I think wealth disparity is inevitable in a capitalistic society, but a gap between the rich and the poor can be avoided. As to how we can distinguish between wealth disparity and a gap between the rich and the poor, it can be a subject for further discussion. It is generally agreed in the international community that if the Gini Coefficient of a place is above 0.4, it means that the income gap of the people has widened, and this can be an indicator for distinguishing between wealth disparity and a gap between the rich and the poor. Nonetheless, the Gini Coefficient of Hong Kong in 2001 was 0.525.

Last week, a member of the CoP published an article in a newspaper, reiterating that as Hong Kong had provided other types of social welfare, the Gini Coefficient could not be used as the only criteria to gauge the problem of poverty in Hong Kong. This argument has since been used by the Government as a reason to rationalize the problem of a gap between the rich and the poor in Hong Kong. If social welfare in Hong Kong is so good that it can counteract the social circumstances as reflected by the Gini Coefficient, then I think the only

explanation is that Hong Kong has outshone other developed countries or regions in respect social welfare measures and that is why we can counteract the situation of a gap between the rich and poor as reflected by the Gini Coefficient. If not, we cannot dodge the fact that the Gini Coefficient in Hong Kong is far ahead of other developed countries and regions.

Working poverty is a concrete reflection of a gap between the rich and the poor in Hong Kong. It is because the Government and those with vested interest have kept on rationalizing the problem of a gap between the rich and the poor in Hong Kong and shifting the blame onto the poor people for causing the poverty problem. As a result, poverty alleviation measures have never been able to get to the core of the problem, for they seek only to patch things up here and there, and are nothing more than window-dressing gestures. They are not worth keeping and yet not bad enough to be disposed of. Poverty alleviation work has never sought to make remedies to the institution. I do not know whether or not this motion today will be passed, but what outcome can we expect even if it is passed? The deep-rooted problems as referred to by Premier WEN Jiabao will still remain unresolved, and while we will continue with the poverty alleviation measures, they will remain to be of little worthiness and yet not bad enough to be disposed of.

Thank you, Deputy President.

MR WONG YUNG-KAN (in Cantonese): Deputy President, the great majority of members in the agriculture and fisheries industries belong to the working poor. Now that the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) has released a report focusing on the working poor, I originally hoped that there would be some specific recommendations on eliminating working poverty in the agriculture and fisheries industries and that there would be some exciting news for the whole sector. Unfortunately, there is nothing specific in this Report concerning the agriculture and fisheries industries.

In fact, in preparing this Report, the Subcommittee did not consult members of the agriculture and fisheries industries, so it was destined that this Report would not include anything specific about the agriculture and fisheries industries. In the list of 13 non-government organizations and individuals who

expressed their views to the Subcommittee, as set out in Appendix B of the Report, none of them are related to the agriculture and fisheries industries, so it can be seen that the Subcommittee did not attach any importance to the agriculture and fisheries industries.

I wish to take this opportunity to voice some more grievances. The long and short of the matter is that, soon after the establishment of the CoP, the Secretary to Commission on Poverty, Mrs Cherry TSE, lobbied me for the creation of a new post. I agreed to give my support but expressed the hope that the CoP could get in touch with people in the agriculture and fisheries industries, so as to formulate measures tailored to helping the poor people in the sector and this secretary acceded to my request readily. However, now I do not know if I should use "disappearing without a trace" or "once ashore, pray no more" to describe my thoughts, all in all, the CoP has so far not contacted us in the agriculture and fisheries industries.

Deputy President, as a Member representing the agriculture and fisheries industries, I am duty-bound today to relate the situation of the working poor in the agriculture and fisheries industries in Hong Kong, in the hope that government officials and colleagues in the Legislative Council can pay greater attention to us.

The agriculture and fisheries industries used to account for a certain proportion of the Hong Kong economy, however, since the '70s in the last century, the Government ceased to formulate any policy on agriculture and fisheries. Coupled with incessant reclamation and land resumption, the agriculture and fisheries industries were marginalized and went into a decline. As a result, fishermen and farmers parted with their boats and farms to work in other trades in the city, while those who remained can only live from hand to mouth.

Since fishermen and farmers all along have a lower level of education and they do not have other skills, so no matter what trade they switch to, they can only work in low-skilled types of work paying little, the most common ones being sailors in the past, transportation workers, odd-job workers on construction sites and workers in the manufacturing industry. Later on, jobs in the service industry, such as cleaning workers and security guards, were also included. Ten years ago, when the Hong Kong economy was in its heydays and jobs were aplenty, these fishing and farming families could still be spared the

cares of life as they were cushioned by the steady wages that each able-bodied member took home. However, as the economy subsequently took a turn for the worse and the unemployment rate kept rising, in nearly all fishing and farming families, some and even all of the family members were forced to join the rank of the unemployed.

Deputy President, I earnestly hope the general public will understand that in fact, a lot of people in families making a living out of agriculture and fisheries are in fact living in a state of poverty, only that with their unyielding characters, they do not want to apply for Comprehensive Social Security Assistance (CSSA) if they are not really in desperation. As long as someone in the family still has an income and someone has still got a job for the day, even though the income is paltry, they still prefer to dig their toes and go on working.

How can these people in agriculture and fisheries industries be assisted in shaking off poverty even though they have jobs? I believe what needs to be done is not to give them CSSA but to assist them in making a comeback in the agriculture and fisheries industries. In this connection, I am very grateful to an ancient sage who bequeathed to us an axiom using us fishermen as a figure of speech: "It is better to teach someone how to fish than to give him a fish.". This saves me much breath in explaining. I dare say the proportion of people on CSSA in the agriculture and fisheries industries is the lowest among all trades but the proportion of poor people in it is the highest among all trades.

Ever since I became a Member representing the agriculture and fisheries industries, I have moved a number of motions in the Legislative Council, including those urging the Government to formulate a sustainable policy on agriculture and fisheries, develop the offshore fishing industry, and develop leisure agriculture and fishery trades and green tourism. The reason that I moved these motions is none other than that I found agriculture and fisheries to be teetering on the brink or is undergoing a transformation, so I hope the sector can manage to accomplish something and get an opportunity to extricate itself from poverty. Unfortunately, my high hopes fell through on each occasion because each time I moved a motion, even though it had the full support of Honourable colleagues in the Legislative Council and the Government dared not make any bones about it, it was still equivocal when giving replies attached to a lot of reservations. In the end, no action was ever taken actively to complement and implement the proposals.

Over the years, when I followed up the requests for assistance from members of the industries, I found that they were subjected to various types of restrictions in their operation, including those relating to the specifications on farm structures, organic farming, and so on, and it was only after many rounds of mediation that the problems were solved. Recently, the Government has subscribed to the dire warnings of some so-called experts and directed its attention to chickens instead of birds. It has floated the proposal of introducing centralized slaughtering a number of times and even said that should anything happen in farms, all chickens in Hong Kong would be culled. Although the sector is in favour of the so-called regional slaughtering, if anything happens in farms, none of them will be spared. Since Hong Kong is only one and a half hours from Shenzhen by car and all chilled chickens can be transported from there to Hong Kong, may I ask the Government why it has to be so obstinate? Why does it not consider making changes from a scientific point of view?

Deputy President, I hope that the Government can really hear the views of the sector and would really take them on board, as the Secretary of the CoP has said. I have said many times that I do not want to oppose anything but I hope the Government will be more amenable to other people's views.

Deputy President, I so submit.

DR JOSEPH LEE (in Cantonese): Deputy President, according to the Report of the Subcommittee to Study the Subject of Combating Poverty, the Gini Coefficient, which shows wealth disparity in Hong Kong, has risen from 0.451 in 1982 to 0.525 in 2001. The information from the Census and Statistics Department also indicates that in the second quarter of 2005, there were about 75 000 persons whose income was below \$5,000, a two-fold increase over that in 1998. These figures all indicate that wealth disparity in Hong Kong is becoming increasingly serious.

With economic restructuring in society and the changes in the method of production, Hong Kong is moving from the production-based and labour-intensive industries and manufacturing industries in the '70s and '80s to a service-oriented and knowledge-based economy. The demands on human resources have also changed from low-skilled manual labourers to professional and skilled workers. At present, over 1 million people in the workforce in

Hong Kong have an education level of secondary three or below. Their qualifications do not meet the demands of the present restructuring towards a knowledge-based economy. Even though the Hong Kong economy has recorded persistent growth recently, this has not benefited low-skilled workers in any significant way and they are still earning low wages or even being unemployed for long periods of time.

Government figures indicate that most of the workers from families of the working poor hold low-skilled jobs such as clerks and workers in the service industry. Workers from families in working poverty earn far less wages now than in 1998. There is no official poverty line in Hong Kong, however, it is generally believed that if a family with at least one family member in employment has a monthly income which is below 50% of the median income of families with the same number of family members, it can be considered a family in working poverty. In order to determine the number of families regarded as the working poor more accurately and formulate more appropriate policies, the Government should set a poverty line for the working poor as soon as possible.

Under the Comprehensive Social Security Assistance (CSSA) scheme implemented by the Social Welfare Department, if the total assessable monthly income of the applicant and his family is insufficient to meet their total monthly needs as recognized under the Scheme, he is eligible for receiving CSSA. The low-income cases under the CSSA Scheme account for some of the families regarded as the working poor. As of October 2005, there were about 18 000 cases in the low-income category under the CSSA Scheme. In fact, the working poor often face a dilemma. Even if they can find work, they may not be able to solve the problems of feeding themselves and accommodation. This is because their wages only meet their travel expenses but not other daily needs. In view of this, should they work hard to earn money on which they can barely subsist, or do they have no alternative but to stop working or just work part-time, so that they can be eligible for receiving CSSA?

In view of this, the Government must reform the existing CSSA system for the unemployed and assist unemployed recipients in rejoining the labour market, so as to lighten the burden of the Government in providing CSSA to unemployed recipients, for example, by raising the prescribed income limit for unemployed CSSA recipients or making reference to the Tax Credit Scheme in the United Kingdom, which offers Child Tax Credit to employed people who have to take

care of their children as an incentive for their continued employment. In addition, the Government can also make reference to the concept underlining the "New Deals" implemented in the United Kingdom in 1998 by offering a job-seeker allowance to the unemployed. If the unemployed persons cannot find a job within half a year and continue to receive the allowance, they will have to take part in a compulsory employment programme.

According to the "World Development Report 2004-2005", based on the strong conviction and empirical evidence, creating decent employment opportunities is the best way to take people out of poverty. The International Labour Organization advocates that reducing poverty and working poverty requires both productivity growth and employment creation. Therefore, I agree with the recommendation in the Report on endeavouring to develop local production industries and encourage the relocation of manufacturing industries back to Hong Kong. The Government should also provide tax incentives and assistance to certain kinds of industries (for example, the logistics industry, tourism and the recycling industries) which can create employment for low-skilled workers. Meanwhile, the Government can also consider offering profits tax concessions to encourage companies to fulfil their social responsibilities by hiring more unemployed CSSA recipients, so as to assist them in integrating into society and give them an opportunity to prove their working abilities.

Deputy President, the best way to assist the working poor is to give them the opportunity to upgrade their skills and enter employment again, so that they can be reintegrated into society. This is because apart from satisfying a person's basic necessities of life, a job can also improve the financial situation of a family, enable a person to win approval from his family members, reduce family conflicts and more importantly, deliver the important message of self-reliance to the next generation. To provide financial assistance alone cannot home in on the core of the problem confronting recipients. Long-term financial assistance will only create financial pressure on the Government and cause an adverse effect on enabling the unemployed to re-enter the labour market. In the long run, this will impact on the human resources and productivity of society as a whole, thus perpetuating a vicious circle in respect of the problem of poverty. Therefore, apart from preparing education and training courses marked by clearer objectives, the Government should also conduct an in-depth study on the future human resources structure in Hong Kong, as well as

how best young people can be assisted in pursuing further studies and enhancing their employability.

(THE PRESIDENT resumed the Chair)

With these remarks, Madam President, I support the original motion.

MR RONNY TONG (in Cantonese): President, by establishing the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee), the Legislative Council hopes to forge a consensus among different sides and make concrete contribution to the alleviation of poverty in Hong Kong. The Subcommittee's Report on Working Poverty (the Report) under discussion today marks the first important step taken jointly by political parties and factions towards the formation of a consensus on ameliorating working poverty. I hope we can all continue to display such enthusiasm and spirit of co-operation, with a view to achieving greater results in the relevant work.

According to the statistics set out in the Report, the number of working-poor households and the size of the working-poor population have been increasing constantly. In the second quarter of 2005, there were 417 600 households earning below 50% of the median monthly, representing 18.33% of all households in Hong Kong, or a 13% increase over that in 1998, when there were some 360 000 such households. It is worth noting that when compared with the median monthly incomes of households of varying sizes in 1998, the current median household incomes have all declined, and the rates of decrease are especially sharp in the case of households with one to three members.

The Report points out that although different benchmarks are adopted in different economies to measure working poverty, the Subcommittee is of the view that a working-poor household should be defined as a household comprising at least one working member and with a monthly income less than 50% of the median monthly income of a household of an equal size. Such a definition is in line with the actual situation in Hong Kong. In the second quarter of 2005, 50% of the median income of a four-member household was \$9,800, which is very close to the income ceiling for a four-member household applying for Comprehensive Social Security Assistance (CSSA), that is, \$9,220. When

replying to Members' questions this morning, the Financial Secretary also admitted that the CSSA rate could in fact be treated as the *de facto* poverty line. This proves that our definition of working poverty is very appropriate.

During the past few months, several scholars from The Chinese University of Hong Kong and the Hong Kong Shue Yan College and I have been conducting a study on the problems of poverty, discrimination and social ostracism found in remote areas in the New Territories. According to the statistics of this study, the median wages of young people living in New Territories West and North District are respectively \$5,000 and less than \$3,500. There is thus a marked difference when these median wages are compared with those earned by young people working in Kowloon and on Hong Kong Island, which stand at \$7,000 and \$9,500 respectively. The statistics of the study tally exactly with the findings of the Report, proving the inseparable connection between geographical separation and poverty.

The setting of a minimum wage is one of the recommendations made by the Report on effectively tackling the causes of working poverty. Unfortunately, however, the Subcommittee was unable to reach a consensus on this. I can appreciate the divergent views on this measure held by the various political parties and factions in the Legislative Council, but as borne out by the statistics quoted above, the continuous decline in wages for low-paid jobs is an incontestable fact and is also a main cause for working poverty. The Government simply should not wait until all have come to an agreement before it starts to tackle such a serious social problem. I do not think that this is a responsible and sensible attitude, and I must also say that this is the cause for the widening wealth gap and the intensification of deep-rooted social conflicts in the SAR since the reunification. Having looked at the positions held by Members and the various political parties and factions in the Legislative Council, I can say with confidence that if the Government can submit to the Legislative Council a bill on a reasonable minimum wage, there will certainly be enough votes for its smooth passage. In other words, what is lacking now the only problem now is whether or not the Government has the determination to ameliorate the problem of working poverty. Mr TSANG has been advocating strong governance, but he does not seem to be interested in social justice at all. This issue can give him precisely the opportunity to impress society that he is a strong helmsman, instead of a timid leader who will obey the industrial and commercial sectors only.

We can appreciate that some people oppose the prescription of a minimum wage because they fear that this may render a greater number of low-skilled workers jobless. During the summer vacation last year, I visited the United Kingdom, where I met with the president of the ad hoc group on poverty there. After some discussions, he told me that it was already seven to eight years into the implementation of the minimum wage, but instead of having all the numerous social conflicts during the reign of the Conservative Party, Britain had seen the highest employment rate since World War II. One of the reasons for the popularity of the Labour Party's measures on improving people's livelihood was the implementation of the minimum wage. I hope that those who think that a minimum wage will only make life even more difficult for workers and damage economic development can be induced by this live example of a foreign country to reconsider their position carefully. Why has their conviction seen completely different results in the real world?

President, I totally support the Report submitted by the Subcommittee today, and I wish to express my gratitude to Subcommittee Chairman Mr Frederick FUNG and other members for their efforts. I also wish to thank the Legislative Council Secretariat for its support. Thank you, President.

MR TAM YIU-CHUNG (in Cantonese): President, this Council has held a number of debates on the work of aiding the poor during the past year. The Democratic Alliance for the Betterment and Progress of Hong Kong (DAB) has made some demands in this connection, for example, the establishment of a scheme of transport allowance for out of district work, and revision of the Government's procurement policy to cater for local employment. We hope the Financial Secretary can seriously look into all this and draw up some feasible methods to implement the relevant proposals, thereby creating more job opportunities and reducing the burden on residents living in remote areas.

Hong Kong is a highly developed economy and a relatively rich society. However, due to the continued ageing of its population and the drastic adjustments in the economic structure, the poverty situation is incessantly deteriorating. The Report by the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) reveals that, in 2005, there were 417 600 households territory-wide whose monthly income was lower than half of the median household income in Hong Kong, representing an increase of 13% over 1998. Among these poor households, 170 000 belong to households in

working poverty. In other words, even though they have jobs, they have yet to shake way the threat of poverty.

If we take a closer look at the economic profile of these households, we will find that a great many of them are families with only one breadwinner, while the great majority of their female members are jobless. For this reason, in order to resolve the problem of working poverty, the DAB opines that one of the more focused measures is to enhance the financial capabilities of women.

There can be no denying that the gender stereotyping in society has given rise to the weaker financial capabilities and social security of women. In terms of economic participation, women are subject to greater pressure at work than their male counterparts, and age, gender and family status discrimination, equal work but different pay and sexual harassment are difficulties that women often have to face in employment. Often times, married women have to give up their jobs and become full-time housewives in order to look after their families. At present, the labour participation rate of women who have never got married in Hong Kong is 68%, while that for women who have been married is only 42%. The stereotyping of social roles has created employment difficulties for women, thereby making the improvement of the financial condition of families difficult.

Even if women managed to find jobs, they have to work in those non-skilled and low-value-added trades offering meagre wages because of the dramatic economic transformation and polarization of the labour market. From the statistics, it can be seen that women account for 58% of the non-skilled workforce while their income is 47% lower than their male counterparts. This indicates that women are excluded from the relatively stable core labour market, earning meagre wages.

Insofar as the Government's policy of aiding the poor is concerned, the DAB proposes that support services of the Government should be enhanced with a view to helping the people to become self-reliant. As regards the problem of working poverty, the Government should strengthen its support services, proactively help people in employment, provide more employment incentives and upgrade the financial capability of families by helping women to gain greater financial security.

First, the Government must enhance the employment protection for grass-roots women. At present, more and more women have to take up such

jobs as part-time workers, casual labourers, and temporary workers that offer low wages and no labour benefits or protection. All this together with such nuisances as age and gender discrimination has put women in a disadvantaged position in the employment market. Therefore, the Government must expeditiously review the labour legislation and strengthen the retirement and welfare protection for part-time and non-permanent workers. As regards outsourced public services, in addition to the implementation of a minimum wage system, the Government must step up its supervision in order not to let unscrupulous employers deceive the Government and oppress their employees. The DAB suggests that the Government should introduce as a matter of urgency a trial minimum wage system in nine job types so as to assure a due level of income for grass-roots workers.

Second, the Government must continuously increase for women opportunities of continued education and strengthen child care services. Women yearn for opportunities of continued studies in order to better equip themselves for ultimately rejoining the labour market. Unfortunately, because of the need to look after their families, they are very often barred from pursuing continuous personal enhancement. For this reason, the Government should increase the flexibility of training programmes targeted mainly at women in terms of their timing, location and course contents. Besides, efforts should be made to make them dovetail with the occupational qualification framework in such a way that women can be facilitated in pursuing studies and acquiring skills recognized by society. In this process, the Government should promote among various social organizations the provision of flexible and yet affordable child care and elderly care services such that woman can be relieved of the burden in looking after their families.

Third, we have to establish more social buffers in order to prevent the poverty problem from causing collapses of families. The Government should draw up a "family-friendly" policy to encourage the provision of opportunities of all-round development for both women and men. For example, organizations should be encouraged to provide child care services for employees. Moreover, the provision of family services by the Government should be enhanced, such that families in difficulties can be helped in resolving problems through active assistance offered by various community organizations. In this way, the value of family can be stressed, and harmony in family fostered.

The establishment of the Commission of Poverty is a manifestation of the Government's concern for the poverty problem and its desire to pool collective

wisdom in finding ways to ameliorate the problem. In participating in its work, I do also feel the great pressure coming from the high expectations of society. Meanwhile, the Honourable colleagues of this Council also hope that poverty can be eliminated in a short period of time. But the reality tells us that this hope may fall through. Insofar as the recommendations made by the Subcommittee are concerned, I hope the Government can consider them one by one and determine which are feasible, and for those considered infeasible, it should offer detailed explanations.

On behalf of the DAB, I support the motion.

DR FERNANDO CHEUNG (in Cantonese): A number of Honourable colleagues have already given a detailed account of the figures from studies on working poverty, so I am not going to repeat them. Furthermore, there are also a lot of figures in the Report published by the Subcommittee to Study the Subject of Combating Poverty.

Here, I want to recount a story. A woman in Tin Shui Wai rode her bike to her part-time job every day, in order to save on travel expenses and help meet household expenses. One day in May last year, while riding her bike in heavy rain, perhaps because the rain obscured her view, she was unfortunately knocked down by a truck and pronounced dead in hospital subsequently.

In this particular family, the husband is in his thirties and the couple has a four-year-old son. The husband is a hairdresser in a hair salon in the New Territories and his wife was mainly responsible for taking care of the child and housekeeping. However, due to the economic downturn, the income of the husband fell drastically from \$8,000 or \$9,000 to just \$5,000 per month. The rent and the textbooks for the child alone cost them half of the wages and they could hardly make ends meet, so his wife wanted to find a job to supplement the household income. Subsequently, she found a part-time job carting and delivering fresh fish in a fish market in Lau Fau Shan from 6 am to 9 am, however, the monthly income amounted to only some \$2,000. In order to save \$10-odd in travel expenses, she borrowed a bicycle from her friend and went to work by bike every day. The husband, on finding that his wife was exerting herself too much and thinking that it was dangerous to ride a bike, advised her to take a bus instead. However, his wife said that it would be fine as long as she was more careful.

Recently, I have read another piece of news that happened a few days ago. A nine-year-old boy was accompanied by his brother, aged 11, to school. Since he had to attend a school in another district, they had to cross some roads. Unfortunately, one morning, while they were crossing a road, the younger brother was knocked down by a light goods van and killed. His 11-year-old brother witnessed the tragic death of his younger brother. This child was born to a family of five, where his father was a 44-year-old fruit stall keeper and his mother was a part-time salesperson. My reflections were that, had the couple had a better income, so that the nine-year-old child could take a nanny van to school, this tragedy would not have happened.

The CoP has been in operation for a year, however, many members of the public and poor families are still impoverished. Poverty kills. At present, there are nearly 410 000 poor families in Hong Kong, of these, 170 000 of them have at least one family member who is employed. The lives of these families with low income or of the working poor are marred by blood and tears. We are not just talking about statistics but human lives. What exactly has the CoP done?

We can see that their incomes have been dropping in the past few years. In 1999, of the 170 000 families, over 30 000 persons had an income of less than \$5,000, and by 2005, the number increased to over 70 000 persons. The statistics from various sources indicate that at present, the income of the public is falling, so prescribing a minimum wage should be a fundamental policy, however, the CoP has refused to discuss this issue.

Since it has refused to discuss the introduction of a minimum wage, so what does it want to discuss? The CoP said that it wanted to discuss social enterprise. However, the existing policies of the Government are counter-productive. Co-operatives are a case in point. Co-operatives are intended to allow people with the same aspirations to generate income through their own labour and creativity. However, the enforcement of the relevant legislation is within the ambit of the Agriculture, Fisheries and Conservation Department of the Government. Not only did the Government fail to assist these so-called social enterprises to operate in the form of co-operatives, on the contrary, it has made their operation very difficult. For example, co-operatives are not required to register as businesses, so they cannot take out loans from banks and since the members of a co-operative are also its shareholders, it cannot

take out any labour insurance either. When co-operatives hope to do business at certain locations, they face numerous hurdles. None of the policies facilitates their operation, yet the Government stresses that social enterprises can reduce poverty and help members of the public escape from poverty through employment.

In the little time that remains, I wish to relate a story. Recently, I came across an old man in his seventies who sells sugar wafers on a pancake in the street below my flat together with his wife. One day, at about 6 pm, I happened to see him pack up stall, so I asked him why he called it a day that early. It turned out that he had to hurry back home to take his wife to an accident and emergency department because she had a heart problem. He also said that he could not make ends meet presently because the financial situations of his children are not good either. As a result, he could only rely on the old age allowance of about \$700 that he and his wife receive each month to maintain their living. Moreover, he himself had already undergone percutaneous transluminal coronary angioplasty twice. Each day, he went to Kowloon City to buy sugar as the ingredients for the sugar wafers on pancakes that he sells to earn a meagre income. However, he was often arrested by hawker control teams for selling sugar wafers on pancakes and his business tools were also confiscated. He would often be charged with two offences and fined \$500 for each and that adds up to a fine of \$1,000. That has become the norm and often, all his business tools would also be confiscated and that alone would cost him over \$1,000. He said to me, "Since you are a Member, I only have one request to make. Is it possible to abolish the prohibited areas so that we can do business in such an environment?" The CoP has had discussions for a year, what policy has it proposed to help the working poor? The CoP has the responsibility.....
(the buzzer sounded)

PRESIDENT (in Cantonese): Your speaking time is up.

DR FERNANDO CHEUNG (in Cantonese): President, with these remarks, I support the motion.

MR LEE CHEUK-YAN (in Cantonese): I wonder if the pupils in the public gallery like to use the expression "time and tide wait for no man" when writing

their compositions. When I was small, I would often use it in my composition because it was easy to write and each time, I could simply dictate this expression.

However, President, I believe the CoP should also lament that "time and tide wait for no man" because one year has already passed. The CoP was established a year ago but it has not produced any homework. Nothing has been done to help the poor, so how can it account for this? Why did I say that the CoP had done nothing to help the poor? I think there are several issues that the CoP has all along failed to address.

The first major issue is that the CoP has evaded the question of how many poor people there are in Hong Kong. I believe the reason for its refusal to answer this question is that should it answer this question, each year, it will have to calculate whether the number of poor people has increased or decreased. For this reason, it has evaded the question of how many poor people there are. It has merely said that there are many causes for poverty and the Government is providing a lot of support, thus trying to muddle through by being equivocal.

Secondly, although it is unwilling to say how many poor people there are, it has set 24 indicators. However, I wish to ask the Government if any targets have been set for these 24 indicators? At present, there are indicators but not targets. For example, there is an indicator on the number of unemployed people, and another on the number of unemployed young people. However, is there any target? Has the Government ever said that with the policy intervention of the CoP, it hopes that the number of unemployed youths could be reduced by how many after one year? Or that the working poor can be reduced by a certain number? Since the Government does not want to gauge the numbers, therefore, no target has been set.

Thirdly, the CoP has degenerated into a Community Investment and Inclusion Fund whose role is limited to implementing community programmes and handing out money. Today, during the Question Time, Mr Bernard CHAN said that the CoP did not have any policy and the Financial Secretary said that such an allegation was groundless. However, I wish to tell the Financial Secretary in response that his counter-allegation is also groundless.

In fact, the CoP does not have any policy, and this is particular the case with regard to today's subject matter of working poverty. I have read the government paper. Does it have any policy concerning the working poor? If

it is said that our allegation is groundless, then their counter-allegation is even more groundless. Their action consists of just one word — study, that is, to conduct a study on the existing employment assistance for the able-bodied unemployed, then study whether training or retraining should be provided.

I wish to remind the Financial Secretary that although he talked about retraining, the places for retraining in 2006 is in fact less than those in 2005. The Financial Secretary also talked about how to provide better incentives to low-income employees and their family members to induce them to continue working while keeping in view the effects on the public fiscal system at the same time. However, this is also just a "study". The most obvious thing in the whole paper is that there are only studies but not any policy. This is a glaring fact. One cannot help but conclude that the CoP is just wasting time and paying lip-service to helping the poor. There is not the slightest sincerity and eventually, it may become a Commission on Wiping Out Poverty, however, it will wipe out poverty by sweeping it under the carpet. It has not produced any result at all and there is no policy intervention.

We do not expect the CoP to dole out money in local communities. However, this problem of ours is indeed very serious. Of course, there are many statistical figures concerning the working poor. Even though I may not agree with them, today, I will settle for citing government figures. The figures use incomes which are lower than the average CSSA as the indicator of poverty. In fact, there is a problem with the concept. What I did not have time to raise during the Question Time is the assumption that CSSA recipients may not be poor because the amount they receive can be higher than the average CSSA payment. However, are these people not poor? It cannot be. As we all know, they are poor. Therefore, to use the average CSSA payment as an indicator is in fact doubtful.

Let me just put this matter aside and simply look at the figures with regard to the average CSSA payment. The problem is already very serious and there is no need to cite other figures concerning poverty. At present, the number of poor people stands at 950 000 and 220 000 of them are elderly people who have nothing to do with the working poor. 250 000 persons are unemployed and even if they can find work, they will become the working poor sooner or later. In addition, there are 480 000 persons who belong to the working poor and have a job. What assistance has the Government offered to these 480 000 persons?

These 480 000 people involve about 170 000 families. At present, the Government is offering assistance to only 18 000 low-income families on CSSA and that means some 400 000 persons or several hundred thousand people have not received any assistance. In other words, some 150 000 families, that is, some 400 000 persons or several hundred thousand people do not receive any assistance. What we want is the Government putting in place a policy to see how this group of people can be assisted. The Government may say that the economy is recovering, however, we must by no means wait for lady luck to smile on us. Even though the economy is recovering, ParknShop still wants to lay off workers and several days ago, an unemployed person jumped from a building to his death. The public cannot really share the fruits of recovery and this is very clear. Therefore, the Government must put in place a policy.

President, the Hong Kong Confederation of Trade Unions has all along advocated the implementation of three policies. Everyone knows the first one, which is to establish a minimum wage. Without a minimum wage, the problem of low-income will just haunt us and there will be no improvement. If a minimum wage is put in place, at least 10% of the low-income people will be assisted in getting better wages. I very much hope that Honourable colleagues in this Council and the public can agree with this view as soon as possible. If we do not agree on this view, the Government will face a problem. According to our calculation, the amount of public funds that the Government spends on CSSA for low-income recipients is about \$200 million. This is tantamount to subsidizing employers who adopt a low-wage policy to engage in exploitation. If a minimum wage is introduced and set at \$6,000, the Government will at least be able to save \$200 million. This is the figure worked out by us.

Therefore, firstly, we hope that a minimum wage can be established. However, it is not enough just to put in place a minimum wage because a minimum wage is not sufficient for supporting a family. Therefore, we hope that there can also be a subsidy for low-income families, a measure adopted in the United Kingdom. Members can refer to our Report and see what approach was adopted in the United Kingdom to subsidize low-income families.

President, finally, we hope that the Government can introduce a cross-district travel allowance, so that people living in remote areas, such as Tin Shui Wai, Tuen Mun and Tung Chung can receive a travel allowance to enable them to work outside their districts. Thank you, President.

MS AUDREY EU (in Cantonese): President, the British magazine, *The Economist*, recently published its cost-of-living indices of various cities in the world. Hong Kong ranked 20th and its cost of living index is higher than those of New York and Singapore.

In addition, according to a survey conducted by an international property consultant, Cushman & Wakefield (C & W), the rent for a shop in Causeway Bay ranks the third in the world, trailing just behind New York and Paris. On the face of it, the Hong Kong economy is very prosperous and some people think that this manifests the so-called trickle-down theory, that is, if the overall economy is good, everyone's life will improve and poverty will no longer be a problem.

However, we can see that behind the boom, as many Honourable colleagues have pointed out, there are still hundreds of thousands of poor families in Hong Kong. The kids of these families even have to scavenge for waste paper and carton boxes to supplement household income. According to statistics, as at the second quarter of 2005, there are about 400 000 poor families in Hong Kong, that is, the total income of these families is below 50% of the median income of households in general. If we do some calculation, that means there is one poor family in every 18 families and the situation is worse than the case in 1998, when the financial turmoil occurred. The figure has increased by 13%.

The saddest thing is that of these poor families, in over 60% of them, three to four family members have to work. In other words, 60% of these families are beset by poverty not because their family members are unemployed, rather, even though they all come out to work, their hard-earned money still cannot afford them a reasonable standard of living.

President, what I wish to point out in particular is that working poverty affects not just one generation, rather, it will become an inter-generational problem and will even lead to structural poverty. Since an ever increasing number of parents from poor families have to sacrifice the time for taking care of family members to work in society, the number of women considered the working poor has increased by 45% during the past five years and that represents nearly half of them. A greater concern is that the material deprivation and lack of parental care and guidance of children who grew up in such families are

subjected to a negative impact on their healthy development and personal growth.

A recent survey shows that throughout Hong Kong, there are 370 000 children aged below 18 who live below the poverty line. Be it in terms of the quality of their lives or their health, they are faring worse than children in general. 20% of these children have to eat leftovers from previous meals, so instances of food poisoning or incidence of gastroenteritis have occurred. In addition, 20% of the children said that they had been beaten or bullied and more than 10% had contemplated suicide.

Recently, a newspaper also reported that children from poor families had to scavenge for newspapers, carton paper and drink cans to supplement household income. That children in Hong Kong have to live like those in the third world strikes one as most ironic. There is much talk of sustainable development in Hong Kong. This being so, we really have to take special care of these poor children and enable them to achieve a balanced development in personal growth and learning abilities. This will have a direct bearing on the future competitiveness of Hong Kong, the sustainability of society as a whole, and its harmony and stability.

Therefore, I very much agree with the recommendation of the Subcommittee. We have to follow the example of the United Kingdom in offering Child Tax Credit to families of the working poor. In this way, the financial burden of parents in such families can be relieved on the one hand, and the schooling of poor children will not be affected due to the need to make a living on the other.

Furthermore, I wish to raise in particular is that in order to tie in with the Government's policy on helping the poor, the Education and Manpower Bureau has earlier on allocated \$75 million for the purpose of launching the School-based After-School Learning and Support Programmes for secondary and primary school students whose families are receiving Comprehensive Social Security Assistance (CSSA) or who are receiving full-grant assistance, so that they can take part in activities and tuition classes after school. Children from poor families, in particular, those whose parents are not at home for extended periods of time or cannot provide a suitable environment to assist their children in various domains of knowledge, really need this kind of learning environment

and support. However, it is unfortunate that this support programme has been the target of criticism by quite a number of school principals, who said that the vetting criteria is much too stringent. As a result, since the launch of the programme, only 56 000 poor students have benefited from it. Therefore, I hope that the Government can consider relaxing the vetting criteria.

In addition, apart from educational support such as helping the poor and small classes, I believe that at the end of the day, education remains a core issue in the long-term policy. Regarding the issue of working poverty, since Hong Kong has failed to fulfil its responsibilities under international conventions, people who are hard-working are not facilitated in earning enough wages to support themselves and their families. In this regard, President, I agree with the views of a minority of Members as set out in the Report of the Subcommittee and consider that the ultimate solution to this problem is to establish a minimum wage. This is not simply a matter of campaigning for the welfare of workers but of solving the problem of working poverty, so that the majority of taxpayers do not have to subsidize hard-working people with public funds. These people are subjected to exploitation by employers, so much so that they are unwilling to work in society and they choose to remain at home and apply for CSSA instead of toiling away at work. This is because the wages that they earn are insufficient for supporting their families, nor can parents take care of their children. In view of the foregoing, President, I so submit and support the motion.

DR YEUNG SUM (in Cantonese): President, the establishment of the CoP is considered a novelty of the Government in its history. But much to our regret, it has used an old mindset to deal with such a serious social problem. Therefore, I am extremely disappointed with the work and direction of the CoP.

Although the establishment of the CoP by the Government seems to show that the Government has for the first time faced up to this social problem, it has basically used an old mindset. For instance, the Government has stressed two things: First, the Government has all along upheld the "big market, small government" principle, and it basically will not interfere with anything that can be handled in the market. Such a mindset and governance philosophy have underpinned all economic policies and social policies. Second, the Government considers that economic growth can tackle the problem of poverty. In other words, when the economy is good, it follows that more revenue will be generated

and the overall wealth will then increase and as a result, the poverty problem will be ameliorated gradually or even eliminated. The biggest problem with the distribution of wealth through the market is that the poor will become poorer, and the rich richer.

Basically, if we purely rely on the adjustment of market forces, people with ability can have the opportunity to make continuous improvement. But those people without ability or comparatively low ability cannot benefit from this market mechanism. For this reason, government intervention is necessary. I am not saying that the Government should replace the market. I am just saying that the Government should interfere appropriately, in order to provide support when deviations or inadequacies emerge in the course of market adjustment.

The Hong Kong economy has continued to expand, but the gap between the rich and the poor has been widening. The gap between the rich and the poor in Hong Kong already ranks the fifth in the world, with the Gini Coefficient approaching 0.525. In many Western countries, a Gini Coefficient of close to 0.5 will set off the alarm of political crisis, and the government may even be ousted from governance. But in Hong Kong, as the Government is not returned by universal suffrage, the Government or Financial Secretary Henry TANG is entirely under no political pressure. Moreover, the situation of poverty has indeed been spreading out continuously.

I am very glad that the working group can eventually come up with a definition acceptable to all. This definition also echoes the internationally recognized practice of the United Nations. That is, a household with an income below 50% of the median household income in the community is considered a poor household.

According to this definition, there are now 410 000 families living in poverty, a 13% increase when compared to 1998. If we use the criteria of the Hong Kong Council of Social Service, then one in four children lives in poverty, and 30% of the elderly also live in poverty. If we look at the number of people, 410 000 families will mean more than 1.25 million people living in poverty. Therefore, the Government must seriously tackle this grave problem. I think the Government does not have the sincerity and determination for it is only using an old mindset to deal with a new social problem. Should the Government insist on this approach, I believe State President HU Jintao will certainly feel very disappointed.

In an inclusive society, the poor people are never isolated by society in any case. I think the Government is basically isolating some poor people and disadvantaged groups. If the disadvantaged groups are isolated, social inclusion would be impossible and in that case how can we build an inclusive society? Therefore, I think the Government must have the resolve to do three things:

First, it must define poverty. The Government can consider the Report of the working group, and it can also consider the expressly written definition of the United Nations in the West. I think a definition is very important, because the Government is currently using the Comprehensive Social Security Assistance (CSSA) as the standard, but many poor people do not apply for CSSA because of the Chinese culture, or they may rely on the support of other family members or wish to be self-reliant. Therefore, if the CSSA is used as the standard, the existence and number of poor people cannot be reflected. I think we must set an indicator and draw up a definition of poverty. With a definition of poverty, the Government will then be focusing on an objective figure, and when there is an objective figure, that would save us arguments. If CSSA is adopted as the only indicator and the number of poor people is calculated based on the number of CSSA cases, that is not viable at all, because many people are even poorer than recipients of CSSA, but since they hold that applying for CSSA will violate the traditional culture of self-reliance and indicate that their family is unable to provide them with assistance, they, therefore, refuse to receive the CSSA.

I must stress that Financial Secretary Henry TANG must have the resolve to work out a standard for defining poverty in Hong Kong. After poverty is defined, there will be an objective figure and by then, we do not have to argue over this anymore. Moreover, in each year's policy address, it will be necessary to explain to the public what steps will be taken to reduce the poverty figure gradually, whether with a gradual and orderly approach or by implementing measures at a faster pace. In each policy address, the public will expect poverty to be reduced, and the Government must also make undertakings in this regard. As for the performance of the Government, that would have to be judged by the public.

To give poverty a definition is, I believe, what the CoP must do. What the Government has been doing now is actually a laughing stock. After the establishment of the CoP, we asked the Government how many poor people there were and what poverty meant. The Government said that it was unnecessary to

know the answers because all it would need was a safety net, and poor people could apply for CSSA. I think the Government is evading the problem, because it does not wish to target its work at a specific goal. Nor does it wish to make an undertaking to eradicate poverty. I think this should be the first step of all its work, and if this step is not taken, the other areas of work would basically be carried out in a perfunctory manner only.

Second, President, a trade-specific minimum wage system should indeed be put in place. Although the Government has already been doing this for its outsourced projects, consideration should be given to providing for a trade-specific minimum wage in law. We always talk about competition in the market, but many people basically cannot take part in competition. Even though they have competitiveness, they may lose it because of accidents, diseases, and so on. In an inclusive society, can we completely turn a blind eye at them? Should we isolate them? Therefore, the Government's CoP must seriously deal with the question of setting a trade-specific minimum wage. These are the two points that I particularly wish to raise. Thank you, President.

MISS CHAN YUEN-HAN (in Cantonese): Madam President, I am a member of the Subcommittee to Study the Subject of Combating Poverty of the Legislative Council and I have taken part in the discussion of the Subcommittee. However, when the Report was released, I felt most regrettable. I see that it is a phenomenon that the Government should face squarely. I find it regrettable because despite being a member of the Subcommittee, we failed to include the recommendation on minimum wage in the Report, for a consensus could not be reached on it. Eventually, the Report only includes seven recommendations but not eight.

I do foresee this will be a cause for regret, for every time the question on the setting of a minimum wage is discussed in the Legislative Council, even if it can win the support of a number of Members, it will eventually be negated because of the objection from the functional sectors, the Liberal Party in particular, resulting in the shelving of the proposals. The same applies this time. However, I notice another phenomenon which I hope the Secretary will pay attention to — members of this Subcommittee do come from various sectors, for instance, we are representatives from the labour sector, James is from the business sector and the Liberal Party, while some members are from concern groups of people's livelihood and other sectors. We unanimously agree that

poverty is a problem in Hong Kong. If the Government holds the same opinion, it should examine the problem thoroughly and find a solution to it.

This morning, Honourable colleagues in this Council raised questions about the work on poverty alleviation, but unfortunately I did not have a chance to ask my question. At hand, I have some relevant figures, for the Government is not willing to draw up a poverty line at present. In the Financial Secretary's reply to Ms Emily LAU's supplementary question, he said that in terms of income, the number of persons aged between 0 and 59 earning wages below \$5,000 was some 700 000 on average. This is what the Financial Secretary said today.

I then looked up the figures of the Census and Statistics Department. I noticed from the relevant statistics on Hong Kong for the year 2005 that the number of persons earning less than \$5,000 per month is 370 000. However, when the Financial Secretary attended a discussion held by the Subcommittee earlier, he did say that the number of persons concerned was 270 000 according to the information he had at hand. The Hong Kong Council of Social Service indicated later that the population living in poverty was 1.25 million, but the figures I have at hand are different. Actually, how does the Government measure this? The Financial Secretary says that 20 kinds of tools are available and different tools may be used for different people in calculation. However, some people are still not counted. Indeed, these people do not want to be included. They do not agree that 50% of the median income should be used as the base for the calculation of CSSA payment, for they in fact do not want to apply for CSSA but do want to earn their own living by working hard. If so, how can the problem of this group of people be addressed? All these problems must be addressed by the Government squarely, and the Legislative Council also agrees that Hong Kong is facing the problem of poverty.

If the Government is to face the problem squarely, it should set a poverty line. Regarding the 20 kinds of tools which the Government said have been put in place, some additions or deletions can probably be made to these tools. But the prevailing problem is that the Government is using these 20 tools to obstruct the setting of a poverty line and evade certain problems. Frankly, under such circumstances, it is impossible for us to examine the problem thoroughly and find a solution to it. I believe the Financial Secretary must have noticed one thing, that is, even though members of the Subcommittee do come from different

political parties, sectors and strata of society, they all agree that poverty is a problem in Hong Kong. This is the first point.

Second, I would like to point out that poverty and working poverty are problems that must be dealt with. I think, with the continuous discussion of the issue by the labour sector, today, many people are aware that such problems do exist. Some people in society do have difficulty in finding employment. There are as many as 1 million-odd people in such difficulty even though it is said that the economy has recovered — this is what many colleagues have said today, even my colleague, Mr WONG Kwok-hing, said so too. On the third day of the Chinese New Year, we held a signature collection campaign. A member of the public told me, "Miss CHAN, I do not feel that the economy has improved." Today, I also heard a casual labourer of the construction industry complaining that though he was only some 50 years old, he could not even find the job of a watchman. We have to address the problems of this group of people squarely. The continual economic growth has neither brought any improvement to their life nor extricated them from poverty. These people are still suffering from working poverty.

I frequently mention in this Chamber that I often come across people earning only \$3,000 or \$4,000 monthly, and even some workers of the Leisure and Cultural Services Department who are working 10 hours every day are earning monthly wages of some \$4,000 only. These are hard facts. Despite that, these people continue to work hard tenaciously. However, they soon discover that they cannot earn a living even if they work extremely hard for 10 hours every day. As such, should the Government not establish some tools to provide assistance to them? The tools I am referring to are the prescription of a minimum wage and standard working hours. If we really want to solve the problem of poverty, these tools should be included.

When we discussed the issue with individuals from the business sector, including individual Members from the Liberal Party, they said, "Miss CHAN, there is no reason that the wages are so low. We are willing to discuss these issues." Perhaps the bundling approach is also popular in the business sector at present, but they do not accept this kind of bundle. No matter how, I do hope that James will give a thought about how much longer these people can put up with these difficulties. Even if the Hong Kong Federation of Trade Unions accepts the statistics provided by the Government that there are 370 000 people in this group, how can the problem faced by these 370 000 be solved? At

present, the wages they are earning are very low, but still they continue to work. However, when they can no longer make ends meet even if they work hard, they will have to rely on CSSA, and the expenditure on CSSA will eventually be borne by us. I thus consider that the Government should establish a minimum wage. Also, I really hope and strongly urge the Government to forge ahead bravely.

Moreover, there is another important tool for solving the poverty problem. The problems of children poverty, elderly poverty, and so on, which we have been discussing all along, could have been solved if the members of the family concerned could earn more during their prime years, and they would not have to experience such miserable times. It is a demonstration of the lack of job opportunities in society at present, and it is due to the lack of job opportunities that wages are suppressed to such a low level. I have been talking about this for a long time here, and the President may have probably got bored because of my jabbering.

We often say that the balance of supply and demand in the market has been upset. The supply of jobs is inadequate while the number of job-seekers is numerous. From a general economic point of view, it is time for a review when the balance is upset. The so-called "four economic pillars" of Hong Kong are indeed far from adequate to feed the entire population. Besides, jobs are now gradually moving to places with lower wages. Some, including the Better Hong Kong Foundation, project that 100 000 clerical jobs will be drained from Hong Kong to other places in the next few years. Owing to the high wages in Hong Kong, jobs will naturally be drained to other places where lower wages are offered. However, I would like to add a note here: Are our wages really that high? Indeed, our workers who are earning \$5,000 a month can hardly make ends meet. This is exactly because of our expensive rent and transport fares, and our expenses on clothing, food, housing and transport are all higher than that of other places. This is exactly the state of affairs we are facing. The Government should thus be determined in creating job opportunities, for only this can restore the balance of the market.

We have been discussing local community culture economy, creative economy and all kinds of economy for quite some time, but I notice that the former Financial Secretary "Ah-chung(Antony)" had only done little about this during his tenure, and no progress has been made since then. Now, the authorities have been working on this for a while, but again, it has not been

followed through. I do not deny that the CoP headed by the Financial Secretary is considering proposals like social enterprises, and I know members of the CoP are quite devoted. However, if only some small plans are being considered, how effective could these plans be? Why does the Government not consider the removal of hurdles and barriers first?

The first thing the Government has to remove is the outsourcing system. We know that many workers have been urging the Government not to contract out the projects for they can undertake such government projects. On the other hand, they request the Government not to draw comparison on the so-called management experience and financial strength between them and large consortia in the course of contracting out these projects. If the Government is willing to provide opportunities to this group of unemployed workers by allowing them to form co-operatives, it has to remove the relevant barriers. Another case in point is the Government's continual adherence to the procurement agreement. In fact, a lot of jobs involved can be released and taken up by the people of Hong Kong. Will the Government make provisions to state explicitly the policy changes to be made in this respect? Unfortunately, up till now, we do not see that the Government will do this.

Madam President, I do hope today's debate may strike a chord with the Financial Secretary, prompting him to make some changes. I also hope that the approach adopted by the Government will bring more joy to the life of people in society as a whole. Thank you, Madam President.

MR JAMES TIEN (in Cantonese): Madam President, with regard to working poverty or combating poverty for working persons, the views of all Members from the labour sector are very simple and that is, they think that the problem can be solved as long as employers are willing to pay. Their view is just this simple. In fact, we feel that over the past two years after the financial turmoil and the SARS outbreak, and insofar as the current economic conditions in Hong Kong are concerned, many employers have difficulties in their operation. Members always call on employers to increase the pay of their employees, but when employers cannot afford employees' wages, they will have to declare bankruptcy in the end. So, I think there is a problem with this view held by those Members who always think that all the problems can be solved as long as a minimum wage is set. A minimum wage is set in many countries in the world, but why do we not see that working persons in those countries are better than

ours in Hong Kong? Some are even poorer than ours. Then how can the problem be solved?

Madam President, insofar as today's Report is concerned, apart from paragraph 5.12 concerning minimum wage that the Liberal Party does not support, we had co-operated very happily with other members. I do not wish that today's motion will become another round of discussion on the subject of minimum wage.

What are the characteristics of working poverty? Some Members have talked about this earlier, and I am not going to repeat the points here. But as pointed out in the Report of the Subcommittee to Study the Subject of Combating Poverty, the employed persons in working-poor households are mostly engaged in low-skilled jobs such as clerks, service workers, salespersons, and so on. Why do they have problems? It is because society is actually changing continuously; there are changes in skills, and there are also changes in technologies. If they fail to meet the needs of society, it is a matter of course that they will unfortunately be eliminated by society. Certainly, we think that they must stand on their own feet, and this is very important.

As stated in the Report, according to World Development Report 2004-05, there is strong empirical evidence that creating decent employment opportunities is the best way to take people out of poverty. This is universally recognized, and it is not the case that everything can be solved simply by paying a minimum wage. Certainly, there is a minimum wage in many countries, but we consider that the situation in Hong Kong is special. The most special thing is the linked exchange rate of Hong Kong dollar to US dollar. After the Hong Kong dollar is linked to the US dollar, it is impossible for us to set a minimum wage for local workers, just as other Southeast Asian countries have done. In times of economic downturn, the currency of these countries can depreciate and from the angle of international competition, the level of their minimum wage will actually be lowered. I think if we do not address this problem, the minimum wage may not necessarily be a panacea. While a minimum wage may not be "sugar-coated poison", but I think even if it is set, it will actually turn out to be a disservice despite the good intention, and employers may not wish to hire employees. In that case, workers would turn from working poor into jobless and by then, the Financial Secretary would again have a big headache because the unemployment rate would rise again. So, is it our most important objective to reduce the

number of unemployed workers? To have a job is better than out of job, and doing a job with a low pay is better than not having a job.

For these reasons, the Liberal Party thinks that what the Government should do is to ensure that workers would not choose to draw the \$9,000-odd CSSA payment than to work. If working persons can only make some \$6,000 to \$7,000 monthly even when they have worked very hard, consideration should be given to how subsidies can be provided to these workers, so that they can also have an income equivalent to the CSSA payment of some \$9,000. Only this is a win-win proposal, because the Government does not need to give out some \$9,000 monthly in CSSA payment and on the other hand, those people can still take up jobs with a monthly income of some \$6,000. We think that the Government can consider this.

Moreover, the Report mentioned the mismatch of manpower. The Government also mentioned in past reports that by 2007, the shortage of talents with tertiary education in Hong Kong will hit about 100 000 in number, but there will be a surplus of 230 000 workers with lower education qualifications. How can we address this situation? On the one hand, there will be a surplus of 230 000 workers but on the other, a shortage of 100 000 talents is envisaged. In this connection, the Government should vigorously take forward measures to improve the quality of human resources and relax the restrictions on mainland talents coming to work in Hong Kong, and Chief Executive Donald TSANG has endeavoured to promote this area of work since he took office. Given the upturn in the world economy, the talents may not necessarily like to work in Hong Kong. If no effort is made to attract them, they may not necessarily come to Hong Kong. If we can recruit talents to work in Hong Kong, the 100 000 vacancies for employees with high education attainment can be filled, and when these people have come to work in Hong Kong, more jobs for workers with low education qualifications will be created to absorb the relevant workforce. In other words, the employment opportunities for those 230 000 workers will be increased. I think the Government should speed up the implementation of measures in this regard and if the Government can do so, the business sector will be willing to make investment, in which case working poverty as well as the employment problem of the people can be resolved sooner or later.

We absolutely agree that working poverty is a problem that exists in all parts of the world, and it is very difficult to completely eliminate it (I certainly

would wish so). However, the Liberal Party fully supports the view that the number of the working poor must be reduced, and we absolutely think that the Government should work in this direction.

Furthermore, the Report also mentioned the protection of employees' benefits. Like other members of the Subcommittee, the Liberal Party will throw full weight behind this. We will not defend unscrupulous employers and allow them to deceive or exploit workers in terms of their wages. We, therefore, support the relevant contents in the Subcommittee's Report.

To provide support to the CoP in its work in the next few years, the Government should mainly concentrate on improving the Hong Kong economy and playing the role of a market enabler, with a view to making business operation easier for employers. In that case, they will naturally have the ability to take on more workers. Recently, we have noticed that many "wage earners" in Central are not just given a pay rise of only 2% or 3% as in the past, for many employers have already increased the salary of their employees to prevent their employees from quitting for another job of better pay, and the rate of salary increase is even higher than what I have just said. Certainly, there may only be a small number of employees who can enjoy such pay rises, but the effects will spread to other working persons sooner or later. We certainly hope that the Government can provide assistance to businessmen, so that working persons can be released from the so-called poverty line which is drawn at the median income of some \$8,000 monthly, thereby making society more harmonious. The Liberal Party and the industrial and business sector will exert their utmost to assist the Government, in order to fulfil our social responsibilities.

Thank you, Madam President.

MR ALAN LEONG (in Cantonese): Madam President, when we discuss working poverty, we must first define poverty. According to the consensus reached by the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee), those households with a monthly income below 50% of the median income of households of the same size and with at least one member working are working-poor households. According to the statistics of the Census and Statistics Department (C&SD), in the second quarter of 2005, 417 600 families were in a state of working poverty.

Despite a continued decline in the unemployment rate in Hong Kong, the living of the grassroots has not improved. On the contrary, the living of the lower class has kept on deteriorating. If we compare the figures in 1998 with those in the second quarter of 2005, we would find that 37 900 workers made an income below \$5,000 in 1998, but in the second quarter of 2005, the number drastically rose to 74 100, with 39 100 of whom even making less than \$3,000. From this we can see that more and more people are in a state of poverty.

Madam President, in any loving and just society we must take care of those social groups which, for various reasons, temporarily cannot afford their own basic necessities. If, at the same time when the economy is shooting up, the gap between the rich and the poor keeps on widening and we have yet to see light at the end of the tunnel over the problem of inter-generational poverty, this should not be tolerable to Hong Kong as an international metropolis, and may also lead to class conflicts and hence sow the seeds of social instability.

The CoP was established with the objective of resolving the problem of poverty with central co-ordination. It is disappointing that since its establishment in early 2005, the CoP has failed to fully perform its co-ordinating role to co-ordinate the implementation of poverty alleviation policies by various departments. Nor is the CoP given solid powers to exert influence on policies relating to the people's livelihood. Madam President, I do not oppose the CoP conducting various studies on the situation of poverty in Hong Kong, but if it focuses all its energy on studying and discussing a series of abstract concepts, rather than formulating specific policies to address the problem of working poverty, then the CoP will only be taking superficial measures that cannot address the core of the problem, and its work will continue to be disappointing. I think the CoP should make reference to the definition of poverty made by the Subcommittee, rather than blindly believing that the more indicators and the more complex they are, the better. What the CoP needs to work out is not the 24 indicators of poverty. Rather, it should set targets for poverty eradication and performance indicators both in the long and short terms in a pragmatic and realistic manner, combating poverty with the determination in eliminating the fiscal deficit.

Madam President, to solve the problem of working poverty, it is necessary to provide support to the poor at various levels. Apart from direct financial

assistance, it is equally important to strengthen the community network and hence enhance the social capital of the poor. According to the statistics of the C&SD in 2004, a major proportion of working-poor households live in such remote districts as Tuen Mun and Yuen Long, or in old industrial zones such as Kwun Tong. Resources and employment opportunities in a district are closely related to the number of low-income families in the district. In this connection, promoting community economies and setting up community networks can help the poor get rid of poverty.

Take the "Women and Community Mutual Help Network Project" implemented by the Kwun Tong Methodist Social Service Centre, a non-governmental organization in Kwun Tong, as an example. Under this project, the Centre has organized a certificate course in post-natal care, training women in Kwun Tong to be post-natal carers to provide service to families in need. The service is very well-received in the market and is overwhelmed with orders. The project has successfully trained a group of middle-aged women who have low education and low income and who are even unemployed, enabling them to rebuild their confidence. They will assure themselves of the value of their existence in the process of serving the community through their work, and a community network can also be built up at the same time. The Project is successful, for it can cater for the demand for post-natal carers in the market with participation from various sectors such as volunteer consultant doctors, maternal and child health centres, and so on. Service providers, service users and the entire community can all benefit from the Scheme.

Madam President, in order for this innovative lateral thinking to be put into practice through concrete projects to help the poor become self-reliant, Policy Bureaux should cease to work separately on their own; they should give play to the synergy effect and target actions at the problems faced by service users in a flexible manner, in order to solve the problem. This is precisely why the community has expected the CoP chaired by the Financial Secretary to play a greater part. Regrettably, the CoP still has not achieved anything so far. We feel very anxious but we can do nothing about it.

Madam President, from this successful experience, I understand that we should not look at the needs of low-income earners and unemployed workers as a welfare issue merely of a relief nature. We should not look at them as a group

of people who lack ability and need to rely on the Government. In fact, as long as we can provide them with sufficient room and support in the beginning, they can be very creative and dynamic. I hope that the Government and the CoP can adopt this perspective in formulating policies on poverty alleviation and also step up efforts in promoting the development of community economies.

The eight recommendations made by the Subcommittee aim to urge the Government to provide multi-dimensional support to working-poor households, in the hope that the Government can truly be people-oriented in its work and understand the situation and needs of the working poor, and also practically consider the recommendations of the Subcommittee and give us a concrete response early.

Madam President, I so submit.

MRS SENLINA CHOW (in Cantonese): President, our Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) has an ideal, that is, to eradicate poverty. But I always think that eradication of poverty is an unrealistic objective. Although it is still a desirable objective, it is by no means easy to eradicate poverty in society. Yet, poverty alleviation is absolutely a major consensus among us. Although Miss CHAN Yuen-han and I always talk to each other, we know that we have different beliefs and positions on some issues, such as the minimum wage. But this is no obstacle to us in reaching a major consensus on the work to alleviate poverty and also in working hard for our community and for people in need.

In this Report, we can see that there is a large number of working-poor households and in my constituency, that is, in the New Territories, a number of districts are unfortunately among the 10 districts with the highest number of these households. Yuen Long, which is on the top of the list, has 18 400 such households, and it is followed by Tuen Mun where the number is 17 500. Behind these ice-cold figures there are tens of thousands of people struggling for survival day after day in order to provide for the living of their family. I very much admire their will to be self-reliant, but I feel sad at the same time that for various reasons, with the level of their wages, even though they may be able to meet the basic needs of living, they may still experience serious shortages in many aspects.

In fact, we should give them a hand, so that every person and every family can live with dignity and hopes. What does it mean to live with dignity? I will talk about this later from the way and standard of living. What does it mean to live with hopes? It means having prospects, and to the next generation, it means having a future with hopes.

In the report on working poverty, the CoP mentioned that working-poor families face more problems in meeting the daily expenses than households drawing Comprehensive Social Security Assistance (CSSA), for the latter can enjoy various types of financial assistance to meet the daily expenses. A four-member CSSA family, for instance, can receive up to \$9,229 monthly plus other special allowances, such as the allowance for spectacles, medical consultation, and so on. More importantly, they can enjoy the full amount of public housing rental assistance. If we compare it with a four-member working-poor household with a monthly income of \$9,800, we will see that they are not eligible for the CSSA, and if they do not live in public housing, they have to pay for the rental in private buildings and other expenses such as medical fees at out-patient clinics, and they cannot enjoy any waiver, not even of one single cent.

Take Tin Shui Wai and Yuen Long as examples. There is a large population in these two districts, and the employment opportunities available in the districts cannot in the least meet the demands. We all know that the unemployment rates in these two districts are very high and the transport fares are very expensive. Earlier on colleagues also mentioned that it is not surprising at all that it costs \$40 to \$50 in transport fares daily. If the transport fares are so expensive, it is downright impossible for the residents to travel to other districts to make a living.

On the other hand, in order to make ends meet, working-poor households have to work very hard to cut down on unnecessary expenses and as a result, they are forced to give up many social activities. During the Chinese New Year when all the other people are happy, they may have to pretend that they are not at home, so as to discourage their friends and relatives from visiting them, in which case they can save money on red packets. It is indeed very saddening to hear these cases. Their psychological well-being and the overall living will also be greatly affected. Due to their education qualifications and other various factors, these families may not be very competitive in the labour market. Their children

may refrain from participating in extra-curricular activities, resulting in inter-generational poverty.

To put it correctly, the problem of poverty in Tin Shui Wai and Yuen Long is very complicated. The problem of working poverty alone already involves women and single-parent families. Over the past few years, from my contacts in these districts, the residents have always hoped that the Government can implement some improvement measures. However, we still need to adopt a two-pronged approach. For these families, we will certainly provide them with more assistance but at the same time, as Mr James TIEN said earlier on, we still think that employment opportunities are a very important answer.

Therefore, the EcoPark in Tuen Mun is an example, and from what I have heard continuously, many places in New Territories West can actually be developed into tourist zones. Of course, when it comes to tourism, people will come to me. But I think even though there is something that I wish to do, I still may not be able to do it. Why? It is because the Hong Kong Tourism Board, as I have said repeatedly, targets international visitors only, rather than focusing on the development of local tourism or local economies. While the Government said that the Home Affairs Bureau may be taking up this job, there is still not a dedicated department being made responsible for this area of work or applying for resource deployment for this cause. From the angle of creating employment opportunities, I think it is worthwhile for us to make a greater effort to carry out work in this area.

Furthermore, we certainly cannot neglect the support for the community, especially the provision of childminding services, tutorial class for school children, and so on, which are very important. In principle, we hope that these families can enjoy a living standard with dignity and hopes, but this is the responsibility of society and the responsibility of the Government. Thank you.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): If no other Member wishes to speak, I now call upon the Financial Secretary to speak.

FINANCIAL SECRETARY (in Cantonese): Madam President, I would like to thank the Subcommittee to Study the Subject of Combating Poverty (the Subcommittee) for its recommendations made in the Report on Working Poverty, and Members for their views.

The Commission on Poverty (CoP) discussed at the meeting on 23 January this year the various support made available to low-income employees and the policy direction in improving such support. Accusations of our lack of attention to the working poor were unfounded. I am very pleased to have the opportunity today to share with you our belief and strategy in this regard, and to give a preliminary response to the Subcommittee's recommendations.

Understanding the situation of working poor In order to understand the situation of low-income employees (those with a monthly income of less than \$5,000) and their families, the CoP and the Subcommittee have made reference to the figures provided by the Census and Statistics Department (C&SD). Despite the differences in the methodology employed, they have both estimated the number of low-income employees in mid-2005 to be around 190 000. These employees comprise 140 000 of those working full-time (working 35 hours or more a week) and 50 000 underemployed, and both numbers are lower than those in 2003. The unemployment rate for non-skilled workers has fallen from 9.6% in mid-2003 to 6.2% at end-2005. The average employment earnings of employees at the lowest three decile groups have been picking up since the beginning of 2005, and an increase of 2% to 4% was recorded in the third quarter of the year. I am also aware that the wages of employees in some low-paying sectors, such as shampooing workers, salespersons and restaurant dishwashers, have increased recently. This demonstrates that as a result of the efforts of the Government in promoting economic development, the job opportunities and employment income for the low-income group have been improving gradually with the economic upturn.

When discussing the relevant figures, the CoP agreed that it was inadequate to make reference to these figures alone. While these figures can help us understand the profile and the problem of the working poor, they cannot reflect the impact of public policies including those on taxation, housing, health care, education and other welfare services on their disposable income. In order to have a more accurate picture of the impact of government policies on different income groups and a better assessment of the effectiveness of the policies, the

Government Economist and the C&SD will conduct an analysis of their disposable income. We hope that a preliminary outcome will be available soon.

I would like to elaborate on our strategy for helping the working poor from the following five perspectives:

First, reinforcing the district-based approach, and enhancing community building and participation. The CoP has reviewed the existing key policies, including taxation, housing, health care, education and other social welfare services, aimed at meeting the needs of low-income people and their families. Although there is still room for improvement, it is believed that these policies are generally effective in providing the necessary assistance to the working poor. Some Members have expressed concern about the effectiveness of the poverty indicators, and how the Government identifies the poor so as to provide them with the necessary assistance. I believe that Members are not suggesting that the Government should rigidly affix a new label to the working poor. I am also very pleased to see that items (a), (c) and (h) of the Subcommittee's recommendations also emphasize the importance of community building and participation. During the district visits, I have also realized that only by building social capital and community network can the needy, including the working poor, be really taken care of. This is also the ultimate objective of the district-based approach adopted by the CoP. In implementing this approach, we will actively encourage district bodies and non-governmental organizations to take forward schemes targetted at the working poor, such as promoting the dissemination of information or reaching out to these people so that they can make good use of district resources.

Second, proactive poverty alleviation strategy. Economic restructuring is one of the main factors contributing to skill mismatch and working poverty in the community. We should therefore adopt a proactive strategy to help the low-income group to get out of poverty. I have emphasized on many occasions that the fundamental way to help people with employability is to improve our economy and promote employment, strengthen education and training as well as the relevant employment services, so that their employability can be enhanced. The above two measures are in line with items (b) and (f) of the Subcommittee's recommendations. I am also very pleased to see that the beliefs of the Subcommittee in this respect coincide with ours, though I may differ with the view of the Subcommittee on certain recommendations, such as whether encouraging individual sectors to operate factories in Hong Kong is suitable for a

small and highly open economy as Hong Kong. The Government will maintain dialogue with the Legislative Council to explore feasible ways to enhance the competitiveness of low-income employees.

Third, developing local economy and promoting social enterprises. Apart from promoting economic development, education and training, the CoP also agrees to provide those people with greater difficulty in finding jobs in the open market, such as the less-educated, low-skilled and the middle-aged, with training and employment opportunities by encouraging social enterprise development and promoting local economy. I am very glad that the recommendations put forward by the Subcommittee, that is, item (c) of the recommendations, in this area coincide with ours. We have already commenced work on areas like policy facilitation, financial support and promotion. I briefed Members of the Subcommittee on these efforts at their last meeting. We are happy to report on the progress of our work to the Subcommittee in future.

Fourth, enhancing financial assistance. The Subcommittee recommends that the Government should provide financial assistance to families of the working poor, making reference to the Tax Credit Scheme of the United Kingdom. In this respect, first of all, I would like to emphasize that our public finances and tax system are very different from those of the United Kingdom. However, the CoP has agreed to consider how best to increase work incentive for the low-income employees, while adhering to the principle of prudent management of public finances and not dampening the motivation for work. At present, if the income of a low-income employee is insufficient to support his family expenses, he may receive income support under the low-income category of Comprehensive Social Security Assistance (CSSA). We will further examine the existing arrangements, including the need to improve the operation of disregarded earnings — this is the term that I did not know what it is called in Chinese this morning. We will also continue to consider feasible options to help the unemployed to seek jobs, such as providing subsidies or allowances to them.

Fifth, labour rights. A number of Members have mentioned labour rights. The Subcommittee has also made some recommendations on issues relating to labour rights. Protecting labour rights and promoting good labour relations so that employees can share the fruits of economic recovery are essential in building a harmonious society. As Members are aware, "minimum

wage" is a complex and controversial issue. Some Members have also expressed different views on it. The Labour Advisory Board is now discussing the impact of this policy on our society and economy. The SAR Government always attaches great importance to the protection of labour rights. We will give this subject serious consideration, with a view to striking a proper balance between the interests of employers and employees.

The public may have an impression that the Government and the Legislative Council have dissenting views on poverty alleviation issues. However, when I study the Subcommittee's recommendations, I find that we do share the same thoughts on many issues. I am glad that we are no longer embroiled in the question of whether there is a need to set a new poverty line. As I said in my response to the Ms Emily LAU's question this morning, we have in effect adopted the level of CSSA payment in estimating the number of poor people eligible for financial assistance. Besides, we have, through implementing various policies, rendered the necessary support to people with different needs. Adopting a brand new but incomprehensive standard would only confuse the public further and would not be conducive to the effective review and improvement of public policies.

Members have expressed concern about the uses of indicators. In fact, indicators can play a significant role in policy review. They will be updated annually. This can help us keep track of the progress of our poverty alleviation work and serve as a reference in reviewing the effectiveness of relevant policies. To cite an example, with regard to the number of non-engaged youths, which has increased rather than decreased, is it due to the design of the projects or impacts brought by other new social factors?

The prevention and alleviation of poverty is an established part of Hong Kong's public policy. Through our continuous efforts over the years, we have witnessed the gradual improvement in the living conditions of low-income employees. In the future, the SAR Government and the CoP will take the attitude of "agreeing to disagree" in co-operating fully with the Legislative Council. We will try to seek a consensus pragmatically on the following areas, with a view to improving the existing policies:

First, conducting more accurate assessments on the situation of the working poor and their families, and the impact of the relevant public policies on their disposable income;

Second, strengthening the district-based approach to poverty alleviation, enhancing community building and participation, and actively encouraging local bodies to provide more information and support focusing on the needs of the working poor;

Third, promoting a proactive strategy for alleviating poverty. Continuous efforts will be made to create jobs through promoting economic development, and to strengthen the support in education, training and employment assistance to enhance the capabilities of the working poor;

Fourth, developing local economy and promoting the development of social enterprises to enable the disadvantaged to contribute to society and move towards self-reliance;

Fifth, considering providing financial assistance and increasing work incentives as appropriate; and

Sixth, considering how to better protect employees' interests, taking into account the overall social and economic developments of Hong Kong and the need to balance the interests of employers and employees.

Thank you, Madam President.

PRESIDENT (in Cantonese): Mr Frederick FUNG, you may now reply and you have two minutes 34 seconds.

MR FREDERICK FUNG (in Cantonese): President, I thank the 18 colleagues who have spoken today. Given the time constraint, I will further elaborate two points only, and I hope the Financial Secretary will pay attention to them.

In fact, as we said that we must help the working poor, is Hong Kong financially capable of doing so? The answer is yes. It is because in 2005, the GDP in Hong Kong was US\$25,000, and if we convert it into Hong Kong dollars, it means that each person living in Hong Kong, disregarding his age, will have HK\$15,000 monthly. But for those working-poor families under discussion now, a three-member family only has \$8,500 monthly.

Theoretically, if we do the calculation using the GDP, a three-member family should have \$45,000 but now, the line is drawn at \$8,500 only. So, judging from the financial position of Hong Kong, we should be able to do it. The question is: Why are there still 7% or 8% of families in working poverty? It is because deployment is not made properly insofar as the wealth gap is concerned and that is, we have failed to deploy resources properly. In fact, to make such deployment, it is necessary for the Government to draw up policies and put in place a mechanism before a person in employment can at least make an income of \$8,500.

I think the current situation is tragic. Even though these people work full time from morning till night, and they work eight to 12 hours daily, seven days a week and 30 days a month, their income is not enough to provide for the living of their family. As I said earlier, in such an affluent place as Hong Kong, this is something that should not and cannot happen. I think if we continue to allow this situation to exist, Hong Kong will become a pitiful society.

With regard to the recommendations and measures proposed by the Financial Secretary earlier, I think the many directions proposed by him are the same as ours, but we do not see how the Government will materialize them. Take developing local economies as an example. The authorities only said that \$60 million from the proceeds of tendering, auctioning of vehicle registration marks, and so on, would be allocated, but I really cannot see how that \$60 million can serve the purpose. There are 18 districts altogether; how can \$60 million be enough to develop the local economies in all the 18 districts? With no policy to facilitate their development, that would be too inadequate, whether in terms of resources or powers. In fact, as many Members have said in their speeches, they hope that the Government, whether in respect of resources, policy or institution, can carry out work that is visible and capable of producing immediate effects, so that we can see the determination of the Government in putting words into action. We have visited two places, namely, Britain and Ireland, and saw that whether in Britain or Ireland, their governments are genuinely committed to promoting work in this area. Their governments have established some family centres, the number of which has risen to some 200 to 300 now, and they also said that 1 800 such centres will be set up in five years. We can see that this can be truly achieved in other places.

President, I really hope to see actions by the Government. Thank you.

PRESIDENT (in Cantonese): Time is up for your reply.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the motion moved by Mr Frederick FUNG be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the motion passed.

PRESIDENT (in Cantonese): Second motion: Opening up the electricity market.

OPENING UP THE ELECTRICITY MARKET

MR ALBERT CHAN (in Cantonese): President, I move that the motion on opening up the electricity market, as printed on the Agenda, be passed. I have made four basic demands, including firstly, lowering the permitted return from the current 13.5% to 7% or below; secondly, strengthening the regulation of power plants and formulating measures to improve environmental protection; thirdly, urging the Government to open up the electricity market in the coming 10 years, so as to introduce competition; and fourthly, requesting the CLP Power Hong Kong Limited (CLP) to offer rebates to its customers by the year 2008 using funds from its Development Fund.

President, for more than a decade, the issue of controlling the profit of the electricity market and public utilities has been a subject of discussion in this Council. In November 1991, I already pointed out in this Council that, as there

was no regulation on the profit control schemes, consortiums could reap extremely high profits in the absence of competitors. Given the assurance under the profit control schemes, these consortiums have aggressively increased their assets and the public could do nothing but to be preyed upon by them. This was the argument I put forth in this Council in 1991. However, 15 years have passed since then, instead of seeing any improvement, the situation has been deteriorating further.

Let us look at the actual situation of the two power companies. In regard to this motion, I conclude that in the supply of electricity, the two companies have committed four sins, including excessive investment and wasting resources. The first sin is, over the years, the power companies have incessantly expanded their fixed assets, such as building more and more power generating units and plants, resulting in an excessive supply of electricity and also the problem of over investment. As a result of excess supply, the power companies are thus at liberty to sell their electricity to the Mainland for profits. Under the profit control schemes, the CLP, for instance, has increased its fixed assets by 81% in the past 10 years, and its profit has gone up 46%. Let us use these figures to look at the actual situation. In 1995, the assets of the CLP were valued at about \$24 billion, yet it rose to over \$43 billion in 2004. In terms of profits, while enjoying a profit of \$6 billion in 1995, the CLP captured a profit of close to \$10 billion in 2004. Under such circumstances, the Hong Kong citizens have no choice but to allow themselves to be trampled upon by paying high electricity tariffs. The Government has also turned a blind eye to the problem, allowing these corporations to expand assets unreasonably and exploit the rights of the public.

In addition, the excess capacity of the CLP is also astounding. Over the past few years, it has been running with an excess of more than 40%. According to international standard, the average safety margin of power supply should not exceed 25%, yet in Hong Kong, it has been standing as high as 40%, sometimes even over 50%. The situation of the Hongkong Electric Company Limited (HEC) is less astounding, but still the excess supply has been standing at over 30%, also higher than the international standard. This in turn leads to wastage of resources.

The second sin is charging exorbitant tariffs, causing people to suffer. Many elders, particularly those CSSA recipients, bearing the heavy burden of the electricity bill, refrain most of the time from switching on the lights and

prefer to go to bed early. For those engaging in commercial activities, the situation is the same. The high tariffs subject them to considerable pressure in business operation.

Comparing with other places, especially those in Southeast Asia, our electricity tariff is on the high side. The average cost per unit in Hong Kong is about \$1, whereas it is \$0.8 in Singapore and only \$0.58 in Taipei. As such, when compared with other places in Southeast Asia, the tariff in Hong Kong is on the high side.

The third sin is the pollutants emitted by the two power companies, threatening the health of the public. The recent incident in the Marathon race has exposed the problem completely. The Marathon was supposed to be a major event in Hong Kong, yet it brought us into disgrace. Paying no attention to the environment, the two power companies polluted the air and made Hong Kong a laughingstock globally. Lately, the Government has begun to take it seriously in criticizing the two power companies for their negligence of our environment. However, they have been polluting the air for years, why did the Government just sit back and ignore their sin? The Hong Kong Government is their accomplice in effect.

The fourth sin is profiteering, fattening on gigantic profits at the expense of the public. I have just talked about the asset expansion and high profits of the two power companies. As we can see, in the past 10 years, the median income of Hong Kong people has not increased but taken on a downward trend instead. Yet, the rate of asset expansion of the two power companies has gone up by nearly 40% and their profits are also on the rise. Given the deflation, the pressure felt by the people multiplies. While the profits of the two power companies are increasing, the decrease in income has a significant impact on the livelihood of the public.

On the whole, I feel that the culprit leading to the present situation is the profit control scheme. To improve the situation, the Government must open up the electricity market in line with the international trend. To open up the electricity market, the production and distribution systems have to be segregated, as in the present case of fixed network telecommunications companies. While allowing more power generation operators to enter into competition, the modes of power generation can be diversified, thus minimizing the outdated method of coal-fired generation. Apart from contributing to pollution, coal-fired

generation also subject the public to high tariff. Summing up, I feel that the segregation of the power generation plants and the grid is a feasible option, whereby the public can have one or two more, or even three choices, so that the power companies can no longer do whatever they want.

President, on the issue of environmental protection, the viability of renewable energy resources has been explored all over the world for many years. Hong Kong is lagging far behind in this regard. Though Hong Kong has always claimed itself an advanced city striving for innovations, it has adopted a very outdated mode in power supply. In Sweden, more than 60% of the power supply is generated by renewable energy resources, yet in Hong Kong, the contribution from the same resource is merely 1%. From the information collected, in terms of power generated by renewable energy resources, the rate of contribution in Hong Kong is the lowest among other places all over the world. The Government should feel ashamed. To promote social progress, the adoption of renewable energy is in fact a very crucial strategy. Nonetheless, the Government has failed to exert efforts in this aspect.

In regard to developing renewable energy resources in Hong Kong, we do have a lot of subjective and objective conditions that can facilitate our efforts. As we have many outlying islands with a lot of hills, wind power is available for electricity generation. As a matter of fact, we can adopt diversified means for power generation, thereby bringing improvement to our environment.

The demand of lowering the permitted return from 13.5% to 7% or below is reasonable. If we look at other countries and places which use the fixed assets to determine the rate of permitted return, such rate is generally maintained in the region of 6% to 9%. As such, I have made reference to the examples of other countries before proposing to adjust the rate to 7% or below. The subject under discussion today is of great concern to members of the public. I hope Members will support this motion, so as to convey to the Government a clear message and make clear to the two power companies that the people of Hong Kong will no longer tolerate their exploitation. Thank you, President.

Mr Albert CHAN moved the following motion: (Translation)

"That, as the electricity market in Hong Kong is currently monopolized by two power companies, prejudicing consumers' interests, this Council demands that the Government implement the following measures to

ensure that Hong Kong's electricity market is free from monopoly, so that the people of Hong Kong can enjoy reasonable electricity supply services:

- (a) lowering the permitted return allowed to the power companies in respect of their electricity-related operations for each year from the current 13.5% of their average net fixed assets to 7% or below;
- (b) strengthening the regulation of power plants to ensure that their operations and emissions comply with the relevant environmental protection standards, and formulating practicable measures to ensure that the power companies actively develop renewable energy;
- (c) opening up the electricity market in the coming 10 years, so as to introduce competition and break the current monopoly of Hong Kong's electricity market by the two companies; and
- (d) requesting the CLP Power Hong Kong Limited to offer rebates to its customers by the year 2008 using funds from its Development Fund."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Mr Albert CHAN be passed.

PRESIDENT (in Cantonese): Mr Andrew LEUNG, Miss TAM Heung-man and Mr KWONG Chi-kin will move amendments to this motion respectively. Their amendments have been printed on the Agenda. The motion and the three amendments will now be debated together in a joint debate.

I will call upon Mr Andrew LEUNG to speak first, to be followed by Miss TAM Heung-man and Mr KWONG Chi-kin; but no amendments are to be moved at this stage.

MR ANDREW LEUNG (in Cantonese): Madam President, the two power companies have been serving the people of Hong Kong for more than a century,

so their contribution merits affirmation. With the Scheme of Control Agreement going to expire in 2008, what should the future direction of our electricity market be? It is a subject of concern to the public. In the "Stage II Public Consultation on the Future Development of the Electricity Market in Hong Kong" published by the Government in December last year, various options have been proposed in regard to the future development of the electricity market.

All along, the power supply in Hong Kong has been both stable and reliable. The reliability rate of electricity supply in Hong Kong is as high as 99.99% at present, which is among the highest level around the world. In the past four decades, our power consumption has increased by 20 times, yet the power supply has remained stable and reliable over a long period of time. Our economic activities have never been interrupted as a result of electricity shortage.

As we all know, a persistently stable and reliable power supply is crucial to Hong Kong. We all realize that a world-class electricity system is conducive to our economic development. The industrial sector, in particular, fully appreciates this. In 2001, the major blackout in California, the United States, caused huge economic losses. In recent years, the Pearl River Delta (PRD) Region has experienced shortages of power. Also, the unstable electricity supply has led to an increase in the operational cost of manufacturers and deterioration in air quality in the PRD Region. As a result, a "staggering peak supply" measure has to be adopted to alleviate the problem of power shortage. This uncertainty in power supply will indeed adversely affect the overall economic development.

From the point of view of the public, we all hope that the tariff should be kept as low as possible, so that we can enjoy a safe and stable electricity supply at a reasonable price. This fundamental principle allows no compromises. Nevertheless, from another angle, the Government must balance and take into account the interests of power investors, allowing them to enjoy a reasonable return while ensuring the stability of power supply. Besides, the Government should provide power companies with adequate incentives to attract them to continue to invest on a long-term basis, so that the development of Hong Kong can be sustainable and the aspirations of the public also met. The Government should bear in mind the blackout in South California and put in place effective

monitoring in this regard. In other words, the Government should strive to strike a suitable balance between the interests of the public and a reasonable return for investors. As a member of the community, I do hope that we can enjoy a persistently stable power supply, and do not hope to see the public to live in the dark as a result of major blackouts.

In recent years, the air pollution in Hong Kong has become increasingly serious. As Mr Albert CHAN just said, even in our annual Marathon race, there were runners feeling not well one after the other as a result of the severe air pollution, reflecting that the problem of air pollution has reached a state where it cannot be overlooked. The pollutants emitted by power plants have caused adverse impact on the atmosphere in Hong Kong. Notwithstanding that the Government has put forward a series of requirements on emissions reduction, to achieve this target, the Government must put in place support policies and promotion efforts. For instance, it is proposed in the Consultation Paper that a mechanism of incentive and penalty should be put in place to strictly regulate the total amount of emissions of power companies. On the other hand, it is also proposed that financial incentives be provided to encourage power companies to reduce their emissions to levels below those required in the licence. The Liberal Party believes that these proposals are reasonable and will be conducive to improving the deteriorating air quality by encouraging power companies to adopt various emissions reduction measures to protect the health of the public.

The application of renewable energy resources is another effective way to reduce emissions. At present, the development of renewable energy resources is proactively promoted all over the world, showing that it is the trend to follow. By 2012, only 1% to 2% of our local power needs will be met by renewable energy, this target is lagging far behind other Asian countries. In our opinion, if the Government is to proactively promote the development of renewable energy resources, it should seriously consider providing power companies with suitable incentives.

The Federation of Hong Kong Industries (FHKI) proposes the Government to encourage power companies to extensively adopt renewable energy resources and generation technologies that are new, clean and sustainable. Also, it should draw up a specific and progressive indicator for power companies in the using of renewable energy resources and clean fuel. In this regard, the Government

should set down a long-term, clear and feasible development blueprint, and to provide support policies to encourage and dovetail with the development of renewable energy resources. For instance, if natural gas is used, then the Government should grant land for the storage of such gas, and on the other hand, it should also make the public recognize the fact that, though natural gas is relatively cleaner, its cost is higher. Furthermore, the Government should make reference to countries which plan to switch to using renewable energy resources in formulating a feasible timeframe, stipulating clearly the targets to be reached over a certain period of time. For instance, Sweden has planned to switch to using renewable energy resources instead of oil in 15 years; the United States has said that by 2025, it would develop on a large scale the use of renewable energy resources such as ethyl alcohol, while the United Kingdom has undertaken to generate 10% of its power with renewable energy resources by 2012.

The Government's proposal of providing the highest rate of return to power companies that use renewable energy resources in electricity generation is welcomed by the Liberal Party. In addition, we believe that, apart from wind power generation, we should also explore proactively the feasibility of generating electricity by solar energy, hydro power and landfill gas. Turning waste into energy is a subject worth exploring.

On the opening up of the electricity market, as there are only two power companies now, the situation can be described as a natural monopoly. However, since the key of such a phenomenon lies in the power grids, interconnection is considered necessary in achieving full competition in the electricity market. We hope that the Government can actively study the full implementation of interconnection for this will enable the two power companies to share excess capacity, thereby relieving the pressure on tariff increase, as well as providing greater flexibilities for them in projects of emissions reduction.

On the other hand, before introducing new competitors, we must first open up the power grids. To this end, we must require the power companies to split up the existing business in power generation, transmission and distribution, thus encouraging new entrants in the electricity market. The Liberal Party hopes the Government can draw up a timetable for the splitting up of business and undertake to finish the process in 10 years' time. The Government can make reference to the successful experience in opening up the local

telecommunications market in facilitating the liberalization and development of the electricity market.

As regards introducing new power suppliers, the Government should proceed with prudence and ensure that both new and incumbent suppliers are treated the same under the market mechanism, thereby allowing fair competition in a level playing field. Apart from that, the new suppliers should have a long-term power supply plan and there must be reserve. On environmental protection, the environmental targets to be achieved by new suppliers should be the same as those of the incumbent ones. At the same time, they should be subject to the same regulatory regime.

On the application of the Development Fund, we think that before the new Scheme of Control Agreement comes into operation in 2008, the Government should require the CLP to offer rebates to its customers in proportion to their power consumption. In other words, users with high consumption amounting to hundreds of thousand dollars, such as the catering industry and shops, should not be treated the same as those domestic consumers and be given the same level of rebates.

To effectively regulate the power industry, the FHKI suggests the Government to set up an independent regulatory body with sufficient powers to negotiate with power companies on a new Scheme of Control Agreement and to set down guidelines, looking after the interests of all parties. In the 10 years after 2008, this independent regulatory body will devise rules for new market entrants. We hope that the new regulatory body will be able to come up with a long-term plan and development blueprint, so that the incumbent and future suppliers are subject to suitable regulation in the same manner.

Madam President, the amendment proposed by me urges the Government to determine anew electricity tariffs at a reasonable level upon the expiry of the present Scheme of Control Agreement, so that the public can enjoy a reasonably charged, safe and stable electricity supply service. It is also hoped that with appropriate incentives, the development of renewable energy resources can be encouraged, so that environmental protection is taken into account in power generation. Furthermore, it is hoped that the competition to be introduced by the opening up the electricity market and the active study on the full

implementation of interconnection can put an end to the current phenomenon of natural monopoly.

With these remarks, I propose to amend the original motion.

MISS TAM HEUNG-MAN (in Cantonese): Madam President, since the Government released the "Stage II Public Consultation on the Future Development of the Electricity Market in Hong Kong", how the electricity market will develop in future upon the expiry of the existing Scheme of Control Agreements (SCAs) of the two power companies in 2008 has quickly become a subject of heated discussions among people from different sectors of society.

I very much agree with the policy objective stated by the authorities in the consultation paper: That Hong Kong really needs to have a safe, stable and efficient electricity supply which charges only reasonable electricity tariffs. However, apart from this, I think the development of the electricity market should strike a balance between the needs of people in their daily life and the return for investors. Therefore, I have specifically proposed an amendment to put forward concrete suggestions on opening up the market in the long run and assuring the returns for investors in a reasonable manner.

I think, in the long run, the basically monopolistic situation in the present electricity market of Hong Kong should be removed, thus enabling it to move in the direction of marketization. Therefore, industries engaged in the generation, distribution and transmission of electricity should be unbundled, and the electricity generating industry should move towards marketization, so as to enable more power suppliers to compete with each other in a fair manner, thus making use of the supply and demand mechanism to regulate electricity tariffs. By then, we can lift all kinds of profit control measures for the power suppliers.

Madam President, in order to open up the electricity market smoothly, the prerequisite is separating the generation, distribution and transmission of electricity. Time and again the Government has stressed that the present electricity market is an open market. However, in order to enter the local market, any new power suppliers must first make substantial capital investments to develop their own power transmission and distribution networks. This has

posed a major obstacle to any new comers to the market. This accounts for the emergence of the monopolistic situation in the electricity market.

I think the authorities should, as a first step of opening up the electricity market, require the two power companies to expeditiously implement interconnection and open up the grids to new electricity suppliers. However, if we just rely on the implementation of the interconnection and the opening up of the grids to achieve the purpose of opening up the market, it could bring about some technical problems. For example, the two power companies may charge new electricity suppliers excessively high network access fees; productivity may be undermined by the possible scenario of having too many competitors in the relatively small local market. Therefore, this can only be a transitional arrangement, and the situation should by no means remain stagnant.

In the long term, the grids in Hong Kong should be connected with that of Guangdong Province, thereby making the entire Guangdong-Hong Kong region a very gigantic electricity market. By then, we can on the one hand enjoy more reasonable electricity tariffs brought about by market competition, and on the other, electricity suppliers will not have problems in terms of costs and efficiency. Therefore, the authorities should actively initiate discussions with Guangdong Province and proceed with long-term studies on the issue of building up an electricity market in the Guangdong-Hong Kong region, so as to solve the complicated problems involved.

No matter which issue we are dealing with, be it the implementation of interconnection in Hong Kong, the opening up of the grids or the interconnection between Hong Kong and Guangdong Province, none of them can be achieved within a short period of time. Therefore, I think we must keep on urging the Government to do more, demanding the authorities to carry out the work more proactively, to formulate a timetable for conducting the studies and to report periodically to both the Legislative Council and Hong Kong people on the progress of work.

Madam President, since opening up the electricity market on a full scale is just a long-term strategy, does it mean that we cannot impose any control on the profits of the two power companies now, and that the people will have to continue to put up with the expensive electricity tariffs? In quoting some information earlier on, Mr CHAN mentioned the average cost of electricity in

Hong Kong is about \$1 per unit, but for our competitor Singapore, it is just \$0.8 per unit. We do have the need to identify ways of reducing our electricity tariffs, and making adjustment to the permitted return rate is probably the best method of achieving that purpose.

What actually should we do in order to adjust the permitted return level of the power companies? I think such an adjustment must achieve three purposes: First, the electricity tariffs of users should drop substantially; secondly, the attraction of the power companies to investors can be safeguarded; and thirdly, the two power companies can be prevented from making excessive investments. Only by achieving these purposes can we ensure the continuous development of our electricity market.

First, I would like to propose that both the rate of return on equity and the rate of return on assets should be used as the criteria for calculating the permitted return. Adopting both of these two criteria can substantially reduce the chances of the power companies making excessive investments. If the present mechanism continues to operate, we can only use the rate of return on assets as the sole criterion for calculating the permitted return. In that way, the power companies may make investments through raising loans to increase their permitted return. However, the return from investments financed by loans will raise the rate of return on equity. Therefore, with the introduction of a ceiling in this regard, we may restrict the permitted return of the power companies.

Regardless of which rate of return we shall adopt as the criterion, we must decide what constitutes a reasonable rate of return. The present rate of 13.5% is obviously too high and it should be lowered. However, to which level should it be lowered? Should it be between 7% and 11%, as proposed by the Government? Or should it be 7% or below, as proposed in the original motion? I suggest that we should adopt a more objective and technical method, that is, we should adopt the median return of public utilities with an international "BBB" credit rating as reference.

According to statistical data compiled by the credit rating agency Standard and Poor, the median rate of return on assets of public utilities with a "BBB" credit rating during the past 10 years is about 10%, the median rate of return on equity is about 11% to 12%. When these figures are compared with the two power companies' permitted return of 13.5% as calculated by the rate of return

on assets, and 20% to 15% as calculated by the rate of return on equity, they are indeed very modest. So it is indeed not an exaggeration for us to accuse the two power companies of profiteering.

So, why should it be fixed at the level of "BBB" credit rating? It is because many investment funds have adopted the "BBB" credit rating as the yardstick for making investment decisions, and such funds would only make investment in companies with that credit rating or higher. Fixing the permitted return at such a credit rating level may, on the one hand, lower the actual permitted return, and on the other, the appeal of the power companies to investors can theoretically be maintained. The interest of the ordinary public is naturally very significant, but we cannot sacrifice the interest of investors as well as the stability of the electricity market. If the return does not have any attraction, who else will provide us with high quality electricity?

Madam President, environmental protection is also a significant subject in the development of the electricity market. On the last Sunday, the air pollution was very serious. As one of the major sources of pollution, the power plants should further strengthen their emissions reduction facilities and progressively cease coal-fired power generation, and instead they should adopt other fuels such as natural gas in order to reduce the emission of pollutants. In the long run, the power companies should use renewable energy resources as far as possible for power generation. In this connection, the authorities should provide policy objectives and incentives to facilitate the initiatives. For example, power companies that have emitted excessive pollutants should be required to pay a surcharge or draw up a timetable for ceasing coal-fired power generation.

Madam President, the development of the electricity market in Hong Kong is a very long-term and complicated issue. We hope the relevant officials can fully consider the views put forward by people from different sectors of society, so that the Government can turn the electricity market development blueprint, the prospects of which have been beautifully portrayed by it, into reality. I so submit. Thank you, Madam President.

MR KWONG CHI-KIN (in Cantonese): Madam President, I propose the amendment in the hope of expressing the opinions of the labour unions. The most significant concern of the labour unions is, as espoused in the amendment,

the relationship between a stable electricity supply and a stable workforce. In order to have a stable electricity supply, there must be a stable workforce.

Hong Kong people pay their electricity tariffs every month simply for satisfying two basic demands. First, they demand that there should be a stable electricity supply, and secondly, they demand that the tariffs should be reasonable. Up till now, the electricity supply in Hong Kong can be described as stable. However, can such stability be sustained in the future?

During the past 10 years, the two power companies have outsourced work indiscriminately. Take the Hongkong Electric Company Limited (HEC) as an example. The manpower directly employed by the HEC has kept decreasing. This manpower shrinkage is not attributable to a reduction of operational work at the power plants. Instead, it is due to the outsourcing of work processes by the HEC. The HEC has stopped recruiting new staff for more than 10 years. The present experienced workforce is facing an ageing process. After all the present members of the workforce have retired, how can their operational experience and expertise be passed onto the next generation, as no skilled staff members are taking over the work?

A similar situation is also taking place in the CLP Power Hong Kong Limited (CLP). With a shortage of manpower, the CLP has to rely on large numbers of outsourced workers to handle even daily maintenance work. In the past, permanent employees accounted for over 90% of its workforce. But nowadays, even during major overhauls, half of its work has to be outsourced. A public utility company responsible for supplying electricity to over 5.5 million clients is facing such an acute shortage of manpower. How can it make its clients rest assured? Outsourcing should only be supplementary in nature and it should not constitute a proportion that is too substantial.

What is most worrying to us is that: With the manpower shortage, less regular inspections and maintenance works are now undertaken to certain engines and generating units. The CLP stipulates that certain supplementary units do not have to be inspected and maintained — just wait for them to fail and then have them replaced altogether. Regarding such a practice of replacing the units only after they have become out of order, it is beyond our imagination that it would not cause any adverse effect on electricity supply.

Excessive streamlining of manpower and the inability to conduct regular maintenance work, coupled with the lack of continued recruitment and training of skilled staff, will undermine the stability of electricity supply, and it will also have an impact on the general business environment. Let us imagine this: Once a suspension of electricity supply occurs in shopping arcades and commercial buildings, all the business operations will come to a standstill; computers and photocopying machines cannot operate. A suspension of electricity supply of only a few hours is sufficient for causing substantial losses.

With regard to the profit control arrangements, the labour unions do not take too great an issue with them. What workers value most is reasonable and stable employment. However, many academics have pointed out that, if the Government maintains the present forms of profit control after 2008, even if the permitted return is lowered to below 10%, it will not necessarily lead to lower electricity tariffs. This is because the power companies will expand their fixed assets investment in order to reap greater profits. What workers worry most is, if the fixed assets are expanded but the manpower is not, it will mean that the workload of individual workers is increased. Without benefiting from such expansion, the workers naturally will not support the Government's schemes of control. In fact, electricity supply is a capital-intensive industry, in which manpower costs only constitute a small proportion. It is in fact unreasonable for them to cut manpower indiscriminately.

The expensive electricity tariffs have already put a heavy burden on the shoulders of Hong Kong people. To those living in poverty, the impact is even more severe. What is more, the major clients of the power companies are the commercial clients. From a commercial perspective, the expensive electricity tariffs will eventually be transferred onto the consumers. As a result of the expensive electricity tariffs, the people will have to shoulder a heavier burden in their daily spending.

Madam President, there is a very large loophole in the present mode of profit control. In order to reap greater profits, the power companies will unscrupulously expand their fixed assets investments. After 2008, we must explore ways of introducing competition, such as bringing in new electricity suppliers and unbundling of the power grids, and so on. All these are ways of solving the problem of expensive electricity tariffs brought about by the monopolistic situation in the electricity market. In order to maintain the

stability of electricity supply, the Government must stipulate that the power companies must maintain a reasonable manpower proportion so as to cope with the daily inspection and maintenance work requirements. The two power companies must recruit new skilled workers and provide serving and new staff members with continuous training; otherwise, succession problems in such aspects as experience and expertise will emerge after the serving skilled workers have gradually retired. It will definitely affect electricity supply.

The manpower shortage problem is very acute in the two power companies now, so staff members have to work overtime on a long-term basis. As a result, the accumulated overtime hours have reached alarming proportions. For an individual staff member, the accumulated overtime hours could amount to several hundred hours, or even over 1 000 hours. Please bear in mind that this is the figure for an individual worker. The staff members are all very angry but dare not openly voice their dissatisfaction. So their morale has suffered. If staff members fall sick as a result of having worked for excessively long hours; or if they are discontented because they are not given overtime allowances for their overtime work, we cannot rule out the possibility that they may stage some industrial actions. By then electricity supply will be affected.

Madam President, I hope the Government should examine whether the two power companies have the right staff establishments, instead of just examining the aspect of their fixed assets. If they do not have the suitable manpower to cope with the work requirements, the availability of hardware alone cannot generate electricity, not to mention ensuring the stability of electricity supply.

Madam President, I so submit.

MR LAU CHIN-SHEK (in Cantonese): President, during the past few years, the people have strongly demanded that public utilities should make downward adjustments to their fees or tariffs. Yet, no matter how loudly you have shouted to voice your demand, no matter how earnestly you have longed for the reductions, no response has ever come your way. Several days later, the mechanism that allows franchised bus fares to increase or decrease come into effect. The bus fares for medium- or long-haul trips will gradually be reduced over the next three years. Anyway, we have still managed to get something done. However, while the two power companies are making annual profits that

are more than 10 times as much as those of the bus companies, they do not have the slightest intention of reducing the electricity tariffs; instead, the Hongkong Electric Company Limited (HEC) is even introducing increases in electricity tariffs. It is simply ridiculous.

President, I believe that, to most people, the issue at stake in the current review of the Scheme of Control Agreements (SCAs) of the two power companies is whether the electricity tariffs can really be reduced. In other words, if the tariff for one unit of electricity is \$1 today, will it become 80 cents or 70 cents in future? Or will it remain at \$1, or even become \$1.1? The Secretary has once said that the electricity tariffs will be reduced in future. However, during the past few years, the electricity tariffs have kept rising. The people are worried. Although it is said that the tariffs will come down several years later, in reality the tariffs could rise instead. Therefore, if the Government hopes that the people will support its proposals, it must explicitly guarantee that the electricity tariffs will definitely drop, and the extent of the reduction must be substantial.

President, with regard to all of my viewpoints in criticizing the SCAs of the two power companies, I already put forward them as early as some 20 years ago. During the early '70s, several non-government organizations and I had formed the Coalition for Monitoring Public Utilities and started to organize all kinds of movements to oppose the unreasonable price increases by public utilities. In these movements, the two power companies drew the greatest attention, particularly their SCAs. The schemes have definitely guaranteed high returns for the two power companies, so they can introduce tariff increases unscrupulously and ignore the people's livelihood. At certain points of time, the Government was even unwilling to disclose details of the SCAs, claiming that such details were commercial secrets. Details of the SCAs were made public officially in 1984 after various organizations had made repeated attempts to press for their disclosure.

President, in 1991, when I first joined this Council, the first motion moved by me was to demand a review of the SCAs. In particular, I demanded that the Government must conduct a public consultation before it considers extending the SCAs for the two power companies. In fact, what I demanded in my motion at that time was exactly the consultation currently being conducted by the Government. Unfortunately, the Government then acted completely against

public opinions and in total disregard of public interests. The Executive Council then approved in a most cursory manner the extension of the SCA of the CLP for 15 years one day prior to my moving the motion in this Council, and soon afterwards, it also approved the extension of the HEC's SCA with the same terms.

President, I believe that, if the Government then had acted according to my suggested approach, that is, to conduct open consultation on whether the SCAs of the two power companies should be extended, then the bad consequences that have occurred for more than a decade in the past would not have happened, nor will all the customers be required to pay in full the costs and additional returns caused by the over-estimated electricity demand. And in addition, the two power companies would not have kept declining to reduce their electricity tariffs at a time of sustained deflation. And the most absurd event of introducing tariff increases would not have happened time and again when the people were still suffering from great hardships. The past Government committed serious mistakes in its past policies — a fact that can never be denied!

For many years, the people have seen clearly that the SCAs of the two power companies are actually schemes of profit guarantee! In the past, I have pointed out on numerous occasions that there are at least three structural problems with the existing SCAs: First, the permitted rate of return is too high; second, the SCAs has a tenure of 15 years which is too long; and third, the practice of adopting the fixed assets value as the criterion for calculating the permitted return induces the power companies to pursue unrestrained expansion, thus making the customers pay unjustified electricity tariffs which are unnecessarily expensive.

President, I believe that, in the face of escalating criticisms in society, the management of the two power companies must have realized that they can no longer go on enjoying the special privileges indefinitely, nor can they go on making the unreasonably high profits. As early as nearly a decade ago, I already had some frank and sincere exchanges of opinions on several occasions with Mr Ross SAYERS, then Managing Director of the CLP. He was always open on amending or even cancelling the SCAs. I hope by now, the responsible managers now at both the CLP and the HEC are prepared to keep an open mind and willing to listen to the opinions of the people, so that they can respond to the

strong aspiration of the people for lowering the permitted return as well as reducing the electricity tariffs.

With regard to the proposal made by the Secretary in the Stage II Consultation about a month or so ago, I think he is heading in the right direction insofar as the principle of reform is concerned. In particular, it is proposed to lower the rate of permitted return of the two power companies to a single-digit figure; to shorten the tenure of the SCAs; to conduct a review every five years which may include the level of permitted return, and the fact that future adjustments to electricity tariffs must be subject to the approval of the Government, and so on. I believe all these are suggestions that the people would like to see.

Very obviously, a substantial reduction of the rate of return of the two power companies is the most effective measure of directly reducing electricity tariffs. According to the Government's proposal, by reducing the permitted return of the two power companies to 7% to 11%, there may be a chance of reducing the electricity tariffs by 10% to 20%. Naturally, this will be welcomed by the people. However, in my opinion, judging from such factors as the present economic and investment environment and the people's livelihood situation, a more reasonable approach would be to further reduce the permitted return rate to 5% to 8%, thus enhancing the scope of reduction of electricity tariffs by 20% to 30%. I believe that, in the foreseeable future, the operations of the two power companies will continue to face no competition at all. Basically, under the present circumstances, the operations of the two power companies can be described as riskless; therefore, an annual rate of return on assets of 5% to 8% is in fact very substantial.

President, apart from reviewing the SCAs, I think it is a correct direction for the Government to strengthen the interconnection between the two power companies and further develop or even open up the market. With regard to whether it is possible to achieve full implementation of power interconnection with the Mainland shortly, so as to introduce full competition into the industry, I think the Government needs to address the following issues proactively. In fact, the electricity market is most unique, and it is a kind of natural monopoly. Competition does not come into the market as easily as one might wish. The Government must ensure that the introduction of competition into the market is intended for achieving electricity tariffs reductions; and in the meantime, the

Government should also be aware that there may not be any surplus electricity in the Mainland for export to Hong Kong, and it should also take into consideration the impact on the employment prospects of local workers if electricity is imported from the Mainland.

President, I so submit.

MR RONNY TONG (in Cantonese): President, instead of just doing some small patch-up jobs, the review of the electricity market should pave the way for opening up the market and introducing competition, and in the meantime, it should also put forward some specific and feasible proposals.

The Government should decide the mode of the electricity market by formulating the required directions, regulations and supervisory mechanism. Through fair competition among market participants, consumers should eventually benefit from it. The problem with the existing Scheme of Control Agreements (SCAs) lies in the artificial slicing of the market in which there is no competition; and at the moment, while the two power companies own the transmission facilities, potential market participants outside the industry cannot find their way into the market to stage any competition.

The guaranteed return has deprived the two power companies of any incentive to improve their efficiency and reduce costs. On the contrary, it even provides them with additional incentives to raise loans to finance their expansion, so as to reap even greater profits.

President, the authorities should seize the opportunity presented by the expiry of the SCAs in 2008. They should formulate a sustainable energy policy for the foreseeable future, devise a timetable and put forward specific measures in order to pave the way for opening up the market and introducing competition.

If we want to promote a complete and sustainable energy policy, we must have a new competition and supervisory mechanism in place, including the enactment of a new Electricity Ordinance and the establishment of an independent statutory supervisory authority. In other words, it is an Energy Authority. The work of such an Authority should include the two following points:

First, it should change the present vertically-controlled market structure by unbundling the businesses of the two power companies in the generation, transmission and distribution of electricity;

Second, the transmission network is the infrastructure facility of electricity supply; therefore, it must be opened up in order to introduce competition into the industry. We must provide reasonable compensation to the two power companies for the investments they made in the past in laying the grids, and to strike a balance between protecting public interests and private ownership.

A possible proposal is to require the two power companies to inject the power grids into a newly established listed company. All the equity revenue raised through the listing exercise should be divided between the two power companies in proportion to the assets they have injected, thus compensating them for the investment they made in laying the power grids. The authorities should decide the actual value of the grids through the market mechanism, so as to avoid any evaluation disputes that may arise.

The grid company that owns the power grids should be subject to the supervision of the Energy Authority. Under the new legislation, the company shall assume public service obligations and shall be responsible for setting a reasonable connection charge for access to the grids. Any electricity supplier may hire the grids for transmitting electricity and engage in competition in the market.

The Electricity Ordinance should also include provisions on anti-competitive conduct. I would like to put forward three suggestions:

First, electricity generation companies (such as the companies that have unbundled other related businesses) are prohibited from engaging in electricity transmission business, or holding shares of the grid company or any transmission system;

Second, electricity generation companies are prohibited from collusive pricing activities;

Third, the grid company that owns the power grids should be prohibited from abusing its advantages, and it should ensure that any new competitor should not be prejudiced in hiring the power grids;

Lastly, the Energy Authority should require the grid company to upgrade the interconnection system previously owned by the two power companies. In the long run, the Authority should also explore ways of implementing interconnection with Guangdong Province, so as to allow electricity suppliers outside Hong Kong to participate in the competition.

President, before fully implementing the new supervision and competition mechanism, the authorities should sign a provisional agreement with the two power companies in 2008, and in doing so, they should insist on including the three following conditions:

First, the existing permitted return which is too high should be lowered;

Second, the two power companies should be required to start constructing facilities immediately for the full implementation of interconnection; and

Third, the two power companies should be required to provide the financial records for the unbundling of the electricity generation and transmission businesses, so as to make the right preparations for the unbundling exercise.

President, in putting forward such relatively specific proposals, I have the intention of highlighting the fact that, in conducting the review, the Government must have determination and a macro perspective, together with the specific measures, to make the right preparations for opening up the market and introducing competition. The review should by no means be like what was said in the Stage II Review Consultation Paper, that only some small patch-up work will be made to the SCAs, or only some empty suggestions or directions are put forward.

In this connection, I once asked Secretary Stephen IP in a meeting of the Panel on Economic Services whether the Government had formulated any specific measures for opening up the electricity market. Unfortunately, Secretary Stephen IP's reply was, "The specific measures had already been included in the consultation paper." I must point out that the Government has not adopted any proactive attitude in this regard, nor has it made any preparations for opening up the electricity market. With this kind of attitude, coupled with the lack of preparations, the Government is simply allowing the two power companies to enhance their existing advantages and further undermining

its bargaining power in negotiations over the renewal of agreements with the two power companies. I sincerely hope that the Government can take my above proposals into consideration and formulate a sustainable overall energy policy for the long-term interest of Hong Kong people.

President, I so submit.

MR CHAN KAM-LAM (in Cantonese): President, Hong Kong is a relatively more developed economy. Every element of our lives depends so much on a reliable, stable and safe electricity supply. However, the people still have one more request, that is, the electricity tariffs must be set at a reasonable level. Whenever we mention reasonable tariffs, both the officials and the power companies would immediately respond, "If the electricity tariffs are too low, the stability and reliability of electricity supply may be affected." Upon hearing such a reply, the people would immediately become speechless because even a suspension of electricity supply for one single minute is already unacceptable to us.

The new Schemes of Control Agreement (SCAs) that will take effect after 2008 will lower the permitted return of the power companies, and as a result, the electricity tariffs will be set at a reasonable level. This is already the common aspiration of the people, backed by a strong consensus among themselves. At present, the rate of return of 13.5% is definitely too high, and the Government has made it clear that some downward adjustment will be made to it in future. The DAB has proposed to reduce the rate of return to 8%, so as to bring down the electricity tariffs by 25%.

Reducing the permitted rate of return is naturally the focus of attention of everyone. Meanwhile, we should not overlook how the relevant rate of return is arrived at because this will have a bearing on our judgement on whether a certain rate of return is reasonable in future. So the implications are quite far-reaching.

The Government proposes to classify the fixed assets of the power companies into four categories, each with a different rate of return. The Government also says that in the relevant process, it will take the various factors such as equity and loan costs, capital structure, tax rate and the risks in the

electricity market, and so on, into its comprehensive consideration. However, regarding the rates of return ranging from 7% to 11% of the various categories of assets, it appears that the consultation paper has not spelt out in explicit terms how such rates are arrived and which criteria have been adopted. Since the risk in the market is a factor that cannot be quantified, it makes us worry that the criteria for determining the rate of return are much too ambiguous. Therefore, we hope that the Government can give an explicit explanation in this regard, so as to enable the people to make an objective evaluation and use it as a reasonable basis for monitoring in future.

With regard to the basis for determining the return, the Government proposes to continue adopting the net fixed assets value for calculation. According to past experience, over-investment is usually the main cause for the high electricity tariffs. The government proposal that all investment on excess capacity be deducted from the calculation of the fixed assets value should prevent the power companies from introducing increases in electricity tariffs as a result of excessive expansion of assets. However, the existing reserve capacity is still kept at a high level. The DAB suggests that adjustments be made to keep the reserve capacity at 20% of the normal power consumption; otherwise, over-investment may still occur. Should that happen, even if the rate of return is adjusted downwards to a reasonable level, the people may still be unable to enjoy any tariff reduction.

It has been the aspiration of the people for many years to request both the Government and the two power companies to determine anew electricity tariffs at a reasonable level, but to no avail. It is all because the existing SCAs stipulated that amendments to any clauses will not be valid unless they are agreed by both parties. As a result, the Government is powerless even when the people are being oppressed by the two power companies. Having learnt from past lessons, we think that it is necessary to confer the Government with an "ultimate authority" — stating explicitly in the new SCAs that certain terms may be adjusted in the interim review, thus giving the Government the authority to bargain with the power companies, so as to avoid making the relevant review entirely useless.

One of the amendments mentions the introduction of rates of return on assets and on equity for calculating permitted returns, and it also proposes to apply the median return of public utilities with a "BBB" credit rating as

reference. Regarding this proposal, we have reservations. We are not questioning the credibility of international credit ratings. However, the statistics of international credit ratings are usually based on analyses of the global situation, so they may not be applicable to certain industries with natural monopolies in certain individual territories. Most important of all, the amendment does not have adequate justifications to explain why we should only adopt certain credit rating data as the index for determining the permitted return of the power companies in Hong Kong. Why do we not make reference to some other analyses? Furthermore, we think it is not the most objective or appropriate practice for us to rely on any single statistical data. Just now, an Honourable colleague pointed out that such a credit rating will produce a return of 7% to 10%. The Member may find this data more suitable, so she made use of it. However, we think this is by no means a scientific approach.

President, next I shall express the DAB's viewpoints on interconnection and the opening up of the electricity market. At present, there are only two power companies in Hong Kong, each providing services to their respective customers. So there is absolutely no competition in the market. As we are restrained by the existing market, it is doubtful how great the economic benefits we can get from the interconnection just between the two power companies. However, if we follow the suggestions contained in the Government's consultation paper, that is, if we just "request" the two power companies to "conduct assessment" on and "plan" for the interconnection, then we are afraid that the project will always remain at the planning stage, and it will never be implemented.

However, interconnection is the most basic issue involved in the opening up of the market. If it is really the intention of the Government to introduce more competition into the market, it should formulate a timetable for implementing interconnection. The DAB thinks that implementing interconnection with the Southern China region is the long-term development direction of the Hong Kong electricity market. As the development of the electricity market in the Mainland is not yet mature, it is still not the right time to implement interconnection with the Mainland. So the Government should take this opportunity to implement interconnection in Hong Kong and to proceed with the necessary infrastructure facilities. By introducing this clause into the new SCAs, the Government may compel the two power companies to formulate proposals in due course for solving all kinds of problems relating to

interconnection. We also hope that the Government can expeditiously start the necessary preparations for policy formulation and legislative amendment, so as to implement interconnection as scheduled in the original timetable.

President, I so submit.

DR KWOK KA-KI (in Cantonese): Madam President, I rise to speak in support of the original motion of Mr Albert CHAN to urge the Government to make some specific arrangements to exercise control over the two power companies.

Just now, many Honourable colleagues have used a lot of time and data to discuss the issue related to the assets of the two power companies. In fact, we may look at the issue of the two power companies by examining it in the light of some recent developments. Members may be aware of the recent grand marathon staged in Hong Kong in which a happy event became a tragic one. And one of the contributing causes, as Members might have realized, was related to the air pollution problem. This problem is in fact also one of the core issues we have to discuss today. The Government allows the power companies to make use of their overall assets value as their return benchmark, but it has never made it a point to require the power companies to adopt green measures to reduce their emission of pollutants, nor has it made any reasonable arrangements in their past Schemes of Control Agreement (SCAs). Therefore, we can see that, between 2000 and 2004, the two power companies, in particular the China Light and Power Company (CLP), had made stunning increases in their emissions of sulphur dioxide. In the past, especially in 2002-03, the increase in the CLP's emission of sulphur dioxide amounted to over 90%. Why should this happen?

Fundamentally, it is all because the existing SCAs, which have been in force for several decades, have enabled the power companies to enjoy a "long-term rice-bowl". What has made it even more complicated is, due to the lack of competition and a market mechanism, the two power companies have always been taking as much as they like from the electricity market of Hong Kong. Over the years, the two power companies have always made these two points as their ultimate objectives, namely, increasing the electricity generation capacity as well as their fixed assets value. The generating capacity of the two power companies in Hong Kong ranks first in Asia now.

For example, the excess generating capacity (EGC) of the two power companies in Hong Kong could amount to 30% and 40%. If we take a look at the situations in our neighbouring territories, we can see that, for example, the EGC of Taiwan is 14.6%; for an advanced country like South Korea, its EGC is only 15.1%; Thailand's EGC is 4%. But the CLP's EGC is 41.4%, and the HEC's EGC amounts to 31.4%. Allowing them to attain such a high level of EGC is tantamount to giving the power companies a very good reason to, first, reap more profits; and second, sell its electricity to the Mainland apart from selling electricity in Hong Kong. This is exactly what the CLP is doing right now.

Actually, there is no problem with selling electricity to the Mainland if the power companies in question are responsible ones — why should we be unhappy for their ability to make more money? Unfortunately, the two power companies have not fulfilled their responsibility like other good corporate citizens have done, such as in fulfilling their responsibility in protecting the environment. Therefore, we can see that the two power companies have employed all kinds of excuses to accord lower priorities to adopting natural gas and renewable energy resources, which cause less pollution, for generating electricity. They always have the excuses. For example, they opt not to use natural gas on the pretext that its supply is unstable and there are problems with storage. However, why are they able to do this? I think the Government has to assume a major responsibility for this. Of course, I understand that Hong Kong was still a piece of barren land some 60 years ago when the Government signed the SCAs with the two power companies in order to develop the electricity market. As such, the Government had to provide the two power companies with highly favourable terms and conditions or very strong incentives in order to make them willing to make investments in Hong Kong. However, as time passes, when the entire world finds it difficult to exercise appropriate control in respect of energy now, Hong Kong still finds itself lagging behind other places in this regard.

It seems that the Government has come up with some new proposals in drawing up the SCAs for 2008. However, as we examine the demands the Government has made on the two power companies, including the opening up of the electricity market, I find all these proposals feeble. When the Government requests the two power companies to formulate a timetable for opening up the market, I think it is like negotiating with a tiger for its hide. As they can obviously monopolize the market now, why should they abandon their advantages if there are no powerful provisions requiring them to do so? With

regard to opening up the market, the two power companies, especially the CLP, have acted as if they are blackmailing Hong Kong people — they said that if the Government's proposal was implemented, it would inevitably affect their future generating capacity and they may stop making investments in Hong Kong. I think the Government should wake up now. If the Government goes on adopting the past tolerant attitude towards the two power companies, it will just encourage them to continue reaping unjustified profits from the pockets of Hong Kong people, and it will just make Hong Kong's pollution problem go on worsening.

In terms of the fixed assets, the two power companies have kept increasing their generating capacity as well as their fixed assets value at a stunning rate during the past 10 years. Let us take the CLP as an example. Its current fixed assets value has already exceeded \$40 billion. The Government is proposing to the CLP a return rate of 7% to 11%. I am afraid in doing so, they are actually doing a collaborative show intended to cheat the people. It is because if I were the power companies, I would jump at the offer of 7% to 11%; this is already a very good offer. With such an offer, they can go on operating their business in the market for many more years, they can go on reaping huge profits and they can even request the Government not to discuss so many environmental projects with them. I do have the worry and I do not wish to see the Government being made use of by the power companies, nor do I want to see the Government and the power companies doing a collaborative show to cheat the people. Therefore, in order to implement control over the two power companies, I think the Government should formulate some stricter regulatory measures, including limiting their profits to less than 7% of their fixed assets value, as mentioned in the present proposal put forward by Mr Albert CHAN. I find this very important. In the meantime, more importantly, the Government must make the two power companies open up the power grids, so as to promote healthy competition. Only in this way can we reduce electricity tariffs and contain environmental pollution.

I support Mr Albert CHAN's original motion. Thank you, Madam President.

MR WONG TING-KWONG (in Cantonese): Madam President, under the framework of SCAs, there is a phenomenon of high tariffs in the local electricity market. The average tariff charged by the Hongkong Electric Company

Limited (HEC) is 80% higher than that charged in Guangdong Province. Besides, there is also a phenomenon of high profit levels. During the period from 2000 to 2003, the rates of shareholder return for the CLP Power Hong Kong Limited (CLP) and the HEC were 24% and 27% respectively, far higher than the single-digit shareholder return rate for the international power industry. For every \$100 that people paid in tariffs, \$41 to \$56 was pocketed by the CLP and the HEC as profits. The high profit margins are really astonishing. However, the HEC and the CLP, which respectively made a net profit of \$6.3 billion and \$8.6 billion in 2004, have still adjusted their tariffs this year. The HEC has raised its tariffs by 7.2%, and the CLP has withdrawn its tariff rebate. In response, society is generally of the view that the authorities should step up their supervision of the profits earned by the power companies and explore the possibility of opening up the electricity market.

The industrial and commercial sectors and public organizations are the major customers of the power companies, accounting for 70% of the total power consumption. In 2004, the Economic Development and Labour Bureau conducted an opinion poll on local power supply among various organizations in Hong Kong. Of the 2 001 organizations polled by the survey, more than half spent less than \$20,000 a year on electricity consumption. The annual tariff expenditure of 30% of these organizations was between \$20,000 and \$100,000 on average. And, 5.5% of these organizations spent an average of \$100,000 or more a year on electricity consumption. According to these organizations, the downward or upward adjustments of tariffs will have no bearing on their electricity consumption. As a matter of fact, tariff payment is a major operating cost of commercial organizations. If there is appropriate supervision of the electricity market and tariffs can be adjusted to reasonable levels, the costs burden of many commercial organizations will surely be greatly relieved.

As proposed by the authorities' consultation document on the future development of the electricity market, the permitted levels of return for various types of assets should range from 7% to 11%, and the overall average rate of return should be roughly between 9% and 10%. The authorities claim that, computed on the basis of the tariff levels in 2006, the tariffs in 2009 will see a reduction of 15% to 20%. In the case of residential customers on Hong Kong Island, 70% of them consume 500 units of electricity or less. Assuming that the tariff paid by a residential customer on Hong Kong Island in 2006 amounts to \$491, he will be able to save \$98 a month in 2009. However, such a downward

adjustment of tariffs is based on two assumptions — the fixed assets of the two power companies are to remain unchanged and they will not transfer their surplus profits to the development funds. But how can we be certain that the fixed assets of the two power companies will remain unchanged? What is more, the return concerned will still remain assured. It is usually impossible for any low-risk investments to yield such a high rate of return, and the inflation and interest rates in the coming few years will probably be low and stable. When the two power companies signed their respective SCAs back in 1992, the inflation rate was as high as 8% to 9%, so the actual rate of return was roughly 6%. Assuming that the permitted level of return is 7% to 11% and the inflation rate is about 1% to 2%, it can be computed that the actual rates of return for the two power companies will still be 5% to 8%. We can thus imagine that the general public cannot possibly expect any tariff reduction. The DAB therefore thinks that the average rate of return is still on the high side and there should still be room for downward adjustment.

But what rate of reduction should be considered reasonable? The consultation document makes a comparison of the return rates in the United States, Australia and the United Kingdom. According to the findings, the typical permitted rate of return for vertically integrated investor-owned electricity supply utilities in the United States ranges from 6% to 13%. In the case of the United Kingdom and Australia, typical rates of return for regulated power utilities range from 6% to 7% and 6% to 9% respectively. I believe that it will be more reasonable for the Government to set the permitted rate of return at roughly 8%.

Excessive investment is also one of the main causes for the heavy burden imposed on consumers. The exclusion of unreasonable investment in electricity generation from computations should be able to prevent the recurrence of tariff increases resulting from over expansion of assets. Although the CLP and the HEC already reduced their reserve margin for domestic demand from some 40% to 30% in 2004, we still think that the existing level of reserve margin is on the high side, and we fear that this will not be able to regulate the problem of over-investment. Therefore, we think that it is best to set the reserve margin at about 20% of the normal volume of electricity consumption.

The Hong Kong SAR Government must grasp the opportunity presented by the renewal of the SCAs with the two power companies. The mechanism for

computing the return for the two power companies must be revised, so as to bring tariffs to reasonable levels. In the long run, thoughts should be given to the liberalization of the electricity market and the introduction of competition on the premise of ensuring reliable electricity supply.

Madam President, I so submit.

MR PATRICK LAU (in Cantonese): Madam President, the Government has earlier on released the "Stage II Public Consultation on the Future Development of the Electricity Market in Hong Kong" with the intention of amending the SCAs which will expire in 2008. It has triggered off great repercussions in society.

Naturally, the two power companies would feel dissatisfied with the proposal of lowering the permitted return on fixed assets investments from the existing 13.5% to the proposed 9%. On the other hand, the customers would still find the rate of permitted return of 9% too high. In particular, the Hongkong Electric Company Limited (HEC) has increased its electricity tariffs for customers on Hong Kong Island since the beginning of this year by 7.2%, and the CLP Power Hong Kong Limited (CLP) has stopped providing rebates to its customers and substantially increased its fuel surcharge. On the other hand, environmental protection organizations also criticize the consultation paper of failing to put forward more systematic proposals and timetables for addressing the pollution impact on the environment, the air quality and the climate brought about by the process of power generation. From this, we can see that the aspects involved in this subject are really very extensive, so our analysis may entail discussions in many different dimensions.

Madam President, frankly speaking, it is indeed no easy task to provide a stable, safe and reliable electricity supply in Hong Kong, a city with such a high population density as well as such prosperous economic development. According to our information, the reliability of the electricity supply in Hong Kong, as Mr Andrew LEUNG and many other colleagues have said earlier, is as high as nearly 100%, which is nearly the highest in the world. This has exactly reflected that the ceilings of profits of the two power companies are calculated according to their fixed assets value. Therefore, in order to reap a higher rate of permitted return, they would keep on making investments, so as to improve

the quality of their electricity generation. Therefore, we should not ignore the fruits brought about by the higher rate of permitted return over the years. Furthermore, electricity supply involves huge investments. Without a stable and attractive rate of return, it would have been very difficult to attract the participation of high-quality investors.

Of course, from the viewpoint of the customers, the HEC and the CLP have all along monopolized the market, each occupying an exclusive geographical region, and none of them has ever infringed upon the exclusive rights of the other company over their respective territory. According to our information, between 2000 and 2003, their monopolistic operations could be illustrated by the fact that the rate of return on shareholders' capital had nearly amounted to between 24% and 27%, and this rate is much better than the rate of return on equity of international electricity companies which usually only yield a single-digit figure. But this has inevitably led to the demerit of an excessive generation capacity. It is indeed a colossal wastage.

Madam President, after a rough analysis of the pros and cons of the SCAs by me, I believe Members must also agree that we should fix reasonable electricity tariffs. This is the first point. Besides, on the premise of not affecting the stability, safety and reliability of electricity supply, we should open up the market in a well-planned manner.

However, I would like to emphasize another point, that is, in making the relevant arrangements for opening up the electricity market, the Government must be exceptionally prudent because such arrangements will definitely involve a lot of work such as drafting legislation and establishing a new regulatory body, and so on. And based on the consideration of public interests, the relevant authorities should require new competitors to submit information including detailed electricity transmission plan, and so on, and that the authorities should consider such information from various perspectives such as planning and environmental protection. The relevant authorities should expeditiously formulate a set of long-term electricity policies and conduct studies on the implementation of interconnection, so that should there be any emergency with one of the electricity suppliers, other suppliers can assist in solving the problems.

Madam President, I would like to stress the environmental protection issue in particular. The best warning, as many Honourable colleagues have

mentioned, must be the worrying air quality over the last weekend. According to the information provided by the spokesman of the Environmental Protection Department, during the past weekend, the highest concentrations of nitrogen dioxide and sulphur dioxide in Hong Kong were higher than the average level of the previous year by 5.3 times and 17.9 times respectively. The spokesman even stressed that 92% of the sulphur dioxide and half of the nitrogen oxide in the air had been caused by electricity generation. Therefore, in the SCAs, supervising the emissions standards of the power plants, encouraging the power companies to actively develop emissions reduction and the arrangements of conducting studies on and actively adopting renewable energy resources are all very important. The relevant authorities should have the responsibility of disclosing the details in a more open and explicit manner, so as to protect the health of the general public. Thank you, Madam President.

MR WONG KWOK-HING (in Cantonese): President, regarding today's motion on monitoring electricity supply as well as the amendments to it, I think, apart from paying attention to the issues of electricity tariffs and fixed assets investments, we should also pay attention to several significant elements, namely, human resources, technical resources and equipment.

In the consultation paper presented by the Government, we can see that it has made some improvements, in the sense that it has accepted our opinions by incorporating the element of labour unions into the new regulatory framework. Secretary, this is good. But is this enough? I think we should move one step further by really putting the proposals into practice. In the paper it has presented, the Government mentions that it will open up the future electricity market. I also think that such a direction is a correct one, but I am concerned that its implementation may not be easy. All along, the electricity market in Hong Kong has been monopolized by two major corporations over a very long period of time, and it is by no means easy to reverse such an established trend. In addition, should any new electricity supplier wish to join in the market, it will at least entail the investment of tens of billion dollars before it can do so. Under such circumstances, I think it is imperative for us to exercise close supervision of the two power companies, and it is also the most practical way of safeguarding the interests of consumers.

Insofar as this subject is concerned, the CLP Power Hong Kong Limited (CLP), in a surprising move, said recently that if the Government really treated

them so badly, they would withdraw their investments from Hong Kong. In other words, the CLP is playing a game of "show hand", in an attempt to intimidate the Government. Under such circumstances, I think it is very important that whether or not the Secretary has any tactics up his sleeve to respond to the CLP. Personally, I think the CLP may not succeed in employing such intimidating tactics. But if they want to play some tricks, they can easily get away with them. Therefore, in future when the Government supervises the two power companies, it must pay attention to three very significant elements.

What are these three significant elements? First, equipment; second, human resources; and third technical resources. I would like to discuss equipment first. Nowadays, we seldom talk about equipment. If the two power companies want to play tricks with the Government, or even fool the Government, the latter will never be able to find out what has happened. It is because if the two power companies do not perform maintenance services on the equipment, or deliberately not to upgrade the equipment; or even in cases when prior approval of the Government is required in purchasing new equipment or implementing certain new projects, they may play tricks by not repairing those equipment that can otherwise be repaired. So, eventually, instead of repairing such equipment, they would proceed to buy some new ones, which would then become essential items of expenditure, thus inevitably putting a heavier burden on the shoulders of the people. If the equipment really becomes out of order, it will lead to instability of electricity supply. In that case, the two power companies will then pass the buck to the Government. So the element of equipment is really very significant.

The second element is human resources, which is also very significant. We can see that the two power companies have made a lot of money in the last calendar year, with the profits valued at \$8.6 billion and \$6.3 billion respectively. And the CLP's development fund still holds \$3 billion. We can say that they are enjoying a great financial boom. Although the two power companies have reaped such handsome profits, how do they treat their staff members? They are treating the staff members very harshly. Let us take the HEC as an example. Since the '90s, the HEC has kept reducing its manpower from over 3 000 persons to the present 2 000 persons or so; the reduction amounts to one third, while the scale of electricity supply remains the same. So the labour relation is rather tensed. If the two power companies play tricks to worsen the labour relation and even trigger off some industrial actions, it will then affect the stability and quality of electricity supply. I think the

Government must particularly pay attention to this problem and do not let the two power companies make exceptionally high profits by exploiting the consumers as well as taking advantage of the staff members.

The third element is the technical aspect, which is also very significant. In fact, the two power companies have kept outsourcing their engineering and maintenance projects. This has turned the original workforces mainly consisting of permanent employees to ones that are mainly consisting of contract employees; and temporary workers and casual workers are employed to replace permanent workers. In this way, employees are completely denied promotion and training prospects. Under such circumstances, succession problems will emerge in the technical workforce. Once problems occur in power generating units, how can they provide good technical support in future to solve problems with electricity supply facilities?

The two power companies may play tricks with the three above elements, that is, the equipment, technical and manpower aspects. However, they may not necessarily withdraw their investments from Hong Kong. Therefore, I think the Government must supervise the two power companies prudently and carefully. I hope the Secretary can seriously consider the three elements just mentioned by me in the process of conducting the Stage II Consultation, and these opinions were actually conveyed to us by front-line employees who are members of our labour unions. We hope..... (*the buzzer sounded*)

Thank you, President.

MS EMILY LAU (in Cantonese): President, I rise to speak in support of Mr Albert CHAN's motion.

As we examine the speeches delivered by Members from different political parties and factions, I believe the general consensus is most obvious. Such a situation should help the Secretary. It is very timely for Mr Albert CHAN to move this motion today because the two power companies, the people and green groups are all now focusing their attention on this issue. If there are not too many discrepancies in the Legislative Council, and on the contrary, some consensuses can be reached on certain significant issues, I believe this would help the Secretary. President, I also hope that the Secretary can help the entire Hong Kong.

President, I very much agree with many Honourable colleagues in their comment that Hong Kong has enjoyed a very stable and reliable electricity supply for many years. This is very important to the people. The two power companies should be commended in this regard. However, I have also heard many Members point out in this Chamber that, together with many people outside this Council sharing the feeling that, the two power companies have not fulfilled their responsibility as corporate citizens, that is, to relieve the hardships of the people and to reduce the people's burden. In other words, the electricity tariffs should not be too expensive. Besides, with regard to pollution, the two power companies should also be responsible to a large extent. For reasons unknown, the authorities have been targeting such criticisms particularly at the two power companies during the past two weeks. In fact, I also fail to understand why the authorities have chosen this juncture to level criticisms at the two power companies. If such criticisms are justified, the authorities should have taken actions much earlier. Therefore, the people are even more furious. I hope the two power companies can listen to today's debate, so as to listen to the common voice of this Council.

President, many Honourable colleagues have mentioned the need to open up the electricity market. I very much agree with this viewpoint. I even consider this should brook no delay. Although the two power companies have shown very strong reactions, I believe the Secretary — in fact Secretary Stephen IP should not be the only Director of Bureau who should engage in discussions with them; instead, Secretary Dr Sarah LIAO should also join him. The two power companies once told me that they did not know what to do as this bureau said this and the other bureau said that. It simply leaves them with the impression that there is no co-ordination between the bureaux, or the power companies may even think that the bureaux are collaborating with each other in order to deceive them. Some people even say that different bureaux have different requirements, and it seems that the bureaux are contradicting each other. In short, the Government has failed to please anyone. Therefore, I hope the various Directors of Bureaux can co-ordinate their work, and most important of all, fight for what the people want most.

I very much agree with the view mentioned by Members from various political parties and factions, that the existing guaranteed return rate contained in the SCAs is too high. Some Members mentioned the cases of overseas countries, while others quoted cases in the Mainland. In short, in comparison

with any other places, nowhere in the world can you find any public utility that can enjoy such a high return rate like that in Hong Kong. The Secretary knows this perfectly well, and we can also see the truth of that when we examine such information that is readily available. In Britain, it is 6.25% and in France, it is slightly over 7%. As for the return rates in the Mainland, among the national enterprise stocks are China Resources Power Holdings Company, with a return rate of 6.11%, and that for China Power International Development Limited is 7.11%. Even when we look at the Hang Seng Index, among its 33 constituent stocks, 21 of them have lower return rates than that of the two power companies. Therefore, many people do not understand why the two power companies can enjoy such favourable conditions.

Many Honourable colleagues have mentioned earlier that, although the two power companies are already reaping huge profits, the HEC still wants to introduce increases in its electricity tariffs. With some calculation, we can see that it has increased its electricity tariffs by a total of 24.8% in six years, creating a discrepancy of over 30% when compared with the tariffs payable by people living on the other side of the harbour (Kowloon and the New Territories). This is unacceptable to the people. Some business entrepreneurs on Hong Kong Island asked me whether it was intended to make them move to Kowloon and the New Territories. How can this happen? How can the Secretary explain this to the people?

The people hope that the electricity tariffs can be brought back to a reasonable level. This is an earnest aspiration of the people. Earlier on, some Honourable colleagues mentioned that the power companies had reacted very strongly and said that they might relocate their capital to somewhere else. Later, their top management said that that was not true, and that there had been some errors in the media reports on this. However, irrespective of what had actually happened, I hope everyone can calm down again. Today, Members of this Council have calmly expressed the views of the people, the business sector and even the residents. The two power companies must listen to such views.

President, in the consultation paper released by the authorities, there are two points which I would support and also hope the authorities can insist on implementing. First, it is proposed to separate the assets of the two power companies into three different categories, namely, the facilities for generating renewable energy, the facilities for the generation and distribution of electricity and the facilities for reducing emissions. Some may disagree with this, but I

still hope that the Secretary can work towards this direction. Some Honourable colleagues have said earlier that, if the two power companies know how the returns on the assets are calculated, they would make more investments on facilities for reducing emissions and generating renewable energy. Therefore, I hope the Government can do this.

President, earlier on, some Honourable colleagues mentioned the pollution problem as well as the incident relating to the marathon race. I have checked the air pollution index (API) readings of this morning at 11.00 am: Among the 10 general air quality monitoring stations, nine of them have recorded higher API readings; and of the three roadside air quality monitoring stations, which are situated in Causeway Bay, Central District and Mong Kok, all of them have recorded higher API readings. As some Honourable colleagues mentioned earlier, the Government had pointed out that much of the air pollutants was produced by power generation. President, this time around, it has really enraged the people fiercely.

Secondly, regarding the consultation paper, I also agree that the regulatory period should be shortened from 15 years to 10 years. Many Honourable colleagues have also mentioned that the Government is prepared to make arrangements for opening up the electricity market during this period of time. I do not know how long the Secretary will continue serving in his present office, but anyway he still has to do his work now. In future, no matter who is the Chief Executive — but many say that the Secretary will be staying — such work still has to be done. I hope the Government can do it. With regard to the information provided by the Secretary, it is mentioned that, after the opening up of the electricity markets in Australia, Britain and Germany, the electricity tariffs have been reduced. There are a lot advantages. Therefore, President, it is out of the question for us to rely on the power companies to fulfil their corporate responsibility of their own accord. I am not sure if the Secretary can do it, but I think what we can rely on is nothing but the joint efforts by all of us. I so submit.

MR FRED LI (in Cantonese): President, the huge profits made by the two power companies have made them the envious of many other power companies in different parts of the world. The investments made by the two power companies in other countries are much less profitable than their investments in

Hong Kong. They know all too well about this. Therefore, they will never withdraw their investments from Hong Kong. To the two power companies, the best place to make money is Hong Kong.

The above remarks were made to me by many fund analysts; I did not make them up myself. The stocks of the two power companies have been highly recommended by many funds in the world and are regarded as "quality shares" simply because of their good returns.

Next I would like to speak specifically on four aspects: Basing the returns on assets; stability of electricity supply; emission reduction facilities; and opening up the market.

Secretary, I have repeatedly discussed the issue of electricity with you. Since I joined the Legislative Council in 1991, I started to keep an eye on the issue of electricity. With regard to the past agreements, the greatest problem with them is, apart from the high permitted return, the practice of basing the returns on the assets has made the two power companies actively make investments in power plants. The eight natural gas generating units at the Black Point Power Station were definitely a very painful experience. The former Legislative Council had tried to postpone the commissioning date of these eight generating units at the Black Point Power Station in 1993, 1994 and 1995 because once they were commissioned, the reserve capacity would increase to 50%. In other words, the people would then be paying more to finance the power companies in developing their power plants. However, the fact is we absolutely do not need to use so much electricity. From this, we can see that the practice of basing the returns on assets will generate many problems.

Even if the Secretary today says that the prospects in 2008 should be good, and that the electricity tariffs should be reduced by 10% to 20% (since we shall lower the permitted return from between 13.5% and 15% to between 11% and 7%, so the average return will be 9.5% — this is the return regarding the aspects of transmission and generation of electricity), even if the permitted return is 9.5% and if the CLP and the HEC continue making substantial investments on generating units, the problem will continue to exist, especially we know for sure that the CLP will build a new liquefied natural gas power plant. Although we still do not know where it will be constructed, we are aware that the investment involved will amount to \$6.2 billion. In addition, in the next three years, the Government has already approved of investment projects with an aggregate value

of over \$20 billion. Therefore, in the next few years, the assets of the CLP will expand substantially to \$30 billion, all of which will eventually be reflected in the electricity tariffs we are going to pay. The more assets are involved in the development projects, the greater investment will be made, and eventually the higher electricity tariffs we shall have to pay. It looks as though we are raising funds for the CLP to enable it to build up more assets. Can the Government exercise supervision over this?

The Government only relies on Mr LEE here who sends out some Administrative Officers or some engineers of the Electrical and Mechanical Services Department to do the job. Is our team of professionals adequate for monitoring the information provided by the enormous teams of professionals employed by these two mega commercial empires? I often feel that the Government cannot tackle the information and the professionals sent by the two power companies. Actually, can the Government digest their technical information? I am not sure.

Once the monitoring mechanism fails to function properly, the two power companies can then play a lot of "tricks" with their assets and investments. We have no way of stopping them. Therefore, with regard to the calculation of returns, instead of basing the returns on assets, I hope the Secretary can place more emphasis on their operational performances, and use this criterion as the basis for working out the returns.

With regard to the reliability of electricity supply, Secretary, I wish to bring up a new subject for discussion. In my recent discussions with some fund managers, I learned that the CLP's reliability of electricity supply is 99.99%, whereas the HEC's is 99.999%. Even by global standards, Hong Kong's reliability of electricity supply must be among one of the best in the world. Hong Kong is really a nice place. Even for New York and London, their reliability of electricity supply are only 99.99%. But the question is, is it necessary for us to maintain our reliability of electricity supply at the levels of 99.99% and 99.999%? If we need to maintain such a high level of reliability of electricity supply, we must pay a very high price; and there must be many sources of support, enormous infrastructure facilities and very enormous assets to support such a high reliability of electricity supply.

We often use the word "reliability", but I think it seems that we have fallen into a trap because of it. The two power companies have always promoted the

conviction that there must be a reliable electricity supply in Hong Kong, and it seems that the Government has also accepted this, thinking that the reliability of electricity supply is the most important condition we must strive to attain. As reliability is desirable, so we have to reach the standards of 99.99% and 99.999%. But this has brought us the consequence of expensive electricity tariffs. In fact, we do not need such a high level of reliability of electricity supply. Throughout the world, none of those cities comparable to Hong Kong have attained a reliability of electricity supply at 99.99% and 99.999%. We are nearly at the top of the world. Why should Hong Kong maintain such a status, thus enabling the two power companies to take whatever they like from our pockets? Has our Government ever considered this point? By reducing 0.001% of the reliability of electricity supply, how much money can be saved? Besides, the situation in each district is different. For example, Central is a financial district, so it cannot tolerate any suspension of electricity supply. As such, Central should charge more expensive electricity tariffs in exchange for a reliability of electricity supply of 99.99%. As for other residential districts, what major problems will occur even if a momentary suspension of electricity supply has been triggered off by a lightning? In other words, we should not pay such high electricity tariffs to support such a high level of reliability of electricity supply. I hope we can have a debate with the Secretary on this and see if he is aware of this problem.

With regard to emission reduction facilities, the Democratic Party has stated explicitly that the desulphurization system must be installed. The power companies rely on coal-fired power generation, but this has caused air pollution. So they have to install the desulphurization system, and then upon the installation of this system, they can go on making more money. What we are discussing is, if the desulphurization system is installed, then the power companies can earn \$1.35 billion before 2008. Is this reasonable? This is the greatest problem. Can we stop the power companies mandatorily from earning the \$1.35 billion after installing the desulphurization system? After 2008, the permitted return will be 7%. But I think 7% is still too high. Coal-fired power generation has produced pollution. Having earned the money from such power generation, the power companies next proceed to install the desulphurization system and earn money from it again. What kind of logic is this?

With regard to opening up the market, I would like to raise only one viewpoint. Now we have a third party, by the name of the China Southern

Power Grid Company Limited, which is interested in entering the electricity market of Hong Kong. We do welcome it. However, the Government must formulate a plan for opening up the market, and we hope it does not have to take as long as 10 year to implement. Some friends told me that actually it would only take several years more and the Mainland would be able to supply electricity to Hong Kong. We would not have to wait for as long as 10 years. Besides, we must be cautious and do not let new participants to cheery-pick the business — as in the case of the fixed-line telephone market — which is by no means a healthy way of opening up a market. Therefore, I think it is correct for the Government to open up the market, but does it have any roadmaps or timetables? I hope the Government can give us full accounts about these two aspects.

I so submit.

MR JEFFREY LAM (in Cantonese): Madam President, today's question is "opening up the electricity market". When we mention "opening up", of course we must enhance competition. However, at the same time, we must also ensure that the people can enjoy safe, stable and reliable electricity supply services.

I believe many Honourable colleagues must have had, like me, the childhood experience of always keeping a few candles at home. Why? It was because once electricity supply was suspended in rainy and stormy weather, we could use the candles for lighting. However, our electricity supply nowadays is very stable. In Hong Kong, we have never experienced anything like the major blackout in the United States and Canada, or the frequent suspensions of electricity supply in certain parts of the Mainland that take place at several days' intervals. This is because we enjoy stable and safe electricity supply services.

In order to have such stable electricity supply services, the power companies are required to make very substantial investments on such facilities as power generation units, the transmission grids and environmental protection facilities, and so on. However, there must be relatively longer repayment periods. Therefore, they must be given reasonable returns before they are willing to continue making investments. As such, in formulating the new Scheme of Control Agreements (SCAs), the Government should make prudent consideration and conduct careful studies, so as to draw up a win-win proposal

which can meet the expectations of the people on the one hand, and is acceptable to the investors on the other.

Should the rate of return be fixed at the median return of public utilities with a "BBB" credit rating, as suggested in one of the amendments? In fact, credit ratings just reflect the ability of a certain party in making loan repayments, and they should never be pegged to the rate of return of any company or any public utility. This is because the rate of return and the risk rate are affected by different factors. So it is very difficult to make comparisons between the two. In addition, the credit ratings of the two power companies are "A+ ". If we use the median return of public utilities with a 'BBB' credit rating as reference for them, it does not seem very convincing.

Madam President, talking about the stability of electricity supply, I would like to discuss the proposal of ceasing coal-fired power generation. I do have some reservations about this suggestion. There are mainly three kinds of fuel sources in Hong Kong nowadays: First, coal; second, natural gas; and third, nuclear power. If we cease coal-fired power generation completely, we will have to rely on the other two kinds of energy resource. However, can they replace coal completely insofar as their supply is concerned? What is more, once major changes occur in the supply and pricing of natural gas, will there be substantial fluctuations or long-term impact on electricity tariffs?

However, I utterly agree that coal-fired power generation does produce more pollutants. So I think the power companies should use coal with low sulphur content and that desulphurization facilities should be installed expeditiously, thereby minimizing the emissions of pollutants. On the other hand, the Government should also adopt matching initiatives by approving the desulphurization facilities of the power companies expeditiously as well as approving the required land grants, so as to remove the threat of causing pollution in this regard.

With regard to the demand for the expeditious implementation of interconnection with Guangdong Province, I think this proposal is somehow unrealistic under the current circumstances. This is because in the next few years, the electricity supply in Guangdong Province will still be unable to catch up with the demand and will continue to be very stretched. On the other hand, the environmental protection facilities there still leave much to be desired. So if

we force through the implementation of interconnection just for the sake of achieving it, and if the facilities are not sound enough, we may have to face adverse situations such as suspension of electricity supply or even a blackout. Should that happen, we are simply asking for trouble ourselves.

Regarding interconnection, I support conducting studies on its implementation as well as the provision of suitable incentives, so as to encourage the power companies to actively develop renewable energy resources such as wind power, hydro power, solar energy and even the possible option of "turning waste into energy", and so on, thereby increasing the proportion of renewable energy in the overall electricity supply and, in this way, it will enable us to enjoy fresher and cleaner air as soon as possible.

Madam President, I so submit.

MISS CHOY SO-YUK (in Cantonese): President, due to the geographical limitations, the two power companies have each occupied their own territory and there is no intrusion into each other's territory. This accounts for the long-standing state of natural monopoly in the electricity market. In the absence of other competitors, for decades the people of Hong Kong have to pay high electricity tariffs. Recently, the Government suggested lowering the permitted return of the two power companies by a fraction and this was met with strong reactions, arrogant statements and even threats of a withdraw of investment. The power companies are exhausting all sorts of ways and means to perpetuate their unchallenged privileges. This sort of overbearing behaviour of the power companies and the total disregard of the interest of the people are indeed amazing.

Electricity tariffs in Hong Kong have long since been one of the highest in the world. Residents on Hong Kong Island have to pay tariffs at such a high rate that is only surpassed by Tokyo and London, while it is comparable to that of San Francisco, more than that of Singapore by one quarter and about 40% higher than our neighbours Shenzhen and Guangzhou.

This unreasonable level of electricity tariffs can be seen from another perspective. Under the new Scheme of Control Agreement (SCA) proposed by the Government, it is suggested that the permitted return of the power companies

will be tailor-made according to the difference in the nature of their investments, with rates ranging from 7% to 11%, or an overall average of close to 10%. Such a rate of return is already greater than other public utilities operators. However, even if this favourable proposal is implemented, electricity tariffs can be expected to drop immediately, and by a significant rate as well. In 2009, electricity tariffs can be expected to drop by as much as 15% to 20%. From this it can be seen that the present level of electricity tariffs is really incredibly high.

In addition, Members should not forget that 15 years ago, when the Government entered into SCAs with the power companies, the inflation rate prevailing then was very high. That is why the actual rate of return of the two power companies at that time was lower than the figures presented. However, as times have changed, Hong Kong has experienced six years of deflation and it is expected that the inflation rate in future would not increase by any significant margin. In such circumstances, the two power companies are actually enjoying permitted returns at a rate much greater than that then. Therefore, when the Government formulates this new SCA, it is only suggested that the permitted rate of return would be slashed by a few percentage points. But that is still very favourable and when compared to the last SCA, it is even more favourable in many respects. However, this is still met with strong opposition from the two power companies. It can be seen that there is only one reason for it and that is, the power companies oppose anything done to undermine the exorbitant profits they have reaped and the powers and privileges they have all along been enjoying unchallenged in any small degree.

But the most frustrating thing is that despite charging one of the most expensive tariffs in the world, the two power companies have never fulfilled their responsibilities. In the face of the problem of air pollution which has a direct bearing on human lives, the two power companies are only making procrastinations. In sum, they are getting fully paid but they are not doing quite enough. Just imagine how Hong Kong people can tolerate it anymore.

A couple of days ago, a fatal incident happened in the marathon race. Apart from giving our condolences to the deceased, the DAB is also worried that such an incident would tarnish the image of Hong Kong. In view of this, the organizers should conduct a full-scale review of the race arrangements and prevent the recurrence of similar incidents in future. On the other hand, this is a tell-tale example of how air pollution can damage our health and even endanger

our life. Actually, the medical profession has already amassed a tremendous amount of research data in support of this and they must not be denied. The DAB must therefore stress here that as the greatest single source of pollution in Hong Kong, the power companies must do their best to mitigate emissions, for such is their duty and basic responsibility. The Government must never make any compromise and the two power companies must be compelled to meet emission reduction standards for 2010 as agreed by Hong Kong and Guangdong Province. Of course, the Government should facilitate this by speeding up its vetting and approval of the environmentally-friendly matching facilities required of the two power companies. But we strongly oppose the demand from the two power companies to transfer the investment they make on emission reduction facilities onto the consumers, even to the extent of reaping profits from it. If such a practice is allowed, it would be tantamount to allowing the companies to shift their responsibility for cleaning up pollution to the citizens.

On the other hand, under the SCA proposal which has just been released, it can be seen that the Government has changed the previous "across-the-board" approach in the past and different rates of return are set for investments of different nature, and the rate of return for investments on renewable energy resources is set at 11% which is the highest. The DAB welcomes this. Actually, in a motion on improving air quality at the end of last year, I proposed an amendment to urge the Government to include financial incentives in the SCA to encourage power companies to use more renewable energy resources. Such incentives include raising the permitted return rate for investments on renewable energy. In other words, if the power companies make investments on renewable energy resources, they can expect to enjoy a more favourable rate of return. At the same time, the permitted return rate for conventional coal-fired generation will be reduced. This is meant to promote the development and application of clean energy.

President, we have stressed many times that the pollution problem in Hong Kong has reached a crucial moment and since the Guangdong Provincial Government has taken a package of measures to implement its objective of addressing the pollution problem by adopting a stringent approach, we would also hope that the SAR Government of Hong Kong will never be lax in dealing with the environmental pollution problem. Should the two power companies fail to meet the emission reduction targets, then consideration must be given readily to applying the lethal weapon of slashing the permitted return rate for the power companies as a punitive measure. I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR LEUNG KWOK-HUNG (in Cantonese): Thank you, Miss CHOY So-yuk. She has presented the case very well: That pollution cannot be tolerated. Why should we use money to entice the private companies into doing something? Just let the Government operate the power companies and the problems will be removed. Just let the Government take up the responsibility and let it control the power companies, and everything will be fine. Why should we use money to entice the private companies into making investments?

Let us take a retrospective view to examine why Hong Kong is so polluted? In fact, it is all because the CLP Power Hong Kong Limited (CLP) and Hongkong Electric Company Limited (HEC) are buying large quantities of coal for power generation. The price of coal is cheap, and it is even cheaper if it is bought from the Mainland. And it also makes the people on the Mainland happy. And they do not have to care about anything. It does not matter even if they make use of nuclear power. If nuclear power plants in the Mainland are capable of supplying electricity to Hong Kong, they will also make use of nuclear power. You can see that, for example, the Daya Bay Nuclear Power Plant. We had always opposed its construction, but it was still constructed eventually. So if we want to place the responsibility of protecting human civilization on the shoulders of large enterprises, it is absolutely unreliable. It is like negotiating with a tiger for its hide. In fact, if we feel that environmental protection is important, then we should make use of our ultimate weapon — when the power companies say that they are not going to run the business, the Government would resume the operating rights. I think this is the only way out.

Therefore, the Government's proposal should also be heading in this direction. I find the "polluter pays" mentality of shifting the burden of sewage charges to consumers wrong. It is really beyond my wildest imagination that the DAB should put forward such a suggestion. It is not in line with the market principles for the Government to request the consortia to have regard for social responsibility in their calculation of profits. For such holding companies like CLP and HEC are controlled by the super tycoons. Why should they discuss such issues with the Government? The HEC belongs to LI Ka-shing. For companies controlled by LI Ka-shing, will they let the Government call the shots? Will it be possible?

However, it has become possible now because there is someone who is stronger, surnamed LI and even LI Ka-shing has to give some way — the daughter of LI Peng. She said she also wanted to operate a power company and it will also bear the same Chinese name in abbreviation "中電" as the CLP does. Now the Government has given some responses and it is even responding to various points. The Government now tells the power companies that many problems have existed all along, and they cannot go on operating the companies if the present situation continues. What a pity for us. The brutal fact is that: We have to wait for the daughter of someone powerful in the Mainland to come and invest in Hong Kong before the long-standing monopolization can be broken.

Therefore, what the Government is saying today should have been spoken 10 years or 20 years ago. Mr LAU Chin-shek is not in the Chamber now. In the past, Mr LAU had become a household name through his work as the person proposing to monitor the two power companies. At that time, he exhausted all his energy on lobbying for that cause, yet to no avail. Today, instead of describing the Government as being amenable to public opinions now, we had better say that it is listening to the opinions of top officials. It is because the top officials are now saying that they want to break the monopolization in the electricity market, so as to enable an even bigger monopolistic group to operate in the market. This is what it is all about. This is actually elementary political economics: Politics is the concentrated expression of economics. This is what Lenin preached — nearly 100% identical.

Mr Albert CHAN has collected a lot of information for comparison. Is Mr Albert CHAN a genius? Will he be even more capable than government departments? Is it true that the Government does not know anything about such information? No, but the practice that was once permitted may have to undergo some changes now.

Let us examine this. When I asked the officials: Can we require the power companies to slash their profits to 7% or less than 7%? They would say, "'Long Hair', are you crazy? No one would be willing to run the operation." Is this the case, insofar as the data are concerned? It seems not. If not, then many people would say that, "Come on, 'Long Hair', please be reasonable, and do not act unscrupulously." However, who is actually acting unscrupulously? The Government or the Members? The data are there, but I do not know what the Government will do about them. Will the Government say, "Hong Kong is

different from other places. So the Government cannot do that. We hope our electricity supply can be stable." Buddy, are you kidding? The Government allowed the power companies to use such a ridiculous method of making money, namely, to ask the power companies to maintain our electricity supply stable. Hong Kong people have fed them into alien monsters — monsters that look like "Aliens"; I am not sure whether Members have watched "the Alien" before. However, when this Alien is biting Hong Kong people, the Government still says, "If we do not continue feeding it, it will bite us." What kind of logic is this? Rubbish. All these are nothing but rubbish.

I think this is all very simple. If the power companies say that should they be required to undertake environmental protection initiatives, and they say they are neither able nor willing to do it; and if they are asked to make some changes to their profit rate and revise it to less than 7%, and they say that they do not want to run the power companies anymore, then I would like to tell Secretary Stephen IP, "Please let me run these companies." They know all too well that such scenarios will not become a reality, but they still go ahead to threaten Hong Kong people, "If you want us not to introduce any tariff increase, then let us sell the companies to you, alright?" Let me tell LI Ka-shing and the rich tycoons who own the CLP: If you have the courage, you can sell the companies to Hong Kong people, who will be able to afford them no matter how much money they cost us.

I hereby declare that I cannot tolerate them anymore. At the end of each year, I would usually organize a signature campaign. Every year, whenever the signature campaign is held, some fierce scuffles would happen. Now, LI Ka-shing no longer allows me to go to his places, and I will not be able to go to his places to protest against the expensive tariffs charged by the HEC. Do I really have to temper with the graves of the dead in order to express my stance?

Therefore, the critical issue is: Among all the public utilities in Hong Kong, including the HEC and the CLP as well as other services that have been monopolized by the consortia, they all take advantage of Hong Kong people. Such monopolization must be broken. And the method of breaking the monopolization is very simple — instead of leaving them all to the consortia to let them effect mergers and monopolize the market, why can we not let the Government operate all the public utilities? If we leave the operations of all such public utilities to a responsible government, then we can monitor them.

What kinds of functions can Secretary Stephen IP play? It is useless for me to supervise him, because the power companies do not belong to the Government.

Let me tell Members what the way forward for Hong Kong will be. In such a society which is affluent and its people are well-educated, all the public utilities should mainly be public services run by the Government. This will enable the Government to repay society and make their operations more consistent with justice, instead of running them at the whim of certain individuals in a way neither the officials nor the Legislative Council can exercise any control over them. This is the principle of socialism, and this is the principle of socialist democracy. In an attempt to achieve this principle, I hereby call on the Government to implement this principle, and I also call on everyone to struggle for this objective.

PRESIDENT (in Cantonese): The time limit is over.

MR SIN CHUNG-KAI (in Cantonese): President, Mr LEUNG Kwok-hung argued rhetorically that public utilities should be government enterprises. But in fact, I believe we must calm down and take a careful look at the world because nowadays the trend of turning public enterprises into private ones is much stronger than the other way round. Even in our great socialist Motherland, many of the state enterprises have already been converted into private enterprises. In the past era when everyone is living on "collective rice bowls", we all know how state enterprises had performed in those days. However, even if public utilities are to be operated as private enterprises, there are still a lot of work the Government must do.

President, I must now say something that is pleasing to the ears of Mr Albert CHAN. I still recall that when the last 15-year plan was formulated, the Financial Secretary then was Mr Piers JACOBS. After having completed this task, where did he go and work? He went to work at the CLP Power Hong Kong Limited (CLP). I hope our Secretary Stephen IP who is in the Chamber now will not become a director or a vice chairman of either the Hongkong Electric Company Limited (HEC) or the CLP. President, this is very important. Has the Secretary ever, through certain transfer of interest, received certain retirement assurance?

President, I would like to discuss issues related to environmental protection. I am aware that one of our Honourable colleagues has proposed the motion debate to request that coal-fired power generation be progressively relinquished. I particularly wish to express my opinion on this stance. Of course, I agree that the power companies should relinquish the role played by coal-fired power generation, so as to reduce the emission of pollutants. Both the reduction of coal-fired power generation and the development of renewable energy are major trends in the world. However, in fact, developing renewable energy will lead to higher electricity tariffs, thus imposing a heavier burden on the people. Very often, both the CLP and HEC will compare the electricity tariffs of different countries. The electricity tariffs in Northern Europe are very expensive because actually they do attach great significance to environmental protection. They feel that society as a whole should shoulder more expensive electricity tariffs in exchange for a better environment. The Democratic Party also supports such a principle, but we must act with caution. There is really the chance of subjecting ourselves to increases in electricity tariffs if we develop renewable energy and reduce coal-fired power generation. But, in order to improve the air pollution situation in Hong Kong, the power companies should reduce the proportion of electricity generated by coal fire as far as possible. This is really necessary, though consideration should be given to the realistic circumstances.

In the meantime, is it necessary for us to stop coal-fired power generation altogether? We still have to consider other factors carefully. For example, will the complete termination of coal-fired power generation lead to excessive pressure for increasing electricity tariffs? Besides, will our complete reliance on renewable energy resources and natural gas for generating power affect the stability of power supply? Such issues must be examined very carefully. The Democratic Party absolutely agrees that it is necessary to improve the air quality. The Government should formulate effective measures to ensure that the power companies would actively explore the possibility of using natural gas which causes less pollution and other renewable energy resources.

President, there is in fact a very strong consensus among Members on the several amendments today, namely, to adjust the permitted return rate to 7%. The two power companies may not necessarily accept this. But this is an opportunity to test the real strength of the "strong governance" of Donald TSANG's Administration. This time around, regarding the 7% permitted rate

of return, the various major political parties in the Legislative Council seem to have reached a consensus and this has provided a very good basis for negotiation. I hope the Government can exercise its strong governance, especially over the consortia, right? Mr Albert CHAN must be very happy about this. I feel that the Legislative Council today has already given the Government the ammunition in going ahead with its negotiation. May I ask the Government not to lose face before us, nor should it lose face before the public.

I am very glad to see that the amendment proposed by the Liberal Party today also supports this point. This may be attributable to the fact the issue does have a direct bearing on them, that is, it affects people of their industries. The Liberal Party is even more aggressive than Mr Albert CHAN — they demand the formulation of a timetable for opening up the market. However, Mr Albert CHAN also supports Mr Andrew LEUNG's amendment. For certain issues, the relationship between the causes and effects are like that between the chickens and the eggs. President, last week, the Government said chances were slim that the Mainland would have surplus electricity that could be supplied to Hong Kong. But this situation does change very quickly. I still have not conducted a complete study. However, recently, I have read a mainland magazine (not a Hong Kong magazine) which talked about the electricity market on the Mainland. The essay says that the over supply (that is, the excessive supply) of electricity in the mainland market will gradually become a regular feature. Therefore, if we do not make the right preparations for opening up the market, then the Government is not living up to its obligations towards Hong Kong people. I hope the Government can conduct studies in this regard and may I ask them not to, basing on some old information, tell Hong Kong people that there will not be any surplus electricity in the Mainland that can be supplied to Hong Kong.

I hope that, prior to making any decision, the Government can conduct a comprehensive study to examine whether there is any surplus electricity in the Mainland. Such a surplus situation may not emerge in the entire country of China because our country is so vast, so probably the situation of surplus electricity supply may only occur in certain parts of China. But there may not be any surplus in the Pearl River Delta Region or Guangdong Province. In this regard, I think the Government should adopt an open mind to conduct some studies. Sometimes, the information held by the Government can be quite outdated. For example, in our discussion on digital broadcasting, the Government said that a digital radio set could cost us over \$1,000. However, in

London, you can get one at \$400 to \$500 only. Therefore, I hope the Government can make some special efforts to collect information. There must be a timetable for opening up the market. The Government should formulate a timetable and a roadmap for opening up the electricity market in the new agreements to be signed with the power companies after 2008. With these remarks, I support the original motion as well as two of the amendments.

MR FREDERICK FUNG (in Cantonese): President, the Scheme of Control Agreements (SCAs) that the Government entered into with the two power companies will expire soon. This lax means of regulating the electricity market was introduced in 1963 and so far, it has played an important role in providing a stable and sustainable electrical energy source, particularly at the initial stage of development of the Hong Kong economy when the demand for electricity surged drastically. However, the SCAs are like a double-bladed sword. In a developed economy in which the demand for power is becoming stable, the SCAs have all of a sudden failed to serve their intended purposes, and the counter-productive effects have begun to surface. Not only has this led to a market environment of natural monopoly, given the lack of public supervision over the electricity market and the condition of a permitted level of return, an over-investment by power companies and a surplus in electricity supply have emerged, whereas electricity tariffs have stood at a high level for extended periods.

It was originally hoped that this method of regulation, which has been the target of criticisms, could be rectified and improved upon the expiration of the SCAs. However, the so-called improvement proposals put forward by the Government in the two phases of consultation are in fact jackals from the same lair. Not only has it failed to address the core of the problem fully, it even proposed new measures in an attempt to reinforce the practices set out in the SCAs, so that the public and the Legislative Council will continue to be powerless in monitoring the operation of the electricity market. It goes without saying that the permitted rate of return is retained, what is more, even the adjustment of electricity tariffs will remain a black-box operation and the Government is unwilling to link it to the Consumer Price Index in any way. The tariffs have become very out of touch with the affordability of the public. In fact, the proposals put forward in the Stage II consultation paper cannot solve the issues of concern to the public entirely. The attitude of the authorities seems to be one of perpetuating the shortcomings of the SCAs indefinitely.

President, the foremost objective of the energy policy in Hong Kong is "to ensure that the public can enjoy reliable, safe and efficient energy supplies at reasonable prices, and to minimize the environmental impact caused by the production and use of energy". There is no doubt that the public asks for a reliable and safe supply of electricity, however, when this objective is effected by means of the SCAs, it has become skewed towards the interests of power companies and reliability and efficiency has been equated with the investments made by the power companies. Under the agreements which provide for a permitted rate of return, power companies can continue to boost profits by increasing its investments on fixed assets. As a result, there is an oversupply of electricity and the public cannot use electricity at reasonable prices. This reflects that the objectives of the energy policy are self-contradictory and have not taken into account the affordability of the public at all. In the final analysis, the determination of electricity tariffs is only geared towards one end and that is, to ensure that the power companies will continue to make handsome profits. What is even more strange is that although only a stretch of water separates Hong Kong Island and Kowloon and the New Territories, the difference in electricity tariffs is as great as 30%. Such a spectacle is precisely attributable to the SCAs. Is it the case that members of the public living on Hong Kong Island all have higher incomes and their affordability is 30% higher? This is in fact using the pretext of a so-called reliable and efficient energy supply to justify the ridiculous state of affairs of protecting the profits of the power companies and sacrificing public interests.

President, it seems that to demand the immediate opening up of the electricity market and to introduce competition is like taking a flight of fantasy and doing so immediately does not seem to be practical or realistic. However, the reality is that, according to the provisions in the SCAs, for extended periods of time in the past, the power companies have been responsible for everything from power generation to power transmission and even power distribution facilities, so it is basically impossible for new operators to enter the market. Therefore, I agree with the motion moved by Mr Albert CHAN today to open up the electricity market within a decade. The Hong Kong Association for Democracy and People's Livelihood (ADPL) proposes the formulation of a fair competition law for the electricity market, mandating that corporations taking up a certain market share be split up and requiring power companies to separate power generation, power transmission and power distribution into different operations and power transmission companies must open up their grids to power

generation companies in an equitable manner and charge standard charges for power transmission so that ultimately, a fair market environment can be established to enable commercial and residential users to have genuine choices in choosing power supply companies which provide electricity at reasonable prices according to their needs for electricity.

Before the electricity market has been opened up, the Government must eliminate the shortcomings in the SCAs and reduce the damage that they cause. This is why we demand that the Government adjust the permitted rate of return downward further. It would be more reasonable if it is adjusted to 7% or below. Although the investments required for electricity generation are huge and it takes a long period of time before a return can be made, since the electricity market in Hong Kong is very stable, and coupled with the well-developed facilities and prescribed permitted rates of return, the investment risks are very low and a 7% rate of return is in fact already quite substantial.

President, on the determination of electricity tariffs, I believe reference should be made to the bus fare adjustment mechanism that allows increases as well as decreases and the affordability of the public should be taken into account when making adjustments to electricity tariffs. This includes such factors as the Consumer Price Index, the median household income, and so on. In this way, the objectives of the energy policy can really be achieved and it can be ensured that the public can use electricity at reasonable prices.

Concerning today's motion and the amendments, I cannot support Miss TAM Heung-man's amendment because she deleted the passage that reads "from the current 13.5% of their average net fixed assets to 7% or below" in the original motion. Therefore, I oppose Miss TAM Heung-man's amendment but support other Members' amendments.

Thank you, President.

MR ALAN LEONG (in Cantonese): Madam President, on Christmas Eve last year, the Hongkong Electric Company Limited (HEC) suddenly gave its residential and commercial customers a "big gift", announcing the introduction of a 7.2% tariff increase with effect from the New Year Day this year. Probably sensing the grievances or even angers in society, the Government

hastened to release the Consultation Paper on Future Development of the Electricity Market in Hong Kong on New Year Eve, proposing to drastically reduce the permitted rates of return for the two power companies in 2009, from between 13.5% and 15% to between 7% and 11%.

In the consultation paper, the Government has not explained in detail why the rates should be set within the range from 7% to 11%. I hope that the Secretary can offer a more in-depth explanation when replying to this motion later on. Whether the rates of return are to be set at 13.5% or 7%, they will never help alleviate the plight of the people in times of economic difficulties if they are still based on an underlying rationale, whereby levels of profits are prescribed by rigid statistics totally incompatible with economic development. Worse still, profit reviews will be reduced to a zero-sum game among the Government, the power companies and the general public once several years, the outcome of which is determined entirely by political strength. The weak and powerless people are invariably the losers in such a game.

Madam President, apart from being dissatisfied with the greedy attitude of the power companies, members of the public are also worried about the environmental damage done by the modes of operation of the power companies. What is most ironical is that the Scheme of Control Agreements (SCAs), which are basically meant to regulate the conduct of the power companies, have been reduced to be the very culprit responsible for high tariffs and environmental damage. The objective of the SCAs is to link the power companies' permitted profits with the values of their fixed assets. In other words, the power companies may raise their permitted profits by constructing additional power plants and generating units.

Over the past 10 years, the fixed asset values of the CLP and the HEC have increased by 40% and 56% respectively. In the meantime, however, their volumes of electricity sales have merely increased by 37% and 26% respectively. This means that the output levels of the two power companies have far exceeded market demand. Last year, the two power companies again proposed to construct three additional generating units. But as electricity generation increases, air pollution will worsen as a result. The SCAs have actually been encouraging the power companies to go on generating excessive electricity. But then, tariffs may be increased at the same time. This is really a big joke on the wallets and respiratory systems of members of the public, isn't it?

Madam President, a marathon aimed at promoting sports and a healthy style of life was held in Hong Kong just this past Sunday. The whole event eventually turned out to be a tragedy, in which one athlete died and more than 20 others were hospitalized. I saw from the news footage that the athletes had to compete in a stuffy environment. Can there still be any doubts about the poor air quality in Hong Kong? The public are dissatisfied with the modes of operation of the two power companies and consumers all hope that market forces can induce the two power companies to make changes. But do we actually have any alternatives?

Madam President, what is so regrettable is that we have so far failed to see any prospects of the electricity market being opened up. As a result, the Government will be plunged into a very passive position in its future negotiations with the power companies. The Government must make determined efforts to expedite its negotiations with Guangdong Province on the possibility of interconnection and seek to regain an active position in the future negotiations with the power companies by working out a concrete timetable. In the foreseeable future, the SCAs will continue to be the main means with which the Government can check the power companies. The Government must consider the idea of improving the contents of the SCAs, so that the negative impacts on society can be minimized in the run-up to market liberalization.

Madam President, I am very grateful to Miss TAM Heung-man for making use of her professional expertise to put forward in her amendment two reference indicators on the permitted profits for the two power companies. Generally, public utilities given a rating of BBB are regarded as enterprises belonging to the "investment" grade. When compared with others belonging to the "speculative" grade, the rates of return for these enterprises are usually more stable. The asset return rate is about 6% to 8% and the shareholder return rate is around 11%. It is believed that the adoption of such reference indicators for the formulation of SCAs will help the authorities to strike a more objective balance between the interests of the power companies and those of their customers.

The economic downturn in the past few years has highlighted the fact that the existing mode of co-operation between the Government and public utilities has become outdated. The "two-way adjustment mechanism" for bus fares has recently been announced. This is quite a good start. We must urge the

Government to hold negotiations with various public utilities on the provision of services that are more environment-friendly, more compatible with the trends of economic development and fairer to members of the public. If the services of the two power companies continue to remain not checked, we will have to pay the costs of exorbitant tariffs and air pollution, and all this will in effect become the stumbling blocks to Hong Kong's economic development.

Madam President, I so submit.

DR YEUNG SUM (in Cantonese): Madam President, as a representative of Hong Kong Island residents, I rise to speak in support of Mr Albert CHAN's motion. This is a motion that hits right at the heart of existing problems.

The existing profits control mechanism basically aims to enable the operators to earn profits, so that they can plough a portion of their profits back into the installation of additional facilities for enhancing standards of service. However, after many years of operation, such a profits control mechanism has undergone some sort of unexpected transformation, as the Secretary can also observe. Originally meant as a profits control scheme, it has now been turned into a profits guarantee device. In regard to the recent tariff increase of 7% by the Hongkong Electric Company Limited (HEC), the Secretary has remarked that he has done all he can to prevent a double-digit rate of increase, and that the Government has made huge efforts already. Some commentators have also criticized that in opposing the tariff increase, Members, especially pro-democracy Members, are in fact brushing aside their avowed commitment to the rule of law and the existing contracts. By invoking the contract spirit, they have sought to suppress all our frequent talks about social responsibility. There is admittedly the constraint imposed by existing contracts (or agreements), but when the existing agreements expire in 2008, the Government should still grasp the opportunity and eradicate all the loopholes that have transformed profits control into profits guarantee.

Times have changed, and I suppose even the Secretary can realize that market liberalization is inevitable. In the case of the telecommunications market, for example, when we first demanded market liberalization, there were strong reactions from those with vested interests. However, with market liberalization, all seems to have entered a new world, whether in terms of prices, convenience and the dissemination of telecommunication messages. Therefore,

I am of the view that the liberalization of the electricity market as advocated by Mr Albert CHAN is actually inevitable. I believe that given such an inevitable trend, it will be impossible for the Secretary to raise any objection and the two power companies must also face up to this crisis. They have indeed put forward many arguments recently, warning, for example, that if there is too much market liberalization, they may withdraw from Hong Kong. But I believe that for reasons of profits, they will not do so.

In regard to tariffs, Mr Frederick FUNG suspected just now that the financial ability of Hong Kong Island residents was stronger, so the tariffs for them were 30% higher than those for Kowloon residents. I can say that the question is not about Hong Kong Island residents' strong financial ability, but about the lack of any choices. We frequently talk about fair competition, market liberalization, the market economy and all the rest, but then, in the electricity market, there is natural monopoly. Under the circumstances nowadays, should this type of monopoly continue at all? Is it really possible to liberalize the electricity market like the telecommunications market? I believe that if market liberalization is possible, tariffs will not be as exorbitant as they are due to market competition and adjustments.

With respect to the permitted rate of return, Mr Albert CHAN proposes to set the rate at 7% or below. We very much support his proposal. Madam President, I would like to ask the Secretary a question here, and I hope that he can give a reply later on at this meeting. With globalization and under the existing financial system, I do not think that there are many other investments which can guarantee a double-digit rate of return, or a return rate of 7%. Therefore, a return rate of 7% cannot be described as low at all.

Besides, Hong Kong Island residents are full of grievances and dissatisfaction and the causes for these are more than high tariffs and the lack of choice. Even though tariffs in Kowloon are 30% lower, they cannot purchase the electricity there because there is no interconnection between the two power companies. In this regard, the Secretary has pointed out that interconnection is technically possible, but for many reasons, especially the rigorous opposition of the HEC, the idea cannot be realized so far. Another reason for opposition is air pollution, especially in the Southern District. The residents of the South Horizons, for example, frequently complain about the dustiness of their windows, which they think is caused by the emissions from the power plant on Lamma Island.

Many Members have also pointed out that the recent marathon should have been a world event, but it eventually turned out to be a scandal. This shows that apart from affecting tourism, pollution will also cause negative impacts on inward investment. If Members read the Letters to the Editor in the *South China Morning Post*, they will notice that many foreigners who are here for sightseeing or on business all say that they will never come again after discovering that this very beautiful place has already been seriously polluted. Health is another problem. We have been discussing the prohibition of smoking recently, and many studies have pointed out that passive smoking will do harm to people's health. But we must note that pollution will also do serious harm to people's health. It will cause huge wastage of lives and medical resources.

As for actions to clamp down on pollutant emissions, I had a recent meeting with the Environmental Protection Department (EPD) on the HEC. The EPD assured me that the HEC would be required to reduce its emissions by 50% during the negotiations in 2008. I think a 50% reduction is still an extremely modest target. The Secretary must remember how the authorities required taxis to switch to LPG. The whole thing was finalized and implemented very speedily. However, when it comes to requiring the two power companies to reach certain targets of emissions reduction, it seems that the Government is very powerless.

In conclusion, I hope that the Secretary can grasp the opportunity in 2008 and respond to the several issues raised by Mr Albert CHAN: first, the liberalization of the electricity market; second, a drastic reduction of guaranteed profits; and, third, a substantial reduction of pollutant emissions. We of course also hope that the Government can set up an Energy Authority to do a good job of supervision.

With these remarks, I support the motion. Thank you, Madam President.

DR RAYMOND HO: Madam President, the public display of disagreement between the Government and the two power companies over the proposals in the Stage II Consultation on the Future Development of Electricity Market in Hong Kong gives us a hint about the difficulties that lay ahead in setting out the post-2008 regulatory arrangements for the electricity market in Hong Kong. Obviously, the public would like to see that the new agreement could address the shortcomings of the existing 40-year-old Scheme of Control Agreements, but it is

imperative that assurance is achieved to have a continuous, reliable, safe and efficient supply of electricity at reasonable prices. Hong Kong is an affluent society with very busy social life and commercial activities. Any stoppage of electricity supply will be catastrophic. Our residential building blocks, in some cases exceeding 70 storeys, are served by passenger lifts. It will be the last thing for people to want to be trapped in such very high lifts. Advanced commercial offices with commercial IT and database facilities cannot afford any, or even the shortest, break in electricity supply. We have been most fortunate in enjoying 99.99% reliability for decades which has been a great asset in our economic development and in the furtherance of quality of life.

As an improvement to the current Agreements, the Government proposes to fix the permitted rate of return between 7% to 11% of the average net fixed assets. While it is understandable that a higher rate of return is allowed for renewable energy infrastructure as an encouragement for its development, the 7% for emission reduction facilities serves no incentive. Proposed rates of return must be in line with the reasonable return levels associated with the business nature and risk factors of the electricity supply industry.

If the proposed permitted rates of return are higher than the reasonable levels, they will be detrimental to the interests of consumers. Whereas if they are less than reasonable, no new investment will come forward and a less than reliable electricity supply will result. Our economy and society at large will subsequently pay a high cost.

As a closely related subject, the proposed 10-year term for the new agreements is too short for the power supply industry which is characterized by its capital-intensive nature and long pay-back period. Even the provision of an option to extend by another five years is no substitute for agreements with a fixed 15-year term as the former entails uncertainties. The use-life of power facilities exceeds 30 years and fuel contracts are usually 20 years.

While the Government is fully justified in exploring the possibility of opening up new electricity supply sources, it must not rush into any new arrangements without assessing their full implications. Among the options being explored in the consultation paper is importing electricity from the Mainland, we must evaluate the situation very carefully and ask: Will their electricity supply be reliable? Have they got enough surplus electricity? The differences in power supply systems, legal systems, environmental regulations

and business operations in the Mainland may pose further barriers. With regard to the suggestion on increased interconnection between the two power companies, the issue must be studied carefully, given its complexity and possible undesirable consequences to our electricity supply reliability which has been the envy of other cities.

With these remarks, Madam President, I so submit. Thank you.

DR FERNANDO CHEUNG (in Cantonese): President, I must first thank Mr Albert CHAN for moving this motion. He has provided lots of useful information on this topic.

The high tariffs in Hong Kong have always been a subject of criticisms. The bias of the Government's electricity market policy towards the interests of operators, together with other factors, especially the Scheme of Control Agreements (SCAs) with the two power companies and the disregard for environmental protection, has led to numerous acrid criticisms. However, both the Government and the two power companies have failed to put forward any cogent justifications to allay public anxieties to date. The SCAs between the Government and the two power companies will expire in 2008. Consequently, it is the right time for us to introduce changes to the monopolistic position of the two power companies and rectify the serious blunders of the electricity market policy.

Exorbitant tariffs exert a very heavy burden on various trades and industries. Many of the costs involved have inevitably been shifted to consumers and the general public, hindering the economic development of society as a whole. In times of economic boom, the two power companies will have every reason for introducing hefty tariff increases, but we simply fail to notice any special attempts by the two power companies to look after the people in times of recession. For instance, at the time of the Asian financial turmoil in 1997, the Hongkong Electric Company Limited (HEC) increased the tariff for one unit of electricity by 3.5%, and the increase introduced by the CLP Power Hong Kong Limited (CLP) was 8.3%. In 1998, the HEC introduced a further increase of 4.5% and the CLP 4.8%. From 1999 to 2004, Hong Kong underwent a period of deflation; the cumulative deflation rate was higher than 11% and even CSSA rates had to be reduced accordingly. But during the same period, the HEC increased its tariffs by 14.4%.

There have been no reductions but just increases, and the two power companies have failed completely to stand by the people in times of difficulties. This kind of profiteering has exerted very heavy pressure on the grassroots and the disadvantaged. Since wages have been declining, many elderly people, single-parent families and low-income families are forced to cut down on many basic needs in order to reduce their expenditure on electricity. For example, they may choose to live in darkness at night in order to save as much electricity as possible. Stories about elderly people switching on the television at night as a means of illumination are not altogether strange to us. In summer, those elderly people who can get around without difficulty may still enjoy the comfort of air-conditioning in shopping malls. But those elderly people who are physically handicapped and who cannot move around will have to stay home despite the very great heat. And, buying a heater in winter is something virtually impossible for these people. Members may think that with all the economic improvement this year, the situation described above should no longer exist. But I wish to remind Members that according to government statistics, there are signs of deterioration regarding both the number of low-income earners and their wage levels.

The power companies have also ignored the environmental pollution they have caused. The CLP is still using the method of coal-fired electricity generation. Consequently, the emission of sulphur dioxide continues to soar; pollution in Hong Kong continues to remain a serious problem; and, the number of respiratory disease patients also continues to rise. Exorbitant tariffs have also posed many problems to welfare agencies. We observe that many social service organizations, such as youth centres, have to pay a monthly tariff of several thousand or even more than ten thousand dollars. This is often the largest single item of expenditure (next to staff salaries) and may account for as much as 15% of their total operating costs. This is very abnormal. The funding for a youth centre or elderly centre should be spent on the promotion of activities and social service. But the largest single item of expenditure is surprisingly electricity tariffs. This is most abnormal.

The Government has started to review the electricity market, and the consultation document also proposes to set the rate of guaranteed profit at 7% to 11%, which is markedly lower than the present permitted asset return rate of 13.5% to 15%. However, the continued adoption of SCAs is still recommended for a further period of 10 years for the purpose of achieving market liberalization and promoting environmental protection. Frankly

speaking, if the Government allows the situation to go on for 10 more years, it will be even more difficult to achieve market liberalization.

Actually, some academics have pointed out that under such a profit control scheme, the power companies can continue to shift their costs to consumers by expanding their assets, so their profits are in a way guaranteed. In that case, how can we effectively urge the two power companies to exert their utmost to save costs and upgrade efficiency, or to alleviate pollution? This also explains the surplus output of the two power companies, which amounts to 30% or even more.

Actually, owing to such an abnormal arrangement of setting profit ceilings on the basis of asset values, the tariff discrepancy between the two power companies has been ever widening, now already standing at 35%. According to the estimation of some academics, by 2008 and 2009, the tariff discrepancy may even climb to 50% or above. Such a morbid phenomenon is cogent proof of the imbalance of the electricity policy.

As an advanced world city, Hong Kong naturally requires a reliable supply of electricity. And, electricity is also a basic need of the people. However, our experience over all these years can tell us that society has been victimized by the erroneous electricity policy. The various sectors of society have paid a high price as a result of the profiteering by the two power companies. The Government is therefore duty-bound to formulate an energy policy that is in line with the overall interest of society. I believe Members belonging to different political parties and factions will be able to reach a certain degree of consensus. I also hope that the Government can see to it that the two power companies will reduce their tariffs as soon as possible in the future, so that the basic livelihood of the people can be protected.

I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ALBERT CHENG (in Cantonese): President, the speeches of many Members have already expressed and reflected the views held by the public and this legislature. Electricity tariffs are no doubt exorbitant. But quality is

necessarily the function of price. The electricity supply in Hong Kong is unquestionably very stable, and this has contributed to the development of Hong Kong into a prosperous society. A reliable electricity supply is of course very important, but public health is even more so. We once discussed the prohibition of smoking. We can enact legislation on a smoking ban, and we may refuse to be passive smokers. But we cannot possibly stay away from the polluted atmosphere. This is very similar to what I said in my motion on potable water last week. We all breathe the same air.

The marathon last week could show us the precise impact of air pollution on people's health. We are made to pay more, and it is fine even when we are forced to do so. But after charging such exorbitant tariffs, they should not damage the physical environment and air quality. Air quality does not only affect people's health — people's health is most important as human lives are invaluable — but will also affect Hong Kong's economy. Air pollution will deter inward investments; visitors will not be coming; and, some Hong Kong people may even emigrate in order to escape pollution. What is more, air pollution will incur additional health care expenses. This is unacceptable. I am not going to talk about exorbitant tariffs once again, nor do I want to dwell any more on the profiteering by the power companies. The only important thing is that electricity generation must not lead to any air pollution.

Some political parties have pointed out that tariffs may be affected if the power companies are required not to burn coal for electricity generation. Actually, tariffs are already very high, and we need not worry any more about this. In many cities, there has been marked improvement in air quality due to the prohibition of coal-fired electricity generation. I believe we are all prepared to pay the price required to improve the air quality of Hong Kong, make Hong Kong a better place to live in and attract inward investments and foreign visitors. This is something very simple, and no explanation is needed.

The monitoring of tariffs aside, I think the most important condition is that the power companies must not continue to pollute our air because air pollution is the common enemy of the people. This is something that does not require any further explanation. Therefore, besides market liberalization and profit control, which are mentioned in Members' speeches, the motion and the amendments, air quality is another important concern of the people. We must not allow the power companies to force us to breathe the "toxic gases" from their power plants after collecting high tariffs from us. This I cannot accept.

I support the motion today and all the amendments. But I find the amendment of Miss TAM Heung-man very regrettable. I do not know whether she knows — she is not in the Chamber now — what "BBB" stands for. I hope that when she speaks again, she can explain the meaning of "BBB" to us.

Oh, she will not have any more opportunity to speak again. But this does not matter. I can ask her in private whether she knows the meaning of "BBB". If she does not, I will explain it to her.

I so submit. Thank you, President.

MR LEUNG YIU-CHUNG (in Cantonese): President, electricity generation is a huge industry, both in terms of the scale of production and capital investments. The need for huge investments has imposed a natural barrier, in the sense that very few people have the ability to compete in the electricity market. In other words, the objective circumstances in the industry have led to the emergence of monopolization. What are the consequences of monopolization? Many Members, including Mr Albert CHENG, have pointed out that the power companies can thus do whatever they like. If the power companies are so unscrupulous as to force us to breathe the "toxic gases" emitted by their power plants, we cannot possibly do anything, nor can we ever prevent them from doing so.

Exorbitant tariffs pose another problem. Many Members have explained the causes for high tariffs, but I would like to say a few words more. In the course of economic development, whether in good times or bad times, investors and the Government will invariably say that wage levels in Hong Kong are too high. This is always the first argument they will advance in any discussions. People always say that if wage levels are too high, wages and fringe benefits must be cut, and workers are invariably the first victims. However, no one has ever talked about other causes for the high investment costs in Hong Kong. No one has ever mentioned other causes such as rents, land prices, and so on. Nor has anyone talked about the motion topic today — exorbitant tariffs.

As mentioned by Dr Fernando CHEUNG just now, even the tariff paid by just an ordinary voluntary agency — let us not talk about factories for the time being — already accounts for 15% or more of its total expenditure. President,

do you not agree that tariffs are really exorbitant? Investors and operators will probably ask whether they can stop using electricity. They cannot possibly do so. But how about manpower? Well, manpower can be reduced. What is presently done by three employees can in fact be done by two instead. Besides, wages will be adjusted by the market mechanism, and wages and fringe benefits can be cut. Therefore, investors aside, exorbitant tariffs will ultimately affect not only the common masses but also workers, because their fringe benefits and wages will be reduced. As a result, the problem is indeed very serious and I think the Government is duty-bound to make more efforts.

Currently, water supply is still the responsibility of the Government and has not been left to the private market. Although we have been pouring money into the sea, there are still several merits: first, water charges are still stable, with no major problems; second, while the levels of water charges are certainly very high, they are not entirely intolerable. And, even if the levels of charges are unreasonably high, we can still hold somebody directly responsible because the Government is duty-bound to supervise. However, in the case of exorbitant tariffs, it is very difficult for us to level our criticisms at anyone, because players in the private market can do whatever they like. Members can see that many Hong Kong Island District Council members have signed their names on a banner with the words "Unscrupulous power company still increases tariffs despite excessive profits". Therefore, I maintain that the Government must stop allowing the market to adjust itself, because in the context of Hong Kong, there is no such thing as the self-adjustment of the electricity market. All decisions are made by a market that has been monopolized.

Consequently, the only way out is for the Government to formulate a mechanism for regulating the power companies and shattering this type of natural monopoly. Such a situation will not only affect people's health, as pointed out by Mr Albert CHENG, but will also hinder the overall economic development of Hong Kong. Low investment costs was one of the factors contributing to the economic development of Hong Kong in the past. This has been one of the factors attracting inward investments. If the costs of inward investment keep rising, there will be consequences. What is more, investors will be induced to shift the burden to workers, which is not fair either. I therefore hope that the Government can consider how to solve this problem.

The question under discussion today is the liberalization of the electricity market. There is nothing so bad about opening up the market, but we must be

cautious. The experience of other countries shows that liberalization may not necessarily lead to satisfactory operation and market stability. I think the Government must be particularly cautious in the course of opening up the market, so as to ensure service quality and stable operation following the participation of additional investors. If it fails to do so, Hong Kong may well fail to cope with emergency situations such as a blackout. This will become a very serious problem.

Besides market liberalization, many people have been advocating the interconnection of power grids. Actually, this should also be considered as one of the options because it can break the present monopolization to a certain extent, thus giving investors and consumers more choices. If there is no interconnection, the two power companies can continue to dominate their respective markets, leading to the perpetuation of the present monopolistic situation.

I hope that the Government can listen to the views expressed by us in the debate today and stop the present oligarchy in the electricity market. The power companies must not be allowed to do whatever they like, as if the general public and consumers were all at their entire mercy. Besides, although we know that the Government will lower the rates of permitted return in the Scheme of Control Agreements this time around, we still wonder whether consumers can be afforded enough protection of their rights. Much will still have to depend on the relevant mechanism and the Government's supervision in the future. I therefore hope that the Government can formulate a comprehensive and fair mechanism for supervision the operation of the power companies.

President, I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): If no other Member wishes to speak, I now call upon Mr Albert CHAN to speak on the three amendments. He has up to five minutes to speak.

MR ALBERT CHAN (in Cantonese): President, I am very grateful to the three Members for their concern over this question and for their proposing the respective amendments.

Mr Andrew LEUNG's amendment adds some new opinions of his "rich party" to my motion. Or, precisely, I should say that they have added some alternative views on top of my original motion. In regard to the question of 10 years, my original motion proposes to implement market liberalization within 10 years, but Mr LEUNG instead thinks that a timetable should be finalized in the coming 10 years. Some Members think that this is a kind of regression, in contrast to Mr SIN Chung-kai's opinion that it is more aggressive than my proposal. However, I still hope that Members can reach a consensus on the whole issue and deliver a clear message to the Government, so despite my view that the wording of the amendment is a bit regressive in nature, I am still prepared to accept Mr LEUNG's proposal, thinking that the finalization of a timetable does not actually rule out the implementation of market liberalization in the coming 10 years.

There is also the amendment by Mr KWONG Chi-kin, which is primarily about employees' welfare. So, apart from the opinion of the rich, there is also the smell of sweat which can make sure that workers will not be forgotten. Basically, this amendment can make the motion as a whole more comprehensive in coverage.

The only regrettable thing is that I cannot accept Miss TAM Heung-man's amendment. It is very strange that something like this should happen in this legislature. What I mean is that while I can accept the proposals of both the "rich party" and a left-wing trade union, I find it difficult to accept the view of a fellow pro-democracy Member. This is indeed a very odd phenomenon in this legislature.

I do not know whether it is true that women are especially sensitive to figures — I hope that Ms Emily LAU will not criticize me for discriminating against women. Miss TAM Heung-man proposes to delete two very significant figures from my original motion, one of them being the profit ceiling of 7%. Women may have a greater tendency to hide figures by using abstract expressions. Actually, there will not be much difference because the relevant rate may still be close to 7% if the median return for public utilities with a credit

rating of "BBB" is used as the basis of computation. However, we think that this is just a short-term measure. In the long run, we must implement market liberalization, and with market liberalization, it will not be necessary to argue over figures. For example, when there are several operators, customers will invariably choose the one offering the most satisfactory prices. There will be no need to use any figure as the ceiling. It is hoped that market liberalization can lead to a similar situation *a la* the telecommunications industry — customers can choose the operators they think are the best.

As a stop-gap measure, we propose to fix the rate of permitted return at 7%. This is quite a satisfactory rate of return, given the existing assets of the power companies. I have also proposed that the rate of return must not be higher than 7%, in the hope of giving the Government more bargaining power. If the reference to such a rate is deleted altogether, the whole issue will become more complicated. I do not think that this is the best way to handle the issue now. Of course, Miss TAM may have her own justifications, inclination and viewpoints, and, overall, these may well be feasible measures on controlling profits in the long run. But I do not think that it is desirable to put forward such ideas at this stage.

Besides, Miss TAM also proposes to delete "in the coming 10 years" from my original motion. Why did I propose a timeframe of 10 years? The reason is that the issue has actually dragged on for many years. As I mentioned in my remarks earlier, as early as 1991, I already voiced my views on the profit control scheme in this Chamber. What is more, when the relevant proposals were passed in 1993, I also expressed my strong opposition in this Chamber. In proposing to achieve market liberalization in the coming 10 years, I hope that the Government can adhere to a timetable, instead of repeating what it did with constitutional reform — talking about a review all the time without putting forward any timetable. Timetables and roadmaps are very much in fashion these days. Therefore, I think that the Government will easily shirk its responsibility if there is no specific timeframe. The Government always claims that it will proceed as quickly as possible. But even when 2047 arrives, it may still be saying the same time.

I therefore hope that Members can support the respective amendments by Mr Andrew LEUNG and Mr KWONG Chi-kin and oppose that of Miss TAM Heung-man. Thank you, President.

SECRETARY FOR ECONOMIC DEVELOPMENT AND LABOUR (in Cantonese): Madam President, first of all, I have to thank Mr Albert CHAN for proposing today's motion on "Opening up the electricity market" and a number of Members for their speeches. I believe Mr CHAN must be very happy to see that so many Members have expressed support for him today. The Stage II Consultation on the Future Development of the Electricity Market in Hong Kong is now underway. Valuable views expressed by Members will be extremely helpful to us in formulating the regulatory arrangements for the electricity market in the future.

The message that Members gave us just now is very clear. I believe the two power companies would have heard it. Dr KWOK Ka-ki is not present now. Just now, Ms Emily LAU alleged that the Government and the power companies were acting "in collaboration". I have to solemnly declare here: It is absolutely not the case. And please do not overestimate our acting skills. A Member also alleged earlier that we were "playing show hand" with the two power companies. I think that there is no such need for the time being, besides, I do not encourage gambling. I am grateful to Members for providing us with so many chips just now. I believe that when the two power companies see the great number of chips on our side, they, knowing very well that they will not be able to overpower us, will be less than willing to make the effort to play this game of show hand with the Government.

I also wish to tell Ms Emily LAU that Secretary Dr Sarah LIAO and I are on the same side and hold the same stance towards the regulation of the electricity market. Like Members, we are breathing the same air. The primary concern of our two Bureaux is public interest and we do wish to ensure that the two power companies will do everything to abate air pollution.

Dr YEUNG Sum asked earlier if we could draw on the experience of the liberalization of the telecommunications market. I would like to point out that I was the one responsible for liberalizing the telecommunications market in those years. In fact, the charges for long-distance calls have been substantially decreased by now. I would like to point out that the Government is resolutely determined to liberalize the electricity market.

Madam President, once again, I have to express my deepest gratitude to Members for giving us so many chips. Thank you very much. I am really

very grateful to Members for being so supportive of the Government.
(Laughter)

Madam President, during the Stage I Consultation carried out early last year, over 900 representations were received. Consolidating the views from various sectors, it is found that the major concerns of the public are the reliability and stability of electricity supply, the level of tariffs, the environmental impact of electricity generation as well as the early liberalization of and the introduction of competition to the electricity market. Therefore, by drawing up the proposals in the consultation paper of the Stage II Consultation, we hope to achieve the following objectives:

Firstly, to realize the Government's energy policy objectives by ensuring that the public can enjoy a reliable, safe and efficient power supply at reasonable prices, which involves striking a balance between the interest of the public and that of the power companies. That is to say, on seeking to lessen the burden of tariffs on the public, we should at the same time let the power companies make a reasonable return, providing them the incentive to continue to invest in necessary electricity supply infrastructure and provide quality services to the public.

Secondly, to take forward the objectives on environmental protection as stated in the policy address by the Chief Executive in 2005, to make an effort to minimize the environment impact brought about by the generation and consumption of energy, and to improve air quality.

Thirdly, to prepare well for the future liberalization of the electricity market.

These development directions and the proposals stated in today's motion do not have much difference in general. Moreover, in the consultation paper of the Stage II Consultation, a series of specific measures for implementation have been proposed. Later, I will give a brief account of these measures in the context of the motion.

As regards the permitted rate of return for the power companies concerned, I wish to point out that, at present, the permitted rate of return for the two power companies ranges from 13.5% to 15% on their fixed assets. The majority view in society opines that the current permitted rate of return is

excessively high in the prevailing circumstances and should be lowered after 2008. However, there is a divergence of opinion among various sectors of society on whether the fixed assets of these companies should continue to be used as the basis for the calculation of investment return and at what level should the rate of return be set. From the point of view of consumers, the lower the rate of return the two power companies receive will naturally be the better. However, there are views considering that, owing to the long-term and huge investment involved in power supply, operators have to make a reasonable return to ensure the provision of reliable services to consumers.

We appreciate the worry of the public that power companies may make excessive investments on fixed assets in order to boost their return. Therefore, when drafting the proposals for the Stage II Consultation, we examined other methods for the calculation of return, including the equity-based approach. We consider that if equity is used as the basis for calculation of return, a situation will likely arise where even when loan financing is more cost-effective, the power companies concerned may, by all means, use shareholders' money to acquire fixed asset in order to expand their equity. Eventually, the interest of the public cannot be protected.

Taking into consideration the substantial amount of capital electricity suppliers have to invest in the construction of infrastructure for electricity supply, and drawing reference from the practices of overseas markets, such as the United Kingdom and Australia, and the views collected during the Stage I Consultation, we decided to propose using fixed assets as the basis for calculation of return. In addition, we will tighten the current supervision on the investment of power companies, including requiring the power companies to seek approval from the Government for all development plans relating to electricity supply. We will also tighten the existing mechanism which deals with excess generation capacity, whereby all capital expenditure on machinery and equipment assessed to be "excessive" would not be included in the calculation of return.

I wish to point out that in supervising the two power companies, in addition to Mr LEE who is right next to me now, we also have the professional support from professionals like electrical and mechanical engineers, accountants and economists, as well as assistance from professional consultants on electricity supply. This shows that the scrutiny process is very stringent.

In respect of the rate of return, we do not consider it appropriate to make direct comparison between the rate of return of power companies and that of other public utilities in the territory, nor is it appropriate to adopt the rate of return earnable by ordinary companies as the permitted rate of return for the power companies. Such an approach fails to take into account the uniqueness of the electricity industry, including the difference in cost structures, supply facilities, assets life, payback period, the prevailing business environment and the risk involved. Having balanced the views from various sectors, we consider it more appropriate to adopt an integrated approach in determining the rate of return, giving consideration to a host of factors including the prevailing economic conditions in Hong Kong, the costs of investment and risks borne by the power companies, as well as the policy objectives of the regulatory regime.

Having regard to the prevailing market condition, we propose to allow power companies to receive return on different types of assets at a rate ranging from 7% to 11%, confining the average rate of return to a single-digit figure between 9% and 10%. Comparing to the existing rate of return of 13.5% to 15%, the proposed rate has already shown a significant reduction. According to our simulated calculations, if the tariff for 2006 were to be calculated according to the proposed method, the room for estimated tariff reduction would range from some 10% to 20% of the existing tariff. To ensure that the permitted rate of return can reflect the changes in future economic conditions, a review will be conducted every five years of the key components for determining the permitted rate of return, and the permitted rate of return will be adjusted where appropriate according to the latest economic data available at the time.

As I have mentioned earlier, our objectives are on the one hand to let power companies make a reasonable return to continue to provide reliable and safe electricity to Hong Kong, and on the other, to seek to lessen by all means the burden of electricity tariff on members of the public.

On environmental protection, we absolutely agree to stepping up the regulation on emissions by power plants and the further promotion of the development of renewable energy resources. In the consultation paper of the Stage II Consultation, a series of specific measures have been proposed to promote the environmental protection work in this regard.

At present, the two power companies are subject to the regulation of the the Air Pollution Control Ordinance and relevant legislation on environmental

protection. Since 1997, the Government has ceased granting approval to power companies for the construction of any new coal-fired generation units and required power companies to use natural gas for power generation by all means. The Government has stated unequivocally that it would spare no efforts to reduce the emissions of sulphur dioxide, nitrogen oxides and respirable suspended particulates by 40%, 20% and 55% respectively by 2010, as compared to the 1997 levels.

The Environmental Protection Department (EPD) has already notified the power companies of the emission reduction targets they have to meet and will progressively tighten the emission limits on these three types of pollutants upon the renewal of the licences of individual power plants. To ensure that the power companies will comply with the environmental protection regulation in this respect, it is proposed in the consultation paper that when emissions of power companies exceed the maximum emission limits set by the EPD, their permitted rate of return will be subject to deduction.

Some are of the view that under the "polluter pays" principle, investment on emission reduction projects of power plants should not receive any return. And we do hope to spare consumers from shouldering the costs of emission reduction facilities by all means. But, at the same time, we are worried that without any return, there is little incentive for the power companies to introduce emission reduction measures. In fact, some people have on the contrary suggested that a higher rate of return should be set for emission reduction facilities so as to encourage the power companies to undertake environmental protection work. Having considered the different views, we propose that the rate of return for emission reduction facilities should only be set at a lower level, that is 7%. We believe that this is an appropriate balance and we will continue to listen to the views of the public during the consultation period.

Under the First Sustainable Development Strategy in Hong Kong, targets have been set for the generation of 1% to 2% of our power demand by renewable energy by the year 2012. To take forward this target, we propose to set the highest rate of return for facilities using renewable energy resources, at up to 11%. In parallel, we will require the power companies to provide power grid access to consumers and generating facilities using renewable energy, and offer administrative fee waivers on grid access to consumers. If the power companies can meet the target in the use of renewable energy resources, they will be awarded a bonus.

Earlier on, a number of Members requested the Government to further liberalize the electricity market; some Members also requested the Government to conduct a study on the full implementation of power interconnection and to un-bundle industries engaging in the generation, transmission and distribution of electricity. The ultimate objective of Members is indeed to enhance competition in the electricity market. We do agree with this objective. However, in practice, it have to be complemented by the market conditions, including an adequate and reliable supply of new power source, solutions to the technical and financial problems of power interconnection and grid access, and we have to ensure that the stability of power supply will not be affected.

I believe Members are aware that it is unrealistic to expect at this stage that in the near future, there will be new power suppliers investing in local power supply facilities to supply electricity on a large scale — I emphasize — to supply electricity on a large scale. At present, the power supply in Guangdong Province continues to be tight and the amount of electricity purchased from Hong Kong is rising year on year. Although the power supply shortage on the Mainland is expected to be alleviated in the next few years, it is unrealistic to expect a reliable electricity supply from the Mainland on a large scale in the near future.

We think that a more pragmatic approach is to continue to monitor closely the development in the electricity market in Guangdong and the possibility of introducing an electricity supply from the Mainland. Moreover, the communication with the relevant mainland authorities should be enhanced, exploring how technical constraints on power transmission from the Mainland can be addressed. At the same time, we will also require the two power companies to jointly promote and plan for an enhancement of power interconnection to an "optimum" level where cost-effectiveness can be practically achieved. We will endeavour to make every preparation for a gradual liberalization of the market within the next 10 years, including the drawing up of standards and technical guidelines for the connection and access of power grids, the examination of new regulatory arrangements and the groundwork for the setting up of a new regulatory authority, so as to cope with the future market development.

In respect of the accumulated development fund under the CLP, Members also know that the fund belongs to the customers of the CLP. In the Interim

Review conducted in 2003, an agreement was reached with the CLP that negotiations relating to the handling of the balance of the development fund would be conducted 12 months before the expiry of the current Scheme of Control Agreement (SCA), that is in September 2007. I understand that some Members and members of the public do hope that the balance of the fund can be returned to its customers in full in the form of rebate before the current SCA expires. On the other hand, some are of the view that all or part of the balance should be brought forward to the account of the Tariff Stabilization Fund to be set up after 2008 to help stabilize the tariffs in future. Some Members have also expressed their views earlier on ways to distribute the accumulated development fund to the customers concerned. We remain open about this; we will consolidate the views received during the consultation period and discuss with the power companies, identifying a method to address the issue that can best look after the interest of customers.

Madam President, the two power companies have made handsome profits in the past. In fact, with the support of a group of professional and responsible employees, the two power companies have all along provided world-class electricity supply facilities and a safe and reliable electricity supply to the people of Hong Kong.

I very much agree with the views expressed by Mr KWONG Chi-kin and Mr WONG Kwok-hing earlier. We should attach great importance to human resources. The two power companies must maintain an adequate and stable team of employees. A reasonable business environment should be provided for the power companies so that they will continue to provide the necessary infrastructure for electricity supply and maintain adequate and quality manpower, providing a reliable and safe electricity supply to the people of Hong Kong.

Madam President, I believe proposals put forth in the consultation paper of the Stage II Consultation will be able to ensure the sustainability and reliability of electricity supply on the one hand and bring tariff reduction in real terms to the public on the other. We have also actively addressed the concerns of the public about environmental protection and the further liberalization of the electricity market. We are now conducting public consultation on the relevant proposals, which will last until the end of March. I hope all sectors of society will express their views enthusiastically as Members do today, for this will help us to further

improve the various proposals and finalize the regulatory regime for the electricity market after 2008.

Thank you, Madam President.

PRESIDENT (in Cantonese): I now call upon Mr Andrew LEUNG to move his amendment to the motion.

MR ANDREW LEUNG (in Cantonese): President, I move that Mr Albert CHAN's motion be amended.

Mr Andrew LEUNG moved the following amendment: (Translation)

"To delete ", as" after "That" and substitute with "this Council urges the Government to earnestly improve the current phenomenon of natural monopoly in"; to delete "is currently monopolized by two power companies" after "electricity market in Hong Kong"; to add "so as to avoid" before "prejudicing consumers' interests,"; to delete "this Council" after "prejudicing consumers' interests," and substitute with "and"; to delete "reasonable" after "Hong Kong can enjoy" and substitute with "reasonably-charged, safe and stable"; to add "re-setting electricity tariffs at a reasonable level by" after "(a)"; to delete "emissions" after "their operations and" and substitute with "the pollutants emitted"; to add "as well as providing proper incentives" after "formulating practicable measures"; to add "setting a timetable for" after "(c)"; to add "in Hong Kong and aiming for its implementation" after "opening up the electricity market"; to add "natural" after "break the current"; to delete "and" after "by the two companies,"; to add "in proportion to their electricity consumption" after "offer rebates to its customers"; and to add "; and (e) actively studying the full implementation of power interconnection" after "using funds from its Development Fund". "

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Mr Andrew LEUNG to Mr Albert CHAN's motion, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr James TIEN rose to claim a division.

PRESIDENT (in Cantonese): Mr James TIEN has claimed a division. The division bell will ring for three minutes, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Mr CHEUNG Man-kwong, Mrs Sophie LEUNG, Mr SIN Chung-kai, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Ms LI Fung-ying, Mr Tommy CHEUNG, Mr Vincent FANG, Mr WONG Kwok-hing, Mr Jeffrey LAM, Mr Andrew LEUNG, Dr KWOK Ka-ki, Dr Fernando CHEUNG, Mr WONG Ting-kwong and Mr KWONG Chi-kin voted for the amendment.

Dr Raymond HO, Dr LUI Ming-wah, Mr Bernard CHAN and Mr Abraham SHEK voted against the amendment.

Miss TAM Heung-man abstained.

Geographical Constituencies:

Mr James TIEN, Mr Albert HO, Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Mrs Selina CHOW, Mr James TO, Miss CHAN Yuen-han, Mr CHAN Kam-lam, Mr LEUNG Yiu-chung, Dr YEUNG Sum, Mr LAU Chin-shek, Mr LAU Kong-wah, Ms Emily LAU, Miss CHOY So-yuk, Mr Andrew CHENG, Mr TAM Yiu-chung, Mr Albert CHAN, Mr Frederick FUNG, Ms Audrey EU, Mr LEE Wing-tat, Mr LI Kwok-ying, Mr Alan LEONG, Mr CHEUNG Hok-ming, Mr Ronny TONG and Mr Albert CHENG voted for the amendment.

Mr LEUNG Kwok-hung abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 22 were present, 17 were in favour of the amendment, four against it and one abstained; while among the Members returned by geographical constituencies through direct elections, 28 were present, 26 were in favour of the amendment and one abstained. Since the question was agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was carried.

MS MIRIAM LAU (in Cantonese): President, I move that in the event of further divisions being claimed in respect of the motion on "Opening up the electricity market" or any amendments thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Ms Miriam LAU be passed.

PRESIDENT (in Cantonese): Does any Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(No hands raised)

PRESIDENT (in Cantonese): I think the question is agreed by a majority of each of the two groups of Members present. I declare the motion passed.

I order that in the event of further divisions being claimed in respect of the motion on "Opening up the electricity market" or any amendments thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

PRESIDENT (in Cantonese): Miss TAM Heung-man, as Mr Andrew LEUNG's amendment has been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper tabled at this meeting. When you move your revised amendment, you have up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

MISS TAM HEUNG-MAN (in Cantonese): Madam President, I move that Mr Albert CHAN's motion as amended by Mr Andrew LEUNG, be further amended by my revised amendment. My amendment seeks to add the points not covered by Mr Andrew LEUNG's amendment to the original motion.

In regard to the interconnection of power grids, my amendment aims to put forward concrete proposals on implementing power interconnection and opening up the electricity market, including interconnection with Guangdong Province and opening up the existing grids of the two power companies to new electricity suppliers. As for the unbundling of electricity generation,

transmission and distribution, I have made this proposal because it is the most effective way of breaking the monopolistic market structure. My amendment also proposes that apart from the development of renewable energy resources, other environmental protection measures can also be adopted, including the progressive relinquishing of coal-fired power generation and the installation of emissions reduction facilities. I hope Members can support my amendment.

Thank you, Madam President.

Miss TAM Heung-man moved the following further amendment to the motion as amended by Mr Andrew LEUNG: (Translation)

"To delete "and" after "its Development Fund;"; and to add ", expeditiously discussing with the Guangdong Provincial Government the implementation of interconnection, and opening up the transmission network to new electricity suppliers; (f) formulating policy incentives to ensure that the power companies progressively relinquish coal-fired power generation, and actively develop emissions reduction facilities; and (g) conducting studies on the long-term development of those industries engaged in the unbundling of generation, transmission and distribution of electricity" after "full implementation of power interconnection"."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That Miss TAM Heung-man's amendment to Mr Albert CHAN's motion as amended by Mr Andrew LEUNG, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mrs Selina CHOW rose to claim a division.

PRESIDENT (in Cantonese): Mr Selina CHOW has claimed a division. The division bell will ring for one minute, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Miss TAM Heung-man voted for the amendment.

Dr Raymond HO, Dr LUI Ming-wah, Mr CHEUNG Man-kwong, Mr Bernard CHAN, Mrs Sophie LEUNG, Mr SIN Chung-kai, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Abraham SHEK, Mr Tommy CHEUNG, Mr Vincent FANG, Mr WONG Kwok-hing, Mr Jeffrey LAM, Mr Andrew LEUNG, Dr KWOK Ka-ki, Dr Fernando CHEUNG, Mr WONG Ting-kwong, and Mr KWONG Chi-kin voted against the amendment.

Ms LI Fung-ying abstained.

Geographical Constituencies:

Ms Audrey EU, Mr Alan LEONG and Mr Ronny TONG voted for the amendment.

Mr James TIEN, Mr Albert HO, Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Mrs Selina CHOW, Mr James TO, Miss CHAN Yuen-han, Mr CHAN Kam-lam, Mr LEUNG Yiu-chung, Dr YEUNG Sum, Mr LAU Chin-shek, Mr

LAU Kong-wah, Ms Emily LAU, Miss CHOY So-yuk, Mr Andrew CHENG, Mr TAM Yiu-chung, Mr Albert CHAN, Mr Frederick FUNG, Mr LEE Wing-tat, Mr LI Kwok-ying, Mr CHEUNG Hok-ming and Mr Albert CHENG voted against the amendment.

Mr LEUNG Kwok-hung abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 22 were present, one was in favour of the amendment, 20 against it and one abstained; while among the Members returned by geographical constituencies through direct elections, 28 were present, three were in favour of the amendment, 23 against it and one abstained. Since the question was not agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was negatived.

PRESIDENT (in Cantonese): Mr KWONG Chi-kin, as the amendment moved by Mr Andrew LEUNG has been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper tabled at this meeting. When you move your revised amendment, you have up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

MR KWONG CHI-KIN (in Cantonese): President, I move that Mr Albert CHAN's motion, as amended by Mr Andrew LEUNG, be further amended by my revised amendment.

President, in the Secretary's speech just now, I note that he also agrees with Mr Andrew LEUNG and me that a stable electricity supply must depend on a correspondingly stable manpower support. I welcome the Secretary's attitude. I hope Members can realize that generating units alone cannot generate any electricity. They must be manned by technicians. The current practice of the two power companies is simply absurd. They have not

employed any technicians to man the generating units. I hope Members can support my amendment.

Thank you.

Mr KWONG Chi-kin moved the following further amendment to the motion as amended by Mr Andrew LEUNG: (Translation)

"To delete "and" after "its Development Fund;"; and to add "; and (f) requesting that the two power companies shall ensure the stability of their workforce, and recruit their technical staff at all levels in a planned manner and provide them with continuing training, so as to secure a reliable and stable supply of electricity" after "implementation of power interconnection"."

PRESIDENT (in Cantonese): I now propose the question to you and that is: That Mr KWONG Chi-kin's amendment to Mr Albert CHAN's motion as amended by Mr Andrew LEUNG, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the amendment passed.

PRESIDENT (in Cantonese): Mr Albert CHAN, you may now give your reply. You have up to five minutes 22 seconds.

MR ALBERT CHAN (in Cantonese): President, this time, 23 Members in total have spoken and this shows that this issue has aroused the concern and won the support of various political parties and groups. Just now, the Secretary said that it was important that this motion had the support of a large number of Members, however, I believe what is the most important is that it has the support of the Government. Just as in the case of the West Kowloon Cultural District Development (WKCDD), even though Members hold a unanimous view, the Government did not come and attend the meeting, nor did it listen to Members' views. I hope this issue will not be a repeat of the WKCDD saga. Since we have given the Government the ammunition, it has to use it well. It must not turn its guns round to shoot at us instead.

President, there is one strange thing, and that is, of the 23 Members who have spoken, and 24 if I am counted in, none of them have declared any interest. This shows that the two power companies do not have any relationship with Members and this is something that we should congratulate ourselves. I hope that this situation of keeping a distance from various interests can be found in various matters.

President, concerning the recent reactions of the two power companies, I think they are like spoiled kids in a tantrum. This shows that in the past several decades, the two power companies have been pampered too well by the Government, such that when they are subjected to the slightest regulation, they flew into a tantrum. Regarding such a situation, the Government must step up its control so that the performance of the two power companies in future will be in line with public interest.

President, concerning the two power companies, many Members have mentioned the issue of interconnection. I believe it is necessary to deal with the issue of interconnection very carefully because there is a chance that interconnection may turn into oligopoly. If the market is to be fully opened up, the focus must be on separating the power generation and transmission networks and the rights of operation. If interconnection is given the go-ahead, it means that the two companies will be allowed to dominate all interests relating to power supply territory-wide. Coupled with what Mr LEUNG Kwok-hung described as the monopolization by the LI clan, the situation will be one of partition of interests among three monopolies and this will result in oligopoly, which is not the direction of development that should be taken in opening up the market. Therefore, after interconnection, if it is possible to separate the rights to operate power transmission and generation, that will be a good sign. If the several

companies will again become franchises after interconnection, that will be oligopoly in another guise and I cannot support this.

President, if we look at overseas experience, since last year, electricity in many countries is supplied by electricity suppliers in fully opened markets, for example, in such places as Austria, Belgium, Denmark, Germany, the Netherlands, Sweden and the United Kingdom, so Hong Kong is lagging far behind in opening up its market. Many Members and the public, in particular, the Government, regard Singapore as a good example. In fact, the market in Singapore has been opened up and after eight years of reform, power generation and sale have been separated. There, three companies run three power plants and three other companies provide electricity retail services. There are also some other arrangements for power transmission. After opening up the market, the efficiency in power production has improved by 30% and electricity tariffs have on average been reduced by 8%. We can learn from the mode in Singapore. It can be seen from the example of Singapore that although initially, the electricity market was monopolized by one company, if the Government has the determination to carry out reform and introduce competition, it will be the consumers who will be benefited ultimately.

Lastly, I wish to add one more point. President, I think Secretary Stephen IP will reap political benefits if he introduces a comprehensive reform on this matter and he can also accomplish a political mission. The reason is very simple. The existing Scheme of Control Agreements, which we criticize and are very dissatisfied with, was given the go-ahead back in those years by Mrs Anson CHAN. Back then, she was the Secretary for Economic Services. I remember that in 1993, I had a heated debate with her. Now, rumour has it that she may be Donald TSANG's opponent in the next selection of the Chief Executive. If Secretary Stephen IP can take Anson CHAN down the pedestal by dismantling the arrangements on power supply to show that this method put in place by her is not welcomed by the Hong Kong public at all, whereas the new proposal put forward by Secretary Stephen IP is welcomed by the public, it is possible that he will pave the way for Mr Donald TSANG in winning a second term of office. Therefore, if he can accomplish this political mission, maybe Secretary Stephen IP will not just be appointed a Secretary, rather, it is most likely that he will be appointed the Chief Secretary for Administration.

Here, I congratulate the Secretary in advance on making an advancement and a fortune. I hope this proposal will win the support of Members and the

Government — and it is the support from the Government that matters most — and that there will be a desirable outcome. The people of Hong Kong have been subjected to exploitation, high-handed tactics and expensive electricity tariffs for several decades. I hope that through this opportunity, we can see a complete reform and transformation of the electricity market, so that justice can be done to the public. Thank you, President.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the motion moved by Mr Albert CHAN, as amended by Mr Andrew LEUNG and Mr KWONG Chi-kin, be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr Albert CHAN rose to claim a division.

PRESIDENT (in Cantonese): Mr Albert CHAN has claimed a division. The division bell will ring for one minute, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Mr CHEUNG Man-kwong, Mrs Sophie LEUNG, Mr SIN Chung-kai, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Ms LI Fung-ying, Mr Tommy CHEUNG, Mr Vincent FANG, Mr WONG Kwok-hing, Mr Jeffrey

LAM, Mr Andrew LEUNG, Dr KWOK Ka-ki, Dr Fernando CHEUNG, Mr WONG Ting-kwong and Mr KWONG Chi-kin voted for the motion as amended.

Dr Raymond HO, Dr LUI Ming-wah, Mr Bernard CHAN, Mr Abraham SHEK and Miss TAM Heung-man voted against the motion as amended.

Geographical Constituencies

Mr James TIEN, Mr Albert HO, Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Mrs Selina CHOW, Mr James TO, Miss CHAN Yuen-han, Mr CHAN Kam-lam, Mr LEUNG Yiu-chung, Mr Jasper TSANG, Dr YEUNG Sum, Mr LAU Chin-shek, Mr LAU Kong-wah, Ms Emily LAU, Miss CHOY So-yuk, Mr Andrew CHENG, Mr TAM Yiu-chung, Mr Albert CHAN, Mr Frederick FUNG, Ms Audrey EU, Mr LEE Wing-tat, Mr LI Kwok-ying, Mr Alan LEONG, Mr LEUNG Kwok-hung, Mr CHEUNG Hok-ming, Mr Ronny TONG and Mr Albert CHENG voted for the motion as amended.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 21 were present, 16 were in favour of the motion as amended and five against it; while among the Members returned by geographical constituencies through direct elections, 29 were present and 28 were in favour of the motion as amended. Since the question was agreed by a majority of each of the two groups of Members present, she therefore declared that the motion as amended was carried.

PRESIDENT (in Cantonese): Third motion: Reducing the salaries tax.

REDUCING THE SALARIES TAX

MR SIN CHUNG-KAI (in Cantonese): Madam President, I wish to thank the five Members for proposing amendments to my motion. As a result of this, my

motion today has become the motion with the greatest number of amendments in the history of this Council.

The Democratic Party thinks that it is necessary to reduce the salaries tax because as early as 2003 when the Financial Secretary announced the increase of this tax, we already voiced our opposition.

Another reason is that in 2004, the economy of Hong Kong already started to turn around, leading to an immediate improvement to the Government's financial position. Instead of a deficit of \$42.6 billion as projected, a surplus of \$21.4 billion emerged in no time, much more quickly than any wizard could have conjured with his magical wand. Admittedly, after deducting the proceeds of \$26 billion from the issue of government bonds, the Government was still in the red. But the deficit was just a mere \$460 million, which could be well absorbed by the fiscal reserves. That was why the Democratic Party already demanded the Government to reduce taxes as early as last year.

(THE PRESIDENT'S DEPUTY, MS MIRIAM LAU, took the Chair)

Last year, when he announced the Budget, the Financial Secretary said, "As the fiscal deficit has yet to be eliminated, I believe it is inappropriate to adjust the salaries tax rates and bands at the current juncture." And, during the Budget debate, he added, "Once the economic recovery takes stronger root, I will consider reducing salaries tax to relieve the burden of the public further."

In the middle of July last year, he also said, "If the economic recovery continues and the financial conditions keep on improving, there will be more room for tax reduction. The Chief Executive said so during his election campaign last year. Our position has not changed."

Last year, the Government could still refuse to reduce taxes on the excuse that there was a deficit of \$400 million. But today, I estimate that it is going to record a surplus of about \$15 billion this financial year. The actual rates of economic growth for Hong Kong in the first three quarters of this year were respectively 6.2%, 7.3% and 8.2%. If the Government still says that all this cannot be regarded as economic recovery, cannot be regarded as any

improvement to its finances, the Democratic Party will have to ask, "How much economic growth is required to meet the Government's definition of economic recovery? How much surplus must there be before it can be said that there is improvement to its finances?"

Over the past couple of days, the press cited some so-called government sources as disclosing that the Budget would only widen the tax band from \$30,000 to \$35,000. If this is already the tax cut measure to be adopted by the Financial Secretary, I must borrow an expression used by Prof HO Lok-sang of the Lingnan University and say that this measure is really "far too petty" to a government with a surplus of \$15 billion. The Democratic Party does not think that it is an adequate measure.

Apart from the surplus this year, the Government also has fiscal reserves amounting to \$300 billion, which is being held by the Hong Kong Monetary Authority. In addition, there is the cumulative surplus of the Exchange Fund, which gives us another \$440 billion. All this is the money of Hong Kong people. In other words, the Hong Kong Government is currently holding \$740 billion on behalf of the people of Hong Kong.

The Democratic Party agrees that in view of its fiscal surplus and also the return of inflation, the Government should appropriately adjust its expenditure. In its submission to the Financial Secretary in November last year, the Democratic Party put forward a whole series of proposals — this is our submission, and I suppose the Secretary should have read it already. And, apart from these proposals, we also urged the Government to withdraw the policy introduced in late 2003 on cutting operating expenditure, so as to avoid any adverse impacts on the quality of public services.

We maintain that after reducing taxes, the Government will still have the ability to cater for the needs of grass-roots people and improve public services by making proper use of the huge reserves. Frankly speaking, the Government should not seek to amass fiscal reserves endlessly. The Democratic Party has all along held the view that it will be enough as long as we can maintain the fiscal reserves at a sum equal in size to the total expenditure of the Government for one year. Therefore, given the existing level of fiscal reserves, we can say that there is still some room for a mild increase in expenditure. There is still a very big safety factor between the existing level of fiscal reserves and the total

government expenditure for one year, that is, \$240 billion. Therefore, there should still be plenty of room for the Government to introduce more services for grass-roots people in accordance with social needs.

For this reason, my original motion urges the Government "to make appropriate use of its resources to provide the grass-roots people with adequate services". The Democratic Party has made such a proposal because it thinks that given the current financial conditions of the Government, it is actually capable of implementing measures to improve the people's livelihood while reducing taxes. Both can be done at the same time, without any conflicts at all.

What is more, we are also of the view that there are still many ways through which the Government can increase its revenue. There is no absolute necessity to rely on the salaries tax. In June last year, the Legislative Council endorsed the proposal on allocating additional funds from the investment return of the Exchange Fund to the Government, with a view to increasing its revenue. But it is a pity that the Government has completely ignored this proposal so far.

The Airport Authority is operating on a commercial basis, and after its privatization, it will bring additional revenue to the Government. There is actually no need for the Government to operate any multi-storeyed car parks, and these car parks can in fact be sold by the establishment of a REIT fund. Radio Television Hong Kong may be relocated to Tseung Kwan O and its present premises can then be vacated for auction to increase government revenue.

Although the unemployment rate started to decline last year, there are still very limited prospects for low-skilled or non-skilled workers. The retail and tourism businesses are the major employers of these workers. The Democratic Party believes that a reduction of the salaries tax will increase the disposable income of taxpayers. After this, taxpayers may spend the money on consumption and investment. This will help boost retail businesses, create jobs and absorb low-skilled and non-skilled workers.

I think Members should still remember that when the Financial Secretary increased the salaries tax in 2003, the worst-hit were not those in the upper-middle classes earning a million dollars a year. The reason was that the Financial Secretary only increased the standard rate from 15% to 16%. In terms of the rate of increase, the actual increase was just 6.7%. However, the sandwich classes who must pay taxes according to the marginal tax rate or those

people who were dragged into the tax net would still have to shoulder a very heavy tax burden.

Secretary, I can give an example here. In the case of an average citizen, he had to pay \$2,660 in tax in 2002-03. But after the two increases in tax, he now has to pay \$4,540. The actual rate of increase is 70%. There is another example. Before the tax increases, a middle-class taxpayer earning \$40,000 a month had to pay \$50,700 in tax. But after the tax increases, he must pay \$62,800. In other words, he must now pay \$12,100 more. The rate of increase is 23.9%

In contrast, with the standard rate in question, an upper-middle class taxpayer earning a million dollars a year who previously had to pay \$150,000 only has to pay an additional \$10,000 now. The rate of increase for him is even lower than that for the taxpayer who earns just \$40,000 a month. Few can thus observe that the tax increases are very unfair to the sandwich classes.

I therefore hope that those Members who oppose a reduction of the salaries tax can reconsider their position because the proposed reduction is not a way of robbing the poor for the rich. One can at most say that it is just a way of robbing the Government for the common people. As a matter of fact, the Government holds a fiscal surplus, so it does not need to rob the people. And, those who oppose a tax reduction cannot possibly achieve the aim of "robbing the residents of luxury apartments for those living in cubicles". Rather, they are just "robbing the residents of HOS flats", and having done so, they are still unable to "help those living in cubicles". The reason is that according to the objective set down by the Government, public expenditure must not exceed 20% of the Gross Domestic Product. To put it simply, even if the Government does not reduce the salaries tax, it may not necessarily spend the money on helping the poor and providing public services. The Government will not take any concrete steps to help the poor. Actually, Members have already put forward many views during a previous motion debate, but the Government has so far failed to put forward any concrete proposals on how it will make use of public resources to help the poor.

Lastly, I wish to remind Secretary Frederick MA that this year, he must not try to play tricks with the books again. In the Budget last year, the Government claimed that in 2004-05, that is, in the past financial year, there would be a ledger surplus of \$12 billion, but after deducting the proceeds from

the issue of government bonds, there would still be a deficit of \$13.4 billion. However, before the announcement of the Budget, the Treasury disclosed that there was already a ledger surplus of \$22.4 billion in the first 10 months of 2004-05.

The Democratic Party has compared the amounts of estimated expenditure and revenue in past budgets. It was discovered that the Government had the tendency of overestimating its expenditure and underestimating its revenue. It is understandable that government officials may choose to be conservative and thus underestimate the surplus while overestimating the deficit. I do not know whether it is the usual practice of the Government to adopt this tactic to ward off the demands by the people and Members for tax reduction.

Anyway, I hope Secretary Frederick MA can realize that according to the statistics released by the Treasury, in 2005-06 (I mean, up to late December), the deficit was just \$600 million, and most tax revenue will be entered in the last three months of a financial year. In simple terms, there is a high possibility that the Government will have a surplus this year. As a matter of fact, having studied the statistics of the past four to five years, I know that on average, there will at be least a surplus of \$20 billion in the last three months of a financial year. In other words, in the last three months, there will be a surplus of \$20 billion after offsetting expenditure and revenue. If there is a deficit of \$600 million in the first nine months of this year, we can be pretty sure that there will be a surplus of \$15 billion.

I know that some pro-democracy Members oppose any reduction of the salaries tax. But I still hope they can realize that the public coffers are now in pretty good shape. Actually, after reducing the salaries tax, the Government can still do something to help the poor. I therefore hope that Members can support a reduction of the salaries tax. The Democratic Party also hopes that the Government can note our view that the proposal can actually kill two birds with one stone — reducing the salaries tax while aiding the disadvantaged.

I so submit.

Mr SIN Chung-kai moved the following motion: (Translation)

"That, in view of the continuous recovery of Hong Kong's economy and the improved government finances, this Council urges the Government to

make appropriate use of its resources to provide the grass-roots people with adequate services, and to reduce the salaries tax so as to alleviate the tax burden on the middle class and the grass-roots people, thereby stimulating consumer spending and creating jobs."

DEPUTY PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Mr SIN Chung-kai be passed.

DEPUTY PRESIDENT (in Cantonese): Mr James TIEN, Mr CHAN Kam-lam, Mr WONG Kwok-hing, Dr Fernando CHEUNG and Miss TAM Heung-man will move amendments to this motion respectively. Mr James TO will move an amendment to Mr CHAN Kam-lam's amendment. The motion and amendments will now be debated together in a joint debate.

I will call upon Mr James TIEN to speak first, to be followed by Mr CHAN Kam-lam, Mr WONG Kwok-hing, Dr Fernando CHEUNG, Miss TAM Heung-man and Mr James TO; but no amendments are to be moved at this stage.

MR JAMES TIEN (in Cantonese): Deputy President, the Liberal Party supports the motion moved by Mr SIN Chung-kai of the Democratic Party on reducing the salaries tax. As a matter of fact, the amendment proposed by me seeks only to state clearly on the basis of his motion, to which level the salaries tax should be reduced.

Deputy President, we still recall that a few years ago owing to the SARS problem, fiscal deficits in the Government became very serious. Then in the year 2003-04, the Government began to increase profits tax and salaries tax. The business sector knows that profits tax is payable only when a company has made money. So in the demands presented this time, there is nothing on slashing the profits tax. But the case is not the same with the salaries tax. Everyone who is employed will have to pay rents, electricity tariffs, school fees for the children, and so on. In my opinion, I think the middle-class people have actually paid a lot during this couple of years and they are leading a difficult life. So as government finances have improved somewhat, the Government should consider reducing the salaries tax.

Maybe we can look at the fiscal position of the Government now. According to initial estimates, the Government still says that during these few years, our fiscal deficits would remain very serious. It appears that the deficits would only be eliminated by 2008-09, that is, there will only be a balanced budget in that year. In fact, the situation has greatly improved during the past two years. The economic growth rate for last year, that is, 2004, was 8.2%, that of 2003 was 3.1% and the estimated annual growth rate for 2005 would be 7%. Accounts for the financial year 2005-06 will soon be settled. Like the year 2003-04, fiscal reserves for 2005-06 were not as bad as we had thought. In 2003-04, the fiscal reserves stood at \$264.4 billion and \$287.2 billion for 2004-05. According to government estimates, the fiscal reserves for 2005-06 would be \$276.7 billion. But as of end 2005, we had \$295.9 billion already. In other words, as of today, when accounts are settled for the financial year of 2005-06, we would have at least \$20 billion more than estimated. In such circumstances, we think that the Government should be able to do something.

Deputy President, the second point I wish to make is, as worked out by many accountants and tax institutions, the Treasury would register a substantial surplus in the region of \$10 billion to \$25 billion. The figure comes from forecasts made by organizations like The Australian Society of Certified Practising Accountants, The Taxation Institute of Hong Kong, The Association of Chartered Certified Accountants, and so on. We think that even if their forecasts are not very accurate, the deficits should vanish in 2005-06. There will be more than one month's time, that is, until the end of March, before the accounts for this year are settled. We believe the Government will register a surplus of \$10 billion to \$25 billion in the books this year. This is what we can expect.

Against such a background, what can the Government do to help the people? Of course we know that for the grassroots people, the Commission on Poverty (CoP) will come up with some recommendations such as those on Comprehensive Social Security Assistance (CSSA) payments. CSSA payments were slashed because of deflation, but now as there is inflation, we think that payments should be increased because of inflation. For the middle-class people, we want to ask, "what did the Government do for them during the years 2002-03, 2003-04 and 2004-05?" For example, with respect to basic personal allowance, it was reduced from \$108,000 to \$104,000, then further to \$100,000.

This is just like raising the tax rate for the highest marginal tax band from 17.5% to 18.5%, then to 20%. The marginal tax band dropped from \$35,000 in 2002-03 to \$32,500 in 2003-04, then further to \$30,000 in 2004-05. This has made the middle-class people pay more tax. As for the standard tax rate, it was raised from 15% to 15.5%, then to 16%.

In our opinion, as government finances have improved, the tax rates should be reduced. Even if the Government does this, it is not cutting the tax for the middle class as a benevolent act. If this is done now, the Government is only calling a halt to the hike in tax rates which has begun. In our amendment, there is no demand on the Government to make a rebate of the tax it collected during the past two years. What we are asking is only to revert the tax rates to the 2002-03 level starting from next year.

Besides, I would like to mention that the unemployment rate has dropped drastically from 8.6% at the peak of the SARS outbreak to 5.3% now. I agree that the Government should do something for the 180 000 people who are unemployed. However, we can also notice that most of the grassroots and the unemployed have not paid any salaries tax, so no rebate in salaries tax can be made out to them. This said, we still hold the view which we raised at the initial debate on this. Secretary Frederick MA was there as well. With respect to the CSSA system which aimed at helping the grassroots, various departments and community organizations should continue to provide the assistance they need. We would also support all the recommendations made by the Financial Secretary in the CoP.

With respect to this suggestion, the Liberal Party conducted an opinion survey from 10 to 14 February in which about 1 500 people were interviewed. About 65% of the interviewees thought that given the financial situation of the Government now, there would be room for a tax cut. And of half of this, that is, of the 65% of interviewees, thought that the tax that should best be cut was salaries tax. Then about 30% of the interviewees hoped that government rates could be lowered. So it can be seen that the people understand that for those who have paid more tax previously, there should be a tax cut. Among the respondents to the survey, many did not have to pay any taxes. However, they thought that a tax rebate should first be made out to those who had paid salaries tax at an increased rate before.

Deputy President, at last I would like to talk about the amendments. As I have said at the beginning of the speech that we would support the original motion proposed by Mr SIN Chung-kai, we would also support the amendments to be moved by Mr CHAN Kam-lam and Mr WONG Kwok-hing respectively.

As for the amendment proposed by Dr Fernando CHEUNG, the Liberal Party thinks that the last sentence in his amendment is not acceptable. It says, "the Government should consider reducing the salaries tax only after implementing the above initiatives." So we are really sorry about this. We also think that what Dr CHEUNG has proposed in items (a) to (f) are what the Government should do. If his amendment is not what it is now but it is a call for these to be done at the same time, then we would support it. However, he is suggesting that the Government should consider reducing the salaries tax only after implementing the above six initiatives. This view is not acceptable to us.

Miss TAM Heung-man's amendment states: "provided that the Government's overall income and expenditure position improves, the fiscal reserves increase andis not affected." Our view is that this situation already exists now and this precondition is no longer required. Then she wants to add "by widening the tax bands and adjusting some of the allowances". My view is that this is not as clear as the way we put it. We are saying that what was increased in the past should be reverted to their original pre-increase level. This is simple enough. We cannot agree to a proposal that is in effect putting forward a new idea, saying that an increase was made with a certain group of people in mind and now it is time that a cut should be made. Then a new way of calculation is proposed to effect the cut. If this approach is really to be adopted, I think there would have to be consultations and studies. Therefore, with respect to the amendment from Miss TAM Heung-man, the Liberal Party would abstain from voting. Thank you, Deputy President.

MR CHAN KAM-LAM (in Cantonese): As economic recovery in Hong Kong continues, the economic growth for 2005 is estimated to hit 7%. As at the end of 2005, the fiscal deficits of the Government for the first nine months in this financial year still stood at \$6 billion. However, as the pace of economic recovery picks up and trading in the stock market is buoyant, when estimation is made on the various main items of public revenue, the recurrent revenue for this year should be better than that of last year.

First, revenue from salaries tax and profits tax. According to estimates made by the Government last year, public revenue from salaries tax and profits tax this year would be \$99.4 billion, which is an increase of 30% over last year. We can also see that Mrs LAU MAK Yee-ming, Alice, Commissioner of Inland Revenue said earlier that revenue from profits tax and salaries tax had met the target.

Second, stamp duty. According to government estimates, revenue from stamp duty this year would be \$16.3 billion, or an increase of 5% over last year. The Inland Revenue Department also says that revenue from stamp duty this year has exceeded the target. In fact, average turnover in the stock market each day is more than \$20 billion and over the past couple of months or so, the turnover has stayed high with a volume of more than \$30 billion each day. This is an increase of more than four times over the daily turnover of \$4 billion in 2002. This shows that the market is overwhelmingly bullish and hence stamp duty is expected to surge by heaps and bounds.

On other recurrent income items, some like the government rates benefit from the buoyant property market and revenue from betting duty likewise benefits from the surge in bets placed.

As for other items of non-recurrent revenue, after the great increase in land revenue in 2004-05 to \$31.3 billion, the Director of Lands said earlier that as land premium in 2005 would double the amount expected, when coupled with revenue from land sales, the land revenue target of \$31.9 billion set by the Financial Secretary in March last year as he delivered the Budget would most likely be met. In other words, there would be a substantial increase in land revenue.

As the situation in many of the major items of revenue is encouraging, the operating revenue may end up being more than the estimated \$192.6 billion. When coupled with the effective stringency measures, the DAB believes that fiscal balance of the Government would be restored earlier than expected and hence the deficits would be eliminated. In addition, the market anticipates an economic growth rate of 4% to 5% in 2006. The DAB thinks that apart from adhering to the principle of financial prudence, the Government should also make the people its primary concern and share the fruits of economic prosperity with all sectors across the community and lessen the people's tax burden.

We suggest that with respect to the salaries tax, the Government should revert the personal allowances, the marginal tax bands, the marginal tax rates and the progressive tax rates to the 2002-03 level. These include the broadening of the marginal tax bands from \$30,000 at present to \$35,000 and to lower the progressive tax rates.

If all of the above recommendations are accepted, then for a single person with an annual assessable income of \$300,000, his tax payable would decrease from the original \$28,800 to \$22,000, or by 23%. And for a single person with an annual income of \$900,000, there would be close to a 17% decrease in his tax payable. Thus it can be seen that the above recommendations would help ease the burden of the sandwich class and the middle class.

We would also suggest that the standard rate for salaries tax should be reverted to 15%.

Though these concessions would mean a loss of public revenue in the region of \$6 billion, we stress that in view of the continuous recovery of Hong Kong economy, this shortfall can be easily offset by increases in other revenue items.

The DAB wishes to stress that, for Hong Kong, a low salaries tax rate would help attract and retain talents, stimulate personal consumption and improve overall economic performance. As a matter of fact, as compared to Singapore which will release its budget for the new financial year on 17 February, the country in recent years has been actively lowering the salaries tax rate. Although we know that the present tax rate of Singapore is still higher than that of Hong Kong, in order to maintain Hong Kong's competitiveness, we must not take this lightly.

Deputy President, we would also suggest further raising the child allowance and the allowances for dependent parent/grandparent. This is a direct way to reduce the tax burden of the middle class and the general public. The DAB suggests that in order to encourage childbirth and attain the long-term policy objective of sustainable development, the Government should further raise the child allowance from the present \$40,000 to \$50,000 and to introduce a one-off allowance of \$50,000 for newborn babies. This will encourage middle-class taxpayers to give birth to children. This is also a more effective

and encouraging measure than to provide for a separate allowance for the education of children.

In view of the continuous rise in interest rates over the past year and which has exerted a great burden on the mortgage payers, the DAB would like to urge the Government again to further increase the entitlement period for the deduction of home loan interest from seven years to 10 years. As the interest rate is climbing, the amount of home loan interest deduction should be increased from the existing \$100,000 to \$150,000, so as to ease the burden of home loan interest borne by the middle class.

Deputy President, lastly I would like to talk about introducing tax deduction for voluntary contributions to the Mandatory Provident Fund (MPF). In view of the continuous ageing of the population in Hong Kong, the amount of basic MPF contributions is far from being adequate in providing retirement protection for employees. Besides, the employees are not very enthusiastic about making voluntary contributions. Figures from the Government show that the voluntary contribution each year is only somewhat more than \$2 billion, that is, only 9% of the annual MPF contribution which amounts to \$24 billion. Therefore, the DAB suggests that the SAR Government should introduce tax deduction concession for voluntary contributions to MPF in order that the people can be encouraged to better plan their future retirement life.

(THE PRESIDENT resumed the Chair)

Our suggestion is that voluntary contributions must be preserved until retirement before the employees can be given this tax deduction. This would prevent the concession from being abused. Also, the DAB suggests that the allowance should be capped at 5% of the monthly salary of employees or a maximum of \$1,000. That is to say, employees may at most be eligible for a tax deduction of \$1,000 in respect of their voluntary contributions. In this connection, as early as in last year the DAB discussed with the Secretary for Financial Services and the Treasury on this issue and the Secretary said that the matter would be studied by the committee tasked with compiling the budget headed by the Financial Secretary. We hope that in this budget, it can be seen that the Financial Secretary would respond to this issue positively and that our suggestions would be accepted.

The DAB thinks that this recommendation will not only encourage employees to set up their individual retirement protection investment portfolio to complement the MPF, but it will also reduce the financial burden of the sandwich class and the middle class. We hope that the SAR Government can give serious thoughts to this.

Madam President, the DAB is convinced that fiscal balance has been restored this year. Therefore, we are completely justified in thinking that the sustained and healthy development of the economy is very important. The DAB hopes that the Financial Secretary would follow the policy direction of the Chief Executive in attaching importance to issues of economic and the people's livelihood and commit financial resources to infrastructure construction with economic benefits. The DAB is of the view that in order to foster trade and economic activities between Hong Kong and the Mainland, it is very important to enhance railway, road and port construction of the two places. Tourism resources in Hong Kong are actually very abundant and we hope that the Government can put in more resources in this respect. We expect a substantial increase in the number of visitors to Hong Kong for quite some time in future. The Government should therefore make some preparations for the development of our economy by putting more resources into these infrastructure projects which can be translated into economic benefits for Hong Kong.

Madam President, I so submit.

MR WONG KWOK-HING (in Cantonese): Madam President, the Financial Secretary would deliver the Budget for the next financial year next Wednesday. However, it is regrettable to see that Mr TANG, the Financial Secretary, is not in attendance when this Council holds such an important debate today on the budget. I hope Mr MA, Secretary for Financial Services and the Treasury, could have an extra pair of ears so that he could tell Mr TANG what he has heard in the debate today and that he would ask Mr TANG to respond positively.

This motion debate on reducing the salaries tax is in fact an ardent expectation extended to the Government. The reason for me to propose an amendment is that I hope the Government can, taking into account the good economic performance this year and as the increased revenue in the public coffers, let the general public share the fruits of economic improvement.

Before the Council meeting began, many representatives from the Hong Kong Federation of Trade Unions (FTU) had come to present a petition and asked me to bring along this mandarin orange to the Secretary so that he could see the point that the Government should share the fruit of economic recovery with the people. They do not want this mandarin orange or the fruit of economic recovery to fall into the hands of the giant consortia or be placed in the Treasury, for this will leave the people only looking expectantly at the fruit but can never share it.

Madam President, I think that the most direct way to share this fruit of economic recovery is to cut the salaries tax so that the people's burden can be lessened. Reverting the personal allowances, the tax bands and the marginal tax rates under salaries tax to the 2002-03 level will not only serve to reduce the burden of the middle class and the grassroots but also spur domestic consumption.

Earlier on when two other Members of the Council from the FTU and I met with the Financial Secretary, we put forward a dozen or so suggestions. In the meeting, we proposed that the personal allowances under salaries tax should be reverted to the 2002-03 level. In the motion debate today, we have proposed an amendment, but we have not hung many other wishing stars on this Christmas tree and we have just focused on reducing the salaries tax to ease the people's burden a bit. Ever since 2003-04 when the Government lowered the allowances under salaries tax, more people have fallen into the tax net. For the general public, this is really adding to their burdens. After the salaries tax has been raised, many grass-roots wage earners who do not earn a high salary are now included in the tax net. Now wage earners making some \$8,000 a month are required to pay salaries tax. But they are in fact wage earners in the middle and lower classes and their income is by no means high. I think that when government finances have improved now, wealth should be returned to the people. In this way, their pressure will be relieved and the domestic consumption in Hong Kong can be given a boost. So why not do it?

As compared to 2003, the current financial situation of the Government has greatly improved. Members will recall that in 2003 Hong Kong was under the attack of SARS and the economy sagged. This had a direct impact on public revenue. Now SARS has passed for almost three years and there is marked improvement in the economy. The fiscal deficits which have plagued us for many years ever since the financial turmoil of 1997 are very likely to be

eliminated earlier than expected in this year or the year to come. Secretary, you may have known this a long time ago. I can see that you are so happy and this should be the reason.

For many years in the past, owing to the fiscal deficits the Government has resorted to raising taxes and cutting public expenditure. Though some achievements are made, the people especially the grassroots are very much hard-pressed. I hope the Secretary can really know that they are having a difficult time. Of the taxpayers paying salaries tax, those with an annual income of \$300,000 have actually dropped by 1% and those with an annual assessable income of \$900,000 or above have increased by 4.5%. This shows precisely that disparity in income in the working class in Hong Kong is serious. The Government should have the responsibility to address the problem and solve it. I therefore think that the taxation principle of vertical fairness should make use of the budget and redistribute wealth to help the lower class. The simplest and most direct way is to raise the personal allowance under salaries tax and revert it from the present \$100,000 to \$108,000. This will help some people with a low income escape from the tax net. It will not only solve the problem of uneven income but also return wealth to the people. Actually, the amount of money involved in our proposals is only a tiny amount. I think the Secretary could work out for himself how tiny this is when the personal allowance for each taxpayer is increased by \$8,000 and when this is spread out by the months, it would only be a very tiny sum indeed.

As for the fiscal revenue of the Government, information from the Financial Services and the Treasury Bureau shows that the fiscal deficits for the first three quarters this year are only \$6 billion. Though the current financial year is not yet finished, it is generally estimated that there would be substantial surpluses in the public coffers. Even if there are deficits, the amount would be very small. Compared to the deficits of more than \$60 billion back in 2002-03, the situation has improved greatly already. In addition, the Government took reference of its improved financial position and announced last month that the duty concession for ultra-low sulphur diesel would be extended for another year and the estate duty would be abolished. These measures show very well that the financial stringency in the public coffers has eased. However, instead of just having the burden of a small minority of people eased as they can benefit from the abolition of the estate duty, and so on, it would be much better if the personal allowances, tax bands and marginal tax rates under salaries tax, and so on, are all

reverted to the 2002-03 level as this will benefit more grass-roots people and the middle class. More people will hence have the power to make spending and hence economic development is fostered. This will make possible the creation of wealth and facilitate the return of wealth to the people.

On the other hand, over the past couple of years, livelihood issues in our society have also seen some improvement. Evident in the developments in the three aspects of the jobless rate, the GDP and the Composite Consumer Price Index, there have been improvements in real terms. On the jobless rate, information from the Census and Statistics Department shows that the jobless rate has fallen from 7.5% in 2003 to 5.3% at present. The unemployment situation has actually improved. Then the GDP of Hong Kong has changed from a decline in real terms by 0.3% in 2003 to a real growth of 2.7% in the third quarter of 2005. Besides, the Consumer Price Index has changed from -2.1% in 2003 to a growth of 1.8% in December 2005. All these three indicators of economic development show that though the Hong Kong economy has turned much better, the middle class and the grassroots have actually not benefited so much. If the tax rates, allowances and tax bands still remain at their 2003-04 levels, it is believed that the lower class will just have to tighten their belts. But why can the Government not consider making some changes when the people are tightening their belts?

Therefore, I hope that the Government will make appropriate use of its resources to provide the grass-roots people with adequate services. The Government should also consider not using a policy of compression to help the grass-roots people. I hope when Financial Secretary Henry TANG and Secretary for Financial Services and the Treasury Frederick MA compile the Budget for the new financial year, they can consider the fact that the pressure of fiscal deficits has eased markedly and the Government should return wealth to the people, place wealth in the people and then further create wealth in the people. When Mr TANG extended his New Year greetings to the people of Hong Kong, he wished them that they could have all their heart's desires. Now the desire in the hearts of the people is that they can share the fruit of economic prosperity with the Government. They do not want to devour the entire fruit themselves. They just want to have it for one year and that is, that their salaries tax burden can be reduced. I hope Mr TANG and Mr MA will not put the fruit back to government coffers. Let the people savour its taste for one year. I see that Mr MA is smiling. I hope when you respond later, you can fulfil the

heart's desires of the people by raising the personal allowances under salaries tax and alleviate the tax burden of the grass-roots people. Thank you, Madam President.

DR FERNANDO CHEUNG (in Cantonese): With the improved economic situation in the past couple of years, voices for reducing the salaries tax are beginning to be heard in society. Given the economic recovery, it is only right that the public should share the fruits of their efforts. But the cruel reality is that the first to benefit from the economic recovery are often the upper and middle classes. The vast majority of the people in the lower strata will not necessarily be benefited, and they are still living in hardship. Reducing the salaries tax, implying a reduction in the Government's revenue, will inevitably affect livelihood-related expenditure. As the basic livelihood needs of some families for food and accommodation are still not satisfied, we as law-makers must consider with prudence the price to be paid by society in exchange for a little bit of benefit brought as a result of reducing the salaries tax.

Our Government has all along been adopting the *laissez-faire* or positive non-intervention fiscal policy. Before the bursting of the bubble economy, our non-tax revenue — predominately from land proceeds — accounted for up to 80% of the Government's total non-tax revenue. In times of economic doldrums, however, huge deficits appeared. Our narrow tax base is definitely not a fresh topic. At present, the rate of salaries tax in Hong Kong is only a dozen percentage points. In the Organization for Economic Co-operation and Development countries where the progressive tax regime is implemented, the average rate of salaries tax exceeds 40 percentage points. Compared with these countries, Hong Kong's tax rates are evidently on the low side. Furthermore, under Hong Kong's tax regime, assessment is made not of total earnings. Except for salaries and estates — estate duty was actually abolished on 11 February — such earnings as deposit interest, dividends, capital gains are not taxable in Hong Kong, thus resulting in an unfair tax regime. Actually, the earnings of the rich are derived mainly from capital gains, not income. With the accumulation of assets, the wealth gap will expand accordingly. Our discussion so far has not even taken into account our low profits tax, the abolished estate duty, and the sales tax proposed to be introduced. Owing to this vertical tax regime, high-income earners and major consortia are not required to pay substantial amounts of tax. In contrast, many low- and

middle-income earners are caught by the tax net. As a result, the tax regime is unable to fulfil its desired function of wealth redistribution, and indirectly creates a wealth gap. In particular, the gap may expand swiftly when the economy prospers.

I believe Members are aware, without my repeating, that Hong Kong's Gini Coefficient has reached an alarming level. Members should also understand that this reflects the seriousness of our wealth gap problem. I recall that, in a meeting held in January this month by the Subcommittee to Study the Subject of Combating Poverty set up by this Council, I requested Mr Henry TANG, who had been Chairman of the Commission on Poverty for a year, to answer a simple question on the number of poor people in the territory. He could still not give me a reply after more than two hours. Although the Government is reluctant to set a poverty line and a benchmark for the eradication of poverty, we can see that, judging by the international poverty line standard, Hong Kong's poverty problem is extremely serious, for at least 18% of the households can be defined as impoverished households. Like an evil-exposing mirror, the poverty problem in Hong Kong can, once revealing the truth, shatter the superficial affluence of Hong Kong society with the ugly exposure of the uneven distribution of wealth between the rich and the poor.

Hong Kong's poverty problem certainly has not stemmed from a lack of community-wide resources. Actually, because of our abundant fiscal reserves, Hong Kong ranks sixth, with its *per capita* reserves ranking first, in the world. It is a pity that our Government appears to be quite reluctant in using these resources on the poor. We could spend hundreds of millions of dollars on the World Trade Organization Ministerial Conference; we could organize the Hong Kong Harbour Fest and the East Asian Games in 2009; and we will continue to provide additional funding for the East Asian Games. What is more, we will convert the existing venues in order to stage the most successful East Asian Games in history. Meanwhile, the Comprehensive Social Security Assistance (CSSA) was substantially reduced in 2003. Actually, the expenses thus saved will not significantly affect the Government's overall expenditure. However, the daily life of 500 000 CSSA recipients and more than 100 000 people with disabilities are affected. Therefore, if the Government considers reducing the salaries tax, it should first increase the medical waivers for the elderly, the vulnerable, the disabled, the chronically ill and the poor families.

Since 2001-02, the Hong Kong Hospital Authority has been recording deficits, which are expected to reach \$7.3 billion by 2008-09. It is evident that medical charges are going up.

We have also seen that the Government, overshadowed by huge deficits, increased the accident and emergency service charges in 2002 and introduced a Standard Drug Formulary last year. Actually, the burdens of the poor have invariably been increased because of these new measures. In response to the misgivings expressed by the public, the authorities have merely kept emphasizing that the public has already been protected by the existing waiver mechanism. Yet, during the first 11 months in the 2003-04 fiscal year, only 8 368 cases of remission of accident and emergency service charges, representing 0.5% of the total accident and emergency attendance during the same period, were recorded. Furthermore, the fact that only 0.8% of attendance has successfully been offered waivers reflects that the existing waiver mechanism can simply not fully protect the poor people who should be entitled to fee waivers at present.

In this respect, we in the Neighbourhood and Workers Service Centre Livelihood Alliance propose that a uniform half-fee remission be granted to elderly people aged over 65. At the same time, low-income earners should be offered remissions according to their median household income ratios.

Second, the CSSA rates for the elderly, the vulnerable, the disabled and children should be reverted to the levels prior to their reduction in 2003. The across-the-board reduction of CSSA rates by 11% in 2003 attracted a strong reaction from the public. In the face of strong opposition, the Government merely promised to slash the CSSA rates for the elderly and the disabled in two phases. Actually, in 1999, the Government already slashed the standard CSSA rate for three-person families by 10%, and that for families with four or more members by 20%, without adhering to the mechanism. Again, CSSA was slashed in 2003. Despite the economic slump in the past several years, the proportion between CSSA payments and the Government's overall expenditure has not increased substantially. This shows that the fiscal deficits are not caused by CSSA. Nevertheless, the Government has resorted to slashing CSSA on the one hand, and abolishing estate duty on the other. At the same time, it is reluctant to increase the stamp duty, wine duty, and so on. Given the improving economy, I consider reducing tax not the Government's first and

foremost task. On the contrary, the Government should first revert the CSSA rates for the elderly, the vulnerable, the disabled and children to the levels prior to their reduction in 2003.

Third, the rates of disability allowance should be reverted to the levels prior to their reduction in 2003. Like CSSA, disability allowance has been slashed by 11.1%. Disability allowance now stands at only \$1,120 a month. Subsequent to a slight adjustment recently, the monthly amount of disability allowance has been adjusted upward by \$5. With the inflation, the increased amount of disability allowance received by the disabled might even not be enough to buy two pineapple buns.

At present, the unemployment rate among the disabled is two and a half times that of the entire workforce. While the median income of the disabled is more than 20% lower than that of the entire workforce, yet the daily expenses of the disabled are enormous. According to the result of a survey conducted by my office with five self-help groups for the disabled in November last year, the medical and extra transport expenses incurred by the disabled as a result of their disabilities range from more than \$800 to more than \$2,000 a month. This reflects that disability allowance has failed to take full account of their relevant expenses. Therefore, I urge the Government to revert the rates of disability allowance to the levels prior to their reduction in 2003.

Fourth, the charges for all livelihood-related items, including medical and education fees, should be frozen. With proposals for fee increases being raised throughout the territory, the accident and emergency service charges may possibly be raised again. With respect to education fees, we have seen that secondary schools are facing the impact of further tuition fee increases. The move by the Hong Kong Examinations and Assessment Authority to increase examination fees by 5% has also generated an additional revenue of more than \$7 million recently, with the number of students being affected exceeding 150 000. After the fee increase, students have to pay nearly \$2,000 in order to sit for the Hong Kong Advanced Level Examination.

Fifth, the Government should increase the financial commitments for medical services, education and social welfare. Should the Government fail to honour its financial commitments in these areas as well as for the leisure and cultural facilities in new towns, and hastily reduce the salaries tax, it will go

against its policy of taking care of the people and securing a "people-based" government for the benefit of the people.

Thank you, President.

MISS TAM HEUNG-MAN (in Cantonese): Madam President, Hong Kong's economy has indisputably turned the corner and picked up steady growth. By the end of this fiscal year, I believe there should be a substantial improvement in the public financial position. In addition, the Government's consolidated accounts may have a chance to get rid of the deficits that have existed for several years. Therefore, like most Honourable colleagues, I agree that, if circumstances permit, tax concessions be offered to leave wealth with people. I do not wish to repeat the benefits brought by tax reduction to the people's livelihood since several colleagues have already explained them earlier. I would rather explain my amendment in relation to the prerequisites of tax reduction and the concrete measures to be taken.

To start with, the Government should consider reducing the salaries tax only after certain conditions are met: First, the Government's overall income and expenditure position must record a surplus; second, there is an increase in the fiscal reserves; and third, the Government's recurrent accounts should at least be balanced. Only when these conditions are met can we talk about reducing tax.

The Government of the Hong Kong Special Administrative Region (SAR) has, in the past couple of years, been plagued by fiscal deficits, with its reserves dropping year after year. Today, the fiscal reserves have fallen to an alarming level. Apart from ensuring that the SAR Government can draw down the fiscal reserves in times of emergency, our fiscal reserves are also part of the Exchange Fund to help maintain the stability of Hong Kong currency. Given the need to save for a rainy day, it is important to maintain a fixed level of fiscal reserves. Therefore, even if a surplus is recorded this fiscal year, the authorities should still boost its fiscal reserves before considering reducing tax.

The position of the Government's recurrent accounts is also an important factor in any consideration of tax reduction. Sir John COWPERTHWAIT, a former financial secretary who has just passed away, explained to us the importance of the Government's recurrent accounts four decades ago. His decision to divide the Government's consolidated accounts into recurrent and

non-recurrent accounts serves as the best proof. In delivering the Budget last year, Financial Secretary Henry TANG pointed out that it took a longer time to eradicate the fiscal deficit of the recurrent accounts than that of the consolidated accounts. He was actually saying that eradicating the fiscal deficit of the recurrent accounts was harder.

The salaries tax, one of the Treasury's major sources of recurrent revenue, has a substantial impact on the Government's recurrent income and expenditure position. Before deciding to reduce the salaries tax, we should first ascertain that reducing the tax will not affect the pace of achieving fiscal balance in the recurrent accounts.

Madam President, if the prerequisites proposed by me are met, we will have to consider how the salaries tax can be reduced. In my opinion, even if a fiscal surplus is recorded for 2005-06, it is still inadvisable to reduce the salaries tax excessively.

Public expenditure was heavily compressed in the past couple of years because of the deficit problem. As a result, a number of public services have been affected. With the improvement in the Government's financial position today, I believe many people in the community, particularly the socially disadvantaged groups, will ask for more public services or additional resources for helping the poor or supporting various social welfare policies. The amendment proposed by Dr Fernando CHEUNG today has fully illustrated this. I also believe that the Government should respond to the aspirations of these people. It is therefore very likely for public expenditure to rise in the years to come.

The possible increase in public expenditure will exert pressure on the Government's recurrent accounts. Under the principle of ensuring fiscal balance in the Government's recurrent accounts, I consider it necessary to deal with the issue of reducing the salaries tax with prudence.

I have reservations about the proposals raised by the three Members, namely Mr James TIEN, Mr CHAN Kam-lam and Mr WONG Kwok-hing, to revert the rates of salaries tax, the tax bands, and the basic allowances to the 2002-03 levels. This is because, once the salaries tax is reduced, it is most likely for some people to, on the pretext of treating all taxpayers fairly, demand reverting the property tax and profits tax to the levels prior to their reduction.

It is estimated that it will cost the Treasury \$5 billion or more in tax revenue if the rates of the three taxes are simultaneously reverted to the levels prior to their reduction. Can the Government's recurrent accounts withstand such a blow?

After deducting some possible increase in public expenditure and after reducing tax, little will be left to be transferred to the fiscal reserves. If we resort to every possible means to share the surplus whenever we see one, how can we expect the fiscal reserves to recoup the tens of billions of dollars evaporated over the past several years? Will our reserves be adequate to cope in the event that Hong Kong is hit by another economic slump or the Hong Kong dollar is challenged once again? How will all colleagues here react should the Government propose raising tax again?

Madam President, having spoken this far, some may probably think that I disapprove of all tax reduction initiatives. This is actually not the case. However, I wish to emphasize that I agree that tax be reduced on a limited basis under specific conditions. I therefore hope to put forth some concrete proposals for reducing the salaries tax.

First of all, I think that the tax bands can be reverted to the 2002-03 level so that a number of middle-income taxpayers can be benefited by paying 5% to 7% less in tax. Since the tax increase, the middle class has been under relatively enormous pressure in tax payment. The widening of the tax bands can ease their tax burden and respond to their persistent aspirations.

Furthermore, I propose that allowances be adjusted and new ones introduced to achieve the policy objective of reducing the salaries tax. Of all the allowances, I propose that, given the rebound in property prices and the continuing rate cycle, the entitlement period of home mortgage interest deduction be extended from seven to 10 years to ease the pressure on tax-paying owner-occupiers in making exorbitant mortgage loan repayments.

The Government is recently in the process of studying health care reform in a bid to implement health care financing under the principle of "those who have the means pay more". The health care expenses of the middle class are very likely to rise as a result of this policy direction. In this connection, a number of people have started taking out medical insurance as precautions. In my opinion, the Government may introduce medical insurance premium

deduction to encourage more people to take out medical insurance, thereby directly promoting the Government's health care policy.

Madam President, the Budget will be published next week. I hope Financial Secretary Henry TANG can fully consider the views expressed by Honourable colleagues today and come up with a budget that is capable of striking a reasonable balance between the stability of public finances and leaving wealth with people in the interest of all parties. I so submit. Thank you, Madam President.

MR JAMES TO (in Cantonese): President, despite my amendment to Mr CHAN Kam-lam's amendment, the Democratic Party fully agrees with the underlying notion of the proposal of encouraging the public to save for their retirement. However, the Democratic Party is still pretty sceptical of the proposal, including its analysis of Hong Kong's current situation. For instance, the Mandatory Provident Fund (MPF) is seen as the public's only means of saving for their retirement. Yet, the effectiveness of the initiative is in doubt. For instance, will the introduction of tax deduction for voluntary contributions to the MPF encourage low-income earners to make voluntary savings? Is the middle class also worried about their financial arrangements after retirement? There are also expectations of people from different strata for their post-retirement living standard, and so on. Therefore, the Democratic Party considers that if the Government is to introduce any measures to encourage the public to save for their retirement, it should first seriously examine Hong Kong's current situation and the effectiveness of various initiatives. In the opinion of the Democratic Party, introducing tax deduction for voluntary contributions to the MPF may be one of the options for study and consideration, but definitely not the only option.

First, the Democratic Party considers that, even if voluntary contributions are tax deductible, a ceiling should be imposed to avoid tax evasion. The proposal raised by Mr CHAN Kam-lam of an additional deduction for contribution of \$1,000 a month can be used as reference. But what about the ceiling? The Government should first find out the public's expectation for their living standard after retirement before considering the matter.

In our opinion, there are some assumptions underlining the proposal of introducing tax deduction for voluntary contributions to the MPF: First, the

contributions to the MPF are not enough to cope with the people's needs in their daily life. This is shared by the Democratic Party. Second, even if savings by other means are included on top of the MPF, they are still not enough to cope with the people's post-retirement living. However, the Democratic Party finds this assumption doubtful, particularly in the case of Hong Kong. At present, the public can choose from various forms of savings, such as property investment, financial products, insurance, bank deposits, and so on. Given the spiralling gold prices lately, many people will even purchase gold bars and keep them at home. All these are means of value preservation and savings.

According to the statistics of the Office of the Commissioner of Insurance, a total of 930 000 individual savings policies were recorded in the territory in 2004. Of these policies, 770 000 policies were not related to investment, and the total sum insured reached \$183 billion, or \$240,000 on average.

According to the findings of the "AXA retirement survey" conducted by AXA in 2004 in which 300 or so people at work were interviewed, the average age of people starting to make preparations for retirement was found to be 34, reflecting that young people have a better awareness of making financial arrangements for their post-retirement life — of course, we must note that the survey was conducted by an insurance company. While 62% of the interviewees in the 25 to 44 age group had already made proper preparations for their retirement, only a little more than half of the interviewees aged 45 or more had planned to do so. Of the interviewed people at work, 71% indicated that they were making savings, 65% had taken out life insurance, 14% were investing in real estate, and 8% in stocks. The interviewees saved an average of nearly \$4,000 monthly, and the median was \$2,700.

According to the Government's survey on "insurance needs and opinions on insurance services", 38% of the people who have taken out life insurance for themselves are aged 18 or above. Of these people, more than 50%, the highest ratio, are between the age of 25 and 44. Nearly 42% and 8% of the interviewees indicated that they had taken out life insurance for the purposes of savings and retirement respectively. 73% of the insurances taken out by these interviewees are classified as savings insurance.

Pardon me, President, I have taken great pains to quote these figures because we must understand how the public prepare or whether they have

prepared for their post-retirement living, and what the Government should do through its taxation policy before it can effectively encourage the public to prepare for their retirement through savings. This will prevent the public from relying on welfare in future because of poor planning, thus aggravating the burden on the next generation, and the stability of government finances from being affected in the future. If the Government merely introduces tax deduction for voluntary contributions to the MPF without grasping the situation, it might be impossible to achieve our expected goal.

However, the above information seems to suggest that the young generation is particularly conscious of saving for themselves. Thus, the assumption that the MPF is the public's only means of coping with retirement is apparently inconsistent with the reality. Furthermore, the above information shows that, of all the income groups, 53% of the families earning more than \$20,000 have taken out life insurance, while only 23% of the families earning less than \$20,000 have done so. These lower-income earners are probably most in need of our assistance in preparing for their retirement. Nevertheless, I wish to emphasize that most of these people do not need to pay salaries tax. Even if they do, they may need to pay hundreds of dollars only. Tax deduction for voluntary contributions to the MPF therefore only provides a very limited incentive for them to increase their contributions. On the contrary, this proposal provides more incentive for high-income earners. For instance, people whose income has reached the highest tax band, that is, single persons who earn more than \$20,000 a month, will probably have their tax reduced by 17% to 20% for their voluntary contributions to the MPF.

Based on the above analysis, I wish to point out that if we seek to encourage the public to prepare for their retirement by savings, using tax deduction for voluntary contributions to the MPF as a starting point will help relieve the misgivings of the middle class about life security upon retirement. However, the Government must define clearly the goals and effectiveness of its various policy initiatives. Moreover, it should not rule out options other than the MPF. For instance, it may examine whether the approved non-MPF retirement savings plans joined by the public can be tax-deductible. At the same time, it should capitalize on the flexibility of the private market and encourage the public to make the best preparations for their retirement.

President, I so submit.

MR FREDERICK FUNG (in Cantonese): Madam President, with the economy slightly improving in recent years, the market is permeated with keen voices for fees and rent increases. However, many grass-roots people have not yet benefited from the economic recovery; on the contrary, they are living in dire straits because of rising prices. The Government is therefore duty-bound to ease the hardship of the socially disadvantaged groups, provide the grass-roots people with adequate services, and consider reducing the salaries tax only after concrete measures have been implemented.

The main reason for the Government to levy tax is to, through taxation, ensure a stable source of income to maintain social order and upgrade the living standard of the people. Meanwhile, the tax system also performs the function of wealth redistribution and thus plays a significant role in maintaining social stability. In order to give play to the taxation function more effectively, the Government needs to consider introducing a progressive profits tax so that more profitable enterprises should pay tax at a higher rate under the principle of "those who have the means pay more".

When the economy was in the doldrums, the Government substantially slashed its commitments to social welfare and increased health care charges on the pretext of "tiding over the hard times with the people", thus further aggravating the hardship of the grass-roots people. Although the economy has slightly recovered now, prices have risen swiftly on the market, with the relatively large increases recorded by the inevitable expenses paid by the grass-roots people for clothing, food, housing and transportation, such as rent, food, electricity, gas, water, transport, and so on. However, not only have the wages of the grass-roots people fail to rise, they may have even fallen. Furthermore, the Comprehensive Social Security Assistance and disability allowance have been slashed too. The economic recovery has indeed aggravated the hardship of the grass-roots people. Furthermore, these people have failed to share the fruits of the economic recovery with people of other strata.

According to the information provided by the Census and Statistics Department, in the second quarter of 2005, the monthly income of more than 410 000 households, 13% more than the 370 000 households recorded in 1998, was lower than half of the median monthly household income. In 2005, 74 000 people, exactly double the 38 000 people in 1998, earned a monthly income of less than \$5,000, half of the median income. These figures have aptly

illustrated the worsening wealth gap, with the number and ratio of low-income earners continuing to expand. Despite the improvement in the economy, the situation of the grass-roots people has on the contrary worsened. I feel that the Government must face squarely this situation and tackle it.

My motion on "implementing the policy of solving working poverty" was passed by Honourable colleagues earlier. The speeches delivered by colleagues have shown that the community is quite concerned about working poverty. To prevent low-income earners from getting worse-off by working, the Government is obliged to provide assistance to poor families to enable them to maintain an acceptable living standard. This is also the consensus reached in the Subcommittee to Study the Subject of Combating Poverty by various parties and factions.

The Hong Kong Association for Democracy and People's Livelihood (ADPL) successfully interviewed 624 people in a survey on the New Year's employment confidence published on the third day of this Lunar New Year. Although the people's confidence in employment is in general positive, the workers of individual industries, such as the construction and manufacturing industries, are not particularly confident about the future. The poorly-educated and the middle-aged people who are in their forties or fifties are still being the hardest hit, thus implying that they have yet been benefited, despite the improving economic conditions. The Government is therefore duty-bound to first formulate policies to assist them, instead of blindly reducing tax when public finances have just cleared the crisis of the deficit.

Judging from these circumstances, the economic depression over the past several years has highlighted Hong Kong's deep-rooted structural problems: Such problems as constant slashing of funding by government departments, unsatisfactory surveillance of illnesses, health care financing, inadequate welfare services, postponed construction of a number of leisure infrastructural facilities, and so on, are directly affecting the daily life of the people. With the economic recovery and government finances becoming more and more stable, the Government ought to inject resources to cope with various social needs. This should include reverting the expenditure on health care, education and social welfare to a reasonable level; increasing the assistance for the elderly, the vulnerable, the disabled, the chronically ill and children; and expediting the completion of a number of unfinished works projects left behind by the two former Municipal Councils in order to deliver the policy objectives and

commitments of the policy address and genuinely achieve the goal of "people-based governance".

I recall that when the Financial Secretary was asked by the media on the first day of the Lunar New Year about the possibility of tax cuts, he responded three times by saying that "wishes will come true". Will Financial Secretary Henry TANG realize the "wishes" of the grass-roots people? Has Financial Secretary Henry TANG listened to the hardship and suffering of the grass-roots people? The ADPL and I would like to reiterate that the Government must consolidate its revenue under the principle of "taking care of people's livelihood and stabilizing revenue" and pool resources to meet the needs of the poor to enable them to share the fruits of economic growth. At the same time, the Government should increase its commitments in various policy areas relating to people's livelihood to revert them to the levels before charges were raised and welfare slashed by the Government. Only after the two circumstances are satisfied, and if we possess the right conditions, can the Government consider raising the allowances under salaries tax or lowering other tax rates.

With these remarks, Madam President, I support Dr Fernando CHEUNG's amendment. However, I will abstain from voting on the other amendments.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MS LI FUNG-YING (in Cantonese): Madam President, at long last, most Hong Kong people have lived through the past six or seven years of economic sluggishness. They all expect to recover from the declining living standard and hope that with the great improvement of its financial conditions, the Government can put forward some concrete measures in the Budget to benefit the people. The motion debate today is probably based on the same aspirations. We also hope that the Government can provide services to the grass-roots people and at the same time reduce taxes, such as the salaries tax, as proposed in the motion. However, hope as we may, we must still face the question of how to make a choice and strike a proper balance if the Government is unable to meet both demands due to resource constraints. This is a question which both the original motion and some of the amendments fail to answer. And, I am of the view that this is precisely the crux of the budget problems under discussion.

The motion and most of the amendments mention two classes of people — grass-roots people and the middle classes. In regard to grass-roots people, the Government is requested to provide adequate services to them. In regard to the middle classes, the Government is requested to reduce the salaries tax, bringing it back to the level in 2002-03. However, how can we assess whether the Government has provided adequate services to the grass-roots people? All the major political parties in the Legislative Council support the reduction of the salaries tax. But how then are we going to relieve the living burden of the grass-roots people? Unless we think that the pressure borne by the grass-roots people during the past few years of recession was lighter than that of the middle classes, and that in the course of economic recovery, the grass-roots people have enjoyed the fruit more directly and tangibly than the middle classes, the motion should not just mention the provision of "adequate services" to the grass-roots people in such a simplistic and ambiguous manner, glossing over the whole thing and trying only to reduce the tax burden of the middle classes.

I must stress that I do not oppose reducing the tax burden of the middle classes. But I do not support any uniform reduction for top salaries taxpayers, the middle classes and grass-roots employees.

In the 2004-05 tax year, there were 560 000 taxpayers each earning \$100,000 to \$200,000 a year. The number of taxpayers each earning an annual income of \$200,000 to \$300,000 stood at 346 000. Those earning \$300,000 to \$400,000 a year numbered 198 000. And, 155 000 taxpayers each earned \$400,000 to \$600,000 a year. All these taxpayers constituted 90% of all the 1.4 million salaries taxpayers. Another point is that following the salaries tax increase introduced by the former Financial Secretary, in terms of the tax to income ratio, those with an annual income of less than \$500,000, that is, middle-class people earning less than \$40,000 a month, have to bear the heaviest tax burden, and the rate of tax increase for them is the highest. The tax burden of those earning \$200,000 to \$300,000 a year, in particular, is the heaviest. Therefore, any review of the salaries tax should first focus on tax bands, so as to make sure that the salaries tax can truly manifest the principle of a progressive tax. I am of the view that only such a change can realize the principle of a fair and reasonable tax regime and offer the Government more flexibility and room in utilizing resources.

We have just passed the motion on requesting the Financial Secretary to implement the recommendations in the Report on Working Poverty by the

Subcommittee to Study the Subject of Combating Poverty. The key to the enforcement of this motion is the willingness of the Government to provide the resources required. Between helping the poor and reducing the salaries tax, I will certainly prefer the former. But I still have some reservations about Dr Fernando CHEUNG's amendment. My greatest reservation is that his amendment requests the Financial Secretary to invest resources in a huge variety of measures and proposes that the Government should consider reducing the salaries tax only after fully introducing all these measures. I agree that the Financial Secretary should pay more attention to the disadvantaged in his Budget. But this does not mean that the allocation of resources should be treated as a zero-sum game, and that the respective interests of the grass-roots people and the middle classes should be regarded as mutually exclusive.

Madam President, I think this Council has already formed a consensus on requesting the Government to allocate additional resources for the purpose of helping the unfortunate members of society. Earlier this Legislative Session, this Council already passed a motion on requesting the Government to address the transportation needs of people with disabilities. The requests stated in this motion include the provision of half-fare concession for people with disabilities and the allocation of additional resources for the speedy improvement of Rehabus services. All these have been the common aspirations of Legislative Council Members over the years. It has been a convention for the Financial Secretary to issue reply letters to Members after the announcement of a Budget, explaining to them how the Budget has responded to their concerns. I hope that when replying to Members today, the Financial Secretary can also explain how the Budget has responded to the motions passed by the Legislative Council, especially those on the people's livelihood and the allocation of resources.

Madam President, I submit. Thank you.

MR RONNY TONG (in Cantonese): President, many people have in recent years shown great concern about the intention of the Article 45 Concern Group to form a new party. Apart from asking such questions as to whether we have accepted overseas donations, many people were even more concerned about our inclination towards economic policies. Some people considered that we tilted towards the left with respect to economic issues or even criticized us for being populist, and that we were incompatible with our professional image. Through

today's motion debate, I hope we can have an opportunity to clearly explain our views on economic and financial policies.

I once stated that the goal of the Article 45 Concern Group to form a party is to rule. What I mean is we seek to consider Hong Kong's governance issues, including public finance management strategies, in a holistic manner with a ruling mentality and responsible attitude. A person seeking to achieve responsible financial management will not request the Government to cut tax when the structural deficit issue is not yet resolved; he will not request the Government to share the fruits of economic growth when the economic prospects are still uncertain; and he will not ask the Government to slash resources before such issues as health care problems, polarization of the rich and poor, and so on, have yet to see any improvement, for the Government's ability to cope with these problems will thus be diminished.

Earlier on, the Government of the Hong Kong Special Administrative Region (SAR) announced that the fiscal deficit in the first nine months of this year had been reduced to only \$6 billion, suggesting that the fiscal deficit problem had apparently been eased. The announcement was immediately met with great delight by the public opinion as the deficit issue was thought to have been resolved. Some groups have even predicted a possible surplus of \$25 billion this year. In connection with this, I wrote to the Secretary to seek the Government's elucidation and presentation of the latest data to better enable us to grasp the latest financial situation. Unfortunately, my request has been turned down by the Government.

Even if these forecasts are accurate, I am still worried that if the surplus is not handled with prudence, the good news this year may just be short-lived. There are still a lot of hidden structural worries in the present financial conditions of the SAR Government. If we carefully scrutinize the development of public finances in the past couple of years, we will easily find that we are now going through an artificial honey-moon period. During this period, we are enjoying the benefits brought by the Government's substantial tax increase, realization of assets, pay reduction and bond issuance the year before last. Meanwhile, certain huge essential expenditure is still pending. For instance, a loan amounting to \$25 billion has to be repaid starting from this July. At the same time, our civil service pension liabilities have accumulated to \$333 billion. All this financial pressure has failed to be reflected in the Budgets for the past two years.

The property market has undoubtedly turned for the better during the past two years, and the SAR Government has raked in more than \$30 billion through land sales. However, as I emphasized before, despite the past glory brought to Hong Kong people by land sales, Hong Kong people suffered badly as a result of the fiscal deficit when property prices went down. Furthermore, economists have warned earlier that housing supply in Hong Kong might exceed the demand in the next year or two. With a depressed property market, can we still pin high hopes on proceeds from land sales as non-recurrent revenue?

Actually, the crux of our structural fiscal deficit lies in our long-standing reliance on traditional taxes, such as salaries tax, income tax, profits tax, and so on. Not only are there too few tax types, the tax base is also much too narrow. In addition, land proceeds and stamp duty are affected by the ups and downs of the economy, thus rendering our revenue extremely unstable. To propose cutting tax before these fundamental problems have yet been resolved is tantamount to pushing the SAR Government again to the verge of a fiscal deficit crisis. In our opinion, a responsible person in power should not act in this manner.

Should there really be a surplus this year, the Government should, in allocating resources, first inject resources into helping the poor. As revealed by a study conducted by me in collaboration with several academics from The Chinese University of Hong Kong and Hong Kong Shue Yan College on the poverty situation in remote areas, 80% of the young people in remote areas preferred working in their own districts for a monthly salary of less than \$5,000, far lower than the median wage, because of exorbitant travelling expenses. This has greatly limited the chances of the young people to ameliorate their poverty situation through work. If resources permit, the Government should offer a travelling subsidy to these young people to help them work in urban areas.

During the past three years, the interests of a number of socially disadvantaged groups were scarified by the Government for the sake of eradicating the fiscal deficit. For instance, the spectacles allowance for students receiving Comprehensive Social Security Assistance (CSSA) has been reduced, the subsistence allowance for the disabled has been forced to cut down, and the CSSA payments for the elderly, the vulnerable, the disabled and children have been slashed owing to the fiscal deficit. If government finances permit, priority must be given to allocating resources to help these socially disadvantaged groups

out of the principle of social justice. Actually, we have all along opposed the Government's decision to slash welfare for the socially disadvantaged groups because of the fiscal deficit. Now that our finances have slightly improved, if we still ignore the people who have been sacrificed by indulging in sharing the success, our society will become sick.

The Article 45 Concern Group is going to look at today's motion from the angle of a person in power. Without sufficient supporting data and before the structural fiscal deficit problem is radically resolved and the socially disadvantaged groups and other key social services are given reasonable support, we cannot possibly agree with the motion proposed by the Democratic Party.

President, I so submit.

DR RAYMOND HO (in Cantonese): Madam President, this year, the Government continues to see improvement in its financial condition. Last year, economic growth was strong. Apart from generating better than expected revenue from salaries tax and profits tax, revenue from stamp duty also increased as a result of brisk activities in the investment market. Compared with last year, government revenue has greatly improved. The originally estimated fiscal deficit may disappear and there may even be a surplus, making it possible for the Government to accomplish its plan of eliminating the fiscal deficit earlier.

Having a surplus in the budget implies that government revenue exceeds expenditure. This also means that taxes collected from taxpayers are more than what the Government actually needs, and also more than the expenditure on essential services. Having fallen victim to economic downturn for several years, the people's livelihood has been dire. The Government should consider returning the extra salaries taxes collected to the taxpayers direct, or lowering the tax rate.

In my opinion, salaries tax should at least be restored to the 2002-03 level. As the economy of Hong Kong is growing steadily, the structural deficit problem can be resolved. The Government should reduce taxes so that people can benefit from the economic recovery. It can also expect the people to increase their desire to spend, thereby extending the effect of a tax reduction to every economic sector. Therefore, reducing tax can actually spur Hong Kong's economy, and government revenue will also stand to benefit.

Although Hong Kong's economy has now improved, the middle classes have not received big salary increases. Being the main pillar of society, the middle classes have all along been the bulk paying salaries tax while enjoying little welfare. A few years ago, a large number of middle-class professionals even had to suffer from carrying negative assets as a result of poor economic conditions and the serious fiscal deficit. However, in order to weather the hard times with the other members of society, they could but accept tax increases helplessly.

During the time of fiscal deficit, the middle-class professionals have paid a lot, with housing and education always being the major burden of the middle class. In the past, people with moderate income in fact faced many problems, including the drop in property prices, unemployment or a lack of job security and salary cuts, and so on, since 1997, while CEPA and the Individual Visit Scheme do not offer much help to them. Despite all this, they seldom accept assistance from the Government. However, when the fiscal deficit surfaced, the Government made an unfair request, asking them to share the responsibility of rescuing the Government and bear the heavy blow of salaries tax increases. Now that government revenue has increased, it should first come up with ways to ease their pressure, or it can give priority to considering relaxing some tax items for the middle class, for example, widening the tax band, lowering the progressive tax rate and raising the salaries tax deduction for home loan interest, and so on.

Several years ago when Mr Donald TSANG was the Financial Secretary, the salaries tax deduction for home loan interest was introduced. This was to be valid for five years, at an amount of \$100,000 each year. At that time, I pointed out that the tax deduction should run for at least 10 years and should be \$200,000 each year. Actually, in Britain, the entire amount of home loan interest is exempted from taxation. Therefore, when Financial Secretary Henry TANG announces his Budget for the new financial year next week, he has to continue to demonstrate prudence in financial management, and ensure stability in Hong Kong's finances. It is also necessary for him to properly appease the people, the middle class in particular, and introduce some suitable measures for tax reduction or concessions, so as to "return wealth to the people and share prosperity with them".

Although the prospect of Hong Kong's future economic development is optimistic, there will still be hidden worries. In his Budget this year, the

Financial Secretary has to aim at introducing measures which are both conducive to economic development and satisfactory to all parties. It is really difficult for him to do a perfect job. However, no matter what, the right direction should be to assure economic recovery, eye on long-term benefits, draw up a budget which will be balanced positively rather than negatively, promote Hong Kong's economic development, and maintain Hong Kong's economy which is gradually recovering. Reducing salaries tax appropriately can all the more enable the public to benefit from the economic recovery.

Madam President, I so submit. Thank you.

MR ALAN LEONG (in Cantonese): Madam President, at the meeting next week, the Financial Secretary will present to this Council the Budget for 2006-07. Last year, the Secretary tabled before this Council a seemingly good report card on public finances: \$12 billion surplus in the Government's consolidated account, plus a decrease in operational expenditure. The Government, businessmen and the public all looked forward to eliminating the fiscal deficit earlier.

Taking a comprehensive look at Hong Kong's social atmosphere in recent years, I have noticed a very strange phenomenon: Although there is always news about surges in the stock market, continued inflation and a drop in the unemployment rate, the livelihood of Hong Kong's vast majority of wage earners or the middle class has still seen no big improvement despite economic improvement. Compared with a few years ago, the working environment may have stabilized but there are still no obvious salary increases, and working hours have become longer instead of shorter. Even if they want to spend money to boost the economy, they can hardly do so in terms of finance, time and energy.

Madam President, I remember last June, this Council held a debate on a motion, which was also moved by Mr SIN Chung-kai, requesting the Government to allocate more investment income from the Exchange Fund to improve public finances. Just as what the majority of Members and me who had spoken on that day said, for this revenue of \$700-odd billion which could be used for investment to generate interest, the Government could devise a relatively conservative arrangement which would guarantee a stable return regardless of whether the environment is favourable or unfavourable. A study pointed out that such a strategy could generate a stable annual income of \$50

billion to \$60 billion. Even if only half of this is accounted to the Treasury, this income of \$20 billion to \$30 billion is already sufficient to provide a solid basis for public finances, without undermining in any way Hong Kong's monetary and financial stability in the meantime.

Madam President, I have raised an old issue but I am not digressing from the subject. Since the Government has all along refused to switch to this mode to generate income, Hong Kong's public finances have to stick to the abnormal mode of operating under a narrow tax base with huge expenses, whereby 300 000 people have to shoulder as much as 95% of the tax revenue. In the last few years, Hong Kong was left with no room to reduce taxes to spur the economy. On the contrary, taxes had to be increased to meet the increase in expenditure on welfare and social services resulting from adverse economic conditions. Now, taxpayers hope that taxes could be reduced and they be given a breathing spell, but the Government could not produce figures to tell us how it could maintain its responsibility towards the vulnerable and providing public services while reducing taxes.

Given the current social situation and the rough assessment of last year's economic environment, I am not optimistic about this year's public finances. In 2004, the expenditure on CSSA was drastically cut by \$300 million and last year, medical expenditure was also cut by \$900 million. Assuming that the Government is slightly better off financially this year, faced with an ongoing inflation, do we have a reason for not giving priority to improving the plight of the elderly and the underprivileged who are the most needy? However, next year, we will have \$1.5 billion less from estate duty. We cannot but doubt if drastic actions are taken on other taxes, the Government would not have room to restore social services to their proper level.

Madam President, the Government's \$12 billion surplus last year was in fact revenue from the issuance of \$20 billion worth of bonds, and the better than expected revenue of \$31.2 billion from land sales. Nevertheless, negative asset cases went up again last September — the first time in more than two years. This rising trend straddled two quarters until the end of December, with the number surpassing 11 000. For the whole of 2005, the number of completed private residential units plunged by more than 30% from the year before. This plunge has continued for three years and the vacancy rate has hovered around 6% all the way. Some experts pointed out that Hong Kong was experiencing "structural vacancy" in its private residential unit market. Therefore, I suspect

the Government's revenue from land sales in 2005 may not be as satisfactory as that in 2004.

If there is no handsome revenue from land sales, would public finances again record a sizable surplus this year? I am not optimistic. What is more worrying is that in face of a rather volatile property market, the Government still has no intention of discarding its mindset of clinging to the policy of high land prices. As a result, the revenue level for the Treasury still has to depend on the non-recurrent revenue from land sales. The public finance policy of the SAR is doomed to be inflexible in responding timely to the needs of all strata of society.

Madam President, the policy of high land prices which has been in place for many years has led Hong Kong's public finances and economic development to a wrong path, turning the annual budget debate into a wrestling venue for the grassroots and the middle class. Can we think of a way to halt this internal exhaustion in society? With a reserve of \$700 billion, why does Hong Kong have to plunge into such an unnecessary division? Madam President, I hope that in his Budget next week, apart from explaining to us how taxes and expenses will be handled, the Financial Secretary would all the more present to us measures for refining public finances, ensuring a stable recurrent revenue for the Government, and at the same time, storing wealth among the people.

Madam President, I so submit.

MR BERNARD CHAN: Madam President, this motion calls for lower taxes, and at the same time an adequate level of expenditure on public services. Both of these things are very desirable. But to some extent, they are not compatible. If public expenditure goes above a certain point, taxes must also go up. And if we cut taxes below a certain point, spending must also come down.

Personally, I would like to see all taxes abolished completely, and spending on health, welfare and education doubled or maybe trebled! But that is like saying it should be Christmas every day.

If the Government can afford it, I would certainly welcome cuts in salaries tax in the coming Budget. But we should bear in mind that our tax burden is already quite light. And I do not think we should exaggerate the impact a cut would have on the overall economy.

Nearly 60% of all salaries tax revenues are paid by just a hundred thousand people. If the Government cuts its salaries tax intake by 10%, those hundred thousand people would be better off by roughly \$17,000 each per year, on average. The other 1.1 million taxpayers would have an average of around \$1,500 each.

We cannot expect a major economic stimulus from that. When you put extra cash in some people's hands, they will spend it, and then other people will get it, and they will spend it, and so on. But this multiplier effect, as it is called, is quite weak in Hong Kong. Because we are such an open economy, the extra money spent on consumption goes on imports quite quickly.

So trimming that burden will obviously be nice for the people who pay a bit less tax. But it will not make a major difference to job creation.

If my friends in the Democratic Party and elsewhere want government action to stimulate the economy, they should not simply focus on fiscal measures. They should be looking at much broader areas, like the licensing and regulatory burdens on business, as well as things like immigration, competition and land policy.

Of course, these are very significant strategic issues, and they are much more complex than tax cuts. But that is where we are likely to find policy ideas to encourage serious, long-term job creation and wealth creation. Thank you.

MR LEUNG YIU-CHUNG (in Cantonese): President, the original motion of Mr SIN Chung-kai today involves three main points. First, he is convinced that the economy of Hong Kong has embarked on the road of continuous recovery, and that our financial conditions have thus improved. Second, he hopes that as our financial conditions improve, the grass-roots people can be provided with adequate services. Third, he also hopes that as our financial conditions improve, the salaries tax for the middle classes can be reduced to lighten their tax burden and pressure.

All these three points have received the unanimous support of Members belonging to different political parties. What is even more worth noting is Mr CHAN Kam-lam's proposal to replace "the improved government finances" by "the significantly improved government finances". This reflects many

Members' confidence that our financial conditions will certainly improve in the future and all is just a question of extent. As a result, everybody wants to fight for the well-being of the public. And, in order to balance the needs and interests of different social strata, Members also advocate that attention should be paid to both the grass-roots people and the middle classes. In spite of all this, however, the various amendments still differ in contents in some ways. For example, Miss TAM Heung-man says that she has some reservations. She points out that government finances many appear to be good, but there are still many latent problems, so there are indeed causes for concern. This explains why her amendment is a bit "faltering". Besides, the Article 45 Concern Group, which tends to look at things from the perspective of a ruling party, also thinks that one can be optimistic but must not be over-optimistic because the problems involved are not simple. It is of the view that the problems must be handled very cautiously and the middle classes and grass-roots people cannot possibly be accorded equal attention for the time being. Therefore, they advocate that the grass-roots people must be looked after first and resources must first be directed to the provision of indispensable social services. Its view coincides with that of Dr Fernando CHEUNG, who represents the grass-roots people. Dr CHEUNG also thinks that the needy must be given priority attention and other people can be looked after a bit later. If I were the Financial Secretary or the Secretary, after listening to Members' remarks, I would probably adopt a slapdash approach to answering the requests of Members and their political parties, doing a bit of everything. That way, no one will be unhappy.

However, President, is this a good approach? I think the answer is certainly no. By adopting a slapdash approach, doing a bit of everything, they may think that they can please everybody. When they do a bit of everything, however, those in need of more assistance may fail to get any help in the end. If a slapdash approach is adopted, whether people can really get any help is no longer so important because all will be meaningless and all resources will be wasted. Therefore, I do not think that it is a good idea for the Government to adopt a slapdash approach to the distribution of wealth.

In that case, the Financial Secretary and the Secretary may well wonder what the Government should do and how the whole issue can be handled properly. I have listened to the remarks of many Members, and I notice that despite their disagreement, they do have some sort of consensus. I think this is a more important point. Those in the Government should ensure that people in

dire need must receive the assistance they require. This is also the Government's avowed policy on many economic and welfare issues — those in need must be looked after first. I suppose this should be an approach to financial management and also an important approach to the distribution of health. If problems are not handled from the perspective of this approach, I am afraid that we may simply fail to achieve any effective distribution of wealth — though I dare not go so far as to say that public money will be wasted. I think the Government should handle this issue from such a perspective.

The first motion debate in the meeting today can already make us realize that this Council as a whole has in fact come to a consensus, that we must look after the poor. This consensus can deliver a very clear message to the Government. I am convinced that we must look after the poor and needy in society. This should be our primary concern. Whether or not we are in power, we must still insist on doing things from this perspective. Naturally, if more resources are available, we will be able to do things more thoroughly, look after every social sector and upgrade their quality of life.

President, the most significant premise of the first motion debate was that people must be enabled to live with dignity. This is the most significant issue. Our inability to live with dignity will signify the absence of any awareness of cultural progress in our society. When we say we should pursue social progress, we are in fact demanding much more than a fair and reasonable life for everybody; the most important thing is dignity. Nowadays, we can see that many poor families and people are living in very miserable conditions. How can they ever live with dignity in that case? Therefore, I hope that the Government can really follow the advice of Dr Fernando CHEUNG and give priority to social problems and looking after the vulnerable. If a patient does not have money to see a doctor, how can he live with dignity? Some people can only have very poor food to eat. Some are able to buy brisket with rice. It does not matter even if they cannot have a coffee or tea to go with their meals because they at least have brisket and rice. But some people can only have rice without anything to go with it. Should we help them buy something to go with their rice? Therefore, the problems related to health care, food, education and all the rest must be tackled first. Other higher-level problems can be tackled later. This is the only reasonable approach.

Ms LI Fung-ying says that any "uniform" approach is inadvisable, adding that some things must first be done before others. President, the allocation of

social resources must follow an order of priorities. We cannot afford not considering the priorities. President, I so submit.

MR LEE CHEUK-YAN (in Cantonese): Financial Secretary Henry TANG is called by people affectionately as "Tong Tong" and that means bonbon. It is a term of endearment, for "Tong Tong" sounds like the Cantonese pronunciation of his surname TANG. At times I think it is right to call Mr TANG Mr Bonbon, for what he says is indeed very sweet and he is surely a sweetie. Recently, in response to public demand that taxes should be reduced, he said that wealth should be stored among the people. This remark of storing wealth among the people together with his earlier remark of wishing the people that their heart's desires may all be fulfilled sound very sweet to the ear. But if the people can see clearly and think more carefully, they will find out that behind these sweet nothings there is gall and bitterness. It is because there is a sequel to the remark of storing wealth among the people.

The idea of storing wealth among the people is that the rich will get richer and the poor will get poorer. And that is exactly what is meant by misfortune will infest a man with no money. If it is said that wealth is stored among the people, it will be fine for those who are rich. The concept behind a budget should be the redistribution of resources and wealth in society. Irrespective of whether it is revenue or expenditure, every single cent will serve a purpose and that is to redistribute resources in society. For example, we know that the expenditure on welfare or health care would benefit more grass-roots people who are not as well-off. If we levy profits tax, we know that the amount of profits tax paid by the giant conglomerates would be more than others. So the entire mechanism about it is what items should be taxed and where should money be spent. This is actually what the process of wealth redistribution is all about.

Each year we will debate whether or not taxes should be cut and more money should be spent. As a matter of fact, what we are doing is to discuss how resources in society should be distributed. Now when the economy recovers, many people will say that taxes should be cut. But even as the economy has recovered, obviously the general public and the less well-off do not stand to benefit at all. We can see that as the economy picks up, the rents of many commercial premises have gone up and in the end it is again the giant conglomerates which will reap the profits. As prices rise, the poor people will become more miserable. Even as there is economic recovery, the supermarket

chain Park'n Shop still lays off staff for it is going to contract out some of its services. The contractors slash the wages of the workers by more than \$1,000, making those who have to pay tax free of the tax net. However, the profits made by the giant conglomerates may soar, but the tax rate applicable to them is still 16.5%.

Therefore, the first point which we in the Hong Kong Confederation of Trade Unions have all along been advocating is that the giant conglomerates should be taxed. They have drawn a lot of resources from society and made huge amounts of profits. Many people toil day in and day out to keep these conglomerates alive and well, making them earn a lot of money. They should therefore pay more taxes and to show their gratitude. However, the motion today has not included anything on a progressive profits tax in its scope. Despite this, we can see clearly that the most important thing in the redistribution of wealth is to enforce a progressive system of profits tax.

About the second point, with respect to levying taxes, what do we think of the issue of taxing the middle class? We need to make a comparison here and that is, the order of priorities. The amendment which we have drawn up after discussing with Dr Fernando CHEUNG has six points altogether. We hope the Government can do these six things first. Let me now talk briefly about these six points. Actually, all these points are about not piling misfortune on the penniless. If we take the analogy of sharing a mandarin orange or the fruit of prosperity cited by Mr WONG Kwok-hing earlier on, to whom should the fruit be given? In our opinion, this should be given to those who are most needy in society. What kinds of people are included? First, the chronically ill. Their medical bills should be waived. I have just got an e-mail and it is entitled "massacre of the middle class". The sender of this e-mail is a patients organization and the e-mail is mostly about the problem faced by the chronically ill. They say that now the Government does not provide some expensive drugs to them and some of these drugs may cost somewhere between \$10,000 and \$20,000. For the middle class, they will have to buy the drugs themselves. No one will lend them a helping hand. That is why they have put this title "massacre of the middle class" to their e-mail. If the health care expenses of the chronically ill can be waived, this is actually helping the middle class. This is true if they are on some very expensive medication.

Second, revert the amount of Comprehensive Social Security Assistance (CSSA) for the elderly, the disabled and children back to the level in 2003 when

it was slashed. In 2003, these allowances were slashed by a total of 11.1%. The poor people used to get some \$2,000 a month and now all of a sudden, they would be given some \$200 less than before. For these people, this sum of money would mean a lot. Will the Government revert the amount payable under these allowances to their former level? We have discussed the issue briefly with the Financial Secretary and as we know during the ongoing discussions, the Financial Secretary is not very keen on this.

Third, revert the disability allowance back to the level in 2003 before it was axed. With this slash in the disability allowance, a further \$200 or more is taken away. Last year the Government gave the disabled people \$100 and we do not really know why the Government was doing that. Recently, the disability allowance for stoma patient was taken away.

Fourth, all fees and charges related to the people's livelihood, including health care and education fees and charges, should be frozen.

Fifth, more financial commitment should be made to health care services, education and social welfare. There are times that the middle class will want the Government to improve education and to implement small-class teaching, but the Government is unwilling to make any financial commitment. In the end, it is the middle class again which will suffer. So it can be said that if the Government reduces taxes and hands out some candies to the people but it will not implement small-class teaching, then there would be more losses than gains for the people.

Sixth, increase financial commitment to the cultural and leisure facilities in new towns. In many new towns such as Tin Shui Wai, there are no community facilities at all. The Government should put in more resources.

In our opinion, these six items mentioned above should be put into practice before the salaries tax can be reduced. It should be in that order. Many political parties say today that they want a tax cut from the Government no matter what, but personally I think the public should listen to these views carefully. These political parties are in fact very self-contradictory. Whenever there are calls for poverty alleviation, they will urge the Government to alleviate poverty. Whenever there are calls for the elimination of deficits, they will urge the Government to eliminate deficits. Whenever people say do not cut back on public expenditure, then they will urge the Government not to cut

back on public expenditure. Whenever people want to reduce taxes, they will urge the Government to reduce taxes. I do not really know what they are after.

However, our position is clear as crystal and that is, do these six items first, offer assistance to the poorest of the poor, then be lenient to the middle class. If the Government will not offer assistance to the poorest of the poor and will only approach the middle class, or if it is doing some minimal things as Mr LEUNG Yiu-chung has said, then it is totally meaningless. I do not wish to see at the end of the day that some political parties will come out and say that they have been successful in pressing for a tax reduction but they will never utter a word about CSSA for the elderly anymore. I hope these parties will never be so hypocritical.

MR LI KWOK-YING (in Cantonese): Madam President, recently, most economists and accountancy bodies have, in light of the current trend of the economic conditions, predicted with optimism that the fiscal deficit is likely to be eliminated. Furthermore, the Government will, judging from its financial position, have the means to hand out candies to the people to enable them to share the fruit of economic recovery.

However, despite the economic revival, inflation has loomed unnoticeably, thus exerting a certain degree of pressure on various strata of society. An increase in any of the public charges, such as water, electricity and town gas, will more than offset the benefit brought to wage earners by the economic revival. The impact on the middle classes is even greater because they can be considered the principal taxpayers, or the sandwich class, in society. They have often complained of paying the most tax while enjoying the least benefit. They cannot even compare to low-income earners, who can seek protection from the social safety net when they need financial assistance. With respect to these grievances, the Government may ease the dissatisfaction of the middle class with practical actions.

The middle classes are indeed under tremendous pressure. Home mortgage payment alone has already imposed a heavy financial burden on them. In recent years, there has been a falling trend in the number of negative assets holders. However, under the influence of external economic factors and the continuous interest rate hikes by banks, not only has the mortgage burden on the middle class aggravated, property prices have even fallen and, as a result, some middle-class people have been forced to join the line of negative assets holders.

According to the statistics provided by the Hong Kong Monetary Authority, the number of negative equity cases related to properties has rebounded. Since a gradual decline in 2003, the number of cases started to rise to 9 000 in the third quarter last year, and up 20% to more than 10 000 in the fourth quarter. A property consultant has even pointed out that most of the new negative assets holders are young property owners with limited financial means.

Actually, the increase in the number of negative assets holders is not conducive to the recovery of local economy. At present, various trades and industries, especially the services and financial sectors, are benefited by the economic recovery. If the number of negative assets holders continues to rise, the pace of economic revival may indeed be slowed down. As pointed out by Associate Professor Raymond SO of the Department of Finance of The Chinese University of Hong Kong, the rise in the number of negative assets cases related to properties will produce a negative impact on the wealth of society and undermine the spending desire of these property owners, thereby producing a negative impact on the entire consumer market.

For the purpose of relieving the pressure on the lower and middle strata in making property mortgage repayments and maintaining local economic growth, the Government may consider tax concessions, including extending the entitlement period of home loan interest deduction and raising the amount of deduction. Further still, the Government may reduce the property stamp duty, particularly for properties of lower value, in order to help the marginal home buyers with limited financial means.

The burden is even bigger for the middle-class people whose children are studying overseas, particularly those parents who have sent their children to international schools or overseas for education. Even for those parents whose children are studying locally, their burden is not light as some subvented primary and secondary schools have in recent years converted into Direct Subsidy Scheme schools. The tuition fees charged by these schools, ranging from thousands of dollars to tens of thousands of dollars, have further aggravated the burden on parents. The Government has always hoped to attract international talents to work in Hong Kong. The parents' voluntary act of sending their children abroad for studies is precisely helping the Government to nurture local talents with international vision. In order to appreciate the painstaking efforts of the parents and upgrade the quality of local human resources, it is absolutely wise of the Government to increase the allowances for children.

In addition to working hard to support their families, the middle-class people have to pay substantial medical expenses for themselves. As the fiscal deficit of the Hospital Authority is still standing high, broadening sources of income and reducing expenditure have become the major direction of the Government in reforming public health care. The Government has repeatedly expressed its hope for patients who have the means to switch to the private health care sector and encourage the public to take out medical insurance. However, statistics have shown that only 100 000 or so middle-class people, considered a low ratio, have taken out relatively comprehensive medical insurance. Comprehensive medical insurance here refers to medical protection relating to hospitalization, out-patient consultation service, surgery, administration of anaesthetic, and even health checks, with the premiums ranging from thousands of dollars to tens of thousands of dollars.

In order to induce those who have the means to take out medical insurance and, more importantly, alter their attitude and habit of relying on public health care services, thereby averting the imbalance between the public and private health care sectors, the Government may consider granting allowances for premium contribution as an incentive for the middle class to take out medical insurance. Of course, tax deduction is only a financial proposal aimed at encouraging the middle classes to change their consultation habit. The Government and the relevant private organizations must make complementary arrangements in order that the public will assume responsibility for their own health and take the initiative to take out medical insurance. These arrangements include providing comprehensive medical insurance protection, upgrading the standard of the private health care market, repositioning public health care, and so on. However, these problems cannot be resolved instantly. The lack of critical illness protection still remains the crux of the middle class's reliance on public health care. For these reasons, in the short term and where circumstances permit, the proposal of tax deduction should, to a certain extent, stimulate the public to take out medical insurance.

Here, I hope the Government can take this ideal opportunity of economic revival to appreciate the plight of the middle class while taking care of the lower stratum and, where circumstances permit, offer targeted tax concessions to answer the aspirations of the middle class.

Madam President, I so submit.

MR LAU WONG-FAT (in Cantonese): Madam President, in a Chinese New Year get-together held by the New Territories Heung Yee Kuk on the seventh day of this Lunar New Year, I told the Financial Secretary something to the liking of many too. I told the Secretary that, judging from the smile he had been wearing all the time lately, eradicating the deficit and reducing the taxes should be possible. I made this comment not merely by examining his facial expression. It was rather because I believed in sharing happiness and suffering together.

I believe Members still have a fresh memory of the hard times not long ago. Being hit by natural disasters, man-induced misfortunes and the economic slump, Hong Kong people joined hands with the Government to tide over difficulties. The pressure felt by taxpayers was particularly heavy. The tight-fisted middle class had to brace themselves for future hardships in bearing the additional burden brought as a result of the increase in salaries tax. The suffering brought by the extra burden is indeed indescribable. This was what sacrificing oneself for the common good means.

Now with the attention and care of the Central Authorities and the perseverance of the whole community and the SAR Government, Hong Kong economy has seen a strong rebound and things are taking a new turn for the better. The increase in tax revenue brings hope for elimination of the fiscal deficit. Under such circumstances, it is utterly fair and perfectly natural for the Government to share the joy with the people by returning wealth to them. On the contrary, if the Government acts evasively, beats the bush or refuses to reduce taxes with this and that excuse, it is tantamount to taking advantage of the people or failing to carry out its duty. A "people-based", committed government should definitely not act in this manner.

For these reasons, I agree with all of the tax reduction proposals raised by Members of this Council. The Government must at least revert the current standard tax rate from 16% to 15%, the rate prior to its increase, extend the tax relief for mortgage interest, and lower the rates percentage charge. If only we reflect on all the efforts made by Hong Kong people in tiding over the difficulties and sharing the suffering, we will find the above requests, as I said earlier, simply fair and natural. Actually, I consider it absolutely not excessive and reasonable even if the Government is requested to return to taxpayers the overcharged tax payments subsequent to the previous increase in the salaries tax rates.

Madam President, with the improving economy, the government revenue has increased substantially. Meanwhile, the public have not seen a real growth in their wages. On the contrary, a series of decisions by banks to raise interest rates have inevitably aggravated the burden on mortgagors. This will very probably give rise to the following situation: Even with tax reduction, the tax thus saved can still not offset the considerable expenses incurred as a result of the interest rate increases. Should that happen, people supposed to share the happiness will have no luck to enjoy. They can only share the happiness as long as the Government reduces taxes to ease their hardship.

In any case, Madam President, the Budget to be published next week is going to be a major test of the Government's ability to achieve "people-based governance". All the people of Hong Kong are pinning high hopes on it.

With these remarks, Madam President, I support the motion.

MR ALBERT CHAN (in Cantonese): President, many Members have spoken on the issue of should tax be reduced or should the disadvantaged be helped. After this battle of words, I have a very strong feeling and the situation can be likened to this analogy: Two poor brothers by sheer chance see a cake freshly baked from the oven and in order to get this cake, they fight hard for it. Actually, there are lots of cakes in the kitchen. But as our Government has hidden all the cakes and there is only one left, it is not enough for everyone. This is the cause for the change in fiscal policies over the past eight years with the result being the poor in Hong Kong would only get poorer. Even the middle-class people would have to bear greater responsibilities. Now that the economy is getting somewhat better, so should taxes be cut first or should the disadvantaged be helped first? Members of this Council have a lot of disputes over this and the culprit is actually the fiscal policies of the Government which are far from being fair.

Why is there such unfairness? Why is it that despite the huge reserves in the Government and the billion dollars and even tens of billion dollars made by the consortia, our disadvantaged groups and some of the middle-class people are still paying such an unfair proportion of taxes? This is because the Government has turned a blind eye to the inequalities in society. Fiscal policies and taxation policies are basic concepts in the distribution and redistribution of social

resources. They are also the ABCs of finance. They determine how resources are to be allocated, who will benefit, who may pay more or contribute more. What a government will do is to amass all the financial gains then decide what can be done through its expenditure to give humane treatment to the needy in society. But this does not mean that they should be given a deluxe treatment.

President, in principle I oppose the "across-the-board" tax reduction proposal put forward by many political parties and people. Actually, there are many ways of cutting tax. For example, tax concessions can be offered to certain groups in society with special needs such as when the seven-year entitlement period for home loan interest deduction for owners of negative equity assets was about to expire, we wrote to the Financial Secretary to ask him to extend this tax concession measure for three more years. This would be of definite help to the middle class, especially to those owners of negative equity assets.

If a sweeping approach to tax reduction is used, some people may not care a bit at all for a few thousand dollars of tax savings resulted. They may of course be quite happy to have a few thousand dollars more in their pocket and they may, for example, change their plans of playing golf in Clear Water Bay in Hong Kong and fly over to a golf course in Thailand. Despite this improvement in their living standard, the Hong Kong economy may not stand to benefit. If tax concessions will result in a decline in overall revenue, government expenditure may come under pressure again.

As we look back over the eight years past, who were the people who had suffered most of all? At this time when a ray of dawn shines over the deficits problem faced by the Government, what should be done with this so-called surplus or lessened pressure in financial terms so that the socially disadvantaged or those who have suffered during these eight years past will benefit?

In this connection, two groups of people are involved. One is those affected by the drastic cut in the amounts payable to them or in the public works as a result of the fiscal deficits. The item that has seen the greatest cut is Comprehensive Social Security Assistance (CSSA), by a margin of 11%. Those who used to get some \$1,400 to \$1,500 might get some vegetables and salted fish in their meals. But now after this 11% cut, they will have no more money for these. Just imagine this, will some \$1,400 a month be enough as living expenses? May I ask those from the middle class whether or not it would

be too much for a CSSA recipient to get this 11% back? Or would they rather get some \$4,000 to \$5,000 in tax rebate each month? Some Honourable colleagues have talked about the disabled and that the government allowance for them has also been greatly slashed. With respect to these disadvantaged groups, the Government has the obligation to care for them first.

In addition, people in the new towns are affected by this drastic cut in cultural, leisure and sports facilities as a result of deficits in the Government. Before the scrapping of the two Municipal Councils, during the period from 1996 to 2000, the public works programmes of the two Municipal Councils would have an average expenditure of \$1.68 billion per year. Since 2000, owing to the deficits problem, the Government made a sharp cut on expenditure to \$680 million a year. A sum of as much as \$1 billion was axed. This was because of the deficits problem and so expenditure was cut by more than 60%.

Works for the municipal library in Tin Shui Wai should have been commenced in 2001, but it is put off until 2009 before it can commence for completion in 2011. So these works projects are all delayed because of the deficits problem. The situation is not just confined to Tin Shui Wai, it is also the same in Tung Chung and Tseung Kwan O where a lot of public works projects, cultural and leisure facilities like sports grounds, libraries and swimming pools are slashed sharply. These figures came from the Government and they were given during a meeting of the Panel on Home Affairs in response to a question I asked. The Government should do justice to the people of Hong Kong and with respect to these works projects, the annual expenditure by the Government should be \$1.68 billion. This was an average worked out during the period from 1996 to 2000. Such a commitment of \$1.68 billion in construction expenditure from the Government should be maintained in order to do justice to the residents of new towns.

Some people in the middle class want a tax rebate and some people from certain political parties put forward the idea that there should be a tax rebate. But is a tax rebate more important than giving the residents of new towns the public works projects that they deserve? Why then can libraries not be built sooner? Why can sports grounds not be built sooner? Why can indoor swimming pools and other community facilities not be built sooner? When dealing with these problems, we must have a clear order of priorities and we must know what the needs of the people are. We must stop shouting empty slogans, for slogans can be very misleading.

It follows that if these two poor brothers are still quarrelling, then it would be most tragic. In such an affluent society like ours, it is amazing to see that the Government can stand aloof and watch these two brothers fighting so hard while the conglomerates keep on reaping exorbitant profits. Such an anomaly is really disgusting and most pathetic. I hope Members will see who their friends and foes are, and where the conflicts lie. As Mr James TIEN says, we should see who our friends and foes are. We must do our best to fight for the rights and benefits of the ordinary people. Thank you, President.

MS MIRIAM LAU (in Cantonese): Madam President, the middle-class people have had a very rough time during the past few years. This is because in the wake of the financial turmoil and SARS, for many years Hong Kong was caught in economic doldrums and there were 68 months of persistent deflation. On top of these, waves after waves were pounding on the middle class in the forms of negative equity assets, bankruptcy cases, salary cuts and layoffs. Many people from the middle class were not spared and they became even the hardest-hit group in society. There was a great drop in not just personal income but also public revenue. However, though it is easy for welfare and public services expenditure to go up, it is difficult for them to go down. Hence, the Government has been deep in the red for years.

In order that fiscal balance can be restored, the Government has since 2003 increased salaries tax on two occasions. This added to the heavy burden borne by people in the middle class. Government taxation policy adheres to the principle of "those who have means pay more". But over the years, how many people in the middle class could still say that they have means? This when coupled with the re-emergence of inflation these days, the pressure exerted on the middle class is growing greater than ever. If this goes on and if the Government still refuses to cut taxes, I am afraid the Government is not just treating those from the middle class as capable persons but supermen. Even if they were supermen, if they are asked to stay awake day in and day out, fighting and pressurized, always be asked to go an extra step, they will collapse in the end. So it is really the right time we gave these supermen a break.

All sorts of figures show that as there is continuous economic recovery, government finances have improved greatly. There is even hope for an early elimination of deficits. The Government should therefore do something at once

to relieve the burden borne by the middle class. At least it should revert the salaries tax rate to the pre-increase level in 2002-03. This can really give a break to the middle-class people so that they can recuperate. In my opinion, the Government should ease the burden of the middle-class people in the two areas causing a lot of trouble to them, namely, in repayment of home loans and raising their children.

Buying a flat is the most important investment in the life of the middle-class people and repaying the mortgage loan is one of the major items of expenditure for them. Although two years ago the Government extended the eligibility period for home loan interest deduction from five years to seven years, it is not enough. This is especially the case when the cycle for interest rate hikes has set in. Over the past one and a half years, banks in Hong Kong have increased their interest rates 13 times and as a result, the actual interest rate for mortgage loans has risen from the original 2.75% to 5.75%. Interest expenditure on mortgage loans has more than doubled. This has upset the plans and family budget of many flat owners. Therefore, we strongly urge the Government to extend the eligibility period for home loan interest deduction from the present seven years to an indefinite period until the loan is fully paid up.

In addition, I would like to talk about the issue of child allowance. Last year, the Financial Secretary in a bid to encourage the people to raise more children increased the child allowance to \$40,000. It was meant to dovetail with the demographic policy of the Government. At that time, the Chief Secretary for Administration, that is, the present Chief Executive, even made a public appeal that each couple should raise three children. Unfortunately, the fact is that the result has not been so marked and Hong Kong remains to be one of the places in the world with the lowest birth rate.

Regardless of whether or not the policy to encourage childbirth by offering a financial incentive is successful or not, as a general rule, the middle-class people attach great importance to the education of their children. In recent years, many people have lost their confidence in local education policies and many middle-class people have sent their children to local international schools, direct subsidy scheme schools or even overseas. The school fees are naturally very expensive. Therefore, there are calls in recent years for the introduction of a child education allowance. However, the Liberal Party thinks that instead of exerting so much effort on introducing a new allowance, it would be much better

if the child allowance can be raised. The existing child allowance of \$40,000 for each child should be raised so that the middle-class people can have more resources at their disposal freely and they can put in more efforts to raise their children.

On easing the pressure of the middle class, I cannot help but mention the proposal made by the Liberal Party to lower the rate at which government rates are charged by 0.5% to 4.5%. I would like to stress that reducing the government rates will by no means spell less revenue for the Government. At most it will mean a lower rate of increase. But as the rental market is booming and rentals for residential flats have gone up by 12.6% on average over the past year, and rentals for commercial premises have surged remarkably by 40%, if the Government does not change the present rate of government rates charge by 5% of the assessed rental value, this is like increasing the government rates. No one will be convinced when the tax burden of the people is still to be increased while government revenue has turned for the better.

Actually, the demand by the middle class is not excessive at all. Their demand is that they be given a break while they are under all sorts of pressure. In view of the above reasons, I urge the Government to take immediate actions to relieve the tax burden of the middle class.

Madam President, I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR LEUNG KWOK-HUNG (in Cantonese): On this motion debate today, many of my middle-class friends called me and said that they thought that taxes should be reduced. However, many of my friends also said that it would not matter very much if taxes were not reduced, but those who made the most money must pay more. So there are two views on this issue already.

Of course, those who want to have a tax reduction are those from the lower-middle class, that is, those making \$20,000 or so a month. They all say that they are so hard-pressed by life that they are dying. But some of those who are rich say that there is no need to reduce the taxes. They think that things are

so unfair in Hong Kong and someone should suggest using a progressive tax regime to ensure a more even distribution of wealth. So just from the telephone calls I have received, it can be seen that the middle class is really split into two groups. One group of people are those who in this so-called economic recovery have more or less restored their previous money-making power. They are not so excited about the possibility of having a small amount of their tax payable reduced. They hope that they will have more chances to make a good fortune. If they can make a fortune, it would not matter if they have to pay more tax. However, those belonging to the lower stratum of the middle class do not have any opportunity to make a fortune at all. They would say that they cannot get rich anyway and they may even lose their jobs all of a sudden in three months' time. So it would be better if they can save up more money. Therefore, if we talk about helping out the middle-class people, first of all, we must identify what is meant by the middle class and who in fact belong to the middle class.

I think that those at the lower stratum of the middle class should be helped. This is because some of these people are really close to reaching the breaking point. I know a man and he makes \$150,000 a month. But he says that he cannot make ends meet. As Ms Miriam LAU says, this man has sent all his kids to the international school and each month he pays some \$80,000 to \$90,000 for his home loan. When he is spending money like this, no wonder he cannot make ends meet. But why should we help out people like him? So I said to him, "You do not have to put up any demands, all you should do is to spend less. Why do you not sell your flat at once?"

This is an honest-to-goodness true story. Therefore, if the middle class is to be given some relief, the first thing is that the price of flats and rentals should not stay at such a high level. In this way, the people of Hong Kong will not be forced to pay an invisible tax. According to the figures cited by Ms Miriam LAU, rentals for commercial premises have gone up by 40% while those for private residential buildings by 12.6%. All fees and charges have increased consequently. This gives LI Ka-shing a golden opportunity to scalp and Stanley HO to fleece. As HO says, these tycoons are so fat that they cannot even put their socks on. And their blood vessels are about to rupture. The blood vessels are clogged with the fat from their lucrative income gained from these fee hikes. All the money is the invisible tax paid by the people of Hong Kong. For the home buyers, the first sum of money they pay is the so-called down payment and that deprives them of a significant amount of cash. Then in the

repayment of the home loan, the banks will raise the interest rates. Recently, 3% has been increased. Shall we help out those who have to repay home loans? If only we would give them some help, those bankers will say, "Why do we not raise the interest rate by another 3%? These people are not yet dead and they are still alive and well." Such things happen year after year. It was the same back in 1998. I once wrote an article and said these people should not be helped out. For if they were just given some help, the interest rates and the rentals will rocket and they would still suffer all the same. So I phoned my lower-middle class constituents and told them that they must not hope to get any help. Nothing can help. It is because other people are chasing after them. They are being hunted as game animals. What kind of a government is this?

The most important problems that Hong Kong is facing now are that of economic restructuring and poverty. Mr Henry TANG, the Financial Secretary, is not here today. The tax regime of Hong Kong is so unreasonable. When LI Ka-shing makes so much money, all he has to pay is 15% of his profits as tax. Will this work? A progressive profits tax and an asset appreciation tax can make an omnipotent person like LI Ka-shing pay a tax that commensurate with his almighty money-making power. I do not think I would ask him to pay like this. It would be much better if he can only pay a bit more.

When the Democratic Party proposes that tax be reduced, I know that it is under the pressure from the lower-middle class. But I can tell you, they cannot be helped. This is because you cannot control the Government. When taxes are reduced a little bit, it would make a drastic increase in other areas. As the saying goes, it is like giving you some candy but takes your life away. This is what the monopolistic capitalists all over the world will do. They will look at the average profits and the affordability of the mortgage payers. In Britain, home loans are made out in this way. They will work out the amount of income of the mortgagor, how much he can pay and a loan of a certain tenure would be made out to him. Everything can be worked out. So if all those harsh and exorbitant contributions and taxes which Hong Kong people have to pay are not taken away, that is, if those invisible and colossal profits, plus those taxes paid to the developers are not removed, or if the developers are not asked to hand them out, there is no way Hong Kong people can be saved.

The scale and scope of this rent seeking game is terribly immense. It is manifested in the property and financial stocks. Together with the bankers,

they form the formidable triangle, or three mountains that tower above us and crush on us. Those being crushed include Members sitting here, like Mr LEE Wing-tat and Mr SIN Chung-kai. Do they not have to repay their home loans? Members, this is where the problem lies. If taxes for the lower-middle class can be reduced, well, it would be fine. And such a reduction can be set at a certain level, that is, at a certain level of money. However, the most important thing is to increase tax revenue. Taxes must be increased on those who, over the eight years past, made us bust and they themselves boom — those monopolistic capitalists and the giant consortia.

I hope friends from the Democratic Party will not just want to reduce the taxes, for what they get is just a miserable tiny fraction and it would not help things very much. What we have saved so hard for so long would not be enough to buy one gulp of what they drink. If friends from the Democratic Party talk nothing about levying an asset appreciation tax or a progressive profits tax and a progressive salaries tax, then no one will be convinced. And the Democratic Party also wants the Government to increase expenditure too. It is only today that I asked Financial Secretary Henry TANG about this, but he was ducking the issue. I asked him whether or not there should be more expenditure from the Government. But after talking for such a long time, he gave me no definite answer. He knew to ask questions in return. He asked me what should be done if expenditure were to be increased while taxes were to be cut. My answer was very clear: To narrow this gap between the rich and the poor, then the money which should have been used as tax rebate — that is, the sum of money that many beneficiaries will not care a dime — should be used to introduce reforms in the most pressing areas in Hong Kong, like in training the young people, improving education and completing all other things that need to be done. This is something we must do.

A democratic political system when practised in a society which cherishes the people and upholds justice is social democracy. I hope friends from the Democratic Party can think of this. I think that instead of getting a negligible tax reduction, it would be much better to launch a dynastic reform. The cap of this progressive tax should be set at 25% — I do not want to set it so high for fear that people may say, a high tax rate will scare people away. Thank you.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR LEE WING-TAT (in Cantonese): President, I have been listening very attentively to friends from the democratic camp speaking on this motion on reducing salaries tax.

We are saying that the economy is getting better, but actually this refers to those top *zaibatsu* or conglomerates, or those with an extremely high income, with an annual salary of more than \$1 million. They may be the ones who benefit most. As for the middle class which we often talk about, if we define people in that class as those taxpayers who do not have to pay tax at the standard rate, then they do not really benefit that much with such a change. I agree with what many friends from the democratic camp who say that the grassroots do not benefit so much from it. But the question is: What should we do about this?

Some of the views put forward by Mr LEUNG Kwok-hung just now have actually been mentioned by the Democratic Party in the recommendations. We suggest that a progressive tax rate be applied to those giant conglomerates which make huge profits. We do not agree that the salaries tax payable by those with an extremely high salary should be reduced. Our tax reduction proposal is targeting at those who are in the tax net but not yet required to pay tax at the standard rate. Both Mr Albert CHAN and "Long Hair" have talked about the problem of unfairness in the tax regime of Hong Kong. However, it is unfortunate that this point is not mentioned in Dr Fernando CHEUNG's amendment.

The tax regime in Hong Kong is actually not one which requires those who have means to pay more. An ordinary employee with an annual salary of \$90,000 to \$100,000 will pay tax at a rate which is quite similar to Mr FOK, the general manager of the Hutchison Whampoa Group who has an annual salary of some tens of million dollars and gets a bonus of more than \$100 million a year. Actually, many of the blue chip listed companies will pay tax at a similar rate to this. Many of these listed companies, as they have some lawful tax evasion methods or arrangements, so they may pay tax at a rate lower than that of even a civil servant who makes some \$90,000 a month. So I think many Members from the democratic camp have not hit the crux of the problem when they spoke today.

I agree with what Mr LEUNG Kwok-hung and Mr Albert CHAN said when they mentioned in their speeches that the existing tax regime in Hong Kong

is being too accommodating to the richest people. The maximum tax rate for them is 16.5% or 17% and this is in fact the lowest in the world. On this point, the Government may say that if the tax rate is increased by too great an extent, then these people will no longer stay in Hong Kong and invest. But this argument cannot actually stand at all. For apart from this 16.5% tax rate, there are still a lot of attractions in Hong Kong, for example, the freedom of communications, a good foundation of the rule of law and a level playing field, and so on. These are the edges of Hong Kong.

The Democratic Party agrees with the idea that a progressive tax rate be applied to the giant conglomerates. I would like to remind Dr Fernando CHEUNG that when the profits tax is increased by 1%, our tax revenue will increase by \$1.2 billion to \$1.5 billion a year; and when it is increased by 2%, our tax revenue will increase by \$3 billion. I therefore fail to see why friends from the democratic camp, in their discussions on primary services and tax rate for the middle class, have to make the two mutually exclusive. A while ago "Long Hair" in his speech talked about the lower-middle class, that is, those making some \$20,000 to \$40,000 a month. They have to pay tax at a very high rate. I agree to this point completely. Even for those middle-class people earning some \$50,000 to \$60,000 a month, their tax burden is by no means light at all.

However, we must remember that if social services are to be increased, the people who will stand to benefit the soonest are certainly the grassroots. Regardless of whether public housing units are built, welfare benefits are increased, waiving of health care fees and investment in education, and so on, it is the grassroots who will benefit. For these improvements, the middle-class people may be able to enjoy some of them, but it is very likely that only when their tax burden is eased that they can breathe a sigh of relief. So the greatest impression I get today is that I do not quite understand why friends from the democratic camp will want to make increase in services and a slight reduction in the salaries tax for the middle class two mutually exclusive things. Why do we not talk about whether or not the tax regime in Hong Kong is fair? Why do the richest people pay tax at such a low rate? Why are those people in the property development business paying such a small amount of tax?

In foreign countries, those owning properties which are not for self-occupation will be required to pay an asset appreciation tax. I know that

this will touch on the nerves of many people whenever mention is made of this topic. In my opinion, no tax should be levied on property used for the owner's residence, but if it is used for investment purposes, then what should be done about it? Of course, we do not have any position on it yet, but in Hong Kong, this is a topic people rarely talk about and once mention is made of it, the developers will say that this would impact on the property market.

Therefore, I have to reiterate the position of the Democratic Party. This motion is not meant to exploit the grass-roots people in any way, for we also agree to the six items raised by Dr Fernando CHEUNG in his amendment. However, if it is said that these six items must be completed before any tax reduction can proceed, then the lower-middle class will ask, "Why can tax not be reduced before these six items are done?" So I hope friends from the democratic camp will not do anything to pitch the middle class against the grassroots. I also think that they are exploited by the top developers and few great *zaibatsu* in Hong Kong. But I do not think we should unconsciously put the two groups of people into a situation of confrontation.

Certainly, the question is: Will no improvement in services be possible when the salaries tax payable by the middle class is reduced? This may not be the case. For over the past few years, many primary services have been slashed and I agree that these should be reinstated, but we do think that when the salaries tax for the middle class is reduced slightly, it will mean that there is no room to improve services for the grassroots by any significant extent.

It follows, President, that in my opinion, the tax regime in Hong Kong is not fair. The problem lies not in the call from the middle class that taxes should be reduced but in that the commitment of the richest people and the few *zaibatsu* is too light. In addition, we must not make the proposals of reducing the salaries tax of the middle class and improving services for the grass-roots people as two mutually exclusive things.

Thank you, President.

MISS CHAN YUEN-HAN (in Cantonese): Over the past few years, the Government has made the elimination of deficits its objective, and in the 2003-04 Budget, it was proposed that the personal allowances, marginal tax bands and

marginal tax rates under salaries tax be reverted to their levels before the concessions made in 1998-99 and the basic personal allowances were also reduced. At that time, both the public and Members of this Council accepted this proposal, albeit reluctantly. This was because there were huge fiscal deficits at that time and we should ride out the storm together with the Government.

Now after our hard work and given the economy has fully recovered, forecasts from all quarters are that there would be substantial surpluses in the Government in the financial year of 2005-06. There are even possibilities that the deficits would be eliminated earlier than expected, that is, from the original target date of 2007-08 to this year, or three years earlier.

Madam President, since the adjustment made in the allowances under salaries tax in 2003-04, many people have fallen into the tax net. Now the basic personal allowance is \$100,000 and that means people earning some \$8,000 monthly will have to pay tax. But for those who have 13 months' pay a year, they will have to pay tax when they earn a monthly salary of some \$7,000. If these people have to support a family of three persons, their disposal income may even be less than those who are on Comprehensive Social Security Assistance (CSSA), as a family of three can get some \$8,000 in CSSA. So for those earning a meagre monthly income, it would be an added burden to them if they are required to pay tax.

Now as the tax bands and marginal tax rates have been raised, many people have to tighten their belts and economize on expenses. Even as the economy has improved during the past year and that the bosses have increased the salary of the employees somewhat, the extra bucks in the employees' pockets are so negligible that they would not be sufficient to pay the tax. Recently, some friends told me that they could not make ends meet. How could they? Ever since the economy has improved, prices have gone up and there are increases in living expenses on such items as clothing, food, accommodation and transport. So people are not having a good time as we may think.

In this so-called economic recovery, it is doubtful if members of the public have benefited. As Mr WONG Kwok-hing has said in the other motion on combating poverty today, he and some of us met many members of the public on the third day of the Chinese New Year, but he could not feel that economic

conditions in Hong Kong were that good, nor was he aware of any increase in salary or any other changes. For the grass-roots people, they have not yet benefited from the economic recovery and they still have to bear a heavy burden in living. That is why the Hong Kong Federation of Trade Unions (FTU) suggests that the personal allowances, tax bands and marginal tax rates be reverted to the 2002-03 level in a bid to really return wealth to the people.

Miss TAM Heung-man may not think that this is a big deal, but for those earning a meagre salary, if they can save a few thousand dollars a year, it would be a significant sum of money to them. Given the opportunity, I think I would let Miss TAM look at the figures for that year and I hope Members can see that point clearly.

Besides, I would like to say that some people may think that reducing the taxes will benefit the middle class. But in fact this is not the case. After looking at the complete set of figures, we will find that reducing the taxes will not only benefit the middle class but also the grassroots as well. Actually, we also support the amendment proposed by Dr Fernando CHEUNG which the Democratic Party has talked about earlier. However, we wish to make it clear that there is no contradiction between the two for I think the Government should offer help to both the middle class and the grassroots in the Budget this year.

Madam President, often times we say that increasing the taxes will not just affect the grassroots, it would create a greater impact on the middle class. Now the market is recovering and some people may spend more, but there are still a lot of hidden worries for them. We may be very happy when we hear about the five-day week system, but for those who do not earn a high salary, like those civil servants at the lower ranks, they may not share our view that practising a five-day week system will encourage consumption. That is not necessarily the case. I agree with the analysis made by some media that for those employees not earning a high salary, they would be very grateful if they can be given an extra day of rest. This is because they are badly in need of rest. But that does not mean that a five-day week system will necessarily boost consumption. So in general, I think that the Government should face squarely the conditions of the grassroots and the middle class.

Madam President, according to our estimates, if the tax bands and marginal tax rates are reverted to their 2002-03 levels, those earning \$100,000 to

\$200,000 a year may on average pay some \$700 less in tax. For those earning between \$300,000 and \$400,000 a year, they may pay about \$5,000 less in tax. We should not think that a few hundred dollars or a thousand dollars is a small sum, for the people, the money is very important.

Apart from calling for a downward adjustment of the salaries tax to the 2002-03 level, the FTU also suggests introducing an allowance for maintaining non-working parents and grandparents above the age of 50. Why? This measure was proposed and introduced in the Budget last year, but the age concerned is from 55 to 59. We think there is a need for this allowance. But why do we suggest that the age should be set at 50? This is because many parents who are unemployed have lost their jobs at that age. If Members have listened to a construction worker who aired his grievances on the radio yesterday, they would know that what he said was common among the group of workers in the same plight. He said that he was a construction worker but he could not find any job because of his age. The Government should look into this problem. This group of people are having a miserable time. Even if their children can go out to work, they may not make a lot of money. For these children, if they can get an allowance when they maintain the living of their parents or grandparents who are out of work at the age of 50, this would be somewhat better for the entire family. Madam President, I hope the Government can really look at the problem from the perspective of the grassroots.

In addition, I would also like to raise another point. Now that our economy has changed for the better, I think that some suitable adjustments have to be made. Making such adjustments is not because we are greedy or that we want to gain some advantage when we know that there are some surpluses in the Government. What we want is just to revert to the level before we were asked to ride out the storm together. I have to stress this point once again. It is not that since the conditions have got better now that we hope the Government can give us back the money. This is not the case. Actually, I think that even if the Government has adopted these measures, at the end of the day, the Government as a whole will not be affected. On the other hand, what I am worried about now is, as the Government keeps on talking about taxation, in the end it would talk about the sales tax which we hate most of all. I think there are bound to be a lot of talking points among Members if this topic is brought up by the Government next week.

Madam President, on the first day of the Chinese New Year, the Financial Secretary pointed out that there would be good news in the Budget and he wished everyone could have their heart's desires. I believe each and every citizen would hope that they would not have to tighten their belts this year and they would even want to have some more money in their pockets to spend. If the Government can do this, it would really be a blessing for the people. It would be up to the Secretary for Financial Services and the Treasury and the Financial Secretary if we could have our heart's desires.

Madam President, I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ABRAHAM SHEK: Madam President, today's motion on reducing salaries tax is politically a mirage, and economically a time bomb. I shall be speaking against the motion. With prudent financial management, coupled with higher salaries and profits tax receipts amidst a buoyant economy this year, the Government's fiscal position has improved remarkably. Likely, it has put us ahead of the 2008-09 target for balancing the budget.

Yet, it is an illusion to think that Hong Kong's financial position is now out of the red or going onto the prosperity route. The Administration is still running a year-to-date deficit of up to \$6 billion despite an operating surplus of \$6.5 billion for the first nine months of the current fiscal year. I realize that the recession of the past few years has hit the middle class the hardest, but it is not yet the right time for the Financial Secretary to contemplate reducing salaries tax. It would be wrong to appease the public at the expense of future fiscal stability. Given the still fragile state of the economic pick-up and volatile world markets, Hong Kong's fiscal condition remains vulnerable to economic cycles and market fluctuations. With our exceptionally narrow tax base within an already low-tax regime, the public coffer can barely sustain the soaring recurrent expenditures of welfare and social services.

There are still many uncertainties surrounding our economy. Our financial growth and trade outlook is beset by a number of unfavourable external and internal market factors, such as those stemming from the movements of

interest rates, oil prices and exchange rates. A potential downturn of the United States economy continues to cast uncertainty and severe pressure on our exports. These economic factors can significantly play havoc with our financial and fiscal stability, and the Government could face an operating deficit again if the current cycle turns sour.

Hong Kong's fiscal position is structurally vulnerable to external shocks, given that our fiscal revenue relies heavily on non-tax receipts, such as those from land sales and volatile investments made under a land-driven fiscal policy. This year, with a bumpy currency and the stock markets facing a tough investment environment, the Government's Exchange Fund performance suffered a setback with tremendous losses in exchange valuation in foreign currencies and falling profits from stocks. Slashing salaries tax would permanently expose our budget's reliance on volatile non-tax revenues which in the long-term could cause more fiscal uncertainty.

It should be remembered that Hong Kong's tax base is so narrow that only one in three among our 3.3 million-strong workforce is within the tax net, and the top 300 000 salary earners contribute about 85% of income tax. At present, revenue from salaries tax accounts for more than one-quarter of our gross receipt. Until our tax base is significantly broadened, the Administration will have to count on salaries tax as the only steady and reliable source of income besides profits tax. Even if the Government introduced a tax cut, it might only be a short-lived benefit for the citizens. If Hong Kong's finances weaken and we find ourselves having trouble covering our sizeable recurrent expenditure, the Government would be forced to raise taxes again. This fiscal burden would again be transferred to the general public.

Over the years, a highly disciplined fiscal philosophy, as pioneered by the former Financial Secretary Mr Antony LEUNG, has been the bedrock of our economy and has accounted for much of our economic success. To maintain this established sense of prudent financial management, the Financial Secretary should retain our operating surplus to replenish the Treasury and restore the fiscal reserves to a healthier level instead of dispensing it all for tax cuts. In formulating a longer-term fiscal strategy, the replenishment of reserves can underpin international confidence in the reliability of Hong Kong's traditional low-tax environment, with the assurance that the Government can meet the challenges of its structural spending and support the existing currency peg

operated, as well as withstand any external economic shock during economic downturn.

Unless Hong Kong's public finances are restored to surplus levels and our economy gets back to its full speed, I fail to see the virtue of introducing either salaries tax reductions or any other form of subsidy concessions which arguably may alleviate the middle-class burden. For the majority of the grassroot community, the existing salaries tax hardly affects them as it is, given that many are already outside the low marginal rates of successive tax bands. The Financial Secretary thus needs to think carefully and exercise care and prudence in considering a lowering of the salaries tax.

As many social welfare groups argue, the Administration can retain its operating surplus for more focused uses and ensure greater results. It would be heartless and cruel for our Government to talk about sharing the spoils of the economic harvest without demonstrating concern for the underprivileged, who suffered greatly from a more than 11% slash from their already miserly Comprehensive Social Security Assistance payout. Deprived of necessary subsidies by the Administration, many elderly and disadvantaged groups do not have enough to meet their basic needs. Therefore, I urge the Government to pay back these people first from our surplus. This is a positive step. Therefore, I urge the Financial Secretary to first restore social welfare payment to the elderly and the disadvantaged to the 2003 level before considering any tax reduction. Their plight and livelihood will remain tough even if they are given a mere 0.4% increase in payouts, but it would make up for the inflation of this year. Thank you.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ALBERT CHENG (in Cantonese): President, reducing the salaries tax is a topic which voters will welcome. And during the Chinese New Year, it was not known whether or not the Financial Secretary was deliberately sending out some balloons when he said that tax would be reduced and candies handed out. And at this present moment, anyone who opposes the idea of reducing salaries tax will certainly be taken as an enemy of the people. But as Member of the Legislative Council, I do not think we should just regard votes as all-important.

Has the economy of Hong Kong really recovered and have the grass-roots people really gained any benefits? Our unemployment rate still stands high and the economic prospects are not that certain. If Members have read today's papers, they will know that the International Monetary Fund said that under the present circumstances, it would not be appropriate for Hong Kong to take any tax cut moves.

Mr LEE Wing-tat has just said that he fails to see why Members from the democratic camp will oppose the motion moved by Mr SIN Chung-kai to reduce salaries tax. Since Mr LEE says that he fails to see why, I might as well try to show him. By all appearances the economy of Hong Kong has recovered, but the question is whether or not the grassroots have benefited from it. If taxes are cut, then there will be cuts in welfare spending, so what will become of the care and attention given to the disadvantaged groups? Should we therefore not talk first about how to restore the assistance, care and support given to the disadvantaged groups and the lowest strata in society and who are most in need? How can we talk about reducing taxes before that? This is the reason for it.

This morning when I listened to the radio I heard Mr SIN Chung-kai say that the Democratic Party proposes that an education allowance of \$40,000 should be introduced. I do not quite see Mr SIN's point. I hope he could explain this a bit. He says that many married couples in Hong Kong do not give birth to any child because a lot of expenses are associated with childbirth and raising children, including expenses on education. If an allowance of \$40,000 is given, it would encourage people to have kids.

As I have worked it out, this proposed allowance does not mean that a sum of \$40,000 will be given, for it is only an allowance for tax. For people who pay tax at the standard rate, this would only be \$6,500. Will people be encouraged to have kids if they are given \$6,500 a year? I might as well pay for it. Would people give birth to children because of a sum of \$6,500 a year? It requires some very hard calculations. Mr Abraham SHEK has just talked about economic uncertainties, the upward movements of oil prices and interest rates worldwide, inflation and the avian flu threat. The memories of SARS are still fresh in our mind and we know very well how the Hong Kong economy was battered because of SARS. We are now facing the avian flu threat and who can assure us that avian flu will not break out in Hong Kong and even human-to-human transmission may take place? If that happens, how colossal would the damages to our economy be?

There is still another problem associated with cutting tax. Many people have mentioned the middle class in discussing the issue. Actually, regardless of the middle-class people or those with a high income, provided that they can make money, they should care for the socially disadvantaged. We must care for those at the bottom of the social strata and those who are most in need of help. Once this issue is raised, it would make our society divided. We have the problem of the disparity between the rich and the poor, but we are now putting the middle class in confrontation with those at the bottom of the social strata. The fact that we do not support the idea of a tax cut does not mean that we are in conflict with the middle class, not at all. What Mr LEE Wing-tat fails to see is the point of a posture. If the Government does not restore the slashed welfare spending to its original level of spending, how can it be asked to revert back to the previous tax rates? Besides, there is also a problem of logic. How can a previous tax rate be reverted? I fail to see how it can be done after reading all the amendments. A tax cut is a tax cut and how can things be reverted? A reversion is impossible. What has been reduced can be added, but no reversion is possible.

I therefore hope that Members could follow the principle of from the community and for the community. The middle class gets care and attention from the community, and that is true. Many people from the middle class called into the radio and said that they did not get any benefits, they did not get any CSSA or public housing and they had to pay for their medical consultations. But if they are not cared by this community of ours, how can they ever become members of the middle class? We have a society with low and equitable tax rates. For students enrolled in our universities, the Government has subsidies for them. They are required to pay only 18% of the tuition fees. Since they have been educated and nurtured by society, what would it matter if they are asked to pay an extra 1% in tax? Will their life be any better if they pay 1% less? Why should they not pay this 1% to the Government? This sum of money is not meant for the Government to waste and squander but it will be used on the grassroots who are badly in need of care and attention. What will this matter at all?

We still remember how the Government used to hand out candies, that is, to give a tax rebate. I remember at that time I worked in a radio and I appealed to the taxpayers to contribute the sum to the Community Chest. Did we not give the sum away as contribution? I think the middle-class people are not heartless, they will think this is not the right time for tax reduction when the disadvantaged have not got any proper care and attention.

Today so many political parties and Members support this motion to reduce taxes so enthusiastically. I suspect that I have not been given the right information. If the Financial Secretary is to announce next week that taxes will be cut, then Members have placed the right bet. I like to place my stakes on the underdog and I like to sail against the wind. So I oppose this motion. The only thing I may consider supporting is the amendment proposed by Dr Fernando CHEUNG. However, I do not quite understand Dr CHEUNG's amendment, for though this is a motion on tax reduction, Dr CHEUNG has deleted all tax reduction proposals. Therefore, I do not know if I should support it and I can only oppose the motion and all the amendments.

Thank you, President, I so submit.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

MR ALBERT HO (in Cantonese): Madam President, actually I should not repeat many of the arguments already advanced today at this late hour. However, some colleagues might not be here in the Chamber earlier in the debate, and hence they questioned some of the underlying justifications for today's motion again. This is why I have to repeat the justifications again. The Democratic Party actually supports some of the demands concerning welfare expenditure, including reverting the CSSA rates to their original levels, taking care of the socially disadvantaged groups, and so on.

During a meeting earlier with the Financial Secretary to discuss other tax arrangements, I mentioned repeatedly that the community would make such a request. When it comes to tax, many people will, just as what Mr Albert CHENG did, naturally ask why government resources are not used to improve the livelihood of the grassroots first, given that there will be tax cuts here and there — we were discussing estate duty at that time. What did the Financial Secretary reply then? He said that the two issues should be discussed separately. There is a set of criteria governing the Government's decision not to increase basic welfare expenditure or take care of the socially disadvantaged groups. As for tax, it is a separate issue.

I certainly understand the Financial Secretary's logic. But in reality, many will find his logic questionable. It is precisely for this reason that Dr

Fernando CHEUNG has proposed an amendment today. I fully understand his feelings and his underlying justifications. Notwithstanding this, the two issues should not be put in antagonistic positions. In the days to come, the Democratic Party will continue to pursue every request set out in Dr Fernando CHEUNG's amendment. Actually, we can almost agree entirely with his proposals, including introducing a progressive salaries tax and a progressive element to profits tax.

However, I have to emphasize again and again why the middle-class people, particularly many sandwich-class people, have to pay the tax rates today. It is because the Government considered it necessary to increase tax when it was confronted with the fiscal deficit problem back in the 2002-03. Can the situation today, though not entirely certain as pointed out by the IMF, compare to that in 2002-03? Tax increase was needed in 2002-03 because of the adverse economic conditions. Today, we cannot say that these people have to continue to bear this heavy tax burden because the economic conditions remain similarly bad.

The sandwich-class people, particularly many of those from the lower and middle strata, should not be required to continue to bear such a heavy tax burden. We hold that the Government should support some grass-roots people and the needy with its tax revenue. As the Government has already stated that it will not do so, why should it take such an antagonistic position? The question raised by the Democratic Party today is extremely clear. Moreover, the policy is supported by us too. Why should today's motion be vetoed by forcibly putting the two contradictory issues together?

If we lump all issues together in our discussions, we will find that many government policies are not worthy of support. First of all, we should not have supported the abolition of estate duty. However, we think that the related issues should be discussed separately. During the discussions on the abolition of estate duty, the Government stated clearly the importance of developing Hong Kong into a financial hub. We therefore agreed that the related issues should be considered separately. Similarly, should this logic be adopted and all issues are lumped together for discussion, a lot of work should not have been done by the Government right at the beginning. What is the significance of staging the East Asian Games? Even the annual fireworks display should be discontinued.

There are plenty of examples like these. In our opinion, the Government has wrongly and stubbornly refused to improve the living of the grass-roots people not purely because of affordability. It is rather because the Government considers it unnecessary to do so and inadvisable to revert to the original level. Hence, this is a separate subject.

Madam President, this subject has to be raised repeatedly, even 10 more times, for discussion. Notwithstanding this, I must tell the Government that Members cannot evade political considerations in deliberating the Budget or economic policies. If the Government is really so stubborn and refuses to take care of the needy, some Members might one day be forced to make use of their veto power to vote against some proposals considered significant by the Government and other Members. When there are no alternatives, they can only use their veto power to force the Government to give up what should be done or do what has been neglected but is considered by Members or the community to be essential, including addressing the needs of the poorest people.

Madam President, I shall stop here today. I can only reiterate that the Democratic Party holds that the sandwich-class people have been bearing a heavy tax burden since 2002-03. Judging from the present economic conditions, the justification is no longer valid. We are not asking for any particular tax reduction; but still, we hold that their tax burden should be alleviated. I must stress again that we actually agree with many of the remarks made by Honourable colleagues today. Though we fully understand and support their views and we support the proposal of increasing social welfare expenditure, I still consider it necessary to pursue the matter under a separate subject.

MRS SELINA CHOW (in Cantonese): President, in a debate held here earlier, we concluded that more substantial efforts should be made by the Government in helping the poor, and all parties have reached a consensus on this. The question being debated at the moment concerns another group of people in need of help — the middle class, people who have been paying salaries tax.

Actually, we are just requesting the Government to revert the tax rates to the 2002-03 level, instead of cutting tax. Some Honourable colleagues pointed out earlier that this was tantamount to cutting tax. It is actually not the case.

We are doing this merely to help a group of needy people. The situation should not be described as the Government having only got this amount of resources, so if the Government chooses to help the middle class, it will be unable to help others. Is the situation like this? No. As stated in the motion debate earlier, we requested the Government to help the poor. However, we have to help the middle class too. The Government must address the needs of different strata. We therefore object to the proposal raised by Dr Fernando CHEUNG that we have to first assist certain people before assisting the middle class. I find it absolutely incorrect to do so.

Mr Albert CHENG said that the middle-class people had benefited when they were students from the Government's education assistance. They should therefore contribute some of the money they earn to help the poor. I find such comments polarizing and unfair. The people we are talking about have never made any demands on society and the Government. On the contrary, the Government expects a lot from them. Whenever the Government encounters a problem, such as a fiscal deficit, it will immediately target its action on the middle class. For the past two years, the middle class has been exploited. Given that the Government's financial condition has turned for the better, why can the Government not ease the burden on the middle-class people and let them have a bit more money in their pockets? This is an extremely fair demand.

I am not speaking for these people for the sake of pleasing them. This is just a fair way of balancing different interests in society. Furthermore, the middle class has seldom been benefited. They will have to give when their financial capacity reaches a certain level. However, they have never gained anything. I believe the middle-class people encountered by Members during the elections have already reflected this fact.

Actually, this group of talented people is the biggest driving force of society. They make tremendous efforts to become self-reliant without asking the Government to repay them. However, the Government has continued to target its actions on them. Now that the Government's financial situation has improved — but still Miss TAM Heung-man insisted on some sort of prerequisite. Actually, the Government has already achieved that. As the Government's financial situation has already improved, the prerequisite is simply unnecessary. So, why does the Government refuse to assist those people who feel that they are not being fairly treated?

We are not seeking to deny the more needy people help in favour of assisting the middle class. What is more, we consider it inadvisable for priorities to be set, because it is not that the Government has got only one quota, which means that the poor will be denied care should the Government assist the middle class instead of the poor. The situation is not like this. It is only that there is much more to be done by the Government, and this is the area where relatively little effort has been made and hence extra effort is required to catch up now. We support the original motion because it only suggests the Government to revive the old salaries tax rates but not reduce the salaries tax. The Liberal Party has been urging the Government to revive the due tax burden of the middle class. Since we are not cutting the tax, the middle class has actually not been benefited significantly. We merely seek to do them justice.

Earlier in the meeting, we heard different voices from Members of the pro-democracy camp. It seems that the biggest question raised by them is that the middle class wishes to gain benefit at the expense of the poor. This is absolutely incorrect. The Liberal Party is definitely supportive of helping the poor. We have even set up a poverty alleviation fund to help the needy. Meanwhile, since the middle class also need assistance, the Government must offer them assistance. We have been told that the Financial Secretary also heard and understood the voices of these people, who have kept giving for the sake of the Government and society. Now that the Government has more means, these people should pay according to the original level instead of a level higher than is required. Why must the public keep their money in the Government's pocket instead of their own? Thank you, President.

PRESIDENT (in Cantonese): Does any other Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): If not, I will now invite Mr SIN Chung-kai to speak on the amendments. The time limit is five minutes.

MR SIN CHUNG-KAI (in Cantonese): President, I have no intention at all to incite class conflict. The middle class and the grass-roots people have always been dependent on each other. As you are of the same breed, why should you

treat your kind so badly? If Mr LEUNG Kwok-hung is here, I will say that I thought confrontation would exist only between the capitalist class and the labour force.

Frankly speaking, the criticism of the democracy camp breaking my heart. I must emphasize that the six recommendations made by Dr Fernando CHEUNG are included in the proposals submitted to the Financial Secretary by the Democratic Party too. His six recommendations, including the request for reverting the CSSA rates for the elderly and the disabled, were mentioned by us as well. Even to the recommendations not mentioned in our proposals, the Democratic Party will also lend our support. The ultimate wish of the Democratic Party is — anyway, we will abstain from voting on Dr Fernando CHEUNG's amendment because we believe there is no conflict between tax reduction and these initiatives.

Actually, as I stated right at the beginning, it will cost only billions of dollars to implement the six initiatives proposed by Dr Fernando CHEUNG. I believe this is achievable, judging by the Government's surplus this year or estimates on the subsequent finances. The Government does not wish to implement these initiatives not because of its financial constraints, but because of its other policies, as stated by Mr Albert HO. In other words, even if there is a surplus, the Government will still not necessarily implement these initiatives. Of course, I disagree with the Government's comments. However, I wish to emphasize that the Government is not short of money. I therefore see it unnecessary to bundle up the whole issue.

Conversely, I wish to ask whether the remaining money will continue to be kept in the reserves if these initiatives are not implemented. How long will it be kept there? As mentioned by Mr James TIEN earlier, our fiscal reserves have actually bottomed out at nearly \$295.9 billion last month.

Miss TAM Heung-man's amendment and arguments simply suggest that the Government has actually had ample reserves. From the angle of the Democratic Party, it is unnecessary for the Government to accumulate reserves excessively. In short, the Treasury's reserves have generated a very disappointing return of 3.8% this year. If the Government returns wealth to the people, I believe the return hence generated will definitely be bigger. Furthermore, the fact that the accumulated surplus of the Exchange Fund has

reached \$740 million does show that our Government is actually extremely well-off. This money belongs to the Hong Kong people. As for the support for the Hong Kong dollar, we have already had over one-to-one United States dollar reserves as the currency basis for exchanging Hong Kong dollar.

It has been estimated by the Democratic Party that if tax rates are reverted to the 2002-03 levels according to the amendments proposed by the two major political parties, the amount of money involved will be somewhere between \$5 billion and \$6 billion. According to Miss TAM Heung-man, cutting tax will greatly undermine public finances. Though \$5 billion is not a small sum, it is still affordable bearing in mind our surplus. As for the recurrent deficit — Miss TAM Heung-man is not here — the Government will present the relevant data next week. But still, I am very confident that, even if there is an operating deficit, the Government should be able to tackle it this year.

However, there is still one outstanding question that needs to be discussed when there is an opportunity to do so. The question is: What is recurrent revenue? The problem can actually be resolved by simply revising the definition.

President, I think the focus of today's debate should combine the two aspects mentioned above. Actually, this point has been raised in our motion. We have made it clear at the outset that we have to take care of the socially disadvantaged groups and, at the same time, repay society. Therefore, we will support the amendments proposed by Mr James TIEN, Mr WONG Kwok-hing and Mr CHAN Kam-lam. Yet, we will abstain from voting on the amendments proposed by Dr Fernando CHEUNG and Miss TAM Heung-man.

I so submit.

SECRETARY FOR FINANCIAL SERVICES AND THE TREASURY (in Cantonese): President, this is the first Council meeting I attend in the Year of the Dog. I would like to take this opportunity to extend my New Year greetings and wish the President and Honourable Members good health and every success.

I am grateful to Members for their valuable opinions on today's motion. The debate today, in which Honourable Members have discussed our public fiscal policy from different political angles, can be compared to a hundred

flowers in bloom. Before giving my response, I would like to take this opportunity to clarify certain points because I heard two Members make a mistake in quoting Hong Kong's tax rates earlier. So I wish to take this opportunity to make it clear that Hong Kong's standard tax rate and profits tax rate are 16% and 17.5% respectively. As it is known to all, the Financial Secretary will deliver the 2006-07 Budget next Wednesday, on 22 February. I will therefore respond only very briefly to Members' speeches here.

To prepare for the Budget for the next year, the Financial Secretary has, since last November, begun actively consulting various sectors of the community, including Members of the Legislative Council, political parties, representatives of District Councils, business and professional bodies and economists, and listening extensively to the general public's views on and expectations for the Budget through different channels, including such media as the Internet, radio, television, and so on. During the compilation of the Budget, the Financial Secretary will definitely make serious reference to the views collected through different channels.

Mr SIN Chung-kai's motion has called on the Government to make appropriate use of its resources to provide the grass-roots people with adequate services, and to reduce the salaries tax. We did hear views like these during the consultation.

Insofar as making appropriate use of resources is concerned, the Government will, under the overriding principle of "financial prudence and living within our means", invest in community building and provide services to the people for the maintenance of sustainable social development. Even when government finances were tight, we still strove to upgrade our standard of service through the Enhanced Productivity Programme to answer the aspirations of society.

During the past decade, the Government's total recurrent expenditure has increased 56.8% by approximately \$72 billion. Areas related to the people's livelihood, such as education, social welfare, hygiene and security, account for 68.1% of the estimated recurrent expenditure of \$199.1 billion for 2005-06. While continuing to invest in society and improve the people's livelihood, the Government has made every possible effort in saving and has successfully reduced expenditure in real terms from \$247.5 billion in 2003-04 to \$242.2 billion in 2004-05.

Insofar as taxation is concerned, Hong Kong has all along been enforcing a simple, low tax regime. Compared with other places, Hong Kong's salaries tax is extremely low. In 2004-05, the actual salaries tax rate is only 8% on average. In addition to low tax rates, our salaries tax base is quite narrow. This point has indeed been raised by a number of Members earlier. Only about one third of our working population is required to pay salaries tax. Moreover, we rely heavily on a handful of high-income earners for our salaries tax income. In deliberating the issues relating to salaries tax, a balance must be struck between the affordability of the public and the maintenance of stable public finances.

We are very pleased to see that Hong Kong economy has continued to improve for quite some time. However, our economic performance is readily susceptible to external uncertainties, such as interest rates, oil price movements, possible outbreaks of avian flu, and so on, as mentioned by a number of Members, including Mr Ronny TONG, Mr Abraham SHEK and Mr Albert CHENG, earlier. Therefore, in considering whether or not to increase expenditure and reduce tax, the Government must maintain strict financial discipline and make decisions according to the principle of "financial prudence and living within our means" and in Hong Kong's long-term interest.

The Budget will be announced by the Financial Secretary next Wednesday. The Financial Secretary will definitely give serious consideration to the views offered by various sectors and, under the principle of maintaining the Government's financial stability and answering public aspirations, present next year's budget proposals to the Legislative Council.

Thank you, President.

PRESIDENT (in Cantonese): I now call upon Mr James TIEN to move his amendment to the motion.

MR JAMES TIEN (in Cantonese): President, I move that Mr SIN Chung-kai's motion be amended.

Mr James TIEN moved the following amendment: (Translation)

"To delete "in view of" after "That," and substitute with "as the Treasury of the Government has benefited from"; to delete "and the improved government finances" after "Hong Kong's economy" and substitute with ", which has improved the Government's financial position and will likely advance the elimination of the fiscal deficit"; to add "rates of" after "and to reduce the"; and to add "by reverting them to at least the 2002-03 level," after "salaries tax". "

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Mr James TIEN to Mr SIN Chung-kai's motion, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr James TIEN rose to claim a division.

PRESIDENT (in Cantonese): Mr James TIEN has claimed a division. The division bell will ring for three minutes, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Mr CHEUNG Man-kwong, Mrs Sophie LEUNG, Mr SIN Chung-kai, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Tommy CHEUNG, Mr Vincent FANG, Mr WONG Kwok-hing, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr CHIM Pui-chung and Mr KWONG Chi-kin voted for the amendment.

Ms Margaret NG, Mr Bernard CHAN, Mr Abraham SHEK and Miss TAM Heung-man voted against the amendment.

Ms LI Fung-ying, Dr KWOK Ka-ki and Dr Fernando CHEUNG abstained.

Geographical Constituencies:

Mr James TIEN, Mr Albert HO, Mr Martin LEE, Mr Fred LI, Mrs Selina CHOW, Mr James TO, Miss CHAN Yuen-han, Mr CHAN Kam-lam, Dr YEUNG Sum, Miss CHOY So-yuk, Mr Andrew CHENG, Mr LEE Wing-tat and Mr LI Kwok-ying voted for the amendment.

Ms Audrey EU, Mr Alan LEONG, Mr LEUNG Kwok-hung, Mr Ronny TONG and Mr Albert CHENG voted against the amendment.

Mr LEE Cheuk-yan, Mr LEUNG Yiu-chung, Ms Emily LAU, Mr Albert CHAN and Mr Frederick FUNG abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 21 were present, 14 were in favour of the amendment, four against it and three abstained; while among the Members returned by geographical constituencies through direct elections, 24 were present, 13 were in

favour of the amendment, five against it and five abstained. Since the question was agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was carried.

MS MIRIAM LAU (in Cantonese): President, I move that in the event of further divisions being claimed in respect of the motion on "Reducing the salaries tax" or any amendments thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the motion moved by Ms Miriam LAU be passed.

PRESIDENT (in Cantonese): Does any Member wish to speak?

(No Member indicated a wish to speak)

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members who are present. I declare the motion passed.

I order that in the event of further divisions being claimed in respect of the motion on "Reducing the salaries tax" or any amendments thereto, this Council do proceed to each of such divisions immediately after the division bell has been rung for one minute.

PRESIDENT (in Cantonese): Mr CHAN Kam-lam, as Mr James TIEN's amendment has been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper tabled at this meeting. When you move your revised amendment, you have up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

MR CHAN KAM-LAM (in Cantonese): President, I move that Mr SIN Chung-kai's motion as amended by Mr James TIEN, be further amended by my revised amendment.

President, the terms of Mr SIN Chung-kai's motion, as amended by Mr James TIEN, now reflect a much clearer intention for the Government to propose measures in the Budget to alleviate the tax burden on the middle class by at least reverting the tax rates to the 2002-03 level. Nevertheless, judging from the significance of tax burden and salaries tax, this is not enough because the entire composition of salaries tax involves different aspects. We can see that the motion is still relatively general. Even if we propose a motion and it is eventually passed, we might still not be able to submit a clear, specific package to the Financial Secretary before he delivers the Budget. For this reason, we have to propose a further amendment.

Members may take a look at the relatively heavy tax burden of the middle class. Let me cite an example to illustrate my point. After eight years of economic transformation, the middle-class people have become the principal victims of negative equity assets. For the low-income earners, government assistance, such as housing protection, is offered in various aspects, and their average waiting period is just three years after which their housing problem will be solved. For the middle-class people, however, not only are they required to pay exorbitant property prices, they have to make mortgage repayments for 15 or 20 years, or even 30 years. Their interest burden is extremely heavy too. However, the Government has offered them only little assistance in interest deduction. Even home purchase assistance has now been scrapped. This is why we think more efforts should be made by the Government to alleviate their burden in this respect.

Therefore, we propose increasing home loan interest deduction, and even introducing an interest deduction for voluntary contributions to the Mandatory

Provident Fund, which should be helpful to the middle class. Of course, as mentioned by Members earlier, we agree that the Government should continue to assist the lower stratum and implement its initiative to help the needy with enhanced care for the lower stratum when the economy improves.

Thank you, President.

Mr CHAN Kam-lam moved the following further amendment to the motion as amended by Mr James TIEN: (Translation)

"To add "; to revert the personal allowances and the marginal tax bands to the 2002-03 level; to raise the child allowance and the allowances for dependent parent/grandparent; to further increase the entitlement period and the amount of home loan interest deduction; and to introduce tax deduction for voluntary contributions to the Mandatory Provident Fund" after "2002-03 level".

PRESIDENT (in Cantonese): I now propose the question to you and that is: That Mr CHAN Kam-lam's amendment to Mr SIN Chung-kai's motion as amended by Mr James TIEN, be passed.

I now call upon Mr James TO to move his amendment to Mr CHAN Kam-lam's amendment.

MR JAMES TO (in Cantonese): President, I move that Mr CHAN Kam-lam's amendment be amended.

Mr James TO moved the following amendment to Mr CHAN Kam-lam's amendment: (Translation)

"To delete "introducing tax deduction for" after "(d)" and substitute with "studying allowing"; and to add "to be tax deductible up to a ceiling" after "Mandatory Provident Fund".

PRESIDENT (in Cantonese): I now propose the question to you and that is: That the amendment, moved by Mr James TO to Mr CHAN Kam-lam's amendment, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the amendment passed.

PRESIDENT (in Cantonese): I now put the question to you and that is: That Mr CHAN Kam-lam's amendment as amended by Mr James TO, to Mr SIN Chung-kai's motion which has been amended by Mr James TIEN, be passed.

Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

PRESIDENT (in Cantonese): I think the question is agreed by a majority respectively of each of the two groups of Members, that is, those returned by functional constituencies and those returned by geographical constituencies through direct elections, who are present. I declare the amendment passed.

PRESIDENT (in Cantonese): Members have been informed by circular today that Mr WONG Kwok-hing will withdraw his amendment if Mr CHAN

Kam-lam's amendment is passed. Since Mr CHAN Kam-lam's amendment has been passed, Mr WONG Kwok-hing will therefore no longer move his amendment.

PRESIDENT (in Cantonese): Dr Fernando CHEUNG, as the amendments moved by Mr James TIEN, Mr CHAN Kam-lam and Mr James TO have been passed, I have given leave for you to revise the terms of your amendment, as set out in the paper tabled at this meeting. When you move your revised amendment, you have up to three minutes to explain the revised terms in your amendment, but you may not repeat what you have already covered in your earlier speech. You may now move your revised amendment.

DR FERNANDO CHEUNG (in Cantonese): President, I move that Mr SIN Chung-kai's motion as amended by Mr James TIEN, Mr CHAN Kam-lam and Mr James TO, be further amended by my revised amendment.

I believe many Honourable colleagues have, in their speeches made earlier, expressed that the Government's foremost task is to, in addition to taking care of the grassroots and the middle class, care for the poor masses in the community. I will not repeat the content of my amendment. However, as the motion has been amended by a number of Members, the wording of my amendment has to be slightly revised to the effect that, under the spirit of passing the motion and various amendments, we should at least ease the hardship of the socially disadvantaged groups at the same time. Therefore, all the measures set out in my amendment should be implemented simultaneously. I hope Honourable colleagues can support my amendment. Thank you, President.

Dr Fernando CHEUNG moved the following further amendment to Mr SIN Chung-kai's motion as amended by Mr James TIEN, Mr CHAN Kam-lam and Mr James TO: (Translation)

"To add "; the services provided by the Government to the grass-roots people should include: (a) increasing the medical waivers for the elderly, the vulnerable, the disabled, the chronically ill and the poor families; (b) reverting the Comprehensive Social Security Assistance rates for the elderly, the vulnerable, the disabled and the children to the levels prior to

their reduction in 2003; (c) reverting the rates of Disability Allowance to the levels prior to their reduction in 2003; (d) freezing the charges for all livelihood-related items, including medical and educational fees; (e) increasing the financial commitments for medical services, education and social welfare; and (f) increasing the financial commitments for leisure and cultural facilities in new towns, e.g. libraries, swimming pools, sports centres and sportsgrounds" after "creating jobs".

PRESIDENT (in Cantonese): I now propose the question to you and that is: That Dr Fernando CHEUNG's amendment to Mr SIN Chung-kai's motion as amended by Mr James TIEN, Mr CHAN Kam-lam and Mr James TO, be passed.

PRESIDENT (in Cantonese): I now put the question to you as stated. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Mr Albert CHAN rose to claim a division.

PRESIDENT (in Cantonese): Mr Albert CHAN has claimed a division. The division bell will ring for one minute, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Ms Margaret NG, Mr CHEUNG Man-kwong, Mr SIN Chung-kai, Mr WONG Kwok-hing, Dr Joseph LEE, Dr KWOK Ka-ki, Dr Fernando CHEUNG and Mr KWONG Chi-kin voted for the amendment.

Mr Bernard CHAN, Mrs Sophie LEUNG, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Abraham SHEK, Mr Tommy CHEUNG, Mr Vincent FANG, Mr Jeffrey LAM, Mr Andrew LEUNG and Mr CHIM Pui-chung voted against the amendment.

Ms LI Fung-ying and Miss TAM Heung-man abstained.

Geographical Constituencies:

Mr Albert HO, Mr LEE Cheuk-yan, Mr Martin LEE, Mr Fred LI, Mr James TO, Miss CHAN Yuen-han, Mr LEUNG Yiu-chung, Dr YEUNG Sum, Ms Emily LAU, Mr Andrew CHENG, Mr Albert CHAN, Mr Frederick FUNG, Ms Audrey EU, Mr LEE Wing-tat, Mr Alan LEONG, Mr LEUNG Kwok-hung, Mr Ronny TONG and Mr Albert CHENG voted for the amendment.

Mr James TIEN, Mrs Selina CHOW, Mr CHAN Kam-lam, Miss CHOY So-yuk and Mr LI Kwok-ying voted against the amendment.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 22 were present, eight were in favour of the amendment, 12 against it and two abstained; while among the Members returned by geographical constituencies through direct elections, 24 were present, 18 were in favour of the amendment and five against it. Since the question was not agreed by a majority of each of the two groups of Members present, she therefore declared that the amendment was negatived.

PRESIDENT (in Cantonese): Members have been informed by circular today that Miss TAM Heung-man will withdraw her amendment if any of the amendments to the motion is passed. Since Mr James TIEN's and Mr CHAN Kam-lam's amendments have been passed, Miss TAM Heung-man will therefore no longer move her amendment.

Mr SIN Chung-kai, you may now reply and you have four minutes 46 seconds.

MR SIN CHUNG-KAI (in Cantonese): To start with, President, I would like to respond to the speech made by Mr Albert CHENG, who is sitting in front of me. When I spoke on the radio this morning, I did not propose reducing tax to encourage couples to have children. I merely said that since they had given birth to children and were committed to assuming the responsibility of raising their kids, should society not do something to alleviate their burden?

I must also respond to the issue of "hypocrisy" raised by Mr LEE Cheuk-yan earlier. Being one of those who opposed increasing tax in 2002, the Democratic Party must be consistent, and we are still opposing the proposal of raising tax. We are unanimous that the tax base should be restored to the 2002-03 level. Therefore, with respect to the issue of "hypocrisy", I cannot take the criticism personally.

I certainly cannot agree with Mr LEUNG Kwok-hung's remarks too. His pet subjects are socialism and democracy. Ideologically, there are fundamental differences between him and me.

Miss TAM Heung-man has expected the problem of operating deficit to be resolved very quickly, or in a couple of weeks.

Regarding the United States economy mentioned by Mr Abraham SHEK, he should not worry too much as the retail figures of the United States in January far exceeded the anticipation of all experts.

Then Mr Alan LEONG talked about last year's deficit. I hope his assistant can consider three figures in future. Before the announcement of the Budget, the deficit mentioned by the Government cannot be treated as accurate. Only the figures in the Audit Account announced in October are authentic. If

we are to criticize last year's accurate deficit, these figures should be used. If we look back at the figures, we will realize that government finances have far exceeded our estimate.

I am very pleased today. I do hope Dr Fernando CHEUNG can understand that his six recommendations are taken equally seriously by the Democratic Party. Mr Albert CHAN has just left the Chamber. While the minor works proposed by him for improving community building will cost \$1 billion or so, the five or six initiatives proposed by Dr Fernando CHEUNG, even if carried out altogether, will cost between \$5 billion and \$6 billion only. I believe the Government will have a financial surplus of more than \$10 billion this year. Therefore, even if the proposals made by the two Members are implemented simultaneously, the Government should still be able to afford them. Furthermore, without the Government cutting tax, the fiscal reserves now stand at \$295 billion. Is it that the Government has to keep accumulating until the reserves reach \$300 billion, or even \$310 billion? Despite the Government's authority to levy tax on the people, should we allow it to impose excessive tax for the sake of meeting its expenditure?

I so submit.

PRESIDENT (in Cantonese): I now put the question to you and that is: That the motion moved by Mr SIN Chung-kai, as amended by Mr James TIEN, Mr CHAN Kam-lam and Mr James TO, be passed. Will those in favour please raise their hands?

(Members raised their hands)

PRESIDENT (in Cantonese): Those against please raise their hands.

(Members raised their hands)

Ms Emily LAU rose to claim a division.

PRESIDENT (in Cantonese): Ms Emily LAU has claimed a division. The division bell will ring for one minute, after which the division will begin.

PRESIDENT (in Cantonese): Will Members please proceed to vote.

PRESIDENT (in Cantonese): Will Members please check their votes. If there are no queries, voting shall now stop and the result will be displayed.

Functional Constituencies:

Mr CHEUNG Man-kwong, Mrs Sophie LEUNG, Mr SIN Chung-kai, Mr WONG Yung-kan, Mr Howard YOUNG, Mr LAU Wong-fat, Ms Miriam LAU, Mr Tommy CHEUNG, Mr Vincent FANG, Mr WONG Kwok-hing, Mr Jeffrey LAM, Mr Andrew LEUNG, Mr CHIM Pui-chung and Mr KWONG Chi-kin voted for the motion as amended.

Ms Margaret NG, Mr Bernard CHAN, Mr Abraham SHEK and Miss TAM Heung-man voted against the motion as amended.

Ms LI Fung-ying, Dr Joseph LEE, Dr KWOK Ka-ki and Dr Fernando CHEUNG abstained.

Geographical Constituencies:

Mr James TIEN, Mr Albert HO, Mr Martin LEE, Mr Fred LI, Mrs Selina CHOW, Mr James TO, Miss CHAN Yuen-han, Mr CHAN Kam-lam, Dr YEUNG Sum, Miss CHOY So-yuk, Mr Andrew CHENG, Mr LEE Wing-tat and Mr LI Kwok-ying voted for the motion as amended.

Ms Audrey EU, Mr Alan LEONG, Mr LEUNG Kwok-hung, Mr Ronny TONG and Mr Albert CHENG voted against the motion as amended.

Mr LEE Cheuk-yan, Mr LEUNG Yiu-chung, Ms Emily LAU, Mr Albert CHAN and Mr Frederick FUNG abstained.

THE PRESIDENT, Mrs Rita FAN, did not cast any vote.

THE PRESIDENT announced that among the Members returned by functional constituencies, 22 were present, 14 were in favour of the motion as amended, four against it and four abstained; while among the Members returned by geographical constituencies through direct elections, 24 were present, 13 were in favour of the motion as amended, five against it and five abstained. Since the question was agreed by a majority of each of the two groups of Members present, she therefore declared that the motion as amended was carried.

NEXT MEETING

PRESIDENT (in Cantonese): I now adjourn the Council until 11.00 am on Wednesday, 22 February 2006.

Adjourned accordingly at six minutes to Eleven o'clock.

Appendix I**WRITTEN ANSWER****Written answer by the Secretary for Housing, Planning and Lands to Mr James TO's supplementary question to Question 1**

As regards the number of prosecutions made against owners for causing injury to any person or damage to any property in the past three years, the Building Authority instigated prosecutions in three cases against persons concerned with building works (including registered contractors), among which the defendant of one of the cases was convicted and fined \$40,000. During the same period, no owners having appointed a contractor had been prosecuted for carrying out works which caused injury to any person or damage to any property.