



28th May, 2012

The Hon. Lee Cheuk Yan
Chairman
Panel on Manpower
Legislative Council

BY HAND

Dear Mr Lee,

Submission on SMW by Chamber of Security Industry

Chamber of Security Industry (CSI) takes the view that the current SMW at \$28/hour is appropriate and there is no need to adjust it in the foreseeable future. Our stance is based on the objective findings presented herewith.

Contrary to the claims by the Labour sector, it is clear that the SMW has **NOT** become the “Maximum Wage”. As a result of the IVS-driven booming economy and HK's structural shortage in labour supply, except in areas remote from tourist consumer spending, \$28/hour is completely ineffective in hiring workers in any of the so-called low-pay industries. In other words, the actual wage level of the lowest income workers is higher than \$28/hour in most areas of HK. This phenomenon amply demonstrates the perfect functioning of the law of “demand & supply”. This is also what should be in a market economy, instead of an increasingly visible hand. The Honourable Councillors are kindly reminded of the honour awarded to HK by the Heritage Foundation of being the World's Freest Economy for the past 17 years, something we should highly value and try to retain. Setting SMW at an arbitrarily high level will do great disservice in this aspect.

Honourable members will no doubt have learnt from the media as well as other submissions that the higher the SMW level is set, the higher is the likelihood of lesser quality workers being displaced from the workforce. This is particularly true for guards between 60 and 64 years old since last May. While the statutory upper age limit of Type B SPP is 65, there has been almost universal demand from clients of guarding companies of replacing guards of over 60 years old by younger ones since the corresponding increase (15%~20%) in service contract charges consequential to the enactment of \$28 SMW. The consumers who pay management fees feel justified that with the substantial increase in service charge, service quality should be improved; a younger security team at least will give a better image and probably crime-deterrence. Therefore, the overall labour shortage of the guarding industry is aggravated by this “involuntary” displacement of guards who are up to 5 years before their original retirement. Chamber of Security Industry (CSI) is very worried that if the SMW is revised upwards, our clients will demand further rejuvenating of the guards, thereby displacing a larger number of “marginal” guards from our industry which has chronically been in severe shortage of manpower in the past few decades except during the couple of years around 2003 when HK's economy was at its worst.

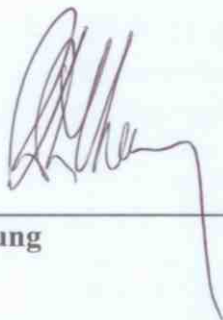
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In the months between the announcement of SMW at \$28 and its enactment last May, there had been many instances where employment contracts of workers earning much less than \$28/hour were artificially terminated and subsequently re-hired. That was the inevitable and reluctant action which employers in low profit margin industries, including guarding, were forced to take. It was a response to the substantial increase in the employer's LSP liability which is calculated from the final income of the employees as the latter's MPF accrued from the lower pre-SMW wage level suddenly fell far short to match. This would not have happened were it not for the fact that the SMW level was arbitrarily set at a level drastically higher than then actual wage level. There had been and still is wide-spread demand from employers in low profit margin industries that the formula of LSP needs to be revised to relieve employers from such sudden increase in liability due to legislative changes. The phenomenon just described led to early termination of contract between service contractors and their clients, making an all-lose situation to all stakeholders, viz employees, employers & users of services.

CSI would like to take this opportunity to draw LegCo's attention to a grossly undesirable by-product of SMW – arising out of the Government's out-sourcing of services in the low-paying sectors of guarding and cleaning. The Government refused to pay for the difference in the LSP calculated from the pre- and post-SMW wages. It sets a poor example to users of such services.

In closing, CSI reiterates its stance that \$28/hour will be appropriate for the foreseeable future, but if a new SMW has to be implemented in May 2013, it must not be arbitrarily decided but by a mechanism in which objective economic data will be based, such as those mechanisms for deciding the MTR fare or the public housing rent.

Yours respectfully,
Chamber of Security Industry



William Cheung
Chairman