

OFFICIAL REPORT OF PROCEEDINGS**Wednesday, 18th June 1975****The Council met at half past two o'clock****PRESENT**

HIS EXCELLENCY THE GOVERNOR (*PRESIDENT*)
SIR CRAWFORD MURRAY MACLEHOSE, KCMG, KCVO, MBE
THE HONOURABLE THE COLONIAL SECRETARY
SIR DENYS TUDOR EMIL ROBERTS, KBE, QC, JP
THE HONOURABLE THE FINANCIAL SECRETARY
MR CHARLES PHILIP HADDON-CAVE, CMG, JP
THE HONOURABLE THE ATTORNEY GENERAL
MR JOHN WILLIAM DIXON HOBLEY, QC, JP
THE HONOURABLE THE SECRETARY FOR HOME AFFAIRS
MR DENIS CAMPBELL BRAY, CVO, JP
THE HONOURABLE JAMES JEAVONS ROBSON, CBE, JP
SECRETARY FOR THE ENVIRONMENT
DR THE HONOURABLE GERALD HUGH CHOA, CBE, JP
DIRECTOR OF MEDICAL AND REALTH SERVICES
THE HONOURABLE IAN MACDONALD LIGHTBODY, CMG, JP
SECRETARY FOR HOUSING
THE HONOURABLE LI FOOK-KOW, CMG, JP
SECRETARY FOR SOCIAL SERVICES
THE HONOURABLE LEWIS MERVYN DAVIES, CMG, GBE, JP
SECRETARY FOR SECURITY
THE HONOURABLE DAVID WYLIE MCDONALD, JP
DIRECTOR OF PUBLIC WORKS
THE HONOURABLE KENNETH WALLIS JOSEPH TOPLEY, JP
DIRECTOR OF EDUCATION
THE HONOURABLE JAMES DAVID MCGREGOR, ISO, JP
DIRECTOR OF COMMERCE AND INDUSTRY (*Acting*)
THE HONOURABLE JOHN WALTER CHAMBERS, JP
SECRETARY FOR THE NEW TERRITORIES (*Acting*)
THE HONOURABLE JAMES NEIL HENDERSON, JP
COMMISSIONER FOR LABOUR (*Acting*)
DR THE HONOURABLE CHUNG SZE-YUEN, CBE, JP
THE HONOURABLE WILSON WANG TZESAM, OBE, JP
THE HONOURABLE LEE QUO-WET, OAE, JP
THE HONOURABLE OSWALD VICTOR CHEUNG, OBE, QC, JP
THE HONOURABLE ROGERIO HYNDMAN LOBO, OBE, JP
THE HONOURABLE MRS CATHERINE JOYCE SYMONS, OBE, JP
THE HONOURABLE JAMES WU MAN-HON, OBE, JP
THE HONOURABLE HILTON CHEONG-LEEN, OBE, JP
THE HONOURABLE LI FOOK-WO, OBEI JP
THE HONOURABLE MRS KWAN KO SIU-WAH, MBE, JP
THE HONOURABLE LO TAK-SHING, JP
THE HONOURABLE FRANCIS YUAN-HAO TIEN, OBE, JP

ABSENT

THE HONOURABLE PETER GORDON WILLIAMS, OBE, JP

THE HONOURABLE JOHN HENRY BREMRIDGE, JP

DR THE HONOURABLE HARRY FANG SIN-YANG, OBE, IP

IN ATTENDANCE

THE CLERK TO THE LEGISLATIVE COUNCIL

MR KENNETH HARRY WHEELER

Papers

The following papers were laid pursuant to Standing Order 14(2): —

<i>Subject</i>	<i>LN No</i>
Subsidiary Legislation:	
Wild Birds and Wild Mammals Protection Ordinance.	
Wild Birds and Wild Mammals Protection Ordinance (Amendment of Seventh Schedule) Order 1975 ...	145
Trustee (Amendment) Ordinance 1975.	
Trustee (Amendment) Ordinance 1975 (Commencement) Notice 1975	146
Banking Ordinance.	
Specification of Specified Liquid Assets	147
Revised Edition of the Laws Ordinance 1965.	
Annual Revision 1974	148
Sessional Paper 1974-75:	
No 43—Third Report of the Television Advisory Board on the Progress of Television in Hong Kong (published on 18.6.75).	

Oral answers to questions

Unlicensed passenger boats

1. MRS SYMONS asked: —

Sir, what steps are Government taking to prevent owners of boats from carrying passengers for hire when not licensed to do so?

THE COLONIAL SECRETARY: —Sir, the Marine Department and the Marine Police maintain regular launch patrols in Hong Kong waters and one of their tasks is to look for the illegal carriage of passengers.

They pay particular attention to this at weekends and on public holidays, in areas where local craft carry large numbers of persons, and it is believed that this has reduced illegal carriage considerably.

Other factors which should help to reduce the illegal carriage of passengers further are the increase in the maximum fines for such offences which were introduced last December, and the steady increase in the number of franchised ferry services and in the areas served by them.

Mutual aid committees—1

2. MR CHEONG-LEEN asked: —

Sir, to what extent are the mutual aid committees assisting in the combatting of crime, such as armed robberies, rape, revenge attacks with weapons, kidnapping, etc.?

SECRETARY FOR HOME AFFAIRS: —Sir, it is difficult to give a quantitative reply but the fact that only 19 out of 1,636 MACs were found to be inactive when the Director of Home Affairs reviewed the registration of MACs in April 1975 is ample evidence that the scheme is working well. Burglar alarms, security gates, intercom systems, and even closed circuit television systems have been installed in many buildings, both public and private. Watchmen too have been engaged. In some buildings, criminals have even been caught in the act—the case of the Yuen Cheong MAC, where members captured the criminal in all six attempted burglaries since it was formed, is an outstanding example. Generally then I can say that MAC's have contributed significantly to our efforts to fight crime particularly in the matter of security inside buildings.

[SECRETARY FOR HOME AFFAIRS] **Oral answers**

This is a general statement and I have no statistics of detail. Nor do I know of any particular involvement of MACs in the more dramatic crimes my honourable Friend refers to—perhaps they just deter this sort of criminal.

MR CHEONG-LEEN: —Sir, has there been any case recently of an MAC member being attacked, ostensibly for purposes of revenge, because of his enthusiasm and vigilance in the exercise of his duty as an MAC member?

SECRETARY FOR HOME AFFAIRS: —There has been a case of an MAC member being attacked, but not so far as our enquiries show was it anything to do with his work as an MAC member.

MR CHEONG-LEEN: —Then, Sir, is it generally known among MAC members that in case they are attacked for revenge purposes in the exercise of their work as MAC members they will be given every protection by the police?

SECRETARY FOR HOME AFFAIRS: —Sir, I would have thought this assurance applies to the whole population.

MR CHEONG-LEEN: —Sir, I am asking in particular in regard to MAC members because they are volunteers in carrying out their work as an MAC member and on whom we rely very much to support us in the "Fight Violent Crime" campaign.

SECRETARY FOR HOME AFFAIRS: —I am not quite sure what the question was. Certainly MAC members, like everybody else, are protected from revenge attacks. There has been no suggestion that any MAC has been got at for revenge purposes.

Mutual aid committees—2

3. MR CHEONG-LEEN asked: —

Sir, how many more mutual aid committees will be formed between now and the end of this year?

SECRETARY FOR HOME AFFAIRS: —Sir, probably around 100. In October 1974 there was a total of 1,513 such committees and by the end of March 1,636, that is an increase of 123. There was then a review for re-registration which led to a slight decrease in the total in April 1975. The registration of 19 inactive MACs was not renewed while 21 MACs had formed themselves into owners' incorporations.

Town planning

4. MR WU asked: —

Sir, will the Government take a new look at town planning policy in the light of the present financial position?

MR McDONALD: —Sir, steps have already been taken to amend planning policy because of the present financial position.

Sites affected by zoning plans are being reviewed more critically as is evidenced by the draft Outline Zoning Plan for Tai Kok Tsui which was referred back to the Town Planning Board, amended and re-gazetted on 23rd of May of this year. The amended plan is less ambitious and will, in effect, reduce to the minimum the need to acquire old but expensive properties to provide the necessary amenities and public buildings in the area. In this plan zoning for public purposes is mainly confined to properties held on non-renewable leases.

The enactment of the Town Planning (Amendment and Validation) Ordinance in 1974 has, moreover, allowed greater flexibility in the implementation of plans. The Town Planning Board has the authority to publish new types of notes for new and existing plans which list firstly the types of use which will be permitted of right within each indicated zoning and secondly the types of use which might be permitted, with or without conditions, on application to the Board. If an owner of a lot zoned for open space or Government, institution or community use wishes to proceed with a development which falls within the second list of users he can apply to the Board. If permission is granted this would allow the Building Authority to approve building plans for a compromise development whereby the purposes of the indicated zoning would be partly or wholly achieved in conjunction with the owner's development proposals, and without material reduction in the development potential of the site. Under this system the environment in overcrowded areas can be improved and residents will have better community facilities at comparatively little cost to the public purse. On the other hand, owners of sites affected by zoning

[Mr McDONALD] **Oral answers**

for public purposes will be able to proceed with their redevelopment instead of having their sites frozen pending the availability of funds for acquisition by Government.

Squatters on hillsides

5. Mr CHEONG-LEEN asked: —

Sir, what measures are being taken to eliminate the risk to life and property of squatters living on dangerous hillsides during the rainy season?

SECRETARY FOR HOUSING: —Sir, after the June 1972 rainstorms all squatter and licensed areas in Hong Kong susceptible to flooding or landslides were surveyed. As a result, over 24,000 people were cleared from 49 potentially dangerous areas.

Since then, squatter huts have been discovered from time to time in potentially dangerous locations and they have been given special attention. For example, in the first six months of this year, over 260 people have been cleared from nine potentially dangerous areas and a further four areas involving over 400 people are being cleared now. This surveillance is a continuous process.

Mr CHEONG-LEEN: —Sir, when my honourable Friend says that this surveillance is a continuous process, can I interpret from it that he is paying particular attention to this problem this year in view of what seems to be an exceptionally heavy rainfall season?

SECRETARY FOR HOUSING: —Sir, the Housing Department staff are as conscious of this heavy rain as anyone else and they make a particular effort in these circumstances to keep a very wary eye indeed on the stream beds and hillsides.

Tolerated squatter areas

6. Miss Ko asked: —

Sir, will Government improve the living conditions of the tolerated squatter areas, particularly by the provision of utilities including electricity and water supply?

SECRETARY FOR HOUSING: —Sir, in most squatter areas the nature of the terrain and the general congestion make it difficult to improve the environment in any substantial manner. However, my honourable Friend is concerned primarily with water and electricity, and I am glad to say that as regards water supplies, these are generally of a reasonable standard.

As regards electricity the Home Affairs Department has just completed a comprehensive survey of the supply situation in urban squatter areas. This will be studied by Government with a view to deciding what action needs to be taken.

I can say that the Home Affairs Department will maintain a general oversight of these areas to ensure that attention is given to any particular problem that may arise.

MR CHEONG-LEEN: —Sir, what about postal supplies?

SECRETARY FOR HOUSING: —Well, here I take up the cudgel on behalf of another official Member, Sir. The position is that the Postmaster General has had a survey conducted into the requirements of licensed areas in particular; squatter areas are not in question here for postal services. Squatter areas in general are not a subject of complaint and never have been as regards postal deliveries, to my knowledge.

DR CHUNG: —Sir, does my honourable Friend realize that life nowadays is pretty miserable without electricity supply to one's home, and will my honourable Friend give assurance to this Council that all squatter areas be provided as early as possible with electricity supply so as to improve the minimal living standards of these rather unfortunate people?

SECRETARY FOR HOUSING: —Sir, the solution of this particular problem will require a very heavy capital expenditure. So I am not in any position, I am afraid, to give the assurance my honourable Friend seeks about installation of electricity supply. However, it is a fact that there is a supply of electricity in almost every existing squatter area. The trouble is that many of these supplies are illegal and therefore potentially dangerous, but could I perhaps say, Sir, that as the Home Affairs Department has done a survey, could we perhaps wait to see what that report says, weigh up the financial implications and decide what the balance should be.

Oral answers**Firearms—carrying of**

7. MR LOBO asked: —

Sir, under what circumstances are off-duty policemen allowed to carry firearms?

SECRETARY FOR SECURITY: —Sir, police service revolvers are issued on personal charge to certain categories of police officers who are allowed to retain them off duty. There are three categories as follows:

- (a) officers of and below the rank of Station Sergeant who perform plain-clothes full-time detective duties;
- (b) officers of the rank of Inspector and above who perform plain-clothes detective duties who, in the opinion of a senior formation commander, are considered likely to be required to be armed at immediate notice; and
- (c) any police officer of the rank of Inspector and above who in the opinion of a police major formation commander should hold a personal issue revolver due to the nature of his duties.

MR LOBO: —Sir, in view of the large number of officers and men carrying firearms at all times and using them whenever necessary, perhaps my honourable Friend could tell me if these officers and men have sufficient firearm practice?

SECRETARY FOR SECURITY: —Sir, there are about 2,500 revolvers on personal issue, and in the ordinary course, members of the Uniform Branch have two courses of firing a revolver every year and fire 24 rounds on each occasion. The Commissioner of Police has in mind to increase the number of rounds fired in practice and to do so on four occasions each year when financial considerations permit this. Honourable Members may wish to know that in 1975 to date 110 shots have been fired in 41 cases, resulting in 19 offenders being injured and seven offenders being killed.

Firearms—loss of

8. MR LOBO asked: —

- Sir, (a) will Government state how many police firearms have been lost or stolen since 1st January 1974; and
- (b) of this figure, how many have been recovered?

SECRETARY FOR SECURITY: —Sir, twelve police revolvers have been stolen and none have been lost.

Seven of those stolen have been recovered.

Town Planning Bill

9. MR WU asked: —

Sir, when will a new Town Planning Bill be introduced into this Council?

SECRETARY FOR THE ENVIRONMENT: —Sir, I hope to present proposals for changes in the town planning legislation and machinery to Executive Council for consideration in July or early August. If these are acceptable, drafting in detail would start and legislation introduced in the Legislative Council at, I hope, the middle or end of next year.

Government business

Motions

COMMODITY EXCHANGE

Resumption of debate on motion (21st May 1975)

DR CHUNG: —Your Excellency, Hong Kong is well known as one of the very few places in the world where there is minimal control and interference by Government and maximum freedom in commerce and industry. This policy has served us well in the past and there is no indication that it will not continue to serve us equally well in the future—at least in the near future.

For this reason, it is obvious that we in Hong Kong should welcome the establishment of any new business venture which will contribute towards the orderly development of our economy and enhance employment opportunities for our people. However, since the introduction of this motion in this Council on 21st May, there have been many editorials particularly in the Chinese press commenting on the pros and cons of establishing a commodity exchange in Hong Kong. Roughly speaking, about half of them are in favour of and half against the motion. It has indeed become a topical controversy.

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The Unofficial Members of this Council have held three meetings and have had a long session with the Acting Commissioner for Securities to consider this matter. First, we examined the need for a commodity exchange in Hong Kong to deal particularly with cotton and sugar.

We are informed by the Acting Commissioner for Securities that when the commodity exchange is developed it would handle about 1,000 cotton contracts daily. Presumably this is an estimated figure but, when compared to the daily volume of business on the New York Cotton Exchange, this estimate of business volume for the proposed commodity exchange in Hong Kong appears to be very much over optimistic. As each contract is for 50,000 lb. of raw cotton, then with about 250 working days a year and assuming two contracts make a complete transaction, the total quantity of raw cotton traded in a year will amount to approximately 6,250 million pounds or 2.8 million tons. The annual consumption of raw cotton by the local spinning industry is currently about 400 million pounds or 180,000 tons. Even if we assume that all the cotton spinners in Hong Kong will hedge their requirements of raw cotton through its local commodity exchange (a very optimistic assumption indeed as will be seen later), it will provide only sufficient business for the commodity exchange to last for 16 working days in a year. The remaining 234 working days or 94% of the total will have to depend on business coming from local commodity speculators and from those hedgers and speculators outside Hong Kong.

I personally have had a discussion with the Chairman of the Hong Kong Cotton Spinners Association who in a letter dated 28th May to us has explained how local cotton spinners handle their raw cotton purchases and conveyed the views of his Association in this matter. The local practice is for spinning mills to deal with local agents of overseas shippers of cotton of various origins in contracting for deliveries of specified quantities based on samples showing quality and type required by the local mills in each case in anticipation of actual needs against yarn sales of the respective mills for shipment in future months. In essence, the spinners in Hong Kong do not resort to hedging on New York or other overseas commodity exchanges themselves against fluctuations in prices of raw cotton but prefer to leave the hedging to their overseas suppliers.

The Unofficials are also informed that some spinners might occasionally deem it desirable to buy futures on foreign markets for special

reasons of their own, but that it would be misleading to say such tradings on overseas commodity exchanges constitute a necessary or integral part of the work of cotton dealings of local spinners.

The Spinners Association had stated in writing that ". . . it is our firm belief that the customary way of buying (raw) cotton as above described has satisfied our normal needs, while a change in the procedure of handling cotton involving the making of commitments on a commodity exchange would not seem to be particularly useful in practical terms." Similarly, it is understood that the local non-ferrous metal industries using copper and zinc do not hedge themselves as they too prefer to leave the hedging to their overseas suppliers. Neither does the local bottler of a popular brand of soft drink hedge over the future price of sugar.

So far, there is no representation received by us from any local trade or industry which utilizes the commodities in question, expressing the need for the establishment of a commodity exchange in Hong Kong, except of course those who are directly involved with the operation of the proposed commodity exchange. On the contrary, I myself alone have received during the past few weeks more than ten letters—all were from individuals opposed to the setting up of an exchange.

Under the circumstances, Sir, it appears to the great majority of the Unofficial Members that a clear, definite and proven need for a commodity exchange in Hong Kong, based on the present pattern of operations of the relevant industries, has not yet been established.

Next, we assessed the economic benefits to be gained by having a commodity exchange in Hong Kong. The Unofficial Members agree that the establishment of a commodity exchange here would enhance Hong Kong's image as an international financial centre and at a time of world economic and financial gloom would be a welcome psychological boost. The Unofficials also recognize the benefit, albeit very small, of creating additional employment opportunities for possibly 300 to 600 persons.

It is confirmed by the Acting Commissioner for Securities that, according to established international practice, no stamp duty would be levied and that the main earnings accrued to Hong Kong would come from contract commissions. We are informed that, on average, the commission charged on each contract from each side would be about HK\$100. With 1,000 contracts a day and 250 business days a year, it is estimated that the total commission earned would probably amount to HK\$50 million. The Unofficial Members are also aware

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that there would be additional business generated for banks and for other financial houses and trading institutions in Hong Kong, but to what extent it is not possible, at least at this stage, to quantify.

Thirdly and finally, the Unofficials investigated into the fear as expressed by many people that the establishment of a commodity exchange in Hong Kong would be against the community interests. As honourable Members are aware, "over-drinking" has broken up many families in the West and "over-gambling" has caused many family tragedies in the East and particularly with the Chinese population. Only a few weeks ago, a Hong Kong Chinese youth committed suicide in Macao because of his heavy losses in gambling. Those honourable Members who have been in Hong Kong long enough and who know the Chinese community well will no doubt have heard the Cantonese slang "最無陰功,教人炒金", which means that it is most malicious to teach one to speculate in gold.

Sir, there are reasons behind this slang. During the past few decades, there have been bankruptcies and broken families due to speculation in gold in the Hong Kong Gold and Silver Exchange. As a result, local slang like the one I have just quoted was developed with a view to warning the population about the danger of speculating in gold futures.

Honourable Members should be interested to hear the view of an authority on commodity speculation. This is the Dow Jones-Irwin guide to commodities trading published in August 1973 in the USA. Here I quote:

"Myth No 11: Commodity speculation is little more than gambling. This is quite joyously true. The speculator who plays the best game will make the most money and have a good time doing it. The best odds in Las Vegas are on the Black Jack tables where a good player can find a house rake-off of only a couple per cent. The odds are much worse in roulette or craps. The racetracks normally rake off between 15% and 20%. In commodities not only is the game open and going all the time but the odds are actually slightly in favour of the speculator."

There is therefore no dispute that speculating in commodity futures is a form of gambling. The Acting Commissioner for Securities has confirmed that margin trading of 10% to 20% would be permissible in Hong Kong as in other overseas commodity exchanges. This is to say

that clients or traders or speculators only need to put up \$10,000 to \$20,000 for a contract of \$100,000 worth of commodity.

It is generally recognized in commodities trading that traders frequently forget or do not thoroughly understand the margin they put up is only a deposit to guarantee performance and represents only a small percentage of the value of the contract. Since the amount of margin is relatively little, the broker can and will "sell out" the customer and liquidate the contract as a "stop-loss" measure if the margin is seriously impaired by an adverse price movement and the trader fails to put up the required additional margin.

It is also generally recognized by the trade that it is the height of folly for anyone to trade in commodities up to the limit of his funds. Most people do realize this instinctively and begin their trading cautiously. However, the experience of many commodity specialists, as reported in some publications on commodity trading, is that too many people cast this caution aside after they have had a few successful tradings, one after the other. Many people, again from the published experience of one of the world's largest commodity brokers, seem to get the feeling that they have found the key to certain profits and believe that if the profits are certain, it is foolish not to commit themselves up to the limit. This is, of course, a fatal error. But by the time these people conceive their fatal errors, it is far too late. As a result, tragedies usually follow.

I was very much impressed by an editorial in one of the Chinese newspapers commenting on the proposed commodity exchange. It is said that the success of a commodity exchange is dependent on speculation, and speculation is gambling. The Hong Kong Government can only legislate to control the operation of commodity brokers so that traders will not be cheated but can not prevent traders, large or small, from speculation and gambling to their limits. This is a social problem and the editorial went on to warn us not to overlook this aspect.

The majority of Unofficial Members agree that it will not be possible to entirely stop consolidation or syndication by groups of small speculators on the proposed commodity exchange and feel that there is a real danger of this occurring and involving people with small means and savings. This, as honourable Members will recall, did happen at the time of the stock exchange boom in 1972 and early 1973. Fortunately, we did not allow stock trading on margin and most of them are still holding on with their stocks which, though greatly depleted in value, are continuously yielding dividends, some even higher than before. However this cannot be said for the commodity exchange.

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Here again, I would like to quote the words of a professional commodities trader and consultant to the commodities industry in the USA. He said and I quote: "Commodities are not at all like stocks. A stock is a tangible item. The investor owns it, he may store it, sell it, or give it away. A commodity contract is not an investment. It is a speculation."

In weighing the community interests against the economic benefits, the overwhelming majority of the Unofficial Members cannot see their way to supporting this motion and therefore are not in favour of the establishment of a commodity exchange in Hong Kong at least at this time.

The Unofficial Members, however, take note of the fact that many complaints have been made against existing brokers dealing with overseas commodity exchanges. It is understood that these complaints were unrelated to the activities of any existing overseas commodity exchange but were directed to those commodity brokers who had either gone into liquidation or absconded with their clients' money. In this respect, all the Unofficial Members wholeheartedly support the proposal made by my honourable Friend, the Financial Secretary, to register and control all commodity brokers in Hong Kong. But as I have already said the great majority of the Unofficials are against the establishment of a commodity exchange here in Hong Kong.

MR WANG: —

(Address delivered in the Cantonese dialect. The following is the interpretation of what Mr WANG said.)

The commodity exchange question has recently become a hot topic in the press and amongst the public. The supporters and opponents are about 50:50. Thus, on the face of it, the supporters do seem to have something on their side. But a careful study of the reasons put forward by the supporters leads to a different conclusion. The supporters' views can be summed up as follows:

- (1) A commodity exchange would be, directly and indirectly, good for Hong Kong economically, prestige-wise and status-wise.
- (2) If placed under strict control, it would develop properly and become a useful new venture without degenerating into a sort of casino.

- (3) Since Hong Kong already has a number of legitimate ventures which are of the nature of gambling, such as the gold and silver exchange, the stock exchange, race-course betting, and so on, why should we mind if the commodity exchange has an element of gambling in it?

The first point is undeniably the factor which should determine the question whether a commodity exchange should be established or not. Thus the Unofficials of the Legislative Council have sought as many opinions as possible from experts and from those in the connected trades before they studied and discussed the issue. Dr the Honourable S. Y. CHUNG has explained in detail the conclusion we have arrived at. I believe that we agree that a commodity exchange would not benefit Hong Kong as much as the optimists would like to think. The most we can say is that we don't gain much having it or lose much without it.

As regards the second point, it is doubtful whether the exchange would really develop under rigorous control. The suggested "control" can be separated into two stages: legislation and execution. As the saying goes: "道高一尺, 魔高一丈" (As the master gains a foot, Satan gains ten.) There is another saying, "一法立, 一弊生" (A new law would beget a new malpractice). That is to say, a legislator cannot foretell the events of the future nor can he guarantee that the law he has introduced would not contain some loophole that might be taken advantage of. Even Han Fei, China's master of the philosophy of law, could say no more than this: "事因於世, 而備適於事" (Events originate in the world, and any plan must be adaptable to the event). In other words, any legislation cannot avoid having a loophole; nor, can it always be suitable to the changing world and it needs revision at any time. The modern society is a complex and dynamic one and is always subject to rapid changes. But legislative procedures cannot be simplified. It is always difficult to make legislation fast enough to catch up with urgent problems. Besides, there are always speculators and adventurers bent on making use of any loophole in the law to make fat profits for themselves. For example, we can introduce a law that would limit "licensed" brokers on certain dealings. But we cannot lay our hands on those "unlicensed" ones. Take another example. We can stipulate that those who want to join the exchange have to pay a security deposit first. But can any legislation prohibit them from using the tactics of "splitting up wholes into fractions and incorporating fractions into wholes" just as many people did on the stock exchanges a few years ago? Hong Kong has its peculiarities as to its environment, situation, habits and customs. A law that has been applied effectively

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elsewhere may not be suitable for Hong Kong. Moreover, if the law is too strict, it may invite the criticism that it is against the spirit of freedom and democracy. If it is too prohibitive, it may also cause the complaint that it hampers development. But, if it has any loophole, it will lead to many malpractices.

Execution is an even more worrying problem. For example, many troubles have already arisen from the operations of commodity exchange brokers now operating without control. The Financial Secretary has also admitted that legislation is urgently needed to control them. How effective such legislation would be is still a question mark. As there is no clear-cut answer to this question yet we are even more doubtful whether a strict and comprehensive control of an established commodity exchange—which would require manpower and operating expenditure—could be effectively implemented. I believe that, as our financial situation is tight, and as Government departments have been urged to cut down expenditure, Government should weigh the pros and cons carefully, assess the value of the undertaking and see what the real priorities are: and Government should not take rashly a decision on any undertaking that would add to public expenditure.

As regards the third point, there is some difference between a commodity exchange and other kinds of gambling. Racing, for example, is strictly a local activity. All punters, be they winners or losers, are locals. Money coming out of one local's pocket would go into another local's. Its effect on our overall economy is fairly limited. Take another example. Gold and silver exchanges have been in existence in Hong Kong for decades. Everyone knows how risky "speculation in gold" is. Those who do not have ample resources and who are not psychologically prepared for the worst would hesitate to try it nowadays. Yet we can still hear now and then of people losing all their property over it. The stock exchange is another example. Stocks are actually bonds for local enterprises and locals investing in them should have the advantage of being locals. As a matter of fact, their investments did not do them much harm in the beginning. The trouble started when foreign financial groups, taking advantage of the freedom with which capital goes in and out of Hong Kong and making use of their enormous capital and hired professionals, played havoc with the market—and they could do so again any time. A commodity exchange is international in its nature. Yet Hong Kong is in a remote corner of the world and can scarcely obtain enough news and information about the economic situation or productivity in other parts of the

world, or about international financial undercurrents or major financial groups' manipulative strategies. Nor does Hong Kong have the resources to compete with other countries. One false step and we would be like the 1973 stock market victims "swallowed up by the whale". And hundreds of millions of HK dollars would be sucked away.

I am sure everyone still remembers the events that happened only some two years ago when the stock market was at its boom. The whole community could not escape being involved in it. It did not only affect our industry and commerce as a whole but also the individuals in the various trades and professions. Indeed, almost everybody was affected by it. There were those who closed their normal businesses to open up new stockbroking firms. Many others resigned from their jobs to become stock-brokers and traders. Many also gave up vocations for which they have been specially trained and went into this new trade. Even amahs and low-wage earners staked their entire hard-earned money on it. As it were in a twinkling of an eye, stock agencies sprang up like mushrooms and various operational facilities appeared in the market. Even \$100 or so could be used for a start and many young kids could often be seen hovering around the "gold fish bowl"! As this was supposed to be a legal and proper business transaction, many parents could hardly convince them otherwise or stop them from participating in this "business". During this period, when stock indices kept on rising, even new comers become millionaires overnight. Money is of course "easy come" and "easy go." Stock dealers became big spenders in town and the commodity prices soared with it. However, when the time came for the unexpected downfall, they were caught as if they had been struck by a thunder-bolt and awakened from a pleasant dream! ! The lucky ones very quickly found themselves back where they had started and the not so lucky ones became broke losing all they once possessed. But commodity prices once inflated did not deflate so easily. The adults might be able to bear up by tightening their belts and start afresh but for those youngsters who were used to extravagant spending, it was not easy to revert to modest living again. Indeed it is not saying too much that the many social problems which now confront us come as a result of the evils emanated from the stock market during the past couple of years. This is an undeniable fact known to everyone! I am raking up this event again to remind ourselves not to forget this painful lesson which had been taught us and not to repeat another episode of such pain and misery.

[MR WANG] Motions

In conclusion, as I see it, the establishment of a commodity exchange would not benefit our economy in any notable way nor has there been any reliable evidence to assure us that it can be effectively controlled. As there is a widespread concern that its operation may give rise to malpractices and cause serious consequences, I cannot say at this time and place that I welcome the idea of establishing a commodity exchange in Hong Kong.

MR CHEONG-LEEN: —Sir, many people in Hong Kong have deep reservations about the setting up of a commodity exchange just at this particular time. These reservations harp back to the stock market collapse which engulfed Hong Kong two years ago. At the same time whether or not the opening of a commodity exchange here will make Hong Kong people any better or worse gamblers is in my mind open to debate. If we had a commodity exchange, the volume of its transactions would be small fry compared to the amount of gambling, legal and illegal, as well as speculation that takes place in Hong Kong daily. At the very least the Government would derive some revenue from the transactions of a commodity exchange which would be initiated either locally or by overseas clients. From my point of view, Sir, the key question or rather the key questions are two-fold:

- (a) whether Government has fully and extensively studied the long term implications of having a commodity exchange in Hong Kong bearing in mind our existing economic conditions; and
- (b) whether in view of Government's other priorities to keep Hong Kong's industrial economy afloat in the face of world economic difficulties, it is the right time to set up such exchange at this time.

As far as I am concerned, I believe that the Government should bide its time and acquire more information and should concentrate more of its limited administrative and other resources, on strengthening our industries and increasing and making even more effective our efforts so that Hong Kong products can be more competitive against Taiwan, South Korea and other competitors. If Singapore is planning to set up a commodity exchange as has been hinted, I suggested that in so far as this particular venture is concerned, we should bear in mind the adage of not rushing in where angels fear to tread. It would be beneficial for Hong Kong to learn from the experience and expertise

of Singapore on this particular subject. It will never be too late for Hong Kong to set up a commodity exchange as and when circumstances dictate and there is a clear and pragmatic demand for its existence. Whilst still having an open mind on this subject, Sir, I do not support the setting up of a commodity exchange at this time and will vote against the present motion when the time comes to vote on it.

THE COLONIAL SECRETARY: —Sir, I have listened with care to the speeches of honourable Members and it is now the Government's duty to reflect and I suggest that honourable Members would themselves also like time for further reflection on this important issue.

The possibility of establishing a Commodity Exchange in Hong Kong is not a new one. In 1973 the then Senior Unofficial Member spoke on this subject in very different terms to those which we have heard today. During the debate on the second reading of the Commodity Exchanges (Prohibition) Bill 1973 he said, and this was without dissent from any of his colleagues, many of whom are still Members of this Council:

"Representations have been made to UMELCO by an organization which wishes to set up a commodity exchange in Hong Kong. Their representations fall into two parts. Firstly, it argued that the setting up of such an exchange would be of economic benefit to Hong Kong—and reading the speech of the honourable the Financial Secretary in this Council on the 18th July, I feel sure that there is not likely to be any disagreement on that score. At the same time, the Unofficial Members fully support Government's view that such exchanges in respect of the commodities listed in the bill itself should not be allowed to operate until such time as adequate and proper controls can be provided. The question is: how long will it take for the necessary legislation to be drafted? I hope that Government will be able to give an assurance that the legislation will be drafted at the earliest possible date, and would be grateful for some indication of when it can be presented to this Council."

Consequently, the root and branch attack on the proposals by Unofficial Members today has come as something of a surprise to the Government and perhaps also to some Unofficials who were present during the previous debate in 1973.

I do not want in any way to foreshadow the substance of our eventual decision at this stage. But I do urge that we should all

[THE COLONIAL SECRETARY] **Motions**

remember that Hong Kong is a sophisticated international commercial, industrial and financial centre. Against this background a decision of this Council on an issue of this importance must be based, and be clearly seen to be based, on arguments more practical and less emotional than some of those to which we have listened today. Indeed, a casual visitor entering the Chamber for the first time might have been forgiven if he had assumed that the debate was concerned with a proposal by the Government to establish a casino.

It is a fact that commodity exchanges are considered unexceptionable and useful facilities in many other great commercial and trading centres. On the other hand, it may be, as honourable Members have implied, that the temperament of Hong Kong's people may cause a commodity exchange to be a source of social hazard, no matter what controls and safeguards are applied to it or how responsible the local and international firms participating in it may be.

But before we accept such a view, we must surely be satisfied that we are not underrating the good sense of our fellow citizens, as well as the capacity of our legal draftsmen to ensure adequate safeguards.

There will of course always be men in whom avarice outweighs prudence. How far must a Government go in protecting those who are subject to this weakness from the consequences of their greed? Should a project which is capable of bringing benefit to a community be abandoned because it can also bring disaster to those who might seek to misuse it?

Furthermore, we must ask ourselves what the implications of such self condemnation might be for Hong Kong's future standing as a financial and commercial centre and how far such a pessimistic view of the stability and good sense of our people will further our interests abroad?

Will there not be those (among them no doubt our competitors) who will ask whether the principles on which Hong Kong has flourished are being eroded? Will they not wonder if our faith in the rewards of enterprise has become clouded by caution? Will they think that the Government is inhibiting initiative at the behest of an over-developed sense of paternalism?

I do not attempt to answer these questions. I merely put them on record as deserving of at least as serious consideration as the arguments advanced by honourable Members.

I propose that we should all reflect further on what has been said today and when the motion was moved, and accordingly I move that the debate on this motion be now further adjourned.

Motion made. That the debate on the motion be further adjourned—THE COLONIAL SECRETARY.

Question put and agreed to.

LOANS ORDINANCE 1975

THE FINANCIAL SECRETARY moved the following motion: —

In exercise of the powers conferred by section 3(1) of the Loans Ordinance 1975, that the Government be authorized to borrow for the purposes of general revenue a sum or sums not exceeding in total the equivalent of £ 6,500,000 sterling.

He said: —Sir, the purpose of this motion is to provide authority for the Government to conclude agreements, under section 3(1) of the Loans Ordinance, to borrow, for general revenue purposes, the equivalent of £ 6.5 million. The proceeds of the loans will be applied to expenditure for which the Finance Committee of this Council has already approved vote provision.

Of this sum £ 5 million will, subject to the satisfactory conclusion of negotiations, take the form of a shopping list credit. The balance of £ 1.5 million will, again subject to the satisfactory conclusion of negotiations, take the form of a bank loan which will be used to cover the cost of the \$2 and 20 cent coins which will be put into circulation for the first time in August next.

As honourable Members may know, a shopping list credit is a buyer credit which can be used to provide funds for the purchase of a variety of goods or services. It is not, as is more usual for buyers' credits, tied to specific purchases or projects.

When the negotiations for these two loans began with the bank concerned, I hoped it would be possible to use part of the shopping list credit to finance the purchase of the new coinage; but this proposal had to be dropped. However, the bank with which we have been negotiating the shopping list credit, which was the first credit we were concerned with, offered to provide a separate US dollar loan to cover the coinage costs.

[THE FINANCIAL SECRETARY] **Loans Ordinance 1975**

Sir, the information I have provided about these loans is rather scanty; but there is not much more I can say until the negotiations have been completed. I can, however, assure honourable Members that the agreements which this motion will authorize the Government to enter into will not be concluded unless I am sure, all things considered, that the terms are the best we can obtain. Under section 3(3) of the Loans Ordinance, I am required to cause copies of the agreements entered into under the authority of this motion to be laid on the table of this Council, and honourable Members will, therefore, have an opportunity to study the agreements in detail.

Question put and agreed to.

First reading of bills

ACETYLATED SUBSTANCES (CONTROL) (AMENDMENT) BILL 1975

PHARMACY AND POISONS (AMENDMENT) BILL 1975

Bills read the first time and ordered to be set down for second reading pursuant to Standing Order 43(1).

Second reading of bills

**ACETYLATED SUBSTANCES (CONTROL) (AMENDMENT)
BILL 1975**

THE ATTORNEY GENERAL moved the second reading of: —"A bill to amend the Acetylated Substances (Control) Ordinance 1975."

He said: —Sir, a nought was omitted by mistake from the Acetylated Substances (Control) Bill, which passed this Council some weeks ago. And naught else availing to cure this error, this bill seeks to put that nought into its intended place in the principal Ordinance. The position will then be that regulations may provide a penalty of up to \$100,000 for offences against them instead of the maximum penalty now prescribed of \$10,000.

Motion made. That the debate on the second reading of the bill be adjourned—THE ATTORNEY GENERAL.

Question put and agreed to.

PHARMACY AND POISONS (AMENDMENT) BILL 1975

DR CHOA moved the second reading of:—"A bill to amend the Pharmacy and Poisons Ordinance."

He said:—Sir, the existing Pharmacy and Poisons Ordinance was revised and came into effect in 1970, at which time it was recognized that a review of the present Pharmacy and Poisons Regulations and Poisons List was required. Since then, the Pharmacy and Poisons Board has completed a comprehensive revision of the Regulations and Poisons List. As a result, new controlling regulations are necessary and the present bill will extend the powers of the Board to make these regulations.

This bill will enable the Board to establish a committee to deal with the licensing of wholesale dealers in poisons. Provision is made too, for a right of appeal to the Supreme Court against a decision of the Committee or the Board concerning the issue, revocation or suspension of a licence.

The Board will also be able to make regulations for the control of the manufacture of pharmaceutical products and poisons.

This legislation makes new provision for the Board to make regulations exempting any article or substance from the provisions of the Ordinance and also provides that contravention of any regulations made under section 29 of the principal ordinance shall be an offence for which penalties may be described.

Motion made. That the debate on the second reading of the bill be adjourned—DR CHOA.

Question put and agreed to.

INLAND REVENUE (AMENDMENT) (NO 2) BILL 1975**Resumption of debate on second reading (2nd April 1975)**

Question proposed.

MR LEE:—Your Excellency, when moving the second reading of the bill now before Council, the honourable Financial Secretary disclosed frightening figures of back taxes which had been recovered in recent years as well as the percentage of understatement of earnings

[MR LEE] **Inland Revenue (Amendment) (No 2) Bill—resumption of debate on second reading (2.4.75)**

and profits in the cases finalized by the Investigation Section: for the year to 31st March 1974 being as high as 79.2%. These figures are themselves convincing proof that the investigation powers of the Inland Revenue Department need to be strengthened and penalties for tax offences increased to deal with and deter tax evasion effectively as are now proposed in the bill before Council. These provisions are essential for the purpose not only of collecting our much needed revenue, particularly in these hard times, but also to avoid the honest taxpayers having otherwise to pay at a higher rate of tax in order to meet our ever increasing demands for public expenditure.

While in full agreement with the proposed amendments in principle, the Unofficials have concerned themselves with ensuring that the powers now sought by the Inland Revenue Department will not unnecessarily infringe on the rights of the innocent citizens. They were pleased that Government had agreed to extend the resumption of the second reading of this bill for as long as two and a half months. This had given sufficient time to study the proposals and to consider the representations made by professional and other interested bodies. As a result, the Unofficials have proposed a few amendments which I understand are acceptable to Government.

Delegation of Commissioner's Powers and Removal of

Right of Objection

Clause 3 of the bill seeks to amend section 51A of the principal ordinance in two important aspects. Firstly, it permits the power conferred by that section, to require a person to produce statements of assets and liabilities, to be delegated to an officer not below the rank of chief assessor. Secondly, it removes the right of such person, if he feels aggrieved, to give notice of objection to produce such statements and for his objection to be heard by the Board of Review. These have given rise to some controversy in that while the production of such information is essential for the Inland Revenue Department to ascertain whether the person is taxable, they may be an unfair burden on him if he is not so liable. My honourable Friend, Mr T. S. Lo, has suggested a compromise solution which we hope will be acceptable to Government. Later on, he will elaborate on the details of his suggestion.

Power of Entry and Seizure

Clause 4 of the bill provides that, by a magistrate's warrant, the Commissioner (or an authorized officer) has the power of entry and seizure of not only those books, records, accounts or documents belonging to a person who is suspected of tax evasion but also those belonging to another person.

This has created some misapprehension in the minds of the public, as some fear that this power, if unrestrained, would be detrimental or at least would cause some inconvenience to their business. Obviously, for any going concern, it will be prohibitive for its books and records, or even a part thereof, to be seized for any span of time, however short that may be. But the hands of the Commissioner must not be tied if he is to effectively deal with tax evasion. It is therefore suggested that, instead of seizing the books and records, only copies of books and records not belonging to the person suspected of a tax offence and directly related to the suspected person's transactions may be taken.

With these remarks, Sir, I support the motion.

MR LO: —Sir, as my honourable Friend Mr Q. W. LEE has warned Members, I would like to say a few words about the proposed removal of the right of objection and appeal under section 51A.

To remove the right of objection or appeal goes against the grain of most legislators and representations against the removal have been made both by lawyers and accountants. On the other hand, the Inland Revenue are adamant that the present right of objection weakens unacceptably the department's powers of investigation of suspected tax evasions.

Being conscious that both of these diametrically opposed views have merit, Unofficial Members sought to find a compromise. They suggested that, whilst the right of objection might be removed, the power of the Commissioner to serve a notice would have to be limited. He would have, in each case, to present the facts supporting his use of section 51A to a special panel of the Board of Review, without disclosing the identity of the person concerned. If this special panel considered that a reasonable case had been made out by the Commissioner that the person ought to furnish a statement of his assets and liabilities, the panel would then endorse the notice sought by the Commissioner and the suspect would have no right to object. This compromise, I gather, is acceptable to the Inland Revenue and amendments to the bill will accordingly be made at the committee stage.

[MR LO] **Inland Revenue (Amendment) (No 2) Bill—resumption of debate on second reading (2.4.75)**

Subject to these remarks, I support the motion.

MR CHEUNG: —Sir, this bill provided for the increase substantially of a number of penalties and Unofficial Members took the opportunity of going through the ordinance to see whether any of the other penalties provided were in line with the triple rate which was being introduced by the Government.

We discovered that under section 81 of the principal ordinance, a fine of only \$1,000 is provided for breach of secrecy under the terms of the ordinance. This fine, even at its maximum, and assuming magistrates impose it at its maximum, is inadequate and is not a deterrent for unscrupulous or curious persons who may seek information about the affairs of another taxpayer from officers of the Inland Revenue Department. It would be unrealistic to think, in view of the small level of this fine, that if such an unscrupulous or curious person is determined to find out the affairs of other taxpayers, he would not be able to offer sufficient inducement to an officer in the department to find out the information for him and to act in breach of his oath of secrecy.

Accordingly we felt that the fine is now out of date and perhaps, derisory; and we have discussed the matter with my honourable Friend the Attorney General and we have told him that at the committee stage we would propose an amendment to increase the fine to an adequate level which my Unofficial colleagues think should be \$50,000. I ought to add in fairness to the Commissioner of Inland Revenue and his staff that we have not been prompted to suggest this amendment by any thought that he or any members of his staff have disclosed confidential information of any kind to any other Government department or official.

With those remarks, Sir, I support the bill.

THE FINANCIAL SECRETARY: —Sir, I am very grateful to honourable Members for having completed their consideration of the representations they have received in time for this bill to proceed on its way and hopefully to be passed by this Council well before the end of next month when sub-section (4) of section 51 of the principal ordinance is due to expire unless it is made part of the permanent law by clause 2 of this bill.

I of course welcome their support of the Government's objective of reducing the incidence of tax evasion, not only to protect the revenue—and if the revenue is not protected our low and narrowly based fiscal system is put at risk—but also to re-assure honest taxpayers that they alone are not expected to carry the burden of public expenditure. I am not altogether surprised that honourable Members find difficulty with clause 3(b) of the bill which removes the existing right of objection and appeal by a person on whom a notice for a statement of assets and liabilities has been served. I tried to allay honourable Members' misgivings by offering to restrict the exercise of the power to issue such a notice to officers of directorate rank in the Inland Revenue Department. I linked this with an offer to place a time limit on the clause as drafted when it would be subject to review; and to a further offer to present an annual report on the number of cases in respect of which notices had been served. But I gather that honourable Members' misgivings remain.

Instead, through my honourable Friend Mr T. S. LO, they have suggested that in lieu of the right of appeal being withdrawn, the Inland Revenue Department should be required to seek the endorsement of the Board of Review sitting as an administrative panel. I am not attracted by this proposal for I think it confers a quite inappropriate task on the Board of Review which is essentially an appellate body. However, I accept it (*laughter*), albeit reluctantly, and for a trial period, subject to confirmation from the Chairman of the Board of Review that he sees no procedural or philosophical difficulty. Under the proposed amendment the question of delegated authority does not arise as it will be the department in the name of the Commissioner which will refer requests to the Board for their endorsement of the issue of notices. So, at the committee stage, I shall be moving amendments to clause 3 to drop the proposed amendment to sub-section (1) of section 51A and to substitute the proposed Board of Review procedure for the objection and appeal provisions in sub-sections (3), (4), (5), (6) and (7) of section 51A.

As regards clause 4, Sir, I accept my honourable Friend Mr Q. W. LEE'S suggestion that the Commissioner's powers should be restricted to taking copies of documents and that, furthermore, only copies of documents which relate to the tax affairs of the person suspected of evading tax should be taken.

Finally, Sir, my honourable Friend Mr Oswald CHEUNG drew attention to the existing provision in section 81 of the principal ordinance for a fine of \$1,000 for a breach of secrecy by an officer of the

[THE FINANCIAL SECRETARY] **Inland Revenue (Amendment) (No 2) Bill—
resumption of debate on second reading (2.4.75)**

Inland Revenue Department. It is a matter of pride to the Commissioner that there has not been, since the introduction of the ordinance in 1947, a single prosecution for a breach of these provisions. Nevertheless, as a token of the importance which he attaches to the preservation of secrecy, he shares the view that the time has come for an increase in the maximum penalty which has remained unchanged since the ordinance was enacted. I am at present consulting the Attorney General on a new level for the maximum penalty, and an amendment will be moved to section 81 at the committee stage.

Question put and agreed to.

Bill read the second time.

Bill committed to a committee of the whole Council pursuant to Standing Order 43(1).

Adjournment

Motion made and question proposed. That this Council do now adjourn—

THE COLONIAL SECRETARY.

3.45 p.m.

Hong Kong's external commercial relations with particular reference to the negotiations on textiles with the European Economic Community and Hong Kong's future position in the Community's Generalized Scheme of Preferences

MR TIEN: —Sir, I rise to speak on two subjects relating to Hong Kong's external commercial relations, with which I have had close personal association: textile negotiations with the European Economic Community and the Community's Generalized Scheme of Preferences.

First, textiles.

As honourable Members are aware, Hong Kong has so far had two rounds of negotiations with the Community with a view to concluding a mutually acceptable agreement under the terms of the Geneva Multi-Fibre Arrangements to cover Hong Kong's exports of textiles to the Community. I had the pleasure of serving as one of the three industrial advisers to the Hong Kong delegation during the second round held in May in Brussels.

The importance of these negotiations, which involve over 60% of our exports to the EEC, is of course fully recognized by the Government as evidence of the very strong and skilful negotiating team fielded by Hong Kong. I personally feel more than satisfied with the way in which the first two rounds of negotiations were conducted. While the progress has been slow, I am particularly pleased to see that the Hong Kong negotiators have taken the line that, while they understood the trade was anxious to see certainty restored to the market in the immediate, and perhaps also the more distant future, Hong Kong should not enter into an agreement which is totally unacceptable to the trade.

As I said just now, the importance which the Hong Kong Government attaches to these negotiations is reflected by the strength of the Hong Kong negotiating team. I hope that this strength will not in any way be weakened in the third, and hopefully the final round, which is expected to be joined in July if possible; and that Hong Kong will field an equally strong team this time. I am sure Your Excellency will join me and my honourable Friends in keeping our fingers crossed for the Hong Kong team.

If I may now turn to Hong Kong's position in the Community's Generalized Scheme of Preferences.

Under the terms of the 1975 Scheme, Hong Kong's leather footwear and textiles continue to be excluded from the benefits of the Scheme. We have, I believe, suffered in real trade terms as a result of this unequal treatment of Hong Kong. I personally am appreciative of the efforts of the Hong Kong Government Office in Brussels in seeking improvements for Hong Kong. I am sure my honourable Friend, the Director of Commerce and Industry, is doing everything he can to secure improvements in Hong Kong's position in 1976. I welcome the announcement by the EEC Commission, reported by *Reuters* this morning, that for the first time Hong Kong's cotton textiles would be accorded GSP in 1976. I am sure we are all anxious to learn the details of what additional benefits Hong Kong may derive from this announcement. However I believe we could achieve better results if there is a better understanding of Hong Kong's situation on the part of Community officials who deal with this subject. The discriminatory treatment meted out to Hong Kong is, I suspect, largely the result of uninformed opinions about Hong Kong. Such opinions can be corrected by a visit to Hong Kong by these officials in the Community. Sir, I think the suggestion by Mr Tran Van THIN, the Commission official responsible for GSP among other things, who visited Hong Kong earlier this year, that Hong Kong might consider

[MR TIEN] **HK's external commercial relations with particular reference to the negotiations on textiles with the EEC & HK's future position in the Community's GSP**

inviting officials from Member States to visit Hong Kong, merits serious consideration. I hope that despite financial stringency, we would be able to find ways and means to bring these officials to Hong Kong. The costs are likely to be minimal in comparison with the volume of trade involved. The benefits can go well beyond the question of GSP in that we can at the same time achieve a better relationship with these officials, with whom Hong Kong will continue to have dealings in GSP, and also other trade matters.

In conclusion, Sir, I would point out that trade, and improvements in the terms of trade, are matters which bear a direct relationship with the well being, the state of employment and unemployment, and other economic facts of life of Hong Kong. We should be seen to be doing everything we can to ensure that Hong Kong's trading interests are being protected in a way which the public would expect us to do.

3.50 p.m.

MR MCGREGOR: —Sir, my honourable Friend has spoken on two subjects which are highly important to Hong Kong's trade and industry, and therefore to the economy, and which, as honourable Members will already be aware, have exercised the attention of the Government for a considerable period of time. Both subjects are important not only in terms of trade and potential for trade, but also in terms of principle.

Before speaking briefly about the specific points raised by my honourable Friend I should like to assure this Council, if any such assurance is necessary, that the Government is fully conscious of the significance of our textile trade with the European Economic Community and has taken continual and comprehensive action to secure a satisfactory outcome in both issues. By comprehensive, I do not simply mean the substantial effort consistently applied by the Commerce and Industry Department. I include work done by our European offices in Brussels, Geneva and London, by the Economic Services Branch of the Secretariat, and by very senior officials including the Financial Secretary and, Sir, yourself. I would also mention the real assistance given to us by British officials in the context of an improvement for Hong Kong in our access to the EEC Generalized Scheme of Preferences.

Let me turn to the subjects specifically. In regard to the negotiation of a textile agreement with the EEC, I must say that this is proving

to be one of the most difficult and complicated restraint agreements we have ever had to discuss. Not only are we doing so at a time of almost unprecedented economic and trade disruption across the world but we are negotiating for the first time with a trading bloc which represents over 250 million consumers, nine member countries and many associate member countries. The diversity of interests within the Community and the differing importance to their individual economies of their textile industries make the task of negotiation for Hong Kong, and I have no doubt for the EEC also, formidable and time consuming.

We are negotiating for high stakes and on behalf of an industry which means more, in real terms, to our economy than do the textile industries of Europe mean to their countries' economies or to the Community as a whole. In this situation and because an agreement with the EEC may well set the pattern for later agreements, we have no alternative but to take a hard negotiating line on matters, some of them technical and interpretative, some of them doctrinal, which appear to us to have great significance.

We are, of course, protected and assisted to a large degree by the provisions of the Arrangement Regarding International Trade in Textiles or the Multifibre Textiles Arrangement as it is more commonly called. We have the Textiles Surveillance Body in Geneva to ensure that actions taken and agreements reached are in accordance with the spirit and letter of the MTA. We are in a large sense, therefore, negotiating with the Community as equals with equal rights and obligations. In seeking our rights, however, we have been very conscious of the importance of the trade involved and of the need to tackle the important issues with determination. We do not haggle over minor points and the length of the negotiations is an indication of the many aspects which are of great concern to us.

Hong Kong has been represented so far by a fairly large negotiating team which has had support from advisers from the local textile industry and trade and from officials from our European offices. I am pleased to note my honourable Friend's tribute to their skill. The Government intends that Hong Kong shall be adequately represented at the third round of negotiations in Brussels beginning on the 7th of July.

With that background, I wish to assure honourable Members that we shall continue these negotiations with the full intention of reaching an agreement satisfactory to both sides. I must stress however that the road to agreement is not one-way.

[MR MCGREGOR] **HK's external commercial relations with particular reference to the negotiations on textiles with the EEC & HK's future position in the Community's GSP**

I turn now to the question of Hong Kong's access to the EEC Generalized Scheme of Preferences. The Commerce and Industry Department has been very active on this issue for several years and, again, full use has been made of our European offices with their wide and friendly contacts with EEC officials and with others who have some influence on EEC thinking and policies. The British Government also has been most helpful in securing improvements for Hong Kong. The Hong Kong Trade Development Council has taken every opportunity of pressing Hong Kong's legitimate interest in this matter and local representatives of the Governments of the Member States have also helped to improve knowledge of Hong Kong in the Community.

The cumulative result of all this effort is that Hong Kong has enjoyed, since 1971, quite substantial access to the EEC Generalized Scheme of Preferences. Improvements were obtained for the 1975 scheme for footwear and we have just received information that the EEC Commission has proposed that the 1976 EEC scheme should include access for Hong Kong in a few cotton textile items. We do not have the full details as yet and it would be unrealistic to expect really meaningful improvements. What is important however is that our legitimate claim to fair and equitable treatment by the EEC is in the process of being recognized. It is the principle, not the trade, in this instance which is very important to us.

We have tried hard to improve European knowledge of Hong Kong, our economy and our industry and to put our textile trade into perspective. EEC officials regularly visit Hong Kong for one reason or another and the Government takes these opportunities to seek a better understanding of Hong Kong in Europe. Mr Tran Van THINH's visit was most useful in this respect. His advice that there should be sponsored visits has been under examination and we are in fact in touch with the EEC Commission about this possibility. As my honourable Friend has remarked, however, there is a problem of finance and expenditure will have to be considered against other competing demands and possible advantages for Hong Kong.

We are now, obviously, thinking about the 1977 scheme. We shall continue our efforts to improve Hong Kong's access and we shall not be satisfied until we have the same access as other developing territories to this and to all other GSP schemes.

I should like to close by assuring this Council that the Government and its officials are solely concerned to secure and protect Hong Kong's interests. In so doing, we must rely on our own judgment as a Government and as influenced by Unofficial advice. It is the Hong Kong interest that dictates the Government's policies in trade and in all else.

Question put and agreed to.

Next sitting

HIS EXCELLENCY THE PRESIDENT: —In accordance with Standing Orders I now adjourn the Council until 2.30 p.m. on Wednesday the 2nd of July.

Adjourned accordingly at four o'clock.