

**Summary of Views Expressed at  
the Fifth Meeting of  
the Committee on Economic Development and  
Economic Cooperation with the Mainland  
of the Commission on Strategic Development  
held on 21 August 2006**

The Chairman welcomed Members, Mr. Christopher Cheng, Chairman of the Competition Policy Review Committee (CPRC), and other attendees (see Annex) to the meeting.

**I. Matters Arising from the Last Meeting**

2. The Chairman reported that the summary of views of the fourth meeting of this Committee had been issued to Members and relevant bureaux and departments and uploaded to CSD's webpage in July.

**II. “Report on the Review of Hong Kong’s Competition Policy”  
(Paper Ref: CSD/EDC/6/2006)**

General

3. Members expressed their appreciation to the work of the CPRC. They generally agreed to the need for introducing appropriate measures to ensure fair competition and to combat anti-competitive conduct. Many Members supported the cautious approach as adopted in the CPRC Report to avoid adversely affecting Hong Kong's open but small economy. Members had mixed views on specific recommendations set out in the Report.

Proposed Legislation to Safeguard Competition

4. Some Members considered that the proposed legislation would help provide a level playing field for enterprises in different sectors. Some Members highlighted that many small and medium enterprises

were supportive to the introduction of the legislation. Hong Kong was renowned for its open and free market, which was vital to its economic development.

5. However, some Members were skeptical about the need to introduce new legislation on competition in view of the small number of complaints received. With reference to international experience, some Members viewed that anti-competition policy was not very effective in particular for small cities like Hong Kong. A few Members were skeptical that it would be difficult to introduce legislation to ensure “fair competition” which was a concept difficult to define. They considered that legislation related to anti-monopoly would be relatively easier and would serve more practical purpose than a cross-sector competition law covering all types of anti-competitive conduct.

6. Members cautioned that the proposed new legislation and other regulatory measures would lead to over-regulation and expansion of bureaucratic controls which might adversely affect the efficient operation of enterprises. It was important for the Government to strike a balance between regulation and facilitation of Hong Kong’s economic development.

7. As regards the recommendation that sanctions handed down by the proposed regulatory authority should be limited to civil actions, some Members expressed concern that it might weaken the deterrent effect of the legislation and frustrate the enforcement power of the proposed authority. A Member also suggested including a mediation mechanism in the regulatory framework.

8. A Member expressed strong reservation on the proposed exemption from the application of the legislation to be made on public policy grounds. The exemption would be inconsistent with the overall objective of the exercise to encourage competition.

#### Anti-Competitive Conduct

9. A Member expressed concern that the scope of

anti-competitive conduct under the proposed new legislation did not cover market structure. He raised that if a company had a significant market share (eg. over 80%), it might not need to exercise any anti-competitive practices to monopolize the market. The Member suggested the Government to conduct a review on the proposed legislation on the scope of anti-competitive conduct.

10. A Member suggested that provisions should be made in the proposed legislation to remove barriers of market access to promote competition. The example of liberalisation of telecommunications industries in Hong Kong clearly indicated the economic benefits of such an approach.

11. The Chairman of the CPRC responded that –

- (i) There were quite a number of cases of anti-competitive practices in Hong Kong, and some small and medium enterprises were adversely affected. Many of the enterprises supported a regulatory regime to protect them from unfair competition;
- (ii) The current competition policy lacked legislative backing, and the existing authority, i.e. Competition Policy Advisory Group, did not have investigation and enforcement powers. It therefore made effective combat of anti-competitive conduct difficult. The proposed new legislation and regulatory framework should address such inadequacies;
- (iii) As regards the regulation of market structure, it should be handled with care since it would have significant impact on the local market economy; and
- (iv) The proposed regulatory authority, i.e. Competition Commission, should be responsible not only for investigating potential cases and enforcing the new legislation, but also for public education and promoting awareness of the importance of fair competition to an efficient market.

12. The Chairman made the following comments -

- (i) Members agreed that it was important to maintain an efficient market economy for Hong Kong, and generally supportive of introducing appropriate measures to ensure fair competition or combat anti-competitive conduct without sacrificing the openness and competitiveness of Hong Kong;
- (ii) The role of the Government was to provide a level playing field for operators of small, medium and large enterprises in Hong Kong; and
- (iii) Following the release of the Report by the CPRC, the Government would proceed to consult the public on the Report, after which the Government would decide on the way forward regarding competition policy based on the views collected.

### **III. Consultation paper on “Broadening the Tax Base Ensuring our Future Prosperity – What’s the Best Option for Hong Kong?”**

#### General

13. Members agreed that Hong Kong’s existing tax base was narrow. The majority of our tax revenue relied on direct taxes and property-related taxes. This could make our source of public revenue unsustainable in the long term. A Member further cautioned that according to some international studies, public income from direct taxes would likely continue to decrease due to the prevalence of e-commerce, intra-company trade and off-shore financing activities in association with globalisation. Hong Kong would likely be affected similarly in the future.

14. Members also accepted that it was necessary for a responsible Government to explore measures to broaden the tax base in order to maintain Hong Kong’s balanced and sustainable development, and tackle

the expected increase in Government expenditure in health care, welfare, education and manpower training. Members generally considered that Goods and Services Tax (GST) was an option that could be positively considered for the tax reform. However, many Members considered that it would be an uphill battle to convince the public, in particular the grass-root, to accept the introduction of GST.

#### Proposed Use of Revenue

15. To facilitate the discussion of the introduction of GST, Members urged the Government to provide a comprehensive package on the proposed use and allocation of the revenue to be collected from the tax. Some Members felt that the major part of the additional revenue should be allocated to alleviate the burden of the middle-class, since the middle-class had been the major source of tax revenue but had enjoyed the least public benefits provided by the Government. A Member further suggested that the Government might consider making use of GST to raise additional income to fund the increase in spending on medical or welfare services.

16. Upon the introduction of GST which could help ensure a more stable income of the Government, a Member opined that the Government should reduce the amount of fiscal reserves. The surplus funds could then be allocated to strengthen and improve the provision of public services to the society.

#### Tax Reliefs and Allowances for Low-income Households

17. A Member considered that GST was not necessarily regressive in nature. The key was the details of implementation. There were many overseas examples to address the GST tax burden on the low-income or disadvantaged groups. Some Members, however, considered that the Government had not provided a comprehensive package of tax relief and compensation measures alongside with the introduction of GST. This had made the discussion of GST rather emotional. A Member suggested providing exemption on food and public transportation, whilst another Member suggested introducing a negative income tax system in providing

low-income individuals or households with a sum of allowance to offset the increase in their daily expenditure arising from GST.

#### Impact on the Existing Simple and Low Tax Regime

18. Some Members viewed that the introduction of GST would not adversely alter the much valued simple and low tax regime in Hong Kong. Some Members pointed out that the administrative cost of GST should be relatively low in Hong Kong when compared with other places due to its smaller size and expected higher compliance and collection rates.

#### Specific Proposals to Encourage Informed Discussion

19. Members generally considered that the majority of the general public had limited understanding of GST. Some of them might have mistaken the introduction of GST as a tax increase instead of a tax reform. The Government should encourage more informed and sensible discussion in the society on the issue. In this respect, the following specific suggestions had been made to encourage a more rational and balanced discussion in Hong Kong -

- (i) A long term projection of public expenditure and revenue should be provided for public information. In view of the ageing population in Hong Kong, such projection would likely indicate an upward trend particularly in the medical, welfare, education and manpower training aspects. This could demonstrate to the public the long term need for broadening the tax base of Hong Kong;
- (ii) Concrete evidence, including facts and figures, should help illustrate to the general public that the introduction of GST would ensure a more stable income of the Government, which in turn should ensure better provision of welfare, medical services, education, etc. to the general public. These public services would mostly be enjoyed by the grass-root and the low-income families; and

- (iii) The Government should present a whole package of tax relief and compensation measures, e.g. lowering salary tax rate, exemption items of GST, etc. alongside with the introduction of GST for public consideration

20. The Chairman made the following comments -

- (i) According to overseas experience, it was not uncommon to see opposition at the initial stage of public consultation on GST. However, as a responsible Government, it was necessary to consider measures which could broaden the tax base in order to maintain Hong Kong's long-term competitiveness, social harmony and sustainable development, as well as to tackle the expected increase in Government expenditure in health care, welfare, education and manpower training. GST was an option that could be positively considered for the tax reform;
- (ii) As regards the administrative cost of GST, the Government could keep it as low as 1.5% as the proposed framework of GST was simple. This would help simplify the administrative procedures and minimize the cost;
- (iii) To promote a more rational discussion of the subject, the following key issues would be raised in the community for consideration:
  - Was it necessary to broaden the tax base of Hong Kong?
  - What were the options for broadening the tax base?
  - If GST was the preferred option, what should be the framework and features of the GST that would be most suitable for Hong Kong?
  - What would be the effects of introducing GST to different sectors of the society? How to alleviate the effects?
  - What should be the appropriate relief and compensation measures associated with GST?

- (iv) The Government had an open mind regarding various proposals to broaden Hong Kong's tax base. It was necessary to allow more time for public discussion. The 9-month public consultation exercise was therefore appropriate. A constructive and rational discussion in the society on the subject would be beneficial to the examination of any tax reform proposal.

21. The Chairman stated that the Secretariat would prepare a summary of views expressed at the meeting, and distribute to Members as well as relevant bureaux and departments for reference. Members were invited to submit to the Secretariat their further comments by post or by email, which would be circulated to other Members to facilitate exchanging of opinions. The date of the next meeting had been rescheduled for 31 October 2006 (Tuesday).

22. The attendance list is attached.

Secretariat to the Commission on Strategic Development  
October 2006



策略發展委員會  
經濟發展及與內地經濟合作委員會第五次會議  
2006年8月21日

Fifth Meeting of  
the Committee on Economic Development and  
Economic Cooperation with the Mainland  
of the Commission on Strategic Development  
21 August 2006

出席人士

Attendance List

主席 :

Chairman :

The Financial Secretary

財政司司長

官方委員 :

Official Members :

Head, Central Policy Unit

中央政策組首席顧問

非官方委員 :

Non-Official Members :

Prof CHAN Ka-keung, J.P.

Dr CHAN Man-hung, J.P.

Mr CHAN Mo-po, Paul

Mr CHANG Ka-mun

Prof CHEN Kwan-yiu, Edward, G.B.S., J.P.

Ms CHIANG Lai-wan, Ann

Mr CHOI Koon-shum, Jonathan, J.P.

Mr CHUNG Chi-ping, Roy, J.P.

Mr FUNG Hau-chung, Andrew

Dr HUI Cheuk-kuen, Desmond

The Hon LEUNG Kwan-yuen, Andrew, S.B.S., J.P.

Prof LIU Pak-wai, S.B.S.

Ms LO Kai-yin

陳家強教授, J.P.

陳萬雄博士, J.P.

陳茂波先生

張家敏先生

陳坤耀教授, G.B.S., J.P.

蔣麗芸女士

蔡冠深先生, J.P.

鍾志平先生, J.P.

馮孝忠先生

許焯權博士

梁君彥議員

廖柏偉教授, S.B.S.

羅啟妍女士

Mr LO Wing-hung, B.B.S.  
Dr LUK Tei, Lewis  
Prof LUNG Ping-ye, David, S.B.S., J.P.  
Mr MA Fung-kwok, S.B.S., J.P.  
Mr MOK, Charles P.  
Mr NG See-yuen, B.B.S., J.P.  
Mrs NGAN NG Yu-ying, Katherine  
Mr TAM Wai-ho, Samson  
Mr WAN Sui-lun, Raymond  
Mr WONG Ho-ming, Augustine  
Ms WONG Ying-kay, Ada, J.P.  
Prof WONG Yue-chim, Richard, S.B.S., J.P.  
Prof YEUNG Yue-man, S.B.S., J.P.  
Mrs YUEN SO Siu-mai, Betty  
Prof YUEN TSANG Woon-ki, Angelina, J.P.  
Dr ZEMAN, Allan, G.B.S., J.P.

#### 列席

#### In Attendance

Mr KWOK Kwok-chuen, B.B.S., J.P.  
Government Economist

Mr CHENG, Christopher  
Chairman, Competition Policy Review Committee

Prof. CHAN Ka-keung, J.P.  
Member, Competition Policy Review Committee

Mr WONG Wai-lun, Michael, J.P.  
Deputy Secretary for Economic Development &  
Labour (Economic Development) 1

Mr CHENG Kong-chung, Francis  
Acting Principal Assistant Secretary for Economic  
Development & Labour (Economic Development) A3

盧永雄先生, B.B.S.  
陸地博士  
龍炳頤教授, S.B.S., J.P.  
馬逢國先生, S.B.S., J.P.  
莫乃光先生  
吳思遠先生, B.B.S., J.P.  
顏吳餘英女士  
譚偉豪先生  
尹瑞麟先生  
黃浩明先生  
黃英琦女士, J.P.  
王于漸教授, S.B.S., J.P.  
楊汝萬教授, S.B.S., J.P.  
阮蘇少湄女士  
阮曾媛琪教授, J.P.  
盛智文博士, G.B.S., J.P.

政府經濟顧問  
郭國全先生, B.B.S., J.P.

#### **議程第 II 項：**

競爭政策檢討委員會主席  
鄭維志先生

競爭政策檢討委員會成員  
陳家強教授, J.P.

經濟發展及勞工局副秘書長  
(經濟發展) 1  
黃偉綸先生, J.P.

署理經濟發展及勞工局首席  
助理秘書長(經濟發展) A3  
鄭港涌先生

議程第 III 項：

Mr MA Si-hang, Frederick, J.P.  
Secretary for Financial Services and the Treasury

財經事務及庫務局局長  
馬時亨先生, J.P.

Mr TANG Chi Leung, Vincent  
Principal Assistant Secretary for Finance Services &  
the Treasury (Treasury) (R Division)

財經事務及庫務局  
首席助理秘書長(庫務)(收入)  
鄧智良先生

Ms Ayesha Macpherson,  
Technical Adviser

技術顧問  
麥嘉軒女士

因事未能出席

## Apologies

官方委員 :

### Official Members :

Director, Chief Executive's Office

行政長官辦公室主任

非官方委員 :

### Non-Official Members :

Mr CHAN Yu-ling, Abraham  
Mr CHUI Yik-chiu, Vincent  
Prof ENRIGHT, Michael John  
Mr FENG Xiaozeng  
Mr HUI Ho-ming, Herbert, J.P.  
Mr LAU Siu-hong, Freeman  
Mr LIU Changle, J.P.  
Mr NG Hak-kim, Eddie, J.P.  
Prof SIT Fung-shuen, Victor  
Dr WOON Yi-teng, Eden, J.P.  
Dr ZHANG Junsen

陳宇齡先生  
徐亦釗先生  
恩萊特教授  
馮曉增先生  
許浩明先生, J.P.  
劉小康先生  
劉長樂先生, J.P.  
吳克儉先生, J.P.  
薛鳳旋教授  
翁以登博士, J.P.  
張俊森博士