

9th December 2013

Hon Mr Leung Chun-ying GBM, GBS, JP
Chief Executive
Hong Kong Special Administrative Region
People's Republic of China
Tamar, Hong Kong

Dear C.Y.,

The British Chamber of Commerce in Hong Kong would like to share the views of its members for consideration in your Administration's forthcoming Policy Address and Budget Address 2014-2015. We have structured this submission around the headings used in your Consultation on 2014 Policy Address and 2014-15 Budget for ease of reference.

Our focus is on ensuring **Hong Kong remains an agreeable city to live, work, raise a family and prosper in the long term.** To secure this objective, we believe it is of overriding importance to maintain Hong Kong's long-standing reputation as a place to do business which is based on, inter alia, clarity of policy, regulatory light touch, maintenance of the rule of law and flexible labour markets, notwithstanding the various pressures and challenges the Government is facing. For businesses to succeed, the community in which we trade must prosper, therefore our comments relate not only to business competitiveness, but also to economic, budgetary and social issues.

The Chamber appreciates that you inherited significant challenges, including social welfare, air quality, waste management, housing, and labour supply issues from previous Administrations. You have not shied away from tackling major policy issues, which could impact short-term popularity, and we commend you for this.

We are concerned, however, that the need to attend to day-to-day populist issues can distract the Administration from seizing the opportunities for the strategic development of Hong Kong which you outlined in your election manifesto, and which we still support. We believe it would greatly assist your articulation of individual policy areas, if these could be brought together in a clear strategic vision of how Hong Kong will develop and grow in the medium term. This would look beyond the individual policy objectives

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towards a holistic picture of the city's future role in the Pearl River Delta, within China, and internationally, in a form that every citizen can understand.

We wish you well and appreciate the way in which you and your administration have reached out to international business to engage on issues that concern us.

We look forward to working with you and your Administration on our more detailed thoughts in the months to come.

Yours sincerely

Nick Sallnow-Smith
Chairman

cc: Mrs. Carrie Lam GBS JP – Chief Secretary HKSAR
Mr. John Tsang GBM JP – Financial Secretary HKSAR

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ENSURING HONG KONG REMAINS THE BEST CITY TO LIVE, WORK AND PROSPER IN ASIA.

The following summarises the views the members of British Chamber of Commerce for Consideration in Hong Kong's Policy Address and Budget Address 2014-2015.

1. ARTICULATING A STRATEGY FOR HONG KONG

- Hong Kong needs and deserves a clear strategic vision of how it will develop and grow. This needs to be clearly articulated so its citizens understand the city's future role in the Pearl River Delta, within China, and internationally. This should address the strategic long-term economic and social development of Hong Kong, which you outlined in your election manifesto, and which we still support.

2. POPULATION & HUMAN RESOURCES

- Hong Kong exemplifies the free flow of capital and trade but the Chamber has witnessed a recent reluctance to allow a similar free flow of talent into Hong Kong. We recommend this is urgently reviewed along with Population Policy, as it is introducing uncertainty and risk to business that could constrain our future economical development.
- The Chamber applauds the Administration upon its ongoing public engagement on Population Policy, and the complex issues of labour supply, retirement age, immigration, attracting international talent, and the rapid ageing of our society. In this regard, the Chamber recognises that rather than financially incentivising larger family sizes, the Administration needs to create a living environment in Hong Kong that is conducive to raising children and having a fulfilling family life by improving air quality, schools provision and providing better care and provision for the youth, the needy and elderly.
- We believe Government should objectively review the relevance of a fixed retirement age.

3. LAND PLANNING & TRANSPORTATION

3a. Land Planning

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- Government could consider replacing up-front land conversion premium with a higher ground rent – essentially collecting the same premium over 30 years. Leases converted to the new higher ground rent can be extended for 999 years. A higher ground rent would encourage the development and sale of currently undeveloped building land sitting in developers' land banks.
- Either by this means or other measures, the issue of mass lease expiry in 2047 needs to be addressed before it begins to create uncertainties to business planning horizons.
- The Chamber suggests a review of the high land price policy, which is partly responsible for the current exuberance of the property market.
- We support increasing the supply of land for residential and non-residential uses, enablement of change of use of land and buildings, and release of military land, before consideration of further reclamation or use of Country Parks.
- We support the provision of additional supply of commercial land, the development of additional decentralised business districts, and the rezoning and revitalisation of industrial buildings.
- We support long-term land planning for expected demographic and business needs with a joined up system between departments that enables timely and rational decisions.
- We support sites for parks, open space, green belt, and sports, recreational and community facilities, and are concerned that these will be lost by conversion of GI/C to residential land, leaving us with a permanently poorer environment and quality of urban life in the future.
- We support an urgent review of the New Territories Small House Policy, which we believe is long overdue. The policy is outdated, in poor alignment with HKSARG's equal opportunities, unfair, and detrimental to the majority of Hong Kong citizens, our land supply and the environment.
- The British Chamber welcomes the Harbourfront Commission's proposal to set up a dedicated statutory Harbourfront Authority to oversee the holistic planning, delivery and management of Victoria Harbour and its harbourfront areas. The Chamber considers that an independent and financially autonomous body with responsibilities, ultimately, covering the full harbour is

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the only means of delivering the quality harbourfront that Hong Kong deserves and in fully realising its economic and social benefits.

3b. Transportation

- The Chamber considers that transportation should be safe, affordable and environmentally sustainable.
- The Transport Department should have a dedicated team to enhance children's road safety, including keeping detailed statistics on road accidents involving children, with the goal of minimising children's exposure to traffic.
- We welcome the efforts of Government on electric vehicles including electric buses, light buses, light good vehicles, taxis and private cars but we are frustrated by the long timeframe for wider use of such vehicles.
- We support the harmonisation of harbour tunnel fees to reduce congestion at the Cross Harbour Tunnel. Tunnel fees could be reviewed with variable pricing at peak times, and in different directions of travel – for example the Western Harbour Tunnel heading north sends traffic into capacious roads and this flow should be encouraged with lower fees, whereas running south the roads are congested, and this flow should be limited by higher fees.

4. ECONOMIC POLICY & BUDGETARY CONSIDERATIONS FOR 2014-2015

- We urge the Government to review the purpose and management of all nine hypothecated funds in the 2014-2015 financial year, in particular the Capital Works Reserve Fund.
- Personal salaries tax and corporate profit tax rates should be the same, and ideally lowered to enhance the competitiveness of Hong Kong as a regional business centre.
- The proposed ad valorem, 'Double' Stamp Duty (DSD) on non-residential property is negatively affecting small, medium and large local and international business operating and potentially investing in Hong Kong, Hong Kong's regional competitiveness and international reputation as the best place to do business in Asia. The Chamber calls for the HKSARG's anti-speculative objectives to be realised by minor amendment to the draft DSD

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Bill to exclude non-residential purchases that are held for a purchaser's own use for a period of three years.

5. EDUCATION

- The Government has projected that there will be a shortfall of over 4,200 primary places in International Schools in 2016/17. The Chamber is concerned (based on input from the other Chambers in Hong Kong) that this number is understated and the shortfall may be closer to 7,000 by 2016/17. In either case, urgent action is required to make additional primary school places available.
- Although there may be sufficient secondary places in International Schools to meet current demand, there are an increasing number of primary students who do not have a through train to secondary education. This will soon place pressure on the secondary places in International Schools and Government should also take action now to ensure additional secondary spaces will become available in the near future.
- Consideration should be given as to whether the likely shortages in both primary and secondary International Schools could be addressed not only through Government facilitating the expansion of International Schools through the allocation of greenfield sites/vacant school premises but also through Government encouraging local schools to enroll children from overseas families and create a school environment where such children can be educated alongside local students. This might involve closer partnerships between International and local schools.
- It is generally acknowledged that there are insufficient places in tertiary institutions for local students who will be graduating in the next few years. Those looking to continue in tertiary education in Hong Kong may well include students from overseas families who have made Hong Kong their home. Government should be looking to encourage the creation of a significant number of additional spaces in tertiary institutions.
- To cater to the long term and increasing shortfall in undergraduate courses in Hong Kong universities, Government may also wish to consider encouraging the policy to establish privately funded universities to contribute to Hong Kong's regional tertiary educational hub ambitions.
- The Chamber supports and encourages lifelong learning and skills training and recommends initiatives by Government which will facilitate open access

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to education for all Hong Kong residents throughout their lives.

- The Chamber supports Government consideration of voucher system for the education of all Hong Kong children, which we believe will help to give parents the diversity of choices they want in their children's education.

6. SOCIAL WELFARE

- A widening wealth gap is not conducive to long-term stability of society, nor the prosperity and reputation of Hong Kong as world city.
- The Chamber recognises that a thriving business sector can materially contribute to society's betterment by providing employment, and through taxes allows the Government to fund its social agenda. In addition, business can introduce socially responsible international best practices that can migrate to Hong Kong businesses and the Government sector.
- As far as possible, the most needy in society should be given cash to purchase essential goods and services, rather than market-distorting Budget subsidies e.g. energy and transport etc.
- Consideration could be given to index (e.g. CPI) linking the current minimum wage with routine adjustments to allow business planning. Such a mechanism would fairly allow minimum wage to fall in times of deflation and rise with inflation.

7. MEDICAL & HEALTH SERVICES

- Inadequate supply of government-funded primary healthcare is holding back the development of the entire healthcare sector and the development of private healthcare, with its wide economic benefits.
- The unpopularity of the MPF is holding back the development of health insurance and needs to be reformed.

8. EQUAL OPPORTUNITIES

- There is a cost to discrimination and talented individuals will not live and work in places where they are discriminated against. The Chamber therefore

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supports appropriate initiatives to promote equality of opportunity and to reduce discrimination in the workplace.

9. CULTURE, ARTS & SPORTS POLICY

- Experienced specialised arts and sports venue management companies exist in the private sector. The Chamber supports open tendering of arts and sports venue management and innovative arts funding approaches, such as PPP and the issuance of bonds.

10. ENVIRONMENTAL PROTECTION & CONSERVATION

- The Chamber congratulates you on the September 2013 shark's fin, blue tuna and black moss ban at Government banquets. We also applaud the Government for making it clear that officials will not eat them when being entertained. The Chamber has long held a similar policy at our Chamber functions. Whilst this is a small step, it is highly symbolic, and we support and further encourage Government to utilise the momentum and strong public and business support to take prompt steps towards an ultimate full ban trade on the shark's fin trade.
- We support the Government's clean air plan published in March 2013. We support the Government's mandatory scheme to replace 80,000 pre-Euro IV diesel vehicles by 2020, as well as other schemes to reduce emissions from LPG taxis and PLBs, and also franchised buses.
- We also wish to commend the Government's commitment to mandate a cleaner fuel switch at berth for ocean-going vessels by 2015 and to require local vessels to use a cleaner fuel next year. We look forward to the Government's continuous effort to do more still, in light of the fact that on 17 October 2013 the WHO declared air pollution a major cause of lung cancer.
- We believe the Government must improve vehicle inspection and maintenance, and consider transport planning and management options to reduce roadside emissions, since this presents the biggest health risk to the largest number of people in Hong Kong.
- Business in Hong Kong places a high value on the reliability of electricity supply. The Chamber also recognises that sustained improvements in air quality are needed if we are to attract the best and brightest to stay here. Such improvements will require, among other things, further reductions in

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transport, marine and power sector emissions. In its forthcoming consultation on the fuel mix for electricity generation, the Chamber urges the government to consult and engage business and the wider community in order to seek the right balance between reliability, environmental improvement and tariffs.

- The Chamber would also like to see the Government articulate a full energy policy that covers transportation, waste-to-energy, and biofuels; as well as rearticulate a climate change strategy.
- We recognise the Government is making a comprehensive attempt to manage Hong Kong's waste. We support the broad direction of the waste blueprint published in May 2013.
- Incentives to encourage, and regulations to require developers to build and retrofit buildings to recognised green (BEAM+ and LEED) standards are required to be introduced as a platform for long-term sustainability. It is important that measures are put in place to ensure transparency regarding energy usage and savings.
- The city's heritage buildings, even if listed, lack protection unless they are classified monuments. An attractive built environment requires measures to encourage and, where necessary, enforce the retention and revitalisation of historic buildings and those of significant architectural merit.
- The Chamber is concerned that below-cost water tariffs lead to waste, and ultimately degradation of our water supply, which is mainly imported from the Mainland. The Chamber supports further investment in rainwater catchments and reservoirs in Hong Kong, and would support higher domestic water tariffs to encourage responsible water usage and conservation.

11. ADMINISTRATIVE SYSTEM AND HONG KONG'S COMPETITIVENESS

- In dealing with HKSARG in the last 12 months, Chamber members have observed a horizontally and vertically split Administration, which is presently not 'joined up' and thus poorly serves businesses' present needs. To prevent erosion of Hong Kong's business competitiveness, the Administration should:
 - commission an independent third-party to conduct a regional comparative review of costs and ease of doing business to identify any areas for improvement in Hong Kong;

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- explain the rationale for mandating 'standard working hours' (SWHs), which is not presently enunciated in the on-going public engagement exercise on SWHs. Such enunciation of objectives will allow the consideration of optimum, 'fit for purpose' legislation, or other means to meet those objectives; and
- mandate rigorous and objective Regulatory / Government Impact Assessments for all new legislation and to consult transparently on the implications to society and business prior to and after implementation of all new legislation.
- The Chamber hopes that beyond its Hong Kong agenda, the government will continue to support Hong Kong as a centre from which businesses can also develop their China and regional operations.

12. INDUSTRY SPECIFIC

12a. SMEs

- The Chamber suggests the Financial Secretary consider suspending provisional tax payments for SMEs and lowering the tax rate for SMEs with turnover/profits under a reasonable financial level in the 2014-2015 Budget – a benchmark could be a turnover limit of over HK\$30M and to consider creating an exemption for SMEs who pay corporate taxes and make CPF/MPF contributions for their employees.

12b. FINANCIAL SERVICES

- The Chamber applauds the establishment of the Financial Services Development Council to support the long-term competitiveness of Hong Kong's financial services industry, and welcomes its recent reports that outline an ambitious vision for the sector. We urge the Government to take steps now to support this work.
- We urge the avoidance of further layers of regulation of the sector unless there is a tangible necessity.
- We support the development of the range, incentives and related structures to facilitate the RMB market.

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- We believe the Government should stimulate the Hong Kong Dollar debt market through issuance of more government bonds and encouraging establishment of local credit agencies.
- In order to promote the development of Hong Kong as an asset management hub Government needs to provide clarity on regulatory requirements for Funds and Fund Management Companies. Hong Kong has the ability to become a regional centre for global capital. The current regulatory regime is over-demanding for smaller funds or start-ups, and, in recent years, even larger Life and Pension Funds have generally chosen Singapore over Hong Kong for their Asian bases.

12c. CONSTRUCTION INDUSTRY

- The joint Hong Kong Construction Association and British Chamber 'Vision 2020' identified the current health and safety, environmental, manpower and dispute resolution issues impacting the construction industry.
- This vision has been shared with the Administration, and it is imperative that Administration and industry work closely together to make real progress on these issues over the next 12 months.

12d. LOGISTIC SECTORS

- Placing responsibility for policy making for the airport, port, maritime and logistics industry with that of local passenger trains and buses, within the Transport and Housing Bureau (THB) is a mismatch that does not serve Hong Kong effectively. The Chamber considers it would be more appropriate to establish a dedicated bureau to align policy-making in the airport, port, maritime and logistics sector.

12e. TOURISM STRATEGY

- The Chamber recommends an urgent review of Hong Kong's tourism and supporting infrastructure's 'carrying capacity'.

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137