

A tight squeeze for telephones

While the principle of profit control schemes on private enterprise utilities is generally approved by the public, the result is more controversial. A common view among the public is that they do not go far enough in holding down profits; on the other hand, utilities and their shareholders find them overly restrictive.

What everyone has to bear in mind is that in the Hongkong system where the task is shouldered by private enterprise, it is impossible to be too restrictive. Private enterprise has to ensure shareholders of a fair return on their investments but it also has to find the right balance between a fair profit and a fair price for a good and efficient service. This is particularly so where a monopoly is involved.

The Hongkong Telephone Co Ltd has just made known that it is seeking changes in its scheme of control "to make it more realistic and equitable and to ensure that it will provide adequately for the changing circumstances of today and the future." At present the company's maximum permitted return on shareholders' funds is 16 per cent after taxation. This began on January 1, 1976, and the company's annual report points out that its concern derives from the fact that inflation has been running at 15 per cent with interest rates of up to 20 per cent.

If this state of affairs is to continue, facing as it does capital expenditure of \$5,500 million in the next six years, there would appear to be a case for some flexibility, though of course the widespread hope is that inflation and interest rates will fall; otherwise many more organisations than the Telephone Company are going to be in difficulties.

Tariff increases have averaged less than four per cent per year since the scheme of control was introduced but the company is now concerned about inadequate cash flow in future. And the hint in the report is that it may not be possible to keep future tariff increases to a modest level. This is certain to prove sensitive to some who will find it hard to understand how the company can declare superficially large profit increases (this year up from \$216 to \$272 million) and yet need to charge higher tariffs and change the base of the profits control scheme.

The permitted profit level, however, is the key to ensuring a fair return for shareholders, an efficiently run company and a well-run service. Conditions have changed a lot since 1975, though whether permanently remains to be seen.

What the public will want to know is how the Government proposes to deal with this request and whether it will make a permanent revision or a temporary variation, indexed in some way to borrowing rates, exchange fluctuations and inflation. The public should consider this fair-mindedly, realising that it is their telephone system that is at stake and that at present they get good value for money.