BUSINESS ENVIRONMENT COUNCIL
商界環保協會

Budget Consultation Support Team
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30 Jan 2018

Dear Mr. CHAN Mo Po, Paul, GBM, GBS, MH, JP,

Submission on the Public Consultation for the 2018-19 Budget
Views from Business Environment Council Limited 商界環保協會有限公司

We are writing to provide our comments in response to the Public Consultation for the Budget.

As you may know, over the last 25 years, BEC has played a leading role in advocating the business case for environmental excellence in Hong Kong. Our members are committed to actively engage with the HKSAR Government on a range of issues relating to the environment and sustainability. Our ongoing work reflects the increasing interest in Hong Kong's business and finance world in supporting environmental protection and a low carbon economy.

We are a membership organisation with over 200 members spanning major listed and multi-national companies as well as small and medium-sized enterprises, from a wide range of sectors. We also have affiliate members from trade associations, NGOs, and academic institutes. Views put forward in this submission represent the views of BEC as a whole, and may not necessarily correlate with the views of individual members.

BEC provided recommendations for the CE Policy Address October 2017, developed in conjunction with our members. We are now writing to provide you with a note that highlights those particular areas that require funding or tax changes that we consider can be taken up through this year's budget.

If there are any queries as to this submission, please contact our Chief Executive Officer, Mr Adam Koo at adamkoo@bec.org.hk.

Yours sincerely,

Mr Richard Lancaster, Chairman
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Recommendations for the 2018-19 Budget

Please see Policy Submission October 2017[1] for a full list of recommendations. We set out key recommendations below, drawn from that submission and earlier policy recommendations such as our Roadside Emissions Taskforce report[2], of relevance to this year's budget.

Recommendation 1: Transitioning to low emission transport & logistics

We see Hong Kong as an exemplar city with its well-developed public transport system and advances in the past few years through Clean Air Plan policies[3]. However, we see potential for and a need to improve air quality to meet WHO standards and cut carbon emissions. Technological advances make this possible. Our detailed policy recommendations and broad principles[4] are set out in our Roadside Emissions Taskforce report.

We recommend a focus on incentives for cleaner commercial vehicles, buses and minibuses, responsible for 95% of NO_X and PM emissions[5] and around 50% of transport energy use[6] (even though buses are generally the most efficient way of enabling road-based mobility). Achieving emission reductions through cleaner commercial vehicles, buses and mini-buses will be the best use of incentives. For transitioning to cleaner private vehicles, further detailed consideration of the tax incentive scheme is needed, but in the short term, investment in the charging infrastructure is required as well as halting the increase in private vehicles which adds to congestion and as a consequence, pollution.

In the light of the above, we recommend:

(a) continuing and extending the scope of the ex-gratia payment scheme to incentivise the transition to lower emission commercial vehicles and passenger transport, as follows:

- Extend the scope of the scheme to cover all types of buses, so that franchised buses as well as non-franchised buses and minibuses are covered;
- Enhance the scheme so that the level of payments is sufficient to incentivise the purchase of Euro VI vehicles and other more efficient vehicles. The fund should in our view be directed sufficiently towards supporting a swift transition to: electric

1 http://bec.org.hk/files/images/BEC_Policy_Submission/2017_Policy_Submission.pdf
2 http://bec.org.hk/files/images/Resource_Centre/Publications/Roadside_Emissions_Report_Final.pdf
3 We note the improvements in air quality as shown on the Hedley Index, and note the positive impact of Clean Air Plan policies including the ex-gratia payment for retiring pre-Euro IV diesel commercial vehicles ("DCVs"), the installation of catalytic converters in franchised buses, and introduction of low emission zones
4 As above
5 https://www.legco.gov.hk/yr16-17/english/panels/ea/papers/ea20170522cb1-949-3-e.pdf
6 https://www.climateready.gov.hk/files/report/en/6.pdf

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minibuses and electric single-decker buses; Euro VI and hybrid double decker buses; and to Euro VI, hybrid and electric commercial vehicles. The level of payments should reflect the benefits, for example Euro VI hybrid DCVs have significantly lower emission than Euro VI ICE vehicles. Currently payments are based on the partial costs of Euro V vehicles, and are not high enough to support early switching to Euro VI and other more efficient vehicles.

- Support the phasing out of Euro IV vehicles (not just Euro I – III) considering the substantial emission reductions that will follow.
- Introduce incentives for reducing emissions from green ferries and river boats taking on board the successes of the scheme for road vehicles.

(b) Commit funds to a comprehensive EV charging infrastructure: this should include

- Fitting charging facilities at each transport hub for buses, minibuses and commercial vehicles.
- Designing in the infrastructure at the outset in particular for the Hong Kong Zhuhai Macau Bridge, where we have recommended an electric bus only policy, as well as for other new developments.
- An incentive scheme to encourage installation of charging facilities for EVs in existing residential buildings to support off-peak charging, which will be most important in terms of energy usage[7].

(c) Review the First Registration Tax (FRT) and other road taxes/incentives for private vehicles and taxis to take on board: i) the importance of a closer relationship between emissions (including NO_X, PMs and CO_2) from different vehicle types and tax paid by vehicles owners/buyers to support a shift to lower emission vehicles, e.g. hybrids and EVs; and ii) the importance of maintaining if not reducing the current number of private vehicles in Hong Kong considering congestion and pollution issues. Scrappage payments for aging cars and taxis should also be considered as part of this process.

Recommendation 2: Improving energy efficiency of commercial buildings

As approximately 40% of Hong Kong's energy consumption can be attributed to commercial buildings, improving their energy efficiency is vital. We recognize progress made, including the

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[7] We acknowledge the Government's scheme to incentivise EV charging-enabling facilities in new buildings but with the number of existing buildings with a long lifespan this is not considered sufficient http://www.epd.gov.hk/epd/sites/default/files/epd/english/environmentinhk/air/prob_solutions/files/guidelines_on_enabling_eng.pdf

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new profits tax deduction for capital costs[8] and the funds within the new Scheme of Control Agreements (SCAs). However, considering limited investment to date, we recommend additional steps to address the barriers to improvement of new and existing private sector buildings.

In particular, we recommend:

(a) To help address the split incentive problem, establish a fund to support pilot schemes for installation of meters in tenanted commercial premises. This is because commercial tenants often do not pay for their own actual energy consumption (for air conditioning, if not for lighting and the plug load) but simply pay according to floor area. Smart meters may help support energy management of multi-tenanted buildings, and this can be explored by giving support for a pilot scheme to trial metering systems.

(b) To address the risk-related barrier for property companies to invest in energy efficiency, support expert Energy Service Companies (ESCOs) which are better equipped to assess this risk. One of the barriers to ESCOs is access to finance. We suggest the Government support action by ESCOs through loan guarantees or equity financing, taking on board the schemes that have been introduced in China and Singapore[9]. This may be through a Government scheme or a loan program under the SCAs.

Recommendation 3: Supporting 4Ts Charter and business target-setting

We are pleased to see the Government continue to promote the 4Ts framework, affirming that operationalizing the Paris Agreement requires action by all. For businesses, setting targets with timelines in a robust and evidence-based way so strategies are aligned with the Paris Agreement[10] process, as well as determining metrics to track results, and monitoring action is a complex exercise.

To support this process, we recommend that the Government ensures sufficient funding to enable expert advice to be obtained. We recommend that a fund be put in place that would support say around 50 companies over a 2 year period.

[8] Amendments to the Energy Efficiency Registration Scheme for Building January 2018.

[9] The China ESCO Loan Guarantee Program ran from 2003 to 2010, supported by the World Bank and Global Environment Facility's Second China Energy Conservation Project. Singapore's Pilot Building Retrofit Energy Efficiency Financing Scheme was introduced in 2011.

[10] The Science-based Targets Initiative provides a methodology for doing so, as explained in BEC's Low Carbon Hong Kong report https://bec.org.hk/files/images/Resource_Centre/Publications/Low_Carbon_Hong_Kong_Supporting_Business_Set_Targets.pdf

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Recommendation 4: Incentivising waste collection and recycling

The challenge of good waste management, including excessive demands on land space and ocean pollution, are expected to worsen with the changes in Mainland policies towards the import of waste materials. Even with current plans to introduce MSW charging, build new waste management facilities for residual waste and organic waste, as well as introduce PRS for specific waste streams like waste electronics, the challenge will remain.

In light of this, we recommend:

(a) Simplification of the rules of the Recycling Fund to enable on-going support for running new facilities and industries which facilitate a circular approach to waste management, for example turning plastics into exportable pellets, producing recycled paper, or making products from waste plastics. The costs which we consider may need to be defrayed include transportation and other ongoing operational costs. The requirement for businesses to be self-financing after 2 years as set out in current rules may not be realistic.

(b) Funding arrangements to help the recycling industry and/or other businesses in the value chain pay for the space needed to collect, store and separate out waste. The payments or provision in kind should take on board district-level transfer stations and other facilities provided for ordinary waste.

(c) A funding scheme for pilots to trial new approaches to different aspects of waste management for example collection and transportation to the new facilities, which may include consultancy and other expenses.

(d) Funding for a comprehensive circular economy study to examine the potential for closed loop systems in key waste streams in Hong Kong or in conjunction with the wider region.

Other Recommendations

The Government is referred to BEC's policy submission[11] of October 2017 for details of our other recommendations.

[11] http://bec.org.hk/files/images/BEC_Policy_Submission/2017_Policy_Submission.pdf

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