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Panel on Environmental Affairs

**Minutes of special meeting held on
Monday, 30 May 2005, at 10:45 am
in the Chamber of the Legislative Council Building**

- Members present** : Hon CHOY So-yuk (Chairman)
Hon Emily LAU Wai-hing, JP (Deputy Chairman)
Ir Dr Hon Raymond HO Chung-tai, S.B.St.J., JP
Hon LAU Kong-wah, JP
Hon Albert CHAN Wai-yip
Hon Audrey EU Yuet-mee, SC, JP
Hon LEE Wing-tat
Hon Jeffrey LAM Kin-fung, SBS, JP
Dr Hon KWOK Ka-ki
Hon Patrick LAU Sau-shing, SBS, JP
- Members attending** : Hon Mrs Selina CHOW LIANG Shuk-ye, GBS, JP
Hon Ronny TONG Ka-wah, SC
- Members absent** : Hon Martin LEE Chu-ming, SC, JP
Hon CHEUNG Man-kwong
Hon WONG Yung-kan, JP
Hon Miriam LAU Kin-ye, GBS, JP
- Public officers attending** : **For item I**

Environmental Protection Department

Mr Raymond FAN
Deputy Director of Environmental Protection (2)

Mrs Teresa WONG
Assistant Director (Waste Management Policy)

Civil Engineering and Development Department

Mr S C YIP
Head of Civil Engineering Office

Mr T F LEUNG
Chief Engineer/Fill Management

For item II

Environment, Transport and Works Bureau

Mr K K KWOK
Permanent Secretary for the Environment, Transport
and Works (Environment)

Environmental Protection Department

Mr Raymond FAN
Deputy Director of Environmental Protection (2)

Mrs Teresa WONG
Assistant Director (Waste Management Policy)

Mr TANG Kin-fai
Principal Environmental Protection Officer

Clerk in attendance : Miss Becky YU
Chief Council Secretary (1)1

Staff in attendance : Mrs Mary TANG
Senior Council Secretary (1)2

Miss Mandy POON
Legislative Assistant (1)4

I. PWP Item 33CG - Setting up sorting facilities at Tseung Kwan O Area 137 and Tuen Mun Area 38

(LC Paper No. CB(1) 1631/04-05(01) — Paper provided by the Administration)

The Assistant Director of Environmental Protection (Waste Management Policy) (ADEP(WMP)) briefed members on the Administration's proposal to upgrade PWP Item 33CG "Setting Up Temporary Construction Waste Sorting Facilities at Tseung Kwan O Area 137 and Tuen Mun Area 38" to Category A at an estimated cost of \$45.2 million in money-of-the-day prices. She said that there was a need to set up and put into operation the sorting facilities to tally with the implementation of the Construction Waste Disposal Charging Scheme (the Scheme) which would commence on a day to be appointed by the Secretary for the Environment, Transport and Works. However, as the outcome of tenders for Short Term Tenancies for the establishment and operation of the proposed sorting facilities was unsatisfactory, these facilities had to be provided as part of the public works programme to enable timely implementation of the Scheme.

2. The Chairman enquired about the reasons for the unsatisfactory outcome of the tenders. ADEP(WMP) said that of the four tenders received for the two sites (one for Tseung Kwan O and three for Tuen Mun), none of them was considered acceptable because they were not able to meet the tender requirements which included, among others, the completion of facilities within the target date; the exemption of all construction contracts that were awarded before the commencement of the Scheme; and no on-site or pre-payment.

3. Ms Emily LAU asked if the lack of interest of private contractors in taking up the project was due to non-viability of the project itself or the stringent tender requirements, and if the latter was the case, whether efforts were made to assist them in meeting the requirements. The Deputy Director of Environmental Protection (2) (DDEP(2)) said that it was the original intention that the temporary sorting facilities would be set up and operated by private contractors and such arrangements had been agreed by the Panel at its meetings in April and November 2003. As the Scheme had provided for exemption of all construction contracts that were awarded before the commencement of the Scheme, there might be difficulties in ensuring the financial viability of the sorting facilities, particularly during the initial stages of operation. Given that the exempted contracts might take a few years to complete, private contractors were unwilling to undertake the project. As a result, the project had to be taken forward as a public works item. ADEP(WMP) added that while the exemption had been clearly set out in the tender documents, most tenderers were not willing to waive the sorting charges for the exempted contracts. Even if they did, they were only prepared to waive the charges for a short period and hence the unsatisfactory outcome of the tender. The Head of Civil Engineering Office (HCEO) said that at present, about 40% of the construction contracts were awarded before commencement of the Scheme and hence exempted from any disposal charges. As these contracts would be completed in two to three years' time, it was expected that

the sorting facilities would become financially viable by 2008 after which all construction contracts would be subject to the charging arrangements.

4. Mr Albert CHAN opined that the original proposal of providing sorting facilities through privatization was not well thought out. Details, such as financing and management options, were worked out by the works departments which lacked the input of expertise in financial management. Given that the construction industry had not fully recovered from the financial crisis, and that the number of housing projects had dropped when compared to earlier years when the property market was at its peak, the amount of construction and demolition (C&D) waste had decreased accordingly. As a result, the Administration should rethink the need for sorting facilities. It should also review the modus operandi of these sorting facilities to accord greater flexibility to tenders to recycle not just C&D waste, but also other wastes such as used electric appliances etc.

5. DDEP(2) said that since C&D waste comprised 40% of the total waste produced in Hong Kong, measures had to be worked out to reduce the generation of such waste, which had led to the introduction of the Scheme and the need for the sorting facilities. The Administration had explored the option of privatizing the sorting facilities through tender but as the outcome was unsatisfactory, it had to set up and operate the sorting facilities until such time when all the exempted contracts were completed and the facilities became financially viable. He pointed out that the provision of sorting facilities was necessary to enable timely implementation of the Scheme.

6. On the modus operandi of the sorting facilities, the Chief Engineer/Fill Management (CE/FM) said that the Scheme was targeted at C&D waste which formed the bulk of the waste deposited at landfills. An important means to reduce C&D waste was to separate the recyclable inert materials from the non-inert waste, such that only the non-inert waste would be disposed of at landfills. This would not only prolong the lifespan of landfills but would also reduce the charges payable by construction contractors. As sorting of C&D materials at source might not be possible in most construction sites due to space constraints, sorting facilities had to be provided. As to whether the sorting facilities would also be used to recycle other wastes such as used electrical appliances, ADEP(WMP) said that recyclable materials such as metals would be sorted from C&D waste. As for C&D waste which was mixed with municipal wastes, these would be sorted and disposed of at landfills. It was unlikely that waste producers would mix electrical appliances with C&D waste because disposal of the former at landfills were free of charge while the latter were charged on a per tonne basis. DDEP(2) added that the current proposal was meant for the setting up of temporary sorting facilities for the implementation of the Scheme. With the completion of the exempted contracts by 2008, the option of privatization of the sorting facilities would be further explored and consideration would then be given to how these sorting facilities should be operated.

7. Noting that the sorting facilities could not be financially viable at the initial stages of operation, Ir Dr Raymond HO asked if the Administration would consider providing subsidy to the project as in the case of the Disney Resort Line. This would not only ensure its viability but would also allow more flexibility in operation. Besides, a revised financing approach might attract more private contractors to participate in the tenders. HCEO said that since sorting facilities were new to Hong Kong and management experience had yet to be accumulated, it was considered more appropriate to take forward the project as a public works item. Consideration could be given to changing the mode of operation after a few years when there was sufficient experience in the management of the facilities, which would likely become financially viable upon completion of the exempted contracts.

8. In view of the unsatisfactory outcome of the tender, Mrs Selina CHOW said that the Government would have no choice but to set up and operate the sorting facilities on its own. She was however concerned that such a change would have implications on the sorting charges. Sharing similar concern, the Chairman enquired if there was any control on the level of charges. ADEP(WMP) said that the prescribed sorting charge was \$100 per tonne. The charge could be less if operated by private contractors because they could use the resale value of the recycled materials to subsidize their operations. The Administration had undertaken to review the charges after the facilities had operated for a period of time. It was expected that with the competitive tendering of the operation of the sorting facilities after completion of the exempted contracts, the charges would likely be less as these would then be regulated by market forces.

9. The Chairman stressed the need to maintain the sorting charges at a competitive level as otherwise there would be no incentive for sorting. There was also a need to avoid including terms similar to that of the franchise agreement of the Chemical Waste Treatment Centre at Tsing Yi which provided for a guaranteed rate of return for the amount of waste treated. While acknowledging the Chairman's views, ADEP(WMP) explained that waste producers would not be given a choice of disposal because under the Scheme, waste loads of over 50% inert content had to go to the sorting facilities while those less than 50% inert content would go to landfills. Pure inert materials would go to public fill reception facilities.

10. The Chairman further enquired about the size of the sorting facilities in Tuen Mun and Tseung Kwan O and whether traffic impact assessment had been conducted on the impact of transporting all of the C&D waste to the two sorting facilities. CE/FM said the sorting facilities at Tuen Mun and Tseung Kwan O were two and three hectares respectively which were adequate to meet the sorting needs. Of the estimated project cost of \$45.2 million, 90% would be for the installation of sorting equipment while the remainder for environmental protection. As regard the traffic impact, he explained that at present all C&D waste was transported to the South East New Territories Landfill and the North East New Territories Landfill for disposal using the same trunk roads for access to the two sorting facilities. As such, no additional transport impact would arise.

11. Mrs Selina CHOW noted that the Tuen Mun District Council (TMDC) had indicated in-principle support for the sorting facilities in Tuen Mun provided that these would not affect the viability of the EcoPark to be located in the same site. She then sought the Administration's view in this respect. ADEP(WMP) said that the sorting facilities and the EcoPark were not in conflict with each other. The EcoPark would be situated at the existing public fill site. The Administration had been and would be regularly reporting the progress of the implementation of the sorting facilities to TMDC. Mrs CHOW stressed the need for continued liaison with TMDC to address local concerns.

12. The Chairman said that as the provision of sorting facilities was an integral part of the Scheme, Members of the Democratic Alliance for the Betterment and Progress of Hong Kong would support the proposed provision which would enable the early implementation of the Scheme. Ms Emily LAU also expressed support for the proposal. Mr Albert CHAN said that he had reservations at the proposal, particularly the financing of the project.

II. Development of EcoPark

(LC Paper No. CB(1) 1631/04-05(02) — Paper provided by the Administration)

13. The Principal Environmental Protection Officer (PEPO) briefed members on the progress of the development of EcoPark in Area 38, Tuen Mun by highlighting the salient points in the information paper.

14. Ms Emily LAU enquired about the rationale behind the change of name from Recovery Park to EcoPark. The Permanent Secretary for the Environment, Transport and Works (Environment) (PSETW(E)) explained that the change was meant to better reflect the policy intention to facilitate and promote the development of environmental and recycling industries, including high technology and value-added industries, rather than just confining to waste recycling.

15. While supporting the concept of EcoPark, Ms Emily LAU noted that despite that the export of recycled products had generated an income of \$3.4 billion, this had not been able to create job opportunities for the local workforce. She then sought elaboration on the market for recycled products. She also considered it necessary for the Administration to assist in developing local recycling industries. PSETW(E) said that the local recycling trade had indicated that the short-term nature of Short Term Tenancies was a major concern to them. With the provision of EcoPark, individual recycling companies could acquire an area of land at affordable prices with tenures sufficiently long enough to justify their investments in value-added and higher-end operations. At present, most of the recovered recyclable materials were exported to the Mainland and these included plastics from used plastic bottles. On the number of jobs to be created as a result of the development of EcoPark, ADEP(WMP) said that it was expected that about 700 jobs would be made available.

16. Mr Albert CHAN said that he was not opposed to the provision of EcoPark, but there were a number of issues which needed to be addressed. These included, among others, the cost-effectiveness of the project, its financial implications and implementation details, its impact on existing waste recycling operations and the management of electronic waste. He considered that more information should be provided by the Administration in this respect.

17. In response, PSETW(E) said that the development of EcoPark was a complex undertaking requiring heavy investment and working capitals upfront. Market sounding carried out by the Environmental Protection Department (EPD) indicated that EcoPark would not be commercially viable if it were to be developed and funded by private investors. It was therefore decided that construction of the basic physical infrastructure would be funded by the Capital Works Reserve Fund (CWRP) at an estimated capital cost of \$316 million. EcoPark would provide permanent land to encourage long-term investments and provide incentives for the establishment of higher-end industries and downstream services. So far, a number of recycling operations involved in the recycling of plastics, metals and waste paper had expressed interest in renting lots from EcoPark in furthering their business. At members' request, the Administration agreed to provide a comprehensive paper setting out the details of operation and management as well as the impact of EcoPark on existing waste recycling operations.

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18. Mr Patrick LAU questioned how EcoPark could help the recovery targets for Hong Kong. ADEP(WMP) stressed that EcoPark was an integral part of the waste management strategy. Recyclables recovered in Hong Kong required an outlet to turn them into recycled products and it was essential that the processes could be conducted locally. Recycling industry would also create a circular economy and bring about business and job opportunities. The operation and management of EcoPark would be entrusted to a private operator (the Operator) through leasing or licensing by way of open tender. The Operator must have full understanding of the needs of the environmental and recycling industries and be able to design and implement an effective marketing strategy to recruit and anchor a right mix of long-term tenants. While maintaining a level playing field, the Operator must be given the flexibility to make use of market forces to encourage and promote business so that the environmental and recycling industries could run their operations at affordable prices with competitive returns.

19. While supporting the provision of EcoPark which was expected to benefit the recycling industries in Hong Kong, Mr Jeffrey LAM noted that the trades had expressed concern that the Operator might tend to recruit anchor tenants with a view to profiteering, thereby affecting the opportunity of small local recyclers. Dr KWOK Ka-ki also sought elaboration on the modus operandi of EcoPark. He was concerned that if the Operator was required to recoup the capital cost of \$316 million, he would need to run the EcoPark on commercial principles. Given the inherent difficulties in ensuring the financial viability of environmental projects, the Operator might back out if it was found that EcoPark was financially non-viable.

20. In response, PSETW(E) said that the funding of \$316 million from CWRF was meant to provide for the basic infrastructure of EcoPark. This was a measure to assist the development of environmental industries and as such, the Operator was not expected to recoup the capital cost from the operation of EcoPark. Sufficient safeguards and control would be incorporated in the contract and lease/licence conditions to ensure that the Operator would act in the best interest of the tenants and Government. Since it would be difficult to operate EcoPark without Government funding support, Dr KWOK Ka-ki asked if consideration could be given to appointing a non-profit organization or a corporate body funded by Government as the Operator rather than recruiting one from the private sector. PSETW(E) said that while further consideration would be given in respect of the management of EcoPark, it was intended that the mode of operation should provide a balance between Government control and the needed flexibility to meet market demands.

21. Mr Patrick LAU enquired about the criteria on selecting the Operator for EcoPark. Ms Emily LAU and Mr LEE Wing-tat also enquired about the operation and management of EcoPark. PSETW(E) said that the tender requirements for the operation and management of EcoPark would allow a variety of recycling trades to foster recycling of locally generated waste materials and encourage higher-end industries. Mr LEE said that past experience with open tender showed that price rather than technical aspects played a determining role in the selection process. Therefore, in an attempt to encourage the development of higher-end industries, efforts should be made to ensure that the technical proposals would be taken into account in the tender assessment. He hoped that such requirements should be set out in the tender requirements for the Operator. At members' request, the Administration agreed to provide the detailed tender conditions for the operation and management of EcoPark when these were worked out.

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22. The Chairman enquired about the mechanism for assessing rental charges, appropriation of rental income as well as allocation of lots to ensure the right mix of industries to benefit the local workforce. She also enquired whether sorting facilities would be made available in EcoPark as these were essential to ensure sufficient supply of raw waste materials for recycling as otherwise these would have to be imported. She also questioned why the modus operandi of the Science Park which was operated and managed by an independent body was not applicable to EcoPark. The Deputy Director of Environmental Protection (2) (DDEP(2)) explained that EcoPark would provide the cradle for a circular economy. Appropriate conditions, including level of management fee and rental charges, allocation method of lots and common facilities, industry mix etc., would be incorporated in the contract agreement to be signed between Government and the Operator. A private sector participation approach in the management of the EcoPark was preferred to that of Science Park as the former would provide for greater flexibility.

23. Mr LEE Wing-tat expressed concern about monopolization of EcoPark by large overseas recycling operations which would tend to acquire as many lots as possible to benefit from the low rentals. As monopolization of EcoPark by major

recycling companies would have adverse impact on the survival of existing waste recyclers, Mr Albert CHAN considered it necessary for the Administration to incorporate proper safeguards in the tender document to prevent monopoly. It should also include in the waste management strategy the types of waste to be recycled with priority as well as when and how electronic waste should be dealt with etc. PSETW(E) said that in considering applications for lots in EcoPark, priority would be accorded to those who focused on recycling of locally generated waste materials while observing prudent market principles. Mr LEE suggested that consideration could be given to including relevant local recycling experience as part of the tender requirements, thereby giving local recyclers a better chance to succeed. PSETW(E) noted Mr LEE's views and said that these would be taken into consideration in the allocation of lots.

24. Ms Emily LAU said that EcoPark should not be operated strictly on commercial principles but should set its own environmental objectives. She further pointed out that as the stakeholders were worried about the high transportation costs of delivering the waste materials to EcoPark which was situated at Tuen Mun, there was a need to provide refuse transfer stations to facilitate the collection of waste. She also found it unacceptable that waste should be imported from and exported to other places as these should be dealt with at the place where they were generated. As such, the EcoPark should not be allowed to deal with imported waste materials and this should be clearly set out in the tender requirements.

25. The Chairman remained concerned about the modus operandi of EcoPark, which in her view was worse than the Cyberport and the West Kowloon Cultural District Development. She pointed out that unlike the latter two projects where the developers had to pay for the land premium and the basic infrastructure, the Operator of EcoPark would be exempted as such costs would be borne by the Government. The Operator would be set to benefit from EcoPark which was intended to finance its operations through the rental income derived. Besides, the Operator could make adjustments to the rental levels as necessary. There were also concerns that the Operator would be operating EcoPark according to commercial principles, such that only large waste recycling operations could afford to rent the lots, thereby giving rise to monopolization and adverse impact on existing recycling industries.

26. In response, PSETW(E) clarified that the Operator would not be allowed to freely adjust the rental charges as it would be bound by the safeguards and control set out in the contract. The Operator was expected to design and implement an effective marketing strategy to recruit and anchor a right mix of long-term tenants for the development of environmental industries which would meet public demands. ADEP(WMP) supplemented that while the concept of appointing an operator from the private sector was set out in paragraphs 13 to 17 of the paper, the detailed tender conditions for the Operator had yet to be worked out. The Operator would be responsible for the operation, management and maintenance of EcoPark and in return, he would receive a management fee.

27. Referring to the layout plan of EcoPark at Annex B to the information paper, Mr Patrick LAU pointed out the entrance to EcoPark was too narrow which would make it difficult for the transport of waste materials. PSETW(E) said that the chosen site for EcoPark in Area 38, Tuen Mun had the advantage of a sea frontage to allow delivery of materials and products by way of marine transport. PEPO explained that the layout of EcoPark was only a conceptual plan. The detailed plan of EcoPark would provide more information on the entrance and exit requirements to meet the needs of tenants, some of whom might prefer smaller lots.

28. On the time frame for the provision of the EcoPark, PSETW(E) said that it was the Government's plan to deliver EcoPark for commissioning in late 2006. Details of tender conditions would be worked out with consultants and made available for members' reference before funding approval from the Public Works Subcommittee and the Finance Committee was sought in late 2005 for the construction of the basic infrastructure for EcoPark.

29. Mr Jeffrey LAM opined that apart from the three-coloured waste segregation bin scheme, more could be done to facilitate the recycling of waste materials and to improve the cost-effectiveness of the recycling process. The cooperation of existing waste recyclers should be sought and educational/publicity efforts should be stepped up. Ms Emily LAU echoed that more should be done to recycle municipal solid waste. PSETW(E) said that EcoPark was part of the strategy for the management of municipal solid waste and it did have the support of the trades. The efforts to separate waste at source through the use of three-coloured waste separation bins had achieved good progress and a 40% waste recovery rate had been attained. A territory-wide programme on separation of domestic waste at source was implemented by EPD in early 2005. So far, over 140 housing estates, representing about 900,000 residents, had joined the programme and it was expected that the figure would be increased to 180. Assistance from property management companies was being sought on the provision of separation facilities to facilitate waste separation. He agreed on the need to step up educational/publicity efforts with a view to enhancing environmental awareness on waste separation at source.

III. Any other business

30. There being no other business, the meeting ended at 12:55 pm.