

**British Chamber of Commerce's Oral Presentation to the Panel on Economic Services: 25 September 2006 on Environmental Regulation in the Future Electricity Market in Hong Kong**

In 2006, the quality of the environment is the issue defining Hong Kong, just as public housing and anti-corruption issues defined Hong Kong policy making in the 1970's and 1980's. There is widespread concern that the deteriorating environment is adversely affecting the health of our community, our citizens, our children, our businesses and our enviable international status in an increasingly competitive global landscape. Encouragingly, there is also true consensus across the community and businesses that we really do need to address the problem as actively as we can. In this sense of unity, we stand on the threshold of an environmental "tipping point

One year ago, the British Chamber identified the shortfalls of sectoral, 'silo' consideration of individual environmental aspects. These shortfalls are acutely highlighted in, for example, the consideration of air quality and transportation, air quality and energy policy and environmental quality which all overlap massively. In addition, it is noted that such overlap and shared responsibilities between both departments and policy bureaux does nothing for consideration of such major issues and resolution of such environmental challenges at a holistic level.

The Chamber considers that, proportionally, Hong Kong's air quality comprises, to the largest extent, a regional challenge with the growth of the eastern side of the Pearl River Delta and the likely future development of the western side of the Pearl River Delta. In addition, Hong Kong still faces air pollution problems caused at a local, and particularly street level, that arise

from the over-use of road-based transportation, despite Government's stated commitment to favour public over private transport and rail over road-based public transportation.

The Chamber also recognises that vehicles arriving from mainland China contribute to the importation of low-graded fuel into Hong Kong and associated air pollutions problems.

In addition, the Chamber recognises that the emissions generated from the power stations and other industry within Hong Kong comprise significant local emission sources.

In terms of solutions, the Chamber considers that before Government can face the regional challenge squarely that Hong Kong must 'get its own house in order.' In terms of emissions generated from the power stations and other industry within Hong Kong, The Chamber considers that Government needs to continue to work closely with industry and also the power companies.

With particular reference to power companies, Government must ensure that the power companies' air quality improvement proposals are not delayed by the Scheme of Control review process, currently underway. The Chamber is also supportive of greater use of 'cleaner' Liquefied Natural Gas (LNG) fuels and would encourage Government to investigate means to accelerate the greater adoption of LNG in Hong Kong as this could potentially reduce the dependence on more polluting coal-based power generation.

Specifically, targeted towards *environmental regulation in the future electricity market in Hong Kong*, the Chamber has the following suggestions in terms of Efficient Energy and Resource Use and Clean

and Renewable Energy

**Firstly, Efficient Energy and Resource Use...**

Hong Kong needs to devise a systematic programme to encourage energy conservation and efficient use of energy and resources in every sector through active demand-side management. To facilitate such a programme, Government should consider urgently updating building regulations on energy efficiency. The recent announcement of the Action Blue Sky campaign by the Chief Executive denotes an excellent step in the right direction.

Significant gains can still be achieved. The United Kingdom (UK), for instance, is introducing new regulations to achieve a 40% reduction in energy use within the residential sector. This includes existing developments and new buildings. The Chamber believes Government could draw on this experience. In Hong Kong such an initiative could include a strong directive for a single sustainable building certification scheme, as well as fiscal measures such as tax incentives to encourage the wider acceptance of green buildings and maximise energy and resource efficiency.

Power companies, developers and major users, including Government itself, should also be incentivised to support demand-side management and energy conservation as both an economic and environmental benefit. Furthermore much of the electrical energy consumed in Hong Kong is through the use of air conditioning. Steps should be taken to encourage deployment of new

technologies to enhance existing systems and to ensure that new systems comply with standards for energy efficiency.

In July 2006, The UK Department of Trade and Industry released “The Energy Challenge: Energy Review Report 2006.” The document encourages joined-up public and private efforts to reduce carbon emissions to: investigate renewable energy sources; provide clean and secure energy at affordable prices; and to promote competitive markets to raise the rate of sustainable growth. Such goals similarly reflect Hong Kong’s needs, and “The Energy Challenge” could prove a valuable basis for new policies here. We in Hong Kong must also constantly be on the lookout for new technologies that will enhance the drive for efficient use of energy. Business has a major role to play here in alerting Government to their potential.

### **In terms of Clean and Renewable Energy...**

The Chamber encourages Government to make an early decision on the scheme of control regulating our power companies, so that upgrading pollution control measures and reducing emissions through new facility introduction and existing plant retrofit can become an immediate focus for their attention. Clear and tangible incentives ought to be granted to power generators that exercise positive pollution controls, where the focus should be on emissions reduction rather than fuel type. The Chamber would also encourage Government to take a holistic view on energy generation, and consider waste-to-energy opportunities in line with its latest waste management framework. Future investments must

also be guided, ideally through longer-term targets, for reduced emissions per unit of energy. Innovation could be the key to progress, and as such, incentives should be granted to those that pioneer the use of solar panels, fuel cells, wind power and cleaner engines for vehicles, marine vessels and stationary plant. Residential grants and incentives should also be considered to encourage the use of clean energy opportunities by developers, and the Chamber recommends that Government itself take the lead in embracing alternative energy at its many offices and facilities, including the new Central government headquarters and legislative complex. In addition, major power providers and users could be incentivised to facilitate small-scale clean energy production, and the ability to feedback electricity, particularly from renewable sources, into the grid should become a simple and encouraged procedure. Closely related issues are also addressed in the UK's Department of Trade and Industry Energy Review. This document could prove equally helpful as a foundation for new policy initiatives.