

Speaking Note for
Secretary for the Environment, Transport and Works
Special Meeting of the Finance Committee (Environment)
22 March 2007 at 4:15 pm

Chairman,

I am delighted to attend the special meeting of the Finance Committee today to brief Members on the part of the 2007-08 Estimates which relates to the environmental protection and conservation portfolio.

2. The allocation for the policy area of environmental protection and conservation in the 2007-08 financial year is about \$6.2 billion, representing an increase of about \$790 million or 14.7% in real terms over the revised estimate for last year.

3. Of the total allocation of \$6.2 billion, the operating expenditure is about \$4.9 billion, which is \$1.0 billion or 27.4% in real terms more than the revised estimate for last year. The additional allocation will mainly be for the Environmental Protection Department (EPD) to launch an incentive scheme to encourage early replacement of pre-Euro and Euro I diesel commercial vehicles with new ones which comply with the latest statutory emission standard. In addition, the Civil Engineering and Development Department will have additional funding to implement a scheme on cross-boundary delivery of surplus public fill. As regards the number of posts, there will be a net increase of 5 posts in the EPD in 2007-08.

4. The provision for capital expenditure in 2007-08 is about \$1.3 billion, which is \$254 million less than the revised estimate for last year,

representing a decrease of 17.2% in real terms. The reduction is mainly due to the reduced cashflow requirements for or completion of some capital works projects.

5. I will now outline the priority areas under the environmental protection and conservation portfolio in the coming year.

Improving Air Quality

6. The Government has been very concerned about the air quality of Hong Kong. The Government launched last July the Action Blue Sky Campaign to appeal for the community's support and participation in combating air pollution in Hong Kong. The EPD has rolled out a series of publicity and educational activities to encourage the public to take action at the personal level, such as switching off idling engines, setting air-conditioned temperature at 25.5 degrees Celsius in summer and reducing the consumption of products containing volatile organic compounds.

7. Moreover, we will continue to take vigorous measures to make sustained improvement in air quality. To reduce vehicle emissions, we will be introducing the following four new measures on April 1 –

- (a) requiring local pre-Euro long-idling heavy-duty diesel vehicles to be installed with emission reduction devices;
- (b) controlling products containing volatile organic compounds;
- (c) granting \$3.2 billion to encourage car owners to replace pre-Euro

- and Euro I commercial diesel vehicles by Euro IV models; and
- (d) providing tax relief to promote environment friendly cars.

Furthermore, we expect to start in the second quarter of this year the detailed study on the review of Hong Kong's Air Quality Objectives and the public consultation on a legislative ban on idling vehicles. We are confident that these measures will further improve air quality in Hong Kong, particularly the roadside air quality.

8. Power companies have always been a major source of pollution in Hong Kong. Another focus of our work is to reduce emissions from power plants. To fully achieve the emissions reduction targets by 2010, we have asked the power companies to accelerate the timing of emissions reduction projects, increase the use of ultra-low sulphur coal and use natural gas for power generation as much as possible. We will progressively tighten the emissions caps during the renewal of the power companies' Specified Process Licences.

9. During the discussions with the two power companies on the Scheme of Control arrangements in 2008, we are following up proposals in the "Future Development of the Electricity Market in Hong Kong Stage II Consultation", such as to link the permitted rate of return on all fixed assets of the power companies to their achievement of the emissions caps stipulated in the licences issued under the Air Pollution Control Ordinance; to provide financial incentives to encourage the power companies to reduce their emissions to levels below those required in the licences; to give a

higher rate of return for renewable energy infrastructure; etc.

10. On cross-boundary cooperation, the two sides will continue to work closely in implementing the Pearl River Delta (PRD) Regional Air Quality Management Plan, with a view to achieving the jointly agreed emissions reduction targets by 2010. One of the key measures in the Management Plan is the Emissions Trading Pilot Scheme for Thermal Power Plants in the PRD region. The implementation framework of the Pilot Scheme was announced on January 30. The environmental protection authorities of the two sides are now promoting the Pilot Scheme among thermal power plants in the PRD region, including Hong Kong.

11. We will also implement a mandatory Energy Efficiency Labelling Scheme to encourage the use of energy efficient products. The corresponding Bill will be introduced into the Legislative Council shortly.

Solid Waste Management

12. The EPD has made good progress in implementing the Policy Framework for the Management of Municipal Solid Waste (2005-2014) to deal with our pressing waste problem. Up to February 2007, about 705 000 households have joined the source separation of domestic waste programme. A three-month trial scheme was commissioned by the EPD late last year to examine how waste reduction behaviour would be affected by the volume of garbage bags and the type of waste recovery facilities under different housing settings. The information so obtained will help us

to study the feasibility of introducing a charging scheme for municipal solid waste with variable rates.

13. On producer responsibility schemes, we have completed a study on an environmental levy on plastic shopping bags, and the specific proposals will be considered by the LegCo Panel on Environmental Affairs on shortly. The objective of the levy is not to increase the Government's revenue, but to create an economic incentive to reduce the indiscriminate use of plastic shopping bags in accordance with the "polluter pays" principle. With the support of the public and Members, we hope to introduce the Product Eco-responsibility Bill into this Council within this year. The first batch of Phase I lots of the EcoPark was made available for leasing in end 2006 and the applications are being vetted.

Harbour Area Treatment Scheme

14. To further improve the water quality in Victoria Harbour, we will continue to take forward the second stage of the Harbour Area Treatment Scheme (HATS), which, coupled with planned improvements to all sewerage facilities in Hong Kong, will maintain our momentum in dealing with water pollution. However, the second stage is subject to the legislature endorsing proposals for polluters to share the operating costs of sewage services in accordance with the "polluter pays" principle. Last December, the Government announced proposals to adjust the sewage charge in a step-wise manner over a ten-year time frame. Under these proposals the average bill for domestic accounts would rise from \$11 per

month now, to \$12 per month in 2007, and gradually to \$27 per month in ten years' time. Even after the projected increase, Hong Kong's sewage charge will remain amongst the lowest when compared with many major cities in developed economies.

15. The Stage 2A works cover the expansion of the Stonecutters Island Sewage Treatment Works, which will collect the remaining sewage from Hong Kong Island (which currently only receives preliminary screening), provide centralised chemical treatment and advance the provision of disinfection. The target year for completion of this phase is 2014. The Stage 2B works involve the construction of new biological treatment facilities. The timing of such works depends on a review in 2010/11.

Conclusion

16. I hope Members will continue to support our policies and measures to protect the environment and conserve our ecological resources, which will further improve our living environment and competitiveness as a world city.

17. Chairman, I, together with the Permanent Secretary and colleagues, would be pleased to answer Members' questions on this part of the Estimates.

Environmental Protection Department
March 2007