



CB(1) 364/06-07(01)

November 23, 2006

To: Legislative Council Panel on Environmental Affairs
Re: Tax reduction for hybrid vehicles – we are opposed.

Dear Honourable Members:

1. Clear The Air urges you to **reject the proposal for a tax reduction** for the purchase of hybrid and other “less polluting” cars.
2. We ask that this committee require the Government to submit an evaluation of the proposal from an environmental economist.
3. We propose that taxpayers’ money should ONLY be spent on buying, at their very low market rates, the oldest cars and then scrapping them. This will reduce the maximum amount of pollution at the minimum cost.

Discussion:

The proposed scheme is neither cost-effective nor likely to work. It is constructed just like the failed LPG minibus “incentive” and has the same fatal flaws.

Note the “environmental” benefit is only 1% “if” 15% of the vehicles are replaced. There are about 350,000 private cars. There is no guarantee, or requirement, that the dirtiest vehicles be replaced. The possible cost is \$2.5 billion – for a possible 1% reduction in pollution or “at best” a 5% reduction in a single pollutant.

The Government has not sought the views of environmental economists, available in our Universities, because there would be no support for such a corporate welfare project to support a single industry that caters only to the very wealthy and reduces so little pollution.

Our existing system of high petrol duty already gives a huge tax incentive for people to buy hybrid cars. There is *no evidence* that a reduction on the first registration tax, or the annual tax will increase the number of private citizens that buy petrol/hybrid rather than petrol only cars. Private car drivers already have to replace their vehicles with Euro IV emission standard cars. The marginal impact on air pollution *compared to the \$50,000 per vehicle cost to taxpayers* very small. It is against public policy to encourage the use of any private cars. They fill our roadways and contribute significantly to traffic congestion and the resultant costs to both Government and Society.



From an economics point of view, incentives without penalties to change behavior are sure to fail. Compare this proposal to the LPG minibus schemes which did not retire any vehicles before they were ready to be scrapped (or older) and have even failed to stop the purchase of more polluting vehicles.

There is already a significant tax advantage for those who buy hybrid cars. If they use 40% less petrol (as was the case for the Hong Kong Government test) then they will pay 40% less in petrol tax over the life of their car. This does not include the financial incentive of spending 40% less on the fuel itself.

It is bad public policy to give the wealthiest 5% of the people more money when they are 1) already wealthy enough to purchase a new, rather than a used car 2) already have an existing financial incentive to buy fuel efficient cars.

In contrast Clear The Air does supports:

1. The Government buying the most polluting registered cars that are being driven on our roads today - at their very low market price - and scrapping them. This would be the most cost effective solution to reduce the maximum amount of air pollution.
2. *Increasing* first registration and annual taxes on all private cars, except hybrid and other qualifying vehicles. This would increase Government revenue that can be put toward buying the old, cheap polluting cars. It also creates both a new “incentive” to purchase hybrid vehicles and a new “penalty” for all private car owners who choose unhealthy cars.

Regards,

Annelise Connell
Clear The Air