



The Civic Party's Position on

Air Pollution Control (Amendment) Ordinance 2008

In response to the proposed amendment to the Air Pollution Control Ordinance, the Civic Party would like to set out its position as follows:

Emission Caps by Legislation

1. We generally welcome the government's move to set emission caps on pollutants through legislation, which will not only send out a clear signal to all stakeholders, but also allow the utilities to plan ahead on firmer grounds.

Regulation as a Driver for Advancement

2. We believe that the caps, when set at an appropriate level, should not be used merely as a control tool, but employed as a driver for better practices and innovative technology to achieve continuing emission reduction. This is especially important in the local context given the huge gaps between current pollution level and the desired level commensurate with the latest WHO guidelines for the protection of public health.

Public Participatory Process to set Emission Caps

3. To achieve this, the determination of the emission caps for future years beyond 2012 must go through a transparent process with meaningful public inputs, so as to fully reflect the community's aspiration for better air quality and prevailing professional judgment on best available technology. We therefore propose that, instead of adopting a closed-door decision-making process by the Authority, the government should embrace the following public participatory process in the setting of emission caps on a regular basis:

- a) the Authority would produce an Invitation and Response Document (IRD) for public scrutiny, setting out the various options for emission caps and the rationale behind;

- b) an Independent Panel will be set up under the Advisory Committee on the Environment (ACE) which will be tasked to conduct public hearings, inviting all



stakeholders, concerned groups, professional bodies and members of the public to make representations in response to the IRD;

c) the Independent Panel, after hearing the views of the public, will compile an assessment report and make recommendations to the Authority regarding the emission caps;

d) the Authority will, after taking into consideration of the independent assessment report, decide on the emission caps for the relevant period.

No Free Allocation of Emission Allowance

4. The proposed amendments envisage free allocation of emission allowance to the power companies. The first question that arises with free allocation is how the permits should be distributed. With unconditional allocation, based on past emissions, firms may be closed down without the permits being revoked; the firm owners thus receive free permits (worth a fortune) as long as the permit system is in place. Even with conditional allocation – that is, permits are allocated on the basis of past emissions for firms that have shown relatively stable levels of activity, it has been shown that a permit system with conditional free allocation is not cost-effective. It does not stimulate emissions reductions in the same way that auctioning does.

5. For many years, economists have argued that national emissions trading markets should be based on auctioning and not free allocation. In fact, most countries in the EU are moving away from the system of free allocation to a market-based auction system. A permit system with conditional free allocation is not cost-effective. It does not stimulate emissions reductions in the same way that auctioning does. The point of market-based instruments in environmental policy is precisely that we want to put a price on pollution. Then the market itself will ensure that the greatest possible emissions reduction takes place at the lowest possible cost – whether it be a question of cleaner technologies or a restructuring of business and industry. However, if obstacles block the path of the market mechanism by introducing free allocation of permits, then investment and operational decisions will be directly affected by the allocation itself. Then the system is no longer cost-effective, which was the whole point of introducing market-based instruments.



6. The widely quoted Stern Report issued last year also takes a look at emissions trading and identifies many of the same problems with free allocation. It emphasizes that free permits distort incentives, and recommends that the EU switch to auctioning permits. The report acknowledges that free allocation can play a certain role in a transition period under very limited conditions, but it is important that the rules be well thought out and temporary. It also stresses that there is little reason for new and existing energy producers to receive free permits.

7. The government proposed that the total emission allowance to be allocated for the year 2010 would amount to 68,980 tonnes (including all three pollutants under control). **By the government's own estimate of a marginal value of \$20,000 per tonne (Clause 26(k)), the current proposal is equivalent to an allocation of public asset of \$1.38 billion to the power companies for free for the year 2010 alone.** We are surprised that whether this is justifiable for the best of public interest or desirable in terms of inducing emission reduction have not been discussed at all in the government documents. Neither has any alternative option of allocation been raised for discussion or reference. We believe that the government has a duty to set out all the different options of allocation and spell out the pros and cons of each option (including market-based systems) for public scrutiny before this Amendment should be further considered.

Carbon Dioxide included as Pollutant

8. We support many green groups proposal to include carbon dioxide emission as a pollutant under the definition in the ordinance, thus bringing into control this greenhouse gas. By carefully setting emission targets for carbon dioxide, we believe that it can actually stimulate more technological innovation and good business practices among energy producers, thus benefiting the economy in the long run.

The Civic Party

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