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Panel on Environmental Affairs

Meeting on 28 January 2008

Updated background brief on air pollution control

(Position as at 22 January 2008)

Introduction

Air quality in Hong Kong is typical of any large modern city. High concentrations of particulates and nitrogen oxides (NO_x) in the urban areas are the most pressing problems, causing a nuisance and constituting a health concern. The problems are compounded by a combination of factors, including high population density, high-rise buildings that hinder or prevent circulation of air at street level, and a high concentration of vehicles, especially diesel vehicles, at urban roadside, as well as ambient air pollution in the Pearl River Delta (PRD) Region.

2. As deteriorating air quality is a major cause of public concern, the Panel on Environmental Affairs (EA Panel) has been closely monitoring the progress of air pollution control measures taken by the Administration to reduce the total emissions of various pollutants, particularly NO_x, sulphur dioxide (SO₂), respirable suspended particulates (RSP) and volatile organic compounds (VOC).

Regional air quality

3. The ambient air pollution problem has all along been a public concern and a major subject of discussion at meetings of the Council and EA Panel. To improve the air quality of the whole PRD Region, the Environmental Protection Department (EPD) and the Environmental Protection Bureau of Guangdong (GDEPB) conducted a joint study on regional air quality during 1999-2002. The aim of the study is to analyze the relative significance of different industrial and commercial sources of pollution and their direct and indirect impacts on regional air quality so that air pollution measures can be prioritized accordingly. According to the findings of the study, the economy, population, electricity demand and vehicle mileage in the PRD Region will grow by 150%, 20%, 130% and 180% respectively from 1997 to 2010. In terms of total emissions, Hong Kong accounts for about 5% to 20% of regional air pollution while the PRD Economic Zone of the Mainland accounts for 80% to 95%. Given the continuous economic growth of the PRD Region, the extensive pollution in the region cannot be mitigated effectively with the existing improvement measures

implemented by the two governments. To this end, the Hong Kong Special Administrative Region Government (HKSARG) and the Guangdong Provincial Government (GPG) reached a consensus in April 2002 to reduce by 2010, on a best endeavour basis, the regional emissions of SO₂, NO_x, RSP and VOC by 40%, 20%, 55% and 55% respectively, using 1997 as the base year. In December 2003, the two governments jointly drew up the Pearl River Delta Regional Air Quality Management Plan (the Management Plan) with a view to meeting the emission reduction targets. The Pearl River Delta Air Quality Management and Monitoring Special Panel (Special Panel) was also set up under the Hong Kong/Guangdong Joint Working Group on Sustainable Development and Environmental Protection to follow up on the tasks under the Management Plan.

4. The EA Panel has been closely monitoring the progress in mitigating regional air pollution. Members agree that the problem cannot be resolved by HKSARG alone since the air quality of Hong Kong was increasingly affected by the rapid economic and industrial development in the PRD Region. They are also not optimistic that the emission reduction targets can be met because many industrial activities in the Mainland do not abide by the environmental laws. As such, members consider it necessary for the Special Panel to discharge its duty to follow up on the tasks under the Management Plan. The Administration should also explain to the public the bases upon which the emission reductions targets were arrived at and the means to achieve these targets. More scientific methods, such as satellite mapping and remote sensing, should be used to forecast pollution and to trace the pollution sources more accurately to enhance control. To reduce emissions from power plants from the regional perspective which are a major source of air pollution, the EA Panel supports the early implementation of the proposed emissions trading pilot scheme covering power plants in Hong Kong and Guangdong. Members also urge the Administration to examine the feasibility of introducing renewable energy on a larger scale in Hong Kong through joint ventures with the Mainland counterparts.

5. At the EA Panel meeting on 23 January 2006, members noted that both HKSARG and GPG had reiterated their commitment to achieving the emission reduction targets by 2010. As the provision of Liquefied Natural Gas (LNG) power plants was an important aspect in reducing emissions, the commissioning of the four LNG power plants at Daya Bay in Huizhou, Shenzhen East, Qianwan in Shenzhen and Zhujiang in Guangzhou would allow for the replacement and closure of the more polluting coal-fired plants. The completion of these LNG power plants in April 2007 would also ease the problem of energy shortage and reduce the need for supply of electricity from Hong Kong to Guangdong, which in turn help reduce emissions from power generation in Hong Kong. Apart from using cleaner energy, GPG was very proactive in reducing tailpipe emissions from motor vehicles. It had been pursuing with the Central Government on the advancement of adopting Euro III emission standards for motor vehicles in main cities in Guangdong from 2007 to 2006. Efforts were also being made by GPG to introduce more environmentally friendly vehicle fuel to tie in with the new emission standards. To keep members abreast of the control measures of GPG, the Administration was requested to provide progress report to include specific information such as the number of polluting facilities which had been closed down as a result of the control measures and the commissioning of the four LNG plants.

Emissions trading

6. On 30 January 2007, EPD and GDEPB jointly announced the implementation framework of the Emissions Trading Pilot Scheme for Thermal Power Plants in PRD Region (Pilot Scheme) which aimed to provide a market-based tool to encourage power companies, through emissions trading, to embark upon emission reduction projects (Details of the implementation are given in the Annex to LC Paper No. CB(1) 972/06-07(05) issued for the meeting on 26 February 2007). In gist, all eligible power plants in the PRD Region can participate in emissions trading on a project basis, but they would need to comply with the environmental requirements laid down by the respective governments of Guangdong and HKSAR. Interested eligible power plants can propose emission reduction plans to further reduce their total emissions for consideration by their local environmental protection authorities. The authorities on both sides would jointly examine the emission reduction plan under application to ascertain the base emission target and the emission target after completion of the emission reduction plan. The difference between the two emission targets would be converted into the total amount of emission reduction on which the "project-based emission credits" and their validity period are determined. These approved "project-based emission credits" can then be sold by the "seller" through contractual agreement to another plan (the "buyer") which is not able to meet the emission targets being set. By allowing the trading of the "emission credits", power companies in the PRD Region can comply with the emission targets more flexibly and cost-effectively.

7. The two sides will actively introduce the Pilot Scheme to thermal power plants/power companies in the PRD Region, with a view to allowing prospective parties to identify trading partners and drawing up emissions trading agreements. In parallel, an Emissions Trading Management Panel will be set up jointly as soon as possible to assist the environmental protection authorities of both sides in the management of emissions trading matters under the Pilot Scheme. It will include management of the transfer and write-off of emission credits, announcement of the distribution of emission credits, proposed operational rules of emissions trading as well as training of personnel. The environmental protection authorities of the two sides will take up the monitoring role to ensure the smooth implementation of the Pilot Scheme.

8. The EA Panel held two meetings on 26 February and 28 March 2007 to discuss the Pilot Scheme. Deputations, including the two local power companies, were invited to express their views at the latter meeting. While there was general support for the Pilot Scheme which provided financial incentives to encourage corporations to further reduce emissions, concern was raised on the effectiveness of the Scheme in attracting participation given its voluntary nature. As the emission caps set by GPG were likely more relaxed, power plants in Guangdong could meet the caps easier and thus able to sell their emission credits to their counterparts in Hong Kong. It was pointed out that the Pilot Scheme should not be used as a means to replace emission reduction measures. The Administration should ensure timely implementation of emission reduction measures, such as installation of desulphurization facilities, using cleaner fuels and development of renewable energy etc. Consideration should also be given to including carbon dioxide in the scope of

the Pilot Scheme with a view to reducing greenhouse gases.

9. In December 2007, the Panel received a briefing by the Administration on, among other things, the introduction of emissions trading as an alternative means for compliance with the emission caps to be imposed on the power generation sector in order to meet the 2010 emission reduction targets. Members raised no objection to the relevant legislative amendments which would be introduced into the Legislature in February 2008.

Air quality in Hong Kong

10. To improve air quality in Hong Kong, the Administration has introduced a range of measures, mainly in the form of statutory controls, to reduce emissions from the polluting sources. These include reducing emissions from industries, reducing dust emissions from construction activities, reducing emission from motor vehicles and adopting stringent fuel standards.

Reducing industrial emissions

11. Major industrial emission sources have been placed under licensing control since 1987 and high sulphur fuels have been banned since 1990. As a result of the control on fuel sulphur content, SO₂ concentrations in industrial areas have fallen by up to 80%. Combined with the reduction in industrial activity, total industrial SO₂ emissions fell from 46 616 tonnes in 1989 (before the ban of high sulphur fuel) to 7 045 tonnes in 2000.

Emissions from power generation

12. Electricity generation remains the biggest source of air pollution in Hong Kong. It accounts for 92% of the SO₂ and half of the NO_x and RSP emissions. The need to reduce emissions from power plants has all along been a major discussion item at meetings of the Council, Panel on Economic Services (ES Panel) and EA Panel. To reduce emissions from power plants, all coal fired plants built after 1991 are required to have flue gas desulphurization (FGD) system and low nitrogen oxide burners. All new power plants approved after 1996 are required to use natural gas. As a result, the SO₂ emissions from power plants fell from 131 600 tonnes in 1991 to 56 803 tonnes in 2000 and NO_x emissions dropped from 149 000 tonnes in 1991 to 43 627 tonnes in 2000. At the EA Panel meeting on 25 October 2004, members noted that in the past, nuclear energy, coal and natural gas had more or less the same share in power generation. However, more reliance on coal was seen nowadays as a result of unstable supply of natural gas. As coal-fired power generation was very polluting, members opined that the two power companies should endeavour to control emissions as part of their social and corporate responsibility. The Administration should also liaise with the power companies to work out an economically and environmentally acceptable solution to control emissions from power plants. This might include identifying a suitable storage depot for natural gas to ensure stable supply.

13. When the Financial Plans of the two local power companies were discussed at the meeting of the ES Panel on 25 July 2005, members noted with grave concern that

the two companies would not be able to meet the intended emission caps set by the Government for 2010. To follow up the issue, the EA Panel subsequently held a special meeting on 29 September 2005, at which deputations were invited to express their views.

14. It was noted that since the Financial Plans were approved in June 2005, EPD had been discussing with the two power companies with a view to finding a package of effective measures for meeting the emissions reduction targets by 2010. As a result, the Hongkong Electric Company Limited (HEC) had agreed to review the possibility of accelerating the emissions reduction projects proposed in its Financial Plan and to join EPD to set up a Task Force to work out a scheme of emissions trading. The CLP Power Hong Kong Limited (CLP) had responded that they were increasing the use of ultra low sulphur coal, progressing with the upfront engineering work for their emissions reduction projects, exploring the feasibility of optimizing the schedule, pursuing the LNG project to increase the availability of natural gas, and discussing emissions trading with EDP. EPD also took the opportunity, in the renewals of the Specified Process Licence under the Air Pollution Control Ordinance (Cap. 311) (APCO), to impose emission caps on power plants with a view to reducing the emissions to the practical minimum. The questions of how the 2010 emission reduction targets were set and whether the two power companies were consulted on the targets were raised at the meeting. Members noted that the targets were not unilaterally set by EPD but were agreed between the HKSARG and GPG based on health considerations. The emissions reduction targets were considered achievable and the two power companies had been requested to reduce their emissions since 2003 in an attempt to reach these targets. According to HEC, it would be able to meet the emissions reduction targets by 2010 on condition that the necessary approval for the construction of the new generation unit L10 could be obtained from the Economic Development and Labour Bureau (EDLB) in time, and that there would be a sufficient supply of natural gas. To tackle the problem of insufficient supply of natural gas, CLP was prepared to put in place a receiving terminal for LNG around the world as a long-term solution. Further emission reduction could be made possible through the early commissioning of the LNG terminal.

15. On 23 January 2006, the EA Panel received a briefing on the progress of measures to improve air quality, including those taken by the two power companies to meet the Government's emission reduction targets by 2010. According to the Administration, CLP had indicated that it would accelerate works on emission reduction facilities in an attempt to meet the targets as soon as possible. Upon completion of the retrofit of FGD and the selective catalytic reduction, which would reduce emissions by 90% and 85% respectively, it was expected that the emission caps could be met. CLP also endeavoured to complete the environmental impact assessment for the two identified sites for the LNG receiving terminal as soon as possible. Meanwhile, the Housing, Planning and Lands Bureau, EDLB and Environment, Transport and Works Bureau were looking into the feasibility of expediting the statutory and land-related processes with a view to advancing the project schedule. As for HEC, the advancement of its FGD facility to April 2010 would indeed have a positive effect in meeting the emission reduction targets. Subject to the approval of the L10 unit by the Government, which would take about 18 to 20 months to construct, the new unit could be commissioned well in time to

meet the targets by 2010.

16. There was concern about the cost implications, particularly the possible impact on electricity charges, in expediting compliance with the emission reduction targets by the two power companies by 2010, as against their own pledges by 2011 or 2012. It was however pointed out that the costs implications of implementing emission reduction measures would be much less as compared to the health costs associated with deteriorating air quality. Besides, HKSARG should uphold the targets so that GPG would follow suit.

17. In December 2005, EDLB published the Stage II Consultation Paper on future development of the electricity market in Hong Kong to invite the public to provide views on the proposed future regulatory arrangements of the market and other related matters. The consultation exercise was scheduled to end on 31 March 2006. The environmental aspects of the Stage II Consultation Paper were discussed by the EA Panel at its meeting on 27 March 2006. Deputations were also invited to express their views.

18. Members noted that to safeguard public health and promote sustainable development, the Government had proposed to implement the following measures to reduce the emission of power plants in the Stage II Consultation Paper –

- (a) To link the permitted rate of return on all fixed assets of the power companies to their achievement of the emission caps stipulated in the Specified Process Licenses (SPLs) issued under APCO and reduce such permitted rate of return if the companies did not achieve the caps. As a corollary, financial incentives in the form of “bonus” would be provided to encourage the power companies to reduce their emissions to levels below those required in SPLs;
- (b) To subject emission reduction facilities to the lowest rate of return (i.e. lower than all other assets) so as to avoid, as far as possible, the costs of emission reduction facilities being passed onto consumers and increasing their tariff burden; and
- (c) To provide financial incentives to the power companies for improving their performance in energy efficiency and energy conservation. The practical performance of power companies would be assessed to the performance standard so set.

19. While the majority of deputations welcomed the proposal to link the permitted rate of return of power companies to their ability in achieving the emission cap, there was concern that the imposition of unilaterally and arbitrary emission caps might cause unreasonable investment risks on the part of the power companies. The permitted rate of return and the duration of agreement should not be set at too low a level as this might discourage long-term investment in the supply system. It was pointed out that a clear, long-term and integrated energy policy in respect of fuel mix, security of fuel supply, and role of coal and natural gas for power generation in Hong Kong was necessary. There was also a need for the Administration to work out the

emission reduction targets beyond 2010 so that the energy sector would know what was expected of them in future. As Hong Kong had tremendous capacity for energy conservation, there was a need to implement energy conservation and efficiency measures on a wider scale. Consideration should be given to requiring utility companies to set up energy service companies to help consumers save energy through the installation and use of energy-efficient appliances. However, any reduction in energy consumption should not be used by the power companies as an excuse to increase their tariffs. In the longer term, there might be a need to introduce a carbon tax to deter high energy consumption which would lead to environmental pollution.

VOC emissions

20. To control VOC emissions, the Administration has introduced a number of regulations since 1999 to require petrol filling stations and petrol delivery vehicles to be equipped with effective vapour recovery systems to recover VOC vapour during the unloading process. All newly built petrol filling stations are also required to install vapour recovery system to recover petrol vapour during petrol vehicle refueling. The EA Panel was consulted on the relevant legislative proposals. While generally supporting these proposals, members emphasized the need for measures to minimize the inconvenience associated with the suspension of service during the installation period.

21. In addition to measures to reduce VOC emissions from petrol filling stations, the Administration has also put forward a plan to adopt a two-stage approach to reduce VOC emissions from paints, printing inks and selected consumer products^{note1} in Hong Kong. Under Stage 1 of the proposal, a mandatory registration and labeling scheme will be introduced to require importers or manufacturers of all paints, printing inks and selected consumer products to register with EPD the VOC contents of their products for sale in Hong Kong. They will also be required to ensure that a bilingual label of the VOC contents is either printed upon or securely affixed onto individual containers and/or packaging of the concerned products.

22. When the EA Panel was briefed on the proposed scheme on 28 June 2004, some members expressed concern that the proposal would duly affect those retailers who had to rely on exporters to provide the requisite information on VOC contents. Besides, the proposed scheme would limit consumers' choice since the registration and labeling requirements would likely affect the import of VOC-containing products manufactured in countries which did not have such requirements. It was also pointed out that the additional cost incurred in complying with the proposed registration and labeling requirements might invariably be transferred to consumers.

23. In September 2004, the Administration embarked a two-month consultation exercise to gauge views of stakeholders. In view of the trades' concerns about the impact of the proposed scheme on their operation, the Panel on Commerce and Industry held a meeting on 14 December 2004 to receive views from interested parties. While the trades were generally supportive of the need to improve air quality and

Note¹ These include general consumables (such as air freshener, insect repellent, cleaner for bathroom and tile, glass, carpet and upholstery etc), personal care products (such as antiperspirant/deodorant, hair shine/spray, nail polish/polish remover etc), car care products (such as automotive wax, polish, sealant, glaze etc) and aerosol coatings.

protect the environment, they held the view that the proposed scheme was at variance with the Government's pledge to improve business environment and employment given the high operating costs arising from testing and labeling of VOC-containing products which might jeopardize the viability of many small and medium enterprises engaged in retail business. Besides, there might not be sufficient laboratories in Hong Kong which were qualified to test VOC levels. There was also concern that the proposed transitional period was too short for importers and retailers to clear their existing stock before the new scheme took effect. They held the view that the Administration should provide clear guidelines on the safety level and testing standards of VOC. Consideration should be given to targeting at products with high VOC content while exempting those of low VOC content. They also requested the Administration to conduct a regulatory impact assessment to fully assess the impact of the scheme on the trades.

24. In light of members' concern, the Administration held a number of in-depth discussions with the trades with a view to finding measures that could effectively reduce the emission of VOC and yet minimizing the impacts on the affected trades. A revised control programme was subsequently worked out. In gist, regulatory requirements under the revised control programme will be sector-specific so that they will be the most suitable and effective for the sector concerned. The scope of control for consumer products is also narrowed down to the six largest emitting sources, namely hairsprays, insecticides, insect repellents, air fresheners, floor wax strippers and multi-purpose lubricants. The programme can be expedited and limits on VOC contents can be imposed directly without the first-stage labeling programme. Mandatory registration and testing of VOC products by certified laboratories are no longer required. Products may be imported or manufactured as long as they comply with the relevant VOC limits. The Administration plans to introduce the regulation in 2006 and the first batch of VOC limits will come in force on 1 January 2007 while the majority of the VOC limits will come in force by 1 January 2009. It is estimated that the new regulation can help reduce approximately 8 000 tonnes of VOCs.

25. The revised control programme was discussed by the EA Panel on 28 November 2005. While appreciating the Administration's effort to rationalize the control programme after in-depth discussions with the trades, members emphasized that consultation should have been done well before the control programme was worked out. To address the concern that importers might need to seek information on VOC content from manufacturers in order to meet the VOC limits, members noted that sufficient time would be allowed for importers/suppliers to re-formulate or source alternative products to meet the VOC limits. They also noted that different implementation dates were proposed for different VOC products, in particular paints and coatings, taking into account the difficulty in finding substitutes and the time required for the re-formulation of paint products. As an interim measure, suppliers of paints had agreed to temporarily affix a warning label on those paints with VOC content in excess of the proposed limits. As regards the effect of the reduction of 8 000 tonnes of VOC in achieving the emissions reduction targets, members noted that the 8 000 tonnes of VOCs to be reduced under the revised control programme constituted a 15% reduction in total VOC emissions. Together with the 23% reduction in VOC emissions resulting from the implementation of a series of measures since 1997 and the continual implementation of the various control programmes, it

was expected that the emissions reduction target of 55% of VOC could be met by 2010.

26. The Air Pollution Control (Volatile Organic Compounds) Regulation was gazetted on 24 November 2006. The Regulation aims to prohibit the manufacture and importation of certain regulated paints, printing inks and consumer products if the VOC content of the product exceeds the maximum limit prescribed by the Regulation for that product.

Reducing dust emissions from construction activities

27. Dust emissions contribute to high ambient levels of an air pollutant known as Total Suspended Particulates. To prevent and minimize dust emissions, the Administration introduced the Air Pollution Control (Construction Dust) Regulation in 1997 to require contractors of construction sites to implement specified dust measures, including installation and proper operation of dust control systems, enclosing dusty materials and stockpiles or spraying them with water or dust suppression chemicals, treating unpaved surfaces, and implementing good on-site housekeeping measures. As a result, dust emitted from individual construction activities has been reduced by up to 80% in 2000.

Reducing emissions from motor vehicles

28. Road vehicles are the second largest source of air pollution in Hong Kong, contributing to 25% and 27% of the territory-wide emissions of RSP and NO_x respectively. A multi-pronged approach has been adopted by the Administration to reduce emissions from motor vehicles as follows -

- (a) adopting stringent motor fuel and vehicle emission standards;
- (b) retrofitting in-use diesel vehicles with particulate removal devices;
- (c) replacing in-use diesel vehicles with cleaner alternatives;
- (d) promoting better vehicle maintenance; and
- (e) enhancing enforcement against smoky vehicles.

Stringent motor fuel and vehicle emission standards

29. To eliminate lead emissions from motor vehicles, the Administration has introduced unleaded petrol in 1991 and completely banned leaded petrol since April 1999. It has also been following the mandatory maximum sulphur content standard adopted by the European Union (EU) since 1995. As a result, the SO₂ emissions from diesel vehicles have been reduced by over 90%. In order to achieve a quicker reduction in the particulate and NO_x emissions from diesel motor vehicles, the Administration has mandated the Euro IV standards for diesel (i.e. ultra low sulphur diesel (USLD)) since 1 April 2002 and for petrol since 1 January 2005. To provide a fiscal incentive for the use of environmentally cleaner fuel, the Administration has granted a concessionary duty rate on USLD since 1 July 2000 and

the concession has been extended to 31 December 2005 through a number of extensions to take account the economic situation during the interim. When the EA Panel was consulted on the proposals to tighten the specifications for motor fuel, members were generally supportive of measures to reduce roadside pollution. Some members however expressed concern that the oil companies would make use of the opportunity to increase the pump price, which in their view was already very high. As consumers would have no other choice of fuel, they considered it necessary for the Administration to put in place a mechanism to keep the pump price under control.

30. In 1995, all newly registered vehicles were required to comply with the Euro I emission standards. Following the tightening of the emission standards for newly registered vehicles by EU, the Administration has implemented the Euro II standards in 1997 and introduced the Euro III standards since January 2001. As EU starts tightening in phases its vehicle emission standards for new light duty vehicles (vehicles of 3.5 tonnes and below) to Euro IV level, the Administration intends to implement the Euro IV emission standards for newly registered light and heavy duty vehicles and motorcycles in tandem with EU as well as upgrade the emission standards for diesel private cars to the latest California standards. The EA Panel was consulted on the proposals in February 2005 and February 2006. While supporting the proposal to tighten emission standards, Panel members held the view that this would not bring about much environmental improvement if replacement of existing vehicles was on a voluntary basis since owners would tend to optimize the service life of their vehicles. In the absence of incentives, the pace of vehicle replacement would be very slow as evidenced by the many aged light and heavy diesel vehicles on the road. The Administration was therefore urged to consider providing financial incentives such as tax concessions to encourage early replacement of vehicles by more environmentally friendly hybrid models which ran on a combination of petrol and electricity.

Retrofitting in-use diesel vehicles with particulate reduction devices

31. While no new pre-Euro diesel vehicles have been registered since 1 April 1995, there is a need to reduce particulate emissions from the existing fleet of pre-Euro diesel vehicles which emit up to seven times more particulates than vehicles meeting the prevailing Euro III standards. In May 2000, the Finance Committee (FC) approved a commitment of \$50,880,000 for providing a one-off grant to assist owners of pre-Euro diesel light vehicles of up to four tonnes to retrofit their vehicles with particulate reduction devices. The voluntary retrofitting programme was completed in October 2001 with over 80% of eligible vehicles participated in the programme. The installation of particulate removal devices has been made mandatory by law since 1 December 2003. Another financial commitment of \$600 million was approved by FC in May 2002 for a similar retrofitting programme for pre-Euro heavy diesel vehicles weighing more than four tonnes, except those requiring the operation of on-board equipment when idling (long idling vehicles). The retrofitting programme was completed in 2004 with about 97% of eligible vehicles participated in the programme. An amendment regulation was subsequently passed in 2005 which required pre-Euro heavy diesel vehicles to be installed with an approved emission reduction device with effect from 1 April 2006. Through collaboration with the transport trades and the Hong Kong Polytechnic University, the Administration had

found catalysts that could work on long idling vehicles without causing white smoke problem. In June 2004, the Administration secured funding approval of \$70 million from FC to assist owners of the remaining category of pre-Euro diesel vehicles with suitable emission reduction devices. A voluntary retrofitting programme for long idling pre-Euro heavy diesel vehicles was launched in July 2005 and completed in December 2005 with 95% of the eligible vehicles participated in the programme. An amendment regulation was subsequently passed in 2006 to make the installation mandatory with effect from 1 April 2007.

32. The EA Panel has been monitoring the progress of these retrofitting programmes. While welcoming measures to improve air quality at street level, members have repeatedly urged the Administration to consider allowing vehicle owners to have a choice between retrofitting their vehicles with emission reduction devices and replacing their vehicles with the more environmentally friendly new Euro III models. The latter would be more effective in improving air quality without the need for additional financial resources.

Replacing in-use diesel vehicles with cleaner alternatives

33. With the approval of a commitment of \$725,520,000 by FC in June 2000, the Administration launched the Diesel Taxi Replacement Programme to encourage the early replacement of the entire fleet of 18 000 diesel taxis with ones that are run on liquefied petroleum gas (LPG) by end-2005. Under the scheme, a one-off grant of \$40,000 will be offered for each diesel taxi that is replaced by a LPG one. The importation of diesel taxi has also been stopped from 1 August 2001. As at end-August 2005, about 99.9% of diesel taxis have been replaced.

34. In November 2001, the Administration announced the Diesel Light Bus Replacement Programme to offer incentives to encourage the early replacement of diesel light buses with LPG or electric ones. Under the scheme, owners of diesel public light buses (PLBs) who replaced their vehicles with an LPG or electric model would be offered a one-off grant of \$60,000 or \$80,000 for each diesel PLB that is replaced with a LPG or electric one respectively while owners of diesel private light buses would be offered First Registration Tax (FRT) exemption. To be eligible for the one-off grant or FRT exemption, owners of diesel public and private light buses aged 10 or above at the time of de-registration must replace their vehicles by end-2003. Owners of diesel public and private light buses below 10 years old at the time of de-registration must replace their vehicles by end-2004. The EA Panel and the Transport Panel held a number of joint meetings to monitor the progress of the incentive scheme. While expressing in-principle support to the scheme, concern was raised on the limited supply of LPG light bus models in the market that could meet the specifications laid down by the Government. To prevent possible monopolization of any vehicle manufacturer, the Administration was urged to take proactive measures to enable the supply of a wider choice of LPG light bus models. Two motions were also passed urging the Administration to include private school light buses in the proposed incentive scheme, and to extend the deadlines of applications for the incentives from end-2003 to end-2005 and from end-2004 to end-2006 for owners of existing diesel light buses aged 10 or above and below 10 years respectively at the time of de-registration. Instead of extending the deadlines by two years as proposed, the Administration only agreed to extend these by one year. Upon completion of the

scheme in 2005, 2 370 diesel light buses (about 55% of the public light bus fleet) were replaced by LPG light buses. So far, no electric public light bus has been registered for use in Hong Kong. This may be due to the need for frequent charging of their batteries which is a major operational constraint to public light bus operators.

35. The Administration's decision to shelve the introduction of LPG light vans and light goods vehicles into Hong Kong had aroused much concern of the EA Panel as this was a change in policy to improve air quality through the introduction of more environmentally friendly vehicles. Members also found it not convincing for the Administration to use impracticality as an excuse to justify its decision to shelve the conversion programme since the provision of inadequate LPG filling supporting infrastructure only reflected the lack of vision and consistency on the part of the Administration in implementing its fuel policy. Given that the fuel market could quickly adjust itself to meet the demand if the existing diesel light vans and light goods vehicles were to switch to LPG ones, members were skeptical that the decision to shelve the switch was attributed to budget deficit as duty was imposed on diesel but not LPG.

36. To encourage people to reduce pollution through the use of new technologies, he Chief Executive announced in his Policy Address 2006-2007 that a 30% reduction in first registration tax would be given to buyers of vehicles with low emissions and high fuel efficiency, subject to a ceiling of \$50,000. The proposal was discussed by the EA Panel at its meeting on 27 November 2006. While supporting the proposal, concern was raised on the qualifying standards, particularly in respect of fuel efficiency, for environment friendly cars. Some members pointed out that as the fuel efficiency limits would be progressively tightened taking into account the average fuel performance of vehicle models imported into Hong Kong, vehicle buyers who had placed orders for environment friendly vehicles based on the prevailing fuel efficiency limits might not be able to benefit from the tax concession when the said limits were subsequently tightened upon the arrival of the vehicles. According to the Administration, the fuel efficiency limits would remain in force until 31 March 2008 and tightening would then be made on 1 April 2008 taking into account the average fuel performance of vehicle models imported into Hong Kong up to 31 December 2007. As regards members' query on whether the Administration would take the lead to replace government vehicles with those which could meet the specified qualifying standards, the Administration's explanation was that the limited availability of hybrid models in the market might have the disadvantage of stereotyping which might jeopardize certain government operations, particularly those undercover operations by law enforcement agencies. Notwithstanding, the Administration would endeavour to replace existing small and medium size vehicles used for general purposes with environment friendly models when their service lives were due to expire.

37. On 20 December 2006, the EA Panel received a briefing on the Administration's proposal to provide a one-off grant to encourage owners of old diesel commercial vehicles to replace their old vehicles. The proposed scheme would cost about \$3.2 billion if all eligible vehicle owners took up the grant. The territory-wide emissions of RSP and NO_x would be reduced by 18% and 10% respectively. While not objecting to the proposal, some members queried the efficacy of various measures in improving the air quality in Hong Kong. They held the view that incentive

schemes alone might not be able to achieve the intended purpose if these were not complemented with a mandatory requirement to phase out highly polluting diesel vehicles. According to the Administration, it had consulted the relevant transport trades about the proposal. While supporting the proposal, the trades had expressly indicated that the Government should not compel the retirement of old diesel vehicles by legislation or other means.

38. In view of the substantial amount of public money to be incurred in taking forward the proposal, members considered it necessary that the relevant stakeholders, including the trades and green groups, should be further consulted before the proposal was submitted to FC for consideration. Deputations were invited to express their views at the special EA Panel meeting on 5 January 2007. While supporting the proposal, the trades expressed concern about the supply of sufficient Euro IV models to meet demand and the provision of relevant price lists by car dealers lest they would exploit the opportunity for profiteering, thereby defeating the purpose of encouraging owners to replace their more polluting vehicles. The long lead time between now and the proposed implementation date of the scheme on 1 April 2007 would also discourage owners from replacing their vehicles. In order to encourage early replacement of these vehicles, consideration should be given to providing the one-off grant with retrospective effect so that owners who replaced their pre-Euro and Euro I diesel commercial vehicles with Euro IV models after the delivery of the 2006-07 Policy Address would also be entitled to the one-off grant. Green groups however expressed reservation on the proposal. They pointed out that the scheme would be seen to be designed to assist owners to replace their vehicles rather than improving air quality if this was not complemented with a ban on pre-Euro and Euro I diesel vehicles. While the Panel did not raise objection against the submission of the relevant funding proposal to FC, it would be for individual members to decide whether to support the proposal.

Enhancing enforcement against smoky vehicles

39. The fixed penalty on smoky vehicles has been increased from \$450 to \$1,000 since December 2000. In an attempt to mitigate the roadside pollution problem, some members of the EA Panel suggested that that the penalty should be further increased from \$1,000 to \$1,500 to bring it on a par with the penalty for littering since the emission of smoke was a more serious offence given its irrevocable damage to air quality and public health. The heavier penalty would achieve a greater deterrent effect as evidenced by the drop in the number of smoky vehicles since the last increase in 2000.

40. As a result of the above measures, particulate matters and NO_x at roadside have dropped by 13% and 23% in 2003 as compared with 1999. The number of smoky vehicles has also dropped from over 70% in 2003 to 80% in 2007.