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14 November 2007

Miss Becky Yu
Clerk to Panel on Environmental Affairs
Legislative Council Building
8 Jackson Road
Central
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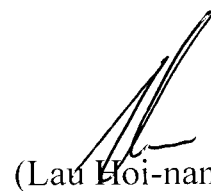
Dear Miss Yu,

**Panel on Environmental Affairs
Special Meeting on 9 November 2007**

As requested by Members at the above special meeting, I attach a note setting out in greater detail the environmental benefits of Euro V diesel as well as the oil companies' responses to questions relating to the retail price of Euro V diesel. I should be grateful if you would help distribute the note to Members of the Panel for reference.

Please also be informed that there is a typographic error in the paper entitled "Measures to Promote the Use of Environment-friendly Fuels" we submitted to the Panel for the special meeting. The figure "0.5%" appeared in the end of the fourth line of paragraph 3 should read "5%". My apologies for any confusion caused.

Yours sincerely,



(Lau Hoi-nam)

for Director of Environmental Protection

Encl.

For Information

Legislative Council
Panel on Environmental Affairs

Euro V diesel

In response to Members' request at the special meeting on 9 November 2007, this note explains the benefits of Euro V diesel and reports on oil companies' responses to questions relating to the retail price of Euro V diesel.

Environmental benefits

2. Euro V diesel is suitable for all existing diesel vehicles. As compared with ultra-low sulphur diesel (ULSD), which meets the current statutory requirements for motor vehicle diesel, fuelling existing diesel vehicles with Euro V diesel can reduce their sulphur dioxide and particulates emissions by 80% and 5% respectively as compared with ULSD.

3. The sulphur content in motor vehicle diesel is the major source of sulphur dioxide in vehicle exhaust. During combustion, the sulphur combines with oxygen to form sulphur dioxide. Since Euro V diesel contains 80% less sulphur than ULSD, fuelling diesel vehicles with Euro V diesel could reduce 80% of their sulphur dioxide emissions.

4. A small portion of the sulphur dioxide in diesel vehicle exhaust

will form sulphates, which are in the form of particles. So, the reduction of sulphur content in motor vehicle diesel will reduce the emission of particulates. Replacing ULSD with Euro V diesel as fuel can reduce the particulate emissions of existing diesel vehicles by 5%.

5. The sulphur content in motor vehicle diesel will reduce the effectiveness and durability diesel oxidation catalysts. At present, a considerable number of diesel vehicles¹ have been equipped with diesel oxidation catalyst to reduce their particulate emissions. Replacing ULSD with Euro V diesel can improve the performance of the diesel oxidation catalysts.

6. Should Euro V diesel vehicles be fueled with Euro V diesel² in future, they will emit 30% to 40% less nitrogen oxides than Euro IV diesel vehicles fueled with ultra-low sulphur diesel. As for diesel vehicles up to 3.5 tonnes, their particulate emissions will also be reduced by 80%.

Retail Price

7. Euro V diesel provided by the local fuel suppliers is presently subject to the same concessionary duty rate as ULSD, which is currently set at \$1.11 per litre. In the first eight months of this year, about 40% of the motor vehicle diesel imported to Hong Kong met the specification of

¹ All pre-Euro heavy duty diesel vehicles have retrofitted with diesel oxidation catalyst. Some Euro I or later models have also retrofitted with diesel oxidation catalyst in order to reduce the emission of particulates.

² The Government plans to start implementing in phases Euro V emission requirements for newly registered vehicles from 1 October 2009 in tandem with the European Union.

Euro V diesel. Based on the imported prices provided by the Census and Statistics Department during the period, Euro V diesel was more costly than ULSD by up to about \$0.1 per litre. In accordance with Members' request, we have consulted oil companies on the factors affecting the retail price of Euro V diesel. All major oil companies have replied. They have taken note of the import price differential between Euro V diesel and ULSD as revealed by the Census and Statistics Department. As regards the future retail price of Euro V diesel, the oil companies considered that it would be subject largely to market supply and demand, plus cost of bringing in the new diesel. Nonetheless, the oil companies have pledged earlier that they will duly reflect the duty concession on the retail price of Euro V diesel after deducting the cost increase. The Government will continue to monitor the trend in international and import prices, as well as local retail prices.

Environmental Protection Department

November 2007