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**Subcommittee on Technical Memorandum for
Allocation of Emission Allowances in Respect of Specified Licences**

**Background brief prepared for the
meeting on 25 November 2008**

Purpose

This paper gives a summary of discussion by the Panel on Environmental Affairs (the Panel) on the Technical Memorandum for Allocation of Emission Allowances in Respect of Specified Licences (TM).

Introduction

2. To improve air quality, the Hong Kong Special Administrative Region Government reached a consensus with the Guangdong Provincial Government in April 2002 to reduce the emissions of sulphur dioxide (SO₂), nitrogen oxides (NO_x), respirable suspended particulates (RSP) and volatile organic compounds by 40%, 20%, 55% and 55% respectively by 2010 as compared to 1997.

3. Power generation is the largest emission source in Hong Kong, accounting for 91% of SO₂ and half of NO_x and RSP emitted locally in 2005. For Hong Kong to achieve the 2010 emission reduction targets, it is essential for the power companies to reduce substantially their emissions of SO₂, NO_x and RSP by 2010. To this end, the Administration has been engaging the two local power companies since 2003 regarding the imposition of emission caps in 2010. Since 2005, emission caps on the power stations have been imposed upon renewal of their respective Specified Licences. These emission caps will be progressively tightened to ensure that Hong Kong can meet the 2010 emission reduction targets.

4. In February 2008, the Air Pollution Control (Amendment) Bill 2008 was introduced to amend the Air Pollution Control Ordinance (Cap. 311) (APCO) to, among others, cap the emissions of specified pollutants, namely SO₂, NO_x and RSP, of power plants in Hong Kong in 2010 and beyond. The Secretary for the Environment (SEN) is empowered to set a cap on the maximum emissions of the specified pollutants allowed for the power sector in a TM. SEN will also set the emission allowances and the methodology for allocating these allowances to individual power plants in relation to each emission year commencing on or after 1 January 2010.

Technical Memorandum

5. TM sets out the total quantity of emission allowances for all of the specified licences from 1 January 2010, the allocation principles and determination methods of the quantity of emission allowances to be allocated in respect of each specified licences for each emission year, arrangements for adjusting the allocation of emission allowances, and arrangements for new comers.

Major issues raised by the Panel

6. The Panel received a briefing on TM at its meeting on 27 October 2008. Members noted that this was the first TM issued by SEN pursuant to APCO, and that the power companies were well aware of the emission allowances to be allocated under the first TM.

Emission allowances for 2010

7. Apart from SO₂ and NO_x, some members considered it necessary for the Administration to tighten the control of RSP, which was the cause for many respiratory diseases in Hong Kong. Given that the two local power companies would need to build into their operational plans to provide for the installation of the necessary pollution abatement equipment and use of cleaner fuels to achieve the emission reduction targets, they were concerned that the costs incurred would be passed on to consumers through increased electricity tariffs. Question was also raised on the ability of Hong Kong to achieve the 2010 emission reduction targets amid the financial tsunami.

Arrangements for new comers

8. The Panel noted that new comers of the power generation sector would be temporarily allocated with emission allowances of up to 1% of the total emission allowances for the power sector. Some members enquired about the rationale behind such an arrangement as it appeared that the proposed emission allowances for these new comers were very low. They pointed out that under the existing conditions, it was unlikely for a new power company to start its business in Hong Kong.

9. Members also raised other concerns which were not directly related to TM. These included access to the electricity grid by new comers, the need for an advance notice of no less than four years for any change in the allocation of emission allowances, and efficacy of emissions trading among power plants in Hong Kong and Guangdong in reducing emission of pollutants.

Relevant papers

Information papers provided by the Administration for the Environmental Affairs Panel meeting on 27 October 2008

<http://www.legco.gov.hk/yr08-09/english/panels/ea/papers/ea1027cb1-88-3-e.pdf>

Background brief prepared by the Legislative Council Secretariat for the Environmental Affairs Panel meeting on 27 October 2008

<http://www.legco.gov.hk/yr08-09/english/panels/ea/papers/ea1027cb1-88-4-e.pdf>

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