

ITEM FOR FINANCE COMMITTEE

HEAD 44 – ENVIRONMENTAL PROTECTION DEPARTMENT

Subhead 700 General non-recurrent

Item 875 One-off grant to encourage early replacement of Euro II diesel commercial vehicles with new ones complying with the prevailing statutory emission standard

Members are invited to approve an increase in commitment by \$120 million from \$539.4 million to \$659.4 million for the one-off grant scheme to encourage owners of Euro II diesel commercial vehicles to replace their vehicles with new ones complying with the prevailing statutory emission standard.

PROBLEM

The uncommitted balance for the “One-off grant to encourage early replacement of Euro II diesel commercial vehicles with new ones complying with the prevailing statutory emission standard” is unable to meet the latest estimated funding required for applications received under the grant scheme.

PROPOSAL

2. The Director of Environmental Protection, with the support of the Secretary for the Environment, proposes to increase the approved commitment for the one-off grant scheme for encouraging early replacement of Euro II diesel commercial vehicles with new ones complying with the prevailing statutory emission standard by \$120 million from \$539.4 million to \$659.4 million to meet the latest funding requirements for the one-off grant scheme.

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JUSTIFICATION

3. With the approval of the Finance Committee (LC Paper No. FCR(2010-11)19), the Administration launched in July 2010 a three-year one-off grant scheme with an approved commitment of \$539,400,000. The scheme provides one-off grants to encourage owners of Euro II diesel commercial vehicles (excluding franchised buses) to replace their vehicles with new ones which comply with the prevailing statutory emission standard. It aims to help reduce emissions from diesel commercial vehicles and hence improve roadside air quality. The number of eligible vehicles as at July 2010 was about 27 000. Participation in the scheme is voluntary and it will end on 30 June 2013.

Encl. 1

4. The one-off grant scheme has generally achieved the objective of reducing roadside air pollution. It has helped reduce the emissions of respirable suspended particulates and nitrogen oxides from Euro II diesel commercial vehicles in 2011 by 18% and 12% respectively as compared with the levels in 2010. The estimated expenditure of the scheme as set out in FCR(2010-11)19 and the actual expenditure up to 30 April 2013 are at Enclosure 1. As at 30 April 2013, 5 324 applications were approved under the scheme, accounting for about 19% of the eligible vehicles, and 1 080 eligible applications are being processed. The total funding disbursed for approved applications amounts to around \$457 million, i.e. about 85% of the approved commitment. While the overall participation rate is within our original estimate of 24%, the number of participating vehicles for some vehicle classes (such as non-van type light goods vehicles, medium goods vehicles of 13 to 16 tonnes and heavy good vehicles) has exceeded our original target.

5. The remaining balance of around \$83 million as at 30 April 2013 would be insufficient to cover the funding required for approving applications received under the scheme, for the following reasons –

- (a) the associated funding requirements of the 1 080 outstanding applications being processed is estimated to be about \$106 million; and
- (b) having regard to the rising trend of applications in recent months, we expect that another 1 000 applications would be received in May and June 2013, involving an additional funding of about \$86 million based on the average payment of \$86,000 for each approved application.

Encl. 2

6. The applications received from owners of Euro II diesel commercial vehicles under the scheme as well as the cumulative amount of payment and approved applications are set out at Enclosure 2. It is expected that the final overall participation rate will exceed our target rate of 24% at the end of the scheme.

7. Taking into account the current funding situation under the scheme and the estimated number of new applications to be received in the two remaining months (as outlined in paragraph 5 above), the overall funding shortfall is about \$109 million. To cater for the unexpected increase in applications beyond this estimated limit and taking into account the proposed special arrangement in paragraph 8 below, we propose to include a 10% reserve as contingency. We therefore propose to seek an additional funding of \$120 million to meet the funding requirements of the scheme.

Special Arrangement

8. According to the administrative rules under the Scheme, eligible diesel vehicle owners are required to have their replacement vehicles registered under the Road Traffic Ordinance (Cap. 374) before the deadline of 30 June 2013 for the purpose of applying for the grant. In response to the request from some transport trade representatives expressed to us after the meeting of the Panel on Environmental Affairs on 15 May 2013, we plan to provide a special arrangement whereby applicants who have ordered the replacement vehicles on or before the deadline of 30 June 2013 but have yet to secure delivery or complete the registration procedures for the vehicles are allowed to remain eligible for the grant until 30 June 2014. A similar arrangement was put in place under the previous one-off grant scheme for pre-Euro and Euro I diesel commercial vehicles for the same purpose. Details of the special arrangement, modelled on that for the one-off grant scheme for pre-Euro and Euro I diesel commercial vehicles, are set out at Enclosure 3.

Encl. 3

9. Eligible Euro II diesel commercial vehicle owners who have received the one-off grant under the current scheme or have been allowed to retain their eligibility for the grant under the special arrangement will not be eligible to participate in the proposed mandatory retirement scheme for pre-Euro IV diesel commercial vehicles, which is still under consultation. Hence, there will be no overlapping of beneficiary vehicle owners between this one-off grant scheme and the proposed mandatory retirement scheme for pre-Euro IV diesel commercial vehicles. We will update the estimated funding requirements for the latter in due course.

FINANCIAL IMPLICATIONS

10. We propose to increase the approved commitment for the one-off grant scheme by \$120 million. The actual expenditure will depend on the number of applications approved under the scheme and the profile of the vehicles involved. Transport Department will continue to administer and implement the scheme. The proposed increase in commitment has no additional recurrent financial or civil service implications.

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PUBLIC CONSULTATION

11. We consulted the Panel on Environmental Affairs on 15 May 2013 on the proposal of increasing the approved commitment for the one-off grant scheme by \$120 million. Members supported the proposal. We have subsequently informed the Panel of the special arrangement set out in paragraph 8 above.

BACKGROUND

12. Under the one-off grant scheme for the early replacement of Euro II diesel commercial vehicles, a one-off grant equivalent to 18% of the average vehicle taxable values in 2009 is provided to vehicle owners for scrapping their Euro II diesel commercial vehicles and replacing them with new vehicles complying with the prevailing statutory emission standard. The levels of grant for various vehicle classes are set out at Enclosure 1.

13. The provision of \$539.4 million for the grant payment was drawn up on the assumption that some 24% of the eligible Euro II diesel commercial vehicles would participate in the scheme, which was broadly in line with the take-up rate of the one-off grant scheme for the early replacement of pre-Euro and Euro I diesel commercial vehicles launched in 2007.

Environmental Protection Department
June 2013

Enclosure 1 to FCR(2013-14)16

**Expenditure and Participation Rates under the One-Off Grant Scheme for the Early Replacement of Euro II Diesel Commercial Vehicles
as at end of April 2013**

Vehicle Class	Permitted Gross Vehicle Weight (W) (tonnes)	Grant Level (\$) (Note 1)	Estimated No. of Participating Vehicles set out in FCR(2010-11)19	Estimated expenditure set out in FCR(2010-11)19 (\$)	No. of eligible Euro II diesel commercial vehicles as at July 2010	No. of vehicles participated in the scheme as at end April 2013	Participation Rate as at end April 2013	Actual expenditure as at end April 2013 (\$)
Light Goods Vehicles (non-van type)	$W \leq 1.9$	27,000	900	42,300,000	0	0	-	319,649,000
	$1.9 < W \leq 5.5$	47,000			7 596	1 213	16%	
Light Goods Vehicles (van type)	$W \leq 1.9$	17,000	1 700	61,200,000	4	0	0%	
	$1.9 < W \leq 5.5$	36,000			7 050	869	12%	
Medium Goods Vehicles	$5.5 < W \leq 10$	59,000	150	8,850,000	867	84	10%	
	$10 < W \leq 13$	70,000	100	7,000,000	774	85	11%	
	$13 < W \leq 16$	88,000	1 000	88,000,000	4 513	1 046	23%	
	$16 < W \leq 24$	121,000	1 000	121,000,000	2 484	863	35%	
Heavy Goods Vehicles	$W > 24$	139,000	100	13,900,000	1 060	187	18%	
Non-franchised Buses (with 17 to 30 seats)		84,000	700	58,800,000	1 169	459	39%	
Non-franchised Buses (with 31 seats and above)		203,000	600	121,800,000	980	463	47%	
Diesel Light Buses		Note 2	200	16,500,000	902	55	6%	4,543,000
Total			6 450	539,350,000	27 399	5 324	19%	456,618,000

Note 1: The grant level is set at 18% of the annual average vehicle taxable values of newly registered vehicles in 2009.

Note 2: Euro II diesel light buses replaced by new diesel, Liquefied Petroleum Gas or electric light buses will be offered a grant of \$77,000, \$88,000 and \$92,000 respectively.

Chart 1: Number of applications received under the one-off grant scheme for the early replacement of Euro II diesel commercial vehicles

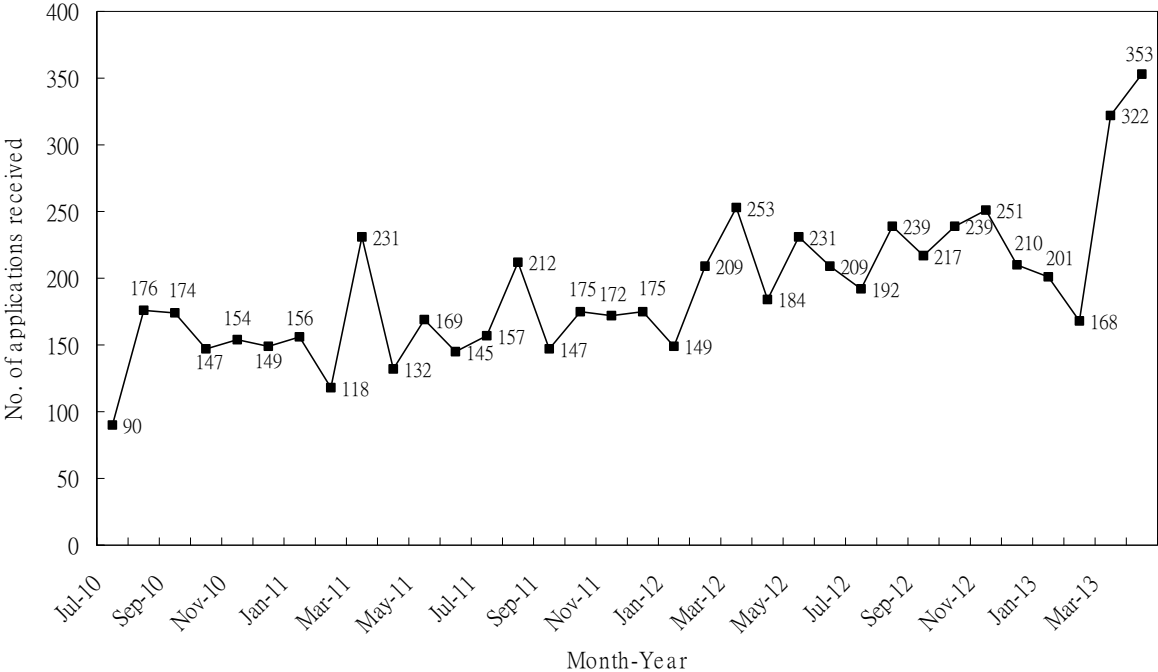
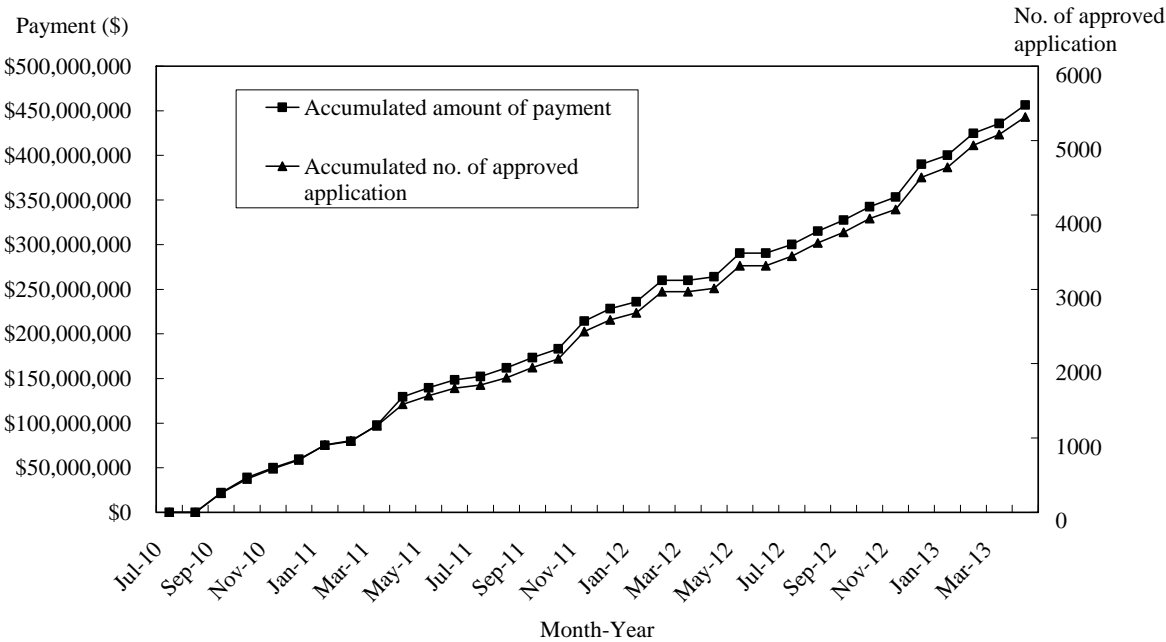


Chart 2: Cumulative number of approved applications and amount of grant payment



**The One-Off Grant Scheme for Euro II Diesel Commercial Vehicles
Special Arrangement**

This special arrangement seeks to allow vehicle owners eligible for the one-off grant who have ordered new replacement vehicles but cannot have them delivered, or the registration of the replacement vehicles cannot be completed (because of reasons such as unfinished vehicle body-building work) on or before 30 June 2013 to retain their eligibility for the grant until 30 June 2014. The relevant vehicle owners will have to fulfill the following requirements so as to retain their eligibility for the one-off grant –

- (i) The vehicle owner has to place an order for a new commercial vehicle which is eligible for the grant on or before 30 June 2013.
- (ii) He/She has to submit an application to Environmental Protection Department (EPD) for retention of eligibility using a prescribed form on or before 8 July 2013. Applications submitted after the deadline will be rejected. If the applicant is required to provide supplementary information, he/she must submit the information within 14 working days from the date of the written notice by EPD. Otherwise, the application will be rejected.
- (iii) The order form must include information of the Euro II diesel commercial vehicle that will be replaced (such as the registration number, vehicle class, chassis number, first registration date and fuel type of the old vehicle) together with the vehicle class, make, model and the tentative arrival date of the new vehicle.
- (iv) The new commercial vehicle to be registered must be of the same vehicle model as stated in the application form for retention of eligibility.
- (v) If the vehicle owner sells his/her Euro II commercial vehicle after 30 June 2013, both he/she and the new owner of the vehicle will not be eligible for the grant.
- (vi) Euro II diesel commercial vehicle owners who have been allowed to retain their eligibility for the grant under the special arrangement must complete all the necessary procedures and submit their application for the grant on or before 30 June 2014. Otherwise he/she will forfeit his/her eligibility for the grant.

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- (vii) Euro II diesel commercial vehicle owners who have been allowed to retain their eligibility for the grant under this special arrangement will not be eligible for participating in the proposed mandatory retirement scheme for pre-Euro IV diesel commercial vehicles should it be launched^{Note}.

2. The application form for “Retention of Eligibility for the One-off grant up to 30 June 2014” can be obtained via fax on demand from EPD hotline 2824 0022 or downloaded from EPD’s website <http://www.epd.gov.hk/epd/>. The applicant is advised to read the Notes for Attention on the application form before completing the form.

3. The applicant must submit the duly completed application form together with the photocopy of following documents to the EPD on or before 8 July 2013:

- (i) The applicant’s Hong Kong Identity Card or passport for non-identity cardholders; in the case of a private owner or in the case of a Limited Company, both the Certificate of Incorporation and Business Registration Certificate;
- (ii) The vehicle registration document of the Euro II diesel commercial vehicle;
- (iii) The contract (i.e. the order form) with the vehicle supplier for purchasing the new commercial vehicle and deposit receipt; the contract must contain information of the Euro II diesel commercial vehicle which is intended to be replaced (such as the registration mark, vehicle class, chassis number, first registration date and fuel type of the old vehicle) together with the vehicle class, make, model and the tentative arrival date of the new vehicle, etc.; and
- (iv) The contract should state the name of the applicant as the buyer; in case the applicant has appointed an agent to order the new vehicle on his/her behalf, the application must be accompanied by an authorization letter issued by the applicant for purchasing the new vehicle.

^{Note} The 2013 Policy Address proposes setting aside \$10 billion as subsidies to owners of heavily polluting pre-Euro IV diesel commercial vehicles in order to progressively phase out these vehicles through an incentive-cum-regulatory approach. EPD is now consulting the transport trades on the proposal.