

ITEM FOR FINANCE COMMITTEE

HEAD 44 - ENVIRONMENTAL PROTECTION DEPARTMENT

Subhead 700 General other non-recurrent

New Item "One-off grant to encourage diesel taxi owners to replace their vehicles with liquefied petroleum gas taxis"

Members are invited to approve the creation of a new commitment of \$725,520,000 for providing a one-off grant to encourage diesel taxi owners to replace their vehicles with liquefied petroleum gas vehicles.

PROBLEM

Diesel vehicles are the dominant source of air pollution at the street-level. They account for 98% of the respirable suspended particulates (RSP) and around 80% of nitrogen oxides emitted by vehicles. To protect public health, it is necessary to adopt all practical measures to reduce harmful emissions.

PROPOSAL

2. The Director of Environmental Protection, with the support of the Secretary for the Environment and Food, proposes to create a new commitment of \$725,520,000 for providing a one-off grant to encourage diesel taxi owners to replace their vehicles with liquefied petroleum gas (LPG) vehicles. The proposal is to provide a grant of \$40,000 for each eligible diesel taxi.

JUSTIFICATION

3. There are about 18 000 diesel taxis in Hong Kong. They contribute to about 26% of the RSP and 12% of nitrogen oxides emitted by the entire vehicle fleet. The trial of LPG taxis between 1997 and 1998 has confirmed that the RSP

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and nitrogen oxides emissions of LPG taxis are significantly lower than those run on diesel. Replacing all diesel taxis with LPG taxis will reduce up to 25% of RSP and 6% of nitrogen oxides emissions from the existing vehicle fleet.

4. Following the announcement in the Policy Address last year of the Administration's proposal to provide grants to encourage taxi owners to replace their diesel taxis with LPG taxis, we put forward the following suggestions to the taxi trade -

- (a) subject to Members' approval, a one-off grant of \$40,000 would be made available to each diesel taxi replaced by LPG taxis before or during 2001; and
- (b) in 2002 and 2003, the same grant would be offered to owners of diesel taxis of six years old or younger at the time when they choose to replace their diesel taxis with LPG taxis.

5. We have since held a number of meetings with the taxi trade to consult them on our suggestions. Their major feedback is as follows -

- (a) some taxi organisations consider the one-off grant of \$40,000 inadequate and have requested that it be doubled;
- (b) those who consider the amount acceptable have requested that all diesel taxi owners should be eligible for the grant until end 2002 instead of end 2001 and that owners of diesel taxis of six years old or younger should be eligible for the grant until end 2005 instead of end 2003. The justification put forward by them is that this will allow taxis to spend their natural life before replacement. Some have argued that the deadline of end 2001 should be extended to end 2002 as any shortfall in LPG filling capacity in 2001 may restrict the replacement rate and more time should therefore be allowed for owners of diesel taxis of seven years old or older to replace their vehicles and apply for the grant;
- (c) the Administration should provide loan guarantees or low interest loans to diesel taxi owners who have difficulty in securing a loan for a new LPG taxi because their diesel taxis are negative assets; and

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- (d) on disbursement of the grant where there may be change of ownership of the taxis, the majority view of the taxi trade is that -
- (i) the first registered owners of the LPG taxis which were registered on or before the announcement of the LPG taxi incentive scheme in the Policy Address on 6 October 1999 should be eligible for 50% of the grant, i.e. \$20,000 while the current registered owners of these LPG taxis should be eligible for the remaining portion of the grant, i.e. \$20,000; and
 - (ii) the first registered owners of LPG taxis registered after 6 October 1999 should be eligible for the full grant of \$40,000.

6. We have carefully considered the suggestion of some in the taxi trade to double the grant to \$80,000 per diesel taxi. We believe that the package of incentives that we are offering is sufficiently attractive. Based on the first year price cap of LPG of around \$2 per litre at the five dedicated LPG filling stations, which other LPG stations are likely to have to take into account when setting their own LPG price, a diesel taxi owner who has switched to LPG taxis could save up to \$45,000 a year on fuel cost. The price of LPG sold at the dedicated LPG filling stations after the first year of operation would be capped for another 20 years by a pricing formula. LPG price would be adjusted in accordance with movements in the average LPG international price and the Composite Consumer Price Index. We believe that the proposed grant of \$40,000 together with the low price of duty-free LPG, will provide sufficient incentive for owners to replace their taxis.

7. As regards the request of the taxi trade to extend the deadline for owners of diesel taxis less than seven years old to apply for the grant, we consider that to accede to this request would run counter to the objective of the incentive scheme and delay improvements to air quality. The objective of the scheme is to encourage all taxi owners to replace their diesel vehicles with LPG vehicles early, without waiting for their vehicles to reach their normal retirement age.

8. We have taken note of the request of the taxi trade that, if there is a shortfall in LPG filling capacity in 2001 which restricts the rate of replacement of diesel taxis of seven years or older, the deadline of end 2001 for application of the grant by this group of taxi owners should be extended. We will review the implementation of the programme, including the rate of setting up LPG filling stations, in the middle of next year and consider then if there is any case for

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extending the deadline. Our target remains to provide LPG filling capacity for about 8 000 taxis by the end of this year and for the entire taxi fleet by the end of 2001.

9. On the taxi trade's request for loan guarantees or low-interest loans to be provided to taxi owners whose taxis are negative assets and who may have difficulty in getting a loan for a replacement taxi, we have discussed the issue with a number of banks and financial institutions. We understand from them that whether they will provide a loan to this group of taxi owners will depend on the financial situation of the individuals and their loan repayment record. Those who have been servicing their loan well will stand a better chance of getting a new loan for the replacement taxi. It is not true that all these taxi owners, which the financial institutions have estimated to be around 2 000, will be unable to obtain the necessary loans. The institutions would also take into account the lower operating costs of LPG taxi and the resultant improvement in the owner's loan repayment ability in considering an application for a new loan. Furthermore, we do not consider that there is a case for using public funds to assist owners of taxis whose taxi licence, which accounts for the bulk of the loan, has dropped in value.

10. As regards disbursement of the grant, we consider that the suggestion of the taxi trade outlined in paragraph 5(d) above is in line with the spirit of the proposed LPG taxi incentive scheme for early replacement of diesel taxis. We will adopt it for implementation.

FINANCIAL IMPLICATIONS

Non-recurrent Cost

11. There are 18 138 registered taxis in Hong Kong. The financial commitment of \$725,520,000 sought for this proposal is calculated on the basis of providing the one-off grant of \$40,000 to each and every of the taxis in the fleet, including those that are already operating on LPG.

12. Subject to Members' approval, our plan is to start accepting applications for the grant in August 2000. The estimated cashflow is as follows -

2000-01	2001-02	2002-03	Total
\$'000	\$'000	\$'000	\$'000
260,000	390,000	75,520	725,520

13. We have assumed that a large number of taxi owners will apply for the grant in first two years of the scheme. We will meet the cashflow requirement in 2000-01 by deleting an equivalent amount under Head 106 Miscellaneous Services Subhead 789 Additional commitments. We will include subsequent cashflow requirements in the annual Estimates.

Recurrent Cost

14. The proposal has no additional recurrent financial implications. The Transport Department will be primarily responsible for the administration of the scheme with its existing staff resources.

BACKGROUND INFORMATION

15. Emissions from diesel vehicles can be reduced by a combination of measures. Our strategy is to -

- (a) wherever possible replace diesel vehicles with cleaner alternatives;
- (b) adopt the most stringent vehicle and fuel standards;
- (c) adopt practical technology to mitigate emissions from the existing vehicle fleet; and
- (d) ensure proper maintenance of in-use vehicles through a combination of voluntary and regulatory measures.

16. The proposal to assist taxi owners to replace their diesel taxis with LPG taxis forms part of the overall strategy to achieve our clean air objective.