

Legislative Council Brief
Dutiable Commodities Ordinance (Cap. 109)
Resolution of the Legislative Council

INTRODUCTION

The Secretary for the Environment and Food has given notice to move the resolution at the **Annex** at the Legislative Council meeting on 26 June 2000. The resolution, which is made under section 4 of the Dutiable Commodities Ordinance (Cap. 109) (the Ordinance), aims to introduce a concessionary duty rate on ultra low sulphur diesel (ULSD) as a fiscal incentive to encourage the use of ULSD, which is an environmentally cleaner fuel.

BACKGROUND AND JUSTIFICATIONS

2. Diesel vehicles account for 98% of the respirable suspended particulates (RSP) and around 80% of the Nitrogen Oxides (NOx) emitted by vehicles. High levels of RSP and NOx may lead to respiratory illness and aggravate lung diseases such as asthma, bronchitis and emphysema.

3. In controlling air pollution caused by motor vehicles, the Administration's policy is to adopt the most stringent emission requirements for newly registered vehicles and high quality motor fuel that can be made available to Hong Kong.

4. ULSD has a sulphur content of less than 0.005%, ten times lower than that of the regular motor diesel now available in the market. The use of ULSD by a motor vehicle reduces its RSP emissions by between 10% and 30%, depending on the operating conditions. In stop-and-go rush-hour traffic conditions, the environmental benefits of ULSD are higher than when the vehicle is cruising. ULSD also reduces NOx emissions of a vehicle by about 5%. We estimate that, if all diesel vehicles switch from regular motor diesel to ULSD, the RSP emissions from the whole diesel vehicle fleet would be reduced by about 15%.

5. ULSD is used in European countries, such as the United Kingdom, Sweden, France, Denmark and Norway. Some of them have successfully used tax incentives to encourage the switch from regular motor diesel to ULSD. We

propose to follow suit.

THE PROPOSAL

6. We propose to impose a concessionary duty rate for ULSD, pitched at a level which will make the retail price of ULSD competitive with that of regular motor diesel. Our objective is to encourage vehicles to use ULSD instead of regular motor diesel. At the same time, the duty rate for ULSD should not be too low as this may lead to increased consumption. Although ULSD is cleaner than regular motor diesel, vehicles using it still produce the pollutants, albeit less seriously compared to regular motor diesel, that add to our air pollution problem.

7. Hong Kong will be the first city in Asia to introduce ULSD on a full scale for its vehicle fleet. Since no oil refinery in the region produces ULSD at present, ULSD will have to be imported from Europe initially. According to the information we have obtained from major oil companies operating in Hong Kong, the import price of ULSD would be about \$0.80 per litre higher than that of regular motor diesel. A leading supplier of ULSD based in Europe has indicated to us that the import price of ULSD will drop if oil refineries in Asia start producing ULSD and freight costs become lower. This may not happen until about a year later when the demand from Hong Kong for ULSD is more established, thus making the production of the new fuel in the region viable. The oil companies and the oil supplier estimate that a lead-time of about six months is required to import ULSD from Europe to Hong Kong. The oil companies have agreed to transfer the full benefits of the duty concession to the consumer.

8. At present, the duty on light diesel oil, which covers ULSD, is \$2.00 per litre. The duty rate will be restored to \$2.89 per litre from 1 January 2001 by virtue of Section 2 of the Revenue (No. 2) Ordinance 2000. We propose to set the concessionary duty for ULSD at \$2.00 per litre from 1 January 2001, when the duty on regular motor diesel is restored to \$2.89 per litre. The duty differential of \$0.89 per litre will offset in full or in part the higher price of ULSD depending on its actual import price. We believe that the duty differential of ULSD will encourage a quick switch to the cleaner fuel.

9. We also propose that the concessionary duty rate of \$2.00 per litre for ULSD should last for a period of 12 months from 1 January 2001 to 31 December 2001. This would enable us to take into account any changes in the import price of ULSD and decide whether we should maintain or revise the

concessionary duty rate for ULSD on 1 January 2002. We will introduce a new resolution to take into account any changes that would be required.

THE RESOLUTION

10. Section 4(2) of the Ordinance provides that the Legislative Council may by resolution amend Schedule 1 to impose any duty on any class of dutiable goods. The Resolution amends Part III of Schedule 1 to Ordinance by imposing a duty for ULSD at a rate of \$2.00 per litre from 1 January 2001 to 31 December 2001 (both dates inclusive) and putting it on a par with that of regular motor diesel from 1 January 2002. However, as stated in paragraph 9 above, we will review the situation before 1 January 2002 and if necessary move another resolution on the duty level that should take effect from that date. The Resolution also amends the said Schedule 1 by including the technical specifications of ULSD in Part III thereof.

PUBLIC CONSULTATION

11. The Motor Traders Association and the oil companies support the introduction of ULSD. Legislative Council Members and the transport trade urge the Government to introduce ULSD as soon as possible. The public in general welcome the initiative of introducing ULSD, which will help to improve air quality in Hong Kong.

BASIC LAW IMPLICATIONS

12. The Department of Justice advises that the proposed amendment is consistent with the Basic Law.

HUMAN RIGHTS IMPLICATIONS

13. The Department of Justice advises that the proposed amendment has no human rights implications.

BINDING EFFECT OF THE LEGISLATION

14. The amendment will not affect the current binding effect of the Ordinance.

FINANCIAL AND STAFFING IMPLICATIONS

15. The proposed concessionary duty for ULSD will reduce government revenue by \$0.89 per litre of ULSD sold between 1 January 2001 and 31 December 2001. On the basis of the 684 million litres of duty paid diesel sold in Hong Kong in 1999, and our assumption that the duty differential would result in a quick switch of the entire diesel vehicle fleet to using the new fuel, we estimate that the loss in revenue to be in the region of \$608 million during this 12-month period.

16. The proposal will have no staffing implications.

ECONOMIC IMPLICATIONS

17. While the proposal will reduce government revenue, together with the other measures in the Government's comprehensive programme to raise Hong Kong's air quality, it will bring unquantifiable economic benefits to all who live and work in Hong Kong. These include reduction in both the costs of health care and in the loss of productivity caused by air pollution.

LEGISLATIVE TIMETABLE

18. The Secretary for the Environment and Food will move a resolution at the Legislative Council sitting on 26 June 2000. Subject to the passage of the resolution, the proposed duty rate for ULSD of \$2.00 per litre will take effect on 1 January 2001.

PUBLICITY

19. A press release will be issued on 10 June 2000. A spokesman will be available for answering media enquiries.

ENQUIRIES

20. Enquiries on this brief can be directed to Howard Chan, Principal Assistant Secretary (C), on telephone 2136 3309.

Environment and Food Bureau
June 2000

DUTIABLE COMMODITIES ORDINANCE

RESOLUTION

(Under section 4(2) of the Dutiable Commodities Ordinance
(Cap. 109))

RESOLVED that the Dutiable Commodities Ordinance be amended,
in Part III of Schedule 1 -

(a) in paragraph 1, by repealing "Duty" and
substituting "Subject to paragraph 1A, duty";

(b) by adding -

"1A. Duty shall be payable on ultra low
sulphur diesel at the following rates -

(a) from 1 January 2001 to 31
December 2001 (both dates
inclusive), at \$2.00 per litre;
and

(b) from 1 January 2002, at \$2.89
per litre.";

(c) by adding -

"5. For the purposes of paragraph 1A, "ultra
low sulphur diesel" (超低含硫量柴油) means a
light diesel oil which -

(a) contains not more than 0.005%
by weight of sulphur as
determined by ISO 14596;

- (b) has a cetane number of not less than 51.0 as determined by ISO 5165;
- (c) has a viscosity at 40°C of not less than 2.00 mm²/s and not more than 4.50 mm²/s as determined by ISO 3104;
- (d) has a 95% distillation temperature of not more than 345°C as determined by ISO 3405;
- (e) has a specific gravity at 15°C of not more than 0.835 as determined by ISO 3675; and
- (f) has a distillation percentage recovered at 250°C not more than 65% by volume as determined by ISO 3405.

Note: In this Part, "ISO" followed by a numerical symbol ("ISO number") means the test procedures of the International Organization for Standardization commonly known by that ISO number."