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31 Dec, 2006

LegCo Panel on Environmental Affairs  
Special meeting - 5 January 2007

**Re:** Pre-Euro and Euro I diesel commercial vehicles “grants”

Honorable members,

Have the “incentive” grants for taxis and minibuses actually reduced air pollution more quickly than if the subsidy had not been established?

If they did reduce air pollution more quickly, how much did the taxpayer spend per unit of pollution that was not created?

This submission reviews the minibus and taxi incentive grants, calculates how much money was spent, where it was spent and shows if that money cost effectively reduced pollution.

We try to give an accounting of the money spent and offer an evaluation of the success or failure of the “grant” concept to successfully reduce pollution faster than existing laws normally would without any financial incentives.

Regards,

Annelise Connell  
Chairperson  
Clear The Air

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## **Executive Summary:**

The money spent on “incentive” grants for taxis and minibuses was a failure of environmental economics. Pollution was not reduced faster than would have happened under existing law and natural business practice. However it did cost the Hong Kong taxpayer millions of dollars. The “incentives” failed for several reasons.

1. The money was given toward the purchase of new vehicles instead of being spent on the market value of the old vehicle. This means that the Government paid far more than the actual market value of the old vehicle being replaced, guaranteed payment of an abnormally high market value (established by the subsidy) even if the vehicle was left on the road for several years after the subsidy was introduced. The actual “incentive” was now to leave the polluting vehicle on the road as long as possible because the “purchase” price was the same whenever it was retired and it could even be left on the road after the subsidy had ended – with perhaps a new subsidy offered.
2. There was no calculation of how many months or years worth of pollution was actually reduced because of the payment. The numbers suggest that natural attrition and, in the case of taxis, the change in law, achieve the results. The subsidy did not contribute at all.

**Note:** Members should require this calculation be presented to them before considering any further “polluter profits” proposals.

3. These policies, initiated under a weak government, established a precedent that polluters, rather than being responsible members of society, may instead extort large amounts of money from the government in exchange for supporting government policies that costs the polluter nothing to implement and do not reduce pollution more quickly than normal business practice under existing laws.

There is a more economically sound and more cost effective way to use taxpayer money to reduce diesel pollution more quickly without needing the support of any industry.

Government must first declare that all vehicles on the road must be of a certain standard, for example Euro II by 2008. Then the true market value of the oldest and most polluting vehicles should be calculated based on existing transactions. This protects the government from claims by vehicle owners that they are being deprived of their property rights. Government can then offer to purchase those vehicles outright – and scrap them – at or even slightly above their true competitive market price. This economic model guarantees fair compensation under true market conditions to owners of old vehicles.

In this way, Government pays the fair price for an asset that is causing significant health problems to the Hong Kong people and makes sure society is protected. Vehicle owners get the fair market value for their property and so special interest groups do not need be paid off to gain their political support.



## **Why previous subsidies failed to reduce pollution faster**

### **The Industry - Taxis**

Taxi owners buy a new car every two years because they are driven 24 hours a day and they wear out quickly. The new law required that new taxis be LPG – and the industry fought against it. The money paid was to purchase support of the new law, not from taxi license holders (who got no money), but by those who owned the taxis. No vehicles were taken off the road early because of the subsidy – but the law was passed and now all taxis, by law and through natural attrition are LPG.

### **The Industry - Minibuses**

The Government grants a license, called a Public Service License (PSL), to a company or person giving permission to operate one or more vehicles on a particular route for a particular purpose. What are commonly called green and red minibuses in Hong Kong are officially called Public Light Buses. Green minibuses operate on a fixed schedule with fixed prices and are under the control of the government while Red minibuses do not operate on a fixed schedule and their fares are not regulated by the Government.

The stated purpose of the minibus incentive was to encourage the holders of PSLs to use LPG minibuses instead of diesel ones to reduce the pollution that is blown directly into people's faces on our streets.

### **Little public accountability**

The Grant “incentives”, were paid to the vehicle owner to buy a new minibus, not the holder of the Public Service License or the person or company renting or leasing the vehicle. The true market value of the old minibus is unknown. Therefore, there was no “incentive” to convert early – but only replace on the original schedule, or even delay replacement until the very last minute of the incentive. We note that almost 10% of the minibuses were replaced only 4 months before the deadline of the “incentive”.

Of the 152 companies that received grant money, only 50 actually run Green Minibus routes.

The number of individuals and how much money each received were NOT listed, and no information regarding Red minibuses was provided even though it was specifically requested.



## **Bad result**

Taxpayers paid out \$142.2 million on the minibus subsidy.

As of September 2005, 42% of the minibuses still had NOT converted to LPG, and 10% had replaced their minibuses with new diesels. Yet, according to the Environmental Protection Department 98% of minibus routes have an LPG station available.

As of Sep 2005, owners of 886 polluting old Red minibuses (over 40% of the total cash paid out) had received the grant money, but the Transport Department has provided no accountability for those Red minibus owners. In fact, EPD replied to us that

“Transport Department has not kept the information regarding the "type" of vehicles (i.e. red/green minibus)”

Only 14% of vehicles were retired before their natural end of life of 10 years. An unknown number were much older than 10 years.

This means that if you look at the money spent to replace minibuses that are under 10 years old, the “incentive” actually cost \$433,000 per minibus – 120% of their total replacement cost. Also, the EPD has no proof that these buses were scrapped – only that they were de-registered and that export licenses have not been obtained.

So, 86% of the subsidy, or \$122 million was paid to companies who did nothing to reduce pollution, yet still were paid the “incentive”.

## **Conclusion**

“Incentives” without laws to require compliance of all vehicles by a certain date does not reduce air pollution faster. Paying the market value of the old vehicle may be cost effective, but subsidizing a new vehicle is not.



### Minibus statistics

Vehicle Age	No. of Public Light Buses
below 5 years	11 ( 1%)
5 years or above and below 10 years	317 (13%)
10 years or above	2,042 (86%)

Only 328 minibus were replaced *early* – but we don't know how many months early.

### Who got the minibus money?

Companies that do not have a \* next to their name do not hold a Green Public Light Bus Public Service License.

- \*ABERDEEN MAXICAB SERVICE CO LTD
- \*APLEICHAU MAXICAB SERVICE CO LTD
- \*ASIA BRIGHTER LTD
- \*BOTHFINE TRANSPORTATION LTD
- \*C & W MINI BUS SERVICE CO LTD
- \*CAPITAL STAR HOLDINGS LTD
- \*CENTRAL VENTURE LTD
- \*CHENG KEE PUBLIC LIGHT BUS & TAXI CO LTD
- \*CHOI LUNG MAXICAB PUBLIC LIGHT BUS LTD
- \*ETERNAL LOYAL LTD
- \*EXTRA BILLION INVESTMENT LTD
- \*FINE LUCK LTD
- \*FONSILK INVESTMENT LTD
- \*FULLWIN TRANSPORTATION LTD
- \*HEAD EXPAND LTD
- \*HIMWELL LTD
- \*HOBSFORD LTD
- \*HOLY GAIN LTD
- \*HON WAH MAXICAB LTD
- \*HONEST PROFIT CORPORATION LTD
- \*HOP CHEONG PUBLIC LIGHT BUS 'MAXICAB' CO LTD
- \*HOP FAT LIGHT BUS CO LTD
- \*JETWIDE LTD
- \*KAM JET LTD
- \*KAMALIE LTD
- \*KELLIS LTD
- \*KING ON TRANSPORTATION LTD
- \*KIT KEE TRANSPORT CO LTD



\*KWOK CHUNG MOTOR CAR LTD  
 \*MIN KEE MOTORS CO LTD  
 \*NICE CLASS CO LTD  
 \*PACIFIC WAY TRANSPORTATION LTD  
 \*PEACE BASE INVESTMENTS LTD  
 \*PERFECT GOLD COMPANY LTD  
 \*POLY WINNER TRADING LTD  
 \*RAYTOP INTERNATIONAL LTD  
 \*SAI KUNG PLB (MAXICAB) (NO 1&2) CO LTD  
 \*SARALUCK INVESTMENTS LTD  
 \*SET MAIN DEVELOPMENT LTD  
 \*SKY TEAM TRANSPORTATION LTD  
 \*SUCCESS TRANSPORTATION LTD  
 \*SUN CHEONG TRANSPORTATION HK CO LTD  
 \*TIN SHING MOTORS LTD  
 \*TSUEN WAN MOTORS CO LTD  
 \*WING LEE MOTOR COMPANY LIMITED  
 \*WING LEE MOTOR COMPANY LTD  
 \*WONG CHUK HANG LIGHT BUS SERVICES CO LTD  
 \*YAN HING TRANSPORTATION CO LTD  
 \*YAN YAN MOTORS LTD  
 \*YAU MAN INVESTMENT LTD

ALL SEASONS GLORIOUS MOTORS LTD  
 B K L LTD  
 BOND LEAP CO LTD  
 BUSYLUCK DEVELOPMENT LTD  
 CAMATANE DEVELOPMENT LTD  
 CENTRELINK TRANSPORTATION LTD  
 CHAN CHI DEVELOPMENT CO LTD  
 CHEONG KEE SERVICE CO LTD  
 CHEUNG HING WORLDWIDE LIMITED  
 CHIAP SHING HING MOTORS CO LTD  
 CHIAP SHING MOTOR LTD  
 CITY MAXICAB LTD  
 CONSTANT RICH TRADING LTD  
 COUNTRY FIELD LTD  
 CROWN PITH LTD  
 DENNOX LTD  
 EAST SUCCESS PROPERTIES INVESTMENT LTD  
 ELEGANT MOTORS CO LTD  
 FEI KEE (HONG KONG) CO LTD  
 FULL KING INVESTMENT LTD  
 GAIN FIRST LTD  
 GERON LIMITED  
 GLORY SUCCESS TRANSPORTATION LTD  
 GOLD JIN COMPANY LTD



GOLDCHAMP CORPORATION LTD  
GOLDEN TRANSPORTATION LTD  
GOLDFAME CORPORATION LTD  
GRANDTRADE MOTORS HOLDINGS LIMITED  
HANG ON MOTORS CO LTD  
HK FED OF TRADE UNIONS WORKERS' MED CLINICS LTD  
HOI KEE INVESTMENTS CO LTD  
HONG KONG & CHINA TRANSPORTATION CONSULTANTS LTD  
HOP FAT MOTOR CARS SERVICE LTD  
HOP LEE PUBLIC LIGHT BUS LTD  
HOPEFUL ENGINEERING LTD  
HUNG WAN MOTOR CAR ENTERPRISES LTD  
JETSON PUBLIC CARS CO LTD  
JOINSUN DEVELOPMENT LTD  
KA WAI MOTORS LTD  
KA WO MOTORS LTD  
KAI CHEUNG COMPANY LIMITED  
KAM LOONG MOTORS LTD  
KAN HO ENTERPRISES CO LTD  
KBK MOTORS LIMITED  
KC INVESTMENTS LTD  
KEEP SEND LTD  
KEN SHENG INTERNATIONAL INVESTMENTS LTD  
KILO-PROSPER LTD  
KING SON MOTORS CO LTD  
KIU WAN PUBLIC LIGHT BUS (SCHEDULED)SERVICE CO LTD  
KWAN KWONG TAI LTD  
KWOK CHUNG MOTORS LTD  
KWONG LEE HOLDINGS LTD  
MADA LTD  
MAINSTREAM LTD  
MAX POWER MINIBUS LTD  
MAXSON TRANSPORTATION LTD  
MCARTHUR TOYS MANUFACTURER LIMITED  
MING WAI PUBLIC LIGHT BUS LTD  
NATORNOS TRADING AND INVESTMENT LTD  
NEW CENTURY TRANSPORTATION LTD  
NEW FU SHING MOTOR TRADING CO LTD  
NEWLICK CORPORATION LTD  
NG LOK & SONS COMPANY LIMITED  
ONE HO LTD  
PACIFIC CAPITAL TRADING LTD  
POTENTISE CO LTD  
RE-JOINT MOTORS CO LTD  
RIVER RIGHT LIMITED  
ROUNDING COMPANY LIMITED  
SHEEN BEST HOLDINGS LTD



SHINE POWER LTD  
SHING TAK GROUP LTD  
SHUN ON ENTERPRISES INT'L LTD  
SIU HO INVESTMENT LTD  
SMART LINK HOLDINGS LTD  
STAR SAIL DEVELOPMENT LTD  
SUNG KUNG LIGHT BUS LIMITED  
SUNG KUNG LIGHT BUS LTD  
SUPREME MART LTD  
SWORD BRIGHT LTD  
TAKEWIN TRANSPORT LIMITED  
TAT ON MOTORS LTD  
TLK LTD  
TOP UNION LTD  
TUNG NAM MOTORS LTD  
UNION INV HOLDINGS LTD  
UNIQUE TRINITY LTD  
VICTORY HINES INDUSTRIES LTD  
VOGUE PLAZA LTD  
WAH WAI MOTORS LTD  
WHOLLY (CHINA H.K.) LTD  
WIDE VALUE LTD  
WIN GRACE INVESTMENTS LTD  
WING HING HIRE CAR CO LTD  
WING LEE LIGHT BUS & PROPERTIES LTD  
WINSON 88 LTD  
WONG TAI TAI LTD  
WORLD-WIDE FORTUNE LTD  
Y & C MOTORS COMPANY LIMITED  
YUEN CHEONG CO LTD  
YUEN KAY MING HUNG KEI MAXICAB CO LTD

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