

**Speaking Note of
the Secretary for the Environment
for the Special Meeting of the Finance Committee
to be held on 7 April 2008 at 4:40 pm**

Chairman:

I am delighted to attend this special meeting of the Finance Committee today to brief Members on the part of the 2008-09 Estimates relating to the expenditure on environmental protection, conservation, energy and sustainable development.

2. In the 2008-09 financial year, the Environment Bureau (ENB) and departments under its portfolio are allocated about \$7 billion, representing a net increase of about \$144 million or 2.1% over the revised estimates for last year.

3. Of the total allocation of \$7 billion, the operating expenditure accounts for about \$5.8 billion, up \$313 million or 5.8% as compared with the revised estimates for last year. Discounting the one-off injection of \$1 billion into the Environment and Conservation Fund in 2007-08, the real increase is 29.5%. The additional allocation is mainly to meet the increase in cash flow requirement to promote early replacement of pre-Euro and Euro I diesel commercial vehicles with new ones that comply with the latest statutory emission standard, and implement a Cleaner Production Programme in the Pearl River Delta (PRD) Region to be funded by the Environmental Protection Department (EPD) starting this year. Additional funding will also be provided for the Civil Engineering and Development Department to continue with the scheme on cross-boundary delivery of surplus public fill.

4. I will now outline the work priorities of ENB and EPD in the coming year.

Regulating the Power Companies

5. The Government signed the new post-2008 Scheme of Control Agreements with each of the two power companies in early January 2008. Under the new Agreements, the permitted rate of return of the two power companies will be lowered to 9.99%. Customers of CLP Power and Hongkong Electric will have their basic tariffs adjusted starting 1 October 2008 and 1 January 2009 respectively. The Government will steadfastly play its monitoring role to ensure that the power companies will make the necessary investment on electricity supply facilities, and at the same time the public will continue to enjoy reliable, safe and efficient electricity supply at reasonable prices. There are also provisions under the new Agreements to encourage the power companies to minimise the impacts of electricity generation on the environment.

6. The duration of the new Agreement will be shortened from the existing 15 years to 10 years, with an option exercisable by the Government to extend for 5 more years after review of the prevailing conditions for opening up the electricity market. To lay the ground for this plan, we will carry out the preparatory works during the next regulatory period (i.e. from 2008 to 2018), including studies on the open market model and the regulatory framework, and enhancing interconnection of power grids, etc. The Government's objective is to introduce competition to the electricity market expeditiously when the requisite market conditions are present. We will consult the public on

the concrete proposal in due course.

Improving Air Quality

7. Improving air quality is a focus of the Government's policy. We will continue to implement measures to control major sources of pollutant emissions.

8. Power plants have always been the largest emitters in Hong Kong. In respect of controlling emissions from power plants, we will progressively tighten the emission caps for power companies upon renewal of licences on specified processes. Apart from this, to ensure a smooth, timely and transparent implementation of the emission caps, we have introduced the Air Pollution Control (Amendment) Bill 2008 to the Legislative Council to stipulate the emission caps of power plants in 2010 and beyond. We hope that the Bill could be passed in the current legislative session.

9. To reduce vehicular emissions, fuel quality has been further enhanced. From 1 December 2007, we have offered a concessionary duty rate of \$0.56 per litre for Euro V diesel for two years to encourage the use of Euro V diesel which is environmentally more friendly than ultra low sulphur diesel. In addition, from 1 April 2008, the First Registration Tax has of commercial vehicles complying with the Euro V emission standards has been reduced by 30, 50 or 100 per cent respectively according to the vehicle types. The incentive schemes will help to expedite the replacement of commercial vehicles in Hong Kong which can further improve the roadside air quality.

10. As for other emission sources, we are studying the feasibility of using cleaner fuels by ferries. Meanwhile, we plan to introduce control measures to reduce emissions from mobile plants on construction sites and those in ports/ferry terminals and the airport. Last June, the Government initiated a comprehensive study to review Hong Kong Air Quality Objectives and to develop a long-term strategy on air quality management for Hong Kong. The study is expected to be completed at the end of this year. The Government will consult the public on recommendations put forward by the study and set out concrete plans for implementation.

11. Furthermore, we intend to brief the LegCo on the results of the public consultation exercise on the proposed legislative ban on idling vehicles with running engines as well as specific control schemes towards the middle of this year. We will also consult the trades on the specifications for using biodiesel as motor vehicle fuel and the proposed mandatory use of Euro V diesel. The consultation process on measures to strengthen the control of emissions from petrol and liquefied petroleum gas vehicles will also commence this year.

12. On cross-boundary cooperation, both the Guangdong and Hong Kong governments will continue to work closely in implementing the Pearl River Delta Regional Air Quality Management Plan with a view to achieving the jointly agreed emissions reduction targets by 2010. To promote energy conservation and emission reduction among Hong Kong-owned factories in the PRD Region, the Government will launch a five-year PRD Cleaner Production Partnership Programme in the middle of this month. Over \$93 million of public funds have been earmarked in support of the Programme, which should facilitate factory owners to cultivate a culture of cleaner production with low energy consumption.

Coping with Climate Change and Enhancing Energy Efficiency

13. Climate change is an important environmental issue. Government is very concerned about the impact of climate change and has undertaken a series of measures to reduce greenhouse gas emission. We have just launched an 18-month consultancy study on climate change, which will provide an objective and scientific basis for developing new strategies and initiatives to cope with climate change.

14. Though limiting in space, Hong Kong has a great number of high-rise buildings, which account for 89% of total power consumption of the territory. Enhancing the energy efficiency of buildings can effectively reduce power consumption, bringing forth improvement in air quality and alleviating the adverse effects of global warming. The public consultation on a proposal to introduce mandatory implementation of the Building Energy Codes has just been completed in late March. I am pleased that the proposal has gained the general support of the public in promoting energy efficiency of buildings. Taking into account the comments received, we will work out the details for implementing the proposal.

15. Regarding the promotion on the use of energy-efficient products, I would like to express my gratitude to Members of the Bills Committee for their invaluable comments on the Energy Efficiency (Labelling of Products) Bill. The resumption of the Second Reading debate on the Bill is scheduled for the Legislative Council meeting on 30 April. The first phase of the mandatory scheme will be rolled out after completion of legislation. We will start drawing up the coverage of the second phase to include more energy-consuming products in the mandatory scheme.

Solid Waste Management

16. On waste management, we will expedite the implementation of the measures in the Policy Framework for the Management of Municipal Solid Waste (2005-2014) to resolve our imminent waste problem. Insofar as waste recovery is concerned, the effectiveness of the source separation of domestic waste programme has gradually become evident. The recovery rate of municipal solid waste in 2006 reached 45%, three years ahead of schedule. On this basis, we will work closely with all sectors of the community to promote waste separation, recovery and recycling, and will extend the programme to cover industrial and commercial buildings.

17. Apart from promoting waste recovery, we attach equal importance to waste reduction at source. We therefore hope that the Product Eco-responsibility Bill can be enacted in this legislative year with the support of Members, so that we can implement the environmental levy on plastic shopping bags as soon as possible. Meanwhile, we will continue to examine the feasibility of introducing voluntary producer responsibility schemes in conjunction with other product suppliers so as to further promote waste reduction and recycling. In order to achieve the goal of waste reduction in the long run, we will implement the “polluter-pays” principle through municipal solid waste charging. To this end, we will carry out a territory-wide baseline survey to collect data so as to devise a charging scheme that is suitable for Hong Kong.

18. While implementing the waste reduction measures mentioned above, it is still unavoidable that a lot of waste has to be properly handled. Therefore, we plan to construct integrated waste management facilities to

substantially reduce the municipal solid waste in bulk and extend the life of landfills. The facilities will make use of advanced incineration technology and adhere to the most stringent emission standards to ensure their operation will not cause adverse health impact. Phase I of the facilities will have a handling capacity of 3,000 tonnes of waste per day. Tsang Tsui on the west coast of Tuen Mun and Shek Kwu Chau to the south of Lantau Island are the two potential sites for construction of the facilities. A detailed engineering and environmental assessment study on the two sites will be carried out within this year so as to ascertain their overall suitability.

19. With reference to the multi-technology approach of the waste treatment strategy, we will proceed with the first phase of the organic waste treatment facilities at Siu Ho Wan of Lantau Island. With a daily handling capacity of 200 tonnes, the facilities will provide treatment to industrial and commercial organic waste which has already been separated at source. We plan to build the second phase of the facilities at Sha Ling in the North District with comparable capacity.

Harbour Area Treatment Scheme

20. To further improve the water quality in the Victoria Harbour, we are proactively taking forward the second stage of the Harbour Area Treatment Scheme (HATS) in two phases. Our target is to collect the remaining 25% untreated effluent in the harbour upon the completion of Stage 2A in 2014. By way of a deep tunnel, sewage will be conveyed to the expanded Stonecutters Island Sewage Treatment Works for treatment. In order to re-open the beaches in Tsuen Wan district early, we are proceeding with the Stage 2A advance disinfection facilities which are

expected to be completed in October 2009 as scheduled.

21. We are thankful to the LegCo in supporting our proposal for the phased increase of sewage charges in May 2007, so that the Sewage Charging Scheme can continue to operate according to the “polluter pays” principle. We have completed the survey on the Trade Effluent Surcharge Scheme and will make adjustments to it so that the operating costs can be equitably shared by users. An adjusted proposal has already been submitted to the Environmental Affairs Panel for discussion. We expect to submit the amended regulations to the LegCo for examination within the coming few weeks. It is hoped that the new surcharge rate can come into force within the 2008-09 financial year.

Nature Conservation

22. For nature conservation, we expect to complete the statutory procedure regarding the designation of Lantau North (Extension) Country Park within this year. We have launched the Pilot Scheme for Management Agreements in ecologically important sites, namely Fung Yuen and Long Valley. The Pilot Scheme has produced encouraging results in terms of conservation and improvement to the biodiversity of the concerned area. The projects under the Scheme will be continued. As for the Public-private Partnership Pilot Scheme, we have now entered the final assessment stage.

Sustainable Development

23. The ENB will continue to render support to the Council for Sustainable Development in the implementation of its work and activities with a view to facilitating the Council to give advice on the formulation of a sustainable development strategy for Hong Kong. It will also assist

the Council in launching education and publicity programmes, including school and community outreach programmes, for promoting the concept and principles of sustainable development.

Conclusion

24. Chairman, our future work on environmental protection and conservation of ecological resources is full of challenges. Not only do we have to implement our policy to further improve our environment, we also need to introduce new legislations, strengthen public education and encourage community participation. I look forward to the LegCo's continued support in the new financial year. Together with the Permanent Secretary and other colleagues, I would be happy to answer any questions that Members may have on this part of the Estimates.

April 2008