

For discussion
on 9 November 2007

**Legislative Council
Panel on Environmental Affairs**

Measures to Promote the Use of Environment-friendly Fuels

On 2 November 2007, the Chairman of the Environmental Affairs Panel asked the Administration to brief Members on the measures to promote the use of more environment-friendly fuels, including the proposal to reduce the duty rate for Euro V diesel to \$0.56 per litre for a period of two years.

Euro V Diesel

2. We propose to reduce the duty rate for Euro V diesel to \$0.56 per litre for a period of two years, starting from 1 December 2007, to advance its availability and encourage its use by drivers. We will review this measure before making the fuel standard mandatory in 2009, in tandem with the European Union (EU).

3. Euro V diesel has 80% less sulphur content than ultra-low sulphur diesel (ULSD) on the local market. There is no technical barrier for existing diesel vehicles to migrate to this more environment-friendly fuel. Using Euro V diesel could reduce their sulphur dioxide (SO₂) and particulates emissions by 80% and 5% respectively. Should Euro V diesel vehicles be fueled with Euro V diesel in future, they will emit 30% to 40% less nitrogen oxides (NO_x) than Euro IV diesel vehicles fueled with ULSD. As for diesel vehicles up to 3.5 tonnes, their particulate emissions will also be reduced by 80%.

4. In view of the environmental benefits of using Euro V diesel, among Asian countries, Japan has made it the statutory standard for motor vehicle diesel since January this year. EU has also decided to make it the statutory standard for motor vehicle diesel from January 2009, and to implement the Euro V emission standards for newly registered vehicles in phases from October of the same year. We also plan to implement the same standards in tandem with EU.

5. In the first eight months of this year, about 40% of the motor vehicle diesel imported to Hong Kong met the specifications of Euro V diesel. Based on the import prices provided by the Census and Statistics Department during the period, Euro V diesel was more costly than ULSD by up to about \$0.1 per litre. However, it should be stressed that the future price differential between the two types of fuel will still be subject to market factors such as supply and demand situations. Nevertheless, the proposed concessionary duty rate of \$0.56 per litre for Euro V diesel should render Euro V diesel more price-competitive than ULSD.

6. The Secretary for the Environment has personally met with all the major oil

companies to encourage them to pass on the benefits from the proposed tax concession to their customers. The oil companies have responded positively and pledged to duly reflect the duty concession on the retail price of Euro V diesel after deducting the cost increase.

Biodiesel

7. To promote the use of biodiesel, the Government has committed to a duty-free policy and will develop specifications for biodiesel as motor vehicle fuel.

8. Biodiesel is a renewable energy. Using it to replace fossil diesel can reduce greenhouse gas emissions and help avert global warming. However, biodiesel is more costly than fossil diesel. In order to support the global effort in tackling climate change and realising the Government's commitment to reducing greenhouse gas emissions, we will maintain the existing duty-free policy on auto-biodiesel to encourage drivers to use it as vehicle fuel.

9. To promote the development of the biodiesel market, we will make reference to the EU standards and draw up specifications for auto biodiesel by amending the Air Pollution Control (Motor Vehicle Fuel) Regulation (Cap 311L). This will ensure the quality of the fuel, thereby strengthening users' confidence and helping to control its impact on the environment. We will commence a consultation shortly for preparing the enabling legislation for implementation in early 2009.

10. All major vehicle manufacturers accept B5 (i.e. blending biodiesel in ULSD up to 5%) for use in their vehicles without causing compatibility problems. If a fuel with higher biodiesel content is used, it might cause possible corrosion problems to the fuel system of certain incompatible vehicles. We therefore propose, with reference to the current practice in EU, to implement a mandatory labeling requirement at the selling points of motor vehicle diesel having biodiesel content over 5%. This requirement will assist owners in choosing a fuel suitable for their vehicles.

Ferry operators to switch to cleaner fuel

11. According to the statistics of 2005, vessels contributed to 4.6%, 17.7% and 7.1% of the total emissions of SO₂, NO_x and respirable suspended particulates respectively in Hong Kong. Domestic ferries puffing black smoke are not only a major eyesore, but also a focal point of criticism by the public, tourists and foreign media.

12. Using cleaner fuel will effectively reduce SO₂ emissions from vessels. Government vessels have already been using ULSD since 2001. In California of the United States, ferries have been required to use fuel even cleaner than ULSD since 2006. We plan to set up a working group comprising the relevant government bureaux/departments and invite the participation of ferry operators to launch a trial scheme to explore the feasibility of using ULSD by local ferries.

Industrial and Commercial Processes to Use ULSD

13. The use of industrial diesel in industrial and commercial processes is the second largest source of SO₂ emissions in Hong Kong. To improve air quality, we need to reduce SO₂ emissions from such processes by tightening the sulphur content of the fuel used from 0.5% to not more than 0.005% (which are the sulphur contents of industrial diesel and ULSD respectively). This proposal will reduce SO₂ emissions from the industrial and commercial sectors by 99%, that is 3 110 tonnes, which represents 3.7% of the overall SO₂ emissions in Hong Kong.

14. We have consulted the relevant trades in 2006/2007. They have showed general support for the government policies to improve air quality, although some members of the trades were concerned about the financial impact of this initiative.

15. We plan to start the necessary legislative process in the first season of 2008 after consulting the Legislative Council Panel on Environmental Affairs and members of the Panel on Commerce and Industry.

Environmental Protection Department
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