

**For discussion on
15 May 2013**

**LEGISLATIVE COUNCIL
PANEL ON ENVIRONMENTAL AFFAIRS**

**Increase in commitment for
one-off grant to encourage early replacement of
Euro II diesel commercial vehicles**

PURPOSE

This paper seeks Members' support on seeking the Finance Committee's (FC) approval for an increase in commitment by \$120 million for the one-off grant scheme on the early replacement of Euro II diesel commercial vehicles.

BACKGROUND

2. In July 2010, the Administration launched a one-off grant scheme with an approved commitment of \$539.4 million to provide subsidies to encourage owners of Euro II diesel commercial vehicles (excluding franchised buses) to replace their vehicles with new ones that comply with the prevailing statutory emission standard. The FC approved the funding commitment of the scheme on 28 May 2010. The one-off grant scheme lasts for 36 months and will end on 30 June 2013.

3. Under the grant scheme, a one-off grant equivalent to 18% of the annual average vehicle taxable values of newly registered vehicles in 2009 is provided to vehicle owners for scrapping their Euro II diesel commercial vehicles and replacing them with new vehicles complying with the prevailing statutory emission requirements. The levels of grant for various vehicle classes and the latest take up rates are set out at **Annex A**.

4. The provision of \$539.4 million for the grant payment was drawn up on

the assumption that some 24% of the eligible Euro II diesel commercial vehicles would participate in the scheme, which was broadly in line with the take-up rate of the one-off grant scheme for the early replacement of pre-Euro and Euro I diesel commercial vehicles at the time.

PROGRESS

5. As at 1 July 2010, the number of eligible Euro II diesel commercial vehicles stood at about 27,400. By 30 April 2013, the number of eligible Euro II vehicles fell to 20,400, a net reduction of some 7,000 vehicles. Among these retired Euro II vehicles, 5,324 have been replaced with new ones under the scheme, i.e. about 19% of the eligible vehicles. The total payment amounted to \$457 million, i.e. about 85% of the approved commitment. While the overall participation rate is within our original estimate, the participation rates for certain vehicle classes (namely non-franchised buses and medium goods vehicles of 16 to 24 tonnes) have well exceeded our overall target participation rate of 24%. As at 9 May 2013, there are 1,080 outstanding applications under the scheme being processed.

6. The trend of applications received from eligible Euro II diesel commercial vehicles under the scheme and the cumulative amount of payment and approved applications are set out at **Annex B**.

7. We foresee that the remaining balance of around \$83 million as at 30 April 2013 would be unable to meet the financial commitment for approving all applications under the scheme because –

- (a) the associated financial commitment of the 1,080 applications being processed is estimated to be about \$106 million; and
- (b) the number of applications has increased progressively as it gets closer to the expiry date of the scheme on 30 June 2013. Based on the rising number of applications in the recent months, we expect that another 1,000 applications may be received in May and June 2013. Applying the average payment for each approved application under the scheme which is about \$86,000, we estimate a financial commitment of about \$86 million will be involved.

8. At the end of the programme, the overall participation rate will exceed our target participation rate of 24%.

ADDITIONAL FUNDING REQUIRED

9. Given the funding situation and the forecast of new applications to be received in the two remaining months as outlined in paragraph 7 above, the shortfall in funding is about \$109 million. As the scheme is voluntary, the participation rates of vehicles in different vehicle classes could vary. We therefore recommend including a 10% reserve as contingency. Accordingly we propose to seek additional funding of \$120 million to meet the financial commitment of the scheme. The actual expenditure will depend on the number of applications received in these two months and the profile of the vehicles involved.

ADVICE SOUGHT

10. We seek Members' support on providing additional funding of \$120 million for the one-off grant scheme on the early replacement of Euro II diesel commercial vehicles. Upon the passage of the Appropriation Bill 2013 and subject to Members' support, we will seek funding approval from the FC as soon as practicable.

Environmental Protection Department
May 2013

Table 1: Payment and Participation Rates under the One-Off Grant Scheme for the Early Replacement of Euro II Diesel Commercial Vehicles as at end of April 2013

| Vehicle Class | Permitted Gross Vehicle Weigh (W) (tonnes) | Grant Level (\$) | Budget (\$) | No. of eligible Euro II diesel commercial vehicles as at July 2010 | No. of vehicles participated in the scheme as at end April 2013 | Participation Rate as at end April 2013 | Actual payment as at end April 2013 (\$) |
|--|--|------------------|--------------------|--|---|---|--|
| Light Goods Vehicles (non-van type) | $W \leq 1.9$ | 27,000 | 342,250,000 | 0 | 0 | - | 319,649,000 |
| | $1.9 < W \leq 5.5$ | 47,000 | | 7,596 | 1,213 | 16% | |
| Light Goods Vehicles (van type) | $W \leq 1.9$ | 17,000 | | 4 | 0 | 0% | |
| | $1.9 < W \leq 5.5$ | 36,000 | | 7,050 | 869 | 12% | |
| Medium Goods Vehicles | $5.5 < W \leq 10$ | 59,000 | | 867 | 84 | 10% | |
| | $10 < W \leq 13$ | 70,000 | | 774 | 85 | 11% | |
| | $13 < W \leq 16$ | 88,000 | | 4,513 | 1,046 | 23% | |
| | $16 < W \leq 24$ | 121,000 | | 2,484 | 863 | 35% | |
| Heavy Goods Vehicles | $W > 24$ | 139,000 | | 1,060 | 187 | 18% | |
| Non-franchised Buses (with 17 to 30 seats) | | 84,000 | | 180,600,000 | 1,169 | 459 | |
| Non-franchised Buses (with 31 seats and above) | | 203,000 | 980 | | 463 | 47% | |
| Diesel Light Buses | | Note 1 | 16,500,000 | 902 | 55 | 6% | 4,543,000 |
| Total | | | 539,350,000 | 27,399 | 5,324 | 19% | 456,618,000 |

Note 1: Euro II diesel light buses replace by new diesel, LPG or electric light buses will be offered a grant of \$77,000, \$88,000 and \$92,000 respectively.

Chart 1: Number of applications received under the one-off grant scheme for the early replacement of Euro II diesel commercial vehicles

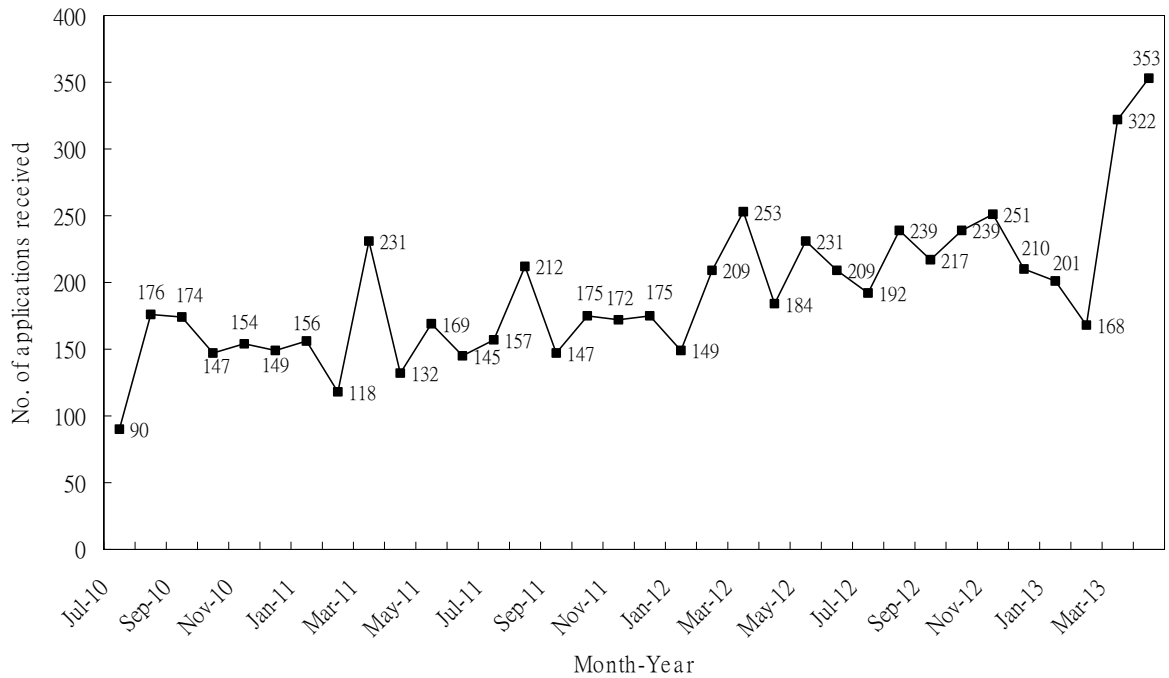


Chart 2: Cumulative number of approved applications and amount of grant payment

