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Panel on Environmental Affairs

Special meeting on 2 October 2013

Updated background brief on "Retirement of pre-Euro IV diesel commercial vehicles" prepared by the Legislative Council Secretariat

Purpose

This paper provides background information on the Government's proposal to phase out pre-Euro IV (i.e. pre-Euro, Euro I to III) diesel commercial vehicles ("DCVs") as well as to limit the service life of newly registered DCVs at 15 years, and gives a brief account of the views and concerns expressed by Members on the proposal.

Background

2. DCVs are one of the major sources of roadside air pollution. As at end December 2012, there were some 129 000 DCVs (excluding franchised buses) in Hong Kong. About 86 000 or two-third of them are pre-Euro IV DCVs, which together emit about 90% of respirable suspended particulates ("RSP") and 80% of nitrogen oxides ("NOx") from all DCVs .

Voluntary incentive schemes introduced in 2007 and 2010

3. The Government launched two incentive schemes in 2007 and 2010 to encourage vehicle owners to replace their pre-Euro and Euro I, as well as Euro II DCVs respectively with new commercial vehicles. The incentive scheme for pre-Euro and Euro I vehicles was a one-off grant scheme and concluded in end March 2010. A total of 17 103 applications were approved, involving a grant of about \$770 million. About 29% of the eligible vehicles participated in the scheme. The participation rates of light goods vehicles and heavy goods vehicles, at 25% and 24% respectively which were about a quarter, were below the overall rate.

4. The incentive scheme for Euro II DCVs was launched in July 2010 and concluded in end June 2013. As at end April 2013, a total of 5 324 applications were approved. Among the vehicles eligible for the incentive scheme, the participation rates of diesel light buses, light goods vehicles and heavy goods vehicles were 6.1%, 14.2% and 17.6% respectively which are comparatively low. Participation in the vehicle replacement incentive scheme is voluntary, and whether vehicle owners replace their vehicles or not is purely their commercial and personal decision.

Proposal to phase out pre-Euro IV diesel commercial vehicles

5. In view of the lukewarm response to the above voluntary incentive schemes, the Chief Executive announced in the 2013 Policy Address that the Government would adopt an incentive-cum-regulatory approach to phase out heavily polluting DCVs. Specifically, the Government proposes to –

- (a) offer an ex-gratia payment up to 30% of the taxable values of new vehicles to vehicle owners for phasing out their pre-Euro IV DCVs. Details of the proposed payment level are in **Appendix I**. Unlike previous incentive schemes, ex-gratia payment will also be provided to vehicle owners who scrap their pre-Euro IV diesel commercial vehicles without replacement by new vehicles. The payment level will be correlated inversely with the age of the vehicle to be scrapped and will remain the same throughout the scheme period;
- (b) stop the renewal of licences for pre-Euro IV DCVs with effect from specified dates. The proposed ban will be implemented in phases, with the banning of the most polluting pre-Euro and Euro I vehicles on 1 January 2016, and Euro II on 1 January 2017 and Euro III on 1 January 2019 respectively; and
- (c) set a statutory retirement age of 15 years for newly registered DCVs. This will provide a long term solution to the pollution problem caused by DCVs through a continued upgrading in the emission standard of the commercial vehicle fleet.

6. The Government has earmarked \$10 billion for the proposed ex-gratia payment to facilitate the early phasing out of heavily polluting DCVs with effect from specified dates as set out in **Appendix I**. It also plans to seek funding approval from the Finance Committee of the Legislative Council ("LegCo") for the ex-gratia payment after LegCo approves the legislative proposal for effecting the proposed ban on licence renewal.

Deliberations by Members

Panel on Environmental Affairs

7. The Panel on Environmental Affairs ("the Panel"), at its meetings on 28 January and 15 May 2013, discussed the proposal to phase out pre-Euro IV DCVs and limit the service life of newly registered DCVs at 15 years. The Panel further held a special meeting on 25 May 2013 to receive public views on the proposal. While Panel members generally supported the proposal, they stressed the need to ensure the cost-effectiveness of the phasing-out programme. The main concerns raised by members at the above meetings were summarized in the ensuing paragraphs.

Level of ex-gratia payment

8. Members were of the view that priority should be given to encouraging vehicle owners to replace the older and more polluting vehicles. They were dissatisfied that under the present proposal, the retirement of the newer Euro III DCVs would allow vehicle owners to receive a higher level of ex-gratia payment than that of the older and more polluting pre-Euro II vehicles. Some of them supported standardizing the ex-gratia payment such that the same payment would apply irrespective of whether the scrapped vehicle was replaced or not. Some members were also concerned that the 16 000 pre-Euro DCVs which were highly polluting would still be allowed on the roads up until 1 January 2016 when their licences would not be renewed. They opined that a special arrangement should be introduced to incentivize the early retirement of pre-Euro DCVs.

Phasing-out timetable

9. Some members expressed concern about the impact of the phasing-out proposal on the transport trades, in particular the livelihood of owners of "single vehicles" who were also drivers ("single-vehicle owners") relying on DCVs to earn their living. They pointed out that there might be transport operators who would find it difficult to save up for the replacement of their DCVs even with the subsidies provided and would be forced out of business. As such, a fixed date should not be set for the phasing-out of pre-Euro IV DCVs and the Administration should consider providing additional financial assistance to affected vehicle owners. Some other members suggested that a phased approach should be adopted whereby the more polluting pre-Euro II models would be phased out first, to be followed by the retirement of Euro III models.

15-year service life limit for newly registered DCVs

10. Some Panel members considered that the 15-year service life limit for newly registered DCVs might be too short and requested for scientific data to support setting the service life limit at 15 years.

Transitional arrangements

11. A member pointed out that there would be an interim period whereby no subsidy would be made available to owners in the replacement of the heavily polluting DCVs. He proposed that a retrospective arrangement should be introduced for eligible vehicles scrapped before the commencement of the phasing-out programme. Another possible solution would be to extend the expiry date of the one-off grant scheme to tie in with the commencement of the phasing-out programme to enable a seamless transition.

Trades' concerns

12. Members noted that the transport trades were in general supportive of measures to improve air quality. However, there were conflicting views from them with some requesting for an early implementation of the phasing-out programme and others opposing its implementation. The trades were concerned about the inadequacy of the ex-gratia payment, the unsatisfactory performance of Euro IV and Euro V DCVs, the transitional arrangements pending the decision on the phasing-out programme and the need for technology transfer in the repair of newer models of Euro IV and Euro V diesel vehicles in order that repair services would not be monopolized. They were also concerned whether vehicle suppliers and vehicle body builders were able to meet the increased demand for replacement vehicles arising from the implementation of the phasing-out programme.

Other views and concerns

13. Some members opined that legislation would have to be introduced to implement the proposal given the waiting time of a few years before phasing out the polluting vehicles. To achieve quicker improvement to air quality, the Administration should also consider setting up low emission zones in busy districts to restrict polluting vehicles with high exhaust emissions from entering such zones. Besides, the Administration was urged to take care to avoid transfer of benefits and to assist vehicle owners in the replacement to prevent vehicle suppliers from profiteering under the phasing-out programme.

14. Some other members criticized that while the Government would be funding the capital cost for retrofitting Euro II and III franchised buses with selective catalytic reduction ("SCR") devices in an attempt to improve their

emission performance, it would only be providing subsidies in the replacement of pre-Euro IV DCVs. They questioned why the retrofitting with SCR devices on franchised buses could not be equitably applied to DCVs as this would likely give rise to a lesser impact on the transport trades.

Subcommittee on Issues Relating to Air, Noise and Light Pollution

15. The Subcommittee on Issues Relating to Air, Noise and Light Pollution, which was formed under the Panel in the current term, discussed the proposal to phase out pre-Euro IV DCVs at its meeting on 29 January 2013. In anticipation that the phasing-out of old polluting commercial vehicles would raise the selling prices of environment-friendly commercial vehicles at Euro V level, a member expressed concern that local transport operators would face much hardship in carrying on with their business as most of them would not be able to make such substantive investment to replace their vehicles. There were also views that vehicle age might not adequately reflect the condition of the vehicle and its emission performance. Given that the early replacement of DCVs would incur substantial costs for vehicle owners, there should be continuity in the policy of setting a service life limit for newly registered DCVs at 15 years.

Council questions

16. Hon CHAN Hak-kan and Hon TANG Ka-piu raised questions relating to the control of emission and phasing-out of DCVs at the Council meetings on 21 November 2012 and 22 May 2013. Details of the Council questions are hyperlinked in **Appendix II** for ease of reference.

Latest development

17. The Administration will consult the Panel at the special meeting scheduled for 2 October 2013 on its proposal to phase out pre-Euro IV DCVs through an incentive-cum-regulatory approach and to limit the service life of newly registered DCVs at 15 years as proposed in the 2013 Policy Address.

Relevant papers

18. A list of relevant papers is set out in **Appendix II**.

**"Carrot and Stick" Approach to Phase Out
Pre-Euro IV Diesel Commercial Vehicles**

Proposed Ex-gratia Payment for Owners

	Age of Scrapped vehicles and Ex-gratia Payment Level				
	18 years or above	16 years - below 18 years	13 years - below 16 years	10 years - below 13 years	Below 10 years
Those who do not seek replacement by newly registered vehicles	10%	12%	14%	16%	18%
Those who replace them with newly registered vehicles of the same class	18%	21%	24%	27%	30%

**Proposed Timetable for Non-renewal of Licences for
Pre-Euro IV Diesel Commercial Vehicles**

	Pre-Euro II	Euro II	Euro III
Date after which the vehicle licence will not be renewed	1 Jan 2016	1 Jan 2017	1 Jan 2019
Range of age of the vehicles by the proposed date of non- renewal of vehicle licence	Over 18 years	16 to 19 years	13 to 18 years

List of relevant papers

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	20 December 2006	<p>Administration's paper on "Encouraging owners of Pre-Euro and Euro I diesel commercial vehicles to replace their vehicles by offering one-off grant" (LC Paper No. CB(1)513/06-07(03)) http://www.legco.gov.hk/yr06-07/english/panels/ea/papers/ea1220cb1-513-3-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)734/06-07) http://www.legco.gov.hk/yr06-07/english/panels/ea/minutes/ea061220.pdf</p>
Panel on Environmental Affairs	5 January 2007	<p>Administration's paper on "Encouraging owners of Pre-Euro and Euro I diesel commercial vehicles to replace their vehicles by offering one-off grant" (LC Paper No. CB(1)513/06-07(03)) http://www.legco.gov.hk/yr06-07/english/panels/ea/papers/ea1220cb1-513-3-e.pdf</p> <p>Updated background brief on "Air pollution control" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)617/06-07(14)) http://www.legco.gov.hk/yr06-07/english/panels/ea/papers/ea0105cb1-617-14-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)930/06-07) http://www.legco.gov.hk/yr06-07/english/panels/ea/minutes/ea070105.pdf</p>

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	24 November 2008	<p>Administration's paper on "Early Replacement of Old Commercial Vehicles" (LC Paper No. CB(1)223/08-09(08)) http://www.legco.gov.hk/yr08-09/english/panels/ea/papers/ea1124cb1-223-8-e.pdf</p> <p>Updated background brief on "Early replacement of pre-Euro and Euro I diesel commercial vehicles" prepared by the Legislative Council Secretariat (LC Paper No. CB(1) 223/08-09(09)) http://www.legco.gov.hk/yr08-09/english/panels/ea/papers/ea1124cb1-223-9-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)595/08-09) http://www.legco.gov.hk/yr08-09/english/panels/ea/minutes/ea20081124.pdf</p>
Panel on Environmental Affairs	Tabled in the Legislative Council on 8 July 2009	<p>Report of the Panel on Environmental Affairs for submission to the Legislative Council (LC Paper No. CB(1)1944/08-09) http://www.legco.gov.hk/yr08-09/english/panels/ea/reports/ea0708cb1-1944-e.pdf</p>
Subcommittee on Improving Air Quality	10 March 2010	<p>Administration's paper on "Early Replacement of Old Diesel Commercial Vehicles" (LC Paper No. CB(1)1250/09-10(01)) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/papers/ea_iaq0310cb1-1250-1-e.pdf</p> <p>List of follow-up actions arising from the discussion at the meeting on 4 January 2010 (LC Paper No. CB(1)1250/09-10(02)) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/papers/ea_iaq0310cb1-1250-2-e.pdf</p> <p>Administration's response to CB(1)1250/09-10(02) (LC Paper No. CB(1)1339/09-10(07)) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/papers/ea_iaq0310cb1-1339-7-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)1767/09-10) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/minutes/iaq20100310.pdf</p>

Council/ Committee	Date of meeting	Paper
Subcommittee on Improving Air Quality	11 May 2010	<p>Administration's paper on "Early Replacement of Old Diesel Commercial Vehicles" (LC Paper No. CB(1)1250/09-10(01)) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/papers/ea_iaq0310cb1-1250-1-e.pdf</p> <p>List of follow-up actions arising from the discussion at the meeting on 10 March 2010 (LC Paper No. CB(1)1405/09-10(01)) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/papers/ea_iaq0511cb1-1405-1-e.pdf</p> <p>Administration's response to items 1 and 2 of CB(1)1405/09-10(01) (LC Paper No. CB(1) 1405/09-10(02)) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/papers/ea_iaq0511cb1-1405-2-e.pdf</p> <p>Administration's response (Annex I to deputations' written submissions and CB(1)1824/09-10(02) while Annex II to item 3 of CB(1) 1405/09-10(01)) (LC Paper No. CB(1) 1838/09-10(02)) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/papers/ea_iaq0511cb1-1838-2-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)2619/09-10) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/minutes/iaq20100511.pdf</p>
Subcommittee on Improving Air Quality	17 September 2010*	<p>Report of the Subcommittee on Improving Air Quality for submission to the Panel on Environmental Affairs (LC Paper No. CB(1)2869/09-10) http://www.legco.gov.hk/yr09-10/english/panels/ea/ea_iaq/reports/ea_iaqcb1-2869-e.pdf</p>

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	28 January 2013	<p>Administration's paper on "2013 Policy Address – Policy Initiatives of Environment Bureau: Environmental protection" (LC Paper No. CB(1)431/12-13(02)) http://www.legco.gov.hk/yr12-13/english/panels/ea/papers/ea0128cb1-431-2-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)732/12-13) http://www.legco.gov.hk/yr12-13/english/panels/ea/minutes/ea20130128.pdf</p>
Subcommittee on Issues Relating to Air, Noise and Light Pollution	29 January 2013	<p>Administration's paper on "Current legislation and administrative measures on the control of air pollution and the associated public expenditure" (LC Paper No. CB(1)474/12-13(01)) http://www.legco.gov.hk/yr12-13/english/panels/ea/ea_anlp/papers/ea_anlp0129cb1-474-1-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)743/12-13) http://www.legco.gov.hk/yr12-13/english/panels/ea/ea_anlp/minutes/anlp20130129.pdf</p>
Panel on Environmental Affairs	15 May 2013	<p>Administration's paper on "Retirement of pre-Euro IV diesel commercial vehicles" (LC Paper No. CB(1)1003/12-13(01)) http://www.legco.gov.hk/yr12-13/english/panels/ea/papers/ea0515cb1-1003-1-e.pdf</p> <p>Background brief on "Retirement of pre-Euro IV diesel commercial vehicles" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1003/12-13(02)) http://www.legco.gov.hk/yr12-13/english/panels/ea/papers/ea0515cb1-1003-2-e.pdf</p> <p>Minutes of meeting (LC Paper No. CB(1)1569/12-13) http://www.legco.gov.hk/yr12-13/english/panels/ea/minutes/ea20130515.pdf</p>

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	25 May 2013	<p>Administration's paper on "Retirement of pre-Euro IV diesel commercial vehicles" (LC Paper No. CB(1)1003/12-13(01)) http://www.legco.gov.hk/yr12-13/english/panels/ea/papers/ea0515cb1-1003-1-e.pdf</p> <p>Background brief on "Retirement of pre-Euro IV diesel commercial vehicles" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1003/12-13(02)) http://www.legco.gov.hk/yr12-13/english/panels/ea/papers/ea0515cb1-1003-2-e.pdf</p>
Panel on Environmental Affairs	Tabled in the Legislative Council on 17 July 2013	<p>Report of the Panel on Environmental Affairs for submission to the Legislative Council (LC Paper No. CB(1)1476/12-13) http://www.legco.gov.hk/yr12-13/english/panels/ea/reports/ea0717cb1-1476-e.pdf</p>

* Date of issuance of papers

Hyperlinks to relevant Council Questions:

Date	Council Question
21 November 2012	<p>Council question raised by Hon CHAN Hak-kan http://www.info.gov.hk/gia/general/201211/21/P201211210463.htm</p>
22 May 2013	<p>Council question raised by Hon TANG Ka-piu http://www.info.gov.hk/gia/general/201305/22/P201305220600.htm</p>