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Panel on Environmental Affairs

Meeting on 26 October 2015

**Updated background brief on mandatory retirement of
pre-Euro IV diesel commercial vehicles
prepared by the Legislative Council Secretariat**

Purpose

This paper provides updated background information on mandatory retirement of pre-Euro IV diesel commercial vehicles ("DCVs")¹, and gives a summary of the major views and concerns expressed by Members when related issues were discussed by the relevant committees of the Legislative Council ("LegCo") in the 2012-2013 to 2015-2016 legislative sessions.

Background

Voluntary incentive schemes introduced in 2007 and 2010

2. DCVs are one of the major sources of roadside air pollution in Hong Kong. The Government launched two voluntary 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 take-up rates of the two schemes were about 30% and 25% respectively.

Ex-gratia payment scheme for phasing out pre-Euro IV DCVs

3. In view of the lukewarm response to the two voluntary incentive schemes mentioned above, the Chief Executive announced in the 2013 Policy Address that

¹ Pre-Euro IV DCVs include pre-Euro, Euro I, Euro II and Euro III DCVs.

the Government would adopt an incentive-cum-regulatory approach to phase out heavily polluting DCVs. Subsequently, a scheme was launched in March 2014 to progressively phase out 82 000 pre-Euro IV DCVs² including goods vehicles, light buses and non-franchised buses by the end of 2019 ("the phasing-out programme")³ while limiting the service life of newly registered DCVs to 15 years. An ex-gratia payment ranging from 27% to 33% of the average taxable values of new vehicles will be granted to eligible vehicle owners for phasing out their pre-Euro IV DCVs ("the ex-gratia payment scheme")⁴. The application deadlines for ex-gratia payment are as follows –

Emission design standard of DCVs	Application deadlines
Pre-Euro	31 December 2015
Euro I	31 December 2016
Euro II	31 December 2017
Euro III	31 December 2019

4. As at end September 2015, about 13 800 applications involving \$1.79 billion of ex-gratia payment have been approved.

5. In order to ensure that all pre-Euro IV DCVs would be phased out by end of 2019 as scheduled for improving roadside air quality as soon as possible, the Air Pollution Control (Air Pollutant Emission) (Controlled Vehicles) Regulation (Cap. 311X) was passed by LegCo on 18 December 2013⁵ to stipulate, amongst others, the timetable for phasing out these DCVs⁶ as follows –

² The scheme launched in March 2014 is not applicable to franchised buses because there is a separate programme to tackle the emission problem arising from pre-Euro IV franchised buses. The scheme is also not applicable to special purpose vehicles which have not been subject to emission control in the first place due to their unique usage. Owners of Euro II DCVs who have been allowed to retain their eligibility for the grant under the special arrangement in the previous voluntary incentive scheme are also not eligible to participate in the ex-gratia payment scheme under the phasing-out programme with the same Euro II vehicles.

³ The retirement dates for Pre-Euro IV DCVs are determined with reference to their respective dates of first registration.

⁴ The funding proposal for the ex-gratia payment scheme was approved by the Finance Committee on 10 January 2014.

⁵ The Regulation commenced operation from 1 February 2014.

⁶ The Regulation requires the concerned vehicles to, on each licence application from the specified deadlines or from its 15th anniversary date of first registration, as the case may be, comply with the emission standards applicable to them as if they were first registered on the date of the vehicle licence application. Failure to comply with the requirement may be a ground for the Commissioner for Transport to refuse to license the vehicles under section 25(1)(iic) of the Road Transport Ordinance (Cap. 374). These vehicles will thus be phased out unless their vehicle owners can prove that their vehicles can meet the said standards, which may be possible as technology advances.

Pre-Euro	Euro I	Euro II	Euro III
1 January 2016	1 January 2017	1 January 2018	1 January 2020

Major views and concerns expressed by Members

6. The Panel on Environmental Affairs ("the Panel") was consulted on the phasing-out programme and ex-gratia payment scheme at its meetings on 15 May and 2 October 2013, and held a special meeting on 25 May 2013 to receive public views on the proposals. Related issues were brought up at the Panel meetings on 28 January 2013, 23 March and 27 April 2015 when the Administration briefed the Panel on policy or Budget-related initiatives relating to air quality improvement measures, during consideration of the funding proposal for the ex-gratia payment scheme at the meeting of the Finance Committee ("FC") on 10 January 2014, and when the Subcommittee on Issues Relating to Air, Noise and Light Pollution discussed the Administration's measures to control air pollution. The major views and concerns raised by Members during these discussions are summarized in the ensuing paragraphs.

Retirement deadline for Pre-Euro DCVs

7. Given that all pre-Euro DCVs should be retired by end of 2015, some Members expressed concern that about 43% of pre-Euro DCVs had not yet been scrapped or replaced with new ones as of 31 March 2015 in spite of implementation of the ex-gratia payment scheme. They enquired about the measures to facilitate the transport trade to make necessary preparation and arrangements for phasing out their pre-Euro DCVs as early as possible. Stressing the importance to improve air quality and protect public health, Members cautioned the Administration not to slant policies in favour of the transport trades by deferring the deadlines of retiring pre-Euro DCVs while the transport trades had been or would be offered ex-gratia payment to phase out these vehicles.

8. The Administration advised that the Environmental Protection Department ("EPD") had sent letters to all pre-Euro DCV owners in February 2015 and issued a press release in April 2015 to remind them to replace their vehicles by the deadlines. As pre-Euro IV DCV owners (including pre-Euro DCV owners) granted with ex-gratia payment could choose whether or not to buy a replacement vehicle after their old DCVs had been scrapped, some of them might quit or have

quitted their business and did not acquire a replacement⁷. The Administration further pointed out that the ex-gratia payment level was linked with the age of the phased-out vehicles, i.e. the sooner the vehicle owners were to phase out their DCVs, the higher the level of ex-gratia payment they would receive. Such arrangement should give extra impetus for vehicle owners concerned to take actions early. The Administration indicated that it had no plan to extend the retirement deadlines as stipulated in the Air Pollution Control (Air Pollutant Emission) (Controlled Vehicles) Regulation (Cap. 311X) because any extension would compromise the attainment of the prevailing Air Quality Objectives by 2020 and compliance with the 2015 and 2020 emission reduction targets set by the Government.

Providing assistance and incentives to the transport trades to phase out pre-Euro IV DCVs

9. Some Members were concerned about the impact of the phasing-out programme on the transport trades, in particular owners of "single vehicles" who were also drivers relying on the use of their vehicles to earn a living. In particular, the limited supply and high selling prices and maintenance costs of Euro VI heavy vehicles might cause a huge financial burden on transport operators even with the ex-gratia payment. These Members urged the Administration to maintain close liaison with the transport trades and provide assistance if necessary. There was a suggestion that the Administration should consider providing more incentives to vehicle owners who chose to phase out their DCVs well ahead of the specified deadlines.

10. The Administration advised that the ex-gratia payment scheme had addressed the key concerns of the transport trades at large and achieved a proper balance among different considerations. The Administration was well aware of the potential financial difficulties for some vehicle owners and compared to the original proposal, the ex-gratia payment levels for different pre-Euro IV DCV models had been raised under the revised proposal approved by FC with a view to providing more assistance to affected vehicle owners. Besides, linking the ex-gratia payment level with the age of the phased-out vehicles was in fact providing more incentives to vehicle owners who would replace their pre-Euro IV

⁷ According to the Administration, as at 14 October 2015, among the some 4 000 eligible pre-Euro DCVs that had not applied for the ex-gratia payment, about 1 600 of them had stopped renewing the vehicle licences on or before August 2013. The registrations of these vehicles had been cancelled by the Transport Department as their vehicle licences had not been renewed within two years from the expiry date of the vehicle licences. Thus, it is likely that these vehicles have been retired by their owners before the ex-gratia payment scheme. Excluding these vehicles, nearly 90% of eligible pre-Euro DCVs have been phased out.

DCVs earlier.

11. In view of the limited supply of some types of heavy vehicles which met the emission level of Euro IV or above, some Members enquired whether the Administration would consider allowing owners of pre-Euro IV DCVs, and pre-Euro DCVs in particular, who had already placed orders for new replacement vehicles during the application period to retain their eligibility for the grant. Members also enquired about the measures to ensure adequate supply of second-hand Euro IV or Euro V DCVs to meet the demand arising from the phasing-out programme.

12. The Administration advised that since more than one-third of pre-Euro heavy vehicles had been scrapped or replaced with new ones, there should be adequate capacity in the market for the owners of the remaining pre-Euro heavy vehicles to scrap their vehicles and acquire a replacement before the ex-gratia payment application deadline provided that the vehicle owners acted early. The Administration stressed that it would closely monitor the market situation, including the supply of heavy vehicles meeting the emission level of Euro IV or above, and address the difficulties of the transport trades in phasing out their pre-Euro IV DCVs.

Preventing abuse of the phasing-out programme and ex-gratia payment scheme

13. Members expressed concern that some people might import second-hand pre-Euro IV DCVs into Hong Kong and apply for registration of these vehicles in order to be eligible for the phasing-out programme and obtain the relevant ex-gratia payment. Members also urged the Administration to avoid transfer of benefits and prevent vehicle suppliers from profiteering through the phasing-out programme. The Administration explained that all vehicles were required to comply with the prevailing vehicular emission standards, currently at Euro V, if they were imported to and registered for use in Hong Kong. There should be no question of pre-Euro IV DCVs being imported into and registered in Hong Kong for benefitting from the ex-gratia payment scheme.

14. The Administration further advised that to prevent abuse of the ex-gratia payment scheme, retired DCVs must have a valid licence at the time of scrapping, and only DCVs that were registered as of 10 January 2014⁸ were eligible for the ex-gratia payment. To strengthen the governance of the scheme and facilitate application for ex-gratia payment by vehicle owners, EPD had set up a register of

⁸ The date on which the funding proposal for the ex-gratia payment scheme was approved by FC.

vehicle scrapping companies for the scheme, such that only the scrapping certificates issued by the vehicle scrapping companies⁹ registered with EPD would be accepted for application of the ex-gratia payment.

Impact on vehicle servicing

15. Some Members expressed concern about the impact of the phasing-out programme on the vehicle servicing trade, in particular the livelihood of the vehicle maintenance workers might be affected following the phasing-out of old DCVs. There was also a need to open up vehicle maintenance information in order that vehicle servicing would not be monopolized by major vehicle manufacturers/agents. Members also requested the Administration to take measures to assist and encourage affected vehicle maintenance workers to upgrade their skills.

16. The Administration advised that the Vocational Training Council had been offering training courses to vehicle mechanics to help them keep abreast of the latest vehicle technology. The Administration had been following up with the vehicle maintenance trade on measures that would help vehicle mechanics to upgrade their skills for repairing DCVs of the latest design.

Council questions

17. At the Council meetings of 4 December 2013, 25 March, 24 June and 14 October 2015, Dr Hon LAM tai-fai, Hon CHAN Hak-kan, Hon Vincent FANG and Hon Frankie YICK raised questions respectively relating to the phasing out of pre-Euro IV DCVs. Issues covered in the questions included progress of the phasing-out programme and ex-gratia payment scheme, assessment of the effectiveness of the ex-gratia payment scheme since its implementation; the reasons why some owners of pre-Euro DCVs had still not replaced their vehicles; and suggestions such as giving live poultry transporters a longer grace period to phase out their pre-Euro IV DCVs. The questions and the Administration's replies are hyperlinked in the **Appendix**.

⁹ Registered scrapping companies are required to keep complete records on vehicles scrapped under the scheme and these records are subject to random checking and inspection by the Transport Department.

Latest development

18. The Administration will update the Panel on the progress of the mandatory retirement of pre-Euro IV DCVs at the meeting on 26 October 2015.

Relevant papers

19. A list of relevant papers is set out in the **Appendix**.

Council Business Division 1
Legislative Council Secretariat
22 October 2015

Mandatory retirement of pre-Euro IV diesel commercial vehicles

List of relevant papers

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	28 January 2013	Administration's paper on "2013 Policy Address – Policy Initiatives of Environment Bureau: Environmental protection" (LC Paper No. CB(1)431/12-13(02)) Minutes of meeting (LC Paper No. CB(1)732/12-13)
Subcommittee on Issues Relating to Air, Noise and Light Pollution	29 January 2013	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)) Minutes of meeting (LC Paper No. CB(1)743/12-13)
Panel on Environmental Affairs	15 May 2013	Administration's paper on "Retirement of pre-Euro IV diesel commercial vehicles" (LC Paper No. CB(1)1003/12-13(01)) 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)) Minutes of meeting (LC Paper No. CB(1)1569/12-13)
Panel on Environmental Affairs	25 May 2013	Minutes of special meeting (LC Paper No. CB(1)1864/12-13)

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	2 October 2013	<p>Administration's paper on "Mandatory retirement of pre-euro IV diesel commercial vehicles" (LC Paper No. CB(1)1820/12-13(01))</p> <p>Updated background brief on "Retirement of pre-Euro IV diesel commercial vehicles" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)1820/12-13(02))</p> <p>Minutes of special meeting (LC Paper No. CB(1)681/13-14)</p>
Finance Committee	10 January 2014	<p>Head 44 – Environmental Protection Department Subhead 700 General non-recurrent New Item "Ex-gratia payment for phasing out pre-Euro IV diesel commercial vehicles" (LC Paper No. FCR(2013-14)52)</p> <p>Minutes of meeting at 5:10 pm (LC Paper No. FC72/13-14)</p>
Panel on Environmental Affairs	23 March 2015	<p>Administration's paper on "2015-16 Budget-related initiatives of Environmental Protection" (LC Paper No. CB(1)652/14-15(03))</p> <p>Minutes of meeting (LC Paper No. CB(1)847/14-15)</p>
Special meeting of the Finance Committee for examination of Estimates of Expenditure 2015-2016	30 March 2015	<p>Written questions raised by Members and Administration's replies (Reply serial numbers: ENB053, 075, 081, 088, 101, 125, 144, 159,178, 243, 287, 306 and 363)</p>

Council/ Committee	Date of meeting	Paper
Panel on Environmental Affairs	27 April 2015	<p>Administration's paper on "Progress of air quality improvement measures" (LC Paper No. CB(1)763/14-15(03))</p> <p>Background brief on "Progress of air quality improvement measures" prepared by the Legislative Council Secretariat (LC Paper No. CB(1)763/14-15(04))</p> <p>Minutes of meeting (LC Paper No. CB(1)979/14-15)</p>

Hyperlinks to relevant Council Questions:

Date	Council Question
4 December 2013	Press release on Council question (written) raised by Dr Hon LAM tai-fai http://www.info.gov.hk/gia/general/201312/04/P201312040328.htm
25 March 2015	Press release on Council question (written) raised by Hon CHAN Hak-kan http://www.info.gov.hk/gia/general/201503/25/P201503250439.htm
24 June 2015	Press release on Council question (oral) raised by Hon Vincent FANG http://www.info.gov.hk/gia/general/201506/24/P201506240624.htm
14 October 2015	Press release on Council question (written) raised by Hon Frankie YICK http://www.info.gov.hk/gia/general/201510/14/P201510140362.htm