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Panel on Environmental Affairs

Meeting on 28 November 2016

**Background brief on the Recycling Fund
prepared by the Legislative Council Secretariat**

Purpose

This paper provides background information on the Recycling Fund. It also gives a brief account of the views and concerns expressed by Members when related issues were discussed by the relevant committees of the Legislative Council ("LegCo").

Background

2. Currently, about 2 000 companies are engaged in recycling operations in Hong Kong. Most of them employ less than 50 employees and have a simple mode of operation. With the tightening control on imports of recyclables in various markets,¹ these small recyclers need to strengthen the capacity and quality of their recycling processes in order to remain commercially viable. In the context of waste management, enhancing the quality and competency of the recycling industry can help reduce waste at landfills and other disposal outlets.

¹ In Hong Kong, around two thirds of recyclables by weight are exported to the Mainland. Other major markets for recyclables are Southeast Asian jurisdictions such as Vietnam and Taiwan.

3. Based on the Policy Framework on the Management of Municipal Solid Waste (2005-2014) ("2005 Policy Framework"),² the Administration published in May 2013 the "Hong Kong: Blueprint for Sustainable Use of Resources 2013-2022" ("2013 Blueprint") mapping out a comprehensive strategy, targets, policies and action plans for waste management up to 2022. One of the key initiatives in the 2013 Blueprint is to foster the development of the local recycling industry.

4. To facilitate collaboration between relevant bureaux and departments in furtherance of the objectives in the 2013 Blueprint, the Administration set up the Steering Committee to Promote the Sustainable Development of the Recycling Industry ("Steering Committee") in August 2013 under the chairmanship of the Chief Secretary for Administration. The Steering Committee was tasked to, among other things, facilitate the development of the local recycling industry, including exploring the setting up of a Recycling Fund.

Recycling Fund

Establishment and objective

5. In the 2014 Policy Address, the Chief Executive announced that \$1 billion had been earmarked for the establishment of a Recycling Fund. The relevant funding proposal was approved by the Finance Committee in July 2015, and the Recycling Fund was launched in October 2015. With the objective of facilitating the sustainable development of the local recycling industry through upgrading their operational effectiveness and capacity, the Fund aims to support projects which can:

- (a) raise the quantity and quality of recyclables recovered from the waste stream as well as those of recycled products from their treatment;
- (b) promote markets for recycled products; and
- (c) enhance the overall capability, capacity, efficiency and skills as well as market information of the recycling industry.

² The Administration published the 2005 Policy Framework in December 2005, which set out a comprehensive strategy consisting of a series of tried and proven policy tools and measures to tackle the waste problem, with emphasis of the way forward on municipal solid waste management for the decade from 2005 to 2014 on community participation and the "polluter-pays" principle.

Funding scope, eligibility and funding limits

6. The Recycling Fund comprises two parts, namely the Enterprise Support Programme and the Industry Support Programme. The Enterprise Support Programme provides project-based matching funds for individual recyclers to upgrade and expand their waste recycling operations.³ The grants for each enterprise is set at 50% of supported expenditure items and capped at \$5 million per application, subject to a limit of three applications and a cumulative funding ceiling of \$5 million per enterprise. Under the Programme, funding is also provided to recyclers that are small- and medium-sized enterprises ("SMEs") for undertaking small-scale standard projects, such as manpower training and occupational safety programmes. The grant for each application in this category is capped at \$150,000 or 50% of the approved expenditure, whichever is less.

7. The Industry Support Programme provides funding for non-profit-distributing organizations ("NPOs"),⁴ such as professional bodies, trade and industry organizations, research institutes and other industry support organizations, to undertake non-profit-making projects to enhance the overall capability and productivity of the local recycling industry.⁵ The grant may cover up to 100% of approved expenditure items, subject to a cap of \$15 million per project.

Administration, monitoring and review of the Recycling Fund

8. An Advisory Committee on Recycling Fund ("Advisory Committee") has been set up to advise and make recommendations to the Secretary for the Environment on matters relating to the overall administration and operation of the Fund, as well as give advice to the Government for its consideration and approval of funding applications. The Hong Kong Productivity Council ("HKPC") is engaged as the Government's implementation partner, and serves as the secretariat of the Advisory Committee and the Fund.

³ The Enterprise Support Programme is open to any company with a valid business registration certificate established and registered under the laws of Hong Kong. The company should have substantive business operation in Hong Kong and be involved in recycling-related operation with a proven track record for at least one year.

⁴ NPOs include those statutory organizations or organizations registered under the laws of Hong Kong which are non-profit distributing.

⁵ Examples of relevant projects include training programmes for recycling practitioners and certification schemes for recycling operations.

9. To ensure the prudent use of public money, successful applicants are required to enter into contractual agreements with the Government which lay down detailed conditions for grants under the Fund, terms for purchases and disposal of capital assets, as well as recall of payments and/or assets in the event of unsatisfactory project performance, etc. Grantees are required to submit periodic progress reports, audited accounts prepared by independent auditors, project completion reports and final audited reports. They also need to report on a regular basis relevant benchmarks, such as the increase in tonnage of recyclables treated. On-site spot checks and random inspections are conducted by HKPC to verify records and validate the deliverables and targets as reported by the grantees. Disbursements will only be made at designated stages of the approved projects after review of satisfactory performance.

10. The Recycling Fund Secretariat needs to regularly submit independently-audited accounts and progress reports on the operation of the Fund to the Advisory Committee. The Environmental Protection Department plans to conduct a mid-term review about two to three years after the implementation of the Fund to examine its overall operation and the performance of the Fund's Secretariat.

Major views and concerns expressed by Members

11. The proposal for establishing the Recycling Fund was discussed by the Panel on Environmental Affairs ("the Panel") on 23 July 2014, and considered by the Finance Committee on 17 July 2015. Issues relating to the Recycling Fund were also brought up at the Panel meetings on 16 December 2013, 24 January 2014, 26 January 2015 and 25 January 2016, when the Administration briefed the Panel on promotion of the recycling industry and relevant initiatives in the annual Policy Addresses. The major views and concerns expressed by Members are summarized in the ensuing paragraphs.

Funding scope and limits

12. Members were concerned whether and how the Recycling Fund could improve the effectiveness and efficiency of recycling operations, and stressed that the Administration should assist local recyclers in incorporating value-added recycling processes in their operations.

13. The Administration responded that the objective of the Recycling Fund was to enhance the capability, capacity, efficiency and skills of the recycling industry, thus facilitating its sustainable development. Given a broad funding scope of the Fund, it was up to individual applicants to bring forth specific project proposals which could demonstrate the potential enhancements to waste recycling operations.

14. Members enquired about the rationale for capping the grants at \$5 million for each enterprise, but \$15 million per project for NPOs. The Administration advised that, in drawing up the funding limits, the Administration had consulted the recycling industry and taken into account a number of factors, including the estimated cost of machinery and equipment for value-added recycling and related processes. The funding limit of \$15 million per project for NPOs was considered appropriate as the funded projects would be for the benefit of the whole industry rather than for individual enterprises, and the project outcome would be open for sharing among members of the industry.

Eligibility and resources of applicants

15. Some Members queried why NPOs were eligible to apply for the Recycling Fund given that such organizations could seek funding support from the Environment and Conservation Fund ("ECF") for their green projects and activities. The Administration explained that ECF aimed to provide funding support to education, research and other projects/activities in relation to environmental and conservation matters, whereas the Recycling Fund aimed to upgrade the capabilities and efficiency of recycling operations. In view of the different objectives of the two funds, it was considered appropriate to allow NPOs to apply for the Recycling Fund. As regards whether local enterprises with recycling operations conducted by subsidiaries in the Mainland were eligible for applying for the Fund, the Administration clarified that the Fund would only support projects which could enhance local recycling operations.

16. There was concern that SME recyclers might lack the resources to prepare the project proposals required for applying for the Recycling Fund, such that only large recyclers could benefit from the Enterprise Support Programme of the Fund. The Administration pointed out that an application for the Fund could be jointly made by several enterprises (including SMEs) to cater for different operational circumstances of recyclers. HKPC advised that it would provide helpdesk support to assist all recyclers in submitting project proposals. Model small-scale projects with streamlined application procedures would be introduced under the Programme to address the needs of SME recyclers.

Fund administration and monitoring

Implementation partner

17. Members sought justifications for engaging HKPC as the implementation partner for the Recycling Fund, instead of entrusting a government bureau or department to manage the Fund to save costs.

18. The Administration explained that HKPC had experience in managing government funds of a similar size and nature, and close connections with the recycling sector. The costs for HKPC to set up a dedicated team for programme management, technical evaluation and project monitoring was \$84.1 million (i.e. about 8.4% of the Fund size), which was not high compared to those of other similar schemes. Separately, \$15.8 million would be disbursed from the Fund to HKPC for publicity and promotional activities, as well as conducting related periodic market development and technological studies. Meanwhile, HKPC provided in-kind contributions in terms of professional manpower support to supervise, monitor and review the work of the secretariat, venue rentals and other ancillary technical and support services. Other necessary expenses incurred by HKPC in implementing the Fund would be met by the Fund.

Processing of applications

19. As to how to prevent duplication of public funds being granted to the same applicant through different channels, the Administration advised that applications for the Fund would be referred to relevant government bureaux/departments for comment. If a proposed project had already been granted funding from another government source, the application would not be approved.

20. Some Members expressed concern about duplication of efforts among the Administration, HKPC and the Advisory Committee which were involved in processing Fund applications. The Administration explained that the roles and responsibilities of the three parties were different. HKPC was responsible for receiving and initially screening all applications, the Advisory Committee for reviewing and making recommendations on the applications, and the Administration for the final approval of the applications.

Monitoring mechanism

21. Members sought details on the monitoring mechanism for the Recycling Fund, and asked if interim reviews would be conducted for approved grants, and the actions to be taken by the Administration if a grantee ceased operation during the project period.

22. The Administration and HKPC advised that each applicant had to provide information on its financial position and an estimate on the enhanced value of its recycled products in order to demonstrate that its operation was sustainable even without further funding support. The contractual agreements entered into between successful applicants and the Administration would

include terms on return of payments and/or assets in the event of unsatisfactory project performance, failure to perform, or cessation of the applicants' operation. A robust monitoring mechanism was in place requiring the grantees to submit, among other things, progress reports and audited accounts prepared by independent auditors. HKPC would conduct on-site spot checks and random inspections to verify the deliverables and targets reported by the grantees. Disbursements would only be made on completion of designated milestones of a project, and would be stopped on cessation of the grantee's operation during the project period.

23. Members queried how the Administration could assess the effectiveness of a grant in achieving the objective of the Recycling Fund if the grant was spent on marketing and promotional activities. The Administration advised that one of the aims of the Fund was to support projects which could promote markets for recycled products. When applying for grants to be used for commercialization and marketing, the applicant recycler had to demonstrate how the proposed project could enhance source separation or collection of recyclables, or the quantity and quality of recycled products.

Encouraging recycling of materials of low commercial value

24. Members asked about the measures to promote the sustainable development of recycling businesses involving recyclables of low commercial value and high collection costs (such as waste plastics, glass bottles and food waste), and in particular, whether the Administration would consider directly subsidizing such businesses.

25. The Administration responded that the implementation of the mandatory Producer Responsibility Scheme on glass beverage bottles and the municipal solid waste charging scheme in future would incentivize recycling of waste, including recyclables of low commercial value. A green procurement policy had also been implemented to boost the local demand for green and recycled products (e.g. eco-pavers used in public works projects and biodiesel used in government vehicles in a trial scheme).⁶ In addition, the Community Green Stations being developed in the 18 districts would provide logistical support for the collection of recyclables of low commercial value that did not have sufficient market outlets.⁷ The Administration emphasized that the Recycling Fund aimed to enhance the capabilities of recyclers, thereby improving the

⁶ Eco-pavers are concrete paving blocks produced from recycled glass bottles.

⁷ As one of the initiatives in the 2013 and 2014 Policy Addresses, Community Green Stations are being developed in the 18 districts with government funding and operated by non-profit organizations to enhance environmental education and assist local communities in the collection of various recyclables.

quantity and quality of recyclables recovered, and promote market viability for recycled materials currently deemed to have a low commercial value. It would not be appropriate to provide direct subsidies to help recyclers maintain an otherwise unprofitable business.

Council questions

26. In the 2015-2016 legislative session, Hon KWOK Wai-keung, Hon KWOK Ka-ki, Hon CHAN Hak-kan, Hon IP Kwok-him and Hon Frankie YICK raised questions about waste recovery and recycling at the Council meetings of 28 October 2015, 2 December 2015, 16 December 2015 and 25 May 2016. Issues covered in the questions include measures to support the recycling of waste plastics and car batteries; management of the three-coloured waste-separation bins and their effectiveness in recovering waste; and whether the Administration would support the commercialization of products recycled from food waste. The questions and the Administration's replies are hyperlinked in the **Appendix**.

Latest development

27. At the Panel meeting on 28 November 2016, the Administration will brief members on the progress of the Recycling Fund's operation, and measures under consideration to enhance the effectiveness of the Fund in supporting the recycling industry and community recycling network.

Relevant papers

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

The Recycling Fund

List of relevant papers

Date	Event	Paper
16 December 2013	Meeting of the Panel on Environmental Affairs ("the Panel")	Administration's paper on "Promotion of recycling industry" (LC Paper No. CB(1)500/13-14(03)) Minutes of meeting (LC Paper No. CB(1)1103/13-14)
27 January 2014	Meeting of the Panel	Administration's paper on "Promotion of recycling industry" (LC Paper No. CB(1)500/13-14(03)) Administration's supplementary paper on "Promotion of recycling industry" (LC Paper No. CB(1)787/13-14(03)) Administration's paper on "2014 Policy Address – Policy initiatives of Environment Bureau: Environmental protection" (LC Paper No. CB(1)744/13-14(01)) Minutes of meeting (LC Paper No. CB(1)1291/13-14)
23 July 2014	Meeting of the Panel	Administration's paper on "Measures to promote the recycling industry and establishment of the Recycling Fund" (LC Paper No. CB(1)1814/13-14(03)) Minutes of meeting (LC Paper No. CB(1)61/14-15)
26 January 2015	Policy briefing cum meeting of the Panel	Administration's paper on "2015 Policy Address – Policy initiatives of Environment Bureau: Environmental protection" (LC Paper No. CB(1)436/14-15(01)) Minutes of meeting (LC Paper No. CB(1)674/14-15)

Date	Event	Paper
17 July 2015	Meeting of the Finance Committee	Administration's paper on "Recycling Fund" (FCR(2015-16)25) Minutes of meetings (LC Paper No. FC65/15-16) (LC Paper No. FC66/15-16) Administration's follow-up paper (LC Paper No. FC248/14-15(01))
25 January 2016	Policy briefing cum meeting of the Panel	Administration's paper on "2016 Policy Address – Policy initiatives of Environment Bureau: Environmental protection" (LC Paper No. CB(1)459/15-16(03)) Minutes of meeting (LC Paper No. CB(1)739/15-16)

Hyperlinks to relevant Council questions:

Date	Council Question
28 October 2015	Press release on Council question (written) raised by Hon KWOK Wai-keung
2 December 2015	Press release on Council question (written) raised by Hon KWOK Ka-ki
16 December 2015	Press release on Council question (written) raised by Hon CHAN Hak-kan
25 May 2016	Press release on Council question (written) raised by Hon IP Kwok-him
	Press release on Council question (written) raised by Hon Frankie YICK