

11 July 2018

The Honourable Carrie Lam, GBM, GBS
Chief Executive, Hong Kong Special Administrative Region
Email: ceo@ceo.gov.hk

Dear Chief Executive,

**Submission on the 2018 Policy Address
Views from
Business Environment Council Limited 商界環保協會有限公司**

Over the last 25 years, Business Environment Council Limited 商界環保協會有限公司 (“BEC”) has played a leading role in advocating the business case for environmental excellence, given the importance of sustainable development to Hong Kong. Our members are committed to actively engage with the HKSAR Government (“the Government”) to help develop a supporting policy framework as well as impactful implementation in respect of environmental protection and sustainability.

Views expressed in this submission are those of BEC, and in line with BEC’s Mission and Vision, as well as policy on relevant issues. These views may not necessarily be the same as the position of each individual member. BEC is an independent charitable membership organisation comprising approximately 200 member companies, from Hong Kong’s major holding companies to small and medium-sized enterprises.

We set out below our key recommendations for the 2018 Chief Executive Policy Address, building on recommendations made in previous years and after reflection of current Government priorities. Supporting papers on Climate Change, Energy, Transport, Waste, and Green Finance accompany this document.

This year we align our recommendations under the theme of Hong Kong’s long term decarbonisation strategy, which must be developed to fulfil Paris Agreement requirements for stricter targets in 2020. Decarbonising the economy has a bearing on all aspects of policy. In this transition, we will obtain wider social-environmental co-benefits including improved liveability through better air quality and enhancement of our security and competitiveness through climate resilience. With the right approach

to transitioning, we can position Hong Kong to make the most out of the economic opportunities emerging regionally and beyond, gaining international respect and recognition from doing so.

1. The date for review of Hong Kong's Climate Action Plan 2030+, related to operationalising the Paris Agreement, is fast approaching. With this in mind, we make 3 overarching recommendations:

- Government to publish a **clear vision of the 2050+ Hong Kong economy and infrastructure with evidence-based targets** that reflect the net zero emission goal of the Paris Agreement, a decarbonisation plan for getting there, and a climate adaptation & resilience plan. This should involve:
 - a marginal abatement cost curve methodology to develop the targets and a cost-effective decarbonisation plan.
 - considering the 2050 timescale, the plan should include a trajectory for reducing supply-side carbon emissions, with final and interim targets, and an explanation as to security of supply/stability of costs e.g. in the medium term, action to secure competitive LNG prices.
 - a clear resilience and adaptation plan should also be developed to support this vision, having regard to the various IPCC and IEA climate scenarios¹.

- In recognition of Hong Kong's market-driven culture, the Government is requested to fully involve the business sector in developing strategies and targets for achieving this vision by:
 - through a **series of Government – Business meetings** to discuss the long term decarbonisation plan in detail.
 - **support businesses in developing strategies and setting targets** aligned with achieving this 2050+ goal, by providing funding support for sectoral consultancy studies e.g. from ECF funding.

- To monitor and manage progress over the 5-year intervals under the Paris Agreement, the Government must ensure a **co-ordinated programme of**

¹ Transparency as to the scenario(s) used is very important to support businesses to carry out their own risk assessments. See BEC's Climate Resilience Roadmap and the New Normal reports for our recommendations on risk assessments: <http://bec.org.hk/about-us/research>

action across bureaux/departments with regular reporting. The ministerial-level Steering Committee on Climate Change and its 3 lead bureaux should be supplemented by each bureaux/department: having a proportionate action plan with KPIs, carrying out climate assessments of their policies/programmes, identifying and addressing legislation that unnecessarily hinder climate action, and report routinely against the plan and KPIs.

2. As 62% of Hong Kong's carbon emissions arise from generating electricity ultimately used in our buildings², buildings' energy efficiency is equally important as reducing the carbon intensity of the grid to achieve close to zero emissions by 2050. Hong Kong's buildings need to be substantially more energy efficient. This requires a comprehensive building retrofits programme and stringent standards for new buildings. Our recommendations are, explained fully at Annex B:

- To enhance the Energy Saving Plan, **develop and publish aspirational targets for buildings energy efficiency for 2030 and 2050**, aligned with the revised Climate Action Plan vision (see recommendation 1 above). We recommend the use of a basket of simple metrics including absolute energy usage (MJ) and energy intensity (kWh/m²) for different building categories (e.g. offices, hotels, shopping malls, and residential) rather than the GDP-related energy intensity reduction target which is less useful to individual sectors.
- **For existing buildings, develop an improved Energy Utilisation Index (EUI)** considering the importance of benchmarking of performance plus community understanding of progress. This enhanced EUI should build upon the Buildings Energy Efficiency Ordinance energy audit requirements, ensuring comprehensive up-to-date information with: regular audits say every 3 years and covering total area of each commercial building (central building services and tenanted areas) and shared areas in residential buildings. The aggregated EUI for each commercial building should be made publicly available with an indication of building type e.g. single tenant office building, shopping mall, and show shared areas and tenanted areas separately. Comparative performance information should be provided to each tenant³.

² In 2015, 62% of Hong Kong's carbon emission are from commercial and residential buildings combined (from EMSD [Energy End-use Data](#) and ENB [Greenhouse Gas Emissions by Sector](#)).

³ Owners should be enabled to explain performance so they can point out for example that their data centres increase their EUI. To begin with at least, tenanted areas should be anonymised, but comparative performance given to each tenant so they understand their relative energy usage.

- **For new buildings, strengthen the thermal transfer values (OTTV/RTTV) and increase the impact of the GFA concession on energy efficiency** through a link between GFA concession and meeting high energy performance requirements, aligned as closely as possible with net zero emission targets for 2050. This could be done by, for example, linking the GFA concession to BEAM Plus Gold standards. Continuing monitoring and reporting of performance should also be required.

Considering the on-going review of thermal transfer values and the study into the GFA concession, it is timely to align those policies with decarbonisation goals.

3. As the transport & logistics sector is the largest source of GHG emissions and air pollutants after power generation, and transitioning to electric or hydrogen fuel cell vehicles (combined with a low carbon grid) is the only known way to achieve close to zero GHG emissions, BEC welcomes further action explained below. We also support ambitious Air Quality Objective (“AQO”) that recognise the value of clean air, pursuant to EPD’s timely AQO review.

- As to road transport, BEC recommends that Government commits to **introduce a roadmap to accelerate the shift to electric⁴ and hybrid commercial vehicles including buses**. This should focus on those segments of the sector that can swiftly transition e.g. mini-buses, single decker buses, and vans, backed by infrastructure investment, public procurement, and incentives/subsidies. It should include swift action to develop pilot areas such as the Lok Ma Chau Loop and Science Park area, with the necessary infrastructure. BEC is pleased to continue to work through the Road Transport Dialogue Platform, supported by the Government (ENB and THB) to help develop a roadmap.
- To avoid congestion and thereby reduce emissions, controlling private vehicle numbers and their usage, as is being done in other cities like Singapore is critical. BEC strongly recommends that the Government introduces **electronic road pricing (ERP) in Central and other congested areas including**

⁴ In Hong Kong’s circumstances other than long distance freight with the short distances to travel, hydrogen fuel cell vehicles are not appropriate.

tunnels without delay, for smart management of usage. We regard ERP as a valuable and flexible market-mechanism that can play a major role in reducing congestion and emissions.

- **As to the Government’s commitment to a new Marine Strategy, we recommend that environmental sustainability be the major focus,** in particular reducing GHG emissions and other pollutants. This will enhance liveability and position Hong Kong to win the support of companies conscious of climate change and AQ impacts as well as efficiency. Considering the social benefits, we recommend that the Government meets some of the transitional costs for at least ferries and boats (e.g. fishing boats and riverboats) to reduce their emissions, in line with policy to date.
4. To address Hong Kong’s waste management problems, BEC supports a circular economy approach, which means better use of resources, less pressure on land and lower GHG emissions. We recognise the Government’s efforts over the past few years on developing market mechanisms to support this shift, constructing new waste management facilities like T-Park and the WEEE facility, and the use of public procurement to support eco-designed products. Our policy recommendations as explained in full in Annex D are as follows:
- We regard MSW charging as a critical step in making recycling a financially viable option and would like to see this introduced without delay. However, further measures remain necessary to make headway and **rebalance the system away from landfill/incineration and towards support for a circular economy** as explained below.
 - **Government to support “eco-designed” products & sustainable consumption through the following actions:**
 - develop a plan to prohibit the import or production of products which: a) add significantly to landfill or ocean waste like single-use polystyrene containers and disposable cups, plates, cutlery, b) are not suitable for reuse, and c) are unnecessary, for example because they can easily be substituted.
 - enhance PRS by implementing this more extensively: introducing levies at the right level to discourage unsustainable consumption, in the right

- order, and for a wide range of products, so as not to unintentionally encourage shifts to problematic products;
 - ensure all products are adequately labelled as to recyclability.
- **Establish a financially viable recycling collection and transportation system:**
 - gradual rebalancing of the use of land and facilities towards a network of collection points and district depots for recycling rather than landfill/incineration (as is the case at present).
 - Government to meet the costs of a reverse gate fee for recyclables delivered to facilities such as at EcoPark or the new ORRC, in recognition of the social benefits from better waste management. This should be paid on receipt of waste, compensating at least in part for additional logistics costs.
 - introduce a phased approach to mandatory source separation, beginning with requiring source separation of paper, plastics and food (once the ORRC is in operation) in commercial & industrial buildings whilst encouraging this in households.
- **Ensure sufficient and viable Hong Kong-based waste-processing and pre-processing facilities** e.g. plastic pelletizing facilities. These should be decentralised where possible to reduce logistics impacts. Facilities need not be at mega-scale.
 - Restrictions under the Recycling Fund on claiming funds for both land and capex and disallowing operational costs should be lifted.
 - Sites in NDAs and in existing urban areas to be identified and zoned, making best use of underground spaces and multi-storey facilities. This relates to the point on rebalancing the use of land and facilities.
- **Develop waste stream plans for specific products**, beginning with construction waste, which remains approximately 30% of waste to landfill. Then, to review and refine the current food waste and yard waste plan after the ORRC1 is fully functional to ensure impact and take on board new technologies. These plans should have measurable targets and be developed with a holistic multi-objective approach e.g. waste to energy.

5. We join the call from various Hong Kong bodies for the Government to help make Hong Kong the regional Green Finance Hub. We support the recommendations of the FSDC Green Finance Working Group report, welcome the Government's commitment to issue green bonds in the amount of \$100 billion, and support the launch of the Green Bond Grant Scheme. Taking into account long term decarbonisation goals in Hong Kong and the region, we recommend:

- To help ensure that green bonds issued in Hong Kong make a contribution to long term decarbonisation, the Government: a) encourages application of **high standards to green bonds** through: i) setting up a **local Green Bond Index** for transparency as to issuances; and ii) through **tax incentives** e.g. super tax deductions on interest⁵, to issuers and investors to support those green bond issuances that deliver substantial GHG reductions; and b) identifies the best means to incentivise bond issuance that channel funds towards green/low carbon projects which would not otherwise be funded, for example credit enhancement measures and asset securitization.
- As to green loans: a) the introduction of a **mortgage discount** at household level funded by the Government, for those who purchase energy efficient homes (to be defined) through the Hong Kong Mortgage Corporation, and b) through HKMA explore **incentives for corporate green loans** including tax incentives and **preferential provisioning for green loan** assets.
- To enable access to capital for green projects or corporates which may be regarded as too uncertain or higher risk, we support the establishment of a local **Green Investment Fund or Corporation**, which would work with and indirectly support development of expertise in private sector banks.
- To support **responsible investment or ESG-investing**, in part to protect the investments of Hong Kong citizens from climate and other risks, we recommend a) a requirement on all MPF providers & encouragement to private pension funds to have at least one Green or ESG fund; b) that the Government explores with the SFC the means of taking on board the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and the Principles for Responsible Investment e.g. a simpler or phased approach; and c) the

⁵ <http://www.info.gov.hk/gia/general/201710/12/P2017101200854p.htm>

Government explores with HKEx how to incorporate the TCFD recommendations into risk assessment disclosure requirements.

6. Government can help position business to leverage the opportunities from the greener Greater Bay Area. See our EnviroSeries Conference report for further details. Our key recommendations are:

- **Support commercialisation of products and services** through: a) piloting new green technologies in Hong Kong to develop and commercialise environmental technology and services. The Lok Ma Chau Loop, the Science Park and its surroundings, as well as other NDAs offer opportunities. Considering Hong Kong's land supply issues, it is important not to miss opportunities that arise; b) strengthening industry - academia/research institute collaborations in Hong Kong through public funding provision.
- **Identify niches in which Hong Kong can lead and encourage action across the GBA.** Potential areas include: ESG-investing aspects of green finance, construction sustainability standards, low effluent waste water treatment, and a centre for sustainable traditional Chinese medicine (focused on protecting biodiversity). In this way, Hong Kong can win the recognition it deserves for supporting China's goal of an ecological civilisation.
- Explore ways to support the environmental technology sector in Hong Kong, looking in particular at tax incentives as recently introduced for FinTech innovation and also a tailored system for listing environmental technology companies as introduced by HKEx for Biotech companies.

7. We affirm the recommendations BEC made last year in our [Smart City Blueprint Submission](#). We draw out three recommendations from the submission and our 2017 EnviroSeries conference: a) **clear goals for the smart city** emphasizing the low carbon transition and environmental protection combined with a plan that shows how technology will help achieve those goals and how ITB, DevB and ENB could work together to this end, b) ensure **ease of access to public data by enhancing the Government's Open Data Portal** so it holds all data of relevance to the environment in a usable format; c) **support sharing and visibility of environment-related data in particular on energy saving**, critical for good building design and retrofits, as well as on waste management as accurate data

on the amount of key materials within the waste stream will be of assistance to the recycling industry, and d) **develop a simple protocol** for standard data formats and to protect personal privacy/commercial confidentiality.

8. BEC supports the efforts of the Harbour Business Forum and recognises that the harbourfront has a visible and iconic role to play in terms of a pleasant local environment. We recommend that the Government: a) supports the introduction of a **strategic but flexible masterplan** for the future harbourfront based on inputs from all stakeholders; b) vigorously takes forward plans for a route along the Island-side of the **harbourfront for walking, cycling, social and leisure activity** including easy access to water sports opportunities and marine transport services, as well as a place with a healthy thriving urban ecology making use of Hong Kong's rich biodiversity, one of the richest in the world; and c) ensures that any new harbourfront developments be carefully assessed to take on board GHG emissions and the potential **to exemplify environmental excellence in design**.

We welcome the opportunity to discuss our recommendations with the relevant bureaux and departments. We aim to find those solutions that benefit society and the economy, recognising our dependence on a well-protected environment including a stable climate.

If there are any queries as to this submission, please contact our Chief Executive Officer, Mr Adam Koo at adamkoo@bec.org.hk

Yours sincerely,



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