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**Submission on the Public Consultation for the 2023-2024 Budget
Views from Business Environment Council Limited
商界環保協會有限公司**

Over the last 30 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, in line with BEC’s Mission and Vision as well as policy position on relevant issues, but may not necessarily be the same as the views of each individual member. BEC is an independent charitable membership organisation comprising over 200 member companies from Hong Kong’s major holding companies to small and medium-sized enterprises.

Views are structured based on BEC’s work with the three environmental focus areas on climate change, circular economy and sustainable living environment, and several emerging topics.

1. Addressing Climate Change

1.1. To accelerate Hong Kong’s transition towards carbon neutrality and address short-, medium- and long-term challenges associated with climate change, collaborative, cross-disciplinary effort involving the Government, business sectors and NGOs is required. While the Government needs to demonstrate its leadership on actions to decarbonise and adapt to climate change, BEC stresses the need to allocate sufficient human and financial resources to the new Office of Climate Change and Carbon Neutrality, ensuring its capacity to support the steering and coordination of decarbonisation strategies. Part of the resources should be reserved for the private and business sectors in addressing their needs and assisting them to overcome challenges along their net-zero transition journey. BEC welcomes the new Office’s plan to develop carbon management guidelines to major industries and will support the Government by sharing best practices among industries.

1.2. The Government, potentially the new Office, should also take the lead to coordinate among bureaux and departments to approve and expedite the trial and import of new climate solutions, e.g. alternative fuels. The sourcing, transportation, storage and application of such technologies in Hong Kong often involve approval from different government bodies, which causes unnecessary hurdles and delays to companies.

1.3. The business sector also faces investors' call to assess and address physical risks and transition risks, but they are not able to assess and mitigate risks solely on their own. The Government should put in resources to manage and facilitate the transparent sharing and disclosure of climate-relevant data at city-level, including information and plans related to Hong Kong's net-zero transition and climate change adaptation, to help business prepare for the growing international demand on climate-related disclosure. In particular, the business sector would need the Government's timely sharing of grid emission factor projection, to enable corporates to identify resources and investments needed to reach net zero and contribute to the city's carbon neutral commitment. Likewise, the "Guidelines To Account For And Report On Greenhouse Gas Emissions And Removals For Buildings In Hong Kong", especially the emission factors stated within, should be reviewed and updated as well since the last update was over 12 years ago.

1.4. In support of the growing momentum for decarbonisation in business, BEC urges the Government to set aside financial resources, such as funding, loan guarantees, interest-free loans, rent and rate relief and tax concessions to support and incentivise businesses to take climate actions, especially small and medium-sized enterprises ("SMEs") that are facing different barriers due to a lack of resources, time, skills and knowledge. For example, financial support is required to assist businesses with the often-costly transition of plant and equipment to clean energy sources or high efficiency alternatives that are not typically justified by short return on investment. Many other important decarbonisation initiatives such as measuring carbon emissions, setting carbon reduction targets and formulating and implementing carbon management plan require extra support on professional knowledge and technical skills.

1.5. BEC appreciates the recent launch of Core Climate by Hong Kong Exchanges and Clearing Limited ("HKEX") as a key step to develop carbon market in the region. This helps bridge the demand for carbon reduction and removal technologies and the supply of high-quality carbon credits. At the same time, the Government needs to take reference to international trend on carbon offset or credits when developing the carbon market and communicating its purpose. For instance, there is an emerging best practice amongst organisations with net-zero pledges to use only removal-based credits to offset their residual emissions after all possible mitigation measures have been exhausted. Companies are also advised against excessive use of carbon credits for meeting corporate climate targets. It is vital to the success and credibility of Core Climate that it aligns with international standards like the Core Carbon Principles by the Integrity Council for the Voluntary Carbon Market. Effective due diligence systems should be implemented to ensure the quality of the credits being sold as opposed to Laissez Faire approach.

1.6. Education is one of the top priorities for climate change mitigation and adaptation. It is the Government's responsibility to educate, empower and engage all stakeholders, making sure that the whole city knows what carbon neutrality means and how it can be achieved in the Hong Kong context. BEC encourages the Government to fund the implementation of quality climate change education and public awareness campaigns across the city, in order to help people understand the impacts of the climate crisis, encourage them to change their attitudes and behaviours, as well as motivate them to take action.

1.7. To accelerate the transition to net-zero emission sources of electricity and thus support sector-wide decarbonisation, it is necessary for the Government to devote financial resources and invest in new development opportunities together with the power companies. As the cost

trend of renewable energy continues to drop in comparison with the fluctuation of conventional fuels, the Government should further review the fuel mix for electricity generation and consider the increase of renewable energy. Further investment is also required to support relevant research and the development of adequate infrastructure for clean energy transmission and emerging technologies such as green hydrogen; battery storage; and carbon capture, utilisation, and storage (“CCUS”).

2. Sectoral Decarbonisation and Sustainable Living Environment

2.1. Buildings account for 90% of the electricity used in Hong Kong and generate over 60% of Hong Kong’s carbon emissions. For the building environment, it is good to see that the Development Bureau is continuing to apply innovative building solutions and inclusive and green building design. Resources should be deployed to facilitate the digital transformation of building and construction sectors for a net-zero future, for instance, to introduce energy benchmarking tools and to review the existing Overall Thermal Transfer Value (“OTTV”) and Residential Thermal Transfer Value (“RTTV”).

2.2. Construction is well known as an industry of high embodied carbon emissions. Besides emissions occurring at the operational stage of existing buildings, BEC encourages the Government to also place attention over building design and construction phase to minimise the whole lifecycle carbon emissions of buildings. This is a particularly important opportunity at a time when the Government is accelerating housing and infrastructure development in the city. The private sector has been investing into options of construction site electrification and adoption of low carbon materials. The Government should continue to enforce the Technical Circular DEVB TC(W) No. 13/2020¹, reserve enough resources in its public infrastructure procurement terms to encourage early electrification in construction sites and the use of low embodied carbon or recycled raw materials, as well as construction equipment with low or zero emissions, to help drive innovation in the market. Resources should also be allocated to facilitate the understanding and disclosure of embodied carbon of carbon intensive materials (e.g. steel, concrete) of existing and new buildings, and support the research and development (“R&D”) and market adoption of low carbon materials by the business sector.

2.3. Regarding low carbon construction materials, while the CIC Carbon Assessment Tool covers major structural materials, the Government can consider extending to wider material coverage, e.g. the carbon accounting of interior fitting-out materials or non-structural material. Initiatives like wood construction, mechanical, electrical and plumbing engineering, and take-back programme from suppliers could be further incentivised to reduce the use of carbon-intensive and non-recyclable materials.

2.4. Regarding green transport, in near-term the Government plans to commence trials of hydrogen fuel cell vehicles, increase additional electric vehicle (“EV”) parking spaces and announce the roadmap for EV promotion and adoption in public transport and commercial vehicles. While BEC welcomes the plan, it is also important to allocate financial resources to promote the development and use of green hydrogen instead of grey and brown hydrogen. Blue hydrogen may serve as transition alternative until renewable sources become more

¹ DEVB TC(W) No. 13/2020: Timely Application of Temporary Electricity and Water Supply for Public Works Contracts and Wider Use of Electric Vehicles in Public Works Contracts

abundant. The Government should play a central role in discouraging greenwashing behaviour.

2.5. While technology knowledge and case sharing sessions should be put in place to encourage the wider usage of green transport funding schemes, e.g. New Energy Transport Fund (“NETF”), maximum funding limit for applicants might need to be reviewed due to major price gaps between long-range EV public transport / commercial vehicles and traditional alternatives. On the other hand, the Government may also consider widening the funding scope for vehicles meeting safety statutory requirements. For example, currently hydrotreated vegetable oil, which requires no conversion of in-use conventional vehicle, and non-road mobile machines such as forklifts and terminal tractors without approval from Transport Department are not eligible for NETF application.

2.6. To encourage EV adoption in medium goods vehicle (“MGV”) and heavy goods vehicle (“HGV”) for climate and air quality co-benefits, payload concession or exemption should be made for EV batteries. Depending on the vehicle model, currently batteries contribute to 10-20% of total payload weight and have a large impact on the delivery capacity. This is a major hurdle for companies to shift to using electric MGVs and HGVs due to the increased number of journeys needed to handle the same load of goods.

2.7. The aviation and shipping industries are also under pressure to decarbonise. However, practitioners point out that neither electrification nor hydrogen are feasible operational options in the foreseeable future. There is currently a lack of support and discussion on alternative sustainable fuels, e.g. sustainable aviation fuel (“SAF”) in aviation, green methanol and ammonia in shipping. The Government should put in resources to create an environment conducive to the development of sustainable fuel infrastructure and supply in Hong Kong, including financial incentives to the private sector and funding for R&D.

2.8. Autonomous Vehicle (“AV”) is a new technical breakthrough and fashionable across the globe due to the potential safety, efficiency and air quality benefits. However, the advancement is still limited on the business side and if it is to unleash the full potential of the technology of AV, the Government should invest into creating an AV-friendly environment and regulations related to AV safety should be made. The Government should also encourage local tertiary institutions in conducting action research to encourage AV-related R&D locally.

2.9. For a smart city, we need not only the underlying infrastructures but also a surrounding that makes smart living possible. With the Smart City Blueprint 3.0 to be announced in the upcoming future, effort and resources should also be given to connecting people with the smart infrastructure and promoting engagement, for instance, applications that help citizens understand their individual carbon footprint created each day can be developed and promoted.

3. Circular Economy

3.1. The re-tendering of designated waste bags used for the municipal solid waste (“MSW”) charging scheme has sparked concerns over delay on rolling out the scheme. BEC urges the Government to expedite the processes and ensure timely implementation of the scheme. In addition, overseas experience informs the need to put in additional human resources for inspection and public engagement for at least several years after charging scheme implementation. Resources are also needed for the adoption of surveillance and waste

monitoring technologies for residential, commercial and industrial properties to support the implementation of MSW charging.

3.2. The Producer Responsibility Scheme (“PRS”) is now the talk of the town after citizens started paying HK\$1 for each plastic bag taken at supermarkets and wet markets. As PRS for different recyclables (e.g. plastic shopping bag, waste electrical and electronic equipment, glass, beverage containers and cartons, EV batteries, etc.) will continue to be the overarching theme in reducing waste and encouraging recycling, environmental campaigns that inform the importance and message of PRS should be rolled out to the public and relevant business sectors.

3.3. As the regulation of disposable plastic tableware is anticipated to be completed in early 2023, the Government should also communicate clearly with the food & accommodation services and hospitality business sector in advance to make sure that relevant comments can be collected to ensure disposable plastic tableware can be further reduced. BEC understands the Government is building an online information platform for stakeholders to get a better understanding of alternatives that can meet the requirements of the regulation, major market awareness and readiness issues including availability of tableware alternatives and access of supply should also be addressed by the platform or other channels. The Government should also provide eco-design incentives and support the business sector on R&D over sustainable tableware alternatives.

3.4. The regulation on property management companies and owners’ organisations of major housing estates and single-block buildings to collect separated recyclables and pass them to recyclers for proper processing will likely be effective from 2024 or earlier. The Government should subsidise facility installation, e.g. smart bins, at housing estates to increase incentives for residents to recycle, especially for recyclables that will fall under PRS in near future. The Government should further consider supporting wider collection of other low-value items such as non-regulated electrical equipment, furniture, beverage cartons and used garments. More resources should be allocated to enhance the capacity of recyclers to accommodate the increasing volume of recyclables after the regulation.

3.5. The gradual increase in volume of recyclables collected points to an urgent need for a better recovery system and increasing local recycling capacity at infrastructure level. Currently, waste separation practices in Hong Kong are largely based on manual sorting. While the Government is piloting a sorting facility in the I-PARK1 construction process, it should further consider the suitability of developing appropriate material recovery facility (“MRF”) system in Hong Kong that fits for its recyclable collection policy, including space and budget provision needs. The Government should also weigh waste management facilities at a more prominent position in its urban planning and land use policy, and provide sufficient operation space for the recycling industry, which is the ultimate limiting factor for recycling capacity in Hong Kong. Increasing the recycling capacity would complement the various PRS to be launched and provide community with the much-needed confidence to participating in recycling.

3.6. BEC would like to reiterate the importance of dealing with food waste challenges. While the Government is advancing centralised treatment facilities (O-PARK1 and 2), the infrastructure capacity is far from handling the daily food waste generated. As the world is facing food crisis and increase in food costs, it is time the Government develops education programmes to discourage over consumption in the first place to reduce waste at source.

Regarding food waste generated, the commercial and industrial sector highlights transportation costs as an inhibiting factor for proper treatment and calls for funding regularisation for food waste collection. The Government should also promote innovations that encourage decentralised food waste handling.

3.7. As the Environmental Protection Department (“EPD”) strengthens its roles and responsibilities over waste reduction, BEC would like to emphasise the need for the Government to budget resources from a holistic circular economy perspective to maximise the life cycle of products and reduce waste to a minimum, instead of over reliance on a recycling economy. Resources should be put into strengthening design, repair, and reuse perspectives of products and services in Hong Kong, to help reduce waste at source. The Recycling Fund, apart from supporting recycling or waste management projects including priorities mentioned above, can be extended to wider circular economy initiatives like eco-designs and repairing businesses, or the Government can consider creating separate funding schemes to promote circularity.

4. ESG & Sustainable Finance

4.1. BEC considers Green and Sustainable Finance (“GSF”) an enabler to facilitate capital flow in filling the funding gap for transition towards a net-zero economy and a more sustainable society. BEC also recognises Hong Kong’s strength in terms of financial infrastructure and regulatory framework to act as a regional green finance hub and a gateway for international sustainable investment to the Greater Bay Area (“GBA”) and mainland China. Budget allocation in the below areas can help strengthen the Government’s position on GSF.

4.2. Making references to the international development in sustainability disclosure, BEC urges the GSF Cross-Agency Steering Group (“CASG”) and its members to tighten regulatory frameworks and invest into capacity building components, so as to facilitate businesses’ progressive alignment with or adoption of such requirements, whenever pertinent, including the IFRS Sustainability Disclosure Standards developing by the ISSB, the European Sustainability Reporting Standards (“ESRS”) and the provisions of the Sustainable Finance Disclosure Regulation (“SFDR”) of the European Union. This ensures issuers, products, and services providers keep up with the latest trend, stifles greenwashing in the market, assists informed decisions of investors for taking the climate-related issues into account, and ultimately reduces transitional risks embedded in the current capital market.

4.3. As Hong Kong looks into reindustrialisation, environmental considerations, such as carbon price, greenhouse gas and energy intensity of projects, should be taken into account to avoid conflicting with Hong Kong’s goal to achieve carbon neutrality. In view of the high and volatile energy prices worldwide, a government-backed financing scheme or subsidies on projects that enhance energy efficiency, utilise cleaner energy source or generate renewable energy would help the private sector to initiate such projects. Not only alleviating the mid-to-long term burden of energy cost, this would also improve energy performance and cut carbon emissions for both the targeted entities and Hong Kong as a whole. In particular, such a scheme may also support SMEs’ efforts to gain access to green finance.

4.4. In parallel to the development of the capital market, BEC believes the Government should also play a leading role in promoting investment in direct infrastructure, technologies, and practices, through introducing climate and social risks and impact assessments in project

vetting and decision-making, including contracting and procurements. Assessment methodologies, ideally to be developed with the involvement of the Office of Climate Change and Carbon Neutrality, should be pioneered in government processes, and relevant government departments can budget the premium for realising the outcome of such mechanisms.

4.5. All companies listed in Hong Kong have been required to report their ESG performances with KPIs annually. While some government agencies and public authorities have also publicised their sustainability strategies and goals proactively, the overall disclosure level of the public sector is lagging behind that of the market. BEC encourages the Government to review and upgrade its Environmental Report Initiative, including its Guide to Environmental Reporting for Controlling Officers (“COER Guide”), to a wider sustainability-based reporting initiative², with reference to international standards and initiatives such as United Nations Sustainable Development Goals (“UNSDGs”). Government departments with significant environmental or social impacts should be required to report their sustainability performances, as well as public and statutory bodies represented with, appointed or financed by the Government. These organisations should also be required to establish their own sustainability plans and targets, when sufficient information has been made available. For privatised public services, future agreements or licensing conditions should factor in their key sustainability performance in Hong Kong.

4.6. Talent and expertise are essential to drive and enable the development of GSF. BEC welcomes the Pilot Green and Sustainable Finance Capacity Building Support Scheme that covers various programmes for interested talent to enter the industry. This eases the supply shortage of sustainability specialists and ensures adequate human capital in the market. The Government should review the scheme and extend the eligible programmes to broader sector and include more sustainability related topics, and continue to dedicate resources in attracting and nurturing green professionals and subsidising these qualifications, to assist Hong Kong in achieving its climate goals and maintaining its competitiveness for ESG talents.

5. Nature

5.1. The 15th Conference of the United Nations (“UN”) Convention on Biological Diversity (“COP15”) was recently concluded in Montreal, Canada with a new global agreement adopted by negotiators to halt and reverse the destruction of biodiversity. The new agreement, titled the Kunming-Montreal Global Biodiversity Framework consists of four goals and 23 targets until 2030. The Government should invest additional resources to further update its city-level Biodiversity Strategy and Action Plan (2016-2021) and release the next 5-year plan, to support Mainland China’s commitment on these targets.

5.2. The Government is set to implement a New Proactive Conservation Policy in the Northern Metropolis through the establishment of the Wetland Conservation Parks System. The Government should explore innovative ways to help better understand the essential value of nature. In 2021, the UN adopted a new ecosystem accounting system, which differs from conventional accounting through gross domestic product (“GDP”), to better account for

² For example, the United Kingdom also has its public sector sustainability reporting guide: <https://www.gov.uk/government/publications/public-sector-annual-reports-sustainability-reporting-guidance-2022-to-2023>

biodiversity and ecosystems in policy decision and the land planning process. The European Union is also going to include natural capital accounting in its legal framework.

5.3. More transparent accounting and reporting on the value of nature will also positively impact Hong Kong's business sector. The Taskforce for Nature-related Financial Disclosures ("TNFD") is currently preparing its recommendations on corporate reporting obligations and aims to finalise within 2023. Hong Kong corporates may gradually be required to assess nature-related impact, dependencies, risks, and opportunities, which are scientifically complex. The Government should put in resources to disclose city-level nature and biodiversity assessment data and information, in order to help the business sector prepare for growing international demand on nature-related disclosure.

Enquiries

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Yours sincerely,



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