

By Post & Email

Hon Paul Chan Mo-po, GBM, GBS, MH, JP
Financial Secretary, Hong Kong SAR Government
25/F, Central Government Offices
Tamar, Central

14 January 2021

Dear Financial Secretary,

Civic Exchange's Recommendations for the 2021-22 Budget

Civic Exchange anticipates the Government's impending update on the coming year's fiscal planning. Despite the on-going pandemic, we cautiously look forward to an easing of the global economic stress with a gradual lifting of restrictions and successive implementation of vaccinations programs.

There have been unprecedented financial interventions around the globe to combat the impacts of the pandemic with far-reaching stimulus packages rolled out across the Americas, Asia and Europe. Despite a slight recovery in the third quarter of 2020, the profound economic effects on Hong Kong are forecast to lead to a contraction of the city's GDP by 6.1% year-on-year¹.

With a narrow space for action due to the anticipated fiscal deficit, it will be particularly vital to ensure that government spending in 2021-22 is carefully strategized and directed to maximizing 'value-for-money'. Economic stimulus geared to re-igniting economic activity must be as "green" as possible addressing environmental, sustainability and carbon-reduction goals with a longer-term perspective, even if individual policies and measures are enacted only on shorter terms.

The 2021-22 stimulus presents a unique opportunity to shift course to a resilient recovery and to accelerate achieving our city's endeavours of reaching net-zero carbon emissions by 2050, as Chief Executive Carrie Lam Cheng Yuet-ngor emphasized in her 2020 Policy Address². This will bring about long-term sustained benefits for Hong Kong, securing its future economic prospects, improving the city's liveability, and establishing a greener, more equitable society.

¹ Financial Secretary. Information Pack for 2021-22 Budget Consultation. 2020.

² Lam, Cheng Yuet-ngor. The Chief Executive's 2020 Policy Address. 2020, <https://www.policyaddress.gov.hk/2020/eng/policy.html>

Against this background, Civic Exchange is pleased to submit our recommendations on how the Government should prioritize its expenditure in the 2021-22 Budget, to ensure fiscal spending is well-directed, cost-effective and cost-efficient in stimulating the city's economy to move faster towards a green transition.

We believe that our recommended areas and actions will also align well with the Government's five-pronged budget strategy approach: (i) "*promote economic development*", (ii) "*continue to support enterprises and safeguard jobs*", (iii) "*improve people's livelihoods*", (iv) "*enhance public services*", and (v) "*invest for our future*", and we will make explicit reference to these focal points in our presented propositions.

Re-focusing budgetary measures on decarbonization will provide ample impetus for fresh employment, business activities and sustained growth which can effectively offset the negative economic impacts from the COVID-19 pandemic and reassert Hong Kong's commitment to building better prospects for the city and its people.

We trust that the attached recommendations will be helpful, and we would be pleased to offer further elaboration on any of the points mentioned.

Yours Sincerely,



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Civic Exchange's Recommendations for the 2021-22 Budget

(1) Guide support measures to growing low-carbon businesses and to establishing a low-carbon workforce

Spending on economic programs and job creation efforts should be tied explicitly to driving growth in key green industries (*see box below*), and to implementing measures to enhancing energy and resource efficiency in other sectors.

- The existing concessionary low-interest loan under the **SME Financing Guarantee Scheme should be prioritized** to businesses active in or shifting to green sectors and to enterprises working to substantially increasing the sustainability of their operations using suitable performance criteria (e.g. a 20+% target in energy efficiency improvement, aiming for 30% in line with EU taxonomy¹).
- **Concessions on profits tax and waivers** on business registration and annual returns should only be granted in exchange for **specified sustainability goals** to encourage low-carbon business operations.
- Revival measures for the tourism industry should be oriented to furthering **low-carbon options** (e.g. eco-tours) **for in-bound tourism**, as well as **growing domestic demand** to substitute for carbon-intensive out-bound travel.

Re-training and employment programs for displaced workers of hard-hit industries should be re-focused towards **building up a green workforce**.

- Existing government support programs, e.g. the *Youth Employment and Training Programme*, the *Work Orientation and Placement Scheme*, the *Employment Programme for the Elderly and Middle-aged* and the *Love Upgrading Special Scheme* under the Employees Retraining Board should be strengthened with **courses and programs relevant to green industries and sustainable practices**, and allowances for on-the-job-training could be adjusted to further stimulate the generation of green jobs.
- Programs under the support by the Construction Industry Council (CIC) should be geared to including **training on green building construction and sustainability in construction**, including incorporation of **low-carbon processes and materials**.

¹ Technical Expert Group on Sustainable Finance. TEG Final Report on the EU Taxonomy. 2020, https://ec.europa.eu/info/files/200309-sustainable-finance-teg-final-report-taxonomy_en

Research and technology development into decarbonization, building of knowledge bases and subsequent facilitation of technology procurement and implementation should be accelerated.

The recently inaugurated **Green Tech Fund should be substantially expanded with integration and alignment to parallel government programs**, such as the Innovation and Technology Fund (ITF), the Smart Traffic Fund and Postdoctoral Hub to provide larger scale support to a wider range of projects directly relating to sustainability and green technologies.

Key Green Industries

Critical sectors for emission cuts in Hong Kong are energy supply and demand, building management and construction, mobility and transport, as well as resource use and waste management.^{2,3} Focal areas for green growth should therefore include:

- › Local generation and use of **renewable energy sources**
- › **Alternative fuel** use, including locally produced biofuels, and future application of green hydrogen
- › **Building operation and construction efficiency** (minimization of energy and water use, sustainable and low-carbon processes)
- › **Circular economy**, e.g. local recycling infrastructure and material processing facilities
- › Expanding the market for **low-carbon products and materials** for consumers, businesses, and industries
- › **Low-carbon mobility services and transport solutions**, which effectively reduce the number of journeys, facilitate shift to public transport, and reduce private vehicle usage.
- › **Transition to electric vehicles**, including development and provision of vehicle charging as well as support, maintenance and services for both infrastructure and vehicles.

Supported goals: (i) *Promote economic development*
(ii) *Continue to support enterprises and safeguard jobs*
(v) *Invest for our future*

² Jiang, Xiaoqian, et al. *Towards a Better Hong Kong: Pathways to Net Zero Carbon Emissions by 2050*. Civic Exchange, 2020, <https://civic-exchange.org/report/towards-a-better-hong-kong/>

³ Council for Sustainable Development. *Report on Public Engagement on Long-Term Decarbonisation Strategy*. November, 2020, <https://www.susdev.org.hk/en/report.php>

(2) “Greening” Capital Works Expenditure (CapWex)

Expenditure for major infrastructure and buildings (*CapWex*) makes up a sizeable fraction (*about 10%, 74 billion HKD projected for 2021*) of total government spending and is estimated to increase further over the next years to over 100 billion HKD annually. Due to the long-term nature of planning and construction, and the long lifetime of capital works assets, it is vital that the Government adhere to stricter standards and controlling mechanisms in guiding current, and in approving future CapWex funding.

Due consideration should be given specifically to the following aspects:

- **Update of building codes** to international best-practice low carbon standards for both new developments and expansion of existing works
- **Adoption of better standards, materials and processes** for projected climate risks by the construction sector
- Incorporation of **measures to facilitate reporting and open publication of granular energy use data** and **area-based energy intensity metrics** to enable detailed energy use evaluation and track changes in consumption patterns
- **Implementation of project life cycle analysis (LCA)** with open publication of data, to minimize emission of embodied carbon and to increase transparency of building-related carbon emissions
- **Strategic design to enable and integrate low-carbon mobility** in infrastructure and building projects, including appropriate provisions for walking and cycling, facilitation of public transport use and interconnectivity, and limiting options for the use of private motorized transport.
- **Augmentation of urban green and open spaces** in CapWex projects to provide natural cooling, improve air quality, and improve residents’ physical and mental health.

Supported goals: *(iii) Improve people’s livelihoods*
(iv) Enhance public services
(v) Invest for our future

(3) Cost reductions and additional revenue streams through sustainable policies

Pressure on the budget should be eased by implementing environmental and sustainability measures which can help reduce costs and generate additional revenue streams.

- **Enacting the Municipal Solid Waste Charging Scheme** will provide revenue and on the medium to long-term substantially reduce waste and the associated costs of waste management. The MSW scheme should be further enhanced with complementary schemes which promote waste reduction, including producer responsibility schemes for plastic packaging, mandates for product recovery and recycling policies, and enhancement of the drinking water dispenser network. This ties in with the support of local recycling and material collection and processing businesses as discussed in (1) to build up a more circular economy in Hong Kong.
- **Reintroducing Electronic Road Pricing (ERP)** will contribute to mitigating traffic congestion with longer-term benefits of abating environmental and health costs. The additional source of revenue should be redirected to funding measures for enhancing public transport and non-motorized transport, i.e. walking and cycling, which will reduce the extent of increased government expenditure on these items.
- **Restructuring of water tariffs:** Hong Kong's current water pricing mechanism neither reflects the cost of water supply, nor does it sufficiently promote conservation.^{4,5} Purchasing and production costs of freshwater are heavily supported by recurrent government expenditure and are not nearly recovered by the current tariff system. Adjusting the pricing mechanism and tariff structure substantially upward to better reflect a **user-pays principle** will thus contribute to enhancing our water resources' long-term sustainability and climate resilience and relieve government expenditure on water provisions. In line with a tariff reform, the **waivers on water and sewage charges** as part of last year's relief package would be counterproductive and **should be discontinued** in the upcoming budget. To mitigate impacts on low-income groups, suitable allowances or offsetting mechanisms should be set up, similar to provisions proposed for the MSW charging scheme.

Supported goals: (i) *Promote economic development*
(ii) *Improve people's livelihoods*
(iv) *Enhance public services*
(v) *Invest for our future*

⁴ Lin, Jonathan. Modernising Hong Kong's Water Management Policy - Part I. Civic Exchange, 2019.

⁵ von Eiff, David. Modernising Hong Kong's Water Management Policy - Part II. Civic Exchange, 2019

(4) Leading by example and incentivizing follow-up action

The Government must demonstrate a solid commitment to the objective of decarbonizing the city's economy to set the precedent for the private sector to take further initiatives and to follow suit. Government spending should set clear directions, and analogous to the recommendations on CapWex spending discussed in (2), be aligned stricter on ambitious decarbonization and sustainability goals. Measures to be targeted should include:

- **Vehicle fleet purchases by Government** bureaus and departments should be **zero-emission** as far as possible, with a concrete goal of conversion to an all-electric fleet before 2050 (e.g. Singapore committed to reaching this goal by 2040). Support measures to transform vehicle fleets for commercial vehicles and public transport operators (e.g. the New Energy Vehicle Fund) and to enhance the charging network should be extended to leverage a faster zero-carbon mobility transition.
- Measures to **minimize building operational carbon footprints** through **retro-fitting and retro-commissioning** should be considered and implemented across Government-owned and -operated premises.
- The **wider-spread use of advanced information technology and digital services** to enhance online education, virtual meetings and work-at-home or work-near-home as part of establishing **lower-carbon work- and lifestyles** should be examined, and appropriate infrastructure and support networks established.

The Government should take lead in implementing such measures within its own Operational and Capital Works Expenditure, and further make provisions in setting up appropriate incentive and support schemes, and in actively supporting the building up of associated knowledge hubs.

Supported goals: (iii) *Improve people's livelihoods*
(iv) *Enhance public services*
(v) *Invest for our future*

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