Friends of the Earth (HK) Response to the 2021-22 Budget Consultation

Friends of the Earth (HK) Charity Limited
Unit 1301-1302, 13/F, Block A, Sea View Estate, 2 Watson Road, Hong Kong
Phone: (852)2528-5588; Fax: (852)2529-2777; Website: http://www.foe.org.hk

Introduction

COVID-19 has led the economy to a standstill, causing the most severe global recession on record and stalling environmental progress. The pandemic however will not be the last crisis that the world or Hong Kong will face. Climate change, waste crisis, nor air pollution will not wait and will continue to pose a threat to our health and livelihood.

Hong Kong in particular is still falling behind on many environmental milestones, such as:

- Renewable energy adoption and fossil fuel divestment
- Transitioning to low-carbon transport modes
- Mandatory recovery and recycling of food waste
- Producer responsibility scheme on plastic containers and packaging waste
- Integrate climate-related financial risk management into regulatory framework
- Develop local green finance taxonomy

In planning Hong Kong's road to recovery, the Government should not just return to "business-as-usual". Instead, they should take the opportunity to stimulate investments, create new employment, and transition towards a greener and more sustainable economy.

Green Strings for a Green Recovery

The Government should consider prioritising green sectors when implementing a green recovery. Green stimulus spending were found to be generally better at creating jobs compared to traditional stimulus.[1] In the long-term, green investments also helped to establish new industries. The EU is expected to devote 30% of their expenditures to environmental and climatic actions as part of the NextGenerationEU stimulus package.[2] We recommend tying stimulus measures with green strings—such as mandating the adoption of decarbonisation and low-carbon policies—to enhance environmental quality, climate mitigation, public health protection and economical resilience.[3,4] Subsidies and conditions should be designed on the basis of realising UN Sustainable Development Goals.

1 World Resources Institute, Lessons Learned on Green Stimulus: Case Studies from the Global Financial Crisis
2 European Council, Special meeting of the European Council (17, 18, 19, 20 and 21 July 2020)
3 International Institute for Sustainable Development, Green Strings: Principles and conditions for a green recovery from COVID-19 in Canada
4 UN Environment, Learning for a green recovery

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Suggested environmental performance targets for stimulus

- Building sector: Develop a target for construction waste reuse and reduction
- Financial sector: Adopt ESG strategies into investment decisions
- Food and beverage sector: Set targets for packaging waste recovery and disposable waste reduction
- Property management sector: Develop targets for energy use reduction, renewable energy use, and waste recycling
- Retail sector: Set a reduction target for packaging waste and a recovery target for plastics (supermarkets) and e-waste (consumer electronics retail)
- Transport sector: Develop a decarbonisation target and pledge to switch to low-carbon fuels

A complete transition to a sustainable economy cannot be sustained by stimulus measures alone however. It needs to be supported by other fiscal policies and reforms as laid out in the following sections.

Circular Economy

Hong Kong is still nowhere close to meeting the waste reduction goals set by the Government.[5] The city must invest in its own recycling industry as international markets have followed China's footsteps in closing their doors on recyclable waste imports.[6] While the expansion of the scope of the Recycling Fund is welcomed, we would like to see the Government play a more direct role in developing the waste and resource management sector beyond carrying out pilots—such as the T·Park initiative. This is particularly true for food waste treatment, where it accounts for 30% of the city's municipal solid waste and less than 4% of food waste generated is recovered.[7]

Hong Kong needs to follow international trend and adopt producer responsibility for more material types like plastic containers and packaging materials. The city's historical waste trend shows that public outreach and voluntary actions can only go so far without direct government

5 ENB, Hong Kong Blueprint for Sustainable Use of Resources 2013-2022
6 Council on Foreign Relations, Trash Trade Wars: Southeast Asia's Problem With the World's Waste
7 EPD, Monitoring of Solid Waste in Hong Kong 2019

input. Market-based instruments must be part of the policy package to achieve the Government's waste reduction goals.[8]

We encourage the Government to continue to increase green procurement spending. As public spending accounts for a sizeable portion of GDP,[9] it can be a major driver in developing the green sector. The policy should be applied to other government projects as well, applying emission targets and increasing the scoring weight for green specifications when awarding contracts—whether it is for procurement, provision of services, construction projects, and whatnot. The Government must increase reporting transparency to assess the effectiveness of its green procurement policy[10]—considering the last available figures were from 2014.[11]

Climate Change

The threat posed by climate change is well-acknowledged by both the international community and the Government. In the most recent policy address, the Chief Executive has pledged for Hong Kong to reach carbon neutrality before 2050—earlier than China's target of 2060. Substantial capital and investment will be needed to drive the aggressive climate actions and projects required.

1. The bulk of Hong Kong's local greenhouse gas emissions comes from energy generation.[12] It is imperative for the city to ramp up its renewable energy (RE) supply and transition away from fossil fuels quickly. The current feed-in tariff system is an encouraging step but does little to push the utilities themselves to adopt and expand on RE infrastructures. The Government could demand greater RE investment and supply through the review of the Scheme of Control Agreements. It needs to also explore and invest in regional collaboration with the Greater Bay Area to import RE.

2. Reducing energy demand will too ease the path toward energy decarbonisation. Residential and commercial sectors are recognised to be the largest consumers of electricity—at 26% and 67% respectively—and town gas and LPG (liquid petroleum gas).[13] Over 10,000 buildings are 50 years old or above with varying energy performance today.[14] The Government must provide financial incentives or direct intervention to push building

8 Pouikli K., Concretising the role of extended producer responsibility in European Union waste law and policy through the lens of the circular economy
9 Census and Statistics Department, 2019 Gross Domestic Product
10 Public Procurement Service, Korea ON-line E-Procurement System (KONEPS)
11 Legislative Council, Green public procurement
12 Environment Bureau, Greenhouse Gas Emissions in Hong Kong by Sector
13 Electrical and Mechanical Services Department, Hong Kong Energy End-use Data 2020
14 Urban Renewal Authority, Annual Report 2019-20

owners to retrofit ageing buildings. A carrot-and-stick approach could be applied to reduce household energy use. The Government should work with the utilities to integrate a more progressive pricing structure in gas and electricity tariffs to discourage excessive energy use; while at the same time, providing subsidies for households to adopt more energy-efficient appliances.

3. Carbon pricing implements the polluter pays principle for greenhouse gases, correcting and internalising the cost of not mitigating climate change. Today, more than 40 countries and over 35 states and cities have implemented some form of carbon pricing.[15] British Columbia's carbon tax has helped reduce the province's carbon emissions by 5-15% over a four-year period with little impact on economic performance.[16] The Government could consider including revenue-recycling mechanisms—such as tax rebates or funding green investments—to improve its desirability.[17]

4. The transport sector is another major contributor to Hong Kong's carbon emission—as well as to roadside air pollution.[18] The planned electric vehicle roadmap is welcomed, but it should be paired with financial disincentives, such as an emission-based vehicle registration tax to support the transition.[19] The Government can also consider funding research and development on hydrogen to provide flexibility in decarbonising the transport sector. Both the European Union and Japan for example have laid out roadmaps to develop a hydrogen economy to replace natural gas.[20,21] The Government must continue to invest in and strengthen all forms of low-carbon transport modes, including and not limited to walking, cycling, buses, and rail.

5. Given the trend towards a low-carbon economy, the Government must budget for increased climate and environmental education for the younger generation and vocational training for skilled labour to meet future demands. They should also increase support for research and development in low-carbon innovations and technologies—such as low-carbon building materials, energy storage, and CCUS (carbon capture, utilisation and storage).[22]

15 World Bank, Carbon Pricing Dashboard
16 Murray, B.C. and Rivers, N., British Columbia's revenue-neutral carbon tax: A review of the latest "grand experiment" in environmental policy
17 International Council on Mining & Metals, Options in recycling revenues generated through carbon pricing
18 Environment Bureau, Greenhouse Gas Emissions in Hong Kong by Sector
19 ICCT, Using Vehicle Taxation Policy to Lower Transport Emission
20 European Commission, Hydrogen Roadmap Europe
21 Ministry of Economy, Trade and Industry, Base Hydrogen Strategy
22 International Energy Agency, R&D and technology innovation

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Green Finance

We strongly agree with the Green and Sustainable Finance Cross-Agency Steering Group's comment that "…Hong Kong in and of itself is just a small part of the picture; as an international financial centre, there is a bigger role for Hong Kong to play. That is because finance fuels businesses and the economy."[23]

1. The management of climate-related financial risks should be integrated into both regulatory frameworks and supervisory expectations of financial institutions and listed companies. Listed companies should be required to have at least one member of the board of directors to have ESG and climate-related expertise. As HKEX started requiring listed companies to demonstrate board competence in ESG issues in July 2020,[24] both HKEX Listing Committee and SFC (HKEC Listing) Committee should also actively build up their expertise in ESG risks, sustainability, and climate governance.

2. We encourage asset owners, including public authorities, to lead in incorporating climate-related risks when managing their own funds and selecting external asset managers. The Treasury for example could consider inviting experts on ESG risks, sustainability, and climate governance into investment committees of their six funds and investment portfolios. HKMA—as the biggest asset owner in Hong Kong—should be a showcase to other asset owners by improving transparency of how they measure climate-related risks of their portfolios. The Financial Secretary should provide additional resources for HKMA and SFC to build up their capacity on ESG and sustainable investing, allowing them to better support and advise other public authorities in incorporating climate-related risks and other ESG considerations into fund management.

3. Hong Kong should align with globally-recognised standards and principles when developing its own local green finance taxonomy. We are keeping a close eye over this development and for any potential greenwashing risks. As such, we have allied with experts like World Benchmarking Alliance to bring in international standards and best practices to Hong Kong and Asia.

4. The Government should enhance the capabilities of market participants and raise awareness among the general public of green finance. As green finance education and training is still in its infancy, it is primed for greenwashing. Friends of the Earth (HK) is

23 Hong Kong Monetary Authority, Strategic Plan to Strengthen Hong Kong's Financial Ecosystem to Support a Greener and More Sustainable Future

24 Hong Kong Exchange, Guide on Producing Simplified Listing Documents Relating to Equity Securities for New Applications

collaborating with the European Federation of Financial Analysts Societies (EFFAS) to offer training for Certified ESG Analyst (CESGA)—an internationally recognised gold standard of ESG and sustainable investing—in Hong Kong.[25] The Financial Secretary should walk the talk and consider funding and supporting the local CESGA programme and candidates.

5. The Government should widen investors' awareness by strengthening collaboration amongst IFEC, regulators, industry practitioners, and other relevant stakeholders. As a pioneer of green finance public education in Hong Kong, we look forward to becoming a close partner of IFEC to promote green and sustainable finance to the general public.

25 FoE (HK), CESGA