



# **Friends of the Earth (HK) Response to the 2024-25 Budget Consultation**

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## Introduction

Sustainable development is key to building and promoting liveability in Hong Kong. The recent announcement to further postpone waste charging—delaying its introduction by almost three years since passing its third reading in 2021—not only highlights a deficiency in the Hong Kong government’s sustainable development strategy but in its ability to enabling resource to complement said strategy. This extends to climate change, green finance, and more. Friends of the Earth (HK) urges the government to:

- Building up critical infrastructure and public trust in the recycling system to support the waste charging scheme;
- Equipping stakeholders with skills and knowledge for a green and sustainable transition;
- Strengthening adaptation measures to protect residents from extreme weather;
- Hastening the renewable energy transition to decarbonise electricity use;
- Enabling climate solutions and behaviours through carbon pricing;
- Studying ESG and green finance impacts to enhance investor confidence;
- Expanding Core Climate to facilitate regional carbon trading in Hong Kong; and
- Solidify the city’s role as a green finance centre with a green classification framework

It is imperative for Hong Kong to implement action programs that assess and quantify public participation as indicators across various sectors and stakeholders. Regular reporting of the results will enable us to effectively monitor our advancements towards the goal of attaining a carbon-neutral society. By actively engaging the public and ensuring transparency in our endeavors, the city can cultivate a sense of collective responsibility and foster sustained commitment towards a sustainable future. Through collaborative efforts, we can strive together to construct a more environmentally conscious and climate resilient city.

## Sustainable Development

### Supporting Municipal Solid Waste Charging

Having been discussed for over a decade and delayed twice, the municipal solid waste charging scheme is now scheduled to roll out in August. Local demand for waste separation and recyclable collection is anticipated to increase, but a non-negligible number of estates and residential buildings still do not have collection services for recyclables.

The scheme still suffers from confusion over the charging mode and various other details within the community. We have received queries and complaints based on misinformation, such as households will be double charged by both designated bags and gate-fee, reflecting insufficient promotion from the government even with the extra preparation time.

1. GREEN@COMMUNITY must expand its network coverage if it is to serve as an effective alternative,<sup>1</sup> especially after the removal of roadside recycling bins in 2022.<sup>2</sup> This expansion would ensure that residents have convenient access to recycling services and can easily dispose of their recyclables.
2. The government must allocate resources to enhance public education and community outreach for the municipal solid waste charging scheme. This will help address confusion, provide accurate information, address concerns, and foster a sense of ownership and responsibility among residents, thereby increasing understanding and support for the scheme.
3. Hong Kong does not collect food waste for composting or recycling at a municipal scale, despite it comprising a significant portion of the municipal solid waste. The government should invest in expanding food waste collection in the domestic sector and set up collection points across the 18 districts. Also, the city has to scale up organic resource recovery centres and the co-digestion of food waste and sludge in sewage treatment plants to enhance the city's food waste treatment capacity.

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<sup>1</sup> [Ma et al., Revising the effectiveness of municipal waste management in Hong Kong](#)

<sup>2</sup> [SCMP, Hongkongers struggle to recycle as authorities rush to remove kerbside bins to make way for new scheme](#)

4. More critically, policy thinking and design in Hong Kong has to move beyond from waste management towards a circular economy model. Instead of considering waste as a cost, it should be viewed as a resource and commodity. The government should to adopt the “dedicated-fund-for-dedicated use” approach and allocate a minimum of \$800 million from the funds collected through the charging scheme to support waste reduction, upgrade the recycling industry, promote circular economy, and facilitate the sustainable development of recycling industry.

### Enabling a Green and Sustainable Transition

Environmental affairs are becoming more complex, as the world moves from mere pollution mitigation to sustainable development. The recognition over the interconnectedness of the three pillars of sustainability (i.e., environmental, social, economic) however is not strongly reflected in Hong Kong’s education and general awareness. Stakeholders, particularly policymakers and decision-makers, need to have up-to-date environmental and sustainability knowledge to formulate and sustain effective green policies.

1. Hong Kong should allocate funding into education for sustainable development and support continuing education on green jobs, ensuring that the workforce and the younger generation are adequately equipped for a low carbon economy transition. Subsidies can be offered for attending professional training programmes, workshops, and skill development initiatives.
2. To facilitate the sustainable transition, a robust digital backbone is needed to enable better public participation, feedback collection, and information dissemination on relevant initiatives and policies. The government must invest into digitalisation to support a more informed environmental policymaking and monitoring ecosystem.
3. Addressing environmental issues is often a collaborative effort. Hong Kong should share resources and foster partnerships with the private sector, academic institutions, and community organisations. The city should also work with neighbouring governments on regional issues such as renewable energy and air pollution.

## Climate Change

### Strengthening Climate Adaptation Measures

2023 is a cruel reminder that the impact of climate change can already be felt around the world today. In early September, Super Typhoon Saola and the phenomenal black rainstorm struck Hong Kong, leaving the city with the second highest insurance claim on record, totaling HK\$1.9 billion in property damage, business disruption, and other compensations.<sup>3</sup> Local research projects that extreme weather will worsen in the coming decades.<sup>4</sup> The city is expected to experience rainfall that will be 40% stronger than the aforementioned black rainstorm in the 2040s.

Extreme heat is another climate impact and one of the clearest symptoms of global warming. However, its economic impacts, including causing a loss of over 650 billion working hours per year globally<sup>5</sup>, are often overlooked. Despite the new heatstroke guidelines introduced in May, over 60% of outdoor workers in Hong Kong have reported experiencing some symptoms of heatstroke last year.<sup>6</sup>

1. Hong Kong must carry out climate vulnerability assessments, based on the RCP8.5 worst case climate scenario, to map out and address risk areas, reinforce critical infrastructure, and develop contingency plans against intensifying extreme weather events.
2. The city will need to allocate funds to assist the labour force and residents to cope with the impacts of extreme heat, such as implementing cooling shelters and blue-green infrastructure, providing awareness and safety training, and more.
3. In adapting to climate change, Hong Kong should consider nature-based solutions as a means to enhance climate resilience. The city can take inspiration and learn from successful implementation of such solutions in the mainland.
4. The government should allocate resources to educational initiatives that raise

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<sup>3</sup> [Insurance Authority, Extreme weather events demonstrate the social role of insurance in enhancing community resilience](#)

<sup>4</sup> [CUHK, CUHK-led collaborative research predicts hot nights to increase by 50% in 2040s and extreme rainfall to increase by over 40%](#)

<sup>5</sup> [Parsons et al., Global labor loss due to humid heat exposure underestimated for outdoor workers](#)

<sup>6</sup> [Hong Kong Free Press, 60% of Hong Kong outdoor workers suffer heatstroke symptoms despite new warning system, survey finds](#)

public awareness about climate change and its impacts. This can involve funding public campaigns, workshops, and educational programs in schools, community centers, and workplaces.

### Transitioning towards renewable energy

At the 28th Conference of the Parties to the UN Framework Convention on Climate Change, the Secretary for Environment and Ecology reiterated the goal of having 60-70% of Hong Kong's electricity come from zero-carbon energy by 2035.<sup>7</sup> However, with just over a decade remaining until the target date, zero-carbon energy currently makes up for less than 30% of the city's fuel mix, with the majority being derived from nuclear energy.

It is worth emphasizing that burning fossil fuels is the primary driver of climate change and its associated impacts. However, this long-term environmental, economic, and social consideration does not seem to be reflected in the pace at which Hong Kong is decarbonising the electricity sector. Global conflicts also continue to highlight the volatility of fossil fuels on energy price and security.<sup>8,9</sup>

The global weighted average levelised cost of electricity for solar photovoltaics and onshore wind are now 29% and 52% lower than the cheapest fossil fuel-fired solutions respectively, and offshore wind is becoming competitive too.<sup>10</sup> Furthermore, the price of Chinese solar cells has reached record lows, costing significantly less than those of other countries.<sup>11</sup>

1. As land use and space restriction are often cited as constraints for land-based renewable energy projects in Hong Kong, the city should expand the role of offshore wind farms for electricity generation, taking the advantage of its coastal location.
2. With the intention to increase energy imports from the mainland, Hong Kong should be capitalising on this opportunity to invest in and support regional renewable energy development, thereby solidifying its position as a regional green finance centre.

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<sup>7</sup> [China Daily, Hong Kong eyes 70% zero-carbon electricity by 2035](#)

<sup>8</sup> [The Standard, Power giants offset energy pain](#)

<sup>9</sup> [Reuters, World Bank sees lower 2024 oil price, but Middle East war could cause spike](#)

<sup>10</sup> [IRENA, Renewable Power Generation Costs in 2022](#)

<sup>11</sup> [DW, China's solar sector steams ahead of EU, US](#)

3. The government should allocate resources to support research and development in emerging clean energy technologies, such as offshore wind, advanced solar technologies and green hydrogen fuel. This will contribute to the diversification of the renewable energy portfolio and provide opportunities for technological advancements and economic growth.

### Controlling emissions through carbon pricing

The continued use of fossil fuels is propped up by explicit subsidies (e.g., fuel subsidies, tax credits, etc.) and implicit subsidies (e.g., environmental pollution, healthcare burden, etc.). In 2023, total fossil fuel subsidies have reached a record of US\$7 trillion globally<sup>12</sup>.

To hold polluters accountable for greenhouse gas emissions and combat climate change, there are currently 73 carbon pricing initiatives implemented globally, covering 23% of total emission.<sup>13</sup> China has established its own national emissions trading scheme since 2021, and regions such as Beijing, Chongqing, Guangdong, Hubei, Shanghai, Shenzhen, Tianjin, and Fujian have implemented their own regional systems.

1. It is imperative for Hong Kong to reform energy prices in driving energy conservation and low-carbon solutions. Undue financial burdens, particularly on low-income households, can be alleviated by providing robust assistance such as rebates.<sup>14</sup>
2. Hong Kong should actively seek opportunities for collaboration and information exchange with Mainland China to enhance regional efforts in controlling emissions. The government should design the system with the goal of aligning with the national emissions trading scheme in the long term to facilitate trade.

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<sup>12</sup> [IMF, IMF Fossil Fuel Subsidies Data: 2023 Update](#)

<sup>13</sup> [World Bank, Carbon Pricing Dashboard](#)

<sup>14</sup> [Hoover Institution, Revenue-Neutral Carbon Taxes in the Real World](#)

## Green Finance

### Enhancing Market Liquidity and Returns through ESG and Green Finance

The impact of climate and ESG factors on market valuation, liquidity, and investor behavior cannot be ignored. However, the recent discussions on expanding capital sources, attracting high-quality listings, and improving efficiency and competitiveness by the government task force have surprisingly overlooked the correlation between corporate ESG reforms, performance and returns.

To address this gap, it is crucial for the HKMA Exchange Fund Investment Office, The Treasury Fund Management Branch, universities' endowments, and other public asset owners based in Hong Kong to understand the significant evolution of global markets in relation to climate and ESG factors in recent years. Key considerations should encompass access to capital, risk mitigation, and innovation and market opportunities.

1. The Hong Kong Government should actively involve a diverse range of institutional investors, including ESG funds and hedge funds, in studying the impact of ESG and green finance on market valuation and liquidity. Regulatory support and standardisation of ESG practices will boost investor confidence, attract sustainability-focused investors, and improve liquidity.
2. By recognising the critical role of ESG and climate factors in enhancing investment returns and market liquidity, and by actively engaging institutional investors in studying their impact, Hong Kong can position itself as a global leader in sustainable investment. Regulatory support and standardization will be pivotal in instilling investor confidence and driving further market development.

### Enhancing the Transition to a Regional Carbon Trading Hub

In October 2022, HKEX introduced the Core Climate, a platform aimed at connecting investment capital with climate-related opportunities in Hong Kong, Mainland China, Asia, and beyond. This platform facilitates sourcing, trading, settling, and retiring voluntary carbon credits.

We are pleased with the progress made in establishing the carbon trading mechanism. To further advance the platform and support Hong Kong's transition to a digital and low-carbon economy, the government should actively expand the Core Climate



platform over time. This expansion should include more sectors and entities, leading to greater emissions reduction and encouraging more participants in carbon trading.

1. The government should proactively broaden the coverage of the Core Climate platform by including additional sectors and entities over time. Funding for developing inclusive approach will amplify the platform's impact on emissions reduction and attract a broader range of stakeholders to participate in carbon trading.
2. The government should enhance public awareness and understanding of carbon emission and its environmental impacts through educational initiatives. It is important to foster collaboration among schools, the Investor and Financial Education Council, regulators, industry practitioners, and other relevant stakeholders. By promoting a comprehensive understanding of carbon emissions and their consequences, the government can maximise the effectiveness of carbon trading.

### Establishing Hong Kong's own Green Classification Framework with Care

On May 30, 2023, the HKMA published a discussion paper titled "Prototype of a Green Classification Framework for Hong Kong." This paper seeks feedback on the development and adoption of a green taxonomy specifically designed for Hong Kong. The aim is to support Hong Kong's role in facilitating green financial flows between Mainland China and the rest of the world by creating a green taxonomy that aligns with other major taxonomies like the Common Ground Taxonomy (CGT), as well as the taxonomies of Mainland China and the European Union. While we appreciate the efforts made through this consultation process, it is crucial to approach the development of this prototype with careful consideration.

1. The HKMA Banking Supervision Department should take a more active role in facilitating discussions on integrating green financing considerations into credit risk management framework across all banks. This will encourage the effective utilization of climate and ESG factors in the credit approval process and credit risk management.
2. Currently, traditional financial indicators remain the only primary criteria for assessing borrowers credit risk and approving credit. To support the national commitments in climate and sustainable financing made in COP28, it would be

highly advantageous to emphasize the consideration of ESG impacts and climate-related factors to a greater extent when evaluating credit portfolios. The Pilot Green and Sustainable Finance Capacity Building Support Scheme (GSF) and the Core Level of the Enhanced Competency Framework on Green and Sustainable Finance (ECF-GSF) have the potential to significantly expedite the improvement of capacity-building efforts in the realm of Credit Risk Management.

3. As the prototype primarily references CGT, it is essential to closely monitor the latter's development. Given that the CGT is still in the stage of development, allocating sufficient resources to both the development of Hong Kong's taxonomy and the study of CGT is critical.
4. Further education for corporate and market stakeholders is necessary to enhance their understanding of the new prototype and the CGT. Additionally, increased promotion and capacity-building initiatives are required to facilitate a smooth transition to the new prototype.

By proceeding with caution and addressing these considerations, Hong Kong can establish its own green classification framework that aligns with international standards while catering to the unique needs of its financial ecosystem. This will further solidify Hong Kong's position as a leading hub for green finance and contribute to the overall sustainability agenda.