

Proposed Scrapping Incentive for pre-Euro and Euro I Commercial Diesel Vehicles

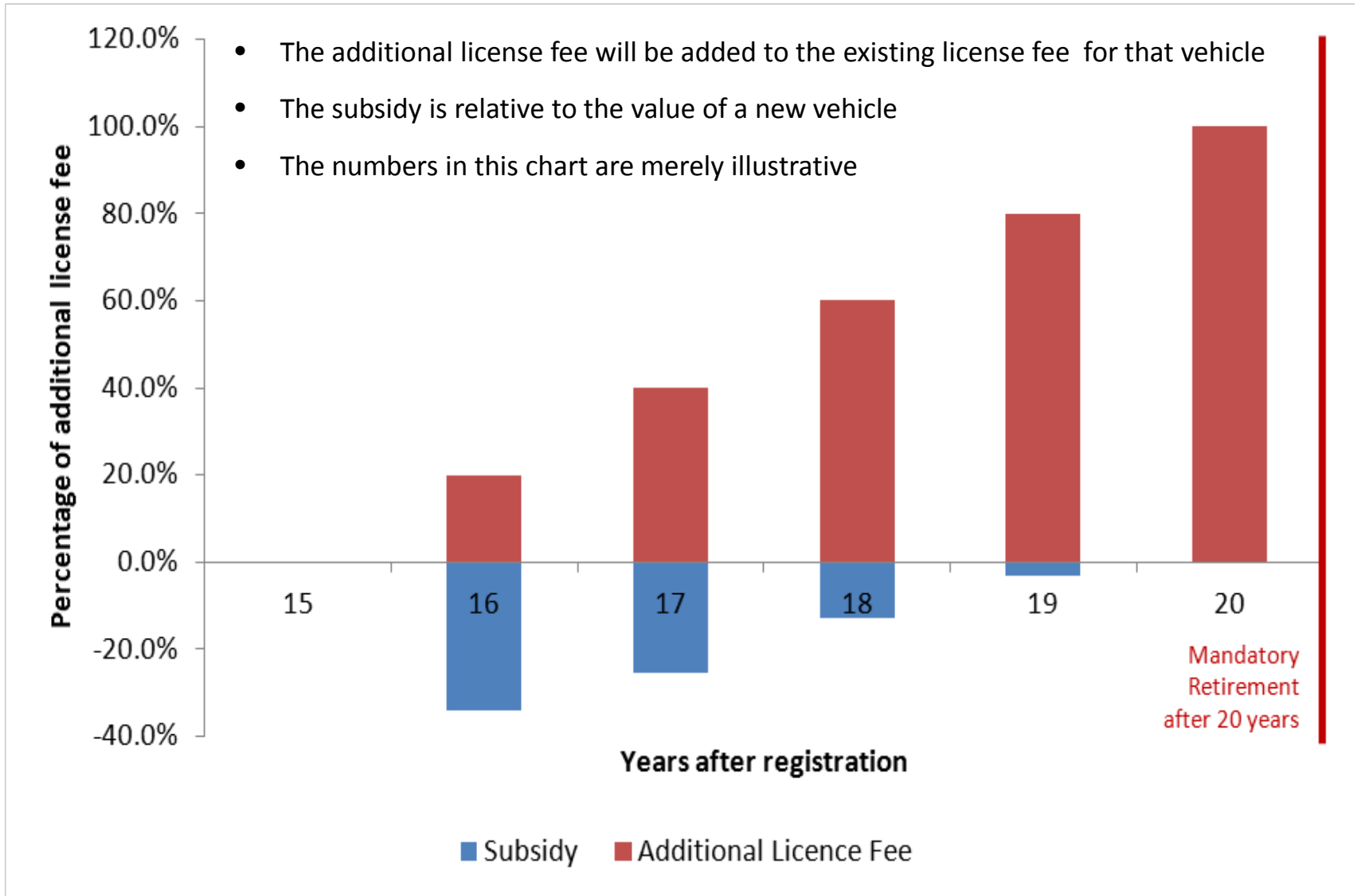
29 July 2010

Summary of proposal

- Offer cash incentive (“carrot”) to owners of vehicles older than 15 years.
- Incentive is to be offered on a non-linear sliding scale, meaning that owners taking advantage of the subsidy early are rewarded with a higher percentage subsidy per vehicle.
- In theory, the incentive should be funded by the roll-over of funds not distributed under the 2007 subsidy scheme to replace pre-Euro and Euro I vehicles.
- The amount of incentive per vehicle, ON AVERAGE, should be in line with the subsidies awarded under the 2007 scheme¹.
- Carrot to be matched by sticks, i.e., increased licensed fees for vehicles older than 15 years and limits on entering Low Emission Zones.
- Increased license fees to be imposed on a linear sliding scale.
- Mandatory retirement of all pre-Euro II vehicles at 20 years.

¹ Under the previous scheme, pre-Euro and Euro I vehicles were entitled to subsidies of 12% and 18% of the value of a new vehicle, respectively, across the board. In THIS case, we seek to give larger percentages to those who take advantage of the subsidy early. For example, under the previous scheme, pre-Euro Vehicle A (aged 17 years) would receive the same PERCENTAGE of subsidy as pre-Euro Vehicle B (aged 20 years). Under our proposed incentive, Vehicle A would receive a larger PERCENTAGE of subsidy than Vehicle B. Please consult the chart on the next slide.

Relationship Between Carrot & Stick



Computation of Amount Scrapping Incentive

At the commencement of the subsidy program to replace Pre-Euro/Euro I vehicles in 2007, there were 59,800¹ eligible vehicles on the road. By the end of the 3-year subsidy period, there were 23,000 less such vehicles, with approximately 16,000 of these vehicles replaced under the scheme.

Thus, there are now approximately **36,800 pre-Euro and Euro I commercial diesel vehicles remaining on the road.**

According to the original proposal of Feb 2007, \$3,176,160,000 (\$3,176 million) was allocated to subsidize all 74,367 vehicles *believed*² to be eligible at the time. That means that, on average, the government allocated \$42,709 per vehicle subsidy. By the end of 2009, 13,372 Pre-Euro/Euro I vehicles had been replaced under the scheme with \$576 million spent. That means that, on average, \$43,075 per vehicle was actually distributed. (*Note how close the ACTUAL average subsidy per vehicle was compared to the expected subsidy per vehicle in the original proposal.*)

¹ Whereas the original proposal sent to the Finance Committee in February 2007 stated that there were 74,367 vehicles eligible for the subsidy, **LegCo paper FCR(2010-11)19**, the EPD has subsequently amended the calculation to 59,800 eligible vehicles. The number, 59,800, has been used in the last three Legco papers on the topic, **LegCo papers CB(1) 1250/09-10(01), FCR(2010-11)19** and **CB(1) 2620/09-10(02)** from March, May and July 2010.

² Ibid.

Based on this logic, the government should allocate **\$1.59 billion** for a NEW scrapping incentive, i.e., $\$43,075 \times 36,800 = \$1,585,160,000$, ***rolling over the unused funds from the original subsidy scheme of 2007.***