

The Honourable Henry Tang
Financial Secretary
 (Fax : 2840 0569)

12 December 2006

Dear Sir,

Broadening Hong Kong's tax base and promoting its future competitiveness

Thank you for attending this evening's HKICPA seminar to discuss broadening Hong Kong's tax base. I'm writing to expand on the points made regarding future carbon constraints.

GIVEN:

1. Per the Stern Report, global net emissions of greenhouse gases need to reduce by 80% to stop the concentration of these gases in the atmosphere increasing and hence stop global warming getting worse. Further:
 - a. The reduction for OECD countries needs to be greater given the equity (and inevitability) of the gap between OECD and countries such as China and India narrowing.
 - b. The 50% growth of the global population predicted over the next 40 years means carbon emissions per person must fall 33% more than the drop in total emissions.
2. The future efficiency and hence competitiveness of Hong Kong will be improved if decisions we make now on infrastructure, buildings and other long-life assets take account of this future carbon constraint.
3. We believe in Small Government Big Market. We therefore need a price on carbon use which will promote decisions which move Hong Kong towards a low carbon economy. Ways of doing this include:
 - a. Cap & Trade carbon schemes. Note:
 - i. Government can raise money by selling or auctioning carbon credits into the carbon trading market.
 - ii. The Hong Kong Government's past success at administering Textile Quotas under the MFA provides applicable experience.
 - b. Taxes to increase the cost of activities which cause carbon emissions. Note:
 - i. As you pointed out this evening, taxes on electricity are very cheap to administer. This means they are efficient even if they are initially brought in at a low level.
 - ii. Taxes on electricity can be made progressive and thus fair to the poor.

RECOMMENDATION

Use both taxes and, in the longer term trading of carbon credits. First steps:

1. Introduce taxes on electricity and gas at a low rate but with a declared intention of increasing them over, say, 10 years to move Hong Kong towards a less carbon intensive economy.
2. Research how carbon trading can be introduced to reduce carbon emissions and raise revenue for the Government.

I would welcome the opportunity to expand on these ideas and suggest responses to any obstacles which people see.

(Signed)

J Robert Gibson