

**FOREWORD**

Buildings offer tremendous potential to help reduce Hong Kong's total carbon footprint, but the effort needs to be managed in a comprehensive fashion to achieve the desired results (p1). The finance sector also has a big role to play, and Hong Kong has tremendous potential to lever its established position to lead on carbon finance and trading (p2). This issue also features a summary of an article co-published with the Chinese Academy of Sciences examining a social development model compatible with China's national imperative to support growth while also meeting global expectations to low-carbon development (p3). Internationally, Former UK Prime Minister Tony Blair has unveiled a new climate change initiative designed to get political leaders to agree on a global deal that will deliver climate security while enabling countries to meet economic, social and environmental goals (p4).

**BUILDING CODES' POTENTIAL TO BOOST ENERGY EFFICIENCY**

*The HKSAR government has proposed making current voluntary building energy codes mandatory for all new and some existing buildings. The °Climate Group believes buildings hold tremendous potential to boost HK's energy efficiency, to reduce overall energy consumption and lessen the need for new power plants. But to be effective, policies must be designed with specific objectives in mind and supported by necessary enabling programmes.*

A recent Asia Business Council study showed that buildings account for around 30 percent of the world's total energy consumption - and a similar percentage of the world's GHG emissions. That percentage is far higher in densely populated Hong Kong, accounting for a full 89 percent of electricity consumption in the territory, according to local government statistics. Increasing the energy efficiency of buildings can also result in dramatic cost savings: The Asia Business Council study also found that in China, adding a megawatt of electricity by adding more capacity costs four times as much as saving a megawatt through greater efficiency – not to mention to the environmental impact of burning fossil fuels during electricity generation.

Recently, the Environment Bureau of the government proposed the adoption of specific building energy codes which would increase efficiency and reduce overall energy demand from local buildings.

The °Climate Group supports the objective of defining and then adopting minimum energy efficiency standards for buildings. However, these standards would be most effective if combined with demand management programmes supported by utilities, and utility energy efficiency programmes designed to support improved code compliance. To be able to do this, regulatory mechanisms should be developed that address the utilities' financial concerns, such as programme cost recovery, lost revenue, and shareholder incentives. Supported by these policies, utilities can fund long-term initiatives to contribute expertise, research, analysis and other support that would support government codes. And, to be most effective, consumers would need to be able to make informed decisions about the energy use of the electrical devices they buy, which can happen only if more manufacturers were to adopt energy efficiency labelling as outlined under the Voluntary Energy Efficiency Labelling Scheme.

We will also have to work with the building industry to ensure that materials and systems providers and manufacturers can deliver products that will meet the new codes. These key industry players will also be able to provide insight into new products which offer potential further efficiency improvements, which will allow policy to evolve alongside technology.

Unfortunately, the current mandatory measures are designed to minimise inappropriate practices rather than to drive best practice. A higher set of standards should be introduced to recognise buildings that achieve better energy efficiency to encourage superior environmental performance, particularly on energy-efficient designs and construction practices. These should

also encourage the use of state-of-the-art end-use technologies and appliances. This generally targets builders, developers, architects and engineers with schemes (such as Performance-based Building Energy Codes) designed to exceed requirements established by the proposed mandatory building codes.

We have already seen that ambitious programmes can be launched on a much bigger scale than would be required in Hong Kong. Germany, a country of over 82 million people, has announced a plan to retrofit five percent of all pre-1978 housing stock each year, and that it will continue until all of the housing stock has been brought up to modern standards. Most of the homes that will need to be upgraded are in the former East Germany – an area plagued by high unemployment. The green-collar jobs from this programme will not only benefit the environment, it will also create a valuable new source of employment and develop skills and expertise in a segment of the economy that is sure to grow in the coming years.

Hong Kong needs to continue to build on and expand the work started under the voluntary Energy Efficiency Registration Scheme to realise the full potential that greater energy efficiency in buildings offers. Having a bolder vision and drawing on the example of other world leaders can lower energy consumption, reduce the territory's total energy bill, reduce the need for additional power plants and in so doing reduce Hong Kong's carbon footprint.

## CARBON IN FOCUS

### HAS THE CARBON FINANCE BUG HIT HONG KONG?

#### WHAT IS EMISSIONS TRADING?

EMISSIONS TRADING IS A POLICY DRIVEN APPROACH TO CONTROLLING POLLUTION BY PROVIDING ECONOMIC INCENTIVES OR DISINCENTIVES FOR ACHIEVING REDUCTIONS IN THE EMISSIONS OF POLLUTANTS. THESE MAY INCLUDE TAX CREDITS, EMISSION FEES AND TRADEABLE EMISSIONS LIMITATIONS

*With Hong Kong well established as one of the financial capitals of the world, the region is uniquely positioned to play a leading role developing carbon finance.*

Carbon trading promises to play a key role in driving down carbon dioxide emissions and achieving the reductions we will need to mitigate the impact of global warming. Trading volume on the European Climate Exchange (ECX), one of Europe's largest, jumped over 200 percent in April 2008 year-on-year and is now worth over 4.7 billion Euros. The Chicago Climate Exchange's (CCX) more than 400 corporate members traded 23 million tons of carbon emissions in 2007 - up from 10.3 million in 2006. Trading jumped a further 280 percent in first quarter of 2008 – and this is on a market that operates on a voluntary basis.

Exchanges from Singapore to Australia are already jockeying for position in the Asia Pacific region – but Hong Kong is well placed to assume this role. Hong Kong already has a high percentage of the Clean Development Mechanism (CDM) market, and China could be the world's largest potential supplier of credits.

Late last year, Hong Kong Exchanges and Clearing (HKEx) and other interested parties began looking into how Hong Kong could leverage its unique position as one of the region's financial centers and a gateway for mainland China to develop an emissions trading system that could play a pivotal role in supporting global solutions to the climate change challenge. The HKEx board is looking to build on its existing business and expertise in initial public offerings, exchange-traded funds and index-linked products to “focus on environmental and greenhouse gases markets”, with a concrete plan to be developed by end of this year.

Most of the world's largest corporations have offices in Hong Kong, and we enjoy close proximity of projects eligible under the CDM scheme. As a market centre, Hong Kong can also provide access to the finance and provide the liquidity needed to support deeper trading.

Bart Chilton, a commissioner at the US Commodity Futures Trading Commission, believes carbon could become one of the biggest derivative products in coming years. The combination of social pressures on companies to become more environmentally active, likely mandatory cap-and-trade systems and natural market forces could combine to create a regional carbon market that could not only play a key role in driving down greenhouse gas emissions, but would also provide financial incentives that would make solutions much more financially viable.

To build a viable international carbon trading market, however, Hong Kong must also ensure that it adopts clear standards that are consistent with globally accepted metrics so that credits traded on the Hong Kong exchange can stand up to international scrutiny.

**The °Climate Group will organise a one-day conference exploring the opportunities in financing a low-carbon economy on 27th October. Details will be announced in the next issue.**

### CDM market vs VERs market

The CDM market, is a market platform for emissions permits to be created and transferred between developed (Annex B Party) countries, with the objective of minimising the cost of reducing global greenhouse by mandatory efforts under the Flexible Mechanisms of the Kyoto Protocol. If companies want to offset their emissions through a project in developing countries, they can define their own rules for voluntary emission reductions (VERs), which is not part of the Kyoto Protocol. They engage to become carbon neutral because of corporate social responsibility, marketing interests or moral issues.

[http://unfccc.int/kyoto\\_protocol/mechanisms/clean\\_development\\_mechanism/items/2718.php](http://unfccc.int/kyoto_protocol/mechanisms/clean_development_mechanism/items/2718.php)  
<http://www.ieta.org/ieta/www/pages/index.php?IdSiteTree=26>

In contrast to the CDM market, which has one authority that sets standards and regulates the market. The voluntary market uses a number of different standards with VER certificates offered by diverse companies and non-profit organisations in which the Gold Standard and the Voluntary Carbon Standard are the most prominent examples of voluntary carbon offset standards.

[http://www.theclimategroup.org/news\\_and\\_events/news\\_and\\_comment/vcs\\_launch\\_a\\_new\\_quality\\_assurance\\_for\\_the\\_worlds\\_carbon\\_market/](http://www.theclimategroup.org/news_and_events/news_and_comment/vcs_launch_a_new_quality_assurance_for_the_worlds_carbon_market/)  
<http://www.v-c-s.org/>

### ECX vs CCX

Within the voluntary market, The European Climate Exchange (ECX) manages the marketing and product development for ECX Carbon Financial Instruments (ECX CFIs), listed and admitted to trading on the Intercontinental Exchange (ICE) Futures Europe's electronic platform. ECX / ICE Futures Europe is the most liquid, pan-European platform for carbon emissions trading, attracting over 85 % of the exchange-traded volume in the market. The Chicago Climate Exchange (CCX) is a sister exchange of ECX based in the US. CCX offers a self-regulatory exchange platform that administers the world's first multi-national and multi-sector marketplaces for reducing and trading greenhouse gas emissions.

[http://www.europeanclimateexchange.com/default\\_flash.asp?page=http%3A//www.europeanclimateexchange.com/content.asp%3Fid%3D6%26sid%3DCERlaunch](http://www.europeanclimateexchange.com/default_flash.asp?page=http%3A//www.europeanclimateexchange.com/content.asp%3Fid%3D6%26sid%3DCERlaunch)  
<http://www.chicagoclimatex.com/>

## CHINA PERSPECTIVE

### HEADING FOR A LOW CARBON ECONOMY

*It's clear every country will have to create its own solutions to address climate change that suit its economic, social and political situation. How will China manage the challenge, being the biggest developing country and potentially biggest greenhouse gas emitter?*

The latest issue of *Climate Change Perspective*, published by The °Climate Group's Beijing office in partnership with the Institute of Policy and Management at the Chinese Academy of Sciences, provides valuable insights into how China can address this challenge. It is clear that China will pursue the dual model of economic development while seeking to maximise energy efficiency and minimising the environmental impact of the energy resources that will support growth.

China will need to develop its solutions through a thorough examination of global trends adapted to local and national circumstances that take into consideration international energy trends but also China's unique economic and energy situation.

The path to a low-carbon economy in China will have to take into account national economic development priorities and social and corporate transformation. China's low-carbon future will also be defined by agreements it makes in the international arena on greenhouse gas emissions, the potential implications of foreign trade agreements and its ability to leverage low-carbon technology.

A more in-depth analytical report is available in electronic format (in simplified Chinese only) from [rng@theclimategroup.org](mailto:rng@theclimategroup.org).

## CLIMATE NEWS

### BREAKING THE CLIMATE DEADLOCK

**“THE EVIDENCE IS CLEAR. THE WILL TO ACT IS THERE TO A GREATER DEGREE THAN EVER BEFORE. NOW THE IMPERATIVE IS TO SHAPE THE FRAMEWORK FOR A GLOBAL DEAL WHICH INCLUDES ALL THE MAJOR COUNTRIES TO LET THAT BE DONE.”**

**TONY BLAIR,  
FORMER UK PRIME  
MINISTER**



On March 14, former UK Prime Minister Tony Blair announced a major new climate change initiative **Breaking the Climate Deadlock**. The plan focuses on reaching consensus among the world's key players in the greenhouse gas arena to secure an agreement well in advance of the 2012 expiry of the Kyoto Protocol, including the US, the European Union, Japan, India and China. The initiative will seek major political support for a framework for an international agreement by 2009 and implementation strategies that will result in greenhouse gas emissions reductions consistent with the levels deemed necessary by the scientific community. Most importantly, Breaking the Climate Deadlock firmly supports the ongoing UN negotiations and leadership by the G8 and – rather than becoming a parallel process – seeks to add impetus to the United Nations Framework Convention on Climate Change (UNFCCC). It will inject a new political momentum in support of the formal G8 and UNFCCC processes designed to broker a new global climate deal. Mr. Blair has engaged The °Climate Group to prepare

reports, convene a political advisory and expert group and develop and implement an engagement strategy. For more details please visit

[http://theclimategroup.org/index.php/news\\_and\\_events/news\\_and\\_comment/breaking\\_the\\_climate\\_deadlock/](http://theclimategroup.org/index.php/news_and_events/news_and_comment/breaking_the_climate_deadlock/)

## LOW CARBON TIPS

The slogan for World Environment Day 2008 is **CO<sub>2</sub> Kick the Habit! Towards a Low Carbon Economy**. This year, the United Nations Environment Programme (UNEP) will draw worldwide public and political attention on climate change and reducing carbon footprint, highlighting resources and 12 green tips to support areas such as improved energy efficiency, alternative energy sources, forest conservation and eco-friendly consumption which can be easily practised by individuals, companies, communities or even a country. Take a look at the UNEP website, get inspired and act! <http://www.unep.org/wed/2008/english/>

Here, you'll find 80 more ideas to celebrate this global environmental awareness and action initiative.

## ACKNOWLEDGEMENTS



The °Climate Group acknowledges the support of the HSBC Climate Partnership for this publication. Formed in 2007, the partnership brings together HSBC, The °Climate Group, Earthwatch Institute, Smithsonian Tropical Research Institute and WWF to tackle the urgent threat of climate change on people, water, forests and cities. For more information visit: [www.hsbc.com.hk/csr](http://www.hsbc.com.hk/csr)

## ABOUT THE °CLIMATE GROUP

The °Climate Group ([www.theclimategroup.org](http://www.theclimategroup.org)) is an independent, not-for-profit organisation that works globally with government and business leaders to advance climate change solutions and accelerate the transition to a low carbon economy. Founded in 2004 by a diverse group of companies, governments and supporters who saw the opportunity to create new momentum in the international effort, its coalition of proactive leaders – from government, business and civil society – has demonstrated that emissions reductions, essential to slow climate change, can be achieved while boosting profitability and competitiveness. The °Climate Group has offices in the UK, US, mainland China, Hong Kong, India and Australia. The Hong Kong operation has been registered as a statutory charitable organisation since January 2008.

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