# EU and Hong Kong Trade and Sustainability

European Union Office
to Hong Kong and Macao

# Contents





## Message from the Ambassador / Head of Office of the European Union to Hong Kong and Macao

**Thomas Gnocchi**
*Ambassador / Head of Office*

With over EUR 70 billion in trade in goods and services, EU-Hong Kong trade stands at a record high. One of the areas where our commercial relationship is important is in promoting sustainability.

Recent years have demonstrated the challenges brought to us by climate change. As a result, the EU and Hong Kong have recognised the need to address those challenges. In 2019, the EU adopted the European Green Deal with diverse strategies aiming to reach climate neutrality by 2050. Hong Kong, on the other hand, launched its Climate Action Plan 2050 in 2021 to formulate strategic actions to meet carbon neutrality by 2050.

This publication gives an insight into the EU as a global player and how our trade policy works as a tool towards sustainability objectives. It also highlights key areas where the EU and Hong Kong can make an impact on combatting climate change, such as green finance, sustainable mobility, green infrastructure, circular economy and green energy.

I hope that this overview will provide a good understanding of our trade agenda.

EU - Hong Kong Trade and Sustainability

# EU Trade Policy

The European Union manages its trade and investment relations with non-EU countries through its trade and investment policy.

Trade outside the EU is an exclusive responsibility of the EU. This means that the EU institutions make laws on trade matters, and negotiate and conclude international trade agreements.

The EU's responsibilities cover not only trade in goods and services but also areas such as the commercial aspects of intellectual property, public procurement, and foreign direct investment.

## Benefits of Trade

Trade supports growth in the economy and helps create jobs. It also gives consumers a wider choice of products at lower prices. But equally important is that the EU considers that our trade agenda should promote sustainability and international standards and values.

**27**
**countries**

**24**
**official languages**

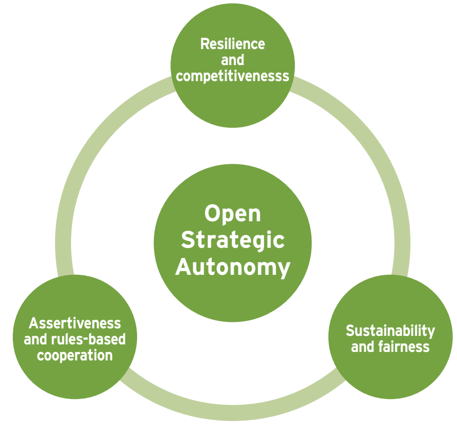
**447**
**million citizens**

**340**
**million people who use the euro evevery day in 19 EU countries**

*The EU is one of the most open economies in the world and is committed to free trade.*

## The EU is an attractive market to do business with

- The EU is the largest single market in the world with a GDP per head of €25,000 for its 440 million consumers.
- The EU provides a secure legal trade and investment framework that is among the most open in the world, with transparent rules and regulations.
- The EU ranks first in both inbound and outbound international investments.
- The EU is the most open economy to developing countries. Fuels excluded, the EU imports more from developing countries than the USA, Canada, Japan and China put together.
- The EU is the top trading partner for 80 countries and has trade agreements in force with 72 partners around the world,
- The average applied tariff for goods imported into the EU is very low. More than 70% of imports enter the EU at zero or reduced tariffs.




## Open, Strategic, and Autonomous

In 2021, the European Commission set out its trade strategy to reinforce the EU's position as a global champion of open, rules-based trade that is fair and sustainable. The strategy builds on the EU's openness to contribute to the economy by supporting green and digital transformations. The strategy includes a renewed focus on strengthening multilateralism and reforming global trade rules to ensure that they are fair and sustainable. Where necessary, the EU will take a more assertive stance in defending its interests and values, including through new tools.

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### EU Trade Policy Focus

- Reforming the WTO;
- Supporting the green transition and promoting responsible and sustainable value chains;
- Promoting the digital transition and trade in services;
- Strengthening the EU's regulatory impact;
- Deepening the EU's partnerships
- Reinforcing the EU's focus on implementing and enforcing trade agreements, and ensuring a level playing field for EU businesses.

### Promoting Sustainability?

EU law requires all relevant EU policies, including trade policy, to promote sustainable development. EU trade policy aims to ensure that economic development goes hand in hand with **social justice; respect for human rights; high labour standards, and high environmental standards.**

**We do this in various ways:**

- Internal market policies (notably the European Green Deal)
- EU trade policy
- Setting rules on production with an international reach
- Promoting green finance

## EU-Hong Kong (HK) Trade

*EU is...*

1st non-Chinese business community

3rd trading partner in goods

3rd trading partner in services

**2nd destination & 5th largest source of Hong Kong FDI**

### Trade in Goods

**HK ranks 18th in terms of EU trading partners (goods and services). Meanwhile.** Hong Kong is the 7th largest trading economy in the world. The EU is Hong Kong's **3rd largest trading partner** in goods.

In 2023, trade is estimated to grow to EUR 31 billion, an increase of 5%.

Main goods imported from Hong Kong are electrical machinery and equipment, machinery and mechanical appliances, precious stones and metals, optical instruments, furniture, clocks and watches, apparel and (parts of) aircraft. In terms of EU exports, these are also in machinery and appliances, optical instruments, precious stones and metals, as well as motor vehicles, aircraft, pharmaceuticals and apparel.

In 2022, Hong Kong ranked number 35 in EU's trading partners (goods), while EU ranked 3rd in HK's trading partners.

EU - Hong Kong Trade and Sustainability

| External trade in goods of Hong Kong (10 largest partners) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| HKD millions | 10 months 2022 | | | | 10 months 2023 | | | | | |
| | Exports | Imports | Total | Share | Exports | Imports | Total | Share | y-o-y change |
| 1. China | 2,173,011 | 1,727,256 | **3,900,267** | 44.9% | 1,874,970 | 1,633,732 | **3,508,702** | 44.0% | -10.0% |
| 2. Taiwan | 133,069 | 499,830 | **632,899** | 7.3% | 114,390 | 441,330 | **555,720** | 7.0% | -12.2% |
| **3. EU** | **262,939** | **177,440** | **440,379** | 5.1% | **228,692** | **198,160** | **426,852** | 5.4% | -3.1% |
| 4. USA | 249,022 | 178,727 | **427,749** | 4.9% | 222,855 | 165,957 | **388,812** | 4.9% | -9.1% |
| 5. Singapore | 70,103 | 338,968 | **409,071** | 4.7% | 53,332 | 268,442 | **321,774** | 4.0% | -21.3% |
| 6. Japan | 87,491 | 205,274 | **292,765** | 3.4% | 69,895 | 181,892 | **251,787** | 3.2% | -14.0% |
| 7. Korea | 68,175 | 246,877 | **315,052** | 3.6% | 62,355 | 174,616 | **236,971** | 3.0% | -24.8% |
| 8. India | 146,669 | 68,588 | **215,257** | 2.5% | 134,052 | 63,168 | **197,220** | 2.5% | -8.4% |
| 9. Vietnam | 96,429 | 122,296 | **218,725** | 2.5% | 92,633 | 99,624 | **192,257** | 2.4% | -12.1% |
| 10. Malaysia | 35,032 | 149,796 | **184,828** | 2.1% | 30,336 | 124,890 | **155,226** | 1.9% | -16.0% |
| **Total (all partners)** | **4,119,363** | **4,574,889** | **8,694,252** | **-** | **3,831,766** | **4,142,886** | **7,974,652** | **-** | **-8.3%** |

Source: Census and Statistics Department of Hong Kong

| Partner | Total EU Trade in Goods (2022) | | |
|---|---|---|---|
| | Rank | Value (Million €) | Share (%) |
| Extra EU27 | | 5,575,829 | 100.0 |
| USA | 1 | 868,769 | 15.6 |
| China | 2 | 857,498 | 15.4 |
| United Kingdom | 3 | 544,989 | 9.8 |
| Switzerland | 4 | 333,313 | 6.0 |
| Russia | 5 | 257,947 | 4.6 |
| Norway | 6 | 227,595 | 4.1 |
| Türkiye | 7 | 198,347 | 3.6 |
| Japan | 8 | 141,525 | 2.5 |
| South Korea | 9 | 132,190 | 2.4 |
| India | 10 | 115,214 | 2.1 |
| Brazil | 11 | 92,929 | 1.7 |
| Taiwan | 12 | 84,255 | 1.5 |
| Mexico | 13 | 77,771 | 1.4 |
| Canada | 14 | 76,988 | 1.4 |
| Saudi Arabia | 15 | 75,714 | 1.4 |
| Vietnam | 16 | 64,387 | 1.2 |
| Ukraine | 17 | 57,731 | 1.0 |
| Australia | 18 | 56,164 | 1.0 |
| Algeria | 19 | 55,887 | 1.0 |
| South Africa | 20 | 55,496 | 1.0 |
| Morocco | 21 | 53,346 | 1.0 |
| Singapore | 22 | 52,566 | 0.9 |
| Malaysia | 23 | 50,319 | 0.9 |
| United Arab Emirates | 24 | 49,760 | 0.9 |
| Israel | 25 | 46,738 | 0.8 |
| Nigeria | 26 | 45,735 | 0.8 |
| Serbia | 27 | 42,536 | 0.8 |
| Thailand | 28 | 42,098 | 0.8 |
| Kazakhstan | 29 | 40,200 | 0.7 |
| Egypt | 30 | 37,237 | 0.7 |
| Indonesia | 31 | 33,318 | 0.6 |
| Libya | 32 | 33,216 | 0.6 |
| Azerbaijan | 33 | 33,112 | 0.6 |
| Qatar | 34 | 30,804 | 0.6 |
| **Hong Kong** | **35** | **30,149** | **0.5** |

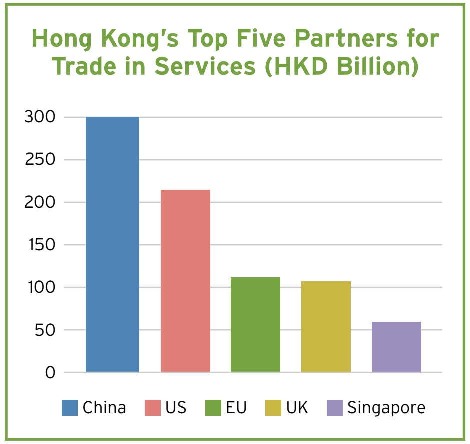
## Trade in Services

In 2021 (last rankings available) the EU was Hong Kong's **3rd largest** trading partner in services (Hong Kong statistics) and Hong Kong was the EU's **10th largest partner** (Eurostat). Eurostat data shows that EU trade in services with Hong Kong reached a total of EUR 40.1 billion in 2022, with **strong increases** in recent years (+16.7% in 2022, +21.3% in 2021).

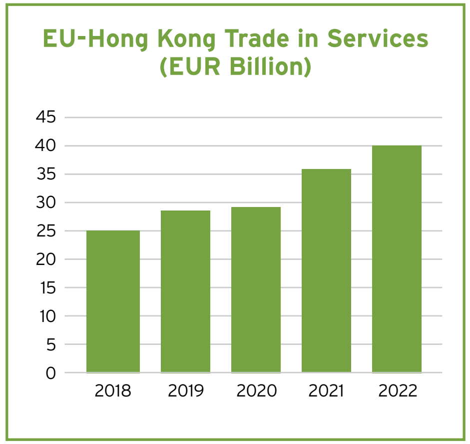
Main services traded are manufacturing services, transport, travel, financial services and other business services.

| Partner | EU Trade in Services in 2021 (latest available) | | |
|---|---|---|---|
| | Rank | Value (Million €) | Share (%) |
| Extra EU27 | | 2,012,015 | 100.0 |
| USA | 1 | 563,510 | 28.0 |
| United Kingdom | 2 | 379,552 | 18.9 |
| Switzerland | 3 | 180,078 | 9.0 |
| China | 4 | 97,672 | 4.9 |
| Singapore | 5 | 57,593 | 2.9 |
| Japan | 6 | 46,386 | 2.3 |
| India | 7 | 39,837 | 2.0 |
| Norway | 8 | 35,928 | 1.8 |
| Russia | 9 | 35,760 | 1.8 |
| **Hong Kong** | **10** | **34,334** | **1.7** |
| Canada | 11 | 31,137 | 1.6 |
| United Arab Emirates | 12 | 26,032 | 1.3 |
| Australia | 13 | 25,827 | 1.3 |
| Türliye | 14 | 24,205 | 1.2 |
| South Korea | 15 | 21,361 | 1.1 |

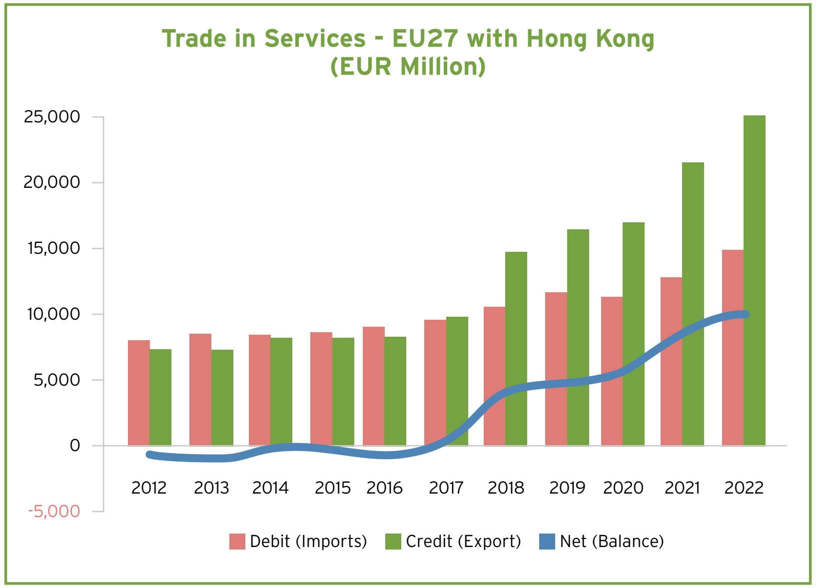
Source: Eurostat




Source: Census and Statistics Department. The Government of the Hong Kong Special Administrative Region




Source: Eurostat



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## Investment

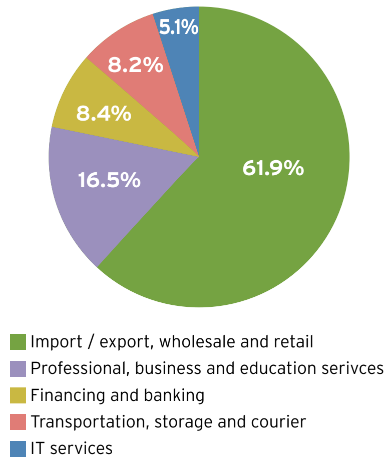
| Hong Kong's Stock of Inward FDI (HKD Billion) | | | Hong Kong's Stock of Onward FDI (HKD Billion) | | |
|---|---|---|---|---|---|
| **Top Partners (2022)** | **2021** | **2022** | **Top Partners (2022)** | **2021** | **2022** |
| 1. Mainland China | 4,228 | 4,705 | 1. Mainland China | 7,681 | 7,625 |
| 2. UK | 1,500 | 1,570 | **2. EU** | **327** | **530** |
| 3. USA | 356 | 351 | 3. Singapore | 350 | 340 |
| 4. Singapore | 352 | 349 | 4. UK | 274 | 240 |
| **5. EU** | **196** | **266** | 5. USA | 139 | 164 |
| 6. Canada | 295 | 256 | 6. Australia | 157 | 138 |
| 7. Japan | 215 | 243 | 7. Japan | 115 | 129 |
| 8. Taiwan | 163 | 183 | **Total of all partners (incl. offshore centres)** | **15,592** | **15,424** |
| **Total of all partners (incl. offshore centres)** | **15,264** | **15,680** | | | |

Rankings are for 2022 (latest available) and exclude offshore centres.
Source: Census and Statistics Departement of Hong Kong

The EU constitutes the **largest foreign business community in HK after mainland China**, with 1,548 companies (as of June 2023, latest available), ahead of US, Japan, and the UK. Many EU companies use Hong Kong as regional headquarters or offices, piloting their operations in Asia from Hong Kong.

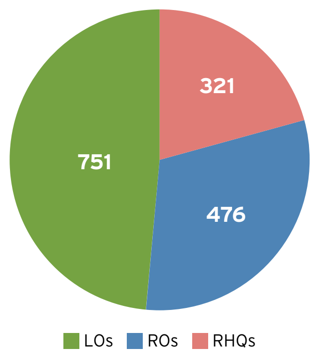
Hong Kong is a key investment hub globally. The EU was the **2nd destination for Hong Kong's foreign direct investment** (FDI) in 2022 and was in turn the 5th largest source of FDI to Hong Kong.

### EU Companies in Hong Kong by Major Line of Business (2023)



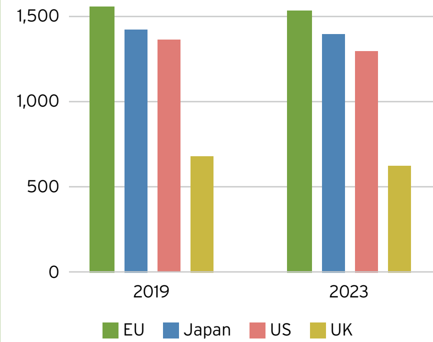

Source: Census and Statistics Department. The Government of the Hong Kong Special Administrative Region

### EU Companies in Hong Kong (2023) - Number of Regional Headquarters (RHQs) / Regional Offices (ROs) / Local Offices (LOs)




Source: Census and Statistics Department. The Government of the Hong Kong Special Administrative Region

### Companies in Hong Kong with Parents located in the EU, Japan, US and UK (2019 & 2023)




Source: Census and Statistics Department. The Government of the Hong Kong Special Administrative Region

| Number of EU Companies in Hong Kong by Country (2023) | |
|---|---|
| Austria | 45 |
| Belgium | 67 |
| Croatia | * |
| Cyprus | 5 |
| Czech Republic | * |
| Denmark | 52 |
| Finland | 19 |
| France | 346 |
| Germany | 426 |
| Hungary | * |
| Ireland | 25 |
| Italy | 166 |
| Lithuania | * |
| Luxembourg | 54 |
| Malta | * |
| Netherlands | 187 |
| Poland | * |
| Portugal | * |
| Slovenia | * |
| Spain | 52 |
| Sweden | 90 |
| **All EU Countries** | **1,548** |

Source: Census and Statistics Department, The Government of the Hong Kong Special Administrative Region

*Figures are not released owing to small number of companies, i.e. less than 5 or to safeguard the confidentiality of the small figures.

According to Eurostat, Hong Kong was the seventh largest source of FDI stock into the EU in 2022 (latest available), with EUR 194.5 billion, and the 13th destination of EU FDI stock globally, with EUR 95.7 billion.



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# EU as a Global Green Leader

*Climate change and environmental degradation affects every human being. This needs a global solution.*

## The European Green Deal

Sustainable development is a core principle of the Treaty on European Union and a priority objective for the Union's internal and external policies. Becoming the world's first climate-neutral continent by 2050 is the greatest challenge and opportunity of our times.

In 2019, the European Commission presented the European Green Deal, which aims at improving the well-being of people and making Europe climate-neutral by 2050. It supports the transformation of the EU into a fair and prosperous society with a **modern and competitive economy**. The European Green Deal underlines the need for a holistic and cross-sectoral approach in which all relevant policy areas contribute to the ultimate climate-related goal. The package includes initiatives covering the climate, the environment, energy, transport, industry, agriculture and sustainable finance – all of which are strongly interlinked.

fresh air, clean water, healthy soil and biodiversity

renovated, energy efficient buildings

healthy and affordable food

more public transport

cleaner enery and cutting-edge clean technological innovation

longer lasting products that can be repaired, recycled and re-used

future-proof jobs and skills training for the transition

globally competitive and resilient industry

## The Paris Agreement – key for tackling climate change

The EU has been at the forefront of international efforts to fight climate change. It was instrumental in brokering the Paris Agreement, the first-ever universal, legally binding global climate change agreement, adopted at the Paris climate conference (COP21) in December 2015.

In December 2020, the EU submitted its updated and enhanced **nationally determined contribution (NDC)** the target to reduce emissions by at least 55% by 2030 from 1990 levels.

**The European climate law** regulation turns the political ambition of reaching climate neutrality by 2050 into a legal obligation for the EU. The EU and its member states committed to cutting net greenhouse gas emissions in the EU by at least 55% by 2030, compared to 1990 levels. This target is legally binding and based on an impact assessment carried out by the European Commission. The main actions under the regulation include mapping out the pace of emission reductions until 2050 to give predictability to businesses, stakeholders and citizens, developing a system to monitor and report on the progress and ensuring a cost-efficient and socially-fair green transition.





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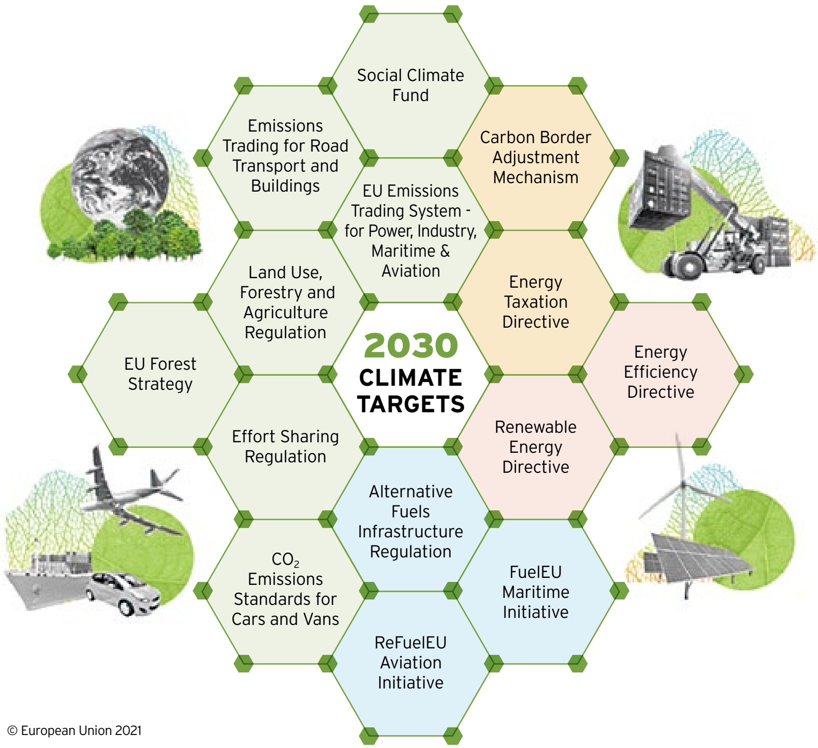




## Fit For 55

To reach these goals, EU member states need to take concrete measures to **reduce emissions** and **decarbonise the economy**. New rules and updates of EU legislation are needed to make the green transition a reality.

The **Fit for 55 package** is a set of legislative proposals and amendments to existing EU legislation that will help the EU cut its net greenhouse gas emissions and reach climate neutrality.

## EU Emissions Trading System

The **EU emissions trading system** is a cornerstone of EU climate policy and is cutting emissions from industry, power plants and aviation within Europe cost-effectively. The system puts a price on carbon. Every year, entities covered by the ETS have to buy 'allowances' corresponding to their greenhouse gas emissions. A cap is set on how many allowances are put on the market for that year; that cap then decreases with every passing year. This creates financial incentives for companies to cut emissions. Since 2005 (when it was introduced), EU emissions have been cut by around 40% in the sectors covered.

The ETS was upgraded in April 2023. The new rules increase the overall ambition of emissions reductions by 2030 in the sectors covered by the EU ETS to 62% compared to 2005 levels (vs 43% previously). Emissions from shipping will be included within the scope of the EU ETS. A new, separate emissions trading system (ETS 2) for buildings, road transport and additional sectors (mainly small industry) has been established, in order to ensure cost-efficient emissions reductions in these sectors, which have thus far proven difficult to decarbonise. The new system will apply to distributors that supply fuels to the buildings, road transport and additional sectors from 2027. Free emission allowances for the aviation sector will be gradually phased out and full auctioning will be implemented from 2026.

## Carbon Border Adjustment Mechanism

The carbon border adjustment mechanism (CBAM) is a tool to counter carbon leakage – a situation when industries with high greenhouse gas emissions shift production outside the EU to jurisdictions with lower climate policy standards.

**For production in the EU**, producers have to cover CO2 emissions with allowances from the EU Emissions Trading System (ETS). For production outside of the EU, ETS does not apply. As a result, carbon-intense production could move to countries with less strict climate policy and imported products could have a price advantage at the expense of the environment. This is called carbon leakage.

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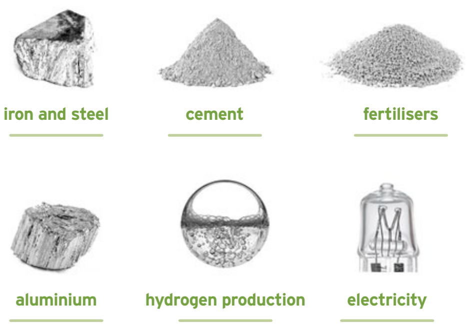
## In the first phase CBAM would cover sectors with high carbon emissions and high risk of carbon leakage:



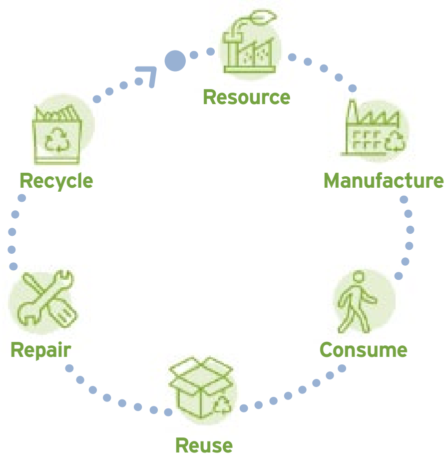

EU importers will have to buy CBAM certificates to cover the price difference coming from ETS allowances that producers in the EU have to use to cover their CO2 emissions. CBAM came into operation on October 2023 for selected sectors. For more information please follow the link: https://taxation-customs.ec.europa.eu/carbon-border-adjustment-mechanism_en

## Corporate Sustainability due Diligence Directive

European companies are global leaders in sustainability. Sustainability is anchored in EU values and companies show a commitment to respecting human rights and to reducing their impact on the planet. Still, companies' progress in integrating sustainability, and in particular human rights and environmental due diligence, into corporate governance processes could be better.

To address these challenges, the Commission adopted a proposal that aims to foster sustainable and responsible corporate behaviour throughout global value chains. Companies play a key role in building a sustainable economy and society. They will be required to identify and, where necessary, prevent, end or mitigate adverse impacts of their activities on human rights, such as child labour and exploitation of workers, and on the environment, for example pollution and biodiversity loss. For businesses, these new rules will bring legal certainty and a level playing field. For consumers and investors they will provide more transparency.

This proposal applies to the company's own operations, its subsidiaries, and its value chains (direct and indirect established business relationships). More concretely, this means more **effective protection of human rights included in international conventions**. For example, workers must have access to safe and healthy working conditions. Similarly, this proposal will help to avoid adverse environmental impacts contrary to **key environmental conventions**. Companies in scope will need to take appropriate measures ('obligation of means'), in light of the severity and likelihood of different impacts, the measures available to the company in the specific circumstances, and the need to set priorities.




## Circular Economy Action Plan

The European Commission adopted the **new circular economy action plan (CEAP)** in March 2020.

The EU's transition to a circular economy will reduce pressure on natural resources and will create sustainable growth and jobs. It is also a prerequisite to achieving the EU's 2050 climate neutrality target and halting biodiversity loss.

The new action plan announces **initiatives along the entire life cycle of products**. It targets how products are designed, promotes circular economy processes, encourages sustainable consumption, and aims to ensure that waste is prevented and the resources used are kept in the EU economy for as long as possible. At the same time, it calls for the **systematic promotion of the global circular economy transition** through multilateral, bilateral, and regional policy dialogues, and environmental and free trade agreements.

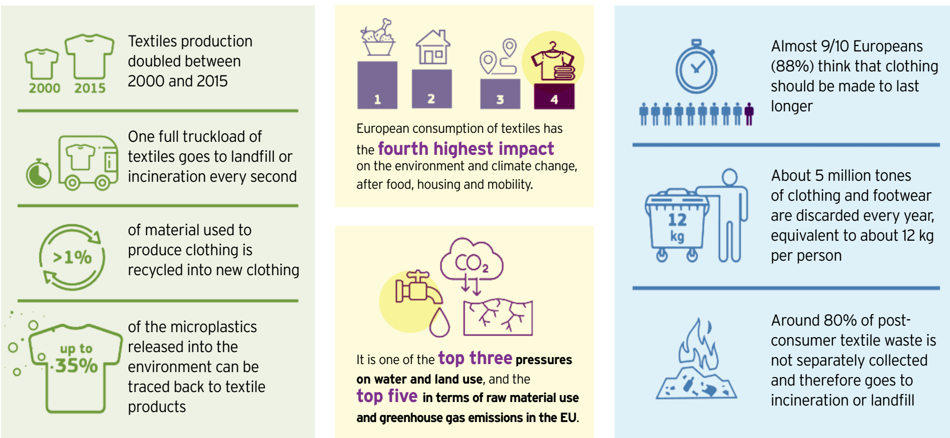
## Sustainable and circular textiles by 2030

In clothes and furniture, medical and protective equipment, buildings and vehicles, textiles are the fabric of everyday life. Global textile production almost doubled between 2000 and 2015, and the consumption of clothing and footwear is expected to increase by 63% by 2030. Negative impact on resources, water, energy consumption, and the climate continue to grow. Europe has always been and should remain home to innovative brands, creativity, know-how, and quality textile products.

The **EU Strategy for Sustainable and Circular Textiles** proposes actions for **the entire lifecycle of textiles products while supporting the ecosystem in the green and digital transitions**. It addresses the way textiles are designed and consumed, including by looking also at sustainable technological solutions and innovative business models.

**For producers, mandatory design requirements for textiles** and greater reliance on extended producer responsibility schemes will help extend the lifetime of clothing.

On the consumer side, the Strategy will encourage a shift towards **quality, durability, longer use, repair, and reuse.** Through the **European Circular Economy Stakeholder Platform**, it will mobilize designers, producers, retailers, advertisers, and citizens in re-defining EU fashion.



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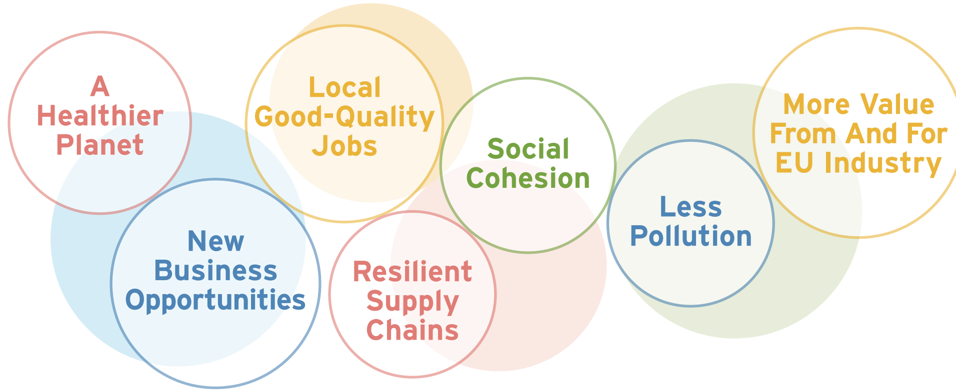


## Plastics Strategy

Plastics are an important material in the economy and citizens' daily lives. However, they can have serious negative effects on the environment and human health. For this reason, EU's Plastics Strategy aims to protect our environment and reduce marine litter, greenhouse gas emissions, and our dependence on imported fossil fuels. It will support more sustainable and safer consumption and production patterns for plastics. The plastics strategy also aims to transform the way plastic products are designed, produced, used, and recycled in the EU.

## Sustainable Mobility

Europe's transport system has been a huge success, connecting people across the continent and reducing journey times. Yet with increasing mobility, the carbon footprint of the EU's transport activities has grown.

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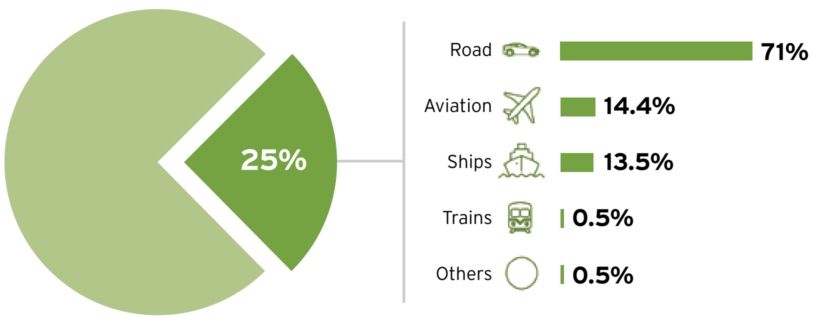
## *Transport is responsible for almost 25% of greenhouse gasses (GHG) emissions in the EU*

The Green Deal seeks a **90% reduction in these emissions by 2050**. Moving to more sustainable transport means putting users first and providing them with more affordable, accessible, healthier, and cleaner alternatives.

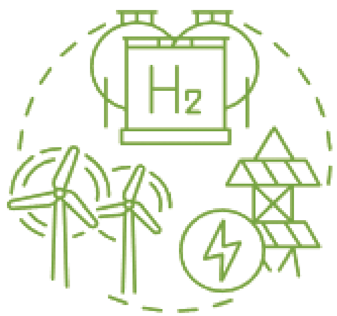
The EU has implemented **Regulation (EU) 2019/631** which is setting stricter CO2 emission performance standards for new passenger cars (37.5% lower by 2030) and vans (31% lower by 2030). Moreover, the EU has proposed the **EURO 7 emission standard**. It will ensure that cars, vans, lorries, and buses are much cleaner and reduce air pollution in cities. In line with this, the EU will phase out the sale of new combustion engine cars and vans by 2035.




## *The EU's energy policies aim to ensure a secure, competitive and affordable supply of energy while meeting its climate targets.*

### Green Energy

The production and use of energy accounts for more than 75% of the EU's greenhouse gas emissions. Decarbonizing the EU's energy system is crucial to reaching its climate objectives.




The European Green Deal focuses on **3 key principles** for the clean energy transition, to help reduce greenhouse gas emissions and enhance the quality of life of its citizens:

- ensuring a **secure** and **affordable EU energy supply**
- developing a **fully integrated, interconnected**, and digitalized **EU energy market, including via EU energy corridors**
- prioritizing **energy efficiency**, improving the **energy performance of our buildings**, and developing a power sector based largely on **renewable sources**

## EU Targets

**40 GW**
of renewable hydrogen electrolysers in the EU by 2030


**10 million tonnes**
of renewable hydrogen produced in the EU by 2030

### Key targets for 2030:

- At least 40% cuts in **greenhouse gas emissions** (from 1990 levels)
- At least 32% share of **renewable energy**
- At least a 32.5% improvement in **energy efficiency**

### EU Green Infrastructure Strategy

The EU aims for "A strategically planned network of natural and semi-natural areas with other environmental features, designed and managed to deliver a wide range of ecosystem services, while also enhancing biodiversity." Such services include, for example, water purification, improving air quality, providing space for recreation, as well as helping with climate mitigation and adaptation. This network of green (land) and blue (water) spaces improves the quality of the environment, and the condition and connectivity of natural areas, as well as citizens' health and quality of life.

Moreover, the **EU Biodiversity Strategy for 2030** promotes investments in green and blue infrastructure, as well as the systematic integration of healthy ecosystems, green infrastructure, and nature-based solutions into urban planning.

### Sustainable Finance

Sustainable finance refers to the process of taking **environmental, social, and governance (ESG) considerations** into account when making investment decisions in the financial sector, leading to more long-term investments in sustainable economic activities and projects.

Sustainable finance has a key role to play in delivering on the policy objectives under the **European green deal** as well as the EU's international commitments on climate and sustainability. It does this by channelling private investment into the transition to a climate-neutral, climate-resilient, resource-efficient and fair economy, as a complement to public money.

The Commission presented the **European green deal investment plan in 2020**, which will mobilise at least €1 trillion of sustainable investments over the next decade. It will create the right environment - or 'enabling framework' - to facilitate and stimulate the public and private investments needed for the transition to a climate-neutral, green, competitive and inclusive economy.

### International platform on sustainable finance

In 2019, the EU launched the International Platform on Sustainable Finance (IPSF), which offers a multilateral forum of dialogue between policymakers that are in charge of developing sustainable finance regulatory measures. IPSF currently has 20 members, including China and Hong Kong, which together account for 58% of global greenhouse gas emissions.

## Climate Finance

The EU and its member states are the largest providers of public climate finance in the world. In 2021 they provided **€23 billion** to help developing countries **reduce emissions** and **build resilience** against the effects of climate change.






# The EU and HK Policy Discussion

## The Eu and Hong Kong Aim for Carbon Neutrality

In 2021, Hong Kong launched the Hong Kong Climate Action Plan 2050 to formulate strategic actions to meet carbon neutrality, by 2050.

With the shared objective of reaching carbon neutrality by 2050 in mind, the European Union Office to Hong Kong and Macao held a series of discussions to explore ways of accelerating the decarbonisation of our economies; make our cities greener; promote green infrastructure and buildings; facilitate the development of green finance; ensure sustainable supply chains and transition our energy mix, amongst others.

The European Union Office and the European Chamber of Commerce in Hong Kong (Eurocham) co-organised events to promote industry engagement in helping tackle climate change challenges.

In March 2023, "The Green way forward" gathered government officials, industry leaders, academics and civil society to discuss ways to decarbonize our economies and accelerate the green transition in Hong Kong.

Panels of experts discussed various issues related to sustainability and recommendations from the industry were provided to policy makers to further support the development of sustainable finance, promote green mobility, transform Hong Kong into a green city and facilitate stakeholders' involvement.

EU - Hong Kong Trade and Sustainability

In view of promoting green business in finance, mobility and city as well as stakeholders involvement, the following recommendations were presented to Financial Secretary Paul Chan during the green dialogue on 16 March 2023:

**Finance**

1. Support and facilitate ESG capacity building in Hong Kong through adapted academic curricula, ongoing training to professionals as well as attracting ESG experts from abroad.

2. Interoperability of taxonomies should be encouraged to ensure an efficient and sound sustainable finance market. The interoperability should focus notably on a common set of ambitious high-level targets and principles, clear purpose, usability and timeline.

**Mobility**

3. Develop and implement – with industry - a holistic green transport plan for Hong Kong including charging infrastructure and battery recycling.

4. Develop a future-oriented type approval process geared towards a green transition to include implementation of new technologies, supporting sustainable and autonomous driving.

5. Build an infrastructure to support new energy development and supply for the aviation and maritime industry such as sustainable aviation fuel (SAF) and other forms of energy. This also to ensure a steady local supply of the SAF and other forms of renewable and sustainable energy at a reasonable cost.

6. Support and facilitate investing in the transition of Hong Kong to become an international green tourism hub.

**City**

7. Promote circularity as a mind-set, principle and overarching goal of the HK economy, for instance regarding waste management at estate level.

8. Promote asset valuation to reflect investments in energy efficiency, emission reduction and retrofitting.

9. Redirect public procurement more strongly to incentivize sustainable solutions and green investments.

**Stakeholder involvement**

10. Promote awareness on sustainability, climate solidarity and engagement by developing HK as a meeting hub for people of various professions, skills, generations and backgrounds to put forward and debate ideas and possible solutions towards solving the global climate crisis.

EU - Hong Kong Trade and Sustainability

## EU-HK Policy Discussions

### Green Finance

**The EU** is taking legislative and non-legislative measures to make sustainability a norm in the decision-making of the finance sector. The voluntary EU Green Bond Standard aims at enhancing the effectiveness, transparency, comparability and credibility of the green bond market. The EU also introduced the Corporate Sustainability Reporting Directive (CSRD), which will further strengthen the rules on the ESG information that companies are required to report. In addition, the Sustainable Finance Disclosure Regulations (SFDR) lays down sustainability disclosure obligations for manufacturers of financial products and financial advisers toward end-investors.

**Hong Kong** has been developing green finance in recent years. The Government Green Bond Programme has seen a steady growth in green bond issuance since it was introduced in 2019. The Pilot Green and Sustainable Finance Capacity Building Support Scheme was launched in 2022 to provide subsidies to support talent development in sustainable finance. Core Climate, launched by HKEX last year, is a carbon trading

marketplace that allows corporates and investors to source, purchase, settle and retire voluntary international-certified carbon credits projects.

**Taxonomies**. A green taxonomy is a classification system that defines criteria and categorizes for economic activities that are aligned with a net zero trajectory by 2050 and the broader environmental goals. It is seen as a key tool to boost sustainable investments, reduces the risks of greenwashing and increase transparency and direct capital flows to achieve environmental, social and governance (ESG) targets. **The EU launched its green taxonomy in 2020.** Within the International Platform for Sustainable Finance (IPSF), the EU and China developed the Common Ground Taxonomy (CGT) which aims to enhance comparability and interoperability of sustainable finance taxonomies and definitions of green activities on a global scale. The CGT currently covers 72 climate change mitigation activities that share common ground for both the EU and China taxonomies.

**In Hong Kong, the Monetary Authority (HKMA) is developing a prototype taxonomy** framework which is largely based on the CGT. This would make Hong Kong a leader in operationalising the CGT. These works contribute to the harmonization of standards globally, facilitate the development of sustainable finance and support the green transition.

EU - Hong Kong Trade and Sustainability

## Green Mobility

**The EU** aims to reduce 90% of emissions in the transport sector by 2050. The EU will phase out the sale of new combustion engine cars and vans by 2035. Regarding green jet fuel, the EU Commission proposes to mandate the blending of minimum 5% of sustainable aviation fuels (SAF) into kerosene by 2025, to be gradually increased to at least 63% by 2050. This will apply to all flights departing from European airports.


**In Hong Kong**, green transport is one of the main pillars of the Hong Kong Climate Action Plan 2050. Hong Kong aims to cease the registration of fuel-propelled private cars by 2035; expand the electric vehicles charging infrastructure, apply new energy (e.g. hydrogen fuel) in public transport (ferries, buses), and expand the current mass transit railway system to reduce road traffic. In the aviation sector, the Airport Authority launched a SAF programme to store and distribute SAF at Hong Kong International Airport.

## Green Cities

**In the EU**, the Circular Economy Action Plan 2020 provides comprehensive legislative and non-legislative actions to transform the European economy towards a circular model. Buildings account for 36% of $CO_2$ emissions in Europe. The EU is implementing several initiatives and strategies aiming for a highly energy efficient and decarbonised building stock by 2050. This includes revising its energy performance of buildings directive; doubling annual energy renovation rates in the next 10 years; and introducing an open-source tool for policymakers, property owners and building professionals to assess and report the sustainability performance of buildings.

**In Hong Kong**, the Waste Blueprint for Hong Kong 2035 sets out targets for waste disposal and recovery, and the goal of developing adequate waste-to-energy facilities to reduce the reliance on landfills disposal by 2035. Actions that have been implemented are, for example, expanding the community recycling network, developing food waste infrastructure to turn food waste into energy, strengthening regulations on single-use plastic bottles and tableware as well as promoting Food Wise Campaign to enhance public awareness for food waste prevention.

In addition, Hong Kong aims to reduce the electricity consumption of commercial buildings by 40%, and that of residential buildings by 30% by 2050. Some measures taken are, among others, using seawater to develop District Cooling Systems to reduce energy use for air-conditioning, releasing energy data and introducing energy benchmarking and rating tools for buildings, as well as harness innovative and intelligent technologies to ensure energy efficiency meets international standards.

## Corporate Sustainability Due Diligence

**The EU** proposed the Directive on **Corporate Sustainability Due Diligence (CSDD)**. The CSDD would apply to both EU and non-EU companies with headcounts and turnover above a certain threshold. Small and medium-sized enterprises (SMEs) are not in the scope of the proposal, but will be impacted if they are suppliers of the concerned companies.

**Hong Kong** will be impacted, as it is a top trading and sourcing entity in the world and with the EU. The EU is also the largest foreign business community in the SAR and a certain number of these companies would fall under the scope of the CSDD. Many firms in Hong Kong are direct and indirect business partners of EU companies, and/or part of their supply chains. They also directly own, or connect with, production sites in mainland China and South & Southeast Asia.

## Carbon Trading

A discussion was organised on the CBAM and how it could impact Hong Kong.

**In Hong Kong**, the Hong Kong Exchange and Clearing Ltd. (HKEX) launched its own VCM "Core Climate" in 2022, which is an integrated platform for the private sector to offset their carbon emissions by supporting internationally-certified projects, including carbon avoidance, reduction and removal projects. An objective is to further develop Hong Kong as a carbon trading hub.


At first, CBAM is expected to have a limited impact on Hong Kong businesses. Hong Kong's major exports to the EU include electronics, telecommunication equipment and electrical machines, which will be unaffected by the current CBAM's product scope. In the longer term, the scope of CBAM will be expanded which means that the impact for Hong Kong and the region will also increase. This will encourage companies to decarbonize their production.

*A number of EU member states (see below) have a presence in Hong Kong and regularly meet at the EU Office. On 31 October 2023, Algernon Yau Ying-wah JP, Secretary of Commerce, discussed with the group of trade commissioners about respective agendas and priorities.*

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