

Maggie Brooke's Speech

How much is the harbour worth?

Introduction

Hong Kong's harbour is core to Hong Kong's heritage, an international icon and a source of inspiration to those who live and work in Hong Kong. Its enhancement will truly make Hong Kong a world-class city, and in turn such enhancement will deliver long-term economic, social and environmental returns. Yet, the major economic significance of the harbour is often underestimated and undervalued. Protecting and managing the harbour correctly is not only important in its own right, but also important in securing the range of benefits that the harbour provides for society and the economy. This idea is encapsulated in the field of environmental economics¹ that from its modest beginnings in the 1960's has grown to be a major sub-discipline of economics.

Environmental economists have developed a number of market and non-market-based techniques to value the environment. One technique involves tradeoffs, and in evaluating such tradeoffs a number of 'valuation' techniques are available, including direct costs, hedonic pricing and contingent valuation. To some this is deemed as putting a 'price tag' on nature. However, it is true to say that the environment itself is not being valued, instead individual preferences for the environment is what is measured and compared.²

HBF recognises the importance of valuing unpriced values associated with Hong Kong's harbour. HBF supports efforts to measure, protect, and enhance the harbour and we ask that a strong leadership role is taken to ensure that analysis, forecasting and decision-making properly accounts for the full range of important economic and social services provided by the harbour.

¹ Environmental economics acknowledges the value of both the environment and economic activity and makes choices based on those values by taking into account all the costs and benefits. The theories are designed to take into account pollution and natural resource depletion, which the current model of market systems fails to do. This "failure" needs to be addressed by correcting prices so they take into account "external" costs.¹ External costs are uncompensated side effects of human actions. For example, if a stream is polluted by runoff from agricultural land, the people downstream suffer a negative external cost or externality. (Source: A Brief Introduction to Environmental Economics by Marlies Wierenga ELAW. August 2003)

² CIWEM, p. 4., loc. cit.

Paper 1

Professor Bill Barron - Hong Kong Harbour: An economic asset not fully realised

Biography: Bill Barron is an environmental economist receiving, his PhD from the John's Hopkins University in 1980. In 2005, he left HKU and joined the staff of The Institute for the Environment of the Hong Kong University of Science and Technology (HKUST). His work has focused on environmental aspects of transport policy, urban planning, and energy use. Bill also works for the public policy think tank Civic Exchange, in both advisory (Board of Directors 2003-05) and research capacities.

The concept of unpriced value is expanded in Professor Bill Barron's paper and from his study two things stand out. First, the Total Economic Value (rather than the financial value) of Hong Kong's harbour is often undervalued and decisions made regarding its use and stewardship do not accurately reflect the true value it offers our community. Instead, the value of Hong Kong's harbour largely depends upon market revenues such as land prices or local jobs. Yet, being economically efficient in the context of the harbour requires taking into account unpriced values, as well as priced values so as to maximize *Total Economic Value*³ of the harbour and the land surrounding it. If we truly seek to maximize society's TOTAL ECONOMIC VALUE, WE CANNOT IGNORE UNPRICED VALUES.

Second, we are making decisions about the harbour with little regard for how unpriced values change at the margin. 'Utility theory' (and indeed 'price theory') tells us that the 'value' of each unit of a good or service depends to a significant degree on how much or little we have of it.

At best there is a 'balance in expansion' or a 'balance' in terms of future development. In other words harbour-front amenity spaces typically come in a package coupled with more roads, commercial property development, etc. Yet from a marginal value perspective, such a 'balance' for new development would only make sense if the existing split in land uses were not so heavily skewed toward priced values and away from unpriced ones.

³ The term 'economic' here does not refer to monetized values alone but includes un-priced *values* as well.

Paper 2

Fiona Waters - Harbour Value Study: How Much Are You Willing to Pay? HK\$73 Billion

Biography: Fiona Waters is a Director of GHK (Hong Kong) Ltd and has 15 years experience in consultancy. She is an economist and financial analyst and holds a BA and MA in economics from Cambridge University, UK. Fiona rejoined the Hong Kong office after five years working for the GHK International division on major planning and development projects funded by the Asian Development Bank (ADB) and the World Bank in Asia and the Pacific, working in more than 10 countries and on projects with total investment value of more than US\$2 billion.

The second paper carried out by GHK is a Contingent Valuation study that assigned an implicit dollar value of HK\$73 billion that Hong Kong residents would be willing to pay for improved planning and development of the harbour. The most important elements of an ideal harbour included:

- Green areas: 91%
- Recreational Places: 91%
- Promenades: 89%

This is a powerful piece of research that demonstrates that people in Hong Kong want a better harbour and are willing to pay (a considerable sum) for it. Such a high dollar value also provides evidence to Hong Kong's decision makers that harbour planning and development is a priority and Government revenue-generating land uses may not be the best solution for the harbour-front. Such a high dollar value is also strong justification for revisiting existing plans for the harbour, and for planning in the future.

Hong Kong arguably has one of the best waterfronts in the world, but it needs to protect and enhance this asset to improve our quality of life and our competitiveness. The HBF hopes that these Contingent Valuation findings will widen the scope for Government to obtain evidence of community preferences and values not only for the Harbour, but also across a wide range of policy issues affecting the quality of life in Hong Kong.

HBF's Call for Action

HBF recognises the importance of the unpriced values associated with Hong Kong's harbour and believes that they are not adequately considered. In the light of this, HBF supports efforts to measure, protect, and enhance the harbour and we ask that a strong leadership role is taken to:

- (1) Fund and coordinate the comprehensive measurement of baseline data on the state of Hong Kong's harbour and the natural capital it offers, to estimate the loss of such capital over the past decades and to ensure continuing measurement of such impacts into the future.
- (2) Ensure that analysis, forecasting and decision-making properly account for the full range of important economic and social services provided by the harbour;
and
- (3) Coordinate efforts to conserve and where feasible restore this piece of natural capital.

Therefore, the HBF hope to see an investment in (a) the science of measuring value, and monitoring the harbour's environmental goods and services, and (b) the development of economic instruments and an assessment framework that recognises and protects the natural capital of the harbour and accounts for the often substantial unpriced services and other values it provides.