

For discussion
on 8 July 2005

FCR(2005-06)28

ITEM FOR FINANCE COMMITTEE

GENERAL REVENUE ACCOUNT HEAD 22 – AGRICULTURE, FISHERIES AND CONSERVATION DEPARTMENT

Subhead 700 General non-recurrent

New item “Ex-gratia payments to live poultry farmers, wholesalers and related transporters”

New item “One-off grants to assist affected live poultry farm, wholesale and transport workers”

HEAD 49 – FOOD AND ENVIRONMENTAL HYGIENE DEPARTMENT Subhead 700 General non-recurrent

Item 436 Ex-gratia payment to live poultry retailers surrendering their licences with endorsement to sell live poultry or public market tenancies

Item 437 Re-training and one-off grants to assist affected live poultry retail workers

LOAN FUND

HEAD 262 - PRIMARY PRODUCTS

New Subhead “Loans to live poultry transporters”

Subhead 151 Loans to live poultry retailers

Members are invited to –

For Agriculture, Fisheries and Conservation Department (Head 22 Subhead 700)

- (a) approve the creation of a new commitment of \$344.5 million for making ex-gratia payments to live poultry farmers who voluntarily surrender their Livestock Keeping Licences and cease

/rearing

rearing live poultry permanently; to live poultry wholesalers who voluntarily surrender their poultry stall tenancies at the Cheung Sha Wan Temporary Wholesale Poultry Market and/or Western Wholesale Food Market and cease operation at these Wholesale Markets; and to live poultry transporters who voluntarily surrender their monthly car park tenancies at these Wholesale Markets and cease operation of delivery of live poultry permanently and upgrade/convert their vehicles for other business operations;

- (b) approve the creation of a new commitment of \$21.6 million for providing a one-off grant to assist the affected local workers of the live poultry farm/wholesale/transport industry;

For Primary Products (Head 262)

- (c) approve the creation of a new subhead “Loans to live poultry transporters” under the Loan Fund with a commitment of \$14.0 million for making loans on an unsecured basis to live poultry transporters who cease operation of delivery of live poultry permanently and upgrade/convert their vehicles for other business operations; and

For Food and Environmental Hygiene Department (Head 49 Subhead 700) and Primary Products (Head 262 Subhead 151)

- (d) note the extension of the application period for the EGP and loans to live poultry retailers, and the one-off grant for live poultry retail workers, under the voluntary surrender scheme for live poultry retailers so as to tally with the application deadline for the voluntary surrender scheme for live poultry farmers, wholesalers and transporters.

/(e)

- (e) note the change in the financial assistance arrangement for live poultry retail workers, i.e. to provide a one-off grant of \$18,000 to each of the affected workers and to withdraw the provision of retraining courses.

PROBLEM

To implement our comprehensive plan of action to deal with the increasingly global and serious threat of avian influenza, we need to formulate a voluntary surrender package for those live poultry farmers, wholesalers and transporters who choose to receive an ex-gratia payment (EGP) in exchange for surrendering their licences/tenancies and ceasing operation on a permanent basis.

PROPOSAL

- 2. We propose to –
 - (a) create a new commitment of \$344.5 million for making **EGPs** to
 - (i) poultry **farmers** who voluntarily surrender their Livestock Keeping Licences (LKLs) and cease rearing live poultry permanently;
 - (ii) live poultry **wholesalers** who voluntarily surrender their poultry stall tenancies at the Cheung Sha Wan Temporary Wholesale Poultry Market and/or Western Wholesale Food Market (Wholesale Markets) and cease operation at these Wholesale Markets permanently; and
 - (iii) live poultry **transporters** who voluntarily surrender their monthly car park tenancies and cease operations of delivery of live poultry permanently and upgrade/convert their vehicles for other business operations;
 - (b) create a new commitment of \$21.6 million for providing a one-off grant of \$18,000 per worker to assist the affected local **workers of the live poultry farm/wholesale/transport industry**;

/(c)

- (c) by extension, change the financial assistance arrangement for live poultry **retail workers**, i.e. to provide a one-off grant of \$18,000 to each of the affected retail workers and to withdraw the provision of retraining courses so as to tally with the similar arrangement for the affected local workers of the live poultry farm/wholesale/transport industry;
- (d) create a new subhead “**Loans to live poultry transporters**” under Loan Fund with a commitment of \$14.0 million for making loans to live poultry transporters who cease operation of delivery of live poultry permanently and upgrade/convert their vehicles for other business operations; and
- (e) extend the **application period** for the EGP and loans to live poultry retailers, and one-off grant for live poultry retail workers under the voluntary surrender scheme for live poultry retailers administered by Food and Environmental Hygiene Department (FEHD) as approved under FCR(2004-05)25 on 2 July 2004 so as to tally with the application deadline for the voluntary surrender scheme for live poultry farmers, wholesalers and transporters.

JUSTIFICATION

3. The avian influenza outbreaks started in early 2004 in Southeast Asia indicate that the avian influenza viruses are becoming more pathogenic and causing higher fatality. In the light of this development and, having regard to the recent studies conducted and the warnings issued by the World Health Organisation, the Government announced in March 2005 a comprehensive plan of action to reduce the risk of avian influenza outbreaks in Hong Kong.

4. As the comprehensive plan of action would bring about fundamental changes to the existing modus operandi of the live poultry farm, wholesale and transport industry, we consider it appropriate, as in the case of live poultry retailers, to introduce a voluntary surrender scheme for live poultry farmers, wholesalers and transporters who voluntarily choose to surrender their licences/ tenancies and cease operation permanently.

THE PROPOSED PACKAGE

5. We propose to allocate **\$380.1 million** to fund the proposed incentive packages for live poultry farmers, wholesalers and transporters to encourage them to voluntarily surrender their licences/tenancies, to provide one-off grants to assist affected local workers of the live poultry farm/wholesale/transport industry, and to provide loans to live poultry transporters without monthly car park tenancies in the Wholesale Markets to upgrade/convert their vehicles.

/A.

A. Ex-gratia payments

Poultry Farmers

6. The objective of the proposed voluntary surrender scheme for poultry farmers is to reduce as much as possible the number of poultry farms in Hong Kong, in particular the very small ones which are unable to implement the required biosecurity measures fully because of physical and other constraints, and allow those poultry farmers who do not wish to operate in the new environment to cease their operation permanently.

7. The EGP calculation will broadly follow the current formulae for calculating ex-gratia allowances for poultry farmers and farm buildings affected by land resumption and clearance for public work projects, as approved by the Finance Committee (FC) of Legislative Council (LegCo) They will be calculated using the prevailing rates under these ex-gratia allowances at the time when an application is approved. Only structures in which applications have been submitted to the Agriculture, Fisheries and Conservation Department (AFCD) on or before 14 March 2005 for approval will be eligible for the EGP calculation. To provide a better incentive for the licensees to surrender their LKLs, we consider it reasonable to adopt more lenient factors for calculating the EGP. In this regard, we would –

- (a) assume that all poultry farm structures are fully enclosed so that a higher EGP for fully (as compared with partially) enclosed farm structures would result in the farm structure component;
- (b) assume that all farm structures are new so that the highest modification factor (i.e. 0.75) currently adopted in public development clearance could be used for calculating EGP for live poultry farms;
- (c) include in the EGP calculation a component accounting for the average installation cost of metallic chicken-rearing cages which are devices required by the Government to facilitate cage disinfection and prevent the harbouring of pathogens in chicken farms; and
- (d) provide an additional lump sum payment to chicken and pigeon farms to account for their investment in biosecurity facilities. For chicken farms, these biosecurity measures are mandatory requirements set out in the licensing conditions. We propose to set the lump sum payment at \$150,000 per chicken farm. For pigeon farms, since these biosecurity facilities are of relatively smaller scale, we propose to set the lump sum payment at \$50,000 per pigeon farm. There will not be any additional lump sum payment for duck farms as none of them is in active commercial operation.

8. In addition, we propose to set a minimum EGP payable to chicken farms at \$450,000 per licence to encourage smaller poultry farms to surrender their licences. For pigeon farms, we consider it inappropriate to apply a minimum EGP because of the difference in the level of investment and operating costs. Instead, an enhancement of \$100,000 per licence will be added to the EGP amount derived from the formulae provided that the total amount of EGP payable per licence will not exceed \$350,000. For larger chicken farms with calculated EGP at \$450,000 and above and pigeon farms at \$350,000 and above, the eligible EGP will be calculated using the formulae as set out in paragraph 7 above. For duck farms, as none of them is in active operation, the EGP will be calculated based on the above formulae but without the component accounting for farm operation. A maximum ceiling of \$4.15 million will be set for the EGP for larger poultry farms as they are likely to be able to implement the required licensing conditions fully. Details pertinent to the computation of the EGP for poultry farms in accordance with the formulae with enhanced factors set out above are at Enclosure 1.

Encl. 1

9. The following table shows the total EGP for the existing types of farms –

	Number	Range of Building Areas (m²)	Estimated Total EGP (\$ million)
EGP			
Chicken farms	147	124 - 8 442	267.65
Pigeon farms	42	9 - 836	24.60
Duck farms	5	55 - 309	0.60
Total	194		292.85
			Say \$293.0 million

10. Similar to the EGP scheme for live poultry retailers, EGP applicants are required to cease their live poultry business and surrender their LKLs within nine months from the date of submission of their EGP applications. The LKLs will be revoked nine months from the date of application or on disbursement of the initial 70% of the EGP (details see paragraph 33 below), whichever is sooner. Any keeping of live poultry subsequent to licence cancellation will result in prosecution for illegal keeping. The eligibility criteria for the EGP for farmers are at Enclosure 2. The EGP scheme for poultry farmers would be open for applications for 12 months.

Encl. 2

/Live

Live Poultry Wholesalers

11. Similar to that of the prevailing voluntary surrender scheme for live poultry retailers, the proposed EGP formula for live poultry wholesalers is based on 27 months' average rental of live poultry stalls at the Wholesale Markets with an additional 12 months rental taking into account the fact that the live poultry wholesalers will have to terminate the tenancies of the stalls at the Wholesale Markets and cease operation at the Wholesale Markets permanently if they choose to receive the EGP.

12. The EGP for wholesalers will be calculated by the size of their stalls in the Wholesale Markets. Drawing reference from the arrangement for live poultry retailers, all stalls in the Wholesale Markets are divided into five major categories according to their size and the EGP payable is based on the maximum size of that particular category with an enhancement ranging from about 40% to 60%. A minimum amount of EGP payable will be set for the small-sized stalls (i.e. those up to 50 m²) and a maximum ceiling of 250 m² will be set for the large-sized stalls (i.e. those stalls over 200 m²) as the business volume of live poultry wholesalers does not increase proportionately with the increase in stall size.

13. The following table shows the EGP for various categories of stalls in the Wholesale Markets –

Size of stalls as assessed by AFCD (m ²)	Size for calculating EGP (m ²)	No. of stalls	Proposed EGP after Enhancement (\$)
Up to 50	50	75	383,363
Above 50 - 100	100	0	662,603
Above 100 – 150	150	2	993,905
Above 150 – 200	200	1	1,325,206
Above 200	250	8	1,656,508
Total		86	45,317,305
			Say \$45.5 million

Encl. 3 Detailed computation of the standard rate is at Enclosure 3.

14. Wholesalers applying for EGP are required to cease their business at the Wholesale Markets and surrender their tenancy within six months from the date of application. The tenancy will be terminated six months from the date of application or on disbursement of the initial 70% of EGP, whichever is sooner. The poultry stall concerned will be repossessed by the Government after the termination of the tenancy. Rental, if already paid, for the remaining period after the date of termination of tenancy would be refunded.

/15.

15. To tie in with our policy to reduce the number of live poultry wholesalers, AFCD will stop leasing out any vacant stalls at the Wholesale Markets to new and existing tenants.

16. We would also waive the two-calendar-month advance notice requirement for the termination of market tenancies for those wholesalers participating in the voluntary surrender scheme. The EGP scheme for live poultry wholesalers would be open for applications for 12 months. The eligibility criteria for the EGP for live poultry wholesalers are at Enclosure 2.

Live Poultry Transporters with monthly car park tenancies at the Wholesale Markets

17. As the surrender of licences/tenancies by live poultry farmers and wholesalers would inevitably affect the businesses of some live poultry transporters, we propose to provide EGP or loans to assist live poultry transporters in upgrading/converting their vehicles so as to transform their business from transporting live poultry to transporting chilled/frozen poultry/meat or other business operations. Currently, there are two kinds of live poultry transporters - those that have rented parking spaces at the Wholesale Markets on a monthly basis, and those that have not.

18. For those who have monthly car park rental at the Wholesale Markets, their situation is very similar to that of the live poultry wholesalers who rented a stall in the Wholesale Markets. As we propose to provide EGP for wholesalers, we are convinced that we should apply a similar arrangement to transporters who have monthly car park tenancies at the Wholesale Markets. The approved EGP will be disbursed to the applicant, subject to provision by the applicant of evidence¹ to the satisfaction of AFCD proving that the proposed vehicular upgrading/conversion work has been completed. With reference to the loan arrangement for live poultry retailers, we consider it prudent to set the amount of EGP at up to \$50,000 per vehicle. The EGP scheme for live poultry transporters would be open for applications for 12 months. The eligibility criteria for the EGP for live poultry transporters who have monthly rental at the Wholesale Markets are at Enclosure 2.

/19.

¹ Acceptable evidence would include photos showing the situation of the vehicles before and after the conversion/upgrading work and an invoice/receipt showing the conversion/upgrading costs incurred for the full amount of EGP provided. Inspection of the vehicles by AFCD staff may be required if the documentary evidence provided by the tenant is considered insufficient. The vehicle proposed for conversion should meet the criteria set out in Enclosure 5.

19. There would be about 120 eligible transporters and the financial commitment would be around \$6 million. EGP applicants are required to cease their live poultry transport business and surrender their car park tenancy within six months from the date of such application or on disbursement of the initial 70% of EGP, whichever is sooner. The concerned vehicle will not be allowed to enter the Wholesale Markets and the parking space concerned will be repossessed by the Government after the termination of the tenancy. Rental, if already paid, for the remaining period after the date of termination of tenancy would be refunded.

20. As to transporters that have not rented parking spaces, the proposed arrangement is set out in paragraph 27 below.

21. The Government has the absolute discretion not to entertain applications from farmers/wholesalers/transporters where the situation warrants. Their decision to surrender the LKLs/tenancies is binding on them and is irreversible once the LKL licensees/market tenants/car park tenants have entered into a contractual agreement with the Administration. However, if any licensee/tenant concerned fails to cease business as required under the agreement on the termination date, the Government will no longer be bound to pursue the agreement further and to provide the EGP.

22. If the live poultry farmer/wholesaler owes AFCD any outstanding loans/market rental, penalty or fees, or has failed to repay any loan and interest thereon under the loan schemes for live poultry farmers/wholesalers affected by the avian influenza outbreaks in 1997 and 2001, the Government will deduct the outstanding loan/rental, unpaid penalty and fees and interest thereon from the EGP payable to the licensee/wholesaler. Once a licensee/wholesaler has been granted the EGP, he/she will not be entitled to further financial assistance from Government for the live poultry trade, if any.

B. One-off grant for local workers of the live poultry farm, wholesale, retail and transport industry

23. To assist those local workers of the live poultry farm, wholesale and transport industry (including vehicle drivers, if they are not the owner of the vehicle, and porters) who become unemployed as a result of their employers ceasing operation under the proposed voluntary surrender scheme, we propose to provide a one-off grant of \$18,000 to each worker. We estimate that there would be about 1 200 eligible recipients. The funding required for providing one-off grants to farm, wholesale and transport workers is around \$21.6 million.

/24.

Encl. 4 24. The eligibility criteria for the one-off grant for workers are at Enclosure 4. If an affected worker re-enters the livestock trade after receiving the grant, he/she would not be eligible to reapply for it even if he/she has become unemployed again as a result of his/her employer's participation in any of the voluntary surrender schemes in relation to the livestock trade.

C. Retraining and one-off grants for live poultry retail workers

25. As a matter of fairness, we propose to apply the same arrangements to those live poultry retail workers who become unemployed because of the voluntary surrender scheme, i.e. to provide a one-off grant of \$18,000 for each worker. Those retail workers who have already attended/signed up and received offer to attend retraining courses under the original scheme will no longer be eligible for the one-off grant under the new arrangement, irrespective of whether they have completed the course. However, qualified ex-workers previously registered by live poultry retailers in submitting their EGP applications but who have not attended/signed up and received offer to attend the retraining courses could also apply for the \$18,000 one-off grant within six months from the approval date of the proposed scheme for farmers/wholesalers/transporters if they remain unemployed at the time of their application for the one-off grant. As a consequence of the above arrangement, FEHD will also cease running the current retraining courses for live poultry retail workers and the associated arrangements (e.g. the provision of training allowance of \$8,000 and \$10,000 one-off grant after retraining for unemployed workers).

26. Affected local workers of the live poultry farm, wholesale, retail and transport industry with further financial hardship would come under the Government's general protection for the unemployed. These unemployed local workers would be subject to the usual terms and conditions of the Comprehensive Social Security Assistance Scheme if they apply for such assistance. Where necessary, local workers can also apply to the Employee Retraining Board for employment retraining under the normal procedures.

D. Loans to live poultry transporters

27. While those live poultry transporters who surrender their monthly car park tenancies at the Wholesale Markets are entitled to EGP, we propose to provide an unsecured loan of up to \$50,000 per vehicle for those without a monthly car park tenancy at the Wholesale Markets for upgrading/converting their vehicles for

/conveying

conveying chilled/frozen products or for other business operations. Loan applicants are required to cease their live poultry transport business within six months from the date of application or on disbursement of the loan, whichever is sooner. Upon cessation of operation, the loan applicant's vehicle will be refused entry to the Wholesale Markets for the purpose of live poultry transport. The Government has the absolute discretion not to entertain any loan application where the situation warrants. The transporters' decision to cease operation is binding on them and is irreversible once borrowers have entered into a contractual agreement with the Government. However, if any borrower fails to cease business as required under the agreement on the termination date, the Government will no longer be bound to pursue the agreement further and to provide the loan facility.

28. The loans, to be released to the approved applicants as a lump sum, should attract an annual interest at the Government's "no gain, no loss" interest rate² and be repayable in 24 equal monthly instalments, beginning six months after the draw-down of the loan. Interest will accrue upon drawdown and be paid together with each instalment. We estimate that there would be about 280 live poultry transporters who have not rented monthly parking spaces in the Wholesale Markets. It is difficult to give an accurate estimate of the number of live poultry transporters who would apply for the loans. For budgetary purpose, we have assumed a 100% take up rate. As such, a commitment amounting to \$14 million will be required for this purpose. The detailed criteria for the loan are at Enclosure 5. The loan scheme for live poultry transporters would be open for applications for 12 months.

Encl. 5

29. Under this proposed scheme, any person receiving EGP will not be allowed to receive the one-off grant, and vice versa. Likewise, any person receiving loans will not be allowed to receive the one-off grant, and vice versa.

E. Extend the application deadline for the voluntary surrender scheme for live poultry retailers

30. On 2 July 2004, the FC approved the creation of non-recurrent commitments of about \$320 million for the Government to introduce a one-year incentive package to provide EGP to live poultry retailers to encourage them to surrender their licences/tenancies as appropriate and cease operation permanently on a voluntary basis. The FC also approved a loan commitment of \$9 million for making loan to retailers who wish to continue

/operating

² The Government's "no-gain-no-loss" interest rate is set at 2.308% below the average best lending rate of the note-issuing banks. The current "no-gain-no-loss" rate is 3.525% per annum.

operating to upgrade the hygiene condition of their shops. The FEHD, which is responsible for administering this incentive package, invited live poultry retailers to submit EGP applications within the one-year period from 13 July 2004 to 12 July 2005. Since the implementation of the voluntary scheme for live poultry farmers, wholesalers and transporters will have significant impact on the local supply of live poultry and hence the business operations of the live poultry retailers, it is proposed that the application deadline for the voluntary surrender scheme for live poultry retailers should be extended to tally with the application deadline for the scheme for the live poultry farmers, wholesalers and transporters. This proposal would also to a certain extent address the concerns of those live poultry retailers currently operating in private premises and public housing shopping centres/markets under the management of single operators who would like to join the scheme but are unable to cease business until the expiry of their current tenancy agreements.

31. Similarly, the Government will also extend the application deadline for the loan scheme for live poultry retailers to upgrade hygiene condition to tally with the application deadline for the voluntary surrender scheme for live poultry farmers, wholesalers and transporters.

Mechanism to ensure employers discharge responsibilities

32. Similar to the voluntary surrender scheme for live poultry retailers, we will impose measures to ensure all employers fully discharge their obligations towards their employees, including the legal responsibility to pay the employees still in their employment or to pay any laid-off employees the wages and other benefits provided for under the Employment Ordinance and the employment contract. We expect employers in the live poultry trade to discharge their full responsibilities to their employees having regard to EGP made available under the proposed package.

33. To encourage employers to fulfil their obligations to their employees but without interfering in any employer-employee relationship, we propose to retain 30% of the EGP till the employers (including farmers, wholesalers and transporters) have discharged their responsibilities towards the employees. Such arrangement is in line with the prevailing practice of the EGP scheme for live poultry retailers. The retained portion of EGP would be paid to the LKL licensees, tenants of poultry stalls in the Wholesale Markets and monthly tenants of car park spaces in the Wholesale Markets concerned when they have met one of the following conditions -

- (a) no labour claim has been lodged with the Labour Department/Labour Tribunal by the applicant's employees within 30 days after surrendering the licence/tenancy; or

/(b)

- (b) in case there is a labour claim,
- (i) the worker does not pursue the claim further within 30 days after lodging the claim; or
 - (ii) the claim has been resolved.

34. Subject to funding approval from the FC, we plan to invite applications from the live poultry farmers, wholesalers and transporters as soon as possible and the scheme will last for 12 months.

FINANCIAL IMPLICATIONS

35. We estimate the total amount required to fund the proposed incentive packages for live poultry farmers, wholesalers and transporters to surrender their licences/tenancies, to provide one-off grants to assist affected local workers of the live poultry farm, wholesale and transport industry, and to provide loans to live poultry transporters without monthly car park tenancies in the Wholesale Markets to upgrade/convert their vehicles at about \$380.1 million with breakdown as follows –

	\$ million
EGP to live poultry farmers, wholesalers and transporters	344.5
One-off grant to local workers of the live poultry farm, wholesale and transport industry	21.6
Loans to live poultry transporters	14.0
Total	380.1

36. The proposed creation of new commitments of \$366.1 million for EGP to live poultry farmers, wholesalers and transporters, one-off grant to affected local workers of the live poultry farm, wholesale and transport industry and a new loan commitment of \$14 million for providing loans to live poultry transporters are one-off commitments. AFCD will administer the proposed scheme using its existing staff resources. There are no recurrent financial implications.

/37.

37. The application of the one-off grant arrangement (at \$18,000 per affected worker) to those live poultry retail workers who become unemployed because of the voluntary surrender scheme for live poultry retailers approved in July 2004 has no additional financial implications for the Government. The extension of the application period for providing EGP to live poultry retailers who choose to surrender their tenancy/licences and loans to live poultry retailers for enhancing hygiene condition of their shops will not entail the need for increasing the financial commitments approved for the purposes.

BACKGROUND INFORMATION

38. We announced at the joint meeting of the [Panel on Health Services and Panel on Food Safety and Environmental Hygiene held on 14 March 2005](#) the “Comprehensive Plan of Action to Deal with the Global Problem of Avian Influenza”, including the provision of EGP to live poultry farmers and wholesalers who surrender their licences/tenancies and for providing retraining and one-off grants to the affected workers. Loan commitments were also proposed to be created for providing loans to live poultry transporters for upgrading their vehicles.

39. Subsequent to the announcement, the [LegCo Panel on Food Safety and Environmental Hygiene held a meeting on 7 April 2005](#) to listen to the deputations from the live poultry trade. The AFCD also conducted several rounds of consultation with the live poultry trade, including farmers, wholesalers, transporters, trade associations and workers’ unions and discussed with them the details of the proposed voluntary surrender packages aiming to encourage them to cease operation permanently. The Secretary for Health, Welfare and Food also met with trade representatives to hear their views on the voluntary surrender scheme.

40. Taking into account the views from the trade and the general public, as well as drawing reference to the prevailing arrangements for live poultry retailers, we proposed an enhanced package to live poultry farmers, wholesalers, transporters and workers on 7 June 2005 to encourage them to voluntarily surrender their licences/tenancies as appropriate and cease operation permanently. We consulted the [LegCo Panel on Food Safety and Environmental Hygiene on the enhanced packages on 14 June 2005](#). The Panel Chairman and three members supported the enhanced package for live poultry farmers, wholesalers and transporters to surrender their licences/tenancies and the revised assistance to affected workers. However, four members objected to the revised packages. A motion was also passed to urge the Government to formulate a sustainable policy on agriculture to ensure the continuous operation of the live poultry industry.

41. Taking into account Members' wish to further enhance the package, further negotiations with the live poultry trade were conducted. The Executive Council subsequently approved a more enhanced package on 5 July 2005. In view of the imminent LegCo recess and to avoid further delay in the implementation of the voluntary surrender scheme, we have to put in a late submission for Members' approval.

URGENCY

42. We have placed this item on the agenda for 8 July 2005, which is the first available FC meeting after we have sorted out the key issues under the proposed scheme and also the last meeting before the close of the current legislative session. This is to ensure that, if the proposal is approved by Members, we can implement the proposal before the high risk winter season of avian influenza outbreak later this year.

Health, Welfare and Food Bureau
July 2005

**Voluntary Surrender Scheme
Ex-gratia Payment (EGP) to Poultry Farmers**

The EGP Formula

The EGP formula applicable to poultry farms consists of two components, one accounting for farm operation and the other for farm buildings (poultry sheds and agricultural stores), the calculations of which are based on the ex-gratia allowances for poultry farmers and farm buildings affected by land resumption and clearance for public works projects.

$$EGP_{(Total)} = EGP_{(Operation)} + [EGP_{(Poultry\ shed)} + EGP_{(Store)}]$$

For the farm operation component, EGP is calculated by multiplying a unit rate with the total area of all farm buildings (i.e. poultry sheds plus agricultural stores). The unit rate is reviewed by the Compensation Review Committee and approved by Financial Services and the Treasury Bureau (FSTB) annually in accordance with the formula approved by the FC. Current unit rates for different kinds of poultry farming operation are as follows -

- Chicken farming : \$597.37/m²
- Pigeon farming : \$483.07/m²
- Duck farming : not applicable as all duck farms are commercially inactive

For the farm building component, EGP for each kind of farm buildings (i.e. poultry shed or agricultural store) is calculated according to the following formula.

$$EGP_{(Poultry\ shed /Store)} = (L \times W \times P - S \times R) \times F, \text{ where}$$

L = length of building

W = width of building

P = unit replacement cost

S = length of open sides of not-fully-enclosed building

R = unit reduction cost factor for open-sided building

F = modification factor (condition of building, etc.)

The P and R unit costs for poultry sheds are different from those for agricultural stores. These unit costs are reviewed by the Compensation Review Committee and approved by FSTB annually in accordance with the formula approved by the FC. The current unit costs are as follows –

- P (poultry shed) : \$962.35/m²
- P (stores) : \$604.24/m²
- R (poultry shed) : \$659.29/m
- R (stores) : \$284.85/m

There are four categories of the F factor:

- (1) As new – 75%;
- (2) Not new but in very good condition/repair – 50%;
- (3) In reasonable or fair condition but in need of maintenance – 25%; and
- (4) In poor condition and in need of repair/maintenance – 15%.

Adoption of More Lenient Factors

To provide a better incentive for the licensees to surrender their LKLs, the following enhancements will apply to the EGP calculations for this voluntary surrender scheme –

- assume that all farm buildings are fully enclosed to the effect that there will be no reduction in the EGP component for farm buildings due to open-sided structures (i.e. $S \times R = 0$);
- assume that all farm structures are as new so that the highest modification factor (i.e. $F = 0.75$) currently adopted in public development clearance could be used for calculating EGP for live poultry farms; and
- in case of **chicken** farms, add to the current formula for public development clearance an extra EGP component accounting for the average installation cost of metallic chicken-rearing cages (a fixture within chicken sheds). Such installation, which is quite capital intensive, was among various on-farm bio-security measures required by the Government in recent years for the purpose of facilitating cage disinfection and preventing the harbouring of pathogens in chicken farms. This extra EGP component applicable only to chicken farms is calculated according to the following formula –

$$EGP_{(BioS)} = U \times L \times W \times D, \text{ where}$$

- U = unit installation cost of metallic chicken-rearing cage
- L = length of cage
- W = width of cage
- D = modification factor taking depreciation into account

The rate adopted for U is \$400/m² of **cage area**. The rate is estimated by AFCD in consultation with chicken farmers. The modification factor D will be taken as 0.75 in order to tally with the adopted level of F.

- provide an additional lump sum payment to chicken and pigeon farms to account for their investment in biosecurity facilities. For chicken farms, these biosecurity measures are mandatory requirements set out in the licensing conditions. We propose to set the lump sum payment at \$150,000 per chicken farm. For pigeon farms, since these biosecurity facilities are of relatively smaller scale, we propose to set the lump sum payment at \$50,000 per pigeon farm. There will not be any additional lump sum payment for duck farms as none of them are in active commercial operation.

**Ex-gratia payment for live poultry
farmers, wholesalers and transporters**

Proposed eligibility criteria for applications

Eligibility criteria

The applicant must belong to one of the following categories:

- A holder of a valid poultry farm licence issued by the AFCD and in active commercial operation (except for duck farms) during the 24 months period immediately before 14 March 2005.
- A tenant of a live poultry stall in the Cheung Sha Wan Temporary Wholesale Poultry Market and/or the Western Wholesale Food Market as at 14 March 2005.
- A tenant of a car parking space in the Cheung Sha Wan Temporary Wholesale Poultry Market and/or Western Wholesale Food Market as at 14 March 2005 and the vehicle concerned is in active commercial operation in live poultry delivery during the 24 months period immediately before 14 March 2005.

**Standard Rate of Ex-gratia Payment (EGP)
For Live Poultry Wholesalers**

The standard rate of EGP per m² is \$4,732.88 and is calculated as follows –

(a)	Average monthly rental of live poultry stalls at the wholesale poultry markets managed by the AFCD	\$6,133.22
(b)	The amount of ex-gratia payment is calculated on the basis of 39 months' rental ((a)x39)	\$ 239,195.52
(c)	Average size of a live poultry stall	50.54 m ²
(d)	Ex-gratia payment per m ² ((b)/(c))	\$4,732.88

Note: Calculation of the standard rate is based on figures before rounding to the nearest two decimals places.

**One-off Grants to Local Workers of the Live Poultry
Farm/Wholesale/Retail/Transport Industry Affected by the Voluntary
Surrender Scheme**

**Eligibility criteria for one-off grants to local workers of live poultry
farm/wholesale/transport industry**

To be eligible for the one-off grant, the full-time and part-time³ workers must be working for

- Holder(s) of a valid poultry farm licence issued by the AFCD who has(have) actively engaged in poultry farming (except for duck farms) during the 24-month period immediately before the surrender of LKLs; or
- Tenant(s) of live poultry stall(s) or car parking space(s) in the Cheung Sha Wan Temporary Wholesale Poultry Market and/or the Western Wholesale Food Market, who is(are) eligible for receiving the EGP and has applied for this; or
- Owner(s) of vehicles for transporting live poultry based on the records kept by AFCD who is(are) eligible for a loan and has applied for this,

for at least 90 days during the one-year period immediately before 14 March 2005 and have remained working in the live poultry farm or wholesale/transport trade until the live poultry farms, wholesale stalls or transporters have submitted an application to the AFCD for surrendering the LKL or the market/car park tenancy of the Wholesale Markets or have applied for the loan under the scheme.

2. The applicant must make a declaration on his employment status to support his claim in present/former employment in the live poultry farm, wholesale trade or transport trade and should be as far as practicable to provide relevant documentary evidence (e.g. Mandatory Provident Fund records, employment contracts, salary payment records, etc.). His employer(s) will also be asked to make a declaration confirming the applicant's employment record. As regards those workers who are self-employed, they will be required to show documentary evidence from the live poultry farms, wholesale stalls or transporters that have purchased their services. The employment information provided by the applicant and the employer(s) may be sent to the relevant Government departments or public organizations for cross-checking purposes. The applicant and the employer(s) concerned will be held responsible for any legal consequences for false declaration and may be liable to prosecution by the Government.

/3.

³ Part-time workers refer to those workers who have been working in the live poultry farming, wholesale and transportation business for at least 72 hours over a period of four weeks.

3. Live poultry farm licensees, wholesalers or transporters who become unemployed after surrendering their licences/tenancies are not eligible for the one-off grants as they have already received EGP (or loan in the case of transporters without monthly car park tenancies at the Wholesale Markets) when they surrender their licences/tenancies.

Eligibility criteria for one-off grants to Live Poultry Retail Workers

4. To be eligible for the one-off grant, the full-time or part-time workers⁴ must be working in the live poultry retail trade for at least 90 days during the one-year period immediately before 2 July 2004 and have remained working in the live poultry retail trade until the live poultry retailers have submitted an application to the FEHD for surrendering the market tenancy or Fresh Provision Shop licence with endorsement to sell live poultry.

5. The applicant must make a declaration on his employment status to support his claim in present/former employment in the live poultry retail trade and should as far as practicable provide relevant documentary evidence (e.g. Mandatory Provident Fund records, employment contracts, salary payment records, etc.). His employer(s) will also be asked to make a declaration confirming the applicant's employment record. As regards those workers who are self-employed, they will be required to show documentary evidence from the live poultry retail operators who have purchased their services. The employment information provided by the applicant and the employer(s) may be sent to the relevant Government departments or public organizations for cross-checking purposes. The applicant and the employers concerned will be held responsible for any legal consequences for false declaration and may be liable to prosecution by the Government.

⁴ Part-time workers refer to those workers who have been working in the live poultry retail business for at least 72 hours over a period of four weeks.

Loans for live poultry transporters

To assist live poultry transporters to transform their business from transporting live poultry to chilled/frozen poultry/meat or for other business operations, we propose to provide loans up to \$50,000 per vehicle on an unsecured basis to assist them in upgrading/converting their vehicles. The loans, to be released to the applicants as a lump sum, should attract annual interest at the Government's "no gain, no loss" interest rate⁵ and be repayable in 24 monthly instalments, beginning six months after the draw-down of the loan. Interest will accrue upon drawdown and be paid together with each instalment.

1. Purpose of loan To assist live poultry transporters to transform their business from transporting live poultry to chilled/frozen poultry or for other business operations.
2. Qualifications of applicants Applicant must be owner of a vehicle which has been actively engaged in transporting live poultry according to the eligibility criteria set (e.g. frequency of transporting live poultry) and records kept (e.g. vehicular entry/parking records in Wholesale Markets) by AFCD during the 24-month period immediately before 14 March 2005.
3. Number of loan No more than one loan per eligible vehicle.
4. Maximum amounts of loan and draw-down condition Maximum of \$50,000 for each eligible vehicle. The approved loan will be released to the applicant in one drawdown within six months from the date of application, subject to provision by the applicant of evidence⁶ to the satisfaction of AFCD that the proposed vehicular upgrading/conversion work has been completed.
5. Interest Interest will be charged at Government's "no gain, no loss" interest rate and will accrue upon drawdown.

/6.

⁵ The Government's "no-gain-no-loss" interest rate is set at 2.308% below the average best lending rate of the note-issuing banks. The current "no-gain-no-loss" rate is 3.525% per annum.

⁶ Acceptable evidence would include photos showing the situation of the vehicles before and after the conversion/upgrading work and an invoice/receipt showing the conversion/upgrading costs incurred. Inspection of the vehicles by AFCD staff may be required if the documentary evidence provided by the tenant are considered insufficient.

6. Repayment Loans to be repaid by 24 monthly installments. Repayment to start six months after the drawdown of the loan.
- In case of default in repayment, Director of Agriculture, Fisheries and Conservation (DAFC) may recover the sum outstanding together with the accrued interest from the borrower in such manner as he thinks fit. Higher interest at the average best lending rates of the note-issuing banks plus 2% will also be charged on any overdue amount (including accrued interest in arrears) until it is fully repaid.
7. Submission of applications Applications are to be submitted to AFCD.
- Applicants must submit their applications in the form specified by AFCD and submit such additional supporting information and documents as may be required by AFCD.
- Applications must be submitted within 12 months from the date of implementation of this voluntary surrender scheme.
8. Authority for approval of loans DAFC and officers authorized by him may approve any loan up to \$50,000. All the loans are to be administered by AFCD.
