

## **LEGISLATIVE COUNCIL BRIEF**

### **SURRENDER OF LICENCES/TENANCIES BY LIVE POULTRY FARMERS, WHOLESALERS AND TRANSPORTERS**

#### **INTRODUCTION**

At the meeting of the Executive Council on 7 June 2005, the Council ADVISED and the Acting Chief Executive ORDERED that, subject to the provision of the necessary funds by the Finance Committee of the Legislative Council -

- (a) a provision of \$342.1 million be made available for ex-gratia payment or financial assistance to –
  - (i) poultry farmers who choose to surrender their Livestock Keeping Licences;
  - (ii) live poultry wholesalers who choose to surrender their tenancies at the Cheung Sha Wan Temporary Wholesale Poultry Market and the Western Wholesale Food Market (Wholesale Markets);
  - (iii) local live poultry farm, wholesale and transport workers whose employment are affected by the voluntary surrender scheme; and
  - (iv) live poultry transporters who choose to surrender their monthly parking tenancies for their vehicles at the Wholesale Markets.
- (b) a loan commitment of \$14 million be set up for those live poultry transporters who have not rented monthly parking spaces at the Wholesale Markets to enable them to upgrade their vehicles for the transport of chilled/frozen meat or other products.

2. The Council also ADVISED and the Acting Chief Executive ORDERED that the application deadline for the voluntary surrender scheme for live poultry retailers be extended to dovetail with the application period allowed for the voluntary surrender scheme for poultry farmers, wholesalers and transporters.

## **JUSTIFICATION**

3. We announced at the joint meeting of the Panel on Health Services and Panel on Food Safety and Environmental Hygiene (the Joint Meeting) held on 14 March 2005 the “Comprehensive Plan of Action to Deal with the Global Problem of Avian Influenza”, including the provision of ex-gratia payment (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.

4. Subsequent to the announcement, the Agriculture, Fisheries and Conservation Department (AFCD) conducted several rounds of consultation with the live poultry trade, including farmers, wholesalers, transporters, trade associations and workers’ unions. The Secretary for Health, Welfare and Food also met with trade representatives to hear their views on the voluntary surrender scheme.

5. 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 propose to offer the following improved packages of financial assistance to live poultry farmers, wholesalers, transporters and workers to encourage them to voluntarily cease operation permanently.

### **The Proposed Packages**

#### **(A) EGP to Poultry Farmers Who Choose Voluntarily to Surrender Their Livestock Keeping Licences and to Cease Operation Permanently**

6. Under the Public Health (Animals and Birds) Ordinance (read in conjunction with the Waste Disposal Ordinance Cap. 354), any poultry farm keeping more than 20 birds (including chickens, ducks, geese and pigeons) must apply for a Livestock Keeping Licence (LKL) issued by the Director of Agriculture, Fisheries and Conservation (DAFC). We propose to provide

EGP to poultry farmers who choose to surrender their LKL and cease rearing poultry on a permanent basis.

7. The EGP calculation will follow the current formulae for public development clearance approved by the Compensation Review Committee and the LegCo Finance Committee, in which there are two major components in the formulation of the EGP, namely the EGP for farm operation and EGP for farm buildings. However, to provide a better incentive for the farmers 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 the higher EGP rate for fully (as compared with partially) enclosed farm structures would apply in calculating the EGP;
- (b) assume that all farm structures are new so that the lowest depreciation factor (i.e. 0.75) currently adopted in public development clearance could be used for calculating EGP for live poultry farms; and
- (c) include in the formula an EGP component accounting for the farmers' capital investment on biosecurity facilities demanded by the Government for the purpose of preventing the introduction of avian influenza viruses to farms.

8. In addition, we plan to set the minimum EGP payable to chicken farms at \$300,000 per licence to encourage smaller poultry farms to surrender their licences. For pigeon farms, we consider it inappropriate to apply the 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 formula provided that the total amount of EGP payable per licence will not exceed \$300,000. For larger chicken or pigeon farms with calculated EGP exceeding \$300,000, the EGP payable will be calculated using the above formulae. For duck farms, as none of them are in active operation, the EGP will be calculated based on the above formulae but without the farm operation component. A maximum ceiling of \$4,000,000 will be set for the EGP for larger poultry farms as they are likely to be able to implement the required biosecurity measures fully.

9. It is estimated that the funding required for providing EGP to live poultry farmers who choose voluntarily to surrender their LKL and cease rearing poultry on a permanent basis would be about \$269 million, assuming a full take up rate.

**(B) EGP to Live Poultry Wholesalers Who Choose Voluntarily to Surrender Their Tenancies at the Wholesale Markets and to Cease Operation Permanently**

10. Under the Public Health (Animal and Birds) Ordinance, the Wholesale Markets are the only designated locations for conducting wholesale activities of live poultry in Hong Kong. Therefore, any live poultry wholesaler surrendering its tenancy in the Wholesale Markets is in effect terminating his/her live poultry wholesale business in Hong Kong.

11. In the paper discussed at the Joint Meeting, we proposed granting the EGP to the live poultry wholesalers based on 27 months' average rental of live poultry stalls at the Wholesale Markets and enhanced by 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, cease operation and exit the trade permanently if they choose to receive the EGP. The EGP for wholesalers would be calculated by the size of their stalls in the Wholesale Markets, with a minimum amount of the EGP payable set for the small-sized stalls (i.e. those up to 50 m<sup>2</sup>) and a maximum ceiling set for the large-sized stalls (i.e. those over 200 m<sup>2</sup>).

12. During our negotiations with the wholesalers, the trade disputed the rationale of calculating EGP by stall size. They suggested that reference should be made to the volume of business turnover, profit tax or a fixed lump sum as the basis of EGP calculation. In this regard, we consider that calculating EGP for wholesalers by the size of their stalls at the Wholesale Markets remains the most objective benchmark. This approach is also comparable to the EGP formula for live poultry retailers. However, to provide a better incentive for live poultry wholesalers to surrender their tenancies, it is proposed to provide an enhanced EGP for different category of stalls. With reference to the prevailing EGP scheme for live poultry retailers endorsed by the Finance Committee on 2 July 2004, we propose to enhance the EGP for live poultry wholesalers as follows -

(a)	(b)	(c)	(d)	(e)
Size of stalls as assessed by AFCD (m <sup>2</sup> )	Size for calculating EGP (m <sup>2</sup> )	No. of stalls	Initial offer of EGP (Note)	Proposed EGP after Enhancement
Up to 50	50	75	236,644	383,363
Above 50-100	100	0	473,288	662,603

Above 100 – 150	150	2	709,932	993,905
Above 150 – 200	200	1	946,576	1,325,206
Above 200	250	8	1,183,220	1,656,508

**Note** - The initial offer of EGP was presented at the joint meeting of the LegCo Panel on Health Services and Panel on Food Safety and Environmental Hygiene held on 14 March 2005. The proposed EGP rate in column (e) above has been enhanced by about 40% to 60% of those in column (d).

We estimate that EGP required for live poultry wholesalers would be about \$45.5 million, assuming a full take up rate.

### **(C) Financial Assistance for Live Poultry Farm, Wholesale and Transport Workers**

13. In the paper discussed at the Joint Meeting, we proposed applying the current retraining and financial assistance package for live poultry retail workers to those who work in the live poultry farms, wholesale and transport sectors who are rendered jobless by the proposed voluntary surrender scheme. Under this arrangement, a worker would be able to receive a maximum of \$18,000, comprising a training allowance of \$8,000 and a one-off grant of \$10,000, if they remain unemployed after the completion of the retraining programme.

14. In our discussions with the farm, wholesale and transport worker unions, they considered that the current arrangement was too rigid to be of help to those unemployed workers who might endure financial hardship during the intervening period when retraining courses were being arranged. This problem was further exacerbated by the scattered locations of different workers and their vastly different retraining interests, thus resulting in a much longer period for retraining courses to be provided than originally expected. Many LegCo Members also expressed similar views and asked for a more user-friendly approach to help the affected workers.

15. Taking into account the above views, we consider it justifiable to add more flexibility to the financial assistance arrangement for the affected workers so that they need not wait for an undue long period of time before being able to receive the financial assistance. As such, it is proposed to provide an one-off grant of \$18,000 to each local live poultry farm, wholesale and transport worker who becomes unemployed as a result of his/her employer ceasing operation under the voluntary surrender scheme. The granting of financial assistance will be subject to identity proof similar to that for live poultry retail workers. A worker is only entitled to receive the one-off

grant once even if his/her subsequent employers choose to join any surrender schemes available for the live poultry trade. For those who still wish to participate in retraining, AFCD would assist them to apply to the Employee Retraining Board (ERB) or other relevant agencies under the normal procedures. If the affected workers continue to face financial difficulties after receiving the one-off grant under the voluntary surrender scheme, they would come under the Government's general protection for the unemployed and are subject to the usual terms and conditions of the Comprehensive Social Security Assistance Scheme if they apply for such assistance.

16. As a matter of fairness, it is proposed to apply the same arrangements to those live poultry retail workers who become unemployed because of the voluntary surrender scheme. In practice, those retail workers who are already taking/have completed retraining courses under the original scheme and/or have enrolled in courses but fail to show up would not be eligible for the one-off grant under the new arrangement.

17. The funding required for providing one-off grants to farm, wholesale and transport workers is estimated to be about \$21.6 million, based on approximately 1 200 eligible recipients. There is no new funding requirement for implementing the new arrangement for retail workers. Assistance to the affected workers in seeking retraining will be absorbed by the existing resources.

**(D) EGP or Loans to Live Poultry Transporters Who Choose Voluntarily to Surrender the Monthly Parking Tenancies of their Vehicles at the Wholesale Markets and to Cease their Live Poultry Delivery Operation Permanently**

18. The surrender of licences/tenancies by live poultry farmers and wholesalers would inevitably affect the businesses of some live poultry transporters. To this end, we proposed to provide a loan of up to \$50,000 per vehicle to live poultry transporters to enable their vehicles to be upgraded for the transport of chilled/frozen poultry. At present there are about 400 live poultry transporting vehicles in Hong Kong of which around 120 have rented monthly parking spaces in the Wholesale Markets.

19. During our discussions with the live poultry transporters, the trade expressed their difficulty in shifting to chilled/frozen products because of the totally different market operations involving cross border transportation and other liaison network with chilled/frozen product suppliers who would already have their own system of transportation. The transporters therefore asked for more flexible assistance in upgrading or converting their vehicles for other business operations.

20. Similar to the financial assistance to affected workers, we consider it reasonable to allow greater flexibility for live poultry transporters to upgrade or convert their vehicles for any other alternative business opportunities that they may seek to pursue. Furthermore, as some of these transporters have rented parking spaces at the Wholesale Markets on a monthly basis, their situation is very similar to that of the wholesalers, hence warrants similar treatment. We therefore propose EGP instead of loan to those live poultry transporters who choose to surrender their monthly tenancies of parking spaces for their vehicles at the Wholesale Markets. In accordance with our preset objective, we consider it prudent to set the amount of the EGP at \$50,000 per vehicle which transporters could use to upgrade/convert their vehicles for conveying chilled/frozen products or for other business operations. Under these criteria, there would be about 120 eligible transporters and the financial commitment would be around \$6 million on the assumption of a full take up rate. As for other transporters without any monthly tenancies to surrender, they would not be eligible for EGP under the current scheme but are still eligible for a loan of up to \$50,000 to upgrade their vehicles for transporting chilled/frozen meat or other products. After receiving the EGP or the loan, the transporters concerned would not be allowed to enter the Wholesale Markets to convey live poultry again. Moreover, they will not be entitled to any further financial assistance from Government for the live poultry trade, if any. To prevent abuse, we shall set a cut-off date for the proposed scheme after which any new transporters joining the trade will not be eligible for the EGP nor the loan. The financial commitment for the loan to about 280 live poultry transporters without monthly rental at the Wholesale Markets would be around \$14 million.

**(E) Extend the Deadline for the Voluntary Surrender Scheme for Live Poultry Retailers**

21. On 2 July 2004, the LegCo Finance Committee 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 Finance Committee also approved a loan commitment of \$9 million for making loans to the retailers who wish to continue operating to upgrade their facilities. The Food and Environmental Hygiene Department (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 schemes 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 former schemes. 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.

## **IMPLICATIONS OF THE PROPOSAL**

### **Basic Law and Human Rights Implications**

22. The proposal is in conformity with the Basic Law, including the provisions concerning human rights.

### **Financial and Civil Service Implications**

23. We propose to set aside \$342.1 million to provide EGPs to farmers, wholesalers and transporters and one-off grants to the affected workers, representing a higher financial commitment when compared with the original estimated commitment of \$264 million as stated in the paper discussed at the Joint Meeting. The increase is mainly due to the more lenient terms for calculating the EGP for live poultry farms, the enhancement made to live poultry wholesalers and provision of grants instead of loans to live poultry transporters who have rented monthly parking spaces at the Wholesale Markets. A loan commitment of \$14 million is also proposed to be created for providing loans to those transporters without any monthly tenancies to surrender.

24. It is envisaged that the reduction of the number of live poultry farms, wholesalers and transporters may result in staff saving, particularly in the areas of farm inspections and the management of the Wholesale Markets, depending on the participation rate of the voluntary surrender schemes. The staff released will be re-deployed within AFCD to administer the proposed schemes and to implement other assignments as appropriate. The proposals do not have other civil service implications.

## **Economic Implications**

25. A rough guesstimate is that around 25% of the local live poultry farms, particularly those run by families and those of small to medium size, will choose to cease operation permanently because many of the licencees are approaching the retirement age. The reduction of local chicken supply might have a knock-on effect for wholesalers and transporters. The price level of local chickens will probably increase but we do not expect that the consumer price index will be seriously affected as consumers may choose other substitutes such as chilled and frozen poultry, and other meat products. Reduction in live poultry trading will also be offset by trading in other food commodities.

26. Weighing the overall impact on the trades and the public against the reduced risk of recurrence of an avian influenza outbreak, the proposal is expected to provide net benefits in terms of enhanced public health to the community as a whole.

## **Productivity**

27. The proposal has no productivity implications.

## **Environmental Implications**

28. The proposed measures will reduce/eliminate the poultry farming and live poultry trading activities in Hong Kong. This would result in reduced discharge of treated effluent into rivers/streams and environmental nuisance to nearby residents.

## **Sustainability Implications**

29. The proposed measures would reduce potential health hazards posed by avian influenza in our densely populated community with a high consumption of live poultry at the retail end. In general, the proposed measures and policy direction of separating humans from live poultry would contribute to the sustainability principle of providing a living and working environment and pursuing policies which promote and protect the physical and mental health and safety of the people of Hong Kong. Nevertheless, the proposals would also create unemployment although the extent is expected to be small. AFCD will provide all possible assistance in conjunction with the relevant Departments if necessary.

## **PUBLIC CONSULTATION**

30. We formally announced our plan at the joint meeting of the LegCo Panel on Health Services and Panel on Food Safety and Environmental Hygiene held on 14 March 2005. The latter also held a special meeting on 7 April 2005 to hear depositions from the trade. The relevant paper has also been discussed by the Advisory Council on Food and Environmental Hygiene at its meeting held on 23 March 2005 and the Advisory Committee on Agriculture and Fisheries at its meeting held on 5 May 2005.

31. In parallel, AFCD has met with representatives of live poultry farmers, wholesalers, transporters and workers' unions since mid March 2005 to brief them on the details of the proposed schemes. The Administration also met with some LegCo Members and representatives of various sectors of the live poultry trade to discuss the details of the voluntary surrender schemes.

## **PUBLICITY**

32. We intend to seek funding approval from the LegCo Finance Committee on 8 July 2005. Press releases and a line-to-take will be prepared. A spokesman will be available to answer media enquiries.

**Health, Welfare and Food Bureau**

**7 June 2005**