

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 pig farm licencees”
New Item “One-off grants to assist affected pig farm and live pig transport
workers”**

**LOAN FUND
HEAD 262 – PRIMARY PRODUCTS
New Subhead “Loans to live pig transporters”**

Members are invited to –

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

- (a) approve the creation of a new commitment of \$920.8 million for making ex-gratia payments to pig farmers who voluntarily surrender their Livestock Keeping Licences and cease rearing pigs permanently;
- (b) approve the creation of a new commitment of \$14.4 million for providing a one-off grant to assist the affected local workers of the live pig farming/transport industry; and

/For

For Primary Products (Head 262)

- (c) approve the creation of a new subhead “Loans to live pig transporters” under the Loan Fund with a commitment of \$6.5 million for making loans on an unsecured basis to affected live pig transporters who cease operation of delivery of local live pigs permanently and upgrade/convert their vehicles for other business operations.

PROBLEM

To reduce the number of pig farms in Hong Kong thereby reducing associated public health and environmental pollution problems, we need to formulate a voluntary surrender package for those pig farmers who choose to receive an ex-gratia payment (EGP) in exchange for surrendering their Livestock Keeping Licences (LKLs) and ceasing operation on a permanent basis.

PROPOSAL

- 2. We propose to –
 - (a) create a new commitment of \$920.8 million for making EGPs to pig farmers who voluntarily surrender their LKLs and cease rearing live pigs permanently;
 - (b) create a new commitment of \$14.4 million for providing a one-off grant of \$18,000 per worker to assist the affected local workers of the live pig farming/transport industry; and
 - (c) create a new subhead “Loans to live pig transporters” under Loan Fund with a commitment of \$6.5 million for making loans to affected live pig transporters who cease operation of delivery of local live pig permanently and upgrade/convert their vehicles for other business operations.

/JUSTIFICATION

JUSTIFICATION

3. Pig farming has a long history in Hong Kong and was not subject to any regulation or control until the mid 1980s. At present, there are 265 pig farms in Hong Kong rearing about 330 000 pigs while the total rearing capacity is about 430 000 pigs. These farms generate an estimated 520 tonnes of excrement each day.

4. With the rapid urbanisation of Hong Kong, particularly in the New Territories, sustainable pig farming in Hong Kong is no longer a realistic long-term policy option in view of the public health and pollution problems arising from it. The Administration should therefore freeze the number of pig farms, by stopping the issue of new pig farm licences and freezing the current rearing capacity to restrict the number of pigs in Hong Kong. In parallel, the Government should tighten up the existing livestock licensing regulatory regime by ensuring strict compliance with the licensing conditions. Under the circumstances, it is considered appropriate that a voluntary surrender scheme for pig farmers should be introduced for those who do not wish to continue to operate under an increasingly stringent regulatory regime.

THE PROPOSED PACKAGE

5. We propose to allocate **\$941.7 million** to fund the EGP scheme for pig farmers to encourage them to voluntarily surrender their LKLs, to provide one-off grants to assist affected local workers of the live pig farming/transport industry and to provide loans to affected live pig transporters to upgrade/convert their vehicles.

A. Ex-gratia payment to pig farmers

6. There will be two major components in the formulation of the EGP, namely the EGP for farm operation and EGP for farm structures, such as pig sheds and agricultural stores, etc. The EGP calculation will broadly follow the current formulae for calculating ex-gratia allowances for pig farmers and farm buildings affected by land resumption and clearance for public work projects, as approved by the Finance Committee (FC) of Legislative Council. The EGP will be calculated using the prevailing rates under these ex-gratia allowances at the time when an application is approved, and the relevant details including farm building dimensions and licensing capacity recorded in the LKL valid as at 1 January 2006. To provide a better incentive for the pig farmers to surrender their licences, we consider it reasonable to adopt more lenient factors for calculating the EGP. They are set out as follows –

/(a)

- (a) We will assume that all farm structures are fully enclosed so that a higher rate for fully (as compared with partially) enclosed farm structures will apply in calculating the EGP. Furthermore, we will assume that farm structures are new so that the lowest depreciation factor (i.e. 0.75), as currently adopted in public development clearance, will be used for calculating the EGP for pig farms;
- (b) As pig farming has existed in Hong Kong for a long period, the majority of the licensees are relatively elderly and may not wish or be able to change to other businesses. To provide an additional incentive to encourage them to cease operation permanently, we propose an extra lump sum to local pig farm licensees in accordance with the scale of operation to encourage them to surrender their livestock keeping licences. Farmers will receive an additional lump sum of \$150,000, \$300,000 or \$450,000 if their licensing capacities are below 1 000 pigs, between 1 000 to 2 999 pigs and 3 000 pigs or above respectively;
- (c) Local pig farms largely adopt the “wet-muck-out” (WMO) waste treatment method, which is capital intensive. To encourage pig farmers to surrender their licences, we propose to include in the EGP a component taking into account the farmers’ capital investment in WMO facilities, after necessary depreciation. Under the Livestock Waste Control Scheme launched in the late 1980s, capital grants of an amount equivalent to half of the estimated installation cost were made to eligible farmers by the Government up until 1996, as a means of encouraging farmers to install livestock waste treatment facilities. To forestall double benefit, the element of the capital grant will be deducted from the amount of EGP. Only pig farms with WMO facilities will be eligible for this component in the EGP. For farms which have received capital grants, the licensees will only be eligible to receive half of the amount of the component in the EGP. For farms with WMO facilities but have not received capital grants, the licensees will be eligible to receive the full amount. To reflect the market value of the WMO facilities, the latest available rate will be increased by 14.17% to take into account inflation in the cost of construction materials since 1996. This rate will remain unchanged throughout the implementation period of the scheme; and
- (d) To encourage smaller pig farms to surrender their licences, the minimum EGP payable to pig farmers will be set at \$300,000 per licence, excluding the additional lump sum set out in (b) above. In view of the voluntary nature of the scheme and in line with the similar arrangement adopted by the voluntary surrender scheme for live poultry farmers, a maximum ceiling of \$25 million will be set for the EGP, also excluding the additional lump sum set out in (b) above.

Encl. 1 7. Details pertinent to the computation of the EGP for pig farms in accordance with the formulae with enhanced factors set out above are at Enclosure 1. The total package payable to pig farmers will range between \$450,000 to \$25.45 million depending on the size of their farms and, to a lesser extent, their farm licensing capacity. The distribution is set out below –

EGP Payable per Farm (\$ million)	Number of Recipient Farms	Estimated Total EGP (\$ million)
Up to 1M	28	19.2
Above 1M – 4M	156	383.3
Above 4M – 8M	67	363.4
Above 8M – 25.45M	14	154.9
Total	265	920.8

Encl. 2 8. Similar to the voluntary surrender scheme for live poultry farmers, EGP applicants are required to cease their live pig business and surrender their LKLs within six months from the date of approval of their EGP applications. The LKLs will be revoked six months from the date of approval of the application or on disbursement of the initial 70% of the EGP (details see paragraph 17 below), whichever is sooner. Any keeping of live pigs subsequent to licence cancellation will result in prosecution for illegal keeping. The eligibility criteria for the EGP for pig farmers are at Enclosure 2. The EGP scheme for pig farmers would be open for applications for 12 months.

9. The Government has the absolute discretion not to entertain applications from pig farmers where the situation warrants. Their decision to surrender the LKLs is binding on them and is irreversible once the LKL licensees have entered into a contractual agreement with the Administration. However, if any licensee 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. The pig farmer concerned will be operating a pig farm without a valid licence with effect from the termination date.

10. If the pig farmer owes Agriculture, Fisheries and Conservation Department (AFCD) any outstanding loans, penalty or fees, the Government will deduct the outstanding loans, unpaid penalty and fees and interest thereon from the EGP payable to the licensee. Once a licensee has been granted the EGP, he/she will not be entitled to further financial assistance from Government for the live pig trade, if any.

B. One-off grants for local workers of the live pig farming/transport industry

11. To assist those local workers of the live pig farming/transport industry 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 800 eligible recipients. The funding required for providing one-off grants to them is around \$14.4 million.

Encl. 3

12. The eligibility criteria for the one-off grant for workers are at Enclosure 3. If an affected worker re-enters the live pig farming or transport sector 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 live pig trade.

C. Loans to live pig transporters

13. We expect that the voluntary surrender scheme will have a significant impact on the livelihood of the live pig transporters whose sole business is to transport live pigs from local farms to slaughterhouses. We estimate that there are about 130 vehicles in the trade. To assist these live pig transporters, we propose to provide an unsecured loan of up to \$50,000 per vehicle for them to upgrade/convert their vehicles for conveying chilled/frozen products or for other business operations. Loan applicants are required to cease their live pig 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 all local slaughterhouses for the purpose of live pig 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.

14. 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 rate^{Note} and be repayable in 24 equal monthly instalments, beginning six months after the draw-down of the loan. It is difficult to give an accurate estimate of the

/number

^{Note} 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 5.859% per annum.

Encl. 4

number of live pig transporters who would apply for the loans. For budgetary purpose, we have assumed a 100% take up rate. As such, a commitment amounting to \$6.5 million will be required for this purpose. The detailed criteria for the proposed loan scheme are at Enclosure 4. The loan scheme will be open for applications for 12 months.

15. Under this proposed voluntary surrender 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. However, an EGP recipient may be allowed to receive a loan if he/she fulfils all necessary eligibility requirements.

Mechanism to ensure employers to discharge responsibilities

16. Similar to the voluntary surrender scheme for the live poultry trade, 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 trade to discharge their full responsibilities to their employees having regard to the EGP made available under the proposed package.

17. 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 have discharged their responsibilities towards the employees. Such arrangement is in line with the prevailing practice of the EGP scheme for the live poultry trade. The retained portion of EGP would be paid to the pig farmers 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; or
- (b) in case of 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.

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

FINANCIAL IMPLICATIONS

19. We estimate that, assuming a full take-up rate, the total amount required to fund the proposed incentive package would be about \$941.7 million with breakdown as follows –

	\$ million
EGPs to pig farmers surrendering their livestock keeping farm licences	920.8
One-off grants to assist affected local pig farm and live pig transport workers	14.4
Loans to transporters whose businesses are affected by surrendering of pig farm licences	6.5
Total	941.7

20. The proposed creation of new commitments of \$935.2 million for EGPs to pig farmers and one-off grants to affected local workers and a new loan commitment of \$6.5 million for providing loans to live pig transporters are one-off commitments. AFCD will administer the proposed scheme using its existing staff resources. There are no recurrent financial implications.

BACKGROUND

21. We announced at the meeting of the Panel on Food Safety and Environmental Hygiene (“the Panel”) held on 11 April 2006 the proposal to launch a voluntary surrender scheme to grant EGPs to pig farmers who surrender their licences and to provide one-off grants to the affected local workers in live pig farming/transport industry. A loan commitment was also proposed to be created for providing loans to live pig transporters for upgrading their vehicles. All Members attending the Panel meeting supported the launching of the proposed scheme.

22. The proposal to buy back pig farming licences was first raised by local pig farmers. Since January 2004, we have been in discussion with the relevant trade representatives on the terms of the voluntary surrender scheme. The current proposed package has the support of the majority of the local pig farmers. In this regard, Health, Welfare and Food Bureau received over 190 written submissions, representing nearly half of all pig farms, urging early launch of the voluntary surrender scheme.

URGENCY

23. We have placed this item on the agenda for 28 April 2006 with a view to ensuring that, if the proposal is approved by Members, we can implement the proposal before the high risk summer season of Japanese Encephalitis outbreak later this year.

Health, Welfare and Food Bureau
April 2006

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

The EGP Formula

The EGP calculation will broadly follow the current formulae as approved by the Finance Committee (FC) of the Legislative Council for calculating ex-gratia allowances for pig farmers and pig farm buildings affected by land resumption and clearance for public work projects. The formula is as follows –

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

For the farm operation component, EGP is calculated by multiplying a unit rate with the total area of all farm buildings (i.e. pig sheds plus agricultural stores). The unit rate is reviewed by the Compensation Review Committee (CRC) and approved by the Financial Services and the Treasury Bureau (FSTB) annually in accordance with the formula approved by the FC. The current unit rate for pig farming operation is \$516.59/m².

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

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

L = length of building

W = width of building

P = unit replacement cost (\$/m²)

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

R = unit reduction cost factor for open-sided building (\$/m)

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

The P and R unit costs for pig shed are different from those for agricultural store. These unit costs are reviewed by the CRC and approved by the FSTB annually in accordance with the formula approved by the FC. The current unit costs are as follows –

$P_{(pig\ shed)}$:	\$908.39/m ²
$P_{(store)}$:	\$648.18/m ²
$R_{1(pig\ shed)}$:	\$266.74/m (for open structures above the height of 1.2m approximately)
$R_{2(pig\ shed)}$:	\$484.49/m (for structures with no side windows or walls)
$R_{(store)}$:	\$319.91/m

/There

There are four categories of the modification factor F –

- (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 pig farms; and
- add to the current formula for public development clearance an extra EGP component accounting for pig farmers' capital investment in “wet-muck-out” (WMO) waste treatment facilities which are capital intensive. This extra EGP component ($EGP_{(WMO)}$) is calculated according to the following formula –

$$EGP_{(WMO)} = U \times A \times D, \text{ where}$$

U = unit installation cost of WMO facilities ($\$/m^2$)

A = total area of all farm structures (pig sheds plus agricultural stores)

D = modification factor taking depreciation into account

Only pig farms installed with WMO facilities as indicated in the licensing record will be eligible for this component. If the eligible farm received capital grant from the Environmental Protection Department under the Livestock Waste Control Scheme before, the $EGP_{(WMO)}$ computed in accordance with the above formula payable under the current scheme will be reduced by half. The rate adopted for U is $\$611.95/m^2$. The rate is derived from the old capital grant rate, taking into account of inflation over the years. The modification factor D will be taken as 0.75 in order to tally with the adopted level of F, the modification factor for farm structures.

/Provide

- Provide an additional lump sum in accordance with the scale of operation. Farmers will receive an additional lump sum of \$150,000, \$300,000 or \$450,000 if their licensing capacity is below 1 000 pigs, between 1 000 to 2 999 pigs or 3 000 pigs or above respectively.

Ex-gratia payment for live pig farmers

Proposed eligibility criteria for applications

Eligibility criteria

The applicant must be a holder of a valid pig farm licence issued by the AFCD and in active commercial operation during the 24 months period immediately before 1 January 2006.

Eligibility Criteria for One-off Grants to Local Workers of the Pig Farms and Live Pig Transporters Affected by the Voluntary Surrender Scheme

To be eligible for the one-off grant, the full-time and part-time^{Note} workers must be working for

- Holder(s) of a valid pig farm licence issued by the AFCD who has(have) actively engaged in pig farming during the 24-month period immediately before 1 January 2006 and is (are) eligible for EGP and has(have) applied for it; or
- Owner(s) of vehicles for solely and actively transporting local live pigs to slaughterhouses during the 24-month period immediately before 1 January 2006 who is(are) eligible for a loan and has(have) applied for it,

for at least 90 days during the one-year period immediately before 1 January 2006 and have remained working in the pig farm until the pig farmer concerned has submitted an application to the AFCD for surrendering the LKL or for a pig transporter until the transporter concerned has applied for a 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 pig farm or with the live pig transporter 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 pig farmers or live pig transporters 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 employer(s) concerned will be held responsible for any legal consequences for false declaration and may be liable to prosecution by the Government.

3. Under this proposed scheme, any person receiving EGP and/or loan will not be allowed to receive the one-off grant, and vice versa.

^{Note} Part-time workers refer to those workers who have been working in the live pig farming/transport industry for at least 72 hours over a period of four weeks.

Loans for live pig transporters

To assist affected live pig transporters whose sole business is to transport live pigs from local farms to slaughterhouses (those transporting imported live pigs are not eligible) to transform their business from transporting live pig to chilled/frozen 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 rate¹ 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 affected live pig transporters to transform their business from transporting live pig to chilled/frozen meat or for other business operations.
2. Qualifications of applicants Applicant must be owner of a vehicle which has been solely and actively engaged in transporting live pigs from local farms to slaughterhouses (those transporting imported live pigs are not eligible) according to certain eligibility criteria e.g. frequency of transporting live pigs, and relevant supporting records (e.g. vehicular entry/parking records kept by the slaughterhouse management) during the 24-month period immediately before 1 January 2006.
3. Number of loan No more than one loan per eligible vehicle.
4. Maximum amount 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 evidence² to the satisfaction of AFCD that the proposed vehicular upgrading/conversion work has been completed.

/5.

¹ 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 5.859% per annum.

² 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 applicant is considered insufficient.

5. Interest Interest will be charged at Government's "no gain, no loss" interest rate and will accrue upon drawdown and be paid together with each instalment.

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 she 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 her may approve any loan up to \$50,000. All the loans are to be administered by AFCD.
