

**For discussion
on 26 May 2006**

LegCo Panel on Food Safety and Environmental Hygiene

Loan Schemes For Fishermen

PURPOSE

This paper seeks members' views on proposed loan schemes to assist capture fishermen to pursue alternative modes of operations and to tide over the annual fishing moratorium in the South China Sea, and to assist fish farmers to develop aquaculture business.

BACKGROUND

2. The fisheries resources in Hong Kong waters have been declining significantly since the 1990s. The catches of local fishing fleet have decreased from 224 000 tonnes in 1990 to 162 000 tonnes in 2005. Apart from declining fisheries resources, our fishermen have been facing a very difficult operating environment in recent years as a result of increasing competition from Mainland fishing vessels, soaring fuel price and declining fish price. The average annual profit of pair trawlers has decreased from \$336,000 per vessel in 1996 to \$135,000 in 2004. Amid such operating environment, some fishermen, particularly those operating trawlers, have expressed interest in switching to other types of sustainable fisheries operation. However, most of them have encountered difficulty in acquiring loans from commercial financial institutions as their income is unstable and their fishing vessels are often not accepted as collateral. They also find the commercial interest rate unaffordable. At present, fishermen may borrow loan (at 6% simple rate) from the Fisheries Development Loan Fund (FDLF), a government loan fund with an approved capital of \$100 million, to promote fishing development such as offshore fishing. However, the current loan does not provide for the development of other non-fishing sustainable operation such as aquaculture and the current balance of the fund (\$27 million) is only sufficient to meet the funding requirement of a few applications for

developing offshore fishing business. The fisheries trade has repeatedly requested the government to provide more low interest loan to help them. Besides, the government also sees a need to introduce measures to conserve fishery resources in local waters.

Fishing Moratorium

3. Fuel constitutes over 70% operating cost of fishing operations. As at April 2006, the price of diesel has risen to \$860 per barrel (200 litres), which has almost doubled that of \$400-\$500 per barrel in 2004. On average, fishermen need to acquire about 100 barrels of diesel for each fishing trip in the South China Sea. The high petroleum price, has drastically aggravated the burden of fishermen and rendered them very difficult to maintain their living. When it comes to the annual South China Sea fishing moratorium period in June and July each year, during which trawling and purse-seining operations are not allowed, those Hong Kong fishermen who fish with these methods mainly at the Mainland waters suffer particularly seriously as they have to cease fishing operation. With higher operating cost and less earnings, the trade has much difficulty in saving up to tide over the moratorium period.

4. Since 2000, the Fish Marketing Organization Loan Fund (FMOLF) which is set up by the Fish Marketing Organization (FMO), a statutory body established by the authority of the Marine Fish (Marketing) Ordinance (Cap 291) has, from its own financial resources, been providing low interest loans to the affected fishermen with genuine financial hardship. The remaining balance of the fund would not be sufficient to cater for the loan demand this year and the coming years, particularly in anticipation of more fishermen requiring assistance in face of the increasingly difficult operating environment.

Fish Farming

5. To foster the sustainable development of local aquaculture industry, the Agriculture, Fisheries and Conservation Department initiated a voluntary Accredited Fish Farm Scheme in June 2005. The scheme was very well received by local mariculturists and pond fish farmers since its inception. As accredited, safe and wholesome

aquaculture products continue to be sought after by consumers, there is a potential huge demand for locally reared fishes. This development has prompted some local fish farmers to consider upgrading and expanding their business. However, the majority of fish farmers are small-scale farmers operating on marginal profits and lacking capital for development of their aquaculture business amid difficult operating environment attributing to keen competition with imported fish, high operating costs, substantial loss suffered from such unfortunate events as the red tide and prolonged cold spell incidents over the past decade. Against this background, local fish farmers have repeatedly urged the government to strengthen financial support to them for the sustainable development of the aquaculture industry.

PROPOSALS

6. To assist fishermen to pursue alternative modes of operation so as to conserve fishery resources, to help fishermen tide over the annual fishing moratorium, and to help fish farmers develop their aquaculture business with a view to upgrading the quality of culture fish, we propose to seek the Finance Committee of the Legislative Council's approval to increase the commitment of the loan capital of the FDLF by \$190 million to \$290 million and to inject \$60 million into FMOLF to provide loans to fishermen and fish farmers as set out in the following.

Loan for Fishermen

7. We propose that \$150 million of the additional loan capital together with balance of the existing loan capital of FDLF are to be used to provide low interest loan (at 2.5% compound rate) to assist fishermen, in particular trawler fishermen who exert the greatest pressure on local fisheries resources, to switch to sustainable fisheries or related operations including but not limited to long-lining, recreational fishing, fish farming, fish transportation, fisheries product processing and other fisheries related operations. The low interest loan would provide incentive for fishermen to switch to sustainable fisheries or related operations which would, in turn, help address the overfishing problem and conserve fisheries resources. Only those loan proposals which would result in reduction of

fishing effort in Hong Kong waters (e.g., switching from trawling to non-trawling operations or from fishing to non-fishing operations such as aquaculture or fish transportation) would be considered. Loan borrowers will be required to stop trawling or fishing with the previous methods in Hong Kong waters in future. This would effectively help reduce fishing efforts in Hong Kong waters.

Loan for Fish Farmers

8. We propose to set aside \$40 million of the additional loan capital of the FDLF to provide loan at no-gain-no-loss¹ level (5.859% as at April 2006) for mariculturists and pond fish farmers to develop their aquaculture business. Fish farmers may use the loan to expand their farms, upgrade their farm facility and equipment, such as acquisition of automatic feed dispenser, installation of modern hatchery, nursery and culture system, and improvement of water quality monitoring or filtration system. The proposed provision of loans to local fish farmers would not only help promote the sustainable development and competitiveness of local aquaculture industry, but also enhance the production and improve the quality and food safety standards of local aquaculture products which would, in turn, benefit the general public by large. Moreover, aquaculture provides one of the opportunities for capture fishermen to switch to other sustainable development. Helping the fish farmers develop their sustainable aquaculture operations would certainly provide more incentive for the capture fishermen to turn to this business. Conversely, if the aquaculture industry is not sustainable, fish farmers have to look for other alternatives for living including fishing, which would put more pressure on the already depleted fisheries resources.

Moratorium Loan

9. We propose to inject \$60 million into the FMOLF for FMO to provide loan to fishermen affected by the moratorium. They may use the loan to tide over the two months period in June and July and to make preparation for resumption of fishing activities after the moratorium, such

¹ The no-gain-no-loss interest rate is set at a certain percentage below the average of the best lending rates (BLR) of the note-issuing banks, with that percentage being the average differential between the BLR and the Hong Kong Inter Bank Offered Rates (HIBOR) in the preceding 120-month period.

as repairing of fishing vessels and gear and purchases of fuel. In order to conserve fisheries resources, fishermen who borrow the loan will not be allowed to conduct fishing activity in local waters during the fishing moratorium period. The provision of loan assistance together with requiring loan borrowers not to fish in Hong Kong waters during the period would help protect local fisheries resources and marine environment for the overall interest of Hong Kong people. The continuous need for the loan facility would be reviewed after five years.

10. The loans will be made available by the Government at an interest rate of no-gain-no-loss level. Nevertheless, in view of the severe financial hardship currently facing by the fishermen and having regard to the similar loans being provided by the FMO, we would propose that the loan borrowers will only be required to pay interest at 2% per annum (compound rate) and the differential between the no-gain-no-loss level and 2% to be absorbed by the FMO. This is considered appropriate as FMO's revenue mainly comes from charging commission and fees from the fishermen and fish traders for using the market services and facilities and it is in line with the FMO's existing policy to channel back its surplus earnings into the local fisheries industry for the promotion and sustainable development of the industry.

ADVICE SOUGHT

11. Subject to members' comments on the proposed loan schemes, we would make a submission to seek the approval of the Finance Committee in June 2006.

Health, Welfare and Food Bureau
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