

立法會 *Legislative Council*

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Meeting of the Panel on Food Safety and Environmental Hygiene on 13 March 2007

Background Brief prepared by Legislative Council Secretariat

Development of the poultry slaughtering and processing plant

Purpose

This paper provides a summary of the main discussions relating to the development of the proposed poultry slaughtering and processing plant (the proposed plant) held at the meetings of the Panel on Food Safety and Environmental Hygiene (the FSEH Panel) and its joint meetings with the Panel on Health Services (HS Panel) since April 2004.

Background

2. On 2 April 2004, the Administration briefed the FSEH Panel on the public consultation paper on "Prevention of avian influenza: consultation on long term direction to minimise the risk of human infection". The Administration advised members that, to protect public health, the present mode of operation of the live poultry trade would have to be modified. Two possible long-term approaches were proposed in the Consultation Paper, i.e. the "cold chain" (or central slaughtering) and the "freshly slaughtered chickens" (or regional slaughtering).

3. The Administration advised the FSEH Panel on 14 March 2006 that, as a practical means to address the avian influenza problem, the Administration had been actively exploring the development of a poultry slaughtering plant in Hong Kong to put together poultry slaughtering activities.

4. On 13 October 2006, the FSEH Panel was advised that the Administration had identified a suitable site at Man Kam To Road in Sheung Shui for developing the proposed plant and consulted the North District Council. The plant would be developed by the private sector under a Build, Own, Operate and Transfer arrangement. A formal tender exercise would be conducted and a bill introduced into Legislative Council in 2007 to provide a regulatory framework for the operation of the plant. It was expected that the plant would come into operation in 2009-2010 at the earliest.

5. At the joint meeting of the FSEH Panel and the HS Panel on 12 December 2006, the Administration advised that an Invitation for Expression of Interest would be conducted soon after the joint meeting, with the deadline for reply by mid January 2007, and the tender exercise to be conducted in August to November 2007.

The FSEH Panel's visit to overseas poultry slaughtering plants

6. A delegation of the FSEH Panel conducted a visit to Singapore and Kuala Lumpur to obtain first-hand information about the operation of poultry slaughtering plants in these places in July 2006. The observations of the delegation are in **Appendix I**.

Main discussions relating to the development of the proposed plant

Central slaughtering approach and regional slaughtering approach

7. The FSEH Panel held a special meeting to gauge the views of experts and the trade on the "cold chain" and "freshly slaughtered chickens" approaches. The medical experts preferred the "cold chain" option which was considered to be the most effective approach to prevent avian influenza. However, most members and representatives from the live poultry trade strongly opposed this option. They were concerned that the proposed "central" slaughtering plant would not be able to compete with the poultry processing plants in the Mainland, and the live poultry trade in Hong Kong would be wiped out eventually, as in the case of live geese and ducks trade after 1997.

8. While the live poultry trade also opposed the "freshly slaughtered chickens" option, some members considered that this approach could be further explored. Some medical experts also agreed that this option could help reduce human contact with live poultry and effectively prevent avian influenza. Under this option, slaughtering of live poultry would be conducted in a few regional slaughtering plants.

9. When the Administration briefed the FSEH Panel on the result of the consultation exercise, the Panel was informed that diverse views had been received from the professional groups, the live poultry trade and the general public. As the live poultry trade raised strong objection to central slaughtering, the Administration had not taken a policy decision on whether central or regional slaughtering should be adopted. Members urged the Administration to fully consult the relevant trades and address their concerns in taking a decision on the development of the poultry slaughtering plant.

10. When the FSEH Panel discussed the proposal for developing a poultry slaughtering plant in Hong Kong, some members considered that the Administration should proceed with the development of the proposed slaughtering plant immediately so as to achieve the objective of segregating humans from live poultry. Some other members, however, held the view that re-configuration of poultry stalls in some markets to segregate live poultry from customers, as advocated by the Administration, was effective in reducing customer contact with live poultry. They doubted the need for developing a "central" poultry slaughtering plant.

11. Some members expressed strong reservations about the proposed establishment of a "central" poultry slaughtering plant and doubted the effectiveness of the plant in reducing the risk of avian influenza outbreak.

12. The Administration explained that, under existing modus operandi of the live poultry trade, it would be difficult to achieve human-poultry segregation as there were poultry stalls in markets. The risk of avian influenza would be greatly reduced as the proposed plant was situated in Sheung Shui which was only about five-minute's drive from the border. Moreover, the plant would adopt an enclosed and nuisance containing system where live chickens would be kept inside and within an entirely enclosed environment. Other safety measures would also be put in place to prevent the infection of avian influenza.

Impact on the livelihood of the live poultry trade and related trades

13. Some members pointed out that the "cold chain" approach would drive the live chicken operators out of business and could lead to unemployment of many live poultry workers. They also urged the Administration to address the concerns of the trade.

14. According to the Administration, an extra-gratia payment would be provided to those poultry farmers, wholesalers and retailers who chose to surrender their licences/tenancies under the voluntary surrender scheme. Assistance would be provided to those workers of live poultry farms/wholesalers/retailers/transporters who became unemployed as a result of their employers ceasing operation under the voluntary surrender scheme. (For the Administration's proposals for the voluntary surrender scheme of licences/tenancies for the live poultry retailers and for the live poultry farmers/wholesalers/retailers/transporters which were approved by the Finance Committee on 2 July 2004 and 8 July 2005 respectively, please see **Appendices II and III**).

15. Some members considered that the Administration should provide financial assistance to the affected traders and workers to help them switch to other business. They expressed disappointment that the Administration did not have a specific plan to address the concerns and problems of the live poultry trade.

16. Some members reiterated their concern and urged the Administration to provide financial assistance to poultry workers. They expressed strong dissatisfaction that, despite the fact that a motion urging the Government to introduce relief measures and compensation policies to the live poultry trades was carried at the Council Meeting on 29 November 2006, the Administration did not consult the affected trades and work out any proposals to assist the live poultry trade and the affected trades. They criticised that the change in the Government policy on the live poultry trade would wipe out the whole trade. In their view, the Administration should conduct a study on the impact of the development of the plant on the affected trades.

17. The Administration explained that, when the voluntary surrender scheme was launched, the live poultry trade was fully aware that the fundamental mode of operation of the poultry industry, including production, marketing and sales, would be changed. The Administration also pointed out that the local poultry farms could continue to operate even after the slaughtering plant came into operation. However, given that the sale of live poultry at retail outlets would be prohibited, all live poultry would have to be slaughtered at the proposed plant. A progress report from the Administration on the motion debate on "Relief Measures and Compensation Policies for Live Poultry Trades" is in **Appendix IV**.

Financial viability of the proposed plant

18. Members expressed concern about the financial viability of the proposed plant as it would face keen competition from chilled chicken supplied by the Mainland. Some members considered that the failure of the slaughtering plant for ducks and geese at the Western Wholesale Food Market provided valuable reference in making a decision on developing a slaughtering plant for live chickens.

19. Some members pointed out that one of the reasons attributing to the viability of the operation of poultry slaughtering plants in Singapore was the banning of chilled chickens from other places. They were worried that, if there was no response to the Administration's Invitation for Expression of Interest, the Administration would consider offering privileged terms to the operator of the plant such as land allocation or interest free loan.

20. The Administration advised that, according to the report of the financial feasibility study, the plant was considered commercially viable. With better regulatory control over the hygienic conditions of the plant, chilled chickens which were freshly slaughtered in Hong Kong should have an edge over the chilled chickens from the Mainland.

Monopoly of the supply and distribution of freshly slaughtered chickens

21. Members expressed concern about the monopoly over the supply of freshly slaughtered chickens, which would result in higher retail prices. Some members pointed out that most chilled chickens were sold at retail outlets operated by the two major supermarket chains. They expressed concern that the future market of chilled chickens would be monopolised by one of these supermarket chains if either one of them successfully bid for the operation of the slaughtering plant. Members reiterated their concern about the monopolistic situation of future supply of freshly slaughtered chickens at the joint meetings of the FSEH Panel and the HS Panel on 17 June and 12 December 2006.

22. The Administration explained that the plant operator would be selected through open tender and that provisions would be included in the tender documents to require the plant operator to provide slaughtering service at the same charge for the importers of poultry from the Mainland, buyers of local poultry and local poultry farmers.

Supply of freshly slaughtered (or "warm") chickens

23. Hon Tommy CHEUNG pointed out that the public preferred freshly slaughtered or "warm" chickens to chilled chickens. He expressed concern whether the proposed plant would be able to supply "warm" chickens to licensed food premises.

24. The Administration advised that the Administration was open-minded about the supply of freshly slaughtered chickens to market by the plant. The operator could decide whether or not to provide freshly slaughtered or "warm" chickens on a limited scale in addition to chilled chickens, provided that the "warm" chickens could be delivered to customers within two hours. The Administration pointed out that, given the well-developed transport networks in Hong Kong, it would take less than two hours to get from Man Kam To Road to the urban areas.

Latest developments

25. The Administration will brief the FSEH Panel on 13 March 2007 on the outcome of the Invitation for Expression of Interest exercise for the proposed plant.

Relevant papers

26. A list of relevant papers and documents is in **Appendix V** for members' easy reference. The papers and documents are available on the Council's website at <http://www.legco.gov.hk/english/index.htm>.

Council Business Division 2
Legislative Council Secretariat
8 March 2007

**Extract from the Report of the
Panel on Food Safety and Environmental Hygiene on its
duty visit to study the operation of poultry slaughtering in
Singapore and Kuala Lumpur**

Chapter 5 – Observations

General

5.1 The delegation is of the view that the information obtained during the visit on poultry slaughtering and food safety measures has provided useful reference for Hong Kong. The observations of the delegation are given in the following paragraphs.

Poultry slaughtering process

5.2 The delegation is impressed by the advanced technology adopted by the two poultry slaughtering plants which they visited in Singapore and Kuala Lumpur. The delegation finds both the water-chilled and air-chilled technologies in processing carcasses impressive, and the latter technology more advanced. The slaughtering process reduces human contamination as a result of the minimal physical contact. Particularly noteworthy is the attention given to the hygienic principles in design implemented by these plants in segregating “dirty” and “clean” operations, and the requirement for workers to don protective clothing and to undergo hand and boot wash when entering the processing area.

5.3 The delegation is highly impressed by the stringent monitoring by the AVA in Singapore over the regulation of the overall operation and the slaughtering process, and over the requirement for poultry slaughter-houses to comply with the relevant legislation. AVA has also taken active precautionary measures to prevent and control the outbreak of avian influenza in Singapore.

5.4 The delegation notes that the dressed chickens should be chilled down to 4°C after they have been shackled in high temperature, and the practice in Singapore is to bring down the temperature of the carcasses within 30 minutes after shackling. As the Hong Kong Special Administrative Region Government has proposed that freshly slaughtered or “warm” chickens would be delivered to customers within two hours in Hong Kong, the delegation has doubt over the viability of this proposal as bacteria can multiply rapidly.

Poultry slaughtering plants

5.5 The delegation has noted that although the slaughtering of live chickens in Singapore has to be carried out in a poultry slaughtering plant licensed by the AVA, such slaughtering is not handled centrally by one single plant. There are 10 plants in different locations in Singapore for slaughtering live chickens.

5.6 To minimise environmental impact, the delegation notes that the poultry slaughtering plants are located away from residential areas and the vehicles transporting live poultry pass through as few residential areas as possible.

5.7 As regards the viability of the poultry slaughtering plants, the delegation has noted that the banning of chilled chickens from Malaysia to Singapore is one of the main reasons attributing to their viability in Singapore. The delegation has also noted that the major competition faced by suppliers of chilled chickens in Singapore is from frozen chickens.

Markets/hawker centres in Singapore

5.8 The delegation has found the measures adopted by the NEA in Singapore very effective in ensuring food safety at the retail end. These include the requirement for meat stallholders to equip their stalls with display chillers for the sale of pork, poultry, beef and mutton, for all food handlers to attend basic food hygiene course and pass examination, be vaccinated against typhoid, and go for tuberculosis screening for those age 45 and above, and the adoption of a grading system to let the public know the hygiene standards of the cooked food stalls they patronise.

5.9 The delegation also finds the hygiene standards of markets/hawker centres they visited to be of a very high standard. This is attributed to the proactive health education and dialogue which the Singapore Government has conducted to raise the awareness of the public and the trade about the importance of environmental hygiene and food safety. Members consider particularly commendable the Hawker Centres Upgrading Programme launched by the NEA in 2001 at an estimated cost of S\$420 million to upgrade all Government markets/hawker centres over a period of 10 years. In addition, the arrangement for stallholders in Government markets to be allowed to prepare siu mei at their stalls is a testament of the flexible approach adopted by the NEA to meet the demand of consumers.

Conclusion

5.10 The delegation has found the visit to Singapore and Kuala Lumpur very enlightening and useful. The detailed briefings and exchange of views between the delegation and the officials and executives in Singapore and Kuala Lumpur have provided useful reference when Members consider the Government's proposal for the setting up of a central poultry slaughtering system in Hong Kong.

**Extract from FCR(2004-05)25
for the Finance Committee meeting on 2 July 2004**

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GENERAL REVENUE ACCOUNT

HEAD 49 – FOOD AND ENVIRONMENTAL HYGIENE DEPARTMENT

Subhead 700 General non-recurrent

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

New Item “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 retailers"

THE PROPOSED PACKAGE

8. We propose to allocate **\$329,000,000** to fund the proposed incentive package for live poultry retailers to surrender their licences or tenancies, loans to live poultry retailers continuing operation and provide retraining and one-off grants to assist affected workers in the live poultry retail trade.

A. EGP to live poultry retailers who choose to surrender their FPS licences with endorsement to sell live poultry or public market tenancies on a voluntary basis

9. To provide financial relief to those live poultry retailers who choose to surrender their FPS licences with endorsement to sell live poultry or public market tenancies voluntarily, we propose to provide EGP to live poultry retailers. The proposed EGP is calculated on the basis of 39 months' average rental of live poultry stalls at public markets with particular reference to the EGP for the resumption of stalls in the Central Market plus an additional 12-month average rental taking into account that the retailers will not be allowed to re-establish their new business to sell live poultry elsewhere. Because the live poultry stalls in public markets vary in sizes, there is a need to ensure that smaller-sized stalls (i.e. those up to 25 m²) are given the appropriate incentive to surrender their licences/tenancies as they are likely to be the most vulnerable to the risk of avian influenza and that there is virtually no scope for any improvements to the design and physical lay-out of the stalls. All stalls are therefore divided into five major categories according to their size and the EGP is based on the maximum size of that particular category. All stalls falling within the same category will receive the same amount of EGP although their actual sizes are smaller than the maximum size of that particular category. The EGP amount, for small-sized outlets are enhanced by applying a 25%

and 10% increase for stalls of sizes up to 15 m² and sizes between 15 m² to 25 m² respectively. On the other hand, a maximum ceiling of 55 m² has been set for the large-sized outlets, i.e. stalls over 45 m², as unlike small-sized stalls, they should have less difficulties in enhancing their sanitary and hygiene requirements.

10. We consulted the LegCo Panel on Food Safety and Environmental Hygiene on the proposed package for live poultry retailers on 25 May 2004. The majority of Members supported the provision of an incentive package for live poultry retailers to surrender their licences or tenancies. However, some Members requested the Administration to offer a more generous package to the affected workers to alleviate the possible hardship that they might face if their employers chose to surrender the licences or tenancies. Some Members also considered that the proposed EGP amounts were not attractive enough. We also consulted representatives of the live poultry retail trade.

11. Having considered these views and the need for early implementation of our policy to separate humans from live poultry at the retail level, we propose to increase the EGP amounts by about 40% to **62.6%** of the initial offer to make them more attractive.

12. The EGP is only payable to poultry retailers renting live poultry stalls in public markets or holding valid FPS licences with endorsement to sell live poultry. The retailers will be required to surrender their existing tenancies or the FPS licences with endorsement to sell live poultry, as appropriate, before receiving the EGP.

13. The following table shows the EGP for various categories of stalls -

| (a) | (b) | (c) | (d) | (e) |
|--|--|-------------------------|---|----------------------|
| Size of stalls as assessed by FEHD (m ²) | Size for calculating EGP (m ²) | Estimated no. of stalls | Proposed EGP per stall (Note) (rounded up to nearest \$'000) (\$) | Total (c) x (d) (\$) |
| Up to 15 | 15 | 91 | 200,000 | 18,200,000 |
| Above 15 – 25 | 25 | 425 | 252,000 | 107,100,000 |
| Above 25 – 35 | 35 | 192 | 321,000 | 61,632,000 |
| Above 35 – 45 | 45 | 42 | 412,000 | 17,304,000 |
| Above 45 | 55 | 64 | 503,000 | 32,192,000 |
| Total: | | 814 | | 236,428,000 |

Note - The initial offer of EGP as presented to the LegCo Panel on Food Safety and Environmental Hygiene on 25 May 2004 ranged from \$123,000 to \$359,000. The proposed EGP rate as indicated in column (d) above has been enhanced by about 40% **to 60%**

14. The Government has the absolute discretion not to entertain applications from retailers where the situation warrants.

15. The market tenants/FPS licensees's decision to surrender the market tenancies/FPS licences selling live poultry is binding on them and is irreversible once the tenants/FPS licensees have entered into a contractual agreement with the Government. However, if any market tenant/FPS licensee concerned fails to cease the live poultry retail business so required under the agreement on the termination date, the Government will no longer be bound to pursue the agreement further.

16. To tie in with our policy to reduce the number of live poultry stalls, we will in future limit the transfer of FPS licences to immediate family members (i.e. parents, spouses, children) so as to avoid the sale of such licences by FPS licensees.

17. If the live poultry retailer has owed the Government any outstanding market stall rental or has failed to repay any loan and interest thereon under the loan schemes for retailers affected by the avian influenza outbreaks in 1997 and 2001 or the proposed new loan scheme under paragraph 22 below, the Government will deduct the outstanding market stall rental or unpaid loan and interest thereon from the EGP payable to the retailer.

18. We would also waive the one-month advance notice requirement for the termination of market tenancies for those stallholders leasing live poultry stalls in public markets who submit an EGP application provided they have ceased the live poultry retail business from the EGP application date and the tenancy termination will take effect within 30 days from the application date. Rental, if already paid, for the remaining period after the application date would be refunded.

B. Retraining and financial assistance for live poultry workers

19. To assist those live poultry retail workers to find employment in other sectors as a result of their employers ceasing operation under the proposed scheme, we propose to provide up to eight weeks¹ of retraining courses to those affected

¹ In our initial proposal in May 2004, we proposed to provide only six weeks of retraining

workers within a six-month period from the date of cessation of business by their former employers. We shall invite the Employee's Retraining Board (ERB) to be the delivery agent of the retraining services under the scheme. Retraining courses will be tailor-made for the affected live poultry workers and ERB will recover the full cost of retraining from the Government. Workers could receive a special allowance of up to \$8,000 if they have attended eight weeks of retraining courses and have attained at least 80% attendance in each of the retraining courses. Where necessary, they can approach the Labour Department for employment assistance. Live poultry operators surrendering their licences or tenancies will not be allowed to attend such tailor-made courses for workers as they have already received EGP.

20. For those affected workers who continue to remain unemployed after attending at least 80% of these tailor-made retraining courses within a six-month period from the date of cessation of business by their former employers, a one-off grant of \$10,000 per affected worker will be provided to assist them to meet their immediate financial needs. Workers with further financial hardship would then come under the Government's general protection for the unemployed. However, these unemployed live poultry retail workers would be subject to the usual terms and conditions of the Comprehensive Social Security Assistance Scheme if they apply for such assistance. Given that live poultry operators surrendering their licences or tenancies would receive EGP, they would not be eligible for the one-off grant.

21. The total amount of funding required for the tailor-made retraining courses inclusive of retraining allowance and one-off grants is estimated to be about \$83,028,000.

C. Loans to live poultry retailers continuing operation for the purpose of enhancing the sanitary and hygiene conditions

22. We propose to offer loan facilities to licensees of all existing fresh provision shops selling live poultry who choose to continue with their trading operations to upgrade their facilities so as to avoid human contacts with live poultry. We propose to set the maximum amount of the proposed unsecured loan to \$50,000 or 60%² of the refurbishment costs, whichever is less, per licence. The loans, to be released to the applicants in a maximum of two phases, should attract an annual interest at the Government's "no gain, no loss" interest rate³ and be repayable in 24 equal monthly installments, beginning three months after full draw-down of the loan or six months after the first drawdown, whichever is earlier. Interest will accrue upon draw-down and be paid together with each installment. If a live poultry

courses for workers.

² In our initial proposal in May 2004, we proposed to set the maximum amount of the proposed loan to \$50,000 or 40% of the refurbishment costs, whichever is less, per licence.

³ The Government's "no-gain-no-loss" interest rate is set at 2.174% below the average best lending rate of the note-issuing banks. The current "no-gain-no-loss" rate is 2.826% per annum.

retailer receiving the loan subsequently decides to accept EGP for the cessation of business, the outstanding loan amount together with the accrued interest would be deducted from the total amount of EGP the retailer would otherwise be eligible to. It is difficult to estimate the number of live poultry retailers who would apply for the loans. For budgetary purpose, we assume that the take up rate for the improvement loans is about 50%. As such, a commitment amounting to \$9,000,000 will be required for this purpose. Licensees operating in public housing estates will not be offered such loans in case Housing Authority (HA)/Housing Society (HS) are to fund the improvement works to upgrade the live poultry stalls. We have informed HA/HS of the proposed renovation works to live poultry stalls in public markets.

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Extract from FCR(2005-06)28
for the Finance Committee meeting on 8 July 2005

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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

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. 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.

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 EGP scheme for poultry farmers would be open for applications for 12 months.

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 |

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. 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.

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.

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.

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. 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 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 loan scheme for live poultry transporters would be open for applications for 12 months.

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.

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.

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 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.

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Legislative Council Meeting on 29 November 2006

**Progress Report from Health, Welfare and Food Bureau on
Motion Debate on “Relief Measures and Compensation Policies
for Live Poultry Trades”**

Purpose

During the motion debate at the meeting on 29 November 2006, the Legislative Council urged the Government to expeditiously discuss with the live poultry trade, before the commencement of the poultry slaughtering and processing plant (the Plant), to formulate a scheme that offered reasonable compensation for the traders to exit the trade with due regard to the circumstances of live poultry farmers, wholesalers, retailers, transporters and workers. It also urged the Administration to introduce, prior to the implementation of central slaughtering of live poultry, temporary relief measures for the trade when import of Mainland live poultry and birds was suspended due to avian influenza outbreaks in the Mainland in order to mitigate the severe adverse impact on the trade. The Administration sets out below the follow-up actions it has taken after passage of the said motion.

Establishment of a poultry slaughtering and processing plant

2. A poultry slaughtering and processing plant will be established to centralize poultry slaughtering activities. When the plant comes into operation, all wholesale and retail activities of live poultry will be banned in order to completely segregate humans from poultry, thereby reducing the risk of avian influenza transmission through human contacts with poultry. We are making preparations for the establishment of the Plant and will discuss the arrangements for exiting the live poultry trade with operators who are likely to be affected by the establishment of the Plant in due course.

Provision of Emergency Relief/Rent Waiver and Low-interest Loans to the Trades

3. Over the years, the Government had offered financial assistance to the trade affected by avian influenza outbreaks and put in considerable resources in implementing preventive measures against avian influenza to enable the trade to operate in an environment with manageable and limited risks. To forestall the adverse impact to the trade caused by intermittent avian influenza outbreaks in the

Mainland that lead to suspension of Mainland poultry supply, and to further reduce the risk of an avian influenza breaking out in Hong Kong, the authorities concerned have launched a voluntary surrender scheme between July 2004 and August 2006 to encourage live poultry operators to surrender their licences or tenancies and to terminate their operations permanently in exchange for *ex gratia* payment or other financial assistance. Since 1997, the Administration had spent nearly \$670 million in total to assist the trade to address the risks posed by avian influenza.

4. In launching the voluntary surrender scheme, the Government has made it clear to the trade that the scheme was intended to help poultry operators who are reluctant to operate in an increasingly stringent regulatory environment, which is necessary in order to protect public health, to exit the live poultry trade permanently or to switch to other businesses. For operators who chose to continue their poultry operations, they should be prepared to take the risk. The Government, therefore, would not offer further temporary financial assistance, such as rent waiver or *ex gratia* payment, to the trade when they suffer any short-term impacts caused by avian influenza outbreaks. As to loans to the trade, we are discussing with the relevant departments to set up a fund to provide transitional loans to live poultry operators who suffer a relatively long-term impact because of avian influenza outbreaks. We are studying the feasibility and details of the fund and will consult the trade in due course.

Live Poultry Trade Workers Not Employed on Long-term Basis

5. On the request to provide emergency financial assistance to live poultry workers who are not employed on a long-term basis, the Government would like to reiterate that it is difficult to further consider the proposal in view of the lack of relevant supporting documents and evidence to ascertain the following facts: that these workers, who were not employed on a long term basis, were solely engaged in live poultry trade; the proportion of the working hours they engaged in live poultry trade against their total working hours; or that they could not or did not engage in other paid work during suspension of live poultry import.

Relevant Papers/Documents

| <u>Meeting</u> | <u>Meeting Date</u> | <u>Papers/Motion Passed/Council Question</u> |
|--|---------------------|--|
| Legislative Council | 30 November 2005 | Motion on "Preventing avian influenza" moved by Hon Fred LI Wah-ming |
| | 1 March 2006 | Oral question on "Banning sale of live poultry and implementing centralized slaughtering for live poultry" raised by Hon WONG Yung-kan |
| | 10 May 2006 | Oral question on "Measures to segregate live poultry from customers" raised by Hon Vincent FANG |
| | 5 July 2006 | Motion for adjournment on "Preventive and control measures adopted and emergency assistance provided to the trades by the Administration with regard to the repeated occurrence of human infection of avian influenza in the Mainland" raised by Dr Hon KWOK Ka-ki |
| | 12 July 2006 | Oral question on "Future use of Cheung Sha Wan Temporary Wholesale Poultry Market" raised by Hon Vincent FANG |
| | 29 November 2006 | Motion on "Relief measures and compensation policies for the live poultry trades" moved by Hon Tommy CHEUNG Yu-yan |
| | Finance Committee | 2 July 2004 |
| Subhead 700 General non-recurrent New Item "Ex-gratia payment to live poultry retailers surrendering their licences with endorsement to sell live poultry or public market tenancies" New Item "Re-training and one-off grants to assist affected live poultry retail workers" | | |

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| | | <p>Loan Fund – Head 262 Primary products New Subhead "Loans to live poultry retailers" (Approved)</p> <p>Minutes of meeting – LC Paper No. FC 112/03-04</p> |
| <p>Panel on Food Safety and Environmental Hygiene (the FSEH Panel)</p> | <p>8 July 2005</p> | <p>FCR(2005-06)28 Ex-gratia payment/loans for live poultry farmers, wholesalers, retailers, retail workers and transporters to surrender their licences/tenancies and/or cease operation on a permanent basis (Approved)</p> <p>Minutes of meeting – LC Paper No. FC 7/05-06</p> |
| | <p>2 April 2004</p> | <p>Consultation paper provided by the Administration on "Prevention of avian influenza : Consultation on long term direction to minimize the risk of human infection"</p> <p>Administration's paper - Paper No. CB(2) 1930/03-04(01)</p> <p>Minutes of meeting LC Paper No. CB(2) 2777/03-04</p> |
| | <p>25 May 2004</p> | <p>Administration's paper - Paper No. CB(2) 2492/03-04(05)</p> <p>Minutes of meeting LC Paper No. CB(2) 2949/03-04</p> |
| | <p>4 June 2004</p> | <p>Minutes of meeting LC Paper No. CB(2) 3243/03-04</p> |
| <p>26 October 2004</p> | <p>Administration's paper - Paper No. CB(2) 75/04-05(03)</p> <p>Background paper prepared by the LegCo Secretariat – Paper No. CB(2) 75/04-05(04)</p> | |

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| | <p>Minutes of meeting LC Paper No. CB(2) 289/04-05</p> <p>Follow-up papers provided by the Administration on the voluntary surrender scheme for live poultry retailers – Paper Nos. CB(2) 1189/04-05(01)-(03) & CB(2) 1448/04-05(01)</p> |
| 11 January 2005 | <p>Administration's paper - Paper No. CB(2) 566/04-05(03)</p> <p>Minutes of meeting LC Paper No. CB(2) 758/04-05</p> |
| 7 April 2005 | Administration's paper - Paper No. CB(2) 1042/04-05(01) |
| 14 June 2005 | <p>Administration's paper - Paper Nos. CB(2) 1675/04-05(01) CB(2) 1860/04-05(04)</p> <p>Background brief prepared by the LegCo Secretariat – Paper No. CB(2) 1860/04-05(05)</p> <p>Minutes of meeting LC Paper No. CB(2) 2563/04-05</p> |
| 17 October 2005 (Policy briefing) | Administration's paper - Paper No. CB(2) 26/05-06(01) |
| 14 March 2006 | <p>Administration's paper - Paper No. CB(2) 1335/05-06(03)</p> <p>Background brief prepared by the LegCo Secretariat – Paper No. CB(2) 1335/05-06(05)</p> <p>Minutes of meeting LC Paper No. CB(2) 1928/05-06</p> |
| 11 April 2006 | <p>Administration's paper - Paper No. CB(2) 1663/05-06(03)</p> <p>Minutes of meeting LC Paper No. CB(2) 2114/05-06</p> |

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| | 13 October 2006 (Policy briefing) | Administration's paper - Paper No. CB(2) 30/06-07(01) Minutes of meeting LC Paper No. CB(2) 468/06-07 |
| Joint Meeting of the FSEH Panel and Panel on Health Services | 14 March 2005 | Administration's paper - Paper No. CB(2) 1042/04-05(01) Minutes of meeting LC Paper No. CB(2) 1463/04-05 |
| | 17 June 2006 | Administration's paper - Paper No. CB(2) 2448/05-06(01) Minutes of meeting LC Paper No. CB(2) 89/06-07 |
| | 12 December 2006 | Administration's paper - Paper No. CB(2) 587/06-07(01) Background brief prepared by the LegCo Secretariat – Paper No. CB(2) 587/06-07(04) Minutes of meeting LC Paper No. CB(2) 932/06-07 |

Council Business Division 2
Legislative Council Secretariat
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