

**For discussion
on 11 March 2008**

LegCo Panel on Food Safety and Environmental Hygiene

Future Operation and Management of Sheung Shui Slaughterhouse

Purpose

This paper briefs Members on the Administration's plan to invite open tenders in the third quarter of 2008 from the private sector to operate and manage the Sheung Shui Slaughterhouse (SSSH).

Background

2. SSSH was designed and built by Government. The operation and management of the facility was awarded through competitive open tender initially for four years, renewable for two three-year terms (i.e. a maximum of ten years in total) subject to satisfactory performance. In the event, the right to operate SSSH was awarded to Ng Fung Hong Limited (NFH) in 1999. The contractual relationship between Government and the operator is governed by an Operation Services Agreement (OSA).

3. Under the OSA, NFH provides Operation Services at SSSH, which includes daily slaughtering service and slaughter-related supporting services (e.g. vehicle parking facilities, lairages, stores for fodder and animal feed). It is responsible for the operation, management, maintenance and repair of the slaughtering plant, equipment and ancillary facilities (such as the blood coagulation plant and underground wastewater treatment plant) at its expenses, and compliance with all relevant ordinances, regulations and rules, including environmental performance standards and guidelines. It pays a Basic Fee to Government on a quarterly basis for the right to provide the Operation Services, and bears the utility charges, rates and slaughterhouse licence fee.

4. Government retains ownership of the facilities and equipment in SSSH, and is responsible for their upgrading and replacement as necessary. The Food and Environmental Hygiene Department (FEHD) oversees the implementation of the OSA. It is also the licensing authority for slaughterhouses by virtue of section 77 of the Public Health and Municipal Services Ordinance (Cap. 132). To ensure food safety and hygiene, it deploys staff on site to conduct tests on veterinary drug residues and ante-mortem inspection as well as post-mortem meat examination.

5. The OSA commenced on 1 August 1999, initially for a term of four years. It was extended twice in 2003 and 2006, each by three years upon satisfactory completion of services at the end of each term. The current term will expire on 31 July 2009 and necessitates a new tendering exercise.

Continued Private Sector Involvement

6. Slaughtering of live food animals is a business with proven commercial viability. We consider it appropriate to continue involving the private sector in the future operation and management of the SSSH, so that the Administration could focus on its regulatory roles in licensing and ensuring food safety. At the same time, we recognize that SSSH is a public asset and the largest slaughtering facility in Hong Kong. Public interest requires Government to retain a supervisory role to ensure uninterrupted services at SSSH and a level playing field for all users of its services and facilities.

7. We plan to again invite private sector operators to operate and manage SSSH through open tender. Interested parties both in and outside Hong Kong are welcome to bid for the contract. This is in line with requirements of the World Trade Organization Agreement on Government Procurement. It will also maximize the pool of private sector expertise and best serve the interest of Hong Kong.

Enhancement in OSA Terms

Need for Enhancement

8. While we affirm the merit of private sector involvement, we also recognize that the existing OSA terms can be enhanced in the following respects-

- (a) Since live pig import agents as well as pig and cattle wholesalers / buyers operate in a competitive mode, it is important that essential facilities at SSSH such as lairages are allocated on a non-discriminatory basis to ensure a level playing field for all. However, the current OSA lacks clear provisions on the management of the lairages and the allocation of lairage spaces.
- (b) Although the OSA provides that the fees and charges levied by the operator shall be reasonably acceptable to Government, there is no explicit requirement for slaughtering fees to be subject to Government approval.
- (c) The OSA requires the operator to submit environmental reports and statement of accounts to Government, and to keep proper accounts, receipts and appropriate vouchers for inspection by Government. There is no other obligation on the part of the operator to disclose information and records to Government.
- (d) The OSA does not provide for any effective sanction in the event of unsatisfactory delivery of services by the operator. Although there are provisions that enable Government to recover cost, loss or damage arising from default by the operator through forfeiture of the security deposit, they cannot be invoked to address breaches which may not incur a direct cost to or loss or damage for Government. The only remaining sanction is termination of contract, which may not be proportional to the breaches or in the public interest.

Proposed Key Enhancements

9. To address the above inadequacies, we plan to introduce the following major enhancements to the terms of the future contract with the SSSH operator.

Lairage Management

10. The new OSA will require the operator to ensure maximum utilization of lairage facilities in a cost-effective manner, and allocate lairage spaces to all users of SSSH services and facilities on a non-discriminatory basis. To achieve this objective, our plan is to require the operator to admit live food animals and allocate lairage spaces on a first-come-first-served basis, and to levy lairage and related fees and charges on a per admission basis. The operator may, however, levy different levels of fees and charges depending on the arrival hours and duration of stay of live food animals and their need for specific services, provided that the same options will be available to all customers on an equal basis. It will also preserve Government's power explicitly to take over the management of a part of or all the lairage facilities when public interest so warrants.

Fees

11. Under the new OSA, any change to fees and charges proposed by the operator shall be subject to Government's prior approval.

Information Provision and Disclosure

12. In addition to the information and documents required to be disclosed to Government under the existing OSA (paragraph 8(c) above), the new OSA will also require the operator to provide essential information and records necessary for -

- (a) monitoring the operator's performance (e.g. operating and maintenance costs, operating statistics);
- (b) enhancing market transparency (e.g. trading information such as auction/transaction prices if conducted within SSSH confines); and
- (c) enabling food traceability (e.g. source and subsequent movement of live food animals / slaughtered carcasses).

The required information should be submitted at such periodic intervals and in such format as may be specified by the Government.

Sanctions and Incentives

13. The new OSA will require the operator to provide a Performance Deposit so as to effect financial sanctions for specific breaches (such as unhygienic conditions, exceeding slaughtering capacity without prior permission, use of SSSH for any unapproved purposes, inequitable treatment of individual/class of users, unauthorized alteration, etc.). It will also provide financial incentives for service enhancements with tangible benefits so as to motivate the operator to improve and excel.

Transition Arrangements

14. In assessing tender submissions, other conditions being equal, preference will be accorded to those who commit to make all reasonable efforts to engage the existing SSSH employees (should they wish to be so employed) in employment terms commensurate with prevailing market offers.

15. In the event that the contract is awarded to a new operator, the current OSA provides that prior to contract expiry, the operator shall provide access to and cooperate with Government or its nominee so as to ensure the safe and efficient hand-over of the slaughterhouse.

The Way Forward

16. We will soon commission a consultant to draw up tender documentation to incorporate the proposed enhancements suggested in paragraphs 9 to 13 above. Our plan is to invite open tender in the third quarter of 2008 and award it in the first quarter of 2009, so that there will be sufficient time for the future operator to mobilize its resources and ensure a smooth transition into the new contract period.

17. It is intended that the new contract will have an initial term of four years, with an option for Government to offer no more than two three-year extensions, subject to the operator's satisfactory performance. The prospect of a 10-year contract will enhance the attractiveness of the tender and provide incentive for the operator to upkeep its performance, while retaining flexibility for Government to switch to a different operator should circumstances so warrant.

Advice Sought

18. Members are invited to note the proposed way forward and offer comments.

**Food and Health Bureau
Food and Environmental Hygiene Department
March 2008**