

SUPPLEMENTARY NOTE TO
ITEM FOR FINANCE COMMITTEE
[FCR(2014-15)45]

PURPOSE

This note provides an update on the proposal in FCR(2014-15)45 of setting aside around \$400 million in the loan capital of the Fisheries Development Loan Fund (FDLF) for providing loans to inshore trawlers.

JUSTIFICATION

2. In FCR(2014-15)45, the Secretary for Food and Health proposes –
 - (a) to increase the approved commitment for FDLF under Subhead 101: Fisheries Loans from \$290 million by \$810 million to \$1,100 million, for meeting the increased demand for credit facilities from the fisheries trade, in particular fishermen who have been affected by the trawl ban; and
 - (b) to set aside around \$400 million in FDLF for providing loans to inshore trawlers, on the proviso that such loan applications must be submitted on or before 31 March 2015.

3. Proposal (a) remains unchanged. However, due to the lapse of time since this item was first put before the Finance Committee (FC) in July 2014, we need to extend the deadline under proposal (b) from 31 March 2015 to 30 June 2015, so that inshore trawlers will have a reasonable period of time to make applications before any unspent balance in the designated pool of \$400 million is returned to the wider pool for meeting demands from all other eligible applicants. The paper at the Enclosure has incorporated the above revisions. The opportunity is also taken to update the number of loan applications received. The revisions are shaded in grey for easy reference.

Encl.

/ **PROPOSAL**

PROPOSAL

4. We invite FC to consider FCR(2014-15)45 in conjunction with FCR(2014-15)45A and to approve the increase in the approved commitment for FDLF from \$290 million by \$810 million to \$1,100 million and the setting aside of around \$400 million in the loan capital for providing loans to inshore trawlers, on the proviso that such loan applications must be submitted on or before 30 June 2015.

Food and Health Bureau
February 2015

ITEM FOR FINANCE COMMITTEE

LOAN FUND
HEAD 262 – PRIMARY PRODUCTS
Subhead 101 Fisheries Loans

Members are invited to approve –

- (a) an increase in the approved commitment for the Fisheries Development Loan Fund (FDLF) under Subhead 101 : Fisheries Loans from \$290 million by \$810 million to \$1,100 million, for meeting the increased demand for credit facilities from the fisheries trade, in particular fishermen who have been affected by the trawl ban¹; and
- (b) the setting aside of around \$400 million in the loan capital for providing loans to inshore trawlers, on the proviso that such loan applications must be submitted on or before 30 June 2015.

PROBLEM

This Committee approved in April 2012 the expansion of the scope and revision of the terms and conditions of FDLF for the purpose of better meeting the needs of the fisheries industry. Thereafter the number of loan applications received by the Agriculture, Fisheries and Conservation Department (AFCD) has increased significantly. The loan capital of FDLF falls short of the amount required to meet the demand from the applications already received, let alone the demand from any new applications that may come up in the course of time.

/PROPOSAL

¹ The trawl ban came into effect on 31 December 2012.

PROPOSAL

2. The Secretary for Food and Health proposes –
 - (a) to increase the approved commitment for FDLF under Subhead 101: Fisheries Loans from \$290 million by \$810 million to \$1,100 million for meeting the increased demand for credit facilities from the fisheries trade, in particular fishermen who have been affected by the trawl ban; and
 - (b) to set aside around \$400 million in FDLF for providing loans to inshore trawlers, on the proviso that such loan applications must be submitted on or before 30 June 2015.

JUSTIFICATION

Proposed injection amount

3. Since the revision of the terms and conditions of FDLF in April 2012, the number of applications received has increased significantly. As at 31 December 2014, AFCD has received 84 applications² seeking loans amounting to over \$725 million. Most of the applications are made by owners of trawler vessels affected by the trawl ban, who have applied for the one-off³ loans for building new fishing vessels to continue their fishing operations in distant waters outside Hong Kong. Based on the current prices of these new vessels, the loan amount sought in each case could be up to about \$9 million.

4. The total loan amount sought under the 84 applications received has exceeded the existing commitment of \$290 million. As the approving authority, the Director of Agriculture, Fisheries and Conservation (DAFC), on the advice of the FDLF Advisory Committee, has so far approved 31 applications (with commitment of \$236.8 million). The remaining 48 applications (seeking loans of about \$448.2 million) are being processed. Setting aside the loan amount already committed, the FDLF only has a balance of some \$52 million available for disposal as at 31 December 2014. This falls short of the amount required to meet the demand from the 48 remaining applications, let alone the demand from any new applications that may come up in the course of time.

/5.

² Five of these loan applications were rejected by the Director of Agriculture, Fisheries and Conservation or withdrawn by the loan applicant.

³ The deadline for submission of applications for such one-off loans is 31 December 2015.

5. Without additional funding injection, FDLF will be unable to provide any further loans until it is replenished with repayments from the outstanding loans. However, since the majority of the loans are newly approved ones and most of them carry a repayment period of up to 14 years, this would in effect close the door for other fishermen who wish to seek a loan under the Fund. This would defeat the policy objective of providing loans to assist fishermen, particularly those affected by the trawl ban, in switching to more sustainable fisheries operations.

6. Having regard to the demand for loans from applications already received and new applications that are anticipated to come up between now and December 2015, the Administration proposes a funding injection of \$810 million.

7. The proposed amount of injection is based on the best guesstimate by AFCD of the loan requirements. The actual loan demand is subject to the dynamic interaction of a number of variables such as changes in vessel construction cost and fuel price over time, assessments about the availability of fisheries resources in fishing grounds outside Hong Kong waters, household finances of the fishermen and their personal aspirations, etc..

8. The bulk of the anticipated upsurge in demand for loans is coming from fishermen affected by the trawl ban. According to the latest information available to AFCD, about 270 inshore trawlers and 710 larger trawlers have been affected by the trawl ban. The inshore trawlers, which operated wholly or partly in Hong Kong waters, have been more severely affected.

9. Among the 270 inshore trawlers, some 100 are pair trawlers and stern trawlers. The rest are shrimp trawlers and hang trawlers which normally operate along coastal waters. It would be less likely for the latter two types of inshore trawlers to seek loans for upgrading their vessels to continue fishing in distant waters. As at 31 December 2014, three loan applications have been submitted by owners of inshore shrimp trawlers.

10. The Administration estimates that some 50 inshore trawlers and about 10 per cent of the 710 larger trawlers affected by the trawl ban would seek a loan to build a new vessel for fishing operations in distant waters.

11. The overall estimates are tabulated below –

	Required injection
Demand for one-off loans under paragraph 10 above –	
(a) Inshore trawlers (37 loans of \$9 million each)	about \$330 million
(b) Larger trawlers (50 loans of about \$9 million each)	about \$450 million
Demand for loans to carry out projects that will reduce the carbon footprint of fishing operations or for the development of aquaculture business	\$30 million
Total	\$810 million

Giving priority to applications from inshore trawlers

12. In the proposal approved by this Committee in April 2012, no distinction was made for applications seeking the one-off loans as to whether they were coming from operators of inshore trawlers or larger trawlers.

13. As highlighted in earlier paragraphs, relative to the larger trawlers (which operate mainly in distant waters outside Hong Kong), inshore trawlers would be affected to a greater extent by the trawl ban. Subject to the approval of this Committee of the proposed injection of \$810 million into FDLF, the Administration proposes to set aside around \$400 million for providing loans to inshore trawlers.

14. Under the proposed arrangement, funds in this pool will be open solely to applications from owners of inshore trawlers for one-off loans, provided that they submit their applications on or before 30 June 2015. Should funds in this designated pool of \$400 million remain unspent/uncommitted after AFCD has accommodated loan applications from inshore trawlers submitted on or before 30 June 2015, the remaining balance will be returned to the wider pool for meeting demands from all other eligible applicants. For the avoidance of doubt, owners of inshore trawlers may still submit applications for the one-off loans between 1 July 2015 and 31 December 2015. However, such applications would be handled on a first-come-first-served basis together with other competing demands as at present.

/APPLICATIONS

APPLICATIONS FROM AGED TRAWLER OWNERS AND JOINT APPLICANTS

15. When this Committee approved the revised terms and conditions of FDLF in April 2012, the Administration has not spelt out the arrangements regarding applications from aged trawler owners and joint applicants. We therefore take this opportunity to put them on record.

16. As a measure to manage the risks of bad debt⁴, AFCD has, as a matter of established practice, adopted the arrangements as elaborated in the Annex when dealing with loan applications by aged trawler owner under FDLF.

17. Indeed, it is not uncommon in the local fisheries industry for an owner of a fishing vessel to be assisted by his family members in the operation, who will take up the operation after the owner retires or passes away. Provided that the joint applicant is a family member (namely the applicant's spouse, sibling or offspring) who is experienced in the operation of the concerned vessel and is able to share the financial responsibility of loan repayment, we would consider the family member eligible to be a joint applicant. This arrangement has been a practice adopted for FDLF administration since the late 1990s. Some of these joint loan applications have been fully repaid with the assistance of the younger joint applicants. The provision of joint application better meets the needs of local fishermen, safeguards public money and lowers the risk of bad debt.

FINANCIAL IMPLICATIONS

18. Under FDLF, the following loans are provided –

- (a) one-off loans to owners of trawlers and fish collectors affected by the trawl ban. Interest is charged at 1 per cent per annum;
- (b) loans to capture fishermen and owners of fish collectors for switching to more sustainable fisheries operations and other fisheries-related operations, and for carrying out projects that will reduce fuel consumption or carbon footprint of their operations. Interest is charged at 2.5 per cent per annum; and

/(c)

⁴ Loan applications by the fishermen's community have an excellent repayment track record under FDLF. The bad debt ratio of FDLF since its inception in 1960 is around 1.5 per cent. To safeguard Government's interest, a FDLF loan applicant is required to provide adequate collateral acceptable to AFCD. The borrower is required to insure his collateral against loss in a sum not less than the outstanding balance of the loan, with the Government as the beneficiary.

- (c) loans to fish farmers for the development of aquaculture business. Interest is charged on a no-gain-no-loss basis for the Government, and is currently 1.395 per cent per annum.

19. Government reserves currently placed with the Exchange Fund are earning interests at 5.5 per cent per annum. Assuming that the \$810 million injection is fully loaned out (i.e. \$780 million loans to owners of trawlers and fish collectors affected by the trawl ban, \$15 million loans to vessel owners not affected by the trawl ban and \$15 million loans to aquaculture operators), and that repayment is to be spread over a 14-year period, the total interest forgone will be in the order of some \$297.3 million.

PUBLIC CONSULTATION

20. AFCD has sought the views of the FDLF Advisory Committee, as well as stakeholders in the trade when meeting the fisheries community and their representatives on various occasions, including liaison meetings held at various fishing homeports. The proposal in general is welcomed by the trade. The Administration briefed the Legislative Council Panel on Food Safety and Environmental Hygiene about the funding injection proposal on 10 June 2014. The Panel supported the submission of this proposal to the Finance Committee (FC).

BACKGROUND

21. FDLF was set up in 1960 to promote the sustainable development of the local fisheries industry. To cope with the increasing demand for loans, the approved commitment was last increased in 2006 from \$100 million to \$290 million.

22. In view of the challenges facing the local fisheries industry and the imminent implementation of the trawl ban in Hong Kong waters, the FC approved in April 2012 (vide paper FCR (2012-13)18) a proposal to revise the scope and terms and conditions of FDLF for the purpose of better meeting the needs of the industry. The major revisions are as follows –

- (a) expanding the scope of FDLF : owners of fish collectors become eligible to seek loans under FDLF (as in the case of owners of fishing vessels) for the purpose of switching to more sustainable fisheries operations and other fisheries-related operations, and for carrying out projects that will reduce fuel consumption or the carbon footprint of their operations without increasing fishing effort;

/(b)

- (b) providing one-off loans to owners of trawlers and fish collectors affected by the trawl ban: successful applicants may use such loans for upgrading their vessels to operate outside Hong Kong waters, or switching to more sustainable fisheries operations and other fisheries-related operations, or for carrying out projects that will reduce fuel consumption or the carbon footprint of their operations without increasing fishing effort. The interest rate to be charged is 1 per cent per annum⁵ for the full term of the loan tenure; and
- (c) relaxing security requirement: FDLF will accept up to 95 per cent of the construction cost of a newly constructed fishing vessel or fish collector, or 95 per cent of the estimated market selling price of a vessel provided as collateral.

Food and Health Bureau
February 2015

⁵ This is more favourable than the interest rate charged for loans under other categories. For instance, the interest rates of loans to vessel owners not affected by trawl ban and aquaculture operators are 2.5 per cent per annum and 1.395 per cent per annum (i.e. the no-gain-no-loss rate of the Government) respectively.

Detailed arrangements for applications from aged trawler owners

If the sum of an applicant's age and the proposed loan tenure (normally 14 years) exceeds 70, the applicant will be required to –

- (a) submit the application jointly with a person (the joint applicant) who is experienced in the operation of the aged applicant, and is able to take over the aged applicant's operation and responsibility of loan repayment in case the aged applicant retires or passes away before full settlement of the loan. By the same token, the sum of the joint applicant's age and the loan tenure also should not exceed 70; or
- (b) reduce his loan amount and/or his loan tenure; or
- (c) provide additional security such as a landed property; or
- (d) provide any other proposal which is acceptable to DAFC.
