

Legislative Council Panel on Economic Services

Information Note on Slaughtering Fees of Sheung Shui Slaughterhouse and Related Issues

Introduction

On 2 March 1999, in the course of discussion on arrangements for the commissioning of the Sheung Shui Slaughterhouse (SSSH), Members questioned whether following its commissioning, Ng Fung Hong (NFH) would have a monopoly over slaughtering service and opined that its fees and profit should be subject to control by the Government. Members also queried whether priority should be given to renewal of the Operational Services Agreement (OSA) of SSSH by NFH. The Administration undertook to provide further information to Members.

The Operational Services Agreement of SSSH

2. The OSA of SSSH, awarded in December 1997 after a public tender, is for a term of four years and provides, inter alia, that -

- (a) the operator shall pay to Government every three months a basic fee of several million dollars or a percentage fee equivalent to a certain percentage of the gross income received in the preceding three months of business, whichever is the higher;
- (b) during the first year of the Agreement, the operator must follow the rates of slaughtering fees quoted in its tender submission, unless the Government finds that the circumstances justify a change from the quoted rates. A comparison of slaughtering fees between SSSH, the Kennedy Town Abattoir (KTA), the Cheung Sha Wan Abattoir (CSWA) and the Tsuen Wan Slaughterhouse (TWSH) is at the Appendix;
- (c) for the term of the Agreement, the operator is required to inform the Government of the prevailing rates of the slaughtering fees from time to time and upon request; and

- (d) the successful tenderer shall be given priority for renewal of the OSA for two more terms, subject to certain conditions. As regards the first renewal, if upon being satisfied that the operator has fully complied with the terms and conditions of the OSA, the quality of the services so provided is reasonably acceptable and that the operator has offered a new fee payment acceptable to the Government, the Government may renew the OSA for a period of three years. The Government has full discretion to decide on the second renewal for a third term of three years.

Slaughtering Fees of SSSH

3. Prior to tendering in 1997, the Administration had considered and decided not to control the slaughtering fees of SSSH. The main consideration was that since the Government did not control food prices, slaughtering fees should also be determined by market forces. This was in line with the practice adopted when KTA was privatised. The lease for KTA at the time did not provide for prior Government approval of slaughtering fees charged by the private operator other than for the first six months. Moreover, there were also concerns at the time that imposing such control in the OSA of SSSH would place significant constraints on bids by tenderers.

4. Prior to such a decision, the Administration had also considered whether on commissioning of SSSH, its operator should be the sole provider of slaughtering service for Hong Kong. It was decided in December 1995 that upon the closure of KTA, CSWA and the Yuen Long Slaughterhouse (YLSH), there should be two abattoirs, namely SSSH and TWSH, to provide slaughtering service to cater for market demand (currently being 6,300 - 6,600 pigs and 190 cattle a day). Given that SSSH would have the capacity to slaughter 5,000 pigs and 400 cattle a day whilst TWSH has the capacity to slaughter 3,000 pigs a day (against daily throughput of 1,800 - 2,100 pigs), meat traders currently patronising the existing abattoirs would be free to choose either SSSH or TWSH to slaughter their pigs, having regard to commercial considerations. The question of cattle was not specifically considered presumably because only a small number was involved and that it was considered to be more cost effective to slaughter all the 190 cattle in one single slaughterhouse.

Renewal of the Operational Services Agreement of SSSH

5. Before the tendering exercise, Government had decided to give the successful tenderer priority in the renewal of the OSA for two more terms, subject to the conditions described in paragraph 2(d) above. The main considerations were that, first, the slaughtering industry was a specialised trade which provided an essential daily service to the local community. The successful tenderer needed to ensure that this essential service was maintained without disruption. It was therefore important to find a company which was reliable and had the expertise, proven financial capability and a long-term commitment to the slaughtering business in Hong Kong, in spite of the low profit margin and the declining demand for fresh meat in the local market. Second, it was considered at that time that the Government needed to attract local and overseas companies to undertake this specialised business in Hong Kong which required heavy investment in terms of technical expertise, human resources, training, plant and equipment.

Market Situations

6. As seen in paragraph 4 above, SSSH would not be able to monopolise slaughtering service in the territory. Currently, TWSH, charges higher than KTA and CSWA i.e. \$133 and \$159 for a day-slaughtered pig and an early-morning-slaughtered pig of over 12 kilograms respectively against \$77 and \$105 for KTA and \$71 and \$98 for CSWA ^(note). This is because TWSH provides more comprehensive services (including slaughtering, washing and delivery services). Despite the higher fees, TWSH currently has about 30% of the market of slaughtering service. Upon the commissioning of SSSH, there will be a smaller difference between the fees charged by TWSH against those charged by SSSH for the first year. The latter would be \$99 and \$138 for a day-slaughtered pig and for an early-morning-slaughtered pig of over 12 kilograms respectively. TWSH is therefore expected to be in an even better position to compete with SSSH.

^(note) The Provisional Urban Council has frozen the slaughtering fees of CSWA at the 1997 level. The slaughtering fees of KTA and TWSH have been kept at the 1998 level. In addition, YLSH only provides slaughtering facilities and meat traders arrange their own butchers to do the slaughtering. Thus the fees charged by YLSH are not comparable to the slaughtering fees charged by other abattoirs.

7. Apart from competition from TWSH, it is noted that there has been a gradual decline in demand for live pigs of about 3% a year. This is mainly due to the changing eating habit of the local population and a general improvement in the quality of imported livestock which yield more meat per animal. There is also a constraint on the price of fresh meat due to the lower price of chilled meat. Given all these circumstances, NFH should have every incentive to set its slaughtering fees competitively. Indeed, NFH has recently proposed to charge a slightly lower slaughtering fee of \$95 and \$130 for a day-slaughtered pig and for an early-morning-slaughtered pig of over 12 kilograms respectively. The new slaughtering fees to be charged at SSSH would mean an increase in pork prices of around 20 to 30 odd cents per catty, depending on the time in the day of the slaughter.

Operating Costs of SSSH

8. During the discussion, Members also queried why the slaughtering fees of SSSH would not be lower than those of the existing abattoirs to be replaced, given that NFH should be able to achieve economy of scale at SSSH and that the construction cost of SSSH was met by public funds.

9. It should be noted that KTA and CSWA were also built by the Government and the former was leased to a private operator at a fee. Similarly the right to operate SSSH is not granted to the private operator free of charge. The operator is required under the OSA to pay to the Government a basic fee or a percentage fee, whichever is the higher. The fee takes into account maintenance cost of the structure and monitoring costs incurred by the concerned Government departments and revenue accrued to Government.

10. The operating costs at SSSH will also be higher. In line with the recommendations of the supplementary Environmental Impact Assessment for SSSH according to local environmental statutory requirements and guidelines, the operator is required to operate the various environmental engineering systems installed to treat the air, odour, noise, waste water and solid waste up to the required standards. These include the wastewater treatment plants in SSSH to treat wastewater discharged up to the required standards, the scrubber system and neutralising agents for effective removal of odour in various areas in SSSH and the appropriate measures to convey condemned meat and other solid waste to various disposal points to the satisfaction of the Director of Environmental Protection. Furthermore, to ensure the effective

monitoring of the performance of the systems during operation, the operator of SSSH is required to appoint a Green Manager and a strong team of specialised technicians in implementing an Environmental Management System prepared by them.

11. SSSH is also designed to achieve high hygiene standards according to internationally recognised practices. For example, the slaughter hall will be fully air- conditioned to avoid contamination from outside. SSSH will use advanced slaughtering and related equipment to avoid cross contamination amongst carcasses. SSSH will also implement enhanced operational guidelines to ensure proper cleaning of slaughtering facilities and utensils by hot water and handling of carcasses and offal. As the operator is required under the OSA to maintain all the above plant and equipment, the maintenance costs would be part of its operation costs.

12. From the above analysis and based on estimates provided by the operator, the profit margin for operating SSSH is expected to be modest over the four-year Agreement period, taking into account the fee that the operator is required to pay to Government and the higher costs for operating SSSH.

Way Ahead

13. The Government will keep in view the deficit/profit situation of SSSH. If circumstances so warrant, the Government will review the need for profit control when the OSA is due for renewal in 2003.

Regional Services Department/
Finance Bureau/
Economic Service Bureau
June 1999

**A comparison of the Slaughtering Fees for Sheung Shui Slaughterhouse and for Cheung Sha Wan Abattoir,
Kennedy Town Abattoir and Tsuen Wan Slaughterhouse (note 1)**

		(a)	(b)	(c)		(d)	(e)		(f)	(g)	
		Slaughtering fee for SSSH for the first year of operation	Slaughtering fee per animal for Cheung Sha Wan Abattoir (note 3)	Difference in slaughtering fee between CSWA & SSSH (c) = (a) - (b) x 100% (b)		Slaughtering fee per animal for Kennedy Town Abattoir (note 4)	Difference in slaughtering fee between KTA & SSSH (e) = (a) - (d) x 100% (d)		Slaughtering fee per animal for Tsuen Wan Slaughterhouse (note 4)	Difference in slaughtering fee between TWSH & SSSH (g) = (a) - (f) x 100% (f)	
		1999/2000	Current Rates			Current Rates			Current Rates		
		\$	\$	\$	(%)	\$	\$	(%)	\$	\$	(%)
Pigs (weight over 12 Kg)	Day slaughter	99 (revised to 95 recently)	71	24	(34%)	77	18	(23%)	109 (for weight 12Kg to 50 Kg) 133 (for weight over 50 Kg)	-14	(-13%)
	Early Morning slaughter	138 (revised to 130 recently)	98	32	(33%)	105	25	(24%)	159	-29	(-18%)
	Isolation slaughter	182	131	51	(39%)	140	42	(30%)	138	44	(32%)
Pigs (weight 12 Kg or less) (note 2)	Day slaughter	49	36	13	(36%)	35	14	(40%)	-	-	-
	Isolation slaughter	62	46	16	(35%)	45	17	(38%)	41	21	(51%)
Goats & sheep	Day slaughter	138 (revised to 130 recently)	98	32	(33%)	105	25	(24%)	-	-	-
	Isolation slaughter	182	131	51	(39%)	140	42	(30%)	-	-	-
Cattle, etc	Day slaughter	674	504	170	(34%)	528	146	(28%)	-	-	-
	Early Morning slaughter	894	669	225	(34%)	694	200	(29%)	-	-	-
	Isolation slaughter	720	537	183	(34%)	570	150	(26%)	-	-	-

- Note 1: Yuen Long Slaughterhouse (YLSII) only provides slaughtering facilities and meat traders arrange their own butchers to do the slaughtering. Thus the fees charged by YLSII are not comparable to the slaughtering fees charged by other abaltions and are not shown here.
- Note 2: The number of small live pigs (of 12 kg or less in weight) slaughtered per day is small, ranging around 100-200.
- Note 3: The Provisional Urban Council has frozen the slaughtering fees of CSWA at the 1997 level.
- Note 4: The slaughtering fees of KTA and TWSH have been kept at the 1998 level.