

## **NOTE FOR FINANCE COMMITTEE**

### **Loan Repayment Extension under the Fish Marketing Organization Loan Fund – Loans to Fishermen**

#### **PURPOSE**

This paper informs Members of the extension of repayment of loans issued to fishermen affected by the fishing moratorium in the South China Sea in 1999 under Loan Fund Head 262 Primary Products Subhead 131 Fish Marketing Organisation Loan Fund – loans to fishermen.

#### **BACKGROUND**

2. The Bureau of Fisheries Management and Fishing Port Superintendence of the Ministry of Agriculture in the Mainland (the Bureau) first implemented a fishing moratorium in the South China Sea in June and July 1999. Under the moratorium, all fishing operations using trawl net, purse-seine and hang trawl were banned in order to conserve fisheries resources and promote sustainable development of the fishing industry. Some 1 350 Hong Kong fishing vessels were affected. Since these vessels were not allowed to operate in the traditional fishing grounds in the South China Sea, they had to be berthed in typhoon shelters during the two-month period. In leaving their vessels idle during the moratorium, fishermen incurred additional costs for repair works (e.g. anti-fouling, and cleaning and inspection of propellers and engines) required for the vessels to resume operation after the moratorium.

3. Since announcement of the implementation of the fishing moratorium was made only in March 1999 and the moratorium was the first of its kind in the South China Sea, most fishermen were unable to prepare themselves adequately for the fishing moratorium.

4. In June 1999, Members approved the creation of a new subhead under Head 262 Primary Products under the Loan Fund with a commitment of \$65 million to provide funding for the Fish Marketing Organization Loan Fund

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(FMOLF) to make loans to fishermen affected by the fishing moratorium in the South China Sea. The loans are for maintenance and repair of fishing vessel hull, engine and fishing gear. The loan amount is the actual cost of maintenance and repairs up to \$50,000 per vessel, depending on the length of the vessel, at an interest rate of 3% per annum from the date of drawdown. Last year, 975 loans amounting to \$46.6 million were issued. Loan repayment is to be made by lump-sum or quarterly instalments with the total amount to be repaid within one year after drawdown.

## **THE COMING FISHING MORATORIUM**

5. Details of this year's fishing moratorium were announced by the Bureau on 31 March 2000. The area affected and the duration of this year's fishing moratorium will remain the same as last year. But its period will be slightly deferred by 12 hours, i.e. "starting from 12:00 noon, 1 June 2000, and ending at 12:00 noon, 1 August 2000". The ban on fishing operations will be extended to cover cage trapping, such that only gill-netting, long-lining and hand-lining will be allowed. The Agriculture, Fisheries and Conservation Department (AFCD) estimates that about 50 cage trappers may be affected in addition to the original 1 350 fishing vessels affected last year.

## **LOAN REPAYMENT EXTENSION**

6. The majority of the special loans issued last year will fall due in around July this year, i.e. during the period of the fishing moratorium. Some fishermen have suggested that Government should allow them to defer loan repayment. In order not to increase their burden during the fishing moratorium, we will grant a one-off extension of loan repayment for up to six months at 3% annual interest rate on a case by case basis if the fishermen concerned have genuine financial hardship. The maximum amount of interest forgone is estimated to be \$760,000 on a "no-gain-no-loss" basis. Any outstanding loan amount plus interest not yet repaid after the approved extension period will be subject to the prime rate. Of the 975 loans issued, 53 loans have been repaid in full and 213 loans are being repaid by quarterly instalments. The remaining 709 loans are to be repaid in lump-sum in July 2000, i.e. one year after drawdown.

## **ASSISTANCE TO CAGE TRAPPERS**

7. Due to the relatively short notice and limited time for preparation, fishermen operating some 50 cage trappers might face similar problems encountered by those of the 1 350 fishing vessels last year. We will therefore extend special loans to them through FMOLF on the same terms as the loans offered last year. FMOLF is a revolving loan fund with capital allocated from

FMO to provide loans to fishermen for repair, replacement or provision of fishing vessels, gear and equipment and other production purposes. AFCD expects that FMOLF would have a balance of about \$6 million by June 2000, which should be sufficient for making special loans to the 50 cage trappers. In addition, the Social Welfare Department will apply last year's special arrangement to the fishermen operating cage trappers, i.e. the value of their fishing vessels to be disregarded for the purpose of the asset test under the Comprehensive Social Security Assistance Scheme during the period of the fishing moratorium.

### **REQUEST OF OTHER FISHERMEN FOR LOW-INTEREST LOANS**

8. Some fishermen have suggested that low-interest loans should be provided to all fishermen affected by the fishing moratorium this year as for last year. We consider that since the fishing moratorium is an annual exercise, the fishermen who were affected last year should be able to take into account its implications in planning their operation every year. AFCD has reminded fishermen time and again that they should make early preparations for the fishing moratorium this year and that no special loans would be made available. The provision of low-interest loans last year was a special case, in view of the limited time available for fishermen to make necessary preparations.

9. Furthermore, applications for loans from FMOLF for repairs and maintenance subject to normal eligibility criteria and procedures and availability of fund will continue to be available to all fishermen.

### **INFORMATION NOTE TO THE LEGISLATIVE COUNCIL PANEL**

10. The Legislative Council Panel on Health Services has been informed of the measures taken by the Government to help fishermen to cope with the fishing moratorium in the South China Sea in 2000 through an information note issued on 31 March 2000.