

ITEM FOR FINANCE COMMITTEE

GENERAL REVENUE ACCOUNT HEAD 22 – AGRICULTURE, FISHERIES AND CONSERVATION DEPARTMENT

Subhead 700 General other non-recurrent

New item “Ex-gratia payment to live poultry operators affected by outbreak of avian influenza in the region”

Members are invited to approve the creation of a new commitment of \$42 million for making ex-gratia payments as applicable to live poultry operators (including farmers, wholesalers, retailers and transport operators).

PROBLEM

Owing to the suspension of importation of live birds from the Mainland, we need to provide ex-gratia payments to live poultry operators (including farmers, wholesalers, retailers and transport operators) to alleviate their present financial difficulties.

PROPOSAL

2. We propose to create a new non-recurrent commitment of \$42 million under Head 22 Agriculture, Fisheries and Conservation Department (AFCD) Subhead 700 General other non-recurrent for making ex-gratia payments (EGPs) as applicable to live poultry operators (including farmers, wholesalers, retailers and transport operators).

/JUSTIFICATION

JUSTIFICATION

3. Since early December 2003, a total of eight countries or places in Asia have reported outbreaks of the highly pathogenic H5N1 avian influenza. These countries and places include South Korea, Japan, Vietnam, Thailand, Cambodia, the Mainland, Laos and Indonesia. Taiwan, Pakistan, United States and Canada have also reported avian influenza outbreaks involving other strains of the virus (H5N2 and H7). We have taken immediate steps to suspend temporarily the processing of applications for importation of live birds and poultry meat from the affected places. Such suspension is in line with the recommendations of the World Organisation for Animal Health, which is the international authority on animal health and disease, in dealing with an outbreak situation and also has taken into consideration the evolving situation in the region. As of 17 March 2004, a total of 34 cases of H5N1 human infections have been confirmed in Thailand and Vietnam, of whom 23 have died.

4. Following the announcement that further suspected avian influenza outbreaks had occurred in Guangdong, Anhui and Shanghai, the importation of live birds (including live poultry and day-old chickens) and all poultry meat from the Mainland was suspended on 30 January 2004^{Note}. The supply of imported live poultry from the Mainland has accounted for over 70% of the total live poultry consumption in Hong Kong. Given the suspension on the importation of live poultry from the Mainland, many live poultry wholesalers and retailers have to suspend their operations.

5. In the light of the seriousness and the severity of the recent avian influenza outbreaks in the region, we do not envisage that the importation of live poultry from the Mainland could resume before May. We therefore propose to offer EGPs to alleviate the difficulties experienced by the different groups of live poultry operators.

THE PROPOSED EX-GRATIA PAYMENTS

6. The proposed EGPs for the live poultry operators affected are largely modelled on the package approved by the Finance Committee on 1 June 2001 under FCR(2001-02)10 for the avian influenza outbreak in that year (“the 2001 package”). The 2001 package is relevant as there has been no fundamental change to the mode of operation of the live poultry trade since 2001. We now anticipate that the importation of live poultry from the Mainland may resume in the near future. Against this background and having regard to the concessions already announced on 25 February 2004, the proposed EGP package will be a one-off arrangement to provide relief to the directly affected live poultry operators. The components of the proposal are described below –

/(a)

^{Note} The importation of chilled and frozen poultry from the Mainland was resumed on 22 March 2004.

- (a) Live poultry wholesalers
EGP of \$40,000 per stall.
- (b) Live poultry retailers
- (i) Tenants of live poultry market stalls in Food and Environmental Hygiene Department (FEHD) wet markets – EGP of \$30,000 per stall;
 - (ii) Licensees of fresh provision shops (FPS) with endorsement to sell live poultry in premises of the Housing Authority (HA) or the Housing Society (HS) – EGP of \$30,000 per licence; and
 - (iii) Licensees of FPS with endorsement to sell live poultry in private buildings – EGP of \$50,000 per licence on top of the \$10,000 announced earlier (see paragraph 8 below).
- (c) Live poultry transport operators
EGP of \$24,000 per lorry based on records kept by AFCD for the regular transportation of live poultry between the Mainland farms/ local farms and the government poultry wholesale markets and from these markets to retail outlets.
- (d) Chicken farmers

In the event that the importation of live poultry including day-old chickens from the Mainland may not resume for a longer period than we envisage and the farmers have sold all their existing stock, there could be a significant break in the production of chickens in local farms. In case the break lasts for three months or longer, it is necessary to provide EGP to local chicken farmers to help them meet their routine operating expenses and to alleviate their short term cashflow problems. We consider it necessary to reserve the funding of around \$1.51 million for the purpose, but funds would only be paid out if the break in production lasts for a period of three months or longer.

Encl. The details of the EGPs are at Enclosure.

Amendments to Relief Measures Announced on 25 February 2004

7. On 25 February 2004, the Government announced the intention to grant a three-month rental waiver (inclusive of rates and air-conditioning charges, if applicable) effective from 11 March 2004 to the live poultry wholesalers and

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retailers operating in the wholesale and retail markets under the management of AFCD and FEHD respectively for those who suspend business for 30 consecutive days or more over this period upon approval by application by AFCD/FEHD and 50% rental waiver for those who continue operation. The HA and HS have also agreed to extend such arrangements to live poultry stalls operating in their premises. Parking fees (inclusive of rates) for lorries parked at designated spaces on a monthly basis for the transportation of live poultry in AFCD's wholesale poultry markets would also be waived during the three-month concessionary period. EGPs equivalent to \$10,000 (pegged against roughly three months' average rental of live poultry stalls at FEHD markets) for those who have suspended business and \$5,000 for those who continue operation have also been made to the live poultry retailers operating in private premises.

8. Having considered the request of the live poultry operators concerned and to tie in with the 2001 package, we intend to lift the requirement for the cessation of business for 30 consecutive days in granting the full rental waiver to the live poultry wholesalers and retailers operating in the wholesale and retail markets under the management of AFCD and FEHD respectively. Likewise, the same pre-condition for granting the additional \$5,000 EGP to live poultry retailers operating in private premises will be lifted. While the maximum financial implication for the measures remains the same, i.e. \$8.443 million, because it was calculated based on the full three-month rental waiver, a higher level of payment compared to the original proposal is expected as a result of lifting the 30-day out of business requirement.

Other Additional Relief Measures

9. The two crate washers at the Cheung Sha Wan Temporary Wholesale Poultry Market (CSWTWPM) are rented to the wholesalers' associations on a cost recovery basis. Given the drop in business volume of the wholesalers since the suspension of importation of live poultry from the Mainland, the operators of the crate washers also suffered. We intend to grant a three-month rental waiver to these operators. The financial implications of this measure will be a revenue loss to Government of about \$18,000.

Mechanism to ensure employers discharge their responsibilities

10. We are aware that workers in the relevant trades may also be affected in one way or another. As a matter of principle, Government considers that it is the responsibility of an employer to meet his obligations to his workers. Furthermore, the employer has a legal responsibility to pay workers still in his employment or to pay any laid off employees the wages and other benefits provided for under the Employment Ordinance and the employment contract. As with arrangements

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in 2001, we expect employers in the live poultry trade to discharge their responsibilities to their employees having regard to the EGP made available under the proposed package.

11. Nonetheless, having considered various views expressed to the Government during the outbreak of avian influenza in 2001, including encouraging employers to fulfil their obligations to their employees but without interfering in any employer-employee relationship, we propose to retain 20% of the EGP until the employers have discharged their responsibilities towards the employees. Similar to arrangements in 2001, the retained portion of EGP would be paid to the wholesalers, retailers, transport operators and farmers concerned if they satisfy either of the following conditions –

- (a) no labour claim associated with this proposal has been lodged with the Labour Department by their employees within 30 days after approval of this proposal by the Finance Committee; or
- (b) no labour claim associated with this proposal and lodged with the Labour Department by their employees within the period mentioned in (a) above is unresolved one month after the claim has been lodged.

SUMMARY OF THE PROPOSED PACKAGE

12. The following is a summary of the proposed financial assistance available to various groups of live poultry operators, including those relief measures announced on 25 February 2004 –

Parties affected	Relief measures
Live poultry wholesalers	<ul style="list-style-type: none"> ▪ Lump-sum EGP of \$40,000 per live poultry stall operating at AFCD's wholesale poultry markets ▪ Three-month rental waiver for live poultry stalls operating at AFCD's wholesale poultry markets*
Live poultry retailers	<ul style="list-style-type: none"> ▪ Lump-sum EGP of – <ul style="list-style-type: none"> • \$30,000 per retailer at FEHD, HA or HS markets • \$50,000 per licence for FPS selling live poultry in private buildings ▪ Three-month rental waiver for live poultry retail stalls in FEHD's wet markets* ▪ Lump-sum EGP of \$10,000 to FPS licensee selling live poultry in private buildings*

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Parties affected	Relief measures
Live poultry transporters	<ul style="list-style-type: none"> ▪ Lump-sum EGP of \$24,000 per lorry on record of AFCD for the regular transportation of live poultry between the Mainland farms/local farms and the government poultry wholesale markets and from these markets to retail outlets ▪ Three-month rental waiver for designated spaces in AFCD's wholesale poultry markets*
Chicken farmers	Lump-sum EGP of \$10,000 per licence to be paid out if the break in local chicken production lasts for three months or longer
Operators of crate washers at CSWTWPM	Three-month rental waiver

* Relief measures announced on 25 February 2004 (with modification set out in paragraph 8 above).

FINANCIAL IMPLICATIONS

13. We estimate that the total amount required for making EGPs to live poultry operators (including farmers, wholesalers, retailers and transport operators) under the current proposal is about \$42 million, broken down as follows –

Ex-gratia payments	\$'000	\$'000
Live poultry wholesalers	3,480	
Live poultry retailers	27,490	
Live poultry transport operators	9,120	
Chicken farmers	1,510	
Total ex-gratia payment		41,600
		Say 42,000

14. The revenue loss to Government as a result of the rental waivers to the operators of the crate washers at CSWTWPM is around \$18,000.

15. It should be noted that the amounts quoted in paragraphs 13 and 14 above do not include the indicative cost of the relief measures announced on 25 February 2004, which is \$8.443 million (comprising revenue loss to Government of about \$6.973 million and EGP of about \$1.47 million).

/BACKGROUND

BACKGROUND INFORMATION

16. We consulted the Legislative Council Panel on Food Safety and Environmental Hygiene on the current proposal at their meeting on 19 March 2004. Members supported the proposal.

URGENCY

17. We have placed this item on the agenda for 26 March 2004 which is a Special Finance Committee meeting. This is to ensure that, if the proposals are approved by Members, we can implement the proposals as soon as possible.

Health, Welfare and Food Bureau
March 2004

**Lump sum ex-gratia payments to live poultry operators
affected by outbreak of avian influenza in the region**

Operators affected	Number of stalls/ licensees/lorries	Unit rate \$'000	Ex-gratia payment \$'000
Live poultry wholesalers (stalls)	87	40	3,480
Live poultry retailers at FEHD and HA/HS markets (452 FEHD stalls + 218 HA's fresh provision shops + 3 HS's fresh provision shops)	673	30	20,190
Live poultry retailers - fresh provision shops in private premises (licences)	146	50	7,300
Live poultry transport operators (lorries)	380	24	9,120
Chicken farmers ^{Note}	151	10	1,510
Grand Total			41,600 Say 42,000

^{Note} The ex-gratia payment for chicken farmers will only be paid out if there is a break in the local chicken production, which is beyond the control of the chicken farmers and the break lasts for three months or longer.