

## **ITEM FOR FINANCE COMMITTEE**

### **LOAN FUND**

#### **HEAD 262 - PRIMARY PRODUCTS**

##### **Subhead 101 Fisheries Loans**

##### **New Subhead “Fish Marketing Organisation Loan Fund – fishing moratorium loan scheme”**

Members are invited to–

#### **For Subhead 101 Fisheries Loans**

- (a) approve an increase in the approved commitment of the loan capital of the Fisheries Development Loan Fund from \$100 million by \$190 million to \$290 million to provide loans for fishermen to switch to sustainable fisheries or related operations and for mariculturists and pond fish farmers to develop sustainable aquaculture business so as to conserve fishery resources; and

#### **New Subhead “Fish Marketing Organisation Loan Fund – fishing moratorium loan scheme”**

- (b) approve the creation of a new commitment of \$60 million to provide loans to help fishermen tide over the annual fishing moratorium period and to make preparations for resumption of fishing activities after the moratorium.

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**PROBLEM**

We need to provide more assistance for fishermen and fish farmers to pursue sustainable fisheries operations and to develop aquaculture business in order to conserve fishery resources. We also need to assist fishermen to tide over the annual fishing moratorium in the South China Sea.

**PROPOSAL**

2. We propose to –

**For Subhead 101 Fisheries Loans**

- (a) increase the approved commitment of the loan capital of the Fisheries Development Loan Fund (FDLF) from \$100 million by \$190 million to \$290 million to provide loans for fishermen to switch to sustainable fisheries or related operations; and for mariculturists and pond fish farmers to develop sustainable aquaculture business so as to conserve fishery resources; and

**New Subhead “Fish Marketing Organisation Loan Fund – fishing moratorium loan scheme”**

- (b) create a new commitment of \$60 million for providing loans to help fishermen tide over the annual fishing moratorium period in the South China Sea and to make preparations for resumption of fishing activities after the moratorium.

**JUSTIFICATION****Fisheries loans****Loans for Fishermen**

3. The fisheries resources in Hong Kong waters have been declining significantly since the 1990s. The catches of the local fishing fleet have decreased from 224 000 tonnes in 1990 to 162 000 tonnes in 2005. Apart from declining fisheries resources, our fishermen have been facing a very difficult operating environment in recent years as a result of increasing competition from Mainland fishing vessels, soaring fuel prices and declining fish prices. The average annual profit of pair trawlers has decreased from \$336,000 per vessel in 1996 to \$135,000

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in 2004. Amid such an operating environment, some fishermen, particularly those operating trawlers, have expressed an interest in switching to other types of sustainable fisheries operation. We support this change as this would help to conserve fishery resources. However, most of the fishermen have encountered difficulty in acquiring loans from commercial financial institutions to switch over to other sustainable fisheries operations as their income is unstable and their fishing vessels are often not accepted as collateral. They also find the commercial interest rate unaffordable. At present, fishermen may borrow loans (at 6% simple rate) from FDLF, a government loan fund with an approved capital of \$100 million, to promote fishing development such as offshore fishing. However, the current loan does not provide for the development of other non-fishing sustainable operations such as aquaculture and the current balance of the fund (some \$28 million) is only sufficient to meet the funding requirement of a few applications for developing offshore fishing business. The fisheries trade has repeatedly requested the Government to provide more low-interest loans to help them.

4. The Government has recently received nine loan applications from fishermen to develop fisheries or related operations including two offshore fishing development proposals. The requested loan amount is over \$70 million. Both the remaining balance of FDLF (\$28 million) and the special loan scheme for sustainable development of fisheries operations under the Fish Marketing Organization Loan Fund (FMOLF) (\$20 million) are not sufficient to meet the demand. Besides, we expect that more loan applications will be received in the next few years when the interest rate is reduced to 2.5% as we now propose. It is estimated that \$150 million in addition to the balance of the existing loan capital of the FDLF will be required to provide low interest loans (at 2.5% compound rate) to assist fishermen, in particular trawler fishermen who exert the greatest pressure on local fisheries resources, to switch to sustainable fisheries or related operations including but not limited to long-lining, recreational fishing, fish farming, fish transportation, fisheries product processing and other fisheries related operations. The low interest loan would provide incentive for fishermen to switch to sustainable fisheries or related operations which would, in turn, help address the overfishing problem and conserve fisheries resources. Only those loan proposals which would result in reduction of fishing efforts in Hong Kong waters (e.g., switching from trawling to non-trawling operations or from fishing to non-fishing operations such as aquaculture or fish transportation) would be considered. Loan borrowers will be required to stop trawling or other unsustainable fishing operations in Hong Kong waters in future. This would effectively help reduce fishing efforts in Hong Kong waters.

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## Loans for Fish Farmers

5. To foster the sustainable development of local aquaculture industry, the Agriculture, Fisheries and Conservation Department (AFCD) initiated a voluntary Accredited Fish Farm Scheme in June 2005. The scheme has been very well received by local mariculturists and pond fish farmers since its inception. As accredited, safe and wholesome aquaculture products continue to be sought after by consumers, there is a potential huge demand for locally reared fishes. This development has prompted some local fish farmers to consider upgrading and expanding their business. However, the majority of fish farmers operate small-scale farms on marginal profits and lack capital for development of their aquaculture business amid a difficult operating environment attributable to keen competition with imported fish, high operating costs, substantial loss suffered from such unfortunate events as the red tide and prolonged cold spell incidents over the past decade. Against this background, local fish farmers have repeatedly urged the Government to strengthen financial support to them for the sustainable development of the aquaculture industry.

6. It is estimated that \$40 million will be required from the FDLF for the purpose. Mariculturists and pond fish farmers will be required to pay interest at no-gain-no-loss<sup>1</sup> level (5.859% as at April 2006) for loans to develop their aquaculture business. Fish farmers may use the loan to expand their farms, upgrade their farm facilities and equipment, such as acquisition of automatic feed dispenser, installation of modern hatchery, nursery and culture system, and improvement of water quality monitoring or filtration system. The proposed provision of loans to local fish farmers would not only help promote the sustainable development and competitiveness of local aquaculture industry, but also enhance the production and improve the quality and food safety standards of local aquaculture products which would, in turn, benefit the general public by and large. Moreover, aquaculture provides one of the opportunities for capture fishermen to switch to other sustainable development. Helping the fish farmers develop their sustainable aquaculture operations would certainly provide more incentive for the capture fishermen to turn to this business. Conversely, if the aquaculture industry is not sustainable, fish farmers have to look for other alternatives for living, including fishing, which would put more pressure on the depleting fisheries resources.

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<sup>1</sup> The no-gain-no-loss interest rate is set at a certain percentage below the average of the best lending rates (BLR) of the note-issuing banks, with that percentage being the average differential between the BLR and the Hong Kong Dollar Inter-bank Offered Rates in the preceding 120-month period.

7. Taking into account the total requirements to provide loans to the fishermen and the fish farmers, the loan capital of the FDLF will need to increase by \$190 million to \$290 million. The parameters for approval of loans from the FDLF will be revised as set out in Enclosure 1.

Encl. 1

### **Moratorium Loan**

8. Fuel constitutes over 70% of the operating cost of fishing operations. As at April 2006, the price of diesel has risen to \$860 per barrel (200 litres), which has almost doubled that of \$400-\$500 per barrel in 2004. On average, fishermen need to acquire about 100 barrels of diesel for each fishing trip in the South China Sea. The high petroleum price has drastically aggravated the burden on fishermen and rendered them very difficult to maintain their living although the petroleum used by fishing vessels is duty-free industrial marked diesel oil whose price is far below the market price for vehicular diesel. When it comes to the annual South China Sea fishing moratorium period in June and July each year, during which trawling and purse-seining operations are not allowed, those Hong Kong fishermen who fish with these methods mainly in Mainland waters suffer particularly seriously as they have to cease fishing operations. With higher operating cost and less earnings, the trade has much difficulty in saving up to tide over the moratorium period.

9. Since 2000, the FMOLF which is set up by the Fish Marketing Organization (FMO), a statutory body established by the authority of the Marine Fish (Marketing) Ordinance (Cap. 291) has, from its own financial resources, been providing low interest loans to the affected fishermen with genuine financial hardship. The remaining balance of the moratorium loan under the fund (some \$12 million) would not be sufficient to cater for the loan demand this year and the coming years, particularly in anticipation of more fishermen requiring assistance in face of the increasingly difficult operating environment. We issued 500 loans involving \$43 million last year and we expect to receive more applications this year involving more than \$50 million.

10. We propose to inject up to \$60 million into the FMOLF on a revolving basis for the FMO to provide loans to fishermen affected by the fishing moratorium in the South China Sea. They may use the loan to meet their needs over the moratorium period in June and July and to make preparation for resumption of fishing activities after the moratorium, such as repairing of fishing vessels and gear and purchase of fuel. In order to conserve fisheries resources, fishermen who

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borrow the loan will not be allowed to conduct fishing activities in local waters during the fishing moratorium period. The provision of loan assistance together with requiring loan borrowers not to fish in Hong Kong waters during the period would help protect local fisheries resources and the marine environment for the overall interest of Hong Kong people. The continuing need for the loan facility would be reviewed after five years.

11. The loans will be made available by the Government at an interest rate of no-gain-no-loss level. Nevertheless, in view of the severe financial hardship currently facing the fishermen and having regard to the similar loans being provided by the FMO, we propose that the loan borrowers will only be required to pay interest at 2% per annum (compound rate) and the differential between the no-gain-no-loss level and 2% will be absorbed by the FMO. This is considered appropriate as FMO's revenue mainly comes from charging commission and fees from fishermen and fish traders for using the market services and facilities and it is in line with the FMO's existing policy to channel back its surplus earnings into the local fisheries industry for the promotion and sustainable development of the industry. The parameters for approval of moratorium loans from the FMOLF will be as set out in Enclosure 2.

Encl. 2

## FINANCIAL IMPLICATIONS

12. Assuming that the entire sum of injected fund of \$250 million and the existing fund of \$100 million under FDLF would also be fully lent out, the interest forgone<sup>2</sup> per year is estimated to be about \$6.7 million, based on the prevailing "no-gain-no-loss" interest rate of 5.859% per annum. AFCD will administer the loan schemes using its existing resources.

## CONSULTATION

13. We consulted the Legislative Council Panel on Food Safety and Environmental Hygiene on 26 May 2006. While some members supported the proposals, others requested more information on the operation of the FDLF and FMOLF. Some suggested the Government to consider providing direct grant or no interest loan.

**/BACKGROUND .....**

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<sup>2</sup> Comprising \$250 million loans to the fishermen at interest rate of 2.5% per annum as well as \$40 million loans to fish farmers and \$60 million moratorium loans both to be provided at "no-gain-no-loss" interest rate.

**BACKGROUND**

14. The FDLF is a revolving loan fund which was established in 1960 with an initial loan capital of \$2 million from the then Development Loan Fund (now known as the Loan Fund) to promote sustainable development of the fishing industry. The loan could be used for development of fishing fleets for sustainable operations (such as offshore fishing) and purchase of fishing gear and equipment, etc. The loan capital was increased to \$5 million in 1961 and \$7 million in 1984. In 1997, the Finance Committee (FC) approved an increase in the commitment of the loan capital of the FDLF from \$7 million by \$93 million to \$100 million to meet the practical needs of the fishing industry. The interest rate is 6% simple interest rate (equivalent to 4.15% per annum compound rate). The maximum loan repayment term is 14 years. At present, the fund has some \$28 million available. Since the topping up of fund to \$100 million in 1997, a total of 42 loans have been issued and there is no written off case since then.

15. FMO operates on a self-financing basis and its main source of revenue is from the levy of commission and fees for the wholesale services and facilities provided. Surplus earnings are ploughed back into the fishing industry, including through provision of loans under the FMOLF to fishermen for production and development purposes. To assist the trade to tide over the fishing moratorium, the FC approved a commitment of \$65 million to the FMOLF in June 1999 to provide a one-year one-off special loan at a simple interest rate of 3% per annum to the affected fishermen. Since 2000, FMOLF has set aside \$46 million at an interest rate of 2% (simple rate) for providing special fishing moratorium loans, and to date, some \$12 million is available. Since 1999, there were only two written off cases involving a total amount of \$80,000.

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Subject to the applicant –

- (i) submitting an application which is supported by the Director of Agriculture, Fisheries and Conservation (DAFC):
- (ii) being able to contribute from his own resources an amount acceptable to the DAFC, such amount being not less than 10% of the total cost of the project for which the loan is required;
- (iii) agreeing to the terms under which the loan is issued.

4. Interest

- (a) For loans to capture fishermen: Compound interest calculated on a monthly basis at 2.5% per annum;
- (b) For loans to fish farmers: Compound interest calculated on a monthly basis at an annual rate set by the Government on the no-gain-no-loss principle.

5. Authority for approval of loans

- (a) Any loan exceeding \$10 million recommended by the Fisheries Development Loan Fund Advisory Committee (FDLFAC) should be subject to the approval of Finance Committee (FC);
- (b) loans exceeding \$5 million but not exceeding \$10 million recommended by the FDLFAC should be subject to the approval of the Secretary for Financial Services and the Treasury (SFST);
- (c) loans exceeding \$1 million but not exceeding \$5 million should be subject to the approval of the DAFC on the advice of the FDLFAC; and
- (d) the DAFC will be the authority to approve loans not exceeding \$1 million.

6. Authority for approval of transfers of vessels
- (a) the FC will be the authority to approve transfers of vessels which are subject to outstanding loans which they had approved originally; and
  - (b) the SFST and the DAFC will be the authority to approve transfers in respect of vessels whose outstanding loans were originally approved by them.
7. Repayment
- (a) Loans to be re-paid by instalments according to a quarterly repayment pledge calculated by the DAFC to recover the total capital sum of the loan plus the interest thereon within the loan terms (a maximum of 14 years);
  - (b) the loan repayment is to be effected by deducting not less than 15% of the proceeds of sales of catches at the wholesale fish markets run by the Fish Marketing Organization. In case the deduction falls short of the quarterly repayment pledge, the shortfall will be made up by the borrower in cash; and
  - (c) the DAFC may temporarily reduce the quarterly repayment amount in special cases subject to the advice of the FDLFAC.
8. Security
- Provision of full and valid collateral/security (e.g. property etc) to the satisfaction of DAFC is required for any loans made.
9. Loan extension
- The DAFC may approve granting of loan extension in special cases subject to the advice of the FDLFAC.
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**Parameters for the grant of fishing moratorium loans from the Fish Marketing Organization Loan Fund**

1. Purpose of the loan  
To provide loans to fishermen to help them tide over the annual fishing moratorium implemented in the South China Sea by the Mainland. Loans will be used to meet fishermen's need over the fishing moratorium period and to make preparations (such as repairing of fishing vessels and gear and purchase of fuel) for resumption of fishing activities after the fishing moratorium.
  
2. Qualification of applicants  
Owners of fishing vessels who
  - (a) hold valid licences issued by the Marine Department and valid fishing permits issued by the Mainland authority for fishing with the following fishing gear and affected by the annual fishing moratorium in the South China Sea -
    - trawl net (including pair trawl, stern trawl, shrimp trawl and hang trawl);
    - purse-seine; or
    - any other gear affected by the fishing moratorium; and
  - (b) undertake not to fish in Hong Kong waters during the fishing moratorium.

Subsequent to granting the loan, if there is evidence supporting that a borrower has been engaged in fishing in Hong Kong waters during the fishing moratorium, he/she has to return the entire loan immediately.
  
3. Applications not considered  
Applicants who have unsatisfactory repayment record (including all fisheries loans and related fees such as insurance fees) in the past.

4. Number and maximum amount Only one loan per vessel; and
- (a) not exceeding \$60,000 for vessels with engine power less than 500 horsepower;
  - (b) not exceeding \$90,000 for vessels with engine power not less than 500 but less than 1,000 horsepower; and
  - (c) not exceeding \$120,000 for vessels with engine power not less than 1,000 horsepower.
- (Subject to revision on the advice of the Fish Marketing Advisory Board taking into consideration the change in fuel price in the preceding year and the operating environment of the fishermen, provided that the maximum amount for each loan would not exceed \$150,000.)
5. Guarantee/ security
- (a) Loan borrowers are required to either submit the licence book of his fishing vessel to the Marine Department for endorsement that the vessel is the subject of the loan concerned or to provide an acceptable guarantor or a co-operative society as a co-borrower.
  - (b) Subject to the provision of full and valid collateral/security, Director of Marketing (whose office is currently held by Director of Agriculture, Fisheries and Conservation) may exempt the borrower from any of the endorsement/guarantee requirements stipulated above.
6. Interest
- The interest rate for the loan scheme is set at an no-gain-no-loss (NGNL) level, with the interest payment to be shared out by both the loan borrowers and the Fish Marketing Organization calculated on a monthly basis at 2% per annum (compound rate) and the differential between the NGNL and 2% per annum, respectively.
7. Loan period
- Up to 1 year
8. Repayment
- 4 equal quarterly instalments (repayments) to be made upon draw down of the loan.
9. Approving authority
- Director of Marketing who may delegate her authority by administrative direction.
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