

**For discussion
on 10 June 2014**

Legislative Council
Panel on Food Safety and Environmental Hygiene

**Fisheries Development Loan Fund –
Proposed Increase in the Approved Commitment of the Loan Capital**

PURPOSE

This paper briefs Members on a proposal to increase the approved commitment of the Fisheries Development Loan Fund (FDLF) from \$290 million by \$810 million to \$1,100 million. This is to meet an upsurge in demand for credit facilities from the fisheries trade, in particular fishermen who are affected by the trawl ban.

BACKGROUND

2. The 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.

3. In view of the challenges facing the local fisheries industry and the imminent implementation of the trawl ban¹ in Hong Kong waters, the Finance Committee (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 the 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

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

consumption or the carbon footprint of their operations without increasing fishing effort;

- (b) providing one-off² 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 annum³ 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.

4. The FDLF with the revised terms and conditions was open to applications in April 2012. The number of applications has since increased significantly. As at end May 2014, we have received 69 applications⁴ seeking loans amounting to over \$600 million. Most of the applications are made by owners of trawler vessels affected by the trawl ban, who have applied for the one-off loans for building new fishing vessels to continue their fishing operations in distant waters outside Hong Kong. The current prices of these new vessels are such that the loan sought in each case could be up to about \$9 million.

5. The total loan amount sought under the 69 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 28 applications (with commitment of \$225.5 million). The remaining 37 applications (seeking loans of about \$354.4 million) are being processed. Setting aside the loan amount already committed, the FDLF has a balance of some \$62.4 million available for disposal as at 31 May 2014. This falls far

² Applications for such one-off loans would have to be submitted on or before 31 December 2015.

³ 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.

⁴ Four of these loan applications were rejected by DAFC or withdrawn by the loan applicant.

short of the amount required to meet the demand from the 37 remaining applications, let alone new applications that may come up in the course of time.

6. Without additional funding injection, the 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.

7. In April 2012 when we consulted this Panel and sought FC's approval for the revision of the scope of FDLF, some \$279 million was available under the FDLF. Although we did envisage at that time that there would be an increase in the number of loan applications after the revision of the terms and conditions of the FDLF, the actual demand (subject as it is to a number of variables) could only be told in the course of time. Having regard to the amount of funds then available (i.e. \$279 million) and the past utilisation rate of the FDLF, we had decided not to seek at that juncture an injection of funds to lift the ceiling of the approved commitment. Instead, we foreshadowed that we would do so as and when the actual demand for loans under the FDLF approaches the upper limit of the funding available.

PROPOSALS AND JUSTIFICATIONS

Proposed size of injection

8. 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, we propose a funding injection of \$810 million.

9. We wish to emphasise that this is our best guestimate of the loan requirements at the time of putting up this application. 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.

10. 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 Agriculture, Fisheries and Conservation Department, about 270 inshore trawlers and 710 larger trawlers were affected by the trawl ban. The inshore trawlers, which operated wholly or partly in Hong Kong waters, were more severely affected.

11. 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 end May 2014, no loan applications have been submitted by owners of inshore shrimp trawlers and hang trawlers.

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

13. The overall estimates are tabulated below:

	Required injection
Demand for one-off loans under paragraph 3(b) above:	
(a) 50 inshore trawlers (minus 13 loans to inshore trawlers already approved or to be accommodated by the existing balance of \$62.4 million)	37 loans of \$9 million each (i.e. about \$330 million)
(b) 71 larger trawlers (minus 21 loans to larger trawlers already approved)	50 loans of about \$9 million each (i.e. 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

14. In the proposal approved by FC 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.

15. As has been highlighted in earlier paragraphs, relative to the larger trawlers (which operate mainly in distant waters outside Hong Kong), inshore trawlers have to come to terms with much more significant impact from the trawl ban. Subject to FC's approval of the proposed injection of \$810 million into the FDLF, we propose to set aside around \$400 million (about \$330 million from the \$810 million injection plus the \$62.4 million in the existing balance) for providing loans to inshore trawlers.

16. 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 31 March 2015. Should funds in this designated pool of \$400 million remain unspent/uncommitted after we have accommodated loan applications from inshore trawlers submitted on or before 31 March 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 put in applications for the one-off loans between 1 April 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 FROM AGED TRAWLER OWNERS AND JOINT APPLICANTS

17. As a measure to manage the risks of bad debt⁵, we have, as a matter of established practice, adopted the following arrangements when dealing with loan applications under FDLF:

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

- 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;

⁵ 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.

- reduce his loan amount and /or his loan tenure;
- provide additional security such as a landed property; or
- provide any other proposal which is acceptable to DAFC.

18. 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 being 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.

19. When FC approved the revised terms and conditions of the FDLF in April 2012, we have not spelt out in the relevant FC paper the arrangements described in paragraphs 17 to 18 above. In seeking FC's approval of the funding injection of \$810 million, we will take the opportunity to place the arrangements on record.

CONSULTATION

20. We have 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.

FINANCIAL IMPLICATIONS

21. Assuming that the \$810 million injection is fully loaned out, and that repayment is to be spread over a 14-year period, the total interest forgone will be in the order of some \$164.2 million. This is arrived at by reference to the interest rate of 3.6% offered by the Fiscal Reserve managed by Hong Kong Monetary Authority.

WAY FORWARD

22. Subject to Members' comments, we would seek the approval of FC in July 2014.

**Food and Health Bureau
Agriculture, Fisheries and Conservation Department
June 2014**