

ITEM FOR FINANCE COMMITTEE

LOAN FUND

HEAD 262 – PRIMARY PRODUCTS

Subhead 132 Fish Marketing Organization Loan Fund – fishing moratorium loan scheme

Members are invited to approve –

- (a) increasing the loan ceiling per vessel under the Fishing Moratorium Loan Scheme from \$300,000 to \$500,000, which may be further increased up to \$750,000, on the advice of the Fish Marketing Advisory Board¹; and
- (b) increasing the approved commitment by \$210 million to \$270 million for providing loans under the Fishing Moratorium Loan Scheme.

PROBLEM

The fishing industry faces a challenging environment as a result of the lengthened annual fishing moratorium and continued increases in operating costs. We need to provide additional financial assistance for fishermen to tide over the annual fishing moratorium.

/PROPOSAL

¹ Fish Marketing Advisory Board (FMAB) is a statutory advisory body established under the Marine Fish (Marketing) Ordinance (Cap.291) to provide advice on matters related to the Fish Marketing Organization (FMO). FMO is a statutory body established by the authority of Cap. 291, with the functions to establish, regulate and conduct wholesale fish markets, depots and ancillary establishments, etc.

PROPOSAL

2. The Secretary for Food and Health proposes –
- (a) to increase the loan ceiling per vessel of the loans under Fishing Moratorium Loan Scheme (the Scheme) from \$300,000 to \$500,000, which may be increased on the advice of FMAB provided that the maximum amount for each loan would not exceed \$750,000; and
 - (b) to increase the approved commitment of the Scheme by \$210 million to \$270 million for providing loans to help fishermen tide over the annual fishing moratorium and to make preparations for resumption of operation thereafter.

JUSTIFICATION

Increasing the loan ceiling

3. The Government has been helping local fishermen affected by the annual fishing moratorium implemented in the South China Sea through providing fishing moratorium loans. Since the last revision of loan ceiling approved by this Committee in 2012², the maintenance cost³ of fishing vessels has increased as a result of inflation and the extended fishing moratorium period. The extended moratorium period also reduced the incomes of fishermen. Besides, fishermen have to bear a higher fuel cost for resumption of operation after the moratorium as more local fishermen had upgraded their wooden-hull fishing vessels to steel-hull vessels, which are bigger in size and with larger fuel tanks, in order to fish in more distant waters. The increased operating costs in recent years have in turn eroded fishermen's savings and pumped up the preparatory costs for resuming operation after the moratorium.

4. Recently, various fishermen associations have expressed to the Agriculture, Fisheries and Conservation Department (AFCD) that the existing loan is not sufficient to help fishermen tide over the moratorium. They also expected the fishing moratorium to be further extended for conserving the fisheries resources in the South China Sea.

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² FC Paper No. FCR(2012-13)18.

³ When leaving their vessels idle during the fishing moratorium, fishermen incurred additional costs for repair work (e.g. anti-fouling, cleaning and inspection of propellers and engines etc.) before the vessels resume operation after the moratorium.

5. In view of the challenging operating environment faced by local fishermen, we propose to increase the loan ceiling per vessel under the Scheme from \$300,000 to \$500,000. As per the approval by this Committee in 2006 for the initial commitment of \$60 million for the Scheme⁴, the FMO is provided with the flexibility to revise the loan ceiling per vessel on the advice of FMAB. When tendering their advice, FMAB will take various factors into consideration such as changes in fuel price and the operating environment of the fishermen, etc. With a view to providing greater financial support to the fishermen, we propose that the loan ceiling per vessel may be further revised up to \$750,000, subject to the advice of FMAB according to the prevailing mechanism.

Increasing the Commitment to Fishing Moratorium Loan

6. We estimate that some 1 400 Hong Kong fishing vessels and 500 fish collectors⁵ are affected by the annual fishing moratorium. Based on the number of loans issued in the past, we estimate that a maximum amount of \$270 million will be lent out under the loan scheme per year, in the event that the loan ceiling for each loan would be increased to the maximum of \$750,000 as per paragraph 2(a) above. To meet the estimated demand, we propose to increase the approved commitment for the Scheme by \$210 million, i.e. from \$60 million to \$270 million. The \$110 million currently set aside by FMO from its own resources⁶ will remain in Fish Marketing Organization Loan Fund (FMOLF) for meeting fishermen's loan demand, alongside the injection by the Government.

Encl. 1 7. A comparison of the existing and proposed terms and conditions of the loan under the FMOLF is at Enclosure 1. We envisage that the above proposals would be able to meet the needs of the industry in the coming years.

/CONSULTATION

⁴ FC Paper No. FCR(2006-07)14.

⁵ Fish collectors, also known as fisheries ancillary vessels, are vessels used to gather catch from fishing vessels, which operate either in Hong Kong waters or further afield. Fish collectors would then transport the catch to fish wholesalers either in Hong Kong or in the Mainland. Fish collectors' service is required because not all fishermen would wish to undertake the journey to the wholesalers for fuel and time efficiency reasons. Since 2017, the annual fishing moratorium has been extended to cover fish collectors, which are also required to suspend operation in South China Sea during the moratorium. Fishing moratorium loan has also been provided to owners of fish collectors since then.

⁶ Established under Cap. 291, FMO is a self-financing statutory body. Its surplus is used to cover its anticipated expenditures, including the capital expenditure for large-scale repair or renovation of its wholesale fish markets, regular maintenance of market facilities, promotion of local fisheries products, as well as meeting its contingency needs. A significant amount of surplus is also ploughed back to support the sustainable development of the fisheries industry as well as meeting its statutory functions, which include the provision of loans under FMOLF. FMO has already committed a total of \$110 million to FMOLF for the provision of the fishing moratorium loan, which includes its latest injection of \$40 million to meet the loan demand in 2019.

CONSULTATION

8. We consulted the trade and they welcomed the proposed enhanced support for fishermen. We also briefed the Legislative Council Panel on Food Safety and Environmental Hygiene on the proposals on 14 January 2020 and members supported the proposals. We also obtained the support of FMAB in January 2020.

FINANCIAL IMPLICATIONS

9. Assuming the proposed injected fund of \$210 million would be fully lent out, the interest forgone per year is estimated to be about \$5.4 million, based on the prevailing “no-gain-no-loss” interest rate of 1.106% per annum. AFCD and FMO will administer the loan schemes with their existing resources.

BACKGROUND

10. The Mainland authorities have started implementing the annual fishing moratorium in the South China Sea since 1999 with a view to conserving fisheries resources and promoting sustainable development of the fisheries industry. The moratorium first started with a two-month duration (i.e. from 1 June to 1 August), during which fishing operations using trawl net and purse-seine were banned. In 2017, the fishing moratorium was extended to three and a half months (i.e. from 1 May to 16 August) and all fishing operations except lining are banned. Moreover, the operation of fish collectors was also banned.

11. Since 1999, the Government has been providing low interest loans to fishermen affected by the fishing moratorium through the FMOLF, which was set up by the FMO. The loan aims to assist the affected vessel owners in tiding over the moratorium, repairing and maintaining their vessels and purchasing fuel for resuming operations after the moratorium. In 2006, this Committee approved a commitment of \$60 million to FMOLF to provide loans on a revolving basis to fishermen affected by the annual fishing moratorium with the maximum amount for each loan not exceeding \$150,000. In 2012, this Committee approved the increase of the loan ceiling per vessel to \$250,000, which can be increased to a maximum of \$300,000 on the advice of FMAB taking into consideration fuel prices, operating environment of the fishermen and details of the fishing moratorium. Due to extension of the fishing moratorium in 2017 and the deteriorating operating environment, the loan ceiling per vessel has been raised to \$300,000 since then.

12. In 2018 and 2019, FMO provided an extra loan of \$100,000 for vessel owners who were in genuine financial difficulties on top of the maximum loan amount of \$300,000 per vessel. Loans (including extra loans) totalling \$105 million and \$92 million were issued to the affected vessel owners in 2018 and 2019 respectively. Details of fishing moratorium loans issued in the past five years are in Enclosure 2.

Encl. 2

Food and Health Bureau
July 2020

**Comparison between the Existing and Proposed Terms and Conditions
of the Fishing Moratorium Loan Scheme**

		Existing	Proposed
1.	Loan Capital	HK\$60,000,000.	HK\$270,000,000.
2.	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.	
3.	Qualification of applicants	<p>Owners of fishing vessels who –</p> <p>(a) hold valid certificate of ownership and operating licences issued by the Marine Department and valid fishing permits issued by the Mainland authority for fishing and affected by the annual fishing moratorium in the South China Sea; and</p> <p>(b) undertake not to fish in Hong Kong waters during the fishing moratorium.</p> <p>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.</p>	
4.	Applications not considered	Applicants who have unsatisfactory repayment record (including all fisheries loans and related fees such as insurance fees) in the past.	

		Existing	Proposed
5.	Number and maximum amount	<p>Only one loan per vessel for each annual fishing moratorium; and</p> <p>(a) not exceeding \$150,000 for vessels with engine power less than 500 horsepower;</p> <p>(b) not exceeding \$200,000 for vessels with engine power not less than 500 but less than 1 000 horsepower; and</p> <p>(c) not exceeding \$250,000 for vessels with engine power not less than 1 000 horsepower.</p> <p>(Subject to revision on the advice of the Fish Marketing Advisory Board (FMAB) taking various factors into consideration such as changes in fuel price and the operating environment of the fishermen, etc., provided that the maximum loan amount for each loan would not exceed \$200,000, \$250,000 and \$300,000.)</p>	<p>Only one loan per vessel for each annual fishing moratorium; and</p> <p>(a) not exceeding \$400,000 for vessels with engine power less than 500 horsepower;</p> <p>(b) not exceeding \$450,000 for vessels with engine power not less than 500 but less than 1 000 horsepower; and</p> <p>(c) not exceeding \$500,000 for vessels with engine power not less than 1 000 horsepower.</p> <p>(Subject to revision on the advice of the FMAB taking various factors into consideration such as changes in fuel price and the operating environment of the fishermen, etc., provided that the maximum loan amount for each loan would not exceed \$650,000, \$700,000 and \$750,000.)</p>
6.	Guarantee/ security	<p>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.</p> <p>Subject to the provision of full and valid collateral/security, Director of Marketing may exempt the borrower from any of the endorsement/guarantee requirements stipulated above.</p>	

		Existing	Proposed
7.	Interest	<p>The interest rate for the loan scheme is set at an no-gain-no-loss (NGNL) level. The interest payment will be shared out by both the loan borrowers and the Fish Marketing Organization (FMO), calculated on a monthly basis at 2% per annum (compound rate) for the loan borrowers and the differential between the NGNL and 2% per annum for the FMO, respectively.</p> <p>(On the advice of the FMAB, taking various factors into consideration such as changes in fuel price and the operating environment of the fishermen etc., the FMO may lower the interest rate charged on borrowers from 2% per annum down to a minimum of 1% per annum. The FMO will share the differential between the NGNL and the interest rate charged on borrowers.)</p>	
8.	Loan period	Up to one year	
9.	Repayment	Four equal quarterly instalments (repayments) to be made upon issue of the loan to borrowers.	
10.	Approving authority	Director of Marketing who may delegate his/her authority by administrative direction.	
11.	Extension	Extension of repayment period may be approved by the Director of Marketing who may delegate his/her authority by administrative direction.	

Fishing Moratorium Loans Issued in the Past Five Years (2015-2019)

Year	No. of loan applications received	No. of loans issued	No. of applications withdrawn/rejected	Total amount of loans issued (\$)	Average amount of loan per vessel (\$)
2015	201	196	4/1	39,520,000	200,000
2016	194	189	5/0	38,190,000	200,000
2017	267 (1 st batch) 114 (2 nd batch) ^{Note}	252 106	9/6 6/2	55,820,000	220,000
2018	314 284 (extra loan provided by Fish Marketing Organization (FMO))	307 278	7/0 6/0	105,250,000	340,000
2019	296 273 (extra loan provided by FMO)	287 265	9/0 8/0	92,250,000	320,000

^{Note} On the advice of Fish Marketing Advisory Board, the loan ceiling was raised by \$50,000 from \$250,000 to \$300,000 during the moratorium period in 2017, having regard to the unusual hardship faced by fishermen. 1st and 2nd batches refer to the loan applications for up to \$250,000 and \$50,000 respectively, both of which were financed by Government commitment.