

**For discussion
on 14 January 2020**

LegCo Panel on Food Safety and Environmental Hygiene

Proposed Injection into the Fishing Moratorium Loan Scheme

PURPOSE

This paper seeks Members' support on the proposals to increase the loan ceiling and the financial commitment of the Fishing Moratorium Loan Scheme which aims to assist fishermen in tiding over the annual fishing moratorium implemented in the South China Sea for submitting to the Finance Committee ("FC") of the Legislative Council ("LegCo") for approval, and briefs Members on the major latest measures for supporting the sustainable development of the local fisheries industry.

BACKGROUND

The Annual Fishing Moratorium

2. The Mainland authorities started implementing the annual fishing moratorium in the South China Sea in 1999 with a view to conserving fisheries resources and promoting sustainable development of the fisheries industry, starting with a two-month moratorium from 1 June to 1 August during which fishing operations using trawl net and purse-seine were banned. The fishing moratorium had been further tightened in terms of both duration and fishing operations covered over the last two decades. The latest revision made in 2017 has extended the duration of fishing moratorium to three and a half months (i.e. from 1 May to 16 August), and covered all fishing operations except lining. Moreover, the operation of fish collectors¹ was also banned.

The Fishing Moratorium Loan

3. Since 1999, we have been providing low interest loans to the fishermen affected by the fishing moratorium through the Fish Marketing Organization Loan Fund ("FMOLF"), which was set up by the Fish Marketing Organization ("FMO")². The fishing moratorium loan aims to assist the affected vessel owners in tiding over the moratorium, repairing and maintaining their vessels and purchasing fuel for

¹ 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.

² FMO is a statutory body established by the authority of the Marine Fish (Marketing) Ordinance (Cap. 291).

subsequent resumption of operation after the moratorium³.

4. Due to FMO's limited financial capability, support from the Government had been sought in order to strengthen this loan facility to the industry. In 2006, the LegCo FC 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, FC 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 the Fish Marketing Advisory Board ("FMAB")⁴ taking into consideration the fuel price, operating environment of the fishermen and situation of the fishing moratorium. Due to extension of the fishing moratorium in 2017 and the worsening operating environment, the loan ceiling per vessel has been raised to \$300,000 since then.

5. In addition, FMO has 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 for the past two years. Loans totalling \$105 million and \$92 million have been issued to the affected vessel owners in 2018 and 2019 respectively.

PROPOSALS AND JUSTIFICATIONS

Increasing the Loan Ceiling

6. During the period from the last revision of loan ceiling in 2012 to 2018, the general price level in Hong Kong has increased, and the maintenance cost of fishing vessels has also increased owing to inflation and the longer fishing moratorium period (length of the moratorium period was lengthened by 40% since 2017). The further extended fishing moratorium period has led to a longer incomeless period for fishermen, while the increased operating costs in recent years have eroded their savings and pumped up the preparatory costs for resuming operation after the moratorium. In addition, more and more local fishermen have in recent years 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. Fishermen have to bear a higher fuel cost for resumption of operation after the fishing moratorium.

7. Recently, various fishermen associations have expressed to the Agriculture, Fisheries and Conservation Department ("AFCD") that they anticipate the existing loan amount not sufficient to help fishermen tide over the moratorium amid the more difficult operating environment. They also expect the fishing moratorium will likely be further extended to conserve the fisheries resources in the South China Sea.

8. Against the above background, we propose to increase the loan ceiling per

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

⁴ FMAB is a statutory advisory body established under Cap. 291 to provide advice on matters related to FMO.

vessel of the fishing moratorium loans from \$300,000 to \$500,000, which can be further revised on the advice of FMAB, taking into consideration the fuel price, operating environment and other factors including the implementation details of the fishing moratorium in the future, provided that the maximum amount would not exceed \$750,000.

Increasing the Commitment to Fishing Moratorium Loan

9. We estimate that there are some 1 400 Hong Kong fishing vessels and 500 fish collectors affected by the annual fishing moratorium. Based on the number of fishing moratorium loans issued to fishing vessels and fish collectors in the past, we estimate that the maximum total amount of loans per year will be \$270 million when the loan ceiling is increased to the maximum of \$750,000 as proposed in paragraph 8 above. To meet the estimated loan demand of \$270 million per year, a further injection of \$210 million (in addition to the existing commitment of \$60 million) to FMOLF by the Government is needed⁵. The \$110 million set aside by FMO will remain in FMOLF for meeting fishermen's loan demand together with the injection by the Government.

10. A comparison of the existing and proposed terms and conditions of the fishing moratorium loan under the FMOLF is at Annex. We envisage that the above proposals would be sufficient to meet the needs of the industry in the coming years.

MEASURES FOR SUSTAINABLE FISHERIES DEVELOPMENT

11. Progress of the latest measures to assist the local fisheries industry in developing or switching to modernised and sustainable modes of operation through the provision of technical and financial support are set out in the ensuing paragraphs.

Mariculture

12. To enhance the skill level of the mariculture sector and its competitiveness, AFCD has been undergoing adaptive studies on fish culture technique and new species suitable for the local environment. The knowledge and experience gained would be transferred to fish farmers. For instance, AFCD will establish an open sea semi-submersible steel truss mariculture demonstration farm with a view to encouraging the local mariculture sector to adopt a modern and sustainable operation as well as providing a platform for technology transfer⁶. The demonstration farm is expected to be in service in 2020.

⁵ 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. FMO would not be able to absorb the growing demand for fishing moratorium loan on its own.

⁶ With the modern equipment operating in a near-commercial setting, the farm can provide practical training and hands-on experience to new entrants for modern mariculture technologies.

Issuance of New Marine Fish Culture Licences

13. With a view to better utilising the surplus carrying capacity of existing fish culture zones (“FCZs”) and allowing mariculturists to develop their business, AFCD is inviting applications for new licence at three existing FCZs, namely Cheung Sha Wan, O Pui Tong, Sham Wan FCZs with surplus carrying capacity. On the other hand, existing licensees of Yung Shue Au, Ma Nam Wat and Wong Wan FCZs may apply to AFCD for additional licence area to expand their culture operations. Applicants would be required to provide business plans in support of their applications⁷. It is expected that the first batch of new licences will be issued in the first half of 2020. As for the proposed designation of new FCZs, AFCD has started the process of the statutory Environmental Impact Assessment. The assessment will address the environmental benefits and effects of different development options and designs of the proposed designation of new FCZs with a view to deriving the preferred options that will avoid or minimise adverse environmental impact. We anticipate that the assessment will be completed in 2022.

Promotion of Fisheries Products

14. Since 2005, AFCD has been implementing the Accredited Fish Farm Scheme (“AFFS”) to build up a brand name of quality and safety of local aquaculture products so as to enhance the competitiveness of the sector. As of December 2019, 122 fish farms, representing about 23% of the total area of local fish farms, are registered under AFFS. AFCD and FMO have also been actively publicising local quality fisheries products through various promotional activities and expanding the coverage of sales channels. Up to December 2019, there are some 140 outlets for AFFS products, including retail stores and online sales platforms. To help fish farmers draw up plans to provide a stable supply of local fisheries products that could meet market demand, FMO has signed agreement contracts with 10 fish farmers registered under AFFS. FMO is also exploring the Mainland market and preparing for exportation of local cultured fish to the Mainland through the Mainland and Hong Kong Closer Economic Partnership Arrangement.

WAY FORWARD

15. Subject to Members’ comments and support, we would seek the views of FMAB before seeking the approval of FC for the proposed increase of the loan ceiling and the commitment of FMOLF later this year.

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⁷ The plans should show clearly how the proposed mariculture business could achieve sustainable development of mariculture. Conditions may be imposed on the new licences to ensure the operation of the farm will be carried out in a sustainable manner and in accordance with the business plans.

A Comparison of the Existing and Proposed Fishing Moratorium Loan Scheme - Terms and Conditions

		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 into consideration the change in fuel price in the preceding year and the operating environment of the fishermen, 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 Fish Marketing Advisory Board (FMAB) taking into consideration the change in fuel price in the preceding year and the operating environment of the fishermen, 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>	
7.	Interest	<p>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 (FMO) calculated on a monthly basis at 2% per annum (compound rate) and the differential between the NGNL and 2% per annum, respectively.</p>	

		Existing	Proposed
		(On the advice of the FMAB, taking into consideration the change in fuel price and the operating environment of the fishermen, 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.)	
8.	Loan period	Up to 1 year	
9.	Repayment	4 equal quarterly instalments (repayments) to be made upon issue of the loan to borrowers.	
10.	Approving authority	Director of Marketing who may delegate his authority by administrative direction.	
11.	Extension	Extension of repayment period may be approved by the Director of Marketing who may delegate his authority by administrative direction.	