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Panel on Food Safety and Environmental Hygiene

**Background brief prepared by the Legislative Council Secretariat
for the meeting on 14 January 2020**

Fisheries loan schemes

Purpose

This paper provides background information on the existing fisheries loan schemes and highlights the major concerns of members of the Panel on Food Safety and Environmental Hygiene ("the Panel") on the schemes.

Background

Fish Marketing Organization Loan Fund

2. The Fish Marketing Organization Loan Fund ("FMOLF") was established in 1946 by the Fish Marketing Organization ("FMO") primarily for making short-term loans to fishermen to meet their operational needs. Loan under FMOLF may be granted for:

- (a) the repair or replacement of fishing vessels, gear and equipment, including engines and navigational and electronic aids;
- (b) any other approved purpose which will sustain or improve the applicant's fishing business; and
- (c) assisting fishermen to meet their needs over the annual fishing moratorium and to make preparations for resumption of fishing after the moratorium.

Fishing Moratorium Loan Scheme under FMOLF

3. The Mainland authorities have been implementing the annual fishing moratorium¹ in the South China Sea since 1999 with a view to conserving fisheries resources and promoting sustainable development of the fishing industry. During the moratorium period, some fishing methods² were banned in the South China Sea. Since local vessels using the banned fishing methods were not allowed to operate in their traditional fishing grounds in the South China Sea, they had to be berthed in typhoon shelters during the moratorium period. In leaving their vessels idle during the moratorium, fishermen incurred additional costs for repair work (e.g. anti-fouling, and cleaning and inspection of propellers and engines) required for the vessels to resume operation after the moratorium.

4. In 2006, the Administration proposed and the Finance Committee ("FC") approved the establishment of the Fishing Moratorium Loan Scheme ("FMLS") under FMOLF and set aside a commitment of \$60 million to provide loans on a revolving basis to fishermen affected by the annual fishing moratorium. The purpose of FMLS is to assist the fishermen to tide over the moratorium and to make preparations for resumption of fishing operation after the moratorium. Under FMLS, the maximum amount for each loan would not exceed \$150,000 and the interests of the loans are calculated based on the no-gain-no-loss ("NGNL") principle, with the interest payment to be shared out between the fishermen (paying 2% per annum ("p.a.")) and FMO (paying to the Government any excess of the NGNL rate over the 2% p.a.).

5. In view of the increase of fuel price over the years and the extension of both the duration of the fishing moratorium and types of banned fishing methods, the Administration has since 2008 strengthened the financial assistance to fishermen affected by the fishing moratorium by providing extra loans through FMOLF with FMO's own financial resources. In 2011, the amount of extra loan was up to \$100,000 per vessel. In other words, a fishing vessel affected by the fishing moratorium in 2011 might apply for two loans, totaling a maximum of \$250,000 (\$150,000 fishing moratorium loan plus

¹ The fishing moratorium period was initially set to last for two months from 1 June to 1 August each year, and was increased to two and a half months (from 16 May to 1 August) in 2009. In 2017, the fishing moratorium was further extended to last for three and a half months.

² Initially, fishing operations using trawl net and purse-seine were banned in the South China Sea during the moratorium period. In 2009, the types of fishing methods banned were extended to cover all fishing methods except mono-layer gill netting and cage trapping.

\$100,000 extra loan). To save the time and effort of fishermen from applying for two separate loans and to enhance the efficiency of loan fund administration, the Administration has, with the approval of FC, implemented the following enhancements to FMLS starting from 2012:

- (a) increasing the loan ceiling per vessel of the fishing moratorium loans from \$150,000 to a maximum of \$250,000 and that the loan ceiling may be revised on the advice of the Fish Marketing Advisory Board ("FMAB")³, taking into consideration fuel price, operating environment of the fishermen and the details of the fishing moratorium, provided that the maximum amount for each loan would not exceed \$300,000; and
- (b) under exceptional circumstances and on the advice of FMAB, adjusting the interest rate charged on borrowers from 2% p.a. down to a minimum of 1% p.a..

Fisheries Development Loan Fund

6. The Fisheries Development Loan Fund ("FDLF") is a revolving fund⁴ established in 1960 with an initial commitment of \$2 million for promoting the sustainable development of the local fisheries industry. Subsequently, the approved commitment for FDLF had been increased for several times (to \$5 million in 1961, \$7 million in 1984 and \$100 million in 1997). In June 2006, the approved commitment for FDLF was further increased 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.

7. In view of the challenges facing the local fisheries industry and the implementation of the trawl ban⁵ in Hong Kong waters, FC approved in April 2012 the Administration's proposal to revise the scope and terms and conditions of FDLF for the purpose of better meeting the needs of the industry.⁶ Apart from other revisions, owners of trawlers and fish collectors affected by the trawl ban can apply for and be provided with one-off loans for upgrading their vessels

³ FMAB is a statutory advisory body established under the Marine Fish (Marketing) Ordinance (Cap. 291).

⁴ Repayments from borrowers are ploughed back into the fund for financing other loan applications.

⁵ The trawl ban came into effect on 31 December 2012.

⁶ Details of the proposal are set out in the Administration's paper FCR(2012-13)18.

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% p.a. for the full term of the loan tenure. FDLF with the revised terms and conditions was open to applications in April 2012. The number of applications has since increased significantly. Having regard to the demand for loans from applications already received and new applications that were anticipated to come up, the Administration proposed in June 2014 a funding injection of \$810 million to FDLF, so as to increase the total commitment to \$1.1 billion. The funding proposal was approved by FC in February 2015.

Members' concerns

8. The Panel discussed the proposed amendments of the scope and terms of FDLF and FMLS as well as the proposal to increase the approved commitment of FDLF at the meetings on 10 April 2012 and 10 June 2014 respectively. Members' major views and concerns are summarized below.

Terms of the loan schemes and processing procedures

9. Expecting that the proposed revised scope as well as terms and conditions of FDLF would alleviate the difficulties faced by fishermen, members generally supported the Administration's proposal. However, a concern was raised as to whether the Administration would provide a set of guidelines that clearly stated the authority of various ranks of officers of the Agriculture, Fisheries and Conservation Department in the approval of loan applications at various loan amounts. There was also a view that the Administration should set out certain performance pledges on the time span for processing loan applications.

10. The Administration advised that it would draw up internal guidelines in consultation with the FDLF Advisory Committee. The guidelines would be adopted for use following the endorsement of the Financial Services and the Treasury Bureau. As regards the time span for processing loan applications, the Administration would examine whether and how the performance pledge would be set out. The Administration further explained that as FMLS was implemented to meet more urgent financial needs of fishermen during the fishing moratorium, the processing of FMLS applications was faster when compared with FDLF.

11. Noting that under exceptional circumstances and on the advice of FMAB, the interest rate charged on borrowers under FMLS could be reduced from 2% p.a. to a minimum of 1% p.a., some members questioned what circumstances might be regarded as "exceptional". The Administration advised that in addition to spiking fuel price, FMAB would consider other factors including the quality and quantity of fish catch, and the details of the fishing moratorium (including the duration and the types of fishing methods banned).

Adequacy of the commitment

12. Some members wondered whether the Administration had envisaged the need for increasing the approved commitment of the loan capital of FDLF by such a large amount (the proposal in 2014 sought approval for a funding injection of \$810 million), when it proposed in 2012 to revise the terms and conditions of FDLF with a view to helping the trade to overcome the challenges brought about by the trawl ban and encouraging fishermen to upgrade themselves to sustainable fisheries.

13. The Administration advised that when the Administration consulted the Panel and sought FC's approval for the revision of the scope of FDLF in 2012, some \$279 million was available under FDLF. Although the Administration 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 FDLF, the actual demand could only be told in the course of time. The Administration foreshadowed at the Panel meeting on 10 April 2012 that it would seek an injection of funds to lift the ceiling of the approved commitment as and when the actual demand for loans under FDLF approached the upper limit of the funding available.

14. A follow-up question was raised on how the Administration would manage the remaining fund of FDLF if the number of loan applicants turned out to be fewer than expected and the funding injection of \$810 million was not fully loaned out. According to the Administration, as the proposed funding injection was an increase in the approved commitment of the loan capital of FDLF, any amount of fund not loaned out would be retained in the Treasury.

15. Some members considered it unsatisfactory that the Administration only considered the financial implications of the proposed funding injection in terms of the total interest forgone (estimated at about \$164.2 million). Noting that the bad debt ratio of FDLF since its inception in 1960 was around 1.5 per cent, these members queried why the Administration did not include potential bad debts in calculating the financial implications of the proposed funding injection.

16. According to the Administration, it had followed the usual practice in considering the financial implications of the proposed funding injection in terms of the total interest forgone. That said, the Administration undertook to consider including potential bad debts in calculating the financial implications.

Latest Developments

17. According to information provided by the Administration to FC in April 2019, the expenditure of FMOLF (including FMLS) in 2016, 2017 and 2018 were \$38.3 million, \$53.6 million and \$106.1 million respectively, and the fund balance of FMOLF (including FMLS) as at the end of 2016, 2017 and 2018 were \$108.7 million, \$92.9 million and \$40.6 million respectively. According to the Administration, there is an increasing demand from fishermen for fishing moratorium loans under FMOLF in recent years. With a decreasing fund balance, there is a need for injection of fund into FMLS to sustain its operation.

18. The Administration will consult members on its proposal to inject funding into FMLS at the Panel meeting on 14 January 2020. Pursuant to members' request, the Administration will also give an account of its policies and measures for promoting the sustainable development of the fisheries industry (in particular those measures conducive to the development of mariculture) and the resumption of issuance of new marine fish culture licences at the January meeting.

Relevant Papers

19. A list of relevant papers on the Legislative Council website is in the **Appendix**.

Appendix

Relevant papers on fisheries loan schemes

Committee	Date of meeting	Paper
Panel on Food Safety and Environmental Hygiene	10.4.2012 (Item IV)	<u>Agenda</u> <u>Minutes</u>
Finance Committee	27.4.2012 (Item No. 5)	<u>Agenda</u> <u>Minutes</u>
Panel on Food Safety and Environmental Hygiene	10.6.2014 (Item V)	<u>Agenda</u> <u>Minutes</u>

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