

# FRESH FOOD WHOLESALE MARKETS

## Executive Summary

1. Fresh food wholesale markets have a long history in Hong Kong and are an integral part of the supply chain for distributing five types of fresh food (i.e. vegetables, fruits, eggs, live and fresh fishes, and live poultry). As at December 2015, there were 12 public fresh food wholesale markets, comprising four government fresh food wholesale markets operated by the Agriculture, Fisheries and Conservation Department (AFCD), seven wholesale fish markets operated by the Fish Marketing Organisation (FMO) and a wholesale vegetable market operated by the Vegetable Marketing Organisation (VMO). The FMO and the VMO are self-financing non-profit-making organisations established many years ago under the Marine Fish (Marketing) Ordinance (Cap. 291) and the Agricultural Products (Marketing) Ordinance (Cap. 277) respectively to promote the development of the agriculture and fisheries industries and the orderly marketing of fresh marine fishes and vegetables. Both organisations are administered by the Director of Marketing, who is also the Director of Agriculture, Fisheries and Conservation. Also, there were three privately operated fresh food wholesale markets, including the Yau Ma Tei Fruit Market. The 12 public fresh food wholesale markets had total site areas of 265,480 square metres (m<sup>2</sup>). In the past 10 years, fresh food distributed through the public wholesale markets had decreased both in quantum and market share. In 2014-15, total throughput was 666,000 tonnes, down 14% from 776,000 tonnes in 2005-06. On the other hand, as a result of the increase in total local consumption of the five types of fresh food from 1,339,000 tonnes in 2005-06 to 1,802,000 tonnes in 2014-15 (an increase of 35%), the percentage of fresh food supplied through the 12 markets had decreased from 58% in 2005-06 to 37% in 2014-15. The Audit Commission (Audit) has recently conducted a review of the AFCD's efforts in the provision and management of public fresh food wholesale markets.

### Utilisation of public fresh food wholesale markets

2. *Some facilities at AFCD markets not used or used for unintended purposes.* The four AFCD markets provide stalls, trade offices and ancillary facilities (e.g. bank and kiosk) for renting by traders and interested parties. During 2005-06 to 2014-15, the overall throughput of the four markets decreased by 3%. One of them (Cheung Sha Wan Temporary Wholesale Poultry Market) had a 76% decrease in throughput. As at December 2015, 48 (56%) stalls in the poultry market were left vacant (see para. 9). Moreover, some trade offices and ancillary

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facilities at the four markets were unutilised, including two battery charging areas not used for over 10 years. To improve utilisation of the markets, the AFCD had allocated 26 (50%) trade offices and 9 (28%) ancillary facilities for use by government departments. These facilities were generally used by the departments for storage of miscellaneous items, instead of letting to traders for conducting fresh food wholesale activities (paras. 2.3 to 2.17).

3. ***Surplus areas in FMO markets.*** The land areas of the seven FMO markets comprise trading areas (e.g. stalls) and ancillary areas (e.g. loading/unloading and parking areas). During 2005-06 to 2014-15, the total throughput of the seven markets decreased by 16%. In three markets, the ancillary areas accounted for 70% or more of the market areas. The considerable proportion of ancillary areas might indicate surplus areas in the markets. Audit site visits to the market with the greatest proportion (85%) of ancillary areas revealed that its ancillary areas were mainly let out as 38 monthly parking spaces, which seemed excessive when compared with other FMO markets. Moreover, Audit analysis revealed that in another FMO market, 84% of the trading areas were not utilised (paras. 2.21 to 2.30 and 2.37).

### Management of Agriculture, Fisheries and Conservation Department markets

4. ***Non-compliance with terms of tenancy agreements.*** The AFCD has contracted out supporting services for the four AFCD markets through open tendering, including market management, cleansing and security services. AFCD staff and staff of the contractors conduct daily inspections covering areas such as general condition of key facilities and compliance with terms of tenancy agreements. However, during site visits to two largest AFCD markets, Audit noted incidents of non-compliance/suspected non-compliance with the terms of tenancy agreements, including using wholesale market stalls for retail sale, causing obstructions and suspected gambling (paras. 3.2, 3.3 and 3.7).

5. ***Tender assessment methodology not conducive to improving performance.*** In conducting tender exercises for procuring supporting services for its markets, the AFCD has assessed tenders conforming to essential requirements based on the tender prices only. This is not conducive to improving contractor performance because any unsatisfactory performance of existing contractors would not affect their claims in future tender exercises. For example, Audit noted occasions that the contractors had provided fewer security guards than required, which weakened the

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control over compliance with the terms of tenancy agreements (see para. 4). However, the ability to deploy staff effectively to deter non-compliance incidents is not assessed in tender evaluation (paras. 3.23 to 3.25).

### **Reprovisioning of private and public fresh food wholesale markets**

6. *Yau Ma Tei Fruit Market.* The Yau Ma Tei Fruit Market is a private market established in 1913. Over the years, it has become outdated, causing traffic and environmental nuisances in the vicinity. In accordance with the Executive Council's decision of 1969, the Government should reprovision the fruit market to a government-built wholesale market. In its last audit review of 2007, Audit reported that there had been little progress in the reprovisioning of the fruit market. In its Report of July 2007, the Public Accounts Committee (PAC) of the Legislative Council expressed serious concern and strongly urged the Government to provide a definite relocation timetable. In this audit review, Audit noted that: (a) in 2007, the Government informed the PAC of the plan to construct a new wholesale market for fresh fruits in Cheung Sha Wan for relocating the fruit market; (b) in 2008, the Government indicated that it would continue to liaise with fruit traders, who had strong reservations about the proposed relocation of the fruit market; (c) in 2011, the Government decided to release the site at Cheung Sha Wan for residential development and identified an alternative site at Kwai Chung; and (d) in January 2016, the Government decided to release the site at Kwai Chung for other competing uses and was considering a candidate site in Tsing Yi for the relocation of the fruit market. As at March 2016, after a lapse of some 47 years since the 1969 Executive Council decision, the fruit market had yet to be reprovisioned. Records indicated that, during 2007 to 2013, a total of 1,533 complaints (e.g. about obstructions and noise) in relation to the fruit market were lodged with various government departments. Audit site visits to the fruit market in January 2016 confirmed that nuisances caused by market operation persisted (paras. 4.2 to 4.14).

7. *Cheung Sha Wan Wholesale Vegetable Market.* The Cheung Sha Wan Vegetable Wholesale Market has been operated by the VMO since 1965. It has a total site area of 18,933 m<sup>2</sup>. As early as in 1994, the Planning Department commented that its continued operation at the Cheung Sha Wan sites would be a misuse of valuable land. In 1998, the relevant areas were zoned for residential use, with the intention of using the land for public housing development. While the Planning Department had proposed different relocation sites for the vegetable market, the AFCD did not consider the sites suitable and had no plan of relocating

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the vegetable market. In 2011, a review conducted by the Food and Health Bureau in consultation with the AFCD concluded that relocation of the vegetable market would be planned to provide land supply for residential developments. The AFCD required a suitable relocation site with a site area of at least 25,000 m<sup>2</sup>. Audit noted that the required area of 25,000 m<sup>2</sup> was 32% larger than the existing total site area of 18,933 m<sup>2</sup>. Given that during 2005-06 to 2014-15 the throughput of the vegetable market decreased significantly by 40%, the AFCD needs to critically review the site requirements to ensure that they are justified. As at March 2016, there was little progress in the reprovisioning of the vegetable market. The Housing Department had commented that the relevant housing development could only be completed around five years after the relocation of the vegetable market (paras. 4.28 to 4.38).

8. ***North District Temporary Wholesale Market for Agricultural Products.***

The North District Temporary Wholesale Market for Agricultural Products operated by the AFCD had been occupying a temporary site of 12,500 m<sup>2</sup> in Fanling since its commissioning in 1989 to sell vegetables. Due to short operating hours and being only an open ground without permanent infrastructure, its “throughput to land areas” ratio in 2014-15 was only half of that of the Cheung Sha Wan Wholesale Vegetable Market. Also, during 2005-06 to 2014-15, it had a 48% decrease in throughput. There is a need to optimise the use of the site (paras. 2.6(b) and 4.40 to 4.42).

9. ***Cheung Sha Wan Temporary Wholesale Poultry Market.***

Occupying a temporary site of 26,000 m<sup>2</sup> since 1974, the Cheung Sha Wan Temporary Wholesale Poultry Market operated by the AFCD is the only wholesale market for live poultry in the territory. To address the risk of outbreak of avian influenza, the Government had launched schemes to help live poultry traders voluntarily end their business, resulting in diminution of the live poultry trade. During 2005-06 to 2014-15, the poultry market had a 76% decrease in throughput. As at December 2015, the poultry market had 48 (56%) vacant stalls, with vacancy periods over five years. The Government has commissioned a consultancy study on the way forward for the live poultry trade in Hong Kong, and the proposed relocation of the poultry market to Sheung Shui has been put on hold (paras. 2.6(a) and 4.43 to 4.46).

## Way forward

10. The FMO and the VMO were originally set up for wholesale marketing of fresh marine fishes (excluding fishes alive and in water) and local vegetables respectively. During 2005-06 to 2014-15, the fresh marine fishes throughput of the

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seven FMO markets decreased by 20%, and the local vegetables throughput of the VMO's Cheung Sha Wan Wholesale Vegetable Market decreased by 59%. To sustain their operation, the FMO has let extensive market areas to traders for live marine fish trading (in contrast to fresh marine fishes) and car parking (see para. 3), and the VMO has sold predominantly imported vegetables. There is a need to review the use of lands by the FMO and the VMO for purposes other than originally intended to ensure that it represents an optimal use of public resources against competing demands. For example, as both the VMO's Cheung Sha Wan Wholesale Vegetable Market and the nearby AFCD's Cheung Sha Wan Wholesale Food Market are carrying out wholesale marketing of imported and local vegetables, it is necessary to review the roles and functions of these public markets, with a view to minimising overlap of activities and eliminating duplication of resources (paras. 5.4 to 5.9).

### Audit recommendations

11. **Audit recommendations are made in the respective sections of this Audit Report. Only the key ones are highlighted in this Executive Summary. Audit has recommended that the Director of Agriculture, Fisheries and Conservation should:**

#### *Utilisation of public fresh food wholesale markets*

- (a) **explore the conversion of any facilities at AFCD markets not used for a long period into other gainful uses (para. 2.19(b));**
- (b) **for facilities at AFCD markets currently allocated to government departments, ensure that they are periodically advertised for letting to traders (para. 2.19(c));**
- (c) **review the market areas of individual FMO markets to find out the areas which are surplus to operational needs and take measures to redeploy the surplus areas to gainful uses (para. 2.39(a) and (b));**

#### *Management of AFCD markets*

- (d) **consider measures to better detect and deter non-compliance with terms of tenancy agreements at AFCD markets (para. 3.13(a));**
- (e) **review the adequacy of the tender assessment methodology in inducing contractors to improve performance and in encouraging quality services (para. 3.26(b));**

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### *Reprovisioning of private and public fresh food wholesale markets*

- (f) **keep in view the progress made by the relevant bureau and departments in exploring a reprovisioning site for the Yau Ma Tei Fruit Market and consider how to engage fruit traders and other stakeholders to solicit their support (para. 4.16(a) and (c));**
- (g) **in the interim, continue to monitor the effectiveness of the measures for mitigating nuisances caused by the Yau Ma Tei Fruit Market operation (para. 4.16(d));**
- (h) **critically review the site requirements for the reprovisioning of the Cheung Sha Wan Wholesale Vegetable Market (para. 4.47(c));**
- (i) **work closely with the relevant departments to expedite the reprovisioning of the Cheung Sha Wan Wholesale Vegetable Market and the release of the sites for housing developments (para. 4.47(d));**
- (j) **examine how to optimise the use of the site currently occupied by the North District Temporary Wholesale Market for Agricultural Products (para. 4.47(f));**
- (k) **keep in view the development of the Government's policy on the selling of live poultry, with a view to reprovisioning the Cheung Sha Wan Temporary Wholesale Poultry Market and/or releasing its site at the earliest possible time (para. 4.47(g)); and**

### *Way forward*

- (l) **in conjunction with the Secretary for Food and Health, critically review the roles and functions of the FMO and the VMO in relation to those of the AFCD in operating public fresh food wholesale markets, and take measures to help them perform their roles and functions effectively and efficiently (para. 5.11).**

## Response from the Government

12. The Secretary for Food and Health and the Director of Agriculture, Fisheries and Conservation generally accept the audit recommendations.