

## Chairman's Message – 2008-2009

As we approached 2008, we noted signs that the extended growth that the US economy had so far enjoyed seems to be coming to an end. Christmas sales were varied among the different retailers, but generally sales concentrated at extreme price ends of products. We were looking as to whether the US Federal Government could mitigate the property market crisis and prop up the slipping economy.

As the year progressed, the European market weakened and was beginning to have banking problems of its own, as a result of the plunging US economy. For shippers, changes in Europe's anti-trust laws were coming into effect and we were waiting for what sort of fallout this would cause to all global shipping activities.

After a two year grace period, the anti-trust immunity of liner conferences in the EU and the official disbanding of liner conferences and discussion groups in October 2008 meant that shipping conferences like the Far Eastern Freight Conference (FEFC) that fix rates and set standard tariffs, were going to cease to exist.

While awaiting a decision of whether shipping lines should be allowed to convene and discuss market supply and demand after October, as proposed by the European Liner Affairs Association (established May 2003), shippers worried that shipping lines would introduce new charges or adjust charge levels without any restrictions or obligation in the post-conference period. To European shippers, this might not be a big concern since fierce competition among shipping lines mean very competitive terms for them. However, Asian shippers fear that while shipping lines are heavily discounting to the European shippers, the lines would seek

revenue compensation elsewhere, i.e. from Asian shippers through layers of local charges.

We have always pointed out in international conferences that Asian shippers are at a disadvantage because we ship on FOB terms whereby the overseas buyers choose their service providers. The buyers naturally make use of their large global freight volumes to negotiate better terms with shipping lines. Meanwhile, on the other end, Asian shippers have to contend with the burden of Terminal Handling Charges along with many other local charges.

The Hong Kong Association of Freight Forwarding and Logistics Ltd., HAFFA, has stopped publishing its Ancillary Charges Guideline since October 2007. The guideline, although not binding, serves as a reference for the market and provides caps on local charges.

The Council hopes to see an improvement in the transparency of charges. Shipping lines, airlines and freight forwarders should be required to publish their full tariffs that list out all and every single itemized cost. They should be required to charge in accordance with their tariffs with penalties for any violations. To facilitate this requirement, a licensing system should be in place for shipping lines, airlines, and freight forwarders/logistics companies.

### Service providers

A traditional trait of the shipping of goods in Hong Kong is to go through a cargo agent, freight forwarder or outsource logistics services. Many





cargo agents that purport to be freight forwarders are typically SMEs with small operations. They are neither bonded nor regulated. Hence, in times of economic stress, we see a lot of them shutting down their small operations and in the process taking down their clients. These scenarios can be avoided if there was more regulation to this industry.

A licensing system for SMEs involved in freight forwarding will help in imposing set-up requirements and deter future commercial disasters. The Hong Kong Government at this moment has no regulation or licensing over working capital, business operation, insurance coverage, etc, for freight forwarders or cargo agents. All they require is a Business Registration which is worth less than a thousand dollars to set up operations.

Besides, the practice in Hong Kong of doing business under FOB terms leaves the shipper at very high risk. The shipper has no choice but to deal with the agent or forwarder nominated by the overseas buyer. If the nominated agent closes down suddenly, then there is the risk that the shipper does not get paid and loses all their goods. There are some cases whereby the Hong Kong agent released the goods to the overseas buyer or agent even while the original Bill of Lading was still with the shipper. This is to the advantage of the agent or forwarder who can have his payment sooner, but with no guarantee that he would also settle payment with the shipper at once.

### **Charges and surcharges**

In the transport of goods by air and sea, Hong Kong shippers are not only presented a carriage bill but a whole list of charges and surcharges that may or may not be justified. It is not unheard of that a sudden surcharge crops up even after the goods have left the port! On our website and

in our regular communiqués to our trade association members for dissemination to their individual members, we constantly alert shippers to the market situation-from bunker charges to documentation fees, storage fees, etc.

But in the long run, the individual shipper finds that if he wants to see his goods leave the cargo terminal, then he must settle up. We don't want to overburden our regulators, but an organisation similar to a Consumer Council would probably have the tools and guidelines necessary to enforce some sort of regulation over shipping charges. While freight rates are left to market forces, we see carriers and other service providers trying to make up for revenue losses by slapping instant charges. It is time that some sort of monitoring be instituted as a watchdog of the shipping and cargo transportation industry.

### **COMPAG replies**

The Hong Kong Container Depot and Repair Association notified the Council on 16 Feb 2008 by letter, that its members would start collecting a Depot In/Out Management Fee of \$10 per truck move starting 1 April 2008. The letter was signed by all of its 24 members. The reason for the fee is to pay for the cost of setting up special handling zones in order to speed up the process of handling containers.

The Council strongly denounced the levy and filed letters to the Hong Kong Liner Shipping Association since shippers have no direct dealings with the depots. They are selected by the shipping lines who inform shippers of the location of their respective depots for the pick up of empty containers and then delivery of laden containers. Actually, for shippers, it would be most convenient if we could take the boxes straight to port-side. But the outside depots are selected by the shipping lines



and they provide storage, handling and repair services to the shipping lines. For this, shippers pay the shipping lines Terminal Handling Charges and Documentation Fee, in addition to freight and other surcharges that should cover all container handling services.

Terminal Handling Charges in Hong Kong are indeed the highest in the world at about \$2,850 per 40ft container for the major trades. Shipping lines already make substantial profits from the exercise, yet here they are introducing a new charge or allowing their handling agents to collect a new charge which, again, goes towards container handling! How many times must the shipper pay for container handling?

The Transport and Housing Bureau has written to the Council on November 15 that the Competition Advisory Group (COMPAG) had reviewed our complaints on the Depot Management Fee and had found them to be credible and the fee is uncompetitive.

## Emergency Bunker Surcharge

At the end of June, eight shipping lines plying the Taiwan-Hong Kong/South China route attempted to 'bend the rules' in regard to international carriage of freight. OOCL (HK) Ltd, Evergreen Marine (Hong Kong) Ltd, RCL - Regional Container Lines (HK) Ltd, TS Lines Ltd, Wan Hai Lines (HK) Ltd, Kanway Shipping Ltd, Cheng Lie Navigation (HK) Co Ltd, and Yang Ming Marine Transport Corp, in a violation of Competition Laws, simultaneously issued notices in late June that they would start collecting an Emergency Bunker Surcharge (EBS) of HK\$440/RMB400 per TEU from consignees in Hong Kong and South China, regardless of whether freight had already been prepaid in Taiwan or not.

Bunker and fuel surcharges are always part of freight payment and should

be collected from the party that pays for the freight. These shipping lines, by specifying that the new Emergency Bunker Surcharge would be collected from consignees in Hong Kong and South China only, are clearly going against international shipping practices. We have written to all these shipping companies to protest and they had ceased their actions for two weeks, although several of the shipping lines went through with it. OOCL said in a letter that it had temporarily put it on hold.

In shipping, freight is either 'prepaid' or 'collect' and, in this case, the freight is prepaid in Taiwan. What these shipping lines are trying to do, is collect more money at the other end of the line, in Hong Kong and in South China, when technically, all shipping charges had already been paid in Taiwan.

Our principal concern is the economic damage that such unmitigated acts could clearly result in, as there will naturally be disruption to commerce and to the smooth flow of trade. We have repeatedly called for dialogue between shippers and shipping lines in the past, prior to the imposition of such acts by shipping lines.

## Hong Kong's share of PRD cargo

It is alarming to the industry that containers from western PRD carried by barges and feeder vessels are the only share of PRD cargo keeping the Hong Kong port competitive with Shenzhen ports. Hong Kong has been losing its large share of the numbers of containers carried overland by trucks. According to the Customs & Excise Dept, in 2003, crossboundary container trucks with containers that moved in and out of Man Kam To, Shau Tau Kok and Lok Ma Chau totaled 4,601,953, and in 2004, the number grew by a mere 0.1%. The following year however, the drop was great, 6.4% less than in 2004, at a total of 4,312,300 movements.



According to the Customs & Excise Department, crossboundary container trucking movements (in and out) started its decline, in 2003 (4,601,953) with a -1.7% growth over 2002 (4,679,225). There was a marginal 0.1% growth in the number of movements in and out the boundary in 2004 over 2003, but was followed with a sharp decline of -6.4% in 2005, when the total movements reaching only 4,312,300. In 2006, the decline was -4.3%, in 2007 over 2006 it was -4.2%, in 2008 over 2007 it was -10.9%. Indeed, it has been over five years in a row that we have seen negative growth in boundary-crossing container movements. The chances of regaining lost ground, regrettably, is very slim. There seems to be no solution that could address the two problematic areas that account for the decline, which are: 1) higher trucking costs of taking containers to the Hong Kong port from the PRD, than trucking them to closer ports in Shenzhen; and the high Terminal Handling Charges (THC) that shipping lines levy at the Hong Kong port.

The industry is pessimistic of whether shipping lines would ever give up their cartel act of collecting high levels of THC in Hong Kong. Freight rates have been dropping precipitously this year. Hence, the lower freight rates drop, the greater the desire would be of shipping companies to seek revenue compensation derived from surcharges. We hope that maritime reforms that are taking place around globe, especially the more widespread application of competition laws, would stop shipping lines' practices of collective pricing on freight rates, surcharges and other charges. While the SAR Government drafts the Competition Law, we expect there to be a clause that restricts shipping lines in jointly fixing surcharges, including THC.

Transshipment cargo from western PRD is the only sector that the Hong Kong port still retains some advantages. The Shenzhen port is

geographically divided with Yantian in the east, and Shekou, Chiwan and Da Chan Bay in the west. Because of the fact that barges and feeder vessels bound for Yantian must traverse the Ma Wan Channel in Hong Kong first, the Hong Kong port has been able to intercept cargoes carried by barges and feeder vessels to Yantian. In addition, since transpacific cargo is also captured in Hong Kong, there is insufficient cargo left to be carried to the western Shenzhen ports by barges and feeder vessels. The Hong Kong port has been able to ride on this advantage and capture the bulk of transshipment containers from the western PRD. This forms the major component of throughput growth for the Hong Kong port in the past few years.

However, the situation is rapidly changing. With substantial new capacity coming on-stream, the number of sailings as well as loadings at western Shenzhen ports has increased considerably in recent years. The western port operators and Shenzhen authorities have been very active in developing feeder operations from western PRD. We have seen a great surge in transshipment volumes from western PRD. A feeder operator that takes part in the South China Express Link told me that, last year, his company could hardly maintain a weekly sailing to western Shenzhen, but nowadays his company provides three sailings per week and all the ships are full. We believe the rapid development of the South China Express Link which connects the western PRD with western Shenzhen ports, is partially due to barge and feeder operators' frustrations of the inefficiency of operations at Kwai Tsing container terminals, which essentially inflate operation costs. And now, with the opening of Da Chan Bay terminals and the expanded capacity of Shekou and Chiwan terminals, the number of ship callings will further increase. We should also not underestimate the impact of increased vessel sizes and the surge in fuel costs. These may lead shipping lines to reduce the number of port calls and work adversely against Hong Kong.

This is why we are really glad to see that the Hong Kong-Zhuhai-Macau Bridge construction is moving ahead. The various governments have finally agreed on the financing scheme and questions such as whether there would be enough traffic to facilitate a low toll for bridge usage; whether arrivals at the Hong Kong airport in Chek Lap Kok could expect to be transferred directly to Macau or Zhuhai; or if the bridge would benefit passenger, rather than cargo, traffic—it is commonly agreed that the bridge will facilitate the trucking of cargo to Hong Kong's port and airport. The mega bridge is pivotal to the connectivity that enhances Hong Kong's role as a regional logistics centre.

Without the bridge, Hong Kong would be at the far end of an inverted Y-shaped traffic network. The bridge is going to allow second access to the Mainland, other than access through the North. We are looking forward to the acceleration of the project in coming months.

## Logistics support

While the Central Government is adjusting its policy with the objective of inducing Guangdong manufacturers to relocate their manufacturing facilities to the mid-western regions in the Mainland, the SAR Government, on its part, needs to allocate resources to help the manufacturing as well as the logistics sectors to cope with change. If Hong Kong manufacturers move from Guangdong to adjacent provinces, or even further to Indochina (Vietnam, Cambodia and Laos), they will need much more logistics support than available now. Most of the mid-western regions are inland areas and with no seaports. Importation of raw materials and parts, as well as exportation of finished products, would be very different from current operations in southern China or the Pearl River Delta and other locales with waterways. Logistics costs will escalate and could dangerously become

a major factor for profitability.

The Hong Kong logistics sector will also need the assistance of the Government to create inroads for them to operate in these areas and continue servicing their existing clients. Negotiations with the Central and regional governments in the Mainland needs to be made at an early stage.

## Assistance to SMEs

In November 2008, the Government announced that a special SME loan guarantee scheme was being launched with the aim of helping help small and medium-sized enterprises weather the financial crisis. Financial Secretary John Tsang said the Government is highly concerned about the difficulties faced by SMEs with the present liquidity crunch and hopes the measures will give SMEs more flexibility and convenience in obtaining necessary cash flow to maintain their operation and develop new markets.

Technically, the scheme will provide \$10 billion in liquidity to the commercial lending market for SMEs. The Government will provide a 70% guarantee to the loans granted by the participating lending institutions and its guarantee commitment will be \$7 billion. The maximum amount of loan each SME can obtain from a participating lending institution is \$1 million. Within the maximum amount of \$1 million credit facility for each SME, up to \$500,000 can be used as revolving credit. The Government's guarantee ceiling for this revolving credit facility will continue to be 70%. A six-month repayment grace period will be provided to borrowers during which they can pay back the interest only. Thereafter the loan will be repaid over a maximum of 24 months. All SMEs which have been registered in Hong Kong for one year or more, regardless of their industry



or business types, are eligible to apply. Application is open for six months starting from the implementation date.

The Hong Kong Export Credit Insurance Corporation announced also that it was increasing the cover within the bounds of prudent credit assessment and risk management. The scheme was put before the Finance Committee for approval and came into operation in December. The scheme is still in force. On 27 November 2009, ECIC announced that it was extending the waiver of policy fee for a further year until the end of 2010. Under the scheme, the annual fee of \$1,500 for a policy with a commencement date of on or before 1 December 2010 will be waived. Established in 1966, the HKECIC is wholly-owned by the Hong Kong SAR Government which provides a guarantee of HK\$30 billion to the non-profit making organization.

The ECIC provides export credit insurance services to companies with business registration in Hong Kong, offering protection of non-payment risks arising from political and commercial events for exports of goods and services. The ECIC's mission is to encourage and support export trade through the provision of professional and customer-oriented services

The new scheme is certainly a big boost to the economically vulnerable sector known as the SMEs. In Hong Kong, there are about 276,000 SMEs accounting for 98% of all business establishments and about 50% (1.2 million) of the total private sector employment.

Zooming in on our particular sectors, we have been aware of inherent problems that need special attention among SMEs involved in shipping and logistics. Those that are already in the business and have been operating for many years need better conditions in their trading environment.

## Turmoil continues into 2009

The latter months of 2008 were turbulent, with the sub-prime issue spinning off into a virtual financial meltdown bringing about the much dreaded credit crunch that would affect every area and aspect of the economy and have a far reaching and substantial impact on trade. Hong Kong's air cargo throughput that consistently registered double-digit increases in the past years, 2008 saw an unusual decline in growth of 3.1% over 2007. In 2007, the HKIA handled 3.8 mn tonnes while in 2008, it handled 3.6 mn tonnes. The Hong Kong port total throughput for 2008 was 24.5 mn TEUs, which was 2.1% higher than the nearly 24 mn TEUs handled in 2007.

Strong Thanksgiving retail sales in the US were nothing more than a short-lived surprise, until the Christmas sales showed a drop of 2% year-on-year--the worst in the last ten years. Sales in the traditional markets of Europe and Japan were no better. On the bright side, a 20.8% increase in domestic consumption in Mainland China was registered in November. Christmas sales in developing countries like Russia, Brazil, Chile and those in Eastern and Central Europe were also reported to be satisfactory.

To ward off the much-feared credit crunch, financial and other institutions in Hong Kong have been putting into effect fiscal policies towards alleviating the situation. It was an insightful and timely move of the Hong Kong Trade Development Council to spare \$120 million to assist Hong Kong exporters expand new markets in developing countries.

The Central and Guangdong governments released details of further privileges that Hong Kong enterprises could enjoy under CEPA. CEPA

allows Hong Kong enterprises to make pioneer moves in the Mainland under privileged treatment.

By the first quarter of 2009, the trading environment had deteriorated further. In January 2009, cargo throughput at the port had decreased by 23.6% over the same month the previous year. Indeed, throughout the year, from Jan-Oct 2009, the cumulative figure was -17.6% in throughput at the port. The figure was similar over at the Shenzhen ports, with a cumulative -18% decline in throughput for Jan-Oct 2009 over the same period in 2008.

Hong Kong's air cargo throughput, for the months of December 08 and January 09, saw decreases exceeding 28%, indicating that the impact of the economic downturn has been more severe on high value air cargo

than on basic stuff. It was not till October 2009 that air cargo volumes would show the first signs of life, increasing by 1.3% in Oct 2009 over Oct 2008, for the first time in 14 months, to 324,000 tonnes.

As for the Hong Kong port, we may not see a return to pre-crisis robustness in terms of cargo throughput but a rebound is in the offing, perhaps in mid-2010.

The last quarter of 2009 seems to be bringing clearer signs of a rebound from the financial turmoil that has been hitting the world since August 2008. Notwithstanding the Dubai shock in December, indicators show that slight growth is to be expected in 2010, signaling perhaps the end to the turmoil, although not a return to the same levels of prosperity prior to the crisis.



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