The Hong Kong Shippers' Council
香港付貨人委員會

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A more global and integrated approach

The Council hosted the 7th Cross Strait Shipper Alliance Meeting and the Asian Shipper Council 2012 AGM in Hong Kong 05 November and 06 November 2012 respectively. The most discussed topic during the meetings was the damage to shippers' interests caused by ocean liners' highly volatile freight rate changes, long transit times and unreliable schedules.

The roller-coaster freight rate fluctuations of the last few years is unprecedented. In just a few months following the outbreak of the 2008 financial crisis, freight rates dropped as much as 80 per cent in most trade lanes. Shipping lines then manipulated the market by massively laying off ships, substantially slowing down speeds, unilaterally tearing up clients' service contracts, rejecting bookings and repeatedly implementing joint rate increases. Through these actions, shipping lines succeeded in increasing rates to almost historical heights and thus reported huge 2010 profits when the world economy was still devastated. The high rates did not last, however, dropping quickly when idle capacity was put back into service. Some lines began to cut rates in an effort to regain their lost market share.

At the same time, most shipping lines continued to order new large container ships. Their huge 2010 profits provided them with unjustified optimism, which then fuelled further greed. The more than 60 per cent drop in freight rates drove most shipping lines into deep red in 2011. Then they repeated what they did in

2010 and, once again, shippers experienced rejection of bookings, rapid rate increases, further slow steaming, further consolidation in lines' operations as consortia, etc. Shippers are now paying high freight rates that are hardly in line with the weak consumer market.

Shipping lines also resorted to adding new surcharges to increase revenue. Ploys such as Heavy Fog Surcharge, Port Operation Disruption Surcharge, Bill of Lading Late Redemption Surcharge, etc., were proposed or introduced. Almost all of these surcharges were never before heard of and are unjustifiable. Shipping lines' ruthless approach to maximising their revenue further strained their relationships with their shipper clients.

Frustration also comes from shipping lines' poor on-time delivery performance. As a SeaIntel Maritime Analysis report indicated, carrier vessels' on-time performance deteriorated to 77 per cent on a global basis in August 2012. Performance for individual container on-time delivery is even worse at only 64 per cent. All efforts at logistics planning are nullified if shipping lines fail to live up to their advertised schedules and delivery times. Shippers have to build in increased inventories and further strain their cash flow, which is critical for all businesses these days.

I must emphasise that the roller-coaster freight rates and highly unreliable delivery schedules are very damaging. Cost control and projection now become unrealistic, production plans as well as marketing and sales plans are disrupted and a fast response to market is barely achievable. Shippers recovering from the credit crunch and a substantially decreased consumer market find themselves facing an extremely adverse logistics environment. It is known that some European retail groups have decided to switch a substantial portion of their procurement to Eastern and Central Europe because they need to respond quickly to the swiftly changing market. With the present shipping environment, sourcing form the Far East simply cannot satisfy their needs.

The meetings made a strong call for competitive authorities to take action. Shipping lines' joint actions are, without a doubt, anti-competitive in nature and leave shippers with no choice. Shipping lines may appeal by displaying their 2011 losses. However, compared with the huge 2010 profits, the 2011 losses are not that substantial. Moreover, they should not ask their clients to pay for their mistakes of ordering ships that are too many and too large for the market to absorb.

Another major topic discussed in depth at the meetings is cargo security, especially air cargo. Delegates are dissatisfied with the lack of a global approach – each country or region sets its own standards and requirements. In the absence of a global agreement, mutual recognition of each others' security regimes could be the best alternative. Nevertheless, progress is slow. The meeting called for the authorities to focus on a global scheme, rather than resorting to unilateral ones. Logistics are global and integrated, and cutting the supply chains into independent pieces could be a nightmare for all.