



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

CHAIRMAN'S MESSAGE

The rail/land

The high volatility of rates in the freight market in recent years is pushing shippers to explore alternative modes for the transportation of goods. In the wake of the 2008 global financial crisis when normal international trade was deviated, freight rates dropped to a very low level. Negative freight has been reported in some instances when shipping lines were desperate to get whatever revenue they could. Then, shipping lines resorted to unprecedented drastic measures such as massive ship lay-ups; cutting speed by half to save fuel; reducing capacity; deliberately rejecting bookings; and even unilaterally tearing up contracts with their clients.

When shippers needed to replenish orders as the economy cruised to better days, they were confronted with record high freight rates. Because of the drastic measures mentioned above that shipping lines had employed during the economic crisis, they found themselves in the black and most shipping lines reported huge profits in 2010 even while the world economy was still tottering and recovery was not yet in sight. The eagerness of some shipping lines to get greater market share drew them into rate-cutting competition again, causing freight rates to drop dramatically in 2011. When the rates were low, the carriers repeated the revenue-boosting efforts employed in 2010. The scenario was repeated with ships being laid up, slow-steaming and repeated announcements and calls for rate increases. Bookings were



Willy Lin, Chairman

rejected even during slow season, and ridiculous new charges and surcharges were introduced, etc. Rates continued to be volatile, sometimes bouncing up to such unreasonable levels.

In 2009, shipping lines reported huge losses, and they hoped to get some sympathy. However, the truth of the matter is that actually, their clients suffered more losses during the crisis than they did and that the economic downturn is likely to be prolonged. The repeated calls for rate increases by the shipping lines were surreal—rate increases could never be achieved in such a down market unless they resorted to anti-competition tactics. And anti-competition acts in today's highly ethical society will never be accepted.

It is puzzling to the shipping industry that while so many airlines and freight forwarders are often investigated and punished with hefty fines if found guilty by global competition authorities, the shipping lines' which

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alternative

are subject to anti-competition regulations in the EU for one, are never taken to task. So many complaints have been lodged but shippers have not heard or read of any pending investigations, let alone penalties for collusion in setting surcharges.

With the extremely erratic and volatile situation in sea freight and air cargo, it was therefore a welcome relief when I was introduced to the recent launch of land bridge services by rail from China to Europe. I was keen to know the details and determine whether it would indeed become a viable option for the transport of cargo. With the high freight rates and over 30 days slow-steaming from a Far East port to first port of call in Europe, and then add on top of that the time required to move the freight inland, our traditional mode of ocean shipping has become far from desirable.

Rail services are now being offered from major China cities, to Europe (Moscow, Chop/Zahony, Vienna) via Mazhouli/Zabaikalsk (the North Corridor), or via Dostyk/Alashankou (the East Corridor); and the traditional Tran-Siberian Railway via Vostochny. Operators like DHL are offering FCL and LCL services, as well as multi-model services that combine air, land, rail and ocean shipping services. With the start off point from major cities like Shanghai and Tianjin, transit time to Eastern Europe is about 18-21 days with an extra 2-3 days for moving the cargo to Western Europe. These are competitive transit times. The railway

plus multi-modal mode of transport could be attractive to air freight shipments too if shipments could accept an extra couple of days, while transit time is still much shorter than the traditional ocean shipping plus overland transport. Indeed, when the European Commission carbon credit scheme comes into place, utilizing land services could translate into immense savings on the purchase of carbon credits.

I realize that rail services to Europe is not a new discovery. There have been many attempts to offer freight services using in part the Trans-Siberian Railway and the Middle Route via Kazakhstan. All these attempts did not appear to be successful for various reasons. There were reports from shippers who had used the services that there was pilferage, or loss of goods through natural accidents caused by extreme weather conditions, and most of all, the multiple inspections by different nations' Customs. Moreover, shipper-owned-containers (SOCs) were required as railway operators did not provide equipment, and the inevitability that these containers would be write-off and not be returned after shipment. There is also the need, we have been informed, to change wagons at least three times on the whole journey as different countries would have different gauges. There is no track-and-trace facility and operators would be unable to provide shipment control or credit collection services. We are sure that these challenges are already being addressed and there may be

improvement in certain areas already.

There are some important breakthroughs that I believe could substantially enhance the chances of success for trans Continental rail shipping, China to Europe. The most important one, as I see it, is over ownership. As railroads are usually wholly owned or partially state-owned, I can see that in due time, border controls like Customs, Quarantine, Inspections, would require high-level authority involvement that would eventually lead to the cooperation of governments and diplomatic agreements. The fact that the present operator is a joint venture of various governments, means that the services being provided have the support of the various parties and they also have set up resolution mechanisms.

Furthermore, although most shipments are still under SOCs, big wholesalers like the Deutsche Rail are offering block train services with carrier-owned-containers (COC). Track and trace services now available, providing much needed transparency and predictability.

We are glad to see that the land bridge service is up and running. It is going to provide further options to shippers in an innovative way. There are comparative transit times to ocean shipping plus inland transport that should result in savings for working capital and quicker market response. These are vital considerations for shippers and traders in today's fast-changing market and economic situations.