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

Freight market feeling the pinch

Cargo movement in the last few months has, to say the least, been quiet. The word "sluggish" hardly reflects the current freight market; I would describe the situation as "horrible".

Willy Lin
Chairman

Ocean freight dropped to well below US$100 per TEU in Asia to Europe trade. This is unprecedented and totally unthinkable. Trans-pacific rates are steadier, but still declining even as the trade enters into the peak season.

Air freight rates have remained in the single-digit zone since late February. The air freight industry has enjoyed a wonderful eight-month period from June last year until the end of February, when United States west coast ports were temporarily paralysed by a prolonged labour dispute. Thankfully that problem has now disappeared.

I have every reason to be pessimistic. The European countries are heavily in debt and their currency has been in decline versus the US dollar for quite a while. National debts are building up and economic growth drivers are absent. Countries need to recognise that reform is a must if the highly developed social welfare states believe that credit can be provided non-stop from creditors. Sustainable growth cannot be achieved simply by increasing money supply. Austerity measures are unaccepted in highly developed social welfare countries. In addition the belt-tightening measures will target the unprivileged class which can only result in social unrest. Are countries "TOO BIG TO FAIL?" Governments must be held responsible to their actions!

Development of shale gas in the US has had a direct impact on the global oil price, which is positive for economic growth. Although we are seeing steady improvement in American employment figures, the momentum is insufficient for a rigorous recovery.

On June 28, the Chinese government lowered interest rates further, together with a further relaxation in the deposit-loan ratio requirement. Instead of feeling excited, I see signs of a slipping economy. The latest interest cut is the fourth in seven months. China has been providing the growth impetus for the global economy since the 2008 crisis, but unquestionably its growth is slowing down.

Against such a background, the world freight market has no reason to be optimistic, especially when carriers have failed to demonstrate they have made the right investment moves. In the wake of the 2008 crisis, shipping lines have laid off ships and set aside excess capacity. Shipping lines are injecting capacity and have ordered monster container ships with carrying capacity as huge as 20,000 TEUs!

Very few Hong Kong shippers benefited from the low freight rates. Shipping lines again resorted to the wrong practice of offering rate cut to overseas buyers and penalising Hong Kong shippers.

When lines increased the Hong Kong THCs in Asia-Europe trade earlier this year they must have forgotten that they had promised that THC would be no more than a cost-recovery exercise when they first introduced THCs. One could hardly believe that Hong Kong container terminal operators dare to increase their rates at all. Shipping lines also allowed their depot sub-contractors to double the Depot Fee last month. There is no justification for the Depot Fee in the first place and a six-fold increase in seven years is outrageous.

If Hong Kong shippers have some sympathy with the shipping lines, it is all gone now. Much worse is shipping lines are threatening to switch all their services from Hong Kong if the Hong Kong Competition Commission does not grant exemption from competition laws.

They have the least shipper's interests in mind when they decide their moves.

Lines should understand that they have the responsibility of providing guarantees to all other stakeholders, including the regulatory authorities and their client shippers, that they would not engage in price collusion and other practices that are anti-competition in nature. This is not in the form of unconditional block exemption, through threats of total withdrawal of services.

Hong Kong shippers are not rejecting alliances/consortia totally as they also entail service rationalisation, potential cost savings, more frequency and wider service coverage. However, alliances/consortia also entail greater market concentration and constant co-operation over operational and possible commercial affairs. The current alliances/consortia have to be put under some forms of scrutiny and control.

Different regulatory authorities around the globe have different schemes to monitor and control. These authorities are also empowered to investigate, request submission of data, statistics and reports, impose penalties and in some areas, initiate actions that would lead to disintegration of the alliances/consortia. Such schemes will need to be in place in Hong Kong to safeguard the interests of shippers. This is particularly important for Hong Kong as Hong Kong shippers have virtually no bargaining power at all.

The Hong Kong Shippers' Council is prepared to engage in meaningful discussions with the shipping lines and the authorities on a suitable scheme for Hong Kong. In addition to taking references from other regulatory schemes, we have to identify the unique market characteristics of Hong Kong and craft a scheme that would be acceptable to all stakeholders.