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Riding out the storm in shipping line bankruptcy

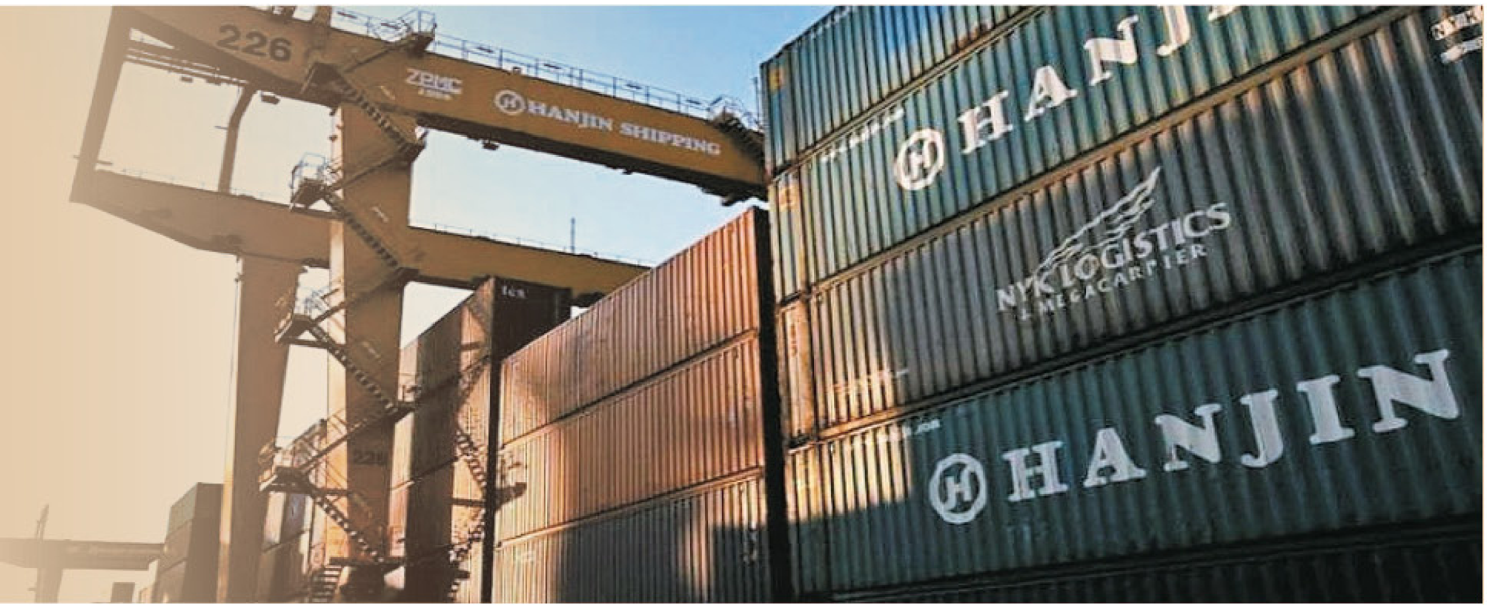
The receivership filed by Hanjin Shipping on August 31, 2016 at a district court in Seoul was a bombshell to the global supply chain and its operators.

Since the receivership was filed, many suppliers, particularly the terminal operators, immediately terminated their contracts with Hanjin Shipping. Some creditors, including stevedores and port authorities, resorted to the arrest of ships in order to safeguard their interests. As a result, ships are now unable to continue with their journeys and receiving and delivery of containers have been disrupted.

Hanjin ranked 7th among all liners in terms of capacity and its market share in the transpacific trade well exceeded 7%, Hanjin is by no means a small operator. The impact also extended to its alliance partners, namely COSCO Container Line, "K" Line, Yang Ming Line and Evergreen Line.

I have no doubt to say that amongst all those involved, shippers have suffered the most in this debacle. The Hong Kong Shippers' Council has received many calls as the news of receivership reached the public and ships were arrested at multiple ports, the ensuing chaos affected shippers and importers who were unaware of the whereabouts of ships and containers they were waiting on because their schedules had been disrupted and due to lack of information. Overseas buyers were threatening non-payment for non-arrival or missing the important Christmas sales period. In short, it was pure chaos.

In Hong Kong, Hanjin's terminal service provider HIT, terminated its contract with Hanjin the day after the receivership was filed. HIT agreed to release the laded inbound boxes directly to importers after the later completed their transaction. Yet, shippers are still extremely unhappy with the unreasonable hefty charges that HIT demanded for the service, which amounted to HK$10,000 for every 40' dry container for releasing the container. On top of the exorbitant charges were high container storage charges and guarantee deposits. I must stress that cargoes belong to shippers, not shipping lines or terminal operators. It is legally right for terminal operators to be compensated for providing services, but the charges have to be at their normal level. Considering that shipping lines' standard terminal handling charge is HK$2,855 per 40' dry container, and that shipping lines are already making substantial profit from this exercise, HIT charges were at least several times higher than they should have been. It is obvious that HIT took unfair advantage of the situation. I also wish to point out that even in Europe, the European Container Terminals have agreed to charge only €500 (HK$4238.55) per container for the same delivery service; charges in some Asian ports like Bangkok are even lower.



As mentioned earlier, shippers have appeared to have suffered the most because of the sky-high costs of disrupted supply chain, so it would be fair to say that other stakeholders including terminal operators, stevedores, feeder contractors, freight forwarders acting as NVOCCs, trucking and depot contractors, ship-owners, financial institutes, container leasing companies, bunkers, pilots and even port authorities all suffered heavily too.

As of the third week of October, Hanjin's official website showed 56 ships were on open seas or in transit. It also reported that many containers, regardless of their original destinations, have been discharged at Busan or some other ports, and a small number of ships are being arrested at different parts of the world. With regard to the future of the line, it was reported that there are parties that are interested in its terminals, while fewer parties in its ships. According to the receivership, creditors are required to file their claims by October 25, 2016.

The industry fears that the incident is only tip of the iceberg. The industry as a whole has been known to suffer from very heavy losses and its current prospects are nothing but gloomy at the moment. There are lines with debt ratios substantially higher than Hanjin's. When and which could be the next?

The Council has approached the SAR Government, several law firms and insurance institutes and companies in the wake of the incident. There are holes in the current trade protection and risk mitigation system. Shippers cannot rely on the traditional insurance policies which cover mainly cargo damage and pilferage; even export credit insurance fails to tackle incidents associated with bankruptcies of shipping lines. I urge the government to take a leading role in working out a solution with professionals and the private sector. Bankruptcy of shipping lines is not frequent, but has been known to happen and will, in all likelihood, happen again. We may not be in a position to prevent an international shipping line from bankruptcy, but certainly we can help the local importers and exporters by mitigating the risk. After a hard learnt lesson, it's full steam ahead for shippers worldwide, despite the bleak forecast.