



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



Willy Lin
Chairman

Logistics sector must re-emerge stronger when virus outbreak passes

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I hope by the time that this Chairman's Message is published, the outbreak of COVID-19, known to the world over as the coronavirus, will have blown over or will at least be under control.

The impact of the outbreak has been substantial, and the ramifications of the virus extend far beyond Hong Kong and Asia.

I was in Europe during the Chinese New Year holidays, as I had to fly over and candidly explain to clients that there will be a likely delay of shipments of goods for at least 2 – 3 months, due to disruptions in the supply chain.

Such unfortunate circumstances also made me hesitant to accept new orders that do not allow a lot of leeway in production and delivery.

Meanwhile on the mainland, the Central Government has taken unprecedented measures in reducing human traffic; this means resumption of full production at factories will be difficult. Local governments throughout China have also requested safety measures of the highest possible standards, as well as indemnities from

manufacturers who have suffered from the effects of the outbreak.

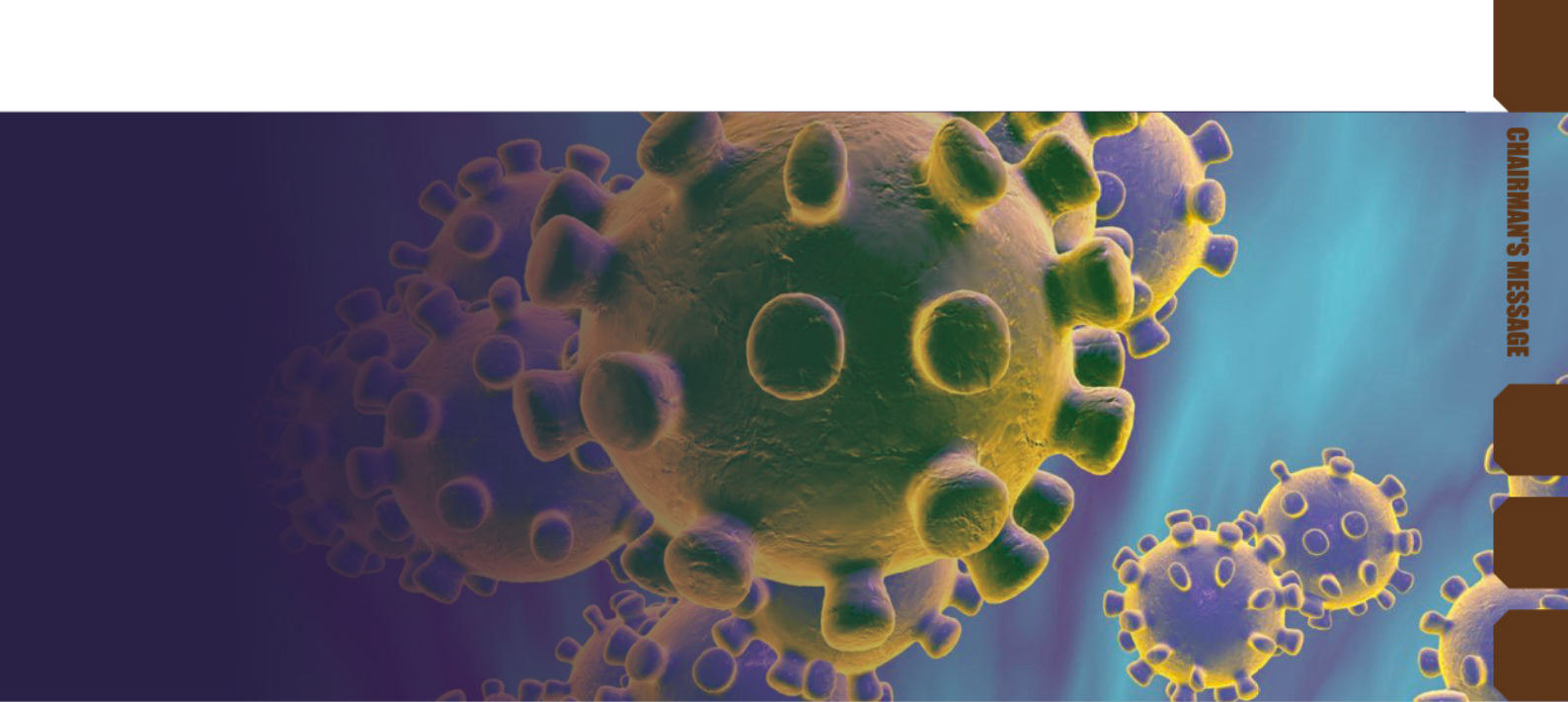
But even if manufacturers can resume operations of their factories, they cannot be assured of whether their raw materials and suppliers can do the same. On top of that, manufacturers are unable to outsource due to uncertain production figures.

I am more than sympathetic to the situation at present, and I can certainly understand the need to reduce airfreight capacity as many passenger flights have been cancelled, which in turn means reduced cargo capacity.

However, it has been challenging for shippers to accept the acute shortage of sea freight capacity and continue functioning as normal.

Trade is already at a seasonal low, as is expected right after the Chinese New Year period. Therefore, the presently acute shortage of space could only be a result of manipulation of capacity by shipping lines.

It might be logical to cut some sailings due to lower demand,



but not to such an extent that could lead to a critical capacity shortage. This, coupled with schedule unreliability, could bring even more dire consequences in trade.

There have been so many unannounced cancellations of trade services, sailings, and port skips, and this has rendered our supply chains totally unmanageable.

As a result, freight rates have been pushed up to unreasonable and unacceptable levels.

Lately, I have also taken great pains in having to explain to overseas buyers that cargo from Asia is safe to receive and will not result in transmission of the virus. The conditions under which cargo is shipped are highly unfavourable for a virus to thrive, so there is no threat of transmission. This has also been confirmed in official World Health Organisation (WHO) literature.

While I am unable to predict when the outbreak will cease, I have no doubt that the after-effects will be serious.

Buyers and manufacturers will have redesign their

supply chains in the wake of a weakened economy. I also foresee an acceleration of diversified procurement and sourcing, as well as in manufacturing and supply.

The required diversification will be on a scale far greater than was implemented after the earthquake and tsunami that hit Japan in 2011, and the severe floods experienced in Thailand. Both of these incidents caused manufacturers to review their entire supply chains to safeguard stoppage of production. On those accounts, the COVID-19 outbreak will lead to an overall review of our supply chain, and not just of its core components.

The government should provide relief and assistance to help industry stakeholders to weather through this storm, if the logistics industry is to at least remain functional. What's more, we must also look further afield and develop a long-term strategy to allow us to cope with the new supply chain pattern.

In previous issues, I suggested extending our economic and logistical activities further from Hong Kong and into ASEAN nations and other lower cost

manufacturing bases. Logistics industry stakeholders should also follow suit.

However, this will be no mean feat, so our government ought to focus on helping our industry branch out in such directions.

If they wish to remain relevant, logistics service providers need to get ahead of their clients and be able to provide advice and recommendations of where and how to diversify and invest, so that the needed logistics services will be in place when demand returns.

It is also wise for manufacturers to cooperate with their logistics partners. I know too well of the logistical difficulties that manufacturers always face when setting up shop in developing regions.

Whatever the case, the outbreak will eventually come to an end, and we must be prepared to re-strengthen the logistics industry when this comes to pass.

I wish all of you shippers a quick and painless rebound to normality — and perhaps even prosperity — and I also wish everyone a successful Year of the Rat!