



The Hong Kong  
Shippers'  
Council  
香港貨運人會

# Carriers charging while failing to deliver

When I communicate with my overseas buyers lately, almost without exception, they express great frustration with the pricing methods of shipping lines and failure to deliver proper services. Indeed, the frustration of local shippers is even greater now that booking of space at present is nothing less than chaotic.

Shippers are paying higher-than-ever freight rates and surcharges. Nevertheless, they are not getting even the most basic of services. In the main trade routes, the so-called 'Peak Season Surcharge' of the carriers can be set as high as 60% of the original freight rate. Moreover, implementation period of this surcharge is set unilaterally by shipping lines and without constraints. Despite the fact that global oil prices have come down substantially after the global financial crisis and shipping lines are making big savings in fuel through slow-steaming, there are no proportional adjustments in Bunker/Fuel Surcharges charged by carriers.

Not satisfied with the gains they are making on fuel and Peak Season surcharges, carriers continue to introduce new charges. These include unjustified or unsubstantiated charges such as Equipment Positioning Charge, No-show Fee, Express Cargo Fee, CRC, etc. Some shipping lines and freight forwarders have even come up with a quota requirement for their clients in the form of guaranteed booking



*Willy Lin, Chairman*

per-week per-port with penalty for nonfulfillment!

Worst still, even though shippers have paid for all the historically high freight rates and unreasonable surcharges, shippers are still the ones having to suffer the burden of container box shortages, denial of "confirmed" bookings at the last minute by the carrier, or that of cargo rollover at port of loading or at transshipment ports which are causing great damages to shippers.

Shippers would not be so frustrated probably if these current difficulties they are experiencing are caused by true or real shortage of space in the market. However, the shortage is largely the result of the manipulation of space by shipping lines through collusion. The strong "recovery" of market demand is far exaggerated.

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# higher than ever proper services

For example, take this year's first half-year throughput at the Hong Kong port. There wasn't any growth over 2008 and 2007, with -4.8% and -0.6% respectively. Exports through Shenzhen port registered -0.6% and a moderate 6.5% in 2008 and 2007 respectively.

With negative to moderate growth rates and the world container fleet growing by as much as 10% in 2010 according to Alphaliner ([www.alphaliner.com](http://www.alphaliner.com)) which tracks the liner shipping industry, we can only surmise that the shipping lines are manipulating in a collusive manner, the space available and hiking up corresponding rates.

The increase in capacity is still higher than world cargo growth. According to Alphaliner (see Table 1), the world fleet rise by 9.6% during 2010, 9.6% during 2011 and 5.7% during 2012. The average growth for the three years from 1-1-2010 to 1-1-2013 stands at 8.3%.

The current space shortage is mainly due to shipping lines laying up ships, and slowing down their ships from 24 knots per hour to 17 knots per hour in the main trade routes. Steaming time is stretched and as a result, 20% of the capacity in the market is absorbed.

In addition, turn-around of containers are lengthened as more

containers are stuck up in the sea journeys. The equipment shortage problem is aggravated by increases in US and Europe's exports to Asia. Shipping lines of course will reserve space to these revenue generating boxes instead of positioning empties to the Far East, causing further equipment shortage.

What is ironic is that in the past, shipping lines always said the high outbound rates from Asia are to compensate for the imbalance of container movement in the trades. Following the same argument, with increases in US and European exports, shipping lines should now drop their export rates from Asia. But instead, the carriers have responded with the introduction of an Equipment Repositioning Fee!

The question is, how is it possible for shipping lines to get away with their illogical actions? It is therefore

of little doubt to shippers that the carriers are indeed in collusion. This is exactly what the anti-trust laws are for, as these action are anti-competitive in nature. Their moves leave shippers no choice.

While Europe has disbanded their shipping conferences with the repeal of liner block exemption by the European Union Competition Commission, shipping line organisations are still very active elsewhere, especially in Asia. The CEOs of Transpacific Stabilization Agreement member lines reportedly met in Taipei in March this year before TSA announced the Emergency Revenue Improvement programme, Service Contract Rate Increase Guidelines and Peak Season Surcharges. We can also easily name 13 active shipping conferences in Asia whose function is to set rates, charges and put up the charging mechanisms.



## CHAIRMAN'S MESSAGE

Without collusion among them, intra-Asia shipping lines could not have individually been able to come up with the unusual requirement that, regardless of freight rate being prepaid at the port of origin or collected at destination, the Emergency Bunker Surcharge is to be collected only from exporters in Mainland China. This absurd requirement violates traditional practices that bunker surcharges are to be collected together with freight rates from the party that pays freight, and it disrupts normal international trading practices of buying and selling under FOB terms. Collusion is the only explanation for this exceptional way of imposing a surcharge. The EBS charge indeed has great repercussions on the image projected by shipping lines which shows their avarice even at the cost of defiantly challenging international trading practices.

It should not be too difficult for shipping lines to provide relief to the current tight space situation which after all is of their own making. If shipping lines have fairly exercised their pricing, such as charging the Peak Season Surcharge during peak season, should they not provide the same flexibility of making their ships run at normal speed of 24 knots during peak season to provide normal supply to the market? We understand that there would be operational complexities to overcome, but operating at normal speed should be adopted to cope with seasonal fluctuations. It is clear that at the present operating mode, shipping lines simply cannot provide the capacity to cope with even the minimum needs of the market. At the end, it is the consumers of course that will bear the costs of all these manipulations

by shipping lines and the economy will suffer.

What has happened in the market serves to demonstrate that maritime regulatory reform is far from complete. The EU's repeal of block exemption for shipping lines in 2008 is a first step, but reforms must be carried out on a global basis. Asia, where most of the trade emanates, lags far behind in regulatory reform. There is so much room for improvement in the US system as well.

Shippers are not the only ones that see unfairness in allowing shipping lines to get together to discuss rates, rate increases and manipulate capacity. Enhancement of policies is called for in order to deter shipping lines from resorting to anti-competitive practices and to establish a more level playing field for global shippers.

Source: ALPHALINER ([www.alphaliner.com](http://www.alphaliner.com))

Fleet as at :	31 Dec 2009		31 Dec 2010		31 Dec 2011		31 Dec 2012		31 Dec 2013		Rise p.a. (3 years)
TEU nominal	ships	teu	ships	teu	ships	teu	ships	teu	ships	teu	teu terms
10000-15500	40	478 518	72	884 246	129	1 617 074	174	2 187 894	197	2 482 740	66,0%
7500-9999	232	1 987 321	265	2 271 260	297	2 550 511	314	2 692 471	322	2 758 271	10,7%
5100-7499	404	2 452 116	438	2 672 807	478	2 932 146	502	3 090 654	503	3 098 104	8,0%
4000-5099	609	2 753 315	681	3 078 129	717	3 240 083	752	3 395 293	769	3 468 543	7,2%
3000-3999	318	1 083 299	329	1 121 503	338	1 153 071	341	1 163 976	341	1 163 976	2,4%
2000-2999	711	1 803 853	721	1 840 424	733	1 871 899	745	1 904 018	752	1 923 004	1,8%
1500-1999	568	962 051	591	1 001 679	600	1 017 779	609	1 034 219	613	1 041 147	2,4%
1000-1499	700	826 526	724	853 383	750	883 454	752	885 526	752	885 526	2,3%
500-999	836	615 065	843	622 135	851	628 983	851	628 983	851	628 983	0,7%
100-499	303	98 113	295	95 783	295	95 783	295	95 783	295	95 783	-0,8%
<b>TOTAL</b>	<b>4 721</b>	<b>13 060 177</b>	<b>4 959</b>	<b>14 441 349</b>	<b>5 188</b>	<b>15 990 783</b>	<b>5 335</b>	<b>17 078 817</b>	<b>5 395</b>	<b>17 546 077</b>	<b>9,4%</b>
<b>TOTAL after Exp. Scrap/Slip</b>	<b>4 721</b>	<b>13 060 177</b>	<b>4 913</b>	<b>14 314 331</b>	<b>5 056</b>	<b>15 693 765</b>	<b>5 106</b>	<b>16 591 799</b>	<b>5 091</b>	<b>16 909 059</b>	<b>8,3%</b>
<b>Rise 12 months</b>	2009 >	<b>5,6%</b>	2010 >	<b>9,6%</b>	2011 >	<b>9,6%</b>	2012 >	<b>5,7%</b>	2013 >	<b>1,9%</b>	

\*Forecast figures take into account delivery deferrals and slippage.

\*\*Rise p.a. (3 years) represents the average pre annum growth during the three years 2010-2011-2012