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Towards the upliftment of the Hong Kong port

Three typhoons hit Hong Kong between June and August – *Fengshen* in June, *Kammuri* and *Nuri* in August. Shippers were almost totally unable to deliver containers by barges or feeder vessels to Kwai Chung-Tsing Yi container terminals, or collect containers from them in the few days that followed these typhoons. Berth-side operations remained chaotic for five to six days later, to the detriment of the trade.


Willy Lin, Chairman

Actually, I must point out that even during regular days without disruption from typhoons, or flooding in the Pearl River Delta (PRD), it is just normal for the barges or feeder vessels to spend as much as one to two days to complete their discharge and collection of boxes at Kwai Tsing container terminals, even if the number of containers involved is far less than a hundred. The inefficiency is indeed beyond tolerance.

What is alarming to the industry is that containers from western PRD carried by barges and feeder vessels are the only share of PRD cargo keeping the Hong Kong port competitive with Shenzhen ports. Hong Kong has been losing its large share of the numbers of containers carried overland by trucks. Government statistics show that in the first seven months of 2008, boundary-crossing container truck movements decreased by 6.4% compared to the same period in 2007. Indeed, it has been six years in a row that we have seen negative growth in boundary-crossing container movements. The chances of regaining lost ground, regrettably, is very slim. There seems to be no solution that could address the two problematic areas that account for the decline, which are: 1) higher trucking costs of taking containers to the Hong Kong port from the PRD, than trucking them to closer ports in Shenzhen; and the high Terminal Handling Charges (THC) that shipping lines levy at the Hong Kong port.

Trucking costs could be substantially lowered by opening up the boundary-crossing trucking market that would allow Mainland trucks, currently banned, to carry containers to Hong Kong. However, deregulation would bring its share of socio-economic problems, closing down local trucking companies and rendering Hong Kong drivers without employment. And under the current Hong Kong political environment, I wonder if such a proposal would have the slightest chance of passing as legislation. Although, in nature, the proposal is nothing but market deregulation that would give reciprocal rights to our Mainland counterpart to participate in the crossboundary trade.

The industry is equally pessimistic of whether shipping lines would ever give up their cartel act of collecting high levels of THC in Hong Kong. Freight rates have been dropping precipitously this year. Hence, the lower freight rates drop, the greater the desire would be of shipping companies to seek revenue compensation derived from surcharges. We hope that maritime reforms that are taking place around globe, especially the more widespread application of competition laws, would stop shipping lines' practices of collective pricing on freight rates, surcharges and other charges. While the SAR Government drafts the Competition Law, we expect there to be a clause that restricts shipping lines in jointly fixing surcharges, including THC.

Transshipment cargo from western PRD is the only sector that the Hong Kong port still retains some advantages. The Shenzhen port is geographically divided with Yantian in the east, and Shekou, Chiwan and Da Chan Bay in the west. Because of the fact that barges and feeder vessels bound for Yantian must traverse the Ma Wan Channel in Hong Kong first, the Hong Kong port has been able to intercept cargoes carried by barges and feeder vessels to Yantian. In addition, since transpacific cargo is also captured in Hong Kong, there is insufficient cargo left to be carried to the western Shenzhen ports by barges and feeder vessels. The Hong Kong port has been able to ride on this advantage and capture the bulk of transshipment containers from the western PRD. This forms the major component of throughput growth for the Hong Kong port in the past few years.

However, the situation is rapidly changing. With substantial new capacity coming on-stream, the number of sailings as well as loadings at western Shenzhen ports have increased considerably in recent years. The western port operators and Shenzhen authorities have been very active in developing feeder operations from western PRD. We have seen a great surge in transshipment volumes from western PRD. A feeder operator that takes part in the South China Express Link told me that, last year, his company could hardly maintain a weekly sailing to western Shenzhen, but nowadays his company provides three sailings per week and all the ships are full. We believe the rapid development of the South China Express Link which connects the western PRD with western Shenzhen ports, is partially due to barge and feeder operators' frustrations of the inefficiency of operations at Kwai Tsing container terminals, which essentially inflate operation costs. And now, with the opening of Da Chan Bay terminals and the expanded capacity of Shekou and Chiwan terminals, the number of ship callings will further increase. We should also not underestimate the impact of increased vessel sizes and the surge in fuel costs. These may lead shipping lines to reduce the number of port calls and work adversely against Hong Kong.

It is pretty obvious that we need more terminal capacity to allow efficient operation. The thinking that the Hong Kong port still has ample spare capacity is simply untrue. Hong Kong port needs Container Terminal 10 as early as possible. According to the latest Port Cargo Forecast (PCF) review released by the Government in April, the decision to build CT10 must be made by now at the earliest, and at the latest, by 2013 based on the assumptions and scenarios in the PCF. However, we are simply unprepared to make any sort of decision at all. All the studies—engineering, environmental impact, etc, have not even commenced. We could only call for quick action, before it is too late.

The Government should not be bound by the old practice of awarding container port development rights to potential terminal operators. As the business environment evolves, Government should be more flexible in formualting new policies and practices. If the industry needs more competition, then Government should design the award system to ensure there is a wider, more competitive field. The belief that it would only be fair for Government to offer the same terms and conditions as in the past, is no longer applicable in this case when the business environment itself has changed. Furthermore, asking the chosen developer/terminal operator to shoulder all infrastructure developmental costs, another outdated policy, would render the project not commercially viable to potential operators. It should be considered a Government infrastructure project. In reviewing these policies, I suggest policymakers or Government departments in charge of drafting policy, have a more forward-looking mindset, giving priority to the well-being of the industry and economy as a whole.

Meanwhile, Hong Kong port stakeholders also need to strengthen their control or influence over cargo routing at western PRD. Hutchison's involvement in some western PRD ports, and Modern Terminal's Inland Gate Project are correct moves. But Hong Kong companies' control or influence over cargo routing in western PRD is very limited and not to be easily overcome given the restrictions and regulatory regime such as in the ownership of the ports and operations of the feeders, among others. New initiatives are needed to address the issue of rapid cargo diversion. The Guangdong Government is encouraging investment in the east and west wings of the province. Following the development of the western provinces of Guangxi, Guizhou, and Szechuan there would be more cargo likely to be carried to western PRD, then barged to a seaport before being exported overseas. This routing pattern is unlikely to be changed even with the Hong Kong-Zhuhai-Macau bridge, because of the substantially lower cost of barging. The Hong Kong port should be ready for such a development.