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Legislative Council
Panel on Economic Services

Minutes of special meeting held on
Monday, 9 April 2001, at 2:30 pm
in the Chamber of the Legislative Council Building

Members present	**:**	Hon James TIEN Pei-chun, JP (Chairman) Hon Kenneth TING Woo-shou, JP Hon Eric LI Ka-cheung, JP Dr Hon David LI Kwok-po, JP Hon Fred LI Wah-ming, JP Hon CHEUNG Man-kwong Hon HUI Cheung-ching Hon CHAN Kam-lam Hon Mrs Miriam LAU Kin-yee, JP Hon Abraham SHEK Lai-him, JP Hon Audrey EU Yuet-mee, SC, JP
Non-Panel member attending	**:**	Hon CHAN Yuen-han
Members absent	**:**	Dr Hon LUI Ming-wah, JP (Deputy Chairman) Hon Mrs Selina CHOW LIANG Shuk-yee, JP Hon SIN Chung-kai Hon Howard YOUNG, JP Hon LAU Chin-shek, JP Hon CHOY So-yuk Hon Henry WU King-cheong, BBS Dr Hon Philip WONG Yu-hong

Public officers attending	**:**	Economic Services Bureau Ms Sandra LEE Secretary for Economic Services Mr Alex FONG Deputy Secretary for Economic Services Ms Reddy NG Senior Economist, Port and Maritime Board
Attendance by invitation	**:**	Hong Kong Liner Shipping Association Mr Jim POON Chairman Mr Claus HEMMINGSEN Vice Chairman Mr Roberto GIANNETTA Secretary Hong Kong Shippers' Council Mr Willy LIN Chairman Mr Jeffrey LAM Vice Chairman Mr Sunny HO Executive Director HK Container Terminal Operators Association Mr Eric IP Chairman Hong Kong Business Community Joint Conference Mr CHAN Dit-lung Convener

The China-Hong Kong Transportation Joint Conference

Mr Ricky WONG

Mr CHAN Fu-chuen

Mr CHIANG Chi-wai

Mr Simon LAU

Clerk in attendance : Mr Andy LAU
Chief Assistant Secretary (1)2

Staff in attendance : Ms Alice AU
Senior Assistant Secretary (1)5

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I Terminal handling charges and related issues
(LC Paper Nos. CB(1)881/00-01(03) and CB(1)985/00-01(01))

The Chairman welcomed the representatives of the Administration, the Hong Kong Liner Shipping Association (HKLSA), the Hong Kong Shippers' Council (HKSC), the Hong Kong Container Terminal Operators Association (HKCTOA), the Hong Kong Business Community Joint Conference (HKBCJC) and the China-Hong Kong Transportation Joint Conference (CHKTJC) to the meeting. He pointed out that the Terminal Handling Charges (THC) in Hong Kong was amongst the highest in the world, one of the stated cause being the high land premium and site formation cost on the part of the terminal operators. He invited the Deputy Secretary for Economic Services (DS/ES) to brief members on the information paper prepared by the Administration.

2. DS/ES drew members' attention to LC Paper No. CB(1)881/00-01(03). Following the discussion at the Panel meeting held on 26 February 2001 on the item "Port development and competition in the container freight industry", the Administration had provided the information requested by members in eight information notes under the paper for further consideration. On the competitiveness of Hong Kong with nearby ports, he pointed out that as shown from chart 1 in Information Note No. III, the door-to-door cost difference of shipping ex Hong Kong versus ex Shenzhen from Dongguan to USA had narrowed down over the past years. Although there was a price difference between shipping ex Hong Kong and ex Shenzhen, the price factor was not the only determining factor in shippers' choice of the port for export. Other factors such as reliability and efficiency were crucial to their choice as well.

Competitiveness of the container freight industry in Hong Kong

3. Mr Kenneth TING expressed concern about the competitiveness of the container freight industry in Hong Kong. The THC of exporting a forty–foot equivalent unit of goods from Hong Kong to Europe was HK$2,750 while that of exporting the same goods from Shanghai would only be HK$180. He doubted whether Hong Kong could compete with other ports in Asia in view of the great difference in THC.

4. DS/ES responded that the majority of the shippers using the port of Hong Kong were those within the Southern China region. It would not be cost effective for these shippers to transport their goods to Shanghai for export. Therefore, the competition between Hong Kong and Shanghai would mainly be on transshipment of goods, which constituted about 10% of Hong Kong's total container throughput. He explained that the container terminal of Hong Kong was unique in the world in that it was fully funded, owned and managed by the private sector. There was no direct or indirect government involvement in investment and management. Therefore, the operating costs of the terminal operators in Hong Kong would be different from those of their counterparts elsewhere in the world. The government's approach in planning for port facilities was to ensure that there would be sufficient facilities to meet future demand and that they remained competitive. The mechanism of balancing the demand of and supply for port facilities in Hong Kong would help to stabilize the prices of these facilities.

5. The Chairman remarked that the high price of using the port facilities was threatening the competitiveness of Hong Kong's container freight industry.

6. Mr Abraham SHEK shared the Chairman's concern and opined that it would be difficult for Hong Kong to maintain its leading status in the container freight industry in Asia if its THC remained at the present high level. He urged the Administration to review its policy in tendering out future container terminals so that there would be more government involvement in the management, in particular, the pricing of future container terminals. Mr HUI Cheung-ching and Mr Kenneth TING supported Mr SHEK's views.

7. DS/ES responded that privatization of container terminal operation had become the growing trend in ports worldwide for achievement of efficiency. Government involvement in the container freight industry would thus be against the global trend. Nevertheless, members' views would be taken into consideration in the on-going "Port Development Strategy Review", which was scheduled for completion in mid-2001. The Administration would brief members on the findings of the review when available.

8. At the Chairman's invitation, Mr Jim POON, Chairman of HKLSA explained that despite the growing challenges generated by neighbouring ports in

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the Mainland, Hong Kong still had an edge over its competitors. Instead of competing on prices, Hong Kong could offer its port users high quality services and this could attract shippers to use its port despite higher price.

9. Mr CHAN Kam-lam sought information from HKCTOA and the Administration on their measures to enhance the competitiveness of Hong Kong port, bearing in mind the present circumstances of no direct government involvement in the container terminal operation. Mr Kenneth TING also expressed appreciation towards the effort of the Administration and HKCTOA in enhancing the efficiency of port services through measures such as simplifying customs clearance procedures and developing electronic commerce in the industry.

10. Mr Eric IP, Chairman of HKCTOA responded that the objective of HKCTOA was to promote the welfare of the Hong Kong port and to enhance its competitiveness in the world market. Through various different means such as overseas exhibition and promotion, as well as development of electronic commerce and communication, HKCTOA had made every effort to reduce the cost and improve the efficiency of container terminal operation for the maintenance of the competitiveness of Hong Kong.

11. Referring to the report by the Commission on Strategic Development (CSD), DS/ES advised that the CSD had stated its observation that in facing the challenges of neighbouring ports, the development of Hong Kong port should move towards higher value-added services instead of lower price. The Administration had been closely monitoring the development of Hong Kong port and seeking improvements in various aspects such as simplifying customs clearance procedures, developing the necessary infrastructure and strengthening the inter-modal links to the port. He reiterated that in addition to the price factor, other factors like reliability, efficiency and location of the port were also crucial in users' choice of port.

12. The Secretary for Economic Services (SES) supplemented that compared with other ports in the Mainland, the Hong Kong port had the advantages of more frequent shipments and wider network to cover different parts of the world. Moreover, the efficiency in cargo handling was another advantage of Hong Kong over its Mainland counterparts. To address Mr CHAN Kam-lam's concern over the measures the Administration would take to maintain the competitiveness of the Hong Kong port, SES assured members that the relevant bureaux had been working jointly for improving the freight links to Southern China. The Administration was aware of the keen competition in the container freight industry. As there were a number of factors contributing to the competitiveness of the industry, it would not be possible to derive a simple and instant solution to the problem. The Administration would keep a close watch on the matter.

Components and calculation of THC

13. Mr Fred LI pointed out that shippers were concerned about the high THC

collected by shipping lines. He sought clarification from HKLSA as to whether any add-on cost, such as administration cost of the shipping lines, had been included in THC. Mr Kenneth TING shared Mr Fred LI's concern. Mr TING remarked that as stated in paragraph 3 of Information Note No. V, the differential in charges collected by individual terminal operators from shipping lines might range from HK$500 to HK$1,200 per container. In view of this range in the charges paid to the container terminal operators, the charging of a uniform THC on shippers might be an indication that shipping lines were imposing add-on cost on top of what they had to pay to the terminal operators.

14. Mr Jim POON responded that HKLSA was acting as an agent for its member shipping lines and would not take part in their business decision making. THC rates were recommended by international liner conferences or "agreements" which were formed amongst shipping lines securing major trading routes. All shipping lines belonging to the "agreement" charged the same recommended level of THC. He said that he had served in the container freight industry for over 30 years and as far as he knew, shipping lines should not have included any add-on cost to THC collected from shippers.

15. Mr Abraham SHEK remarked that the reason behind the high THC level in Hong Kong should be examined in further details. He drew members' attention to the major components of THC in Far Eastern Freight Conference at page 3 of Information Note No. I. He opined that some of the components, such as those under items 8 to 12, should in fact be included in the freight rate rather than THC. He doubted whether these major components of THC were adopted worldwide, and whether some of the items were just placed under THC in order for the shipping lines to shift the burden of freight charge to the shippers. He said that shipping lines would offer more attractive freight rate to the consignees overseas and, in turn, shift the burden of freight charge to the shippers who had little bargaining power in the process. Mr HUI Cheung-ching shared his view and remarked that as far as he knew, shipping lines were using THC to balance off their reduction in income from the freight rates.

16. Mr Jim POON said that the components of THC were agreed some ten years ago amongst major players of the container freight industry. The background and justification of the components to be included would be a matter of history. In response to members' query on the adoption of these THC components in other overseas ports, he said that most of the components were commonly used worldwide. While expressing sympathy towards the shippers who had to bear the high THC in Hong Kong, he urged them to take into consideration the quality of services provided by the container freight operators in Hong Kong. He pointed out that the THC in Japan should be the same as Hong Kong but not lower as shown in the information paper provided by the Administration. The container terminal operators and shipping lines were willing to continue dialogue with shippers on the rate of THC.

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17. The Chairman thanked Mr POON for clarifying the figures on THC in Japan. He requested Mr POON to provide the accurate figures in this respect for Panel members' information after the meeting.

HKLSA

18. Mrs Miriam LAU said that she was glad to hear that players of the container freight industry would be willing to review the THC rate. In this connection, she sought Mr POON's advice on the means of achieving a reduction in THC under the existing pricing mechanism.

19. Mr Jim POON responded that the major purpose of THC was to recover from shippers the cost of paying the container terminals or mid stream operators for the loading and unloading of containers. In this regard, shipping lines had to look to the container terminal operators who had a major role in the collection of THC to take the lead in the review of THC rates. In addition, he drew members' attention to the footnotes on page 4 of Information Note No. I and pointed out that as a matter of fact, the shipping lines did share the cost on items 12 to 14 and 16 to 17. As to the question of whether shipping lines shifted the burden of their reduced freight rate to the shippers by means of THC, he responded that while there is a uniform THC, with keen competition in the ocean freight industry, shipping lines might have to exercise flexibility in determining freight rates in order to compete with their counterparts.

20. Mr Eric IP added that although he had no information as to whether these components of THC were used worldwide, they had been in use in Hong Kong for many years. He pointed out that shipping lines signed contracts with HKCTOA annually and amendments had been made to the components of THC in these contracts. As a result, not all the components listed in the information note were still in force at present. He agreed with Mr SHEK's view that in order to increase competitiveness in the world market, shipping lines might offer concessions on freight rates to consignees and try to use THC to balance off the concessions.

21. Mr Willy LIN, chairman of HKSC, said that the components of THC were worked out in the late 1980's after detailed discussions with shipping lines. Over the past years, HKSC had called for greater transparency of the pricing mechanism for THC and had sought to establish a formal mechanism for regular discussion with shipping lines and terminal operators on THC matters. He remarked that the high THC had been a great burden for Hong Kong shippers. He urged the Administration to consider the possibility of opening up the market by introducing more competition to the container terminal industry. He believed that with increasing number of participants in the industry, just like the case of the telecommunication industry, the community could benefit from the price cut and improvement in efficiency.

22. Mr CHAN Dit-lung, convenor of HKBCJC, pointed out that from a study conducted by HKBCJC, the factor contributing to the high THC in Hong Kong was not the high land premium, but the practice of the shipping lines in balancing off

their reduction in freight rates through collecting high THC from shippers. Their study had shown that less than 50% of the THC collected by shipping lines was paid to the container terminal operators. This was unfair to shippers who had little bargaining power. He urged the Administration to work out appropriate measures to assist the shippers, the majority of which were small and medium enterprises (SMEs). THC constituted considerable percentage of the cost of these SMEs. For example, in the case of raw plastic material trade, THC constituted up to 5% of their cost and this had threatened their profit margin.

23. Mr Fred LI commented that as shipping lines signed contracts with HKCTOA annually and there was flexibility in price charged by the container terminal operators, it appeared that the shipping lines had not benefited their customers, the shippers, with the discount they got. Mr Jim POON responded that the expiry date of the contracts varied between shipping lines. There would not be any change to the contract terms nor reduction in price for shipping lines with contracts not yet expired.

Competition in the Container Freight Industry

24. Mr Fred LI raised query about the existence of a cartel in the container freight industry in view of the practice of charging a uniform THC. He doubted whether there was any genuine competition within the industry. Mr Kenneth TING shared his views and pointed out that there had been a 30% drop in the price of trucking services since 1995 but THC had been increasing from 1990 and only frozen in 2000.

25. The Chairman shared Mr TING's concern and pointed out that the introduction of more competition in the container terminal operation by having more container terminal operators in the business might be one feasible means to bring THC level lower.

26. SES replied that the charging of uniform THC was a worldwide practice. In the USA, the "agreements" on THC was exempted from the competition law. DS/ES added that competition in an industry might not only be in the form of price cutting. As explained in Information Note No. IV, competition in the container freight industry was very keen. Hong Kong had four container terminal companies operating eight container terminals in Kwai Chung. Taking into consideration the huge investment involved in container terminal development, the number of operators was not small compared with other ports in the world. Moreover, there were other port facilities providers such as mid-stream operators and river trade operators providing alternatives to port users. He informed members that there would be a new company joining in the container terminal operating business when the Container Terminal No. 9 was in use. He believed that this new development would be in line with members' views of bringing in more competition in the container freight industry.

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27. Mr Jim POON pointed out that shipping lines competed fiercely though they might not compete on surcharges like THC, there were keen competition on ocean freight and quality of services. He said that it was a worldwide practice for setting uniform surcharges such as THC through international liner conferences or "agreements".

28. Mr Ricky WONG, spokesman of CHKTJC, said that the trucking companies had been facing very keen competition in the past years. He pointed out that the trucking cost of HK$4,000 quoted in paragraph 2 of Information Note No. III could not truly reflect the present level of trucking cost, which could be as low as under HK$3,000 for bringing a 40' container from Dongguan to Kwai Chung. The trucking cost had been reduced significantly since 1992, amounting to 40% to 50%.

Concluding remarks

29. The Chairman thanked all parties for attending the meeting. He concluded that in view of the keen competition the container freight industry in Hong Kong was facing, the Administration should work out long term measures for enhancement of the competitiveness of Hong Kong and review its policy in the development of port facilities. While agreeing that the measures would not be simple and instant, he stressed that the Administration should have the foresight to work out plans to tackle the problem in the long run.

II Any other business

30. There being no other business, the meeting ended at 4:20 pm.

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