

For discussion on
28 June 1999

Legislative Council Panel on Economic Services

TERMINAL HANDLING CHARGES

PURPOSE

The purpose of this paper is to inform Members of the progress in the discussion between the Government, liner conferences, shippers, and container terminal operators on the Terminal Handling Charges (THC) issue.

BACKGROUND

2. On 11 December 1998, the Economic Services Panel discussed the Hong Kong shippers' concern about the high THC levels in Hong Kong and the lack of transparency and consultation with shippers when THCs are adjusted by liner conferences. On 9 February 1999, the Economic Services Bureau (ESB) convened a meeting with the representatives of the major liner conferences, the Hong Kong Shippers' Council and container terminal operators.

3. At the meeting, the liner conferences noted the concerns of the Hong Kong shippers and undertook to convey them to their members shipping lines. The key liner conferences, namely the Far Eastern Freight Conference (FEFC), the Transpacific Stabilisation Agreement (TSA), and the Intra-Asia Discussion Agreement (IADA) also confirmed that it is unlikely there will be any increases in the THC this year, provided no major changes in cost factors (i.e. any increase in container terminal handling costs in Hong Kong during this period).

4. The FEFC also agreed that future adjustments in THC levels in Hong Kong would only take place after formal notification and discussion with the Hong Kong Shippers' Council. The FEFC and the Hong Kong Shippers' Council will agree on the detailed arrangements.

Once this has been done, we would request the other liner conferences to put in place the same, or similar, arrangements.

CONTAINER HANDLING COSTS

5. The level of THC is related to the cost of handling containers in Hong Kong. Joint efforts are being made by the Government and the industry to seek to reduce the container handling costs in Hong Kong. The Hong Kong Port and Maritime Board has recently set up a subcommittee to look at measures to improve the competitiveness of the Hong Kong container port and lower the operational cost of container terminals in Hong Kong. The sub-committee is made up of representatives from the key sectors of the container freight industry, including container terminal operators, shipping lines, shippers and the trucking industry, and will produce its recommendations in the next few months.

CONCLUSION

6. Since the February meeting, the Administration has established a formal dialogue between the shippers, the liner conferences and the container terminal operators to seek to address the concerns of Hong Kong shippers. We have secured an undertaking from the liner conferences to freeze the THC level for one year. Measures are being put in place to improve consultation between the liner conferences and the shippers on future adjustments of THCs. In the meantime, we are working with the container freight industry to seek to reduce the cost of handling containers in Hong Kong. We will continue to monitor the exchange of dialogue between liner conferences and shippers and ensure that there is open and positive communication between the two parties and that any reduction in Hong Kong container handling costs will be reflected in future revisions of THC.

Economic Services Bureau

June 1999

Hong Kong Shippers' Council

Legislative Council Panel on Economic Services

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Under the chairmanship of the Secretary for Economic Services, shippers had two rounds of discussions with representatives of shipping conferences and terminals on Hong Kong Terminal Handling Charges (THC). The occasions had allowed for very frank exchange of ideas on both sides. We also appreciate the goodwill gesture by the conferences at the February 99 meeting that barring unforeseen circumstances the Hong Kong THC will be frozen for one year, till early 2000.

However this freeze has provided little relief for Hong Kong shippers who are still paying the highest THC in the world. At a time when we all have to cut costs in order to survive the economic downturn, Hong Kong shippers cannot see the justification for paying to the shipping lines charges one to several times higher than our competitors in the region. THC now represents as much as 3 to 4% of the cost of the merchandise and seriously erode our competitiveness.

We have also noted that in the past six months or so, shipping lines have increased the freight rates substantially. For example, for the transpacific eastbound trade, there have been increases of US\$900 to US\$1,000 per 40' container with effect from May, and in the Hong Kong/Europe trade, the conference has embarked on a programme of rate restorations involving no less than three increases between January and July, 1999. On top of all these, there will be a peak season surcharge of US\$300 per 40' container to be implemented in the second half of 1999. With the much higher freight rates and new

surcharges, we believe there should now be room for shipping lines to lower the THC levels.

HKSC representatives therefore formally request the key conferences at a meeting on 22 June, 1999 that there should be a 30% across the board reduction in THC. Alternatively, shipping lines should abolish THC by incorporating it back to the freight rates. At the same time, following agreement in principle by a major conference on prior consultation with HKSC over changes in THC levels, the Council is proposing that a formal consultation mechanism should be established between the Council and the conferences. Under the proposed mechanism:

- (i) Any THC increases by the conferences will be subject to a 90 days prior notification;
- (ii) The conferences agree to join consultations and provide reasonable supporting data justifying the increase if requested by HKSC; and
- (iii) If no agreement is reached in the consultations, either side can refer the case to Government which will provide a representative to act as mediator/arbitrator.

Representatives of the conferences undertook to convey shippers' request to their member shipping lines for consideration. The Council hopes that another meeting will soon be convened to discuss these issues.

In closing, the Council, on behalf of shippers in Hong Kong, wishes to thank Government and the LegCo Panel for their interests on this issue. Government's efforts have ensured a more level playing field between conferences and shippers. We also hope that Government's intervention could lead to a satisfactory arrangement between both sides, and remove the need for a new piece of legislation to protect the interest of shippers.