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BY HAND & BY EMAIL

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(2) Director of Marine
(Attn: Ms. Maisie Cheng, JP)
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38 Pier Road
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Dear Sirs

Re: Pilotage Ordinance (Cap.84) and Pilotage (Dues) Order (Cap. 84D)

We have been consulted in this matter by China LNG Shipping (International) Co. Limited of Hong Kong.

We should be grateful if you would accept this letter as our client's Objection to the proposed amendments to the Pilotage Ordinance (Cap. 84) and the Pilotage (Dues) Order (Cap 84D) (the "Proposed Amendments") set out in the Marine Department's LC Paper No. CB(4)1252/17-18 (03).

China LNG Shipping (International) Co. Limited ("CLSICO")

CLSICO was established in July 2004 as a joint venture between COSCO, China Merchants and BP Shipping, initially to serve China's first LNG import project in Guangdong. Now also delivering to terminals in Fujian and Shanghai, CLSICO continues to be dedicated to Chinese LNG imports. In August 2013, BP Shipping sold its share in CLSICO to CNOOC.

Based in Hong Kong, CLSICO is China's first LNG shipmanagement company. CLSICO provides LNG ship management services, and thus supports the development of the LNG industry in China.

CLSICO operates ships to the highest international standards, delivering clean energy to major cities in Eastern China. CLSICO, and the LNG industry as a whole, have a proud safety record. LNG has been transported worldwide by specialist shipowners as a source of clean energy for more than 50 years, and there have been no incidents leading to loss of LNG cargo from vessel tanks.

Three of CLSICO's ships travel on fixed voyages between Australia to Dapeng LNG receiving terminal in East Shenzhen. The round trip voyage sees each ship calling at East Shenzhen approximately every 2 weeks, a frequency which means that the Master and crew are very familiar with the route across Mirs/Dapeng Bay. In addition, when the ship transits through Mirs Bay, the Shenzhen pilot is on board. Since the first vessel began operation in 2008, there has been no safety issue or incident involving CLSICO vessels in Mirs Bay.

Although CLSICO's vessels briefly transit through Hong Kong waters in Mirs Bay, the vessels do not call at any port or terminal in Hong Kong. The average transit time through Hong Kong waters is approximately 60 minutes.

As a major stakeholder, CLSICO wishes to voice its strong objection to the Proposed Amendments, which would have a serious and adverse effect on its operations.

Grounds of Objection

1. Maritime Safety

(a) Overview

The purpose of pilotage is to ensure the safe navigation of oceangoing vessels visiting a port and its approaches, where local knowledge is necessary so as to reduce the risk of accidents.

In 1998 the Pilotage Advisory Committee in Hong Kong considered that vessels moving to and from the port of Yantian without calling at Hong Kong should be exempted from compulsory pilotage when transiting Hong Kong waters. The Committee noted that the vessels were "*only cutting a small corner of the pilotage area*", namely, the Hong Kong waters of Mirs Bay. The open water of Mirs Bay offers a good natural shipping environment with generally favourable conditions for navigation, the shipping fairway is wide and the marine traffic arrangements are not complex.

The LC Paper (as referred to above) cites the increase in marine traffic in Mirs Bay as a reason for introducing the Proposed Amendments. The Paper notes that "*in 1998, there were on average about 17 vessel trips daily plying around Mirs Bay made by visiting ocean-going vessels ("OGVs")... In 2017, the average number of daily trips transiting Mirs Bay made by OGVs ... has grown to about 36.*"

However, the number of container vessels transiting Mirs Bay in order to call at Yantian International Container Terminal has in fact decreased in recent years, from 4,647 in 2013 to 4,239 in 2017, due to the trend for larger container vessels¹.

As regards the construction of three LNG receiving facilities at East Shenzhen, the Paper notes: "*Currently, there are about 172 LNG vessel trips per year in the region. It is expected that the total number of LNG vessel trips in the region will increase to 349 by 2020.*"

But even on this projection, the number of LNG vessel trips will, by 2020, be barely one a day.

In the 20 years since the Committee noted that there was no need for pilotage in the Hong Kong waters of Mirs Bay, there have been major advances in navigation technology. In that period, technological improvements in maritime safety have seen large shipping losses declining globally. Oceangoing vessels such as CLSICO's ships are installed with Electronic Chart Display and Information System (ECDIS) which provides continuous position and navigational safety information, interfacing with GPS, radar, automatic identification systems (AIS) and other navigational systems.

As regards Mirs Bay safety measures, there is a comprehensive VTS marine traffic monitoring system which provides for communication with vessels in Mirs Bay waters, similar to air traffic control for aircraft².

In addition, from 2011 to 2018, there have been no serious accidents in Mirs Bay Hong Kong waters³. And with regard to minor accidents, none of them occurred in the area where the new pilot stations are proposed⁴.

It is also the case that CLSICO's vessel Master (and indeed Shenzhen pilots) are likely to have more experience and local knowledge of Mirs Bay waters than Hong Kong pilots.

(b) Proposed Amendments not conducive to maritime safety

Annexure 1 shows the current route of our client's vessels, taking on the Shenzhen/Yantian pilot, as well as the proposed new Hong Kong pilot boarding locations.

A Hong Kong pilot would board at Shek Ngau Chau and then disembark at Ping Chau, whilst the vessel proceeded through only 5 nautical miles of open water.

¹大鵬灣引航問題研究簡要報告 徵求意見稿, pp. 66-75.

² Ibid, pp. 70

³ "Reports or Summaries of More Important Accident Investigation Carried out by Marine Accident Investigation And Shipping Security Policy Branch". 2018. Mardep.Gov.Hk.
<https://www.mardep.gov.hk/en/publication/ereport.html>.

⁴大鵬灣引航問題研究簡要報告 徵求意見稿, pp. 55-57.

If the Proposed Amendments are implemented, they would result in the need for both Hong Kong and Shenzhen pilots, providing double pilotage services for each vessel in Mirs Bay. This duplication could potentially create a risk to safety.

Safety of pilot: The process of pilots boarding and departing vessels inevitably creates more risk for injuries and accidents. This is particularly the case for LNG carriers and most container vessels which are large in size, which makes boarding and disembarking difficult.

Risk to vessel: In order for vessels to call at the designated pilot boarding stations, ship masters will have to ensure safe conditions for pilots to board or depart. To achieve this, it may involve deviating from the original route to reach the pilot boarding stations, and reducing speed or waiting. This may create additional operating difficulties and lead to increased navigational hazards. The proposed pilot station at Ping Chau is also a point at which CLSICO's vessels must change course for the final approach to the terminal. For the vessels to undertake two tasks at the same time (disembarking the pilot and changing course at Ping Chau) will significantly increase navigational risk.

Risk to other vessels: reduction of a LNG vessel's speed also reduces its manoeuvrability; there may be a resulting increase in crossing situations with other vessels near Ping Chau, thereby increasing the risk of collision.

The perceived justification for initiating the Proposed Amendments is that they will improve maritime safety at Mirs Bay. However, as seen from the above analysis, the Proposed Amendments may be counter-productive and in fact create more risks.

2. Harm to the Shipping Industry

(a) Increased Costs

The Proposed Amendments will inflict prohibitive costs on the shipping industry. The proposed fee structure will generate a cost of around HK\$35,000 for a 95,000 tonnes vessel on a single trip. This cost, which greatly exceeds the cost of Shenzhen pilotage services, is inflated by the need to employ tug boats to transport the Hong Kong pilots to the remote North-Eastern fringe of Hong Kong waters.

For the 4,300 container vessels crossing Mirs Bay each year⁵, the Proposed Amendments would create additional expense of HK\$300 million for unnecessary pilotage services. Such an astronomical cost would be extremely harmful to the entire industry.

In addition to the pilotage fees, there will also be costs resulting from foreign currency payments, as well as the hiring of shipping agents for reporting and settling accounts.

The excessive costs generated by the Proposed Amendments are likely to drive away business opportunities from the shipping industry in the region.

⁵ Ibid, pp. 70.

(b) Reduced Operational Efficiency

To enable Hong Kong pilots to board and disembark, vessels will have to lower their speed and may need to alter course to reach the pilot stations. These are necessary procedures to try to ensure the safety of the pilots, but in order to perform these steps the vessels will have to compromise their current operational efficiency.

3. Impracticality

As mentioned above, the Proposed Amendments would lead to two sets of pilots and double pilotage services being imposed on each vessel.

There is also an absurdity in transporting a Hong Kong pilot by tug to Shek Ngau Chau, so that he can travel on board an LNG vessel, alongside the Shenzhen pilot, for the short trip to the proposed Ping Chau station.

The Proposed Amendments may cause procedural difficulties, as explained below.

(a) Complex Reporting and Scheduling Procedures

The Proposed Amendments would require vessels to report and schedule their movements in Mirs Bay with two separate authorities. Pilotage arrangements and approvals would need to be arranged with both authorities, which would incur more administrative costs and inconvenience.

In addition, there is a major concern regarding whether there will be an adequate number of competent Hong Kong pilots and tugboats to handle the traffic at Mirs Bay. This involves a risk of vessels having to wait for pilotage services, which could lead to delays and congestion. As part of the transported LNG gas is supplied to Hong Kong (through the Hong Kong and China Gas Co., Ltd and HK Electric Investments), the delays may increase the risk of the ships missing the LNG cargo schedule, which could ultimately affect about 2 million end users in Hong Kong.

(b) Difference in Weather Reporting and Warnings

Shenzhen and Hong Kong have different authorities which are responsible for weather reporting and issuing warnings. Therefore, the Proposed Amendments will necessarily lead to more complications in coordination between the two authorities regarding maritime safety at Mirs Bay.

The above concerns highlight the procedural complexities that are presently being overlooked, and which would render the Proposed Amendments impractical.

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Summary

The Proposed Amendments, which would place a Hong Kong pilot on board our clients' vessels from Shek Ngau Chau to Ping Chau, simply make no sense. They would create a risk to safety in Mirs Bay, and the prohibitive costs are certain to harm the shipping and LNG industry in the region.

The increased cost and reduced efficiency would conflict with the Government's stated aim of promoting co-operation within the Greater Bay Area.

We thank you in advance for studying our Objection, and we should be grateful if you could reconsider the Proposed Amendments. A copy of this letter will also be submitted to the Panel on Economic Development.

Yours faithfully

A handwritten signature in black ink, appearing to be a stylized 'M' followed by a horizontal line.

Mayer Brown

Annexure 1

