



Maintaining Kwai Tsing Port's Regional Competitiveness
Investing in Container Throughput Capacity and Operational Efficiency



Contents

1. Overview Of The KWAI TSING Port And Logistics Industry	3
2. Challenges Faced By The KWAI TSING Port And Logistics Industry	4
3. Industry-wide Solutions Needed To Alleviate Congestion And Improve Competitiveness OF KWAI TSING PORT.....	7
4. Proposed KWAI TSING PORT Project Development Programme 2013 to 2023	10
5. Summary Conclusion	14
6. Appendix A: Supporting the Employment Provided by the Port and Logistics Industry	16
7. Appendix B: The Impact of Cabotage Laws on Hong Kong Port	18
8. Appendix C: Detail on Short Term Tenancies in Kwai Tsing Area	21

1. OVERVIEW OF THE KWAI TSING PORT AND LOGISTICS INDUSTRY

Kwai Tsing Container Port (KTCP) Evolution

KTCP has a unique position in Southern China servicing west PRD import and export cargo by barge connections, eastern PRD import and export cargo by truck deliveries and operating as a hub port for Asian ocean vessel to ocean vessel transshipment containers.

KTCP has changed from being predominantly a Local HK Service Port (1972-1990) to China's Trans-ocean Port (1990-2003) to an International Transshipment Port for barge and ocean vessel to ocean vessel transshipments with a stable truck handled direct import and export component (2003 to date).

Annual container throughput at KTCP has increased from 8.26 million TEUs in 1995 to a level of 17.5 million TEUs in 2012 during the period that South China Ports have developed aggressively. This shows that shipping lines continue to find KTCP an attractive service proposition in very competitive South China and Asian markets. At present, KTCP services 40% of South China import and export container throughput and 70% of the intra-Asia ocean vessel to ocean vessel transshipment throughput handled in Southern China Ports.

Employment and Working Conditions

Port and logistics jobs represent a significant work community for Hong Kong. KTCP employs 8,000 direct employees which conservatively support 32,000 indirect jobs. The KTCP offers stable and secure employment opportunities for a mix of professional, technical and non-skilled positions. There are good prospects for employees to develop their careers and support their families. (See Appendix A)

Employees' safety and health are a top priority. Use of technology has improved work tasks and even allows remote crane operations to be performed from an office environment. Environmental initiatives have improved air quality and reduced emissions around the port.

Economic Contribution

In the most recent published figures the port and logistic industry supported 9,500 companies and 190,000 jobs being 5.3% of the employment total.

For decades the Hong Kong port and logistics industry has made huge economic and social contributions to our community. In 2011 it added \$68bn of value to the Hong Kong economy, representing 3.6% of the total economy. Logistics is also vital in support of the trading sector which contributes \$418bn to the economy, 22% of Hong Kong's total GDP. Together the trading and logistics segment represents the largest of the Four Pillar Industries.

The KTCP operators will continue to invest in port infrastructure in order to ensure that jobs and related economic benefits are maintained.

Regional Competitiveness

KTCP has operated consistently at a high level of productivity and efficiency for over 40 years due to its early development, free port status, connection to extensive ship call networks, high productivity and pioneering port technology. However, other regional ports are catching up. The competitive market environment has intensified over the past decade with South China and S.E. Asian ports increasing their container throughput capacities and operating performance to similar levels as those of KTCP.

A major threat to KTCP is posed by major Mainland ports lobbying for removal of China's cabotage restrictions (see Appendix B). If successful, foreign owned ships would be allowed to hub in Mainland ports resulting in a diversion of ship calls from Hong Kong. This is important because out of the 24 million 20-foot containers moved through Hong Kong port last year, 60 per cent were classified as transshipment throughput. Of that, a little over half was intra-Asia cargo flows, including cabotage cargoes of foreign ships which could be handled in mainland ports.

As KTCP's annual container handling throughput grows, there are several issues which need to be addressed in order to alleviate port congestion and position KTCP to compete effectively with regional competition. This paper outlines the challenges faced by KTCP and a number of industry wide solutions needed to alleviate port congestion and improve regional competitiveness. A proposed project development programme is proposed to accommodate the needs of KTCP.

2. CHALLENGES FACED BY THE KWAI TSING PORT AND LOGISTICS INDUSTRY

The Threat of China Cabotage Liberalisation

Coastal ports such as Shanghai, Qingdao and Ningbo have been lobbying hard for relaxation of the cabotage for foreign vessels. However the Ministry of Transport (MOT) has been taking a firm stance on maintaining the restriction both on political and economic grounds. In the Ministry's view a relaxation would jeopardize the domestic shipping line business upon which the local economies depend.

Despite this confirmation there is still evidence, according to reports from shipping lines, that some China ports (e.g. Shenzhen, Qingdao) encourage foreign shipping lines to continue with cabotage business through paperwork changes in consort with local Customs officials and the use of steaming through Hong Kong waters as a foreign 'touchpoint' that is said to satisfy cabotage restrictions. MOT has been working with Customs offices to collect data to prove these cases and take action against related foreign shipping lines.

There is one official exemption to the cabotage law in China, in the new Shanghai Free Trade Pilot Area (FTPA) opened on 29th September 2013. The regulations stated that China owned but foreign flagged vessels will now be allowed to transport goods between the FTPA and other China ports. A majority of the China owned fleet is foreign flagged because this registration status is required to secure the financing necessary to build the vessels. This change represents a significant increase in vessel capacity available for domestic trades and will greatly impact domestic competition. In addition it will have a significant impact on the transshipment market in North Asia, thereby reducing Hong Kong's competitive advantage on over 30% of its current throughput.

This would be a significant change to the market dynamics and shipping lines would downgrade the importance and use of Hong Kong in reviewing their network allocation. The potential loss of throughput in Hong Kong could be higher than the throughput directly related to the cabotage law. This would undermine KTCP's position as a transshipment hub.

Relaxation of cabotage restrictions would greatly erode KTCP's position and reduce the critical mass of shipping line activity in Hong Kong. As long as China does not give up this sovereignty right and maintains the cabotage rules on foreign owned vessels, then Hong Kong will maintain its competitive position for transshipment / cabotage business which in turn adds to the overall competitive position for Hong Kong port for import and export cargo to and from South China.

Congestion at KTCP

The remainder of this section provides information regarding the causes of congestion at KTCP and is followed by the proposed initiatives required to support the growth and efficiency of operations at the KTCP. These are not impending issues, they are current, real and present problems. The impact of the issues will become more acute in future as the growth in transshipment container throughput increases the levels of container terminal utilisation. Decisions are required urgently in order to maximize the use of the existing facilities, develop incremental facilities and adapt current legislation to ease congestion and improve regional competitiveness thereby protecting an important part of Hong Kong's employment, labour mix and social structure.

A number of factors have contributed to the recent congestion at the KTCP. They include structural changes in the regional business environment such as increased vessel sizes and increased traffic volumes transported by river barges. On the other hand, there have been some ongoing issues such as a lack of long term planning for land to support port growth and operational efficiency improvements. These issues have been raised by the industry on many occasions without resolution.

1. Mega vessel calls with less than proportional increases in container handling moves per call

While the size of ocean-going vessels (OGV) berthing at KTCP is increasing, container moves per vessel call are not increasing in proportion to the additional quay length being occupied. This has resulted in three issues affecting congestion:

- (i) lower berth productivity from a reduction in container moves per metre of quay resulting in longer OGV turnaround times (berth occupying periods);

- (ii) less main quay length available for handling PRD barges, resulting in delays in barge turnaround times; and
- (iii) increases in container yard stacking density resulting from increases in the dwell times caused by (i) and (ii).

These consequences will intensify when demand for KTCP container handling services increases in the future unless plans are implemented now to improve KTCP infrastructure.

2. Lack of barge berths to directly serve KTCP

PRD barge transshipment throughput at KTCP has increased nearly 30% in the past 10 years. This increase, along with having to mix vessels and barges on main berths, has resulted in long waiting times for barges to be handled - up to 2 days for service during peak periods. Outsourcing of barged containers to third party barge handling facilities at other distant waterfront sites is impractical as these handling facilities are unable to guarantee availability of berthing windows and required handling productivity to enable quick turnaround times of barges. Furthermore, the long trucking distance between KTCP and these sites on public roads adversely affects the overall efficiency and environmental footprint of the supply chain. The long waiting time and unsatisfactory service level make KTCP uncompetitive when compared with barge operations enjoying direct access to Shenzhen Ports. Additional barge berths adjacent to KTCP would make KTCP barge berthing more competitive.

3. Regional vessel delays impair KTCP planning and service activities

Bad weather conditions along the East China Coast can cause delays in vessels reaching Hong Kong. It is not just typhoons in Hong Kong that affect KTCP operations. Gale force winds or dense fog along the coast of China often delay vessels and cause a backlog of vessels that swamp KTCP facilities when weather conditions improve. The ability for KTCP to recover from these delays is vital in maintaining its regional position. With larger tonnage vessels and the mixed vessel and barge handling requirement causing delays in clearing the backlog of barge containers, additional container storage land situated adjacent to KTCP will increasingly be needed over the coming years to ensure operational efficiency is not negatively impacted when storing the backlog of containers waiting to be loaded.

4. Lack of on dock container terminal land to support the quay deck

KTCP was constructed with insufficient land relative to berth length, which at the time KTCP was constructed was commensurate with business mix and vessels sizes. However, the current international standard ratio for optimal performance is 25 ha. of container yard land for each 400 metres of berth. KTCP has been built with an average of 14 hectares of land per 400 metres of berth only with the lowest terminal allocation at a mere 11 hectares per 400 metres. This has results in congestion in the yard stacking areas even where only 60% of the quay is occupied and often reaches critical levels of congestion during peak periods when 85% of the quay is occupied. This limitation severely impacts productivity and efficiency thereby impacting the ability to maintain acceptable vessel, barge and truck turnaround times in peak periods.

5. Lack of a land allocation policy for priority use adjacent to the container terminals

Congestion in the KTCP can be alleviated by the use of container storage depots adjacent to the terminals. However, THB/Lands Department currently offers short term tenancy rentals of relatively small odd shaped depot land areas near the terminal for container storage and other multiple uses including handling cargoes, lorry parking and repairs which are not directly related to the operation of the terminals. The short tenancy periods of 3 to 5 years for container storage land do not justify the investment of tens of millions of dollars in fitting out works needed for fully optimised container storage. Larger container storage depots, connected to the KTCP and for long-term rental periods or acquisition, are needed to alleviate congestion and reduce external truck trips and the related noise and air pollution.

EFFECT OF CHALLENGES ON KWAI TSING PORT'S REGIONAL COMPETITIVENESS

Effect on: Cause of Congestion:	Ocean Vessel Berths	Storage Space	Barge Berths	Trucking
Mega vessels with lengths of 400m occupy major sections of ocean vessel quay.	<ul style="list-style-type: none"> • Uses more berth length • Less box moves per metre • Less availability for smaller vessels and barges • Migration of calls 	<ul style="list-style-type: none"> • Depends on moves per vessel call - Low = minimal - High = need for more container terminal storage land 	<ul style="list-style-type: none"> • Less barge handling at main quay • Increased barge waiting times 	<ul style="list-style-type: none"> • Internal truck servicing of vessel, delays the handling of external trucks
Container terminal storage land areas at 14 ha per 400m of berth length are 45% below the international standard of 25 ha.	<ul style="list-style-type: none"> • Limits storage capacity • Lengthens peaks • Slows operations • Increases truck turnaround time 	<ul style="list-style-type: none"> • Slows operations which creates congestion • Increases utilization and consequently marshaling • Increases truck turnaround • Lowers throughput capacity • Increases costs from rental of depot land and road trucking 	<ul style="list-style-type: none"> • Slows operations • Increases truck turnaround time 	<ul style="list-style-type: none"> • Increase truck waiting times to over 60 minutes • Expensive truck trips to depots • Creates congestion in the container yards
Barge berth shortage	<ul style="list-style-type: none"> • Limited barge overflow space • Limits barge container throughput capacity 	<ul style="list-style-type: none"> • More external truck activity • Additional gate moves 	<ul style="list-style-type: none"> • Investment needed to build barge berths at KTCP entrance with barge cranes and back up land 	<ul style="list-style-type: none"> • Slows operations • Shortage in tractor-in moving box back to port
Shipping line consortia requirements for concurrent vessel service at multiple berths	<ul style="list-style-type: none"> • Cross terminal handling • Longer internal truck trips • Less availability for smaller vessels & barges 	<ul style="list-style-type: none"> • Increase in cross terminal handling of vessels and containers increases truck congestion in storage areas 	<ul style="list-style-type: none"> • Co-ordination between barge/ vessel arrangements needs to be efficient 	<ul style="list-style-type: none"> • Improvement required to ITT to optimize use of trucks
Growth in container throughput of barge and ocean vessel transshipment	<ul style="list-style-type: none"> • No barge handling at main berths • Increased vessel overflow • More cranes per vessel 	<ul style="list-style-type: none"> • Additional land for terminal storage • Extend off dock depots storage • Increasing dwell times/ utilization 	<ul style="list-style-type: none"> • Additional barge berths required at KTCP entrance and container handling at PCWA sites on Stonecutters • Increase box consolidation per barge handled 	<ul style="list-style-type: none"> • Higher level of internal trucking • Direct moves from barge berths • Modest decline in gate moves • Matching orders for in/out gate house moves.

3. INDUSTRY-WIDE SOLUTIONS NEEDED TO ALLEVIATE CONGESTION AND IMPROVE COMPETITIVENESS OF KWAI TSING PORT

The following solutions represent the core of a set of industry-wide initiatives that will meet the need of various stakeholder groups. Consensus will be sought across key stakeholder groups by demonstrating how meeting the requirements below will improve overall industry efficiency. Solutions will be adopted in such a way that provides benefits to all key stakeholders.

1. Protecting China's Cabotage Arrangements

Cabotage developments should be closely monitored and the Hong Kong Government should reflect the implications of any proposed change of the cabotage law to the Central Government to ensure an effective balance between opening up trade and supporting the port and logistics as a key pillar industry in Hong Kong.

2. Rationalisation of port backup land

The rationalisation of Kwai Tsing Port requires a change in the land use policy currently adopted by the Lands Department and implemented by the Transport and Housing Bureau (THB). It is imperative that land and waterfront sites adjacent to KTCP be allocated and reserved, on a long-term basis, to support the further development of KTCP, including the storage of containers and barge berth facilities.

Surrounding the KTCP is over 100 hectares of "container related use" land which for the past twenty years has been rented through short-term tenancies until "long-term uses" are determined. The land is divided into irregular shaped plots of different areas which are often too small and too inefficient in shape for optimised container storage.

The reservation of specific sites totalling some 70 hectares of backup land to support KTCP was recommended by the THB's own consultancy study: Hong Kong Port Master Plan 2020. Figures 1 and 2 illustrate the short/medium and long term port requirements for the identified port backup land sites. These land parcels should be allocated for "container storage use only" to satisfy the long-term needs of the industry. The land parcels immediately adjacent to container terminals should be integrated with the container terminals to achieve synergy and increase productivity and operational efficiency. Parcels of land totalling some 35 hectares, that are not adjacent to the KTCP and not required by the KTCP operators for storage depots, should be allocated for truck parking and independent container storage facilities to ensure a fair distribution of land for the benefit of the industry as a whole.

The advantages of optimizing the usage of the backup land by integrating it with the container terminal yard areas and enlarging the remaining depot storage areas are:

- a. uplifts the annual capacity of KTCP by 3 to 4 million TEUs, equivalent to the capacity of 3 to 4 new built container berths. This is essential for the sustainable development of KTCP for at least the next decade;
- b. provides security for existing workers and increased employment for new entrants to the industry;
- c. no additional reclamation is needed;
- d. additional capacity is provided at a cost equivalent to approximately 40% of a new build facility. This is essential to compete for throughput growth in the S.E. Asia and PRD transshipment markets where many ports receive government financial incentives;
- e. provides additional capacity from connection with the existing facilities as opposed to being part of a split port;
- f. reduces truck turnaround times and trips to external storage depots and barge berths thereby increasing operational efficiency, reducing roadside pollution, minimizing road traffic and saving costs;

- g. justifies invest in more advanced handling equipment such that both empty and laden containers can be stored, which would reduce waiting times for barges and provide more efficient connections to OGVs;
- h. the environmental impact of these proposals is far more favourable than building and operating a standalone newly reclaimed 3 to 4 berth facility;
- i. provides several years breathing space to assess the trends in regional supply and demand in order to consider the need for future infrastructure requirements.

3. Provision and integration of additional dedicated barge berths

The lack of dedicated barge berths has been a long-standing issue which requires urgent attention. Due to the scarcity of waterfront facilities, the priority for use of sites adjacent to Kwai Tsing Port should be given to container operations. Non-container terminal related activities can be located elsewhere.

a. Conversion of three waterfronts to additional barge berths

The land parcels immediately adjacent to Terminal 9 South (T9S) and Terminal 8 West (T8W) have waterfront suitable for conversion to new dedicated barge berths (See the waterfront highlighted in blue, Figure 1 and 2). Two terminal operators submitted proposals in 2010/2011 to convert the waterfront sites to barge berths. However, the proposal was questioned by the Pilots Association and Marine Department in August 2012 on the issues of marine traffic and safety of operations. The concerns raised are being addressed by the operators and further information will be submitted to Government departments. Operators are committed to invest in purpose-built barge handling equipment and fender systems to enhance the work safety of barge operations. Active discussion is required across a number of Government departments to identify the right combination of solutions to meet industry and Government stakeholder needs. Another waterfront site next to Terminal 5 (CT5) is also suitable for conversion to dedicated barge berths. This site is currently used by CEDD and Highways Department through temporary government land allocations (TGLA) for the loading/unloading of materials. Policy support should be provided to allocate this land for use by KTCP as dedicated barge berths when the TGLA expire.

b. Release two STT barge berths by land sale

There are barge berth facilities currently in use at two separate sites (STT3764 and STT3781 shown in Figure 1) adjacent to the two ends of Terminal 9. These STT sites are valuable resources with direct support to container terminal operations. Since quay resources are scarce, it is important to fully utilize the potential of each waterfront to serve the KTCP and provided added efficiency and value add to the industry as a whole. Hence, dedicated barge handling equipment and fender systems should be installed to convert the quay front to international standard barge berths. It is imperative to integrate the barge berths with the KTCP on a permanent basis in order that the operators can invest substantial capital amounts in the installation of proper and highly efficient facilities for safe operations and also take measures that minimise the environmental impact.

In contrast, STT operators are forced to use derrick barges for handling containers between the cargo carrying barges and the land. This operational mode is much less efficient, less safe, less environmentally friendly and is not compatible with the operation requirements of modern container terminals. The use of modern barge handling equipment can maximise the utilisation of the limited waterfront, enhance work safety and also reduce exhaust emissions. This type of equipment is powered by electricity which does not add to the air pollution around KTCP and reduces overall emissions of the current operating mode by around 50%.

4. Conversion of excess parking and queuing spaces within terminals to container stacks

There has been an increase in the volume of containers delivered to KTCP by barges and a reduction in those delivered by trucks. This has resulted in a significant reduction in the volume of external vehicle trips to KTCP. The trend is expected to continue in the future. The parking and queuing spaces at the

in-gates of KTCP are constantly underutilized which is a waste of valuable land resources. To fully utilise the land within KTCP there is a need to re-assess the statutory requirements for parking and queuing spaces in different terminals with consideration of the latest vehicle trip trends so that the underutilised parking and queuing spaces can be released for container storage.

CT7 & CT8 Expansion



CT9 (South) Expansion



CT8W Expansion



4. PROPOSED KWAI TSING PORT PROJECT DEVELOPMENT PROGRAMME 2013 TO 2023

The KTCP operators are committed to undertaking a ten year project to develop additional container storage facilities and barge berths using land and waterfront immediately adjacent to Kwai Tsing Port (KTCP). These project initiatives are needed in order to relieve growing port congestion and increase container handling throughput capacity, thereby maintaining KTCP's regional competitiveness.

The scope of the project is to implement enhancements that will provide integrated container terminal storage yard extensions and additional off dock depots as well as dedicated barge handling facilities directly connected to the KTCP facilities. Figures 1 and 2 show plans of the individual land areas and waterfront sites needed to achieve these objectives.

Figure 1 shows the developments required in the short to medium term (up to 10 years):

- The land areas to be incorporated immediately into the container terminal storage areas and those used in the short term as off dock container storage areas;
- In the short to medium term, the land tenure is proposed to be short term tenancy rental for a period of ten years with options for an additional ten year rentals and lease purchase. The tenure is required to justify substantial invest in quality surfacing, security, cranes and other equipment;
- Ten new dedicated barge berths to be developed on two vacant waterfront sites and integrated with the adjacent CT8W and CT9S berth facilities and the site used by CEDD for construction material transfer near CT5 ;
- The existing barge berth sites of STT 3764 and STT 3781 to be equipped with modern barge cranes and integrated with CT9S and CT9N respectively;
- The waterfront sites for barge handling are proposed to be purchased as the operators need to commit substantial investment to build the berth platform structures and back up areas, and purchase purpose-built barge cranes.

Figure 2 shows the long term (over 10 years) requirements of additional rationalisation of container terminal areas.

- Given continued modest growth in container throughput it is expected that additional long term measures will be needed to be operational within years 2020 to 2023;
- The map shows realignment of four road sections in order to integrate adjacent land (previously depot land) into the container terminals as storage yard areas. The four container terminals involved are CT5, CT9S, CT7, CT8E and CT8W;
- Additional barge handling facilities may well be required to handle larger-scale barges. A section of the current PCWA berth length will be required to accommodate growth in PRD barge handling with direct access to CT8W;
- Further inter-container terminal facility sharing programmes will be needed to maintain efficiency of operations to service the requirements of shipping line consortia members.

Timeline

The estimated timing of the development and construction works is:

Short/ medium term

Land allocation and development	2013-2023
---------------------------------	-----------

Barge berth development adjacent to CT8W,CT9S and CT5	2013-2023
---	-----------

Long term

Land allocation and development	After 2023
---------------------------------	------------

Additional barge berth facilities	After 2023
-----------------------------------	------------

Accommodation of the land needs of current users on the existing short term tenancy land sites will be incorporated into the overall plan to ensure an industry wide solution that delivers the best results in boosting Hong Kong port's competitiveness.

The details are to be formulated after consultation with all existing users.

Figure 1: Kwai Tsing Port Developments Required in the Short to Medium Term (up to 10 years)

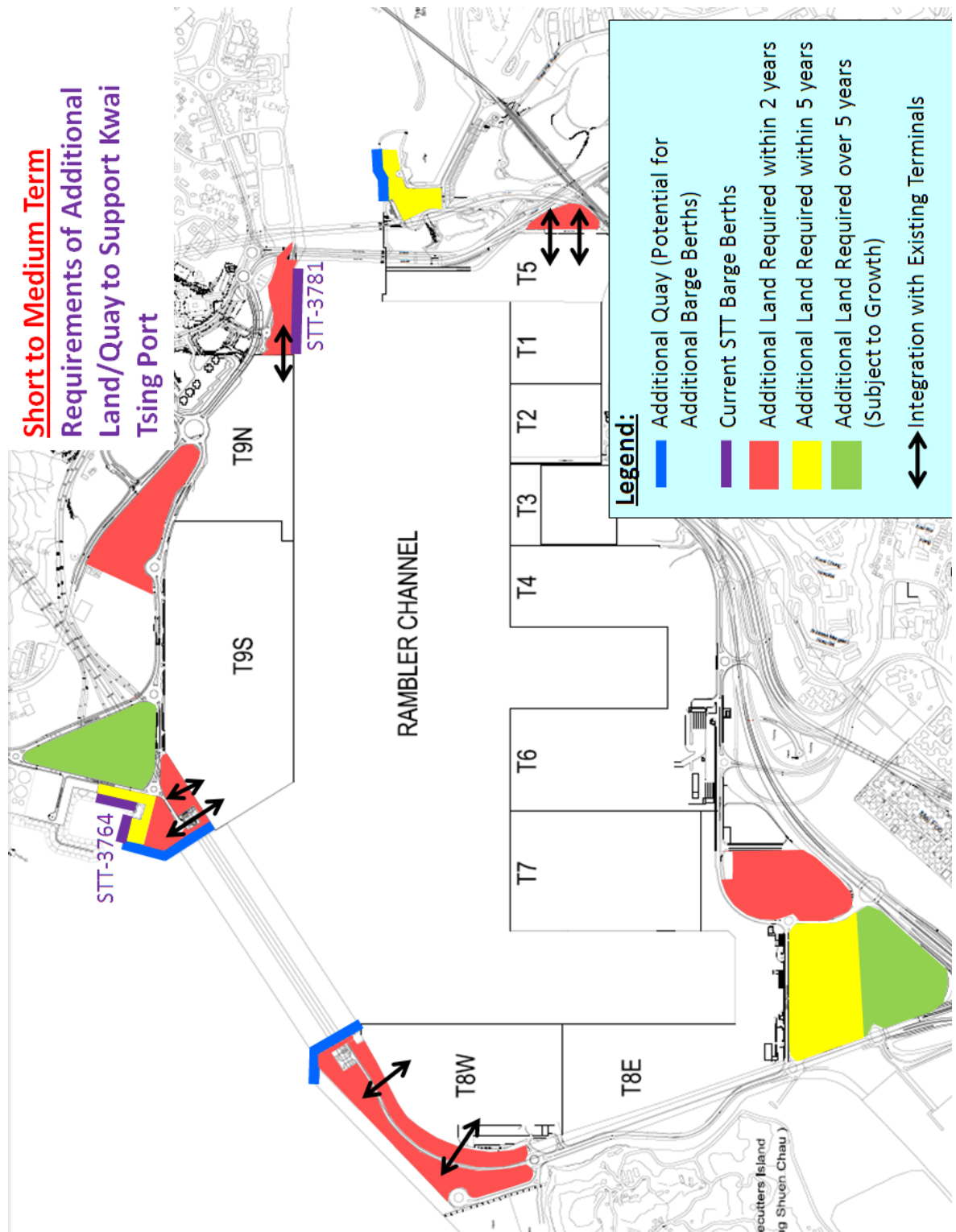
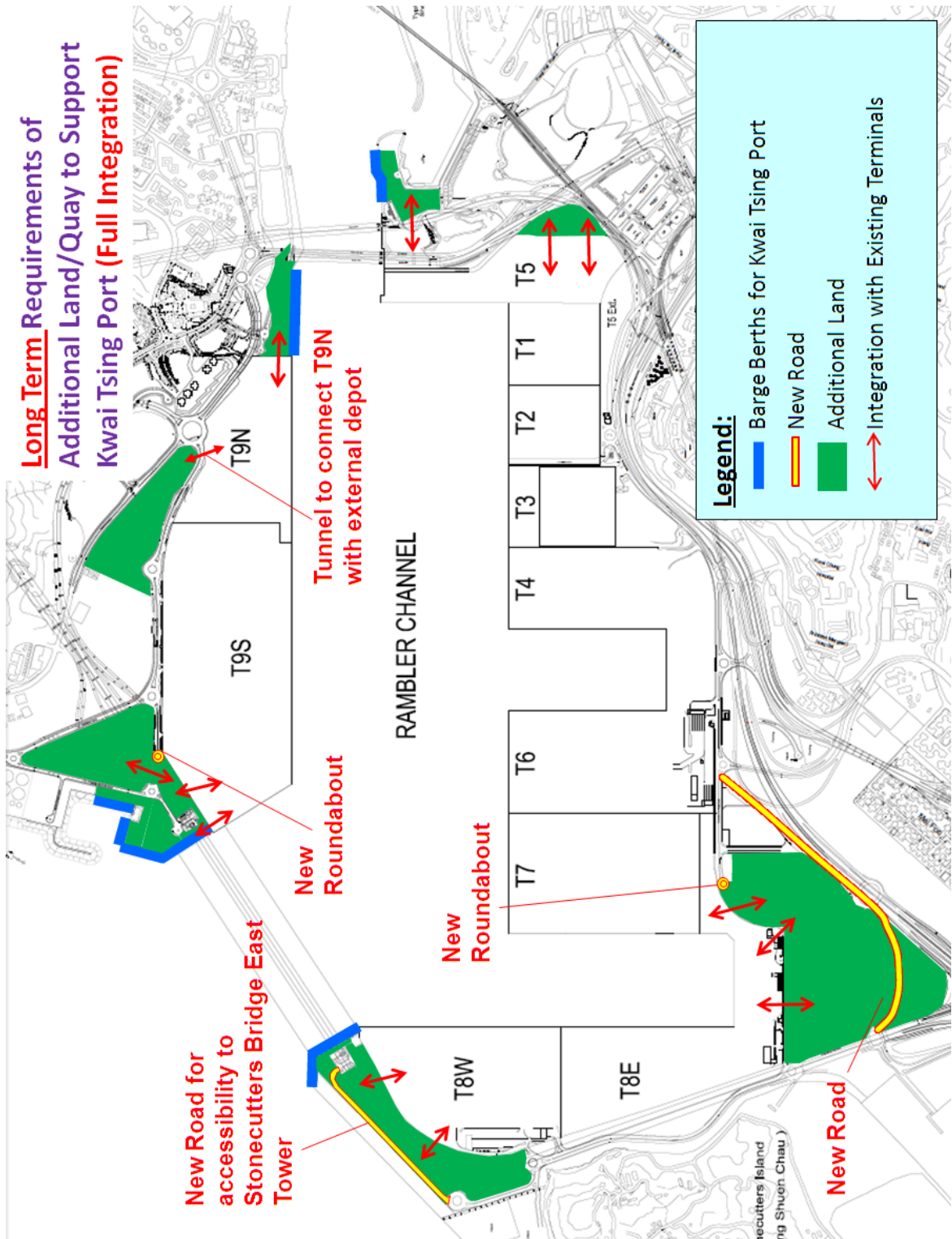


Figure 2: Kwai Tsing Port Long Term Developments (over 10 years)



5. SUMMARY CONCLUSION

Resolving the issues of congestion, regulatory inefficiency and regional competition (such as the new Shanghai Free Trade Zone and its cabotage changes) require industry-wide solutions and the support of many departments within the Government. Cabotage developments should also be closely monitored and the Hong Kong Government should clearly articulate the impact on HK Port of changes in the cabotage law to the Central Government.

A detailed set of industry-wide solutions has been developed with a specific timeline for action. By executing this plan the competitiveness of the KTCP will be protected and benefits will accrue to all the sub-sectors within the port and logistics industry. A detailed breakdown of the benefits for each stakeholder can be seen in the table below.

Acting on these industry-wide solutions will be required to maintain a vibrant port and logistics community, protection of stable long-term jobs, provide a range of employment opportunities for new entrants to the labour market, a continuing contribution to improving social mobility and the lives of those people who work in Hong Kong's trade and logistics sectors. This will in turn continue to provide a major source of value add to the Hong Kong economy and provide opportunities for more general upward mobility across the working population.

Table 1: Benefits of Solutions to Each Industry Stakeholder

Solution: Stakeholder:	Rationalisation of Backup Land	Dedicated Barge Berths	Conversion of In-terminal Parking Areas to Storage Use
Port Operators and Port Competitiveness	<ul style="list-style-type: none"> • Increased storage capacity to handle rapidly increasing transshipment business • Improved productivity and efficiency of operations due to less densely stacked yards 	<ul style="list-style-type: none"> • Increased berth capacity to handle rapidly increasing barge traffic • Improved productivity as main quays can focus on increasingly large vessels 	<ul style="list-style-type: none"> • Increased storage capacity and improved productivity • Immediately increases on-terminal storage capacity to support quayside operations
Shipping Lines	<ul style="list-style-type: none"> • Improved productivity will reduce vessel waiting and turnaround times thereby lowering shipping lines costs and increase KTCP's regional competitiveness 	<ul style="list-style-type: none"> • Significant improvement on quay availability and connection service levels • Significant cost savings for shipping lines from reduced vessel waiting times • Ability to expand business with mega vessels due to increased berth availability 	<ul style="list-style-type: none"> • Overall productivity improvement will help to reduce vessel turnaround times

Solution: Stakeholder:	Rationalisation of Backup Land	Dedicated Barge Berths	Conversion of In-terminal Parking Areas to Storage
Barge operators	<ul style="list-style-type: none"> Improved productivity will reduce waiting and turnaround times thereby reducing costs for barge operators 	<ul style="list-style-type: none"> Significant reduction in berth waiting times and improvement to barge schedule reliability Allows arrangements to handle barges with different moves per call equitably 	<ul style="list-style-type: none"> No impact
Trucking operators	<ul style="list-style-type: none"> Improved productivity will reduce waiting and turnaround times thereby reducing costs for truckers Parking requirements can be addressed by land not required for KTCP container storage and operations 	<ul style="list-style-type: none"> Overall productivity improvement will improve truck turnaround times thereby reducing costs Growing business from shipping lines supports growth in trucking requirements 	<ul style="list-style-type: none"> No negative impact on traffic as the parking spaces are now under-utilize Overall productivity improvement will reduce truck turnaround times thereby reducing costs
Logistics providers	<ul style="list-style-type: none"> Sufficient warehousing already available in Kwai Tsing for port related activity Land required for additional logistics development is available in Tuen Mun and other areas closer to the boundary 	<ul style="list-style-type: none"> Better ability to provide 'hot box' connections due to barge schedule reliability improvement 	<ul style="list-style-type: none"> No impact
Third party depot operators - Lorry parking - Container storage	<ul style="list-style-type: none"> Certainty of operation through longer leases on specific sites (35ha) not required by rationalization of KTCP land. 	<ul style="list-style-type: none"> No impact 	<ul style="list-style-type: none"> No impact
PCWA operator at Stonecutters	<ul style="list-style-type: none"> Direct access to KTCP Increase utilization of PCWA berths from 24 hour operations 	<ul style="list-style-type: none"> Little impact on PCWAs as dedicated barge berths service ocean vessels at KTCP 	<ul style="list-style-type: none"> No impact

6. APPENDIX A: SUPPORTING THE EMPLOYMENT PROVIDED BY THE PORT AND LOGISTICS INDUSTRY

Port Jobs Benefiting Hong Kong

The Hong Kong Port has offered significant employment opportunities for a mix of professional, skilled and technical (or “grey and white-collar”, or “lower middle class”) jobs. There are good prospects for entrants and employees to develop their careers, support their families, and advance up the social ladder, including:

1. Significant employment: Currently, the port has 8,000 direct employees, supporting another 32,000 indirect jobs. These jobs are integral to the trading and logistics sector, the largest of the traditional four key industries in Hong Kong.
2. Ample mix of job choice for entrants: Direct and indirect port and logistics jobs range from unskilled to skilled workers, technicians, administrators, professionals and executives. This wide mix of job choices for entrants with different educational backgrounds and skill levels provides for a stable platform on which to build a career.
3. Decent working environment: Port staff work in a decent environment. Employees’ safety and health are the top priority. Environmental initiatives have improved air quality and reduced emissions within and around the port. The port offers stable, permanent, continuous employment. Turnover is relatively low. Port management has also made efforts to maintain transparent and interactive communication with employees.
4. Good career advancement opportunities: A typical employee works in the port for many years. There are opportunities for them to advance and take up frontline, supervisory and then management responsibilities as part of an organised career path. The knowledge, skills and experience that are accumulated within the industry also enable individuals to consider developing their career in the wider trading industry. This stability, career progression and experience building allows for the upskilling of the workforce and the movement of people up the social ladder to higher value sectors. This also enables them to make long-term plans such as buying property, starting families, providing for children’s higher education and planning for retirement.

Together, port and logistics jobs represent a unique and significant work community for Hong Kong. If the port trade withers, many of these jobs and the benefits created over many years will be lost.

Social Repercussions Stressing the Community

Hong Kong is currently suffering from long-term social stagnation. Reduced social mobility, lower economic growth, a lack of youth employment opportunities, working poverty etc., have embedded Hong Kong with deep-rooted social conflicts. These are widely recognized by academics, analysts, the Hong Kong Government, as well as the Central People’s Government. Fluctuating economic uncertainties over the last decade have accentuated the problem further. Social conflicts also nurture political radicalism, disrupting Hong Kong’s social cohesion and alignment. Losing a significant number of jobs in the port and logistics industry will stress our community further.

1. Perceived worsening of social mobility: Hong Kong’s social mobility issue has become more prevalent in society. A recent survey has shown that over 60% of respondents consider that current social mobility levels are worse than ten years ago. Port and logistics jobs occupy a sizeable middle section of the employment ladder. If they disappear displaced workers will be prevented from upgraded to higher value sectors. Instead, they will need to find lower-pay jobs that do not recognise the knowledge and skills that have been developed within the port. This will subject them to downward social mobility, and create negative impacts on society.
2. High youth unemployment: Hong Kong’s youth unemployment rate was 11.6% in Q3 2012, marginally down on the latest high of 15.2% in Q3 2009. The port trade offers steady employment and career advancement opportunities, as well as a decent working environment for aspiring youths. In fact, the trade is keen to attract new blood. However, if these jobs are forsaken then youths will have fewer employment choices, thus exacerbating their plight.

3. Growing social tension: Hong Kong's social tension is growing because of the interplay of various social, economic and political factors. From 2005 to 2010, Hong Kong's GDP growth was 26%, but the derived benefits have not been evenly distributed. In fact, Hong Kong's Gini coefficient, a measure of income inequality, rose to 0.537 in 2011 from 0.535 in 2001. Some academics and analysts have expressed concern that Hong Kong may become more polarized. Even without another economic crisis, this added tension will strain social cohesion and alignment further. This rising inequality has bred strong social discontent and political radicalism. Naturally ongoing major job losses will exacerbate this social tension. The loss of jobs in an important lower segment of the labour force would be very visible to the wider community and would be widely reported in the popular press.

Protecting Jobs and Developing Employment Opportunities to Improve Social Mobility

The ports and logistics sector is investing heavily in hardware, training and other resources to support the efficient operation of supply chains. Employees within the industry are benefiting from these additional skill sets and moving into more technical and value adding roles.

Resolving the issues of congestion, regulatory inefficiency and regional competition (such as the new Shanghai Free Trade Zone and its cabotage changes) require industry-wide solutions and the support of many departments within the Government.

These industry-wide solutions will be required to ensure a vibrant logistics community, protection of stable long-term jobs, wider employment opportunities for new entrants, a continuing contribution to improving social mobility and the lives of those people who work to drive Hong Kong's trade and logistics sectors. This will in turn continue to provide a major source of value add to the Hong Kong economy and allow for more general upward mobility across the working population.

7. APPENDIX B: THE IMPACT OF CABOTAGE LAWS ON HONG KONG PORT

1. Cabotage Definition

Cabotage is the transport of goods or passengers between two points in the same country by a mode of transport registered in another country. Originally a shipping term, cabotage now also covers aviation, railways, and road transport. Cabotage is "trade or navigation in coastal waters, or, the exclusive right of a country to operate the air traffic within its territory".

Cabotage is used in the context of "cabotage rights", the right of a company from one country to trade in another country. In aviation terms, it is the right to operate within the domestic borders of another country. Over forty countries and the EU enact cabotage laws for reasons of economic protectionism, national security or public safety.

Cabotage provisions in the US, as an example, are covered in the Merchant Marine Act of 1920¹ (P.L. 66-261), also known as the Jones Act after the Senator who originally proposed it, restrict the carriage of goods or passengers between United States ports to U.S.-built and flagged vessels. Generally, the Jones Act prohibits any foreign built or foreign flagged vessel from engaging in coastwise trade within the United States.

Supporters of the Shipping Act maintain that the legislation is of strategic economic and wartime interest to the United States. The Act, they say, protects the nation's sealift capability and its ability to produce commercial ships. In addition, the Act is seen as a vital factor in helping maintain a viable workforce of trained merchant mariners for commerce and national emergencies. Proponents also argue that without the Jones Act, all remaining US shipyards would close down and the work outsourced overseas resulting in the destruction of the US Maritime industry.

One notable variation to the generally accepted and applied cabotage provisions is the European Union, whose members all grant cabotage rights to each other. This supports economic integration across the EU but is established as the multi-lateral exchange of cabotage rights, not an elimination of the cabotage system.²

2. Cabotage Law in China

In China, the issue of cabotage is addressed by the Maritime Code of the People's Republic of China³, which entered into force on 1st July 1993. Article 4 of the Code states that:

"Maritime transport and towage services between the ports of the People's Republic of China shall be undertaken by ships flying the national flag of the People's Republic of China, except as otherwise provided for by laws or administrative rules and regulations. No foreign ships may engage in the maritime transport or towage services between the ports of the People's Republic of China unless permitted by the competent authorities of transport and communications under the State Council. "

The Regulation on Waterway Transport Administration of the People's Republic of China, which entered into force on 1st October 1987, further stipulates that wholly foreign invested enterprises and Sino-foreign joint-ventures cannot undertake the coastal and inland waterway transport in China without the permission from the competent authority.

The application of cabotage provisions in China is in effect similar to those of the US and EU for foreign shipping lines.

¹ http://www.upa.pdx.edu/IMS/currentprojects/TAHv3/Content/PDFs/Jones_Act_1920.pdf

² http://europa.eu/legislation_summaries/internal_market/single_market_services/l24065_en.htm

³ <http://www.lawinfochina.com/display.aspx?lib=law&id=191&CGid=>

3. Impact of Cabotage Laws on Hong Kong Port

Under the principle of "one country, two systems", Hong Kong has a unique advantage as cabotage cargo, originating from a port in the mainland, is allowed to be carried by a foreign owned vessel to Hong Kong to be transhipped to a hub port in China for export. For this purpose only, Hong Kong is permitted to be considered as a "foreign port" and not subject to China's national cabotage rules. The same allowance is made for containers imported to the mainland through Hong Kong port.

This is important for Hong Kong because out of the 24 million 20-foot containers moved through Hong Kong port last year, 60 per cent were classified as transshipment throughput. Of that, a little over half was intra-Asia, including cabotage cargoes which are handled in mainland ports. Hong Kong Port retains a high degree of network connectivity, free port status and high levels of productivity and efficiency, which all contribute to its competitive positioning in the transshipment business.

Relaxation of cabotage restrictions would greatly erode Hong Kong Port's competitive position by reducing significantly the critical mass of vessel calls in Hong Kong. As long as China does not give up this sovereignty right and maintains the cabotage rules on foreign owned vessels in order to protect the Chinese shipping line fleet, then Hong Kong will maintain its competitive position for transshipment / cabotage business which in turn adds to the overall competitive position for Hong Kong port for import and export cargo to and from South China.

4. Relaxation of the China Cabotage Law

Coastal ports such as Shanghai, Qingdao and Ningbo have been lobbying hard for relaxation of the cabotage for foreign vessels. However the Ministry of Transport (MOT) has been taking a firm stance on maintaining the restriction both on political and economic grounds. In its view a relaxation would jeopardize the domestic shipping business upon which the local economies dependent.

Shipping lines stated in mid-2012 that Qingdao port was working with Qingdao customs to try and 'legalise' domestic shipping by foreign shipping lines. Such a change would have a significant impact not only on the business of the Chinese shipping lines but also the transshipment business in Hong Kong.

On 13th October 2012 the State Council has issued the "Domestic Water Transportation Regulations of China", signed by Premier Wen, where Article 11 reiterated that "it is prohibited for foreign enterprises, economic organizations or individuals to engage in cabotage businesses or operate chartered vessels or slots of Chinese nationality for cabotage business". This confirmation of existing laws became effective on 1st Jan 2013 and the China Shipping Association is responsible for policing and follow-up.

Despite this confirmation there is still evidence, according to reports from shipping lines, that some China ports (e.g. Shenzhen, Qingdao) encourage foreign shipping lines to continue with cabotage business through paperwork changes in consort with local Customs officials and the use of steaming through Hong Kong waters as a foreign 'touchpoint' that is said to satisfy cabotage restrictions. MOT has been working with Customs offices to collect data to prove these cases and take action against related foreign shipping lines.

The implementation of the national China Customs Advance Manifest (CCAM) regulations⁴ and supporting IT system provide greater transparency to cabotage activity, as there is no national integrated system currently, but despite a prolonged pilot phase, which includes Da Chan Bay as a pilot terminal, some cabotage business by foreign shipping lines continues.

There is one official exemption to the cabotage law in China, in the new Shanghai Free Trade Pilot Area (FTPA). The State Council approved the FTPA on 3rd July 2013 and it was declared open on 29th September. The associated regulations stated that China owned but foreign flagged vessels will now be allowed to transport goods between the FTPA and other China ports. A majority of the China fleet is

⁴ http://my.maerskline.com/link/?page=lhp&path=/asia/china/customs_regulations/CCAM

foreign flagged because this registration status is required to secure the financing necessary to build the vessels. This represents a significant increase in capacity on domestic trades and will greatly impact current domestic competition.

There is still no clarity to the detailed requirements, operational processes and future developments of the FTPA regulations as they relate to cabotage business but depending on the implementation approach there could be a significant impact on the transshipment market in North Asia, thereby reducing Hong Kong's competitive advantage on over 30% of current throughput. This would be a significant change to the market dynamics and shipping lines would definitely downgrade the importance and use of Hong Kong in reviewing their network allocation. The potential loss of throughput in Hong Kong could be higher than the throughput directly related to the cabotage law. This would undermine Hong Kong's ability to remain as a transshipment hub.

Developments should be closely monitored by the industry and the Hong Kong Government should raise the implications of relaxation of the cabotage law with the Central Government to ensure that the interests of the China fleet and the Hong Kong port and logistics industry are protected.

8. APPENDIX C: DETAIL ON SHORT TERM TENANCIES IN KWAI TSING AREA

Permitted Usage of STT Land in Kwai Tsing Area:

Legend	Usage	Area (ha.)	%	Remarks
	Container Storage	73.133	54.2	Mixed with other permitted usages like carpark and/or cargo consolidation.
	Car Park	31.573	23.4	For parking of mixed types of vehicles. Other usages like cargo consolidation are also allowed in some STT land.
	Vacant	13.7	10.2	
	Other Use	16.472	12.2	
	Total	134.878	100	

