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PLVAC Paper No. 5/2005

PROVISIONAL LOCAL VESSELS ADVISORY COMMITTE

Measures to Enhance the Competitiveness of Hong Kong Port and the Maritime Industry

Purpose

In response to increasing competition from neighbouring ports, and concerns expressed by industry stakeholders such as Hong Kong Shipowners Association, mid-stream operators, shipping lines, the Administration has looked at ways to help the port and maritime industries. This paper seeks Members' views on the proposed measures to enhance the competitiveness of Hong Kong port (HKP) and to attract more cargo shipment to Hong Kong from the Mainland.

Proposal

Attracting more river trade cargo to Hong Kong by lowering the permit fee for River Trade Vessels (RTVs)

2. There are about 117,500 RTVs visiting Hong Kong and bringing about 3.5 million TEUs to and about 3 million TEUs out of Hong Kong last year. They handled a total of about 6.5 million TEU or 29.6% of the total container throughput in 2004. About 50% of the RTVs come to Hong Kong five times or more each month. On average, a RTV visits Hong Kong six times each month. A RTV needs to apply for a permit and pay an average of about $1,200 to enter Hong Kong water for loading/unloading cargoes for every visit.

3. To further enhance the efficiency and attractiveness of river trade cargoes to HKP by RTVs, we propose streamlining the application procedure and lowering the permit cost by introducing a multiple entry permit.

4. The proposed multiple entry permit allows RTVs a maximum of ten visits to Hong Kong within a calendar month with a maximum stay of two days per visit. There must be an interval of at least 24 hours between each visit. The multiple entry permit fee would be pitched at the cost for five single entry permits so that the RTVs would have greater incentive to call Hong Kong more frequently and hence ship more cargoes to Hong Kong by maximizing the use of the multiple entry permit.

5. There are established mechanisms for monitoring the entry to and operation of RTV in Hong Kong. RTVs are required to seek port entry clearance every time they enter/leave Hong Kong waters. Even with the multiple entry permit arrangement, the entry and exit of RTVs would be closely monitored under the port entry clearance mechanism. The monitoring could be further strengthened by using the global positioning system which RTVs would be required to install under the Mainland regulations.

6. Based on MD statistics, about 50% of RTVs visit HK five or more times each month. They would benefit from the new multiple entry permit.

Reduction in ports facilities and light Dues and Licence fees for local vessels (LVs)

7. To enhance our port competitiveness, we propose to reduce the port facilities and light dues for ocean going vessels by about 5% from $57 per 100 tons to $54 per 100 tons. An OGV of 6,500 tons will save about $200 for each visit. We also propose to reduce the licence fees for LVs when the revised charging basis under the Merchant Shipping (Local Vessels) Ordinance is implemented. All the 13,820 LVs would benefit from the proposal.

New Anchorage Area

8. To expand the mid-stream cargo handling capacity of our port, we proposed to establish new anchorages at various locations of Hong Kong waters as suggested by the industry. Currently, there is a lack of anchorage area in the waters north of Lantau, vessels carrying cargo for this part of waters have to discharge their cargo at anchorages in the harbour and shift the cargo to this area by sea via Ma Wan Fairway or land transport. We propose to establish two anchorages near the Brothers islands to cater for the demand.

9. In addition, three new anchorages are proposed to be established at the Kellett Bank with a view to optimizing the use of the water space following the removal of the government moorings in 2004. We have consulted the Pilotage Advisory Committee, the Port Operation Committee and industry stakeholders and they supported the proposal. Subject to Members agreement, amendments to the Seventh Schedule to the Shipping and Port Control Regulations would be made to implement this proposal.

10. To facilitate liner shipping operators planning their shipment, Marine Department would also be flexible and prepared to designate new anchorage area subject to navigational safety to meet the need of shipping lines and their calling schedule.

Lowering the anchorage charges for ocean going vessels calling Hong Kong

11. With the development of mega container vessels, hub port operation becomes important with the mega container vessels calling at fewer ports with fewer frequencies. To strengthen HKP's attractiveness as a hub port, we need to encourage more shipment from other Asian countries. To attract more OGVs calling at Hong Kong, particularly Intra-Asia vessels with transhipment, we propose lowering the anchorage due paid by liner shipping companies. This would reduce the cost of intra-Asia vessels calling Hong Kong for direct / transhipment cargo and would help the mid-stream industry.

12. Currently we charge daily anchorage dues of HK$69 and HK$47 per 100 tons per day for waters within and outside the harbour limits respectively with the first day free and a cut-off time by mid-night. We propose charging the OGVs on an hourly basis counting from the time of their arrival but with a free period for the first 12 hours and at a tonnage charge of $0.02 ($2 per 100 tons) and $0.015 ($1.5 per 100 tons) per subsequent hours for waters within and outside the harbour limits respectively. This proposal would encourage quicker turn-around to alleviate the congestion at the Hong Kong harbour and encourage more frequent calls by intra-Asia vessels at Hong Kong. We estimate that for an average sized OGV of about 6,500 tonnes anchored in Hong Kong for two days, the saving would be about $1,500 per trip at the inner harbour with the reduced fee at about $4,600.

<u>Hong Kong Shipping Register (HKSR)</u>

13. The Hong Kong Ship Register achieves a healthy growth with a total gross tonnage of about 28 million as at May 2005. We however note that there are a lot of changes in shipping registration each year. Starting with a total registration of 879 ships with a gross tonnage of 20.6 million at the beginning of 2004, there were 205 ships with a gross tonnage of 6.3 million de-registered from the HKSR and 335 new ships with a gross tonnage of 11.2 million registered under HKSR at the end of the year. To encourage a long term and stable registration under HKSR, and to promote the HKSR as a quality register, we suggest giving a six-month fee waiver to HKSR ships for continuous registration for every two years provided that the registered ships have no record of detention and that the shipowners provide for the option of Hong Kong as the place for arbitration in their standard chartering agreement. This approach would have the added advantage of promoting our quality maritime services in shipping arbitration.

14. We have considered the option of a simple reduction in registration fee but there are worries that this would create the misconception of the HKSR as a flag of convenience competing on price alone. To drastically lower the annual tonnage charges for the Hong Kong registered ships may arouse international suspicion of Hong Kong and lead to down grading of the reputation of the Hong Kong registered ships. This would turn away bona fide shipowners using Hong Kong as their place of registration. This option is therefore not recommended.

<u>Financial Implications</u>

15. The proposed measures are estimated to cause a revenue loss of $60.9 million per annum. As identified in the study on Hong Kong Port - Master Plan 2020 commissioned by the Government, every tonne of direct containerised cargo using HKP services will generate an economic benefit of $193 and every tonne of containerised transhipment cargo $135. Assuming a RTV visits Hong Kong one more time extra each month carrying a few containers, the economic benefit will outweigh the total cost for the multiple entry permit. In view of the foregoing, the proposed multiple entry permit is fully justified in the overall interest of Hong Kong. Moreover, we believe that RTVs previously visiting Hong Kong three to four times a month would likely apply for a multiple entry permit, and this would further increase

the volume of cargo to Hong Kong. A lot of administrative work can also be saved both on the industry and government sides.

Implementation

16. The proposals above, if agreed, would be implemented through the draft fee regulation under the Merchant Shipping (Local Vessel) Ordinance and other relevant existing legislations on OGVs. We need to consult the LegCo Economic Services Panel in July and subject to the agreement of the Panel, to table the draft fee regulation and amendment regulations at LegCo in October/November for negative vetting with commencement at the end this year/early next year.

Advice Sought

17. We seek Members' support for the above proposed measures.

Marine Department
July 2005