

THINKING OUTSIDE OF THE BOX

Far from being in terminal decline, the opportunities for Hong Kong as a transshipment and maritime hub are limitless, says Modern Terminals' Peter J Levesque. All it takes is a change of mindset



In the world of shipping, big is beautiful. So Hong Kong has enjoyed something of a beauty pageant in recent weeks, with the mega vessels OOCL Hong Kong and Cosco Shipping's Galaxy both making their maiden calls to the city.

For Modern Terminals Group Managing Director Peter J Levesque, the port calls were an emphatic symbol of Hong Kong's future prospects as a global transshipment and logistics hub. They were also an opportunity to showcase the newly rationalized cargo handling facilities of the four Kwai Tsing terminal operators that have grouped their operations under the Hong Kong Seaport Alliance (HKSPA).

"The four parties to the Seaport Alliance will no longer compete against each other in Hong Kong. Instead, we're joining together so that Hong Kong can compete with the other big transshipment ports in the region," said Levesque. "The alliance is not a loose-handshake agreement. It's a contractual joint venture. We share revenue, we share costs and we share profit. And when you share profit, by definition you don't compete."

Formed in January this year, HKSPA's members have completed their berth and yard-planning strategies to improve the level of services they provide customers, squeezing out extra cost savings by eliminating unnecessary inter-terminal trucking.



AmCham President Tara Joseph pictured on a recent tour of MTL's facilities at Kwai Tsing.

Already, inter-terminal trucking has been reduced by 34 percent. The members' 23 berths are divided into three terminal zones to provide greater efficiency to shipping alliances and individual carriers. That means the HKSPA can accommodate up to eight mega vessels of similar size to OOCL Hong Kong simultaneously.

But while big may be beautiful, it is also a symptom of the long-term decline in Hong Kong's port business that the alliance seeks to reverse.

Just two months after Orient Overseas (International) Ltd took delivery of what was then the world's largest container ship in May 2017, Hong Kong's leading shipping line was snapped up in a US\$6.3 billion takeover by China's state-owned Cosco Shipping Holdings. As of January last year, the top 15 container lines accounted for just over 70 percent of global container ship capacity, according to United Nations Conference on Trade and Development data. Six

When OOIL Chairman Tung Chee-hwa stepped down from the firm his father founded to be Hong Kong's first post-colonial leader in 1997, more than 90 percent of southern China's overseas shipments went via Hong Kong. The city would soon oust Singapore as the world's busiest container port.

But signs of the coming decline were clear: in Tung's first five years as Hong Kong chief executive, container traffic grew by an annual average of 5.6 percent; in Shenzhen, that figure was 46 percent. By the time Tung stepped down in 2005, Singapore was back on top and Hong Kong had begun its slide to the seventh place it holds today. Shanghai now leads a world top 10 that includes five other Mainland Chinese terminals. Mainland ports are cheaper, closer to factories and have largely closed infrastructure and knowhow gaps that had compensated for Hong Kong's higher costs.

After peaking in 2008 at 24.5 million twenty-foot

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months later, the top 10 controlled about the same share, the data show.

"Our customers consolidated from 20 major carriers down to 12, and the major East-West global alliances consolidated from four down to three," Levesque said.

As customers and their alliances turned into giants, so too did their ships: OOCL Hong Kong was the first to break through the 21,000-TEU mark. There are now around a dozen, led by the 23,756-TEU MSC Gulsun.

OOIL's demise marked a final twist for a company whose fortunes have closely mirrored those of Hong Kong itself. The unique combination of deep, natural harbor on China's doorstep and rule of law enabled the city to ride the explosion of trade that followed Beijing's market-opening reforms. In 1970, trade accounted for about 5 percent of China's gross domestic product; it is about 40 percent today.

equivalent units, or TEU, Hong Kong last year handled 19.6 million. And in the first three months of this year, volumes fell 9.5 percent year-on-year to 4.42 million TEU, government data show.

"The Hong Kong port had been so successful for so long that it really took quite a bit of courage for the four major terminal operators to get together and say that, for the future of the Hong Kong port, we really need to do things differently," Levesque said.

None of which dents his enduring optimism.

"There are about 700 ports in the world, and 690 would like to be in the top 10," he said. "The opportunity for the Hong Kong port is limitless. I don't think it's an infrastructure issue. I think it's a mindset."

By refocusing on the holistic picture of what Hong Kong has to offer, the HKSPA reckons it can win back about two million TEUs in trade. It will do that by targeting leading regional rivals in the

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transshipment segment of the market, rather than through internecine competition between Greater Bay Area ports. Such a strategy neatly dovetails with Beijing's strategic development plan for the GBA – comprising nine Mainland Chinese cities and the Special Administrative Regions of Hong Kong and Macau.

First, there had to be a top-to-bottom realignment of Hong Kong's port business model.

There are three key segments of business for the container port in Hong Kong, he explained. Hong Kong was primarily designed to handle “gate” trade, in which containers are trucked from factories in southern China and shipped out to international markets. As China's port infrastructure grew, more and more of that business left Hong Kong.

“Instead of trucks coming down from China we now have a lot of barges,” Levesque said. “The port was not designed for massive barge traffic, and it was never really intended to be a transshipment hub.

“You only handle the box once in gate shipment. In a transshipment you can handle the same box two or three times, but you only get paid once,” he said. “We need a cost structure that supports this kind of operation.”

A ship typically holds containers for several shipping lines. Prior to the HKSPA, many of these boxes would need to be trucked between terminals for onward shipment.

Rationalizing port visits is expected to result in about 275,000 fewer transfers of containers between terminals. The alliance also estimates that improved port efficiency will save vessels more than 1,000 hours a year – which translates into 37,000 tons less marine fuel consumed. Together, these savings would reduce CO2 emissions by more than 130,000 tons.

Joint operations will also mean less pressure to find more land.

“We are trying to get more land to increase our competitiveness,” Levesque said. “The HKSPA should help us be more efficient with the land that we have.”

Another major benefit from the new arrangement is that each terminal is sharing its best practice: “It will bring bring all four terminals up to the highest standards,” he added.

Gauging the success of the alliance is complicated by the ongoing trade tensions between the US and



China, and headwinds from the global economy. China's industrial output grew 4.8 percent in July, its slowest pace since February 2002. At the same time, Germany's economy contracted in the second quarter, while yields on long-term US and UK debt both dropped below those of short-term bonds – an indicator of possible recession.

Meantime, Hong Kong remains the world's busiest air-cargo hub – reflecting the growing share of ever smaller, lighter components in the mix of global trade. But rather than a zero-sum game in which maritime's loss is aviation's gain, the sum of the whole far exceeds the value of the parts.

"If you're a global logistics company, you need a world-class airport and you need a world-class seaport, because 80 percent of cargo moves by sea. So you need both air and ocean infrastructure to be a logistics hub," Levesque said. "We're way ahead in Hong Kong because we have a world-class airport, we have a world-class seaport, we have other world-class infrastructure, and when you combine this with our freeport status, rule of law, transparency, and

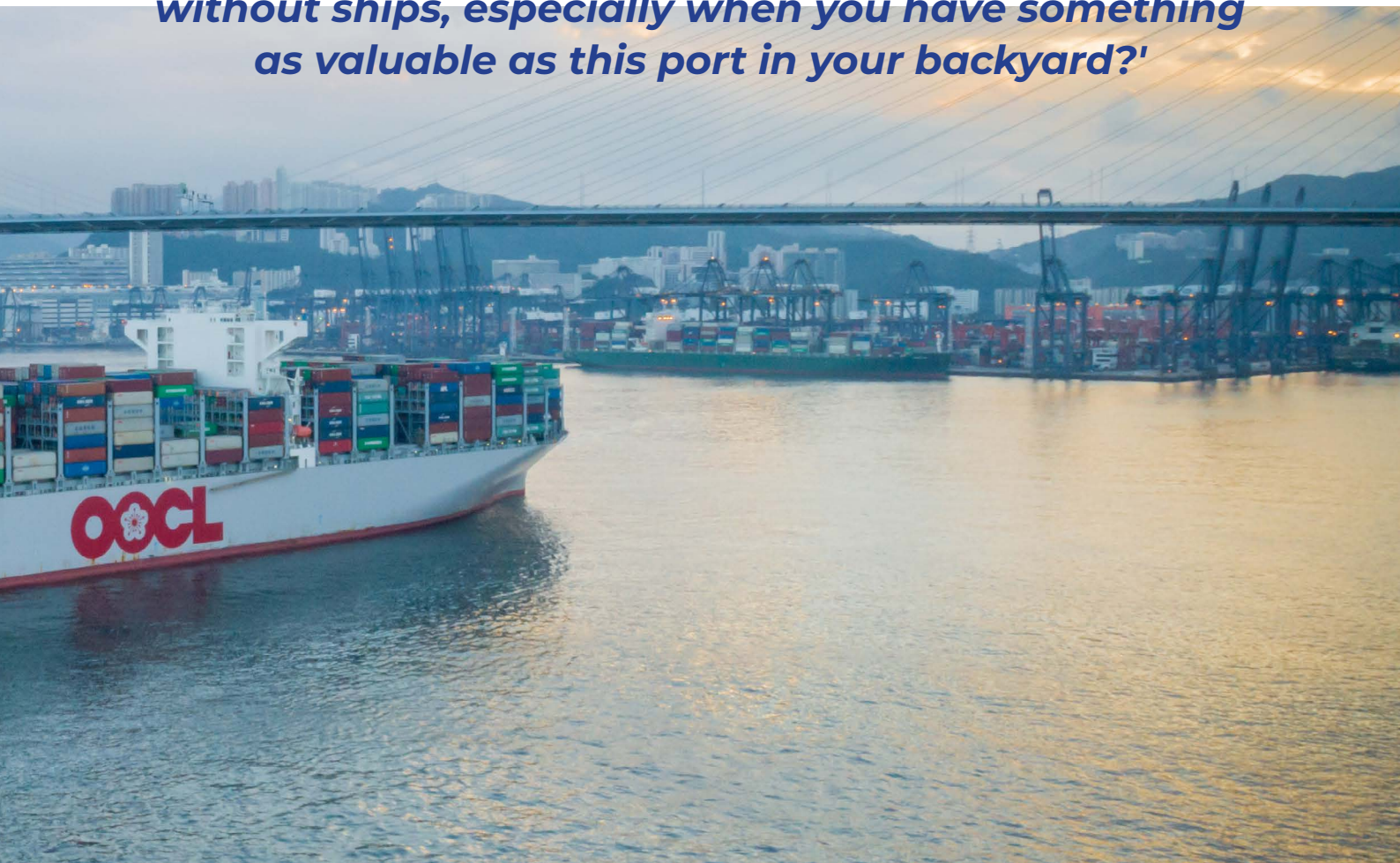
ease of doing business, you have something really powerful and competitive in the region."

So where is Hong Kong slipping up? "I think one of the mistakes we make is that we tend to have a myopic view of what Hong Kong has to offer."

Hong Kong's government is pushing the city as a global maritime hub, aiming to attract shipping-related enterprises to set up shop and to promote the depth and range of expertise already at hand. It points to the "vibrant maritime cluster" of more than 800 companies providing ship management, ship broking and chartering, marine insurance, ship finance, maritime law and arbitration services. Hong Kong's Shipping Register is the world's fourth-biggest, with 2,628 vessels as of June, almost double the number at the beginning of 2009.

"You wouldn't try to be an aviation hub without airplanes. Why would you be a maritime center without ships, especially when you have something as valuable as this port in your backyard?" he said. "So yes, we need to develop the maritime center and all

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Tara Joseph, with Peter Levesque bringing up the rear.

the ancillary services that go along with that because they add tremendous value. But at the same time, we must continue down the road to becoming a 21st century smart port. We're already a world-class port, but we need to get our mojo back."

Bringing the port into the 21st century means investing into state-of-the-art technologies, including artificial intelligence, internet of things and automation.

"The industry itself has been pretty slow at taking up new technology. Now the industry is in a position where it must adopt new technology in order to become more efficient," Levesque said.

Blockchain is one technology that promises immediate benefits, both in terms of more efficient, transparent and reliable tracking of cargoes and record keeping, as well as in fighting illicit trade and reducing the risks from poor monitoring of hazardous cargoes.

"By putting it all on the blockchain you're able to authenticate the documentation process, and to me that's a major step in supply chain security," he said. "If the shipping documents are coming from a

secure source we can be much more certain about what's in the box."

Technology also offers the opportunity for increased automation. Crane operators can do the same job sitting in front of a computer screen at an ergonomically optimized desk, using a joystick not dissimilar to a gaming console and with nothing but the whirl of air-conditioning to disturb the peace.

Still, retrofitting one of the world's busiest ports poses a massive challenge.

"It has to be done in stages and it takes longer than a greenfield project," Levesque said. The HKSPA is "well on its way in this area."

"I don't think the carriers look and say, 'I'm going to go to the world's number one port today and then to the world's number seven port tomorrow.' They only look at which ports provide the best service and can get their ships in and out of port as fast as possible," he said.

"That's what our customers look for in a port, and that's what we're creating with the Hong Kong Seaport Alliance. A new value proposition for global carriers. One step at a time."

WHAT MAKES A PORT GREAT?

Freeport status

Location – cargo hinterland

Frequency of shipping/barge services

Rule of law/well-established legal system

Tax benefits and ease of doing business

High operational efficiency

State-of-the-art physical infrastructure