

LCQ4: Cross-boundary rail freight service

Following is a question by the Hon Wong Ting-kwong and a reply by the Acting Secretary for Transport and Housing, Mr Yau Shing-mu, at the Legislative Council meeting today (May 26):

Question:

The MTR Corporation Limited (MTRCL) will close down its rail freight business on June 16 this year mainly because the demand for cross-boundary rail freight service between Hong Kong and the Mainland has been dropping persistently. In this connection, will the Government inform this Council whether:

(a) it knows the cross-boundary rail freight throughput in the past three years and its percentage share in the market of cross-boundary freight business;

(b) it has assessed the impact of the closure of MTRCL's rail freight business on the operation of the trading and freight transport sectors, in particular those trading companies which have been using cross-boundary rail freight service for a long time; and

(c) it knows if MTRCL has consulted the trading and freight transport sectors before making the aforesaid decision of closing down the business concerned; if such consultation has been conducted, of the details; if not, the reasons for that; given that some members of the trading sector have relayed to me their hope that MTRCL will continue to operate cross-boundary rail freight business, whether the authorities will urge MTRCL to reconsider acceding to the views of the sector?

Reply:

President,

(a) and (b) The freight volume for cargo transported to and from Hong Kong using rail in the past three years in terms of tonnage is 141,000 tonnes, 109,000 tonnes and 84,000 tonnes in 2007, 2008 and 2009 respectively, accounting for 0.05%, 0.04% and 0.03% of all cargo movements to and from Hong Kong, and 0.11%, 0.08% and 0.06% of all cargo movements between Hong Kong and the Mainland.

In fact, in the past 10 years, while the total cargo volume has increased by over a quarter and the cross-boundary cargo movements between the Mainland and Hong Kong have grown by almost 30%, rail freight volume has dwindled by over 80%.

In terms of Twenty-foot Equivalent Units (TEUs), according to MTRCL's information, in the whole year of 2007, the annual movements of cargo by rail freight were 14,700 TEUs. In 2008, the total movements fell to below 12,000 TEUs. Last year, the annual movements of rail freight even reached a low of 9,875 TEUs, an average of about 800 TEUs a month.

The decreasing rail freight volume over the years is due to a combination of factors, most notably of which is market competition. As compared with other modes of freight transport, rail freight does not have unique advantages in the local market in terms of flexibility, time or costs.

In respect of flexibility, rail freight has less flexibility as it is constrained by the alignment of the railway network. Goods transported by rail invariably need to be further transported by road vehicles. This double handling of rail container cargo is not as flexible as the door-to-door service provided by trailers.

In terms of time, there are operational aspects in rail

freight which lead to longer transport time, including the transfers at railway stations, switch of train locomotives, and customs clearance arrangements, etc. For example, from Hong Kong to cities within Guangdong Province, trailers can complete the journey within a day without the need of transfer. As for rail, it would be necessary to go through loading, track switching and customs declaration before trains are dispatched to their destinations. The whole process would take 3 to 4 days. At the same time, road freight has become more convenient and efficient with the completion of new cross-boundary facilities. Waterborne freight is also more competitive due to reduced processing time at checkpoints and the possibility to reach Hong Kong directly through river courses from the Pearl River Delta.

As regards overall transport costs, the overall transport costs of cross-boundary rail freight include many other fees apart from the basic rail freight charges, such as the TEU rental, haulage, fees associated with using railway in the Mainland, etc. As such, railway transport costs are on the whole higher than those for other modes of transport such as road, waterborne, etc.

The pre-merger Kowloon-Canton Railway Corporation has all along strived to raise the competitiveness of rail freight, including cooperating with the Mainland to run container express services between eight cities (including Zhengzhou, Wuhan, Xian and Shijiazhuang) and Hong Kong; and initiating the Dongguan-Hong Kong scheduled services. To address the issue of high transport costs, both sides have been providing discounts over an extended period of time: the transport charges for the Hong Kong section have been frozen since 1998 and a long-term 20% discount has been provided. The discounts on miscellaneous charges are as high as 20% to 60%. A 28% discount on Mainland railway transport charges for major cities is also provided. Unfortunately, the overall transport costs are still higher than other modes after the discounts.

On the other hand, the costs for developing the Port Rail Line and Port Rail Terminal are very high. Coupled with the continuous decline in demand in rail freight, it is estimated that the rail freight volume would not be able to support the construction and expenses of the rail line. In addition, there is only one rail crossing point at Lo Wu and rail freight routing is comparatively restrictive. If the Port Rail Link is to be pursued, the freight will run along the existing East Rail Line and West Rail Line. Both options will mean the freight trains will occupy the available train paths for passenger trains, thus reducing the capacity of these existing domestic passenger lines. Given the financial viability and the bottleneck of the passenger lines, the proposed Port Rail Line is not feasible. As such, we have proposed earlier that the Port Rail Link should not be pursued further and using the site originally reserved for the Port Rail Terminal in Kwai Chung for logistic use will be able to enhance the overall competitiveness of the Hong Kong Port.

As the volume of goods is continuously dropping, MTRCL currently transports only about 23 TEUs daily. Taking into account the minimal market demand for cross-boundary rail freight and the limited scope for developing rail freight, MTRCL has decided to wind down its freight business in order to optimize the use of its resources.

(c) At present, MTRCL arranges cargo to be transported to and from the Mainland and Hong Kong through three freight forwarders. These freight forwarding companies are responsible for liaising with the customers. MTRCL started liaising with its partners, including freight forwarders and the logistics trade, after the decision to wind down its freight business was made in 2009. MTRCL has also informed the relevant Government departments. Before deciding on the date of cessation of freight services, MTRCL has communicated closely with the freight forwarders such that sufficient time would be allowed for them as far as practicable to make

arrangements to transport cargo to destinations through other means. MTRCL will continue its communication with stakeholders, including the trade, and provide assistance as far as practicable.

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