

Economics of the Terminal Handling Charge

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1. Setting the scene

In late 2014, container shipping lines in Thailand announced – in close succession – an increase in “terminal handling charges” (THC), which are collected for the handling of containers at sea ports. Another increase followed in early 2015, as shown in Table 1. In the first round, there was a slight increase of

roughly 100 baht for 20-foot containers and 200 baht for 40-foot containers. The second round pushed the total cost to 4,100-4,500 baht for 20-foot containers and 6,700-6,900 baht for 40-foot containers, or increases equivalent to 55 and 70 percent over the original rates.

Table 1: Terminal handling charges in Thailand*

Container (size)	Traditional THC (baht)	Increased THC effective in late 2014 (baht)	Increased THC effective in 2015 (baht)
20-foot	2,600-2,700	2,700-2,800	4,100-4,500
40-foot	3,900-4,100	4,100-4,300	6,700-6,900

* Of 27 shipping lines in Thai National Shippers’ Council, 15 announced that they would increase THC effective late 2014; 19 of them increased THC effective 2015 and 11 of them increased THC in both rounds. However, only four shipping lines have not increased THC. Source: Thai National Shippers’ Council data compiled by TDRI.

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The sudden surge in THC announced by shipping lines prompted a mass protest from local importers and exporters who would have to bear the burden of the higher THC. To give an idea of the size of that burden, in 2014 Thailand imported roughly 260,000 twenty-foot container equivalent units (TEUs) and exported 400,000 TEUs. The THC price hike would thus cost shippers an additional 10 billion baht per year, a sum that could adversely affect the competitiveness of Thai merchandise, especially in overseas markets. A complaint was lodged with the Department of Internal Trade, Ministry of Commerce, which is responsible for both price control and competition laws. Because a series of negotiations between the shipping lines and shippers yielded no resolution, the Department decided to commission the Thailand Development Research Institute (TDRI) to conduct a study in order to assess whether the announced increases in THC were justified.

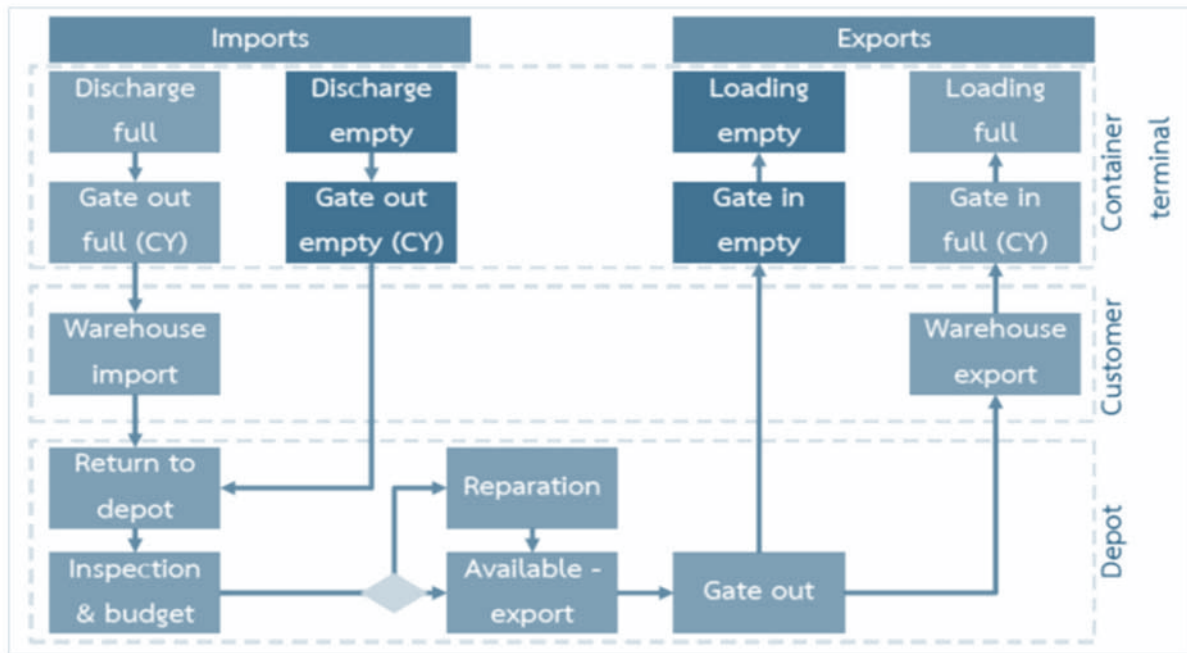
2. What are terminal handling charges?

Before embarking on the analysis of THC, it is important to understand what are covered under the charges. When a Thai exporter wants to export his products, he may pay for the shipping costs himself, or request the overseas importer to pay for them. In the first case, the exporter has to pay for the transport costs, including the costs for minimum insurance coverage and the freight charges for moving the goods to the destination chosen by the buyer. From the point of delivery at the destination, the buyer assumes responsibility for paying unloading charges and any further shipping costs to a final destination. This arrangement is known as a c.i.f. (cost, insurance and freight) shipping agreement. If the exporter does not want to take responsibility for paying the transportation costs, he may choose the f.o.b. (free on board) type of shipping agreement whereby the exporter is responsible only for transporting the goods to the port of origin, i.e., to the Bangkok or

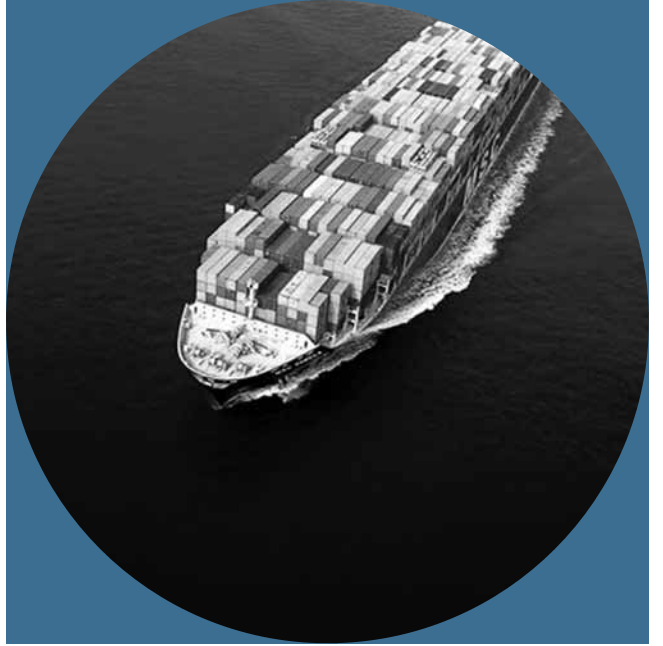
	<u>c.i.f. terms</u>	<u>f.o.b. terms</u>
Seller's location		
Inland transportation to port	Seller	Seller
Cargo handling at port (load)	Seller	Seller
Transport insurance	Seller	Buyer
Shipment to destination port	Seller	Buyer
Cargo handling at port (unload)	Buyer	Buyer
Inland transportation	Buyer	Buyer
Buyer's location		

Country/area	20-ft container (baht)	40-ft container (baht)
Japan	8,300	12,500
Hong Kong	7,700	11,300
Taiwan	5,800	7,200
Singapore	5,300	8,000
China	4,500	6,600
Philippines	4,250	5,200
Republic of Korea	3,500	4,700
Malaysia (western)	3,300	4,800
Indonesia	3,200	4,900
Vietnam	3,050	4,900
Malaysia (eastern)	2,900	4,300
Thailand	2,600-2,700	3,900-4,100

	20-ft container	40-ft container
A: Expenses paid to the port authority and port operator	2,609	4,368
Crane + stevedorage	1,250	1,980
Wharfage charges	740	1,150
Fuel charges	49	98
Storage	570	1,140
B: Landside expenses for empty container repositioning	3,810	6,620
Crane + stevedorage	1,250	1,980
Wharfage (for empty container)	370	590
Fuel (for empty container)	30	60
Trucking	1,150	2,300
Lift on	320	520
Gate charges at terminal	100	100
Lift off	280	560
Gate charges at depot	110	110
Cleaning	200	400
40 percent charge on part B	1,524	2,648
C: Container inspection, and maintenance and repair	500	1,000
D: Inland container depot (ICD) and off-dock costs	3,700	5,250
Trucking	2,800	3,900
Lift on + lift off	900	1,350
18 percent charge on part D	666	945
Overall THC: A + 40%xB + C + 18%xD	5,299	8,961



3. Analysis of the proposed cost structure



Container	Storage duration			
	0-3 days	4-10 days	11-17 days	18 days or more
20-foot	Free	160	275	390
40-foot	Free	320	550	780

