

# **Policy Explanation of Measures for Facilitating Cross-Strait Air Cargo Transportation**

## **I. Policy Background**

1. At the national security meeting on responses to the SARS epidemic convened by President Chen on May 1 of this year (2003), the President directed that: “In view of the serious impact of the SARS epidemic on economies in Asia, in order to safeguard Taiwan’s competitive advantage in the Asia-Pacific region, the government needs to carry out a serious evaluation of a timetable for the implementation of faster and more convenient transport of goods across the Taiwan Strait, and complete the formulation of plans for this as soon as possible.”
2. Prior to the holding of negotiations on “direct transportation” between the two sides of the Taiwan Strait, after thorough evaluation and careful consideration of the cross-strait situation, measures will be implemented to effect a partial improvement in the status quo, without stepping outside the current policy framework for cross-strait air cargo transportation, by introducing “unilateral” (Taiwan’s air carriers flying first), “limited”, and “indirect” cargo charter flights (hereinafter referred to as “indirect cargo charter flights”).

## **II. Policy Objectives**

The main purpose of “indirect cargo charter flights” is to address the pressing needs of Taiwanese businesses in four ways: First, by effectively solving the problem of transportation bottlenecks commonly faced by Taiwanese businesses in the present stage; secondly, by meeting the needs of international market competition in the post-SARS era, making it easier for Taiwanese firms to strengthen their production bases on Taiwan and raise their international competitiveness; thirdly, through easy and smooth cargo transportation, enhancing Taiwanese firms’ logistics management capabilities and air cargo carriers’ competitiveness, to lay

the foundations for establishing operations hubs; and fourthly, by improving Taiwanese firms' adaptability to change, forestalling such problems as a serious shortage of air cargo space that might otherwise be caused if SARS breaks out again.

### **III. "Indirect Cargo Charter Flights" Would Not Have a Negative Impact Domestically**

1. On the economic side, "direct transportation" and the "three links" could have such negative impacts as triggering an exodus of industries and, because of the reduction of transportation costs, supplanting domestically manufactured products with imports from the mainland. It would be essential to have the relevant supporting measures in place to reduce these negative effects. In the present stage, if limited, small-scale "indirect cargo charter flights" are introduced, then because of the limited freight volume involved, it would not have a substantial impact on industrial investment in the mainland or the import of mainland goods. It would certainly not give rise to anywhere near the same negative effects as the full implementation of "direct transportation".
2. On the security side, "indirect cargo charter flights" would simply involve the cross-strait transportation of goods, and would not increase the burden of disease prevention measures. As far as national security arrangements are concerned, these could be handled according to the model of the indirect charter flights provided for Taiwanese businessmen to return to Taiwan for this year's Lunar New Year.
3. On the technical side, based on the precedent and experience of the Lunar New Year indirect charter flights for Taiwanese businessmen, with government guidance and supervision, the carriers could make the necessary applications to the local civil aviation authorities in accordance with laws and regulations of the mainland, and it would not be necessary to conduct any further talks on the matter.

#### **IV. Concrete Substance of “Indirect Cargo Charter Flights”**

##### **1. Mode of charter flights**

- (a) These would mainly consist of unilateral (flights by Taiwanese carriers) “programmed or scheduled charters” (meaning charter flights with some degree of regularity of dates and times).
- (b) They would secondarily include “unscheduled charters”.

##### **2. Air traffic rights and choice of flight points**

- (a) The primary choices for flight points would be Taoyuan CKS International Airport and Kaohsiung Hsiaokang International Airport on Taiwan’s side and Shanghai’s Pudong and Hongqiao International Airports on the mainland side.
- (b) The charter flights would follow current air routes, stopping at Hong Kong or Macau en route to and from Shanghai, so that there would be no need to make any new arrangements concerning air traffic rights, and no negotiations would be involved.
- (c) In the initial phase, “programmed or scheduled charters” would in principle be arranged on a single daily flight basis, with a total of about 360 flights per year, while unscheduled charters would be arranged according to specific shippers’ needs, but would not be allowed to exceed the number of “programmed or scheduled charters”.

##### **3. Allocation of freight capacity**

- (a) Estimated according to the cargo capacity of a daily flight by a 747 freighter, with each two-way flight able to carry a payload of 200 tons, the gross annual freight capacity of “programmed or scheduled charters” would amount to around 73,000 tons.
- (b) In the first phase, priority would be given to carrying goods imported and exported by Taiwanese businesses. Goods transported from Taiwan to the mainland would mainly be raw materials and components and parts needed by Taiwanese

businesses; goods transported from the mainland to Taiwan would mainly be those to be transshipped to other areas and those to be re-exported after processing.

(c) Method of allocation:

- i. The allocation method for “programmed or scheduled charters” would first take into consideration the air carriers that have air freighters available (currently, the only two carriers that possess air freighters are China Airlines and Eva Airways, while Far Eastern Air Transport and TransAsia Airways could lease aircraft to participate). In the initial phase, in principle each carrier could be allocated two to three flights per week.
- ii. No limits would be placed on the allocation of unscheduled charter flights, which would be based on contracts between the shippers and the airlines.

#### **4. Security and technical matters**

(a) Security matters

Related security matters include security issues for transportation of goods by Taiwanese aircraft, security inspections on stopovers in Hong Kong and Macau, security controls for flights returning to Taiwan, and so on. These could all be handled with reference to the methods used for the Lunar New Year passenger charter flights.

(b) Technical matters

Related matters on the technical side include such problems as dealing with flight crew certification, aircraft maintenance checks, and harmonization of the two sides’ laws and regulations. These could all be handled with reference to the methods used for the Lunar New Year passenger charter flights.

#### **5. Implementation period**

(a) From September 25, 2003 to September 24, 2004.

(b) At the end of this period, whether or not it should be extended

would depend on the actual circumstances of its implementation thus far.

## **V. Cost Comparison Between “Indirect Cargo Charter Flights” and the Current Situation**

According to carrier estimates, supposing that each flight by a 747 freighter carries a 100-ton payload, and reckoned on the basis of a flight from Taoyuan CKS International Airport to Shanghai, the related cost comparison would be approximately as follows:

### **1. Transportation time**

- (a) For a single flight along current routes with a stopover for transshipment in Hong Kong or Macau, transportation time is about 12 to 16 hours (including stopover and cargo transit time).
- (b) If a single aircraft is used for the whole journey (such as a cargo charter flight), stopping in Hong Kong or Macau and then flying on to Shanghai, the transportation time for a single flight could be shortened to five to six hours (including stopover time of one to two hours).
- (c) For comparison, if the flights were routed via Hong Kong or Macau (without stopping) and on to Shanghai, a single journey would take about four hours.

### **2. Transportation costs**

- (a) For flights between Taipei and Shanghai with a stopover in Hong Kong or Macau, the two-way journey would cost about US\$110,000 (according to data provided by carriers, the costs of a stop in Hong Kong, including landing fees, parking fees, ground service agency fees, etc., amount to about US\$6,200 each time; factoring in other incidental costs, such as ground personnel expenses, extra fuel consumed in landing and take-off, etc., which amount to about US\$6,000 each time, then each landing in Hong Kong would add a total of US\$12,200 to the cost of a single flight; and if the aircraft stopped in Macau, its technical landing fee would on estimate

raise the total added cost to US\$13,700).

(b) For comparison, if the flights were routed via Hong Kong or Macau (without stopping) and on to Shanghai, the cost of a return journey would be reduced to about US\$85,600.

## **VI. “Indirect Cargo Charter Flights” Would Be Favorable to Benign Cross-Strait Interaction**

In terms of cross-strait interaction, “indirect cargo charter flights” would be favorable to benign cross-strait interaction for the following reasons:

### **1. Mutual complementarity and mutual benefit in the economic sphere**

In recent years, mainland China’s air cargo export volume has been growing very rapidly, particularly in the Eastern China region (where air freight is growing at an annual rate of around 32%). However, mainland China’s air cargo transportation has been developing relatively slowly, so that the major airlines are often short of cargo planes and cargo space in passenger aircraft, to the extent that they are unable to meet Taiwanese firms’ needs for time-effective replenishment delivery of components and parts. At times of peak demand, Taiwanese firms there are often unable to maintain normal shipments. (To take notebook computers as an example, while in Taiwan it takes just one to two days to ship products out, at Shanghai Pudong Airport it varies from one and a half days in the off season to seven days in the peak season. Consequently, businesses often need to adopt a multimodal air-to-air or sea-to-air method for shipping out their goods to an intermediate destination and then re-exporting them, for example shipping by sea to Pusan in South Korea, or shipping to Hong Kong or Macau, or shipping by sea to Taiwan and transshipping for export by air.) This situation affects the ability of Taiwanese firms operating in that region to expand production capacity and vie for international orders. Therefore, if “indirect cargo charter flights” were implemented, it could help remove bottlenecks in the export of goods manufactured by Taiwanese firms, and would thus have economic benefits for the Eastern China region.

## **2. Limited opening would not have an impact on mainland China's air carriers**

In relation to the enormous demand for air-freight services in the Eastern China region, opening the shipment of Taiwanese firms' cargo by Taiwanese air carriers to and from Shanghai, with plans for just a single daily flight in the initial phase, would have an extremely limited impact on the mainland's local air carriers.

## **3. Mainland China's legal regime already has provision for cargo charter flights**

The "Civil Aviation Transportation Application Procedures for Unscheduled Flights" announced by Beijing's civil aviation authorities to cover Taiwan's arrangement of the charter flights to carry home Taiwanese businessmen for the Lunar New Year not only apply to passenger charter flights but also include application procedures for cargo charter flights within their scope. Therefore, it should be feasible for Taiwan's air carriers to follow these procedures in submitting the requisite applications to the mainland authorities.

## **4. Gathering experience for the implementation of "direct transportation"**

While there are still some misgivings in Taiwan about "direct transportation", and while negotiations between the two sides of the Taiwan Strait have yet to be resumed, if, under the precondition of not touching on any structural issues, and drawing on the model and experience of the indirect passenger charter flights for Taiwanese businessmen during the Lunar New Year, Taiwan initially institutes "indirect cargo charter flights", then provided this can be understood and reciprocated on the mainland side, it should be able to lay a good foundation for progress on the implementation of "direct transportation".

## **VII. Domestic Public Opinion Supports "Indirect Cargo Charter Flights"**

1. According to the results of the latest public opinion survey conducted by the Mainland Affairs Council (on August 5~8 of this

year), with regard to the timetable for opening cross-strait “direct transportation”, 53% of respondents support “taking it slowly” while 28% are in favor of “the faster the better”. However, among the general population, there is predominantly no opposition to steps being taken at this stage to make cross-strait transportation of goods faster and more convenient. Especially if this is carried out under the principles of “separating people and goods” and “goods first, then people”, the level of public support for it should be very high.

2. There is a high degree of consensus among the ruling and opposition parties and the great majority of legislators on the introduction of cross-strait cargo charter flights.
3. Air carriers and most of the business community strongly support prioritizing the introduction of cargo charter flights, to facilitate the division of labor between production facilities on either side of the Taiwan Strait.

## **VIII. Conclusion**

1. The policy of launching “indirect cargo charter flights” has been adopted by the government after considering the pressing needs of Taiwanese businesses in the post-SARS era, weighing up the current cross-strait situation, and assessing all the attendant advantages and disadvantages. It is a step toward facilitating cross-strait cargo transportation that, while minimally changing the status quo, has the highest practicability and offers mutual benefit and a win-win situation to both sides of the Taiwan Strait.
2. While cross-strait negotiations remain on hold, and until ways are open to adopt faster and more convenient modes of cargo transportation, we hope that Beijing will be able to give foremost consideration to the interests and competitiveness of Taiwanese firms operating in the mainland, recognize the importance of benign cross-strait interaction, and cooperate with us in paving the way for the smooth implementation of “indirect cargo charter flights”, with a view to creating more favorable conditions for the future opening of cross-strait “direct transportation”.