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AIRLINES & AIRPORTS

Air China Cargo suffers from weak demand

Air China Cargo continued last year to suffer from weak demand and overcapacity in the market. The unit, in which Cathay Pacific Airways has a 49% stake, saw losses of CNY349 million. Cargo yield, or the revenue for every ton per kilometer, dropped to CNY1.57 from CNY1.69. The carrier ferried 1.46 million tons of cargo, down 0.3% on the year.

EXPRESS DELIVERY

"Everyone's Express" enables free-lance couriers in Shanghai

A new parcel delivery service based around a mobile phone application that pairs customers with freelance couriers is growing in popularity in Shanghai. It is also being closely monitored by the Shanghai Postal Management Bureau to ensure there is no disruption to the order of the industry. The app, known in English as "Everyone's Express," has been developed by RRKD Express and makes it possible for anyone over 18 with a GPS-enabled mobile phone to work as a courier. Customers pay between CNY15 and CNY35 to have a parcel delivered in the city, with the courier taking 80% and RRKD 20%. The company promises delivery within the hour, and if there is a delay customers are free to deduct a percentage of the due payment. It accepts parcels valued up to CNY500. Traditional courier services charge between CNY5 and CNY12 for a cross-city next-day delivery. Xie Qin, Founder of RRKD, said the company has applied to the Postal Bureau for a courier license. It has already been given approval to operate in Sichuan province. RRKD now has 100 franchises, about 5 million users and more than 1 million couriers, Xie said, as reported by the Shanghai Daily.

Global courier companies upgrading services

After years of delivering parcels, business documents and university applications between China and the rest of world, major international carriers have changed their tactics to offer more upgraded services such as the conveying of healthcare products, precise parts for aircraft manufacturers and high-end foods in China's fast-growing express delivery market. Many of these opportunities come from China's soaring economy and application of information technology. Frederick Smith, Chairman and CEO of FedEx Corp, said FedEx has found new market growth points in China's high-end manufacturing industry, such as providing timely delivery of airplane parts and industrial equipment from developed markets to China, as well as expanding its facilities for health-related products at its Shanghai international hub. As the operator of the world's largest cargo airline, FedEx has continued to work with Shanghai Airport (Group) Co to establish an upgraded international express and cargo hub in Shanghai. After its completion in 2015, the new hub is expected to more than triple the capacity of the current FedEx facility in Shanghai, allowing it to process up to 36,000 documents and parcels per hour. With an investment of more than USD100 million, the new hub in Shanghai is a major step to expand the FedEx network and service offerings throughout the Asia-Pacific region. In China, FedEx has more than 9,000 employees and operates more than 110 service stations. Rival United Parcel Service (UPS) is also looking to maintain the upper hand in China's rising delivery market for healthcare products and is planning to add another 14 inner-city express services in the country this year. UPS is expanding in the healthcare logistics field, the China Daily reports. UPS has expanded urban express services to 19 first- and second-tier cities in 2013 and expects to reach 33 cities by the end of this year. The company operates 208 weekly flights connecting China to the U.S., Europe and destinations across Asia.

Couriers' business soars with e-commerce's rise

Domestic express delivery services are getting a business boost from the explosive growth of e-commerce and using that revenue stream to expand their cargo fleets, but they are also watching out for international logistics firms moving further into the Chinese market. Shenzhen-based SF Express (Group) Co, Shanghai-based YTO Express Co and state-owned China Postal Airlines are buying and leasing more aircraft, renting warehouse space at airports and expanding their delivery options to meet growing competition from global delivery services. Li Sheng, President of SF Airlines, the air service branch of leading package service SF Express, said the company is buying and chartering more cargo freighters to offer better services to its clients. It acquired four cargo aircraft from Boeing last year, taking its fleet to 33 planes – 14 owned and 19 chartered. It plans to buy another 11 aircraft by the end of 2015. It already has 240,000 employees, more than 11,000 delivery vehicles and 7,600 service points around the world. Hou Hanping, Professor of Logistics Management at Beijing Jiaotong University, noted that many factors are affecting the industry: an expanding economy, the use of information technology and the rising urbanization rate in China. Those factors mean more segmented and sophisticated markets for delivery services. Rising e-commerce lifted China's express shipping market by 37% to CNY144 billion last year, according to the China e-Business Research Center based in Hangzhou, Zhejiang province, the China Daily reports.

INLAND RIVER TRANSPORT

Draft law on protection of waterways tabled

During the bimonthly session of the National People's Congress Standing Committee in April, lawmakers reviewed a draft law on the protection of waterways. According to the draft, the punishment for destroying waterways will be enhanced, and those responsible for illegal construction could face fines of up to CNY1 million. Xie Manying, Deputy Director of the Waterways Transportation Bureau with the Ministry of Transport, said that China's inland waterways have shrunk from 170,000 km 50 years ago to 130,000 km due to lack of protection. Local governments often blame funding shortages for failing to maintain waterways.

LOGISTICS INDUSTRY

Vice Minister of Commerce calls for logistics improvement

China's logistics needs improvement, according to a Chinese Vice Minister of Commerce. "In order to expand domestic consumption, it is urgent for us to implement a modern logistics technology system to reduce distribution costs, especially in improving distribution for agricultural products," Jiang Zengwei, Vice Minister of Commerce, said in March. "In addition, it is important for us to put more emphasis on logistics challenges in e-commerce, both in domestic and cross-border businesses," said Jiang. High transportation costs and a lack of modern logistics facilities have been an outstanding problem in China's supply chain for years. "There are many scattered logistics companies in China, but most of them are small because the threshold for entering the industry is low," said Fu Yuning, Chairman of China Merchants Group. Among China Merchants Group's 11 biggest sectors, which include shipping, commercial property and banking, Fu said the rate of return from the logistics business is the lowest, yielding about 5% in profit. Although trials to replace business tax with value-added tax have been conducted in the logistics industry, the program needs improvements because various fees and taxes are still high. "The fundamental way out for logistics is prompting standardization in transportation and technology, even at each transporting link," said Fu. He also suggested to establish big players in the industry, the China Daily reports.

- Nippon Yusen K.K., the world's largest carrier of vehicles by sea, is planning to add more logistics centers for trucks in China as part of a multibillion-yen world-wide expansion. Anji Automotive Logistics, a unit of SAIC Motor Co, China's biggest carmaker, will expand its infrastructure for collecting and distributing cars, according to its website. Anji Automotive is China's largest car logistics company, transporting more than 2 million vehicles annually. Anji transports cars for SAIC's ventures with General Motors and Volkswagen. Nippon Yusen transported 1.36 million cars in China in 2013, including some in a venture with Anji. The Tokyo-based company will probably boost trucking of vehicles to 5.7 million worldwide in 2016, from 3.7 million last year, as China's share is around 40%.

PORTS & SEA TRANSPORT

Port operator China Merchants benefits from overseas assets

The net profit of China Merchants Holdings (International) rose 10.3% to HKD4.2 billion last year, with the port operator attributing the "satisfying results" to increased handling capacity and earnings from overseas acquisitions. The throughput handled by the company rose 18.5% to hit a record 71.32 million TEU. Overseas port projects contributed, for the first time, more than 10% of total throughput. Since the second half of 2012, the firm had acquired port operations in Djibouti, Taiwan and France. Total throughput contributed by the overseas projects reached 7.49 million TEU last year. Vice Chairman Li Jianhong said he was confident the overseas projects would further demonstrate their potential this year. Emerging markets, including Africa, South Asia and the Middle East, were all under consideration for further expansion. However, the acquisitions added debt pressure to the company's financing structure. By the end of last year, its interest bearing debts had increased by HKD8.1 billion, raising its net gearing ratio to 42.1% from 27.3%. The company also announced it would issue mandatory convertible securities to raise HKD15.3 billion to repay debt and as capital expenditure.

Maersk readies for China's emerging markets

Maersk Line, the shipping unit of Denmark's Maersk shipping and oil conglomerate, is speeding up plans to offer a wider range of services in China because more Chinese companies are keen to move to emerging markets. Jens Eskelund, Managing Director of Maersk China, said China will continue to grow and one of the most important changes is the composition of its foreign trade. Growth in trade with mature markets in the United States and European Union is modest, while trade with new markets in Africa and South America is surging. In Africa, Maersk Group's logistics arm, Damco, is partnering with a major Chinese petroleum company to expand in the African market. Because it needs to send large machinery and equipment from China to plants in Africa, Damco is putting a strong emphasis on timely deliveries and product security with zero damage to the cargo. The handling capacity of heavy equipment at African ports is relatively limited. Cranes at the ports may not be able to lift more than 50 metric tons. The Danish company has built inland container depots to reduce congestion levels at the terminals in certain places and deployed Chinese speaking staff in key destinations in Africa to coordinate with local teams and check all the arrangements before a shipment arrives, the China Daily reports.

Chinese shipyards refuse to pay refunds on late projects

Chinese banks are stuck in a lose-lose legal battle between domestic shipyards and foreign buyers over billions of dollars in refund guarantees that are supposed to be paid out if shipbuilders fail to deliver on time. One in three ships ordered from Chinese builders was behind schedule last year, according to data from Clarksons Research. Although that was an improvement from 36% in 2012, it was well behind rival South Korea, where shipyards routinely delivered ahead of schedule. That means Chinese banks may be forced to pay large sums to buyers if the yards cannot meet contract terms, with little hope of recouping the cash from the yards. China is the world's biggest shipbuilder, with USD37 billion in new orders received last year alone. Buyers pay as much as 80% of the purchase price up front. Shipyards have filed injunctions against banks in Chinese courts to prevent payouts for late delivery, but buyers usually have a refund guarantee from a bank to ensure their money is returned if the yard defaults. Lawyers say that in many cases, banks did not require shipyards to pledge any specific collateral, leaving them exposed. If banks obey local court injunctions and hold off from issuing refunds, they risk being taken to court by ship buyers in foreign jurisdictions. But if they pay out under the refund guarantee or seek compensation from the shipyard for the loss, bankers say they risk alienating local governments, which can damage the banks' business interests in the region, the South China Morning Post reports. Nearly all refund-guarantee contracts stipulate litigation must be conducted in a foreign court.

Court orders Japanese ship detained

The Shanghai Maritime Court detained the Japanese bulk iron ore carrier Baosteel Emotion, owned by Japanese shipping firm Mitsui OSK Lines (MOL), following a verdict ordering the ship's owner to pay delayed rent and losses to a Chinese firm. The ship was allowed to leave after Mitsui paid JPY4 billion in compensation and litigation fees.

The ship was seized at Majishan port in Zhejiang province. A Chinese company had sued the Japanese shipping firm in 1988 in the Shanghai maritime court over alleged delays in rent for two ships, plus economic losses. The two Chinese cargo ships were rented in 1936 by Daido Shipping Co, which was purchased by Mitsui OSK. Daido failed to return the two ships it had rented after the one-year contract expired in 1937. In 1940, Daido said the ships were "legally captured" and owned by the Japanese government. One sank near Japan in 1938 and the other one in the South China Sea in 1944 while China and Japan were at war. The Shanghai Maritime Court ruled in 2007 that MOL should compensate the Chinese firm Zhongwei Shipping Co USD28.4 million, including delayed rent and operating losses. Mitsui OSK appealed, but the Shanghai High People's Court upheld the ruling in 2010, and China's Supreme People's Court rejected Mitsui OSK's request for a retrial. The Shanghai Maritime Court issued an enforcement notice to Mitsui OSK in December 2011. The two parties tried to negotiate a settlement but failed to reach an agreement. The court said it would dispose of the ship if MOL continued to refuse to fulfill its obligation. Chen Rulang, a lawyer specializing in maritime lawsuits in Shanghai, said Chinese courts had rarely, if ever, taken such a tough stance to recover wartime reparations from Japan. "The verdict has been made so the action is absolutely legal, but it is quite unusual", he said. The seizure of the ship was unrelated to wartime compensation, said Chinese Ministry of Foreign Affairs Spokesman Qin Gang, while Japan's Chief Cabinet Secretary Yoshihide Suga said the seizure "undermined" the 1972 joint communique that normalized ties between Japan and China, in which Beijing agreed to renounce "its demand for war reparation from Japan." Mitsui has argued that it is not liable to pay compensation given that the ships were requisitioned by the Japanese military during the war. Analysts expect more cases against Japan are likely to be filed in Chinese courts.

Cosco to bid on majority stake in Greek port

Cosco Group and five other investors have expressed interest in a majority stake in Piraeus port, the largest one in Greece. Cosco's initial interest for a 67% stake in the port is further highlighting Chinese investors' appetite for Greek assets as the state sells off parts of its businesses to help balance the country's books. Greece last month picked a Chinese-backed bid to develop a prime seaside property at the former Athens airport Hellenikon. Cosco's subsidiary, Cosco Pacific, the world's fifth-largest container terminal operator, sealed a deal with Greece five years ago to run and upgrade two of the state-owned Piraeus port's piers for 35 years, aiming to turn the port into a regional hub. Last year, it agreed to invest an extra €230 million to boost the port's handling capacity over seven years and in return, it would stop paying fees to the port. The largest U.S. terminal operator Ports America, Dutch container terminal operator APM Terminals, private equity firm Cartesian Capital Group, Philippines-based International Container Terminal Services and close-ended investment company Utilico Emerging Markets also submitted non-binding bids for the port. Athens is aiming for privatization revenue of €1.5 billion this year by selling the stake in the port and privatizing its railway operator Trainrose, rolling stock company Rosco and some regional airports, among other assets. Binding offers for the port are expected by the end of this year. Piraeus is one of the top cargo ports in the Mediterranean. Cargo traffic rose 15% to 3.1 million TEU last year. Despite the crisis, the port's net profit rose 12% to €8 million last year, the South China Morning Post reports.

- Large Chinese shipping companies such as China Shipping Container Lines Co and China Merchant Energy Shipping Co reported a net loss of CNY2.65 billion and CNY2.18 billion respectively in March. Chang Jiang Shipping Group Phoenix Co, another large Chinese shipping company, is highly likely to be delisted from the Shenzhen Stock Exchange this year after suffering losses for three consecutive years.

RAIL TRANSPORT

Facts and figures about new Silk Road rail

The train service between Chongqing and Duisburg in Germany is twice as fast as transport on the sea route and only half as expensive as air freight. Therefore, the train connection, which the Chinese are already describing as the new Silk Road, has improved trade between China and Germany.

- Total length of 11,179 km.
- Going through six countries in about 16 days: China, Kazakhstan, Russia, Belarus, Poland and Germany.
- The first coordination meeting was held in Chongqing in November 2010.
- The first train on the railway to travel to Moscow arrived on Jan 28, 2011.
- The first train on the railway to travel to Duisburg, Germany, arrived on March 19, 2011.
- Regular train services on the railway started on June 30, 2011.
- The first return train on the railway left Duisbrug for China on February 28, 2013. It passed through Poland, Belarus, Russia, and Kazakhstan before arriving at in Chongqing.
- The first train on the railway not limited to carrying only IT products ran on April 8, 2014. It can carry all products to be exported to countries along the line and will transport products from regions around Chongqing to Europe.
- From the first train, which ran on January 28, 2011, to January 24, 2014, the railway has seen a total of 96 runs. During this time the trains transported 8,434 containers of exports worth USD3 billion, according to the Chongqing logistics office.
- The transcontinental railway between China and Germany is the first train connection between the two countries.
- Since it opened, the number of weekly departures has risen to three.
- Goods transported along the route include electronics, cars and medical equipment.
- One of the challenges will be to further increase the degree of capacity utilization of the train from Duisburg to Chongqing.

WAREHOUSING

Logistics firms wary of PRD economic zones

Officials in China's new economic zones are hoping cheap warehousing and hassle-free customs procedures will encourage logistics and storage firms supplying Hong Kong's domestic market to relocate to the Pearl River Delta. But not many firms seem interested in moving. “It is almost unheard of to have any product that is for local Hong Kong consumption to be stored in China because the turnaround lead time is not workable,” said Raymond Chan, General Manager of logistics firm Cargo Freight Services. Last year the central government announced plans to establish three development zones in Nansha, Hengqin and Qianhai along the Pearl River, part of a wider effort to develop and integrate southern China, Hong Kong and Macao into a single economic hub. Initiatives including preferential tax treatment and liberalized financial reforms were pitched as incentives to lure business. Another idea is to create a seamless customs zone connecting Hong Kong to bonded warehouses and free-trade port areas in the delta. “The policy directions have been given out but the details are not yet finished,” said Hong Kong Trade and Development Council Economist Wing Chu. The Qianhai economic zone in Shenzhen has 300 registered logistics firms, including 130 from Hong Kong. This represents 15.2% of companies in the zone, according to local government data from October last year. The 800 square kilometer site at Nansha includes an established logistics park, one of two deep-water ports on the mainland, and a rail-road-sea transport network. Last month Kerry Logistics Network Chairman George Yeo visited Zhuhai seeking land for warehouses. Completion of the Hong Kong-Zhuhai-Macao bridge would provide more opportunities for logistics providers as there was a lack of land and warehouse facilities in Hong Kong, Yeo said. Oriental Logistics Managing Director Gilbert Lau said limited warehouse space had contributed to rents doubling in recent years, forcing up consumer prices and pushing logistics operators further into the New Territories. Despite the excess capacity and lower warehouse rents in the mainland's southern areas, Hong Kong logistics firms are wary of storing goods there given final-mile delivery costs and border formalities, the South China Morning Post reports.

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