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AIRLINES & AIRPORTS

Overcapacity puts the brakes on Asian air cargo growth

Top Asian airlines' profit margins are being eroded by a struggling air cargo business, even as they capitalize on increasing passenger demand, industry executives said. Weak global economic growth and freight capacity oversupply brought on by new deep-bellied planes is hurting carriers with dedicated cargo businesses, the insiders said ahead of the six-day Singapore Airshow this month. “The biggest worry of the airline industry right now is probably cargo,” Tony Tyler, Director General of the International Air Transport Association (IATA), said. “For the big airlines in this region, it is a very important component of their revenue mix.” IATA said air freight traffic rose 1.4% last year from the previous year, supported by rising activity from Middle Eastern and Latin American carriers. At Asia-Pacific carriers, which have nearly 40% of the global freight market, volumes dropped 1%, while capacity rose 0.8%. Andrew Herdman, Director General of the Association of Asia-Pacific Airlines, said major regional airlines with separate cargo businesses are bearing the brunt of the slump in the industry since the 2008 global financial crisis. “The people who are really suffering in the cargo business are the ones operating big fleets of dedicated freighters, and that includes Singapore Airlines, Cathay Pacific, Korean Air, among others,” Herdman said. Singapore Airlines' freight arm operates nine Boeing B747-400 freighters. Cathay Pacific has a fleet of 25 freighters, while Korean Air has 26, according to the carriers' websites.

Cathay continues to idle part of its freight fleet

Cathay Pacific Airways plans to keep part of its freighter fleet in the hangar this year amid a protracted slump in the cargo market. The airline's cargo tonnage fell 1.4% year-on-year last month, following a 5% drop in December. Cathay, the second-largest air-cargo operator behind Emirates SkyCargo, saw growth in shipments in only two of the past 12 months. “Freight rates are under pressure because of overcapacity in the market,” James Woodrow, Cathay's Cargo Director, said. The freight business of Hong Kong's biggest airline has been hit by overcapacity in the market, compounded by weak demand in the United States and Europe since last year. Recovery in demand this year would hinge on the strength of the U.S.

economy, Woodrow said. Cathay took five of its 26 freighters out of service last year. It also agreed to sell six Boeing 747-400 freighters to Boeing, with the aircraft leaving the fleet between now and 2016. Aside from overcapacity in the industry, the scattering of production lines in China for Apple's iPhones and iPads has added to Cathay's woes. “In the past, we could wait here for the products to be trucked down from the production lines in the Pearl River Delta; now we have to fly to new production centers in Chongqing and Zhengzhou,” Woodrow said. Chief Executive John Slosar said about 50% of the carrier's cargo tonnage was transshipments from the mainland. The airline's share of the market in carrying technology products is under pressure as the competition in inland cities is much fiercer than that in its home base. Hong Kong airport handled 2.4% more cargo at 4.12 million tons last year while the volume carried by Cathay dropped 1.5%. To improve efficiency in handling transshipments, the carrier built its own cargo terminal in Hong Kong last year. The HKD5.9 billion facility has been in full operation since October. With 1,800 workers, it has handled 600,000 tons of cargo over the past year.

PORTS & SEA TRANSPORT

Shipping industry set to emerge from five-year downturn

The shipping industry is poised to emerge from its longest downturn in three decades, buoyed by an end to years of overcapacity that have depressed freight rates since the end of the shipping boom of 2008. Dry cargo ships are likely to see the strongest recovery, say owners and analysts, as growth in bulk commodity cargoes such as iron ore and coal outpaces supply of new tonnage for the first time in seven years. But tanker rates will also rise as fleet growth is slowing, while strategic oil reserve projects in China and India should boost already solid Asian demand. The recovery will bring some respite to shipping firms that have endured years of losses as freight rates failed to cover costs. “While there will be potholes, here and there, as always, the worst is over based on the market fundamentals,” said Ong Choo Kiat, President of U-Ming Marine Transport, one of Taiwan's largest listed shipping companies. Experts warn some shippers will still only break even this year and any recovery may fade after 2016 when overcapacity could again dampen freight rates. Key drivers of the pick-up will be China's continued urbanization and falling iron ore prices, experts say, which should support import growth even though the commodities super-cycle that drove a 2003-2008 boom in shipping markets is over. The global dry bulk seaborne trade is forecast to grow 5.8% this year to 4.37 billion tons, according to Barclays Research, outpacing a 5.3% rise in the global merchant fleet to 753 million DWT. It promises to be the first time growth in demand for shipping of iron ore, coal, grain and minor bulks such as fertilizer, logs and soya beans exceeded dry bulk fleet growth since 2007, Barclays said. However, ship owners who paid high prices for new tonnage at the peak of the market would still only break even this year, said Jayendu Krishna, Senior Manager at shipping consultancy Drewry Maritime Research. Buyers who paid up to USD100 million for a 180,000 DWT Capesize ore carrier at the top of the market would need a daily charter rate of USD44,000 to USD45,000 to break even, still well above current rates. The price of a similar Capesize ship has since eased to about USD56 million, according to Clarkson Research, as reported by the South China Morning Post.

Hutchison Port profit sinks on ACT acquisition and strike

Hutchison Port Holdings Trust, which operates ports in Hong Kong and Shenzhen under Hutchison Whampoa, saw its earnings drop 25% last year to HKD1.67 billion because of a big dip in its Hong Kong operation and the one-off concession to liners after a damaging strike last summer. The Singapore-listed company said fourth-quarter earnings plunged 47% to HKD334.8 million. Higher depreciation costs due to the acquisition of Asia Container Terminals (ACT) in Hong Kong last year and the one-off compensation for the service disruptions during the strike to liner companies affected earnings. Revenue fell 0.3% to HKD12.4 billion for the year. Gerry Yim, Chief Executive of HPH Trust, said improvement in the economies of the United States and Europe would help shore up cargo demand in Hong Kong. Container throughput at Hongkong International Terminals (HIT), which operates 12 berths at Kwai Tsing, dropped 12.4% last year mainly because of a fall in transshipment cargo for the U.S. and Europe. Up to 70% of cargo in Hong Kong is transshipped to other places. The port of Yantian in east Shenzhen handled 1.2% more cargo last year although cargo handling rose 4.7% in the fourth quarter. “The throughput growth at the ports in southern China is expected to have low single-digit growth for this year as world trade recovers,” said Geoffrey Cheng, Director of transport at Bocom International. “The actual growth rate, however, would depend on how many of the production lines are retained in southern China.” The port operator said it was in discussion on new service arrangements with French liner company CMA CGM and

Mediterranean Shipping Co, the two consortium members of the proposed shipping alliance P3, which also includes Maersk. P3, which is scheduled to be running from April, will lead to a consolidation in sailings to Hong Kong as Maersk is served by another port operator, Modern Terminals. Yim said different terminals would serve different kinds of vessels and there should be no price war, the South China Morning Post reports.

Hong Kong port loses out to bigger berths in Shenzhen

Hong Kong port could lose further business to Shenzhen because an alliance of three shipping companies would need bigger berths for their large vessels and more space at their docks. The consolidation of Maersk, CMA CGM and Mediterranean Shipping Co (MSC), which has been dubbed P3, would lead to a cut of 10 sailings per week from 18 at the Kwai Tsing container terminal, said Sunny Ho, Executive Director of the Hong Kong Shippers' Council, quoting a report by shipping consultant Alphaliner. The packed layout of berths and shorter berth lengths at Kwai Tsing, which opened in 1972, means only 15 of the 24 berths in Hong Kong can accommodate large container ships or vessels carrying 11,000 to 18,000 TEU. The port facilities in Shenzhen are newer and can handle large vessels. “The area of hinterland per berth at Hong Kong is just half of the international standard because of the acute shortage of land,” Ho said. “Bunging (congestion) is very serious in Hong Kong even though our throughput was down last year.” A port operator in west Shenzhen said its business would increase after P3 was up and running. “The number of calls to Shekou will increase according to the new rotations deployed by P3,” said David Deng, Vice President of China Merchants Holdings International. “Some ports will face call cuts while others will benefit from the consolidation.” Shenzhen overtook Hong Kong as the third-busiest container terminal in the world last year by handling 23.3 million TEU. Hong Kong, which handled 22.3 million TEU last year, saw shipments diverted to Shenzhen during a dock strike last summer. Gerry Yimi, Chief Executive of Singapore-listed HPH Trust, said it had been talking to CMA CGM and MSC on how to improve productivity. He said the P3 members were all “adequately served” in Hong Kong. The P3 shipping alliance, which has yet to be approved by mainland China, the European Union and the United States, is likely to have a 37% share of Asia-Europe trade and 24% of transpacific trade. The rationalization of the services of P3 members, with 255 vessels on 29 loops, will come through consolidation in vessel rotations and the replacement of small vessels with bigger ships. Maersk operates a Triple-e vessel, which has a capacity of 18,000 TEU, which will require a deeper berth to dock. Dredging will be done in Kwai Tsing in the next two to three years to deepen the berth. The Tonggu channel in Shenzhen is also being dredged to make it deeper and this will be completed in April to allow Triple-e vessels to use the port, the South China Morning Post reports.

Maritime bureau aims to shore up Hong Kong's role as shipping hub

The Hong Kong government plans to set up an inter-departmental body to provide a one-stop shop for the maritime sector, which has steadily lost ground to Singapore as a maritime hub over the past few years. The new Maritime Bureau is expected to include port development but the priority will be on promoting shipping services, such as ship management as well as brokerage, finance and insurance services. “What we should do now is to upgrade Hong Kong to be on par with London as an international shipping service hub,” lawmaker Miriam Lau said. “Let's forget about attracting more containers to go through Hong Kong” especially since Shenzhen had already overtaken the city as the third-busiest port in the world last year, Lau said. The Hong Kong government has long been criticized as inefficient in promoting the maritime industry. More shipowners were leaving Hong Kong for Singapore because of lower taxes and ease of operations in the city state, a ship manager said. “In Singapore, if you talk to the Maritime Port Authority, they will coordinate everything you need in various departments, be it tax or immigration,” said Peter Cremers, Chief Executive of Hong Kong-based ship manager Anglo-Eastern Group, which manages 450 vessels globally. “Hong Kong is different. Unless the shipowner knows what the tax requirements are for shipping, you may get into the wrong hands.” Sabrina Chao, Chairperson of Wah Kwong Maritime Transport, praised Hong Kong Chief Executive Leung Chun-ying's decision to set up a statutory maritime body in his policy address last month. Chao is a member of Hong Kong's advisory Maritime Industry Committee. Instead of cutting taxes, Chao said the group was pressing for the government to have double tax avoidance treaties signed with South Africa and Australia, countries which conduct a lot of shipping business with Hong Kong. “The new bureau needs to be run by an industry veteran who knows the industry from inside out,” she said. “It's not too late if we can act and catch up now.” Others, though, feel that the opportunity for Hong Kong to boost its status as a maritime hub is long gone. “Hong Kong is lagging behind Singapore for ship brokerage as most of the ship brokers have been based in Singapore for quite a long time," said Geoffrey Cheng, Director of Transport at Bocom International. Cheng said the cluster effect on information flow in Singapore was so strong that Hong Kong found it hard to compete against its rival, the South China Morning Post reports.

Weak scrap demand hits China's ship recycling business

The room for profit in China's ship recycling industry is likely to be squeezed by weak domestic scrap demand and the high cost of its "green" vessel-breaking methods this year, even though the government has offered favorable policies to encourage more vessels to be dismantled by 2015. Wu Jun, Vice Secretary General of the Beijing-based China National Shiprecycling Association (CNSA), said because China is taking action to scale down infrastructure and real estate investment while using restrictive measures to cut production capacity in its steel plants, the country currently doesn't need a large amount of scrap as a source of steel. "Therefore, it won't be easy for Chinese ship-breaking yards to sell scrap even at a bargain price to the market this year. The previous high prices of both foreign and domestic scrap ships were another element that cut the profit margin of Chinese companies. Many of them have already reported financial losses for last year," he added. As a major global ship recycler, China dismantled 2.5 million tons of scrap vessels in 2013, up 4.6% from the previous year, according to the CNSA. The scrap price was between CNY2,450 and CNY2,650 a metric ton in China in the first half of last year. But the price dropped to CNY2,300 a metric ton in January, data from the China Association of the National Shipbuilding Industry shows. China's ship recycling yards are mainly located in Zhejiang, Jiangsu, Shandong and Guangdong provinces. There are around 110,000 people working in the sector. Because of cheap scrap prices, Wu said many ship-breaking yard owners would rather keep their scrap in storehouses, instead of selling it cheaply to steel plants. To help China's shipping companies reduce the pressure caused by overcapacity over the past four years, the Chinese government issued a new subsidy policy to encourage the nation's shipping companies to reduce the number of aging vessels and replace them with technically advanced vessels last December. The country will offer cash subsidies of CNY1,500 per gross metric ton to shipping companies that scrap their vessels before their operational expiration dates. The China National Shiprecycling Association forecast this policy is good for CNY4.56 billion in subsidies for ship breaking. Ship owners are entitled to receive 50% of the cash subsidies upon scrapping their vessels and the other 50% when a new replacement vessel is built. The owners of all aging ships scrapped between 2013 and 2015 qualify to apply for subsidies.

- Qingdao Port handled 450 million tons of cargo last year, an increase of 10.6%. Its container throughput grew 7% to 15.52 million TEU in 2013. The achievements made Qingdao the world's seventh-busiest port by both cargo and container volumes, up one notch from a year earlier, according to the Shanghai Shipping Exchange.
- In an age of aerial drones and driver-less cars, Rolls-Royce is designing unmanned cargo ships. The Rolls-Royce's Blue Ocean development team has set up a virtual-reality prototype at its office in Alesund, Norway. Eventually, the London-based manufacturer of engines and turbines says, captains on dry land will use similar control centers to command hundreds of crewless ships. Drone ships would be safer, cheaper and less polluting for the USD375 billion shipping industry that carries 90% of world trade, Rolls-Royce says. But Simon Bennett, Spokesman for the International Chamber of Shipping, said unmanned ships were illegal under international conventions that set minimum crew requirements.

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<u>Contact:</u>

Flanders-China Chamber of Commerce
Lammerstraat 18, B-9000 Gent
Tel.: +32 9 266 14 60/61 – Fax: +32 9 266 14 41
E-mail: info@flanders-china.be
Website: www.flanders-china.be

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The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com . Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.