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AIRLINES & AIRPORTS

Cathay Pacific opens new cargo terminal

Cathay Pacific Airways has officially launched a new cargo terminal at Hong Kong airport which will help the city, facing fierce rivalry from Shanghai's Pudong International Airport, enhance its position as the leading airfreight hub. Cathay Pacific Services, a wholly-owned cargo subsidiary of Hong Kong's flag carrier, opened the HKD5.9 billion terminal that can handle 2.6 million tons of cargo annually, Algernon Yau, CEO of the unit, told Shanghai Daily. The Cathy Pacific Cargo Terminal will increase Hong Kong International Airport's overall annual cargo capacity by 50% to 7.4 million tons, Yau said. He added that Hong Kong faced intense competition from airports on the Chinese mainland. Shanghai, which has established a pilot free trade zone, intends to elevate Pudong Airport into the world's busiest cargo hub in five years. Guangzhou is building an Airport Economic Zone, while Shenzhen airport will complete its third runway soon.

Shanghai FTZ offers potential to reduce shipping times

Transferring cargo in the Shanghai free trade zone (FTZ) could reduce shipping times significantly. DHL was selected as the first in the sector to test the waters of the international transshipment business in the pilot area. The company has launched its first international transit air route that offers transfers in Shanghai. It is also the first of its kind to operate in China. The new route could save eight hours out of the three-day journey from Leipzig to Tokyo compared with the old route via Hong Kong, according to Qian Xiaorong, Project Manager at the DHL North Asia logistic center at Pudong International Airport, which handles the operation of the new route. In the center, cargo from international transshipments is unpacked, sorted and repackaged according to destinations, without having to receive customs checks or pay duties. As a key index to measure the internationalization level of an airport, international transshipments usually account for more than 50% of the total cargo volume at hub airports. As the largest cargo airport in China and the third-largest worldwide, Pudong airport handles 3 million tons of cargo a year. Before international transshipment was introduced in the free trade zone, such cargo could only go to Japan or Singapore. “Shanghai has the potential to become an international hub for cargo transport because it is better positioned than Hong Kong and Singapore, in terms of being a shorter distance to Europe and the United States,” said Qian. Such an advantage becomes more apparent using the polar route over the Arctic, which could save up to four hours of flight time compared with traditional routes, she said. With only one route, the center seems to be underutilized with its 88,000 sq m area and a capacity to handle 40,000 parcels and envelopes per hour. DHL plans to launch more international transshipment air routes next year, the China Daily reports. In the first 10 months of this year, the volume of transshipment cargo at Pudong airport has surged by 125% compared with the same period last year. Pudong airport also plans to upgrade and expand its air cargo facilities. The air cargo volume at Pudong airport is expected to reach 5 million to 7 million tons a year in 2015.

- Henan Civil Aviation Development & Investment Co has purchased a 35% stake in Luxembourg’s Cargolux Airlines International and will launch a new freight service between Zhengzhou in Henan province and Luxembourg.

EXPRESS DELIVERY

UPS to deliver more parcels in China

United Parcel Service (UPS) is looking to keep an upper hand in the Chinese market by adding 14 inner-city express services next year. UPS began domestic courier services in 2012, when it was granted seven licenses by the State Post Bureau of China. It expanded to 19 first- and second-tier cities last year and expects to reach 33 cities in 2014. UPS CEO Scott Davis said that China's middle class will grow significantly over the next 20 years and more delivery services will be needed, so the company wants to expand its network in the country. China is now the world's third-largest market for express services behind the United States and Japan. Last year, 8,200 express companies were operating in China, compared with 5,327 in 2010. The average number of pieces of mail and packages delivered amounted to 143 million a day in 2012, according to the Beijing-based China Federation of Logistics and Purchasing (CFLP). UPS owns and operates two large hubs in the country. In Guangdong province, its Shenzhen Intra-Asia Hub provides services for customers doing business with emerging Asian economies, while the company's Shanghai international hub links Asia to the rest of the world. It also set up three regional hubs in Qingdao, Chengdu and Zhengzhou in the past three years. UPS has 399,000 employees across the world, with 6,170 in China. The company operates 208 weekly flights connecting China to the U.S., Europe and destinations across Asia. UPS also established a specialist facility with 22,000 square meters of storage space in Hangzhou to handle shipments of medical products. “There are a lot of areas that we're looking at and we'll invest in them as time goes on,” said Richard Loi, UPS China President in China.

Toxic package killed one, sickened nine in November

A factory manager and the owner of a Shanghai-based delivery service were detained by police after packages tainted with a toxic chemical killed one man and sickened nine other people. The incident triggered a nationwide order from central authorities for postal and courier services to strengthen checks on package contents before they accept them. Delivery companies not following the rules would have their license revoked. Liu Xingliang, a resident of Dongying in Shandong province, suffered methyl fluoroacetate poisoning after he accepted a package containing shoes delivered by Shanghai YTO Express in late November, according to the Shandong Post Bureau. The Bureau said four parcels delivered by the company were contaminated with methyl fluoroacetate, a toxic liquid widely used in the pharmaceutical industry. The chemical leaked out when workers unloaded parcels from a truck on the night of November 28. The toxic package had been sent from a chemical plant in Jingmen, Hubei province, to a pharmaceutical plant in Weifang in Shandong. During transport, the package was damaged, and the leaked chemical poisoned five delivery workers and two recipients in Shandong’s Shouguang and Jiaozhou cities, in addition to the victim in Dongying. Shandong police detained a Vice Director of Jingmen’s Xiongxing Chemical Co on charges of “posing a threat to public safety.” The company has been ordered to suspend operations. “We normally deliver the toxic material ourselves if the amount is over a ton, but this time only a small amount was needed, so Yang called courier firms,” Huang Shenyong, a senior official with the chemical company, told police. Two courier firms in Hubei and Shanghai-based STO Express had refused to deliver the toxic material, but YTO accepted. One of the owners of the YTO franchise in Hubei’s Shayang county that received the tainted parcels is also being held by police and the franchise’s business license has been revoked. YTO’s franchise in Weifang was also ordered to pay a CNY28,000 fine for its delay in reporting the incident.

China Postal Express and Logistics cancels IPO

China Postal Express and Logistics Co (EMS), a Chinese state-owned express courier company, has withdrawn its application to go public amid strong competition from domestic rivals in the CNY198 billion express delivery market. EMS, cited “strategic adjustment” issues as the major reason behind the IPO pullout. The firm has decided to fine-tune its original parent-subsidiary structure to a more effective headquarters-branch management model to boost its competitiveness. Founded in 2010, EMS was the result of a merger by the China Post Group and provincial postal companies to tap into the country's fast-growing express delivery market. The company said on its website that it has the widest coverage nationwide and the richest product portfolio. In August 2011, the company filed an application to be listed on the A-share market and won regulatory approval in May 2012, but its efforts to float shares were stopped by an IPO suspension that started at the end of 2012. The withdrawal of the IPO plans is an unwelcome hit to the courier, which has slipped behind rivals including SF Express (Group) Co and YTO Express (Logistics) Co, said Xu Yong, Analyst with China Express and Logistics Consulting, a logistics consultancy. EMS' market share is being increasingly squeezed by private courier companies, which together account for about two-thirds of China's express delivery market in terms of revenue, and more than three-fourths by number of parcels, according to data from the State Post Bureau released in June. The market value of China's express delivery market is expected to reach CNY400 billion by 2020, Ma Junsheng, Director of the State Post Bureau, said in October.

- Express companies are increasingly competing for cargo that barely generates a profit. “The express fee for a parcel below one kilo is just CNY5. CNY3 already went to the delivery worker, the remaining CNY2 has to cover all other costs including sorting, warehouses, transportation and investments in hardware. The gross profit margin is practically zero,” a regional cargo handler told China News Services. Yet, industry players are investing more in the expectation of future growth.

LOGISTICS INDUSTRY

China Merchants eyes deals in logistics

China Merchants Group will take advantage of merger and acquisition (M&A) opportunities in China's fragmented logistics and infrastructure sector as local governments deleverage, said company Chairman Fu Yuning. “There will be lots of mergers and acquisitions in the logistics industry in China as oversupply will lead to industry consolidation,” said Fu, who is also the Chairman of Hong Kong-listed China Merchants Holdings (International) and China Merchants Bank. There are over 100,000 logistics players in China but there is a lack of major players with advantages of scale. China Merchants' logistics arm will expand its services to upstream and downstream customers, Fu said. Over the past 20 years, China Merchants has established a network to support nationwide sales outlets for brands like Tsingtao Beer, Coca-Cola and Procter & Gamble. It is now aiming to further develop supply chain services for manufacturers as well as last-mile delivery services, which have received a big boost because of the enormous growth of e-commerce. With the recent acquisition of a minority stake in SF Express, one of the major courier companies in China, China Merchants is seeking to leverage the e-commerce boom.

PORTS & SEA TRANSPORT

Officials from China, Europe and U.S. review planned container alliance

Maritime officials from China, the United States and the European Commission held their first joint meeting in December in Washington to review the proposed P3 Network, a pooling arrangement among the world's three largest operators of container vessels. Denmark-based A.P. Moller-Maersk Group, Mediterranean Shipping Co of Switzerland and French carrier CMA CGM agreed in June to establish the long-term operational alliance on East-West routes to optimize resources and lower the cost of container shipping. The alliance will operate a total capacity of 2.6 million TEU, initially using 252 large-capacity vessels on 28 loops on three trade lanes: Asia-Europe, trans-Pacific and trans-Atlantic. While the P3 Network vessels will be operated independently by a joint vessel operating center, the three shipping companies will continue to have fully independent sales, marketing and customer service functions. The P3 Network intends to start operations in the second quarter of 2014, subject to obtaining regulatory approval. Luo Renjian, Researcher at the Institute of Transportation Research under the National Development and Reform Commission (NDRC), said unlike ship-sharing deals among smaller-sized shipping companies, the establishment of the P3 Network will encourage European carriers to grab more market share from Chinese companies. “Battling overcapacity and fierce global competition, Chinese liners are struggling to make a profit. Meanwhile, the government has stopped offering subsidies for container vessels built in domestic shipyards,” Luo said. Chinese companies such as China Cosco Holding Co and China Ocean Shipping (Group) Co have urged the China Shipowners Association to raise concerns about the P3 Network and the impact on competition. The three shipping companies have a combined 37% of the global capacity for container vessels, the China Daily reports.

Freight rates rebound in lead up to Chinese New Year

Container shipping firms are hoping for a better year as freight rates rebounded in the lead-up to the Lunar New Year holiday. Spot rates on the China-Europe route rose 17% week-on-week, or 39% year-on-year, in the week to January 3, according to the Shanghai Export Container Freight Index. The spot rate from China to the Mediterranean Sea rose 14% week-on-week, or 55% from a year earlier. China-U.S. spot rates rose just 1% week-on-week, as larger vessels are deployed on the route. Spot rates for China to the U.S. west coast plunged 18% year-on-year, however, while rates to the east coast tumbled 7% in the week to January 3. The freight market will be quiet after the Lunar New Year as migrant workers leave factories for visits home. “Taking into account the improved demand and supply situation this year, I believe freight rates will gradually go up in March,” Huang Xiaowen, Managing director of China Shipping Container Lines said. “The sustainability of rate hikes would depend on the liners’ ability to control the supply in an effective way,” said Geoffrey Cheng, Manager of Transport at Bocom International. New orders for dry bulk vessels increased over the last quarter of 2013.

ZPMC mulling to buy Hamburg-based shipyard

Shanghai Zhenhua Heavy Industries Co (ZPMC), the world's largest maker of cranes and large steel structures, is negotiating the acquisition of a German shipyard – part of its drive to diversify and expand its maritime engineering business. ZPMC aims to buy JJ Sietas Schiffswerft, a Hamburg-based shipyard with a history of more than 300 years, Huang Qingfeng, Vice President of ZPMC, told China Daily. The Chinese company made an offer for the bankrupt European facility because it wants to boost its research and development (R&D) capability for vessel engineering, Huang said. ZPMC's parent company, China Communication Construction Co, already owns a U.S.-based maritime engineering center – Friede Goldman United, which provides design services and equipment for offshore drilling rigs. A Russian shipyard in St. Petersburg has also submitted a bid for Sietas. ZPMC lost money from 2010 to 2012 as a result of rising steel prices and yuan appreciation. Since its new Chairman, Song Hailiang, arrived in 2012, the company has been trying to diversify its portfolio. According to its 2013 first-half statement, ZPMC returned to profit. Its contract value in maritime engineering and large steel structures surged 71.3% to USD997 million, representing 33.3% of its total revenue. But contracts for port equipment fell 32% to USD1 billion, representing 34.6% of revenue. Zhang Zhongjie, Industry Researcher at Essence Securities Co, said ZPMC's recent comeback was the result of its non-core business. Maritime engineering is the company's bright spot, and there's considerable growth potential in the sector, especially overseas, the China Daily reports.

- Shanghai handled 32.5 million TEU in 2012, retaining the title of the world's busiest container port for a third year. But only 5.5% of the cargos fell into the category of international transshipment. By comparison, in Hong Kong, international transshipments accounted for more than 50% of container throughput.

- Hong Kong ceded its status as the world's third-busiest container port to Shenzhen and fell to fourth place last year. Hong Kong has suffered two consecutive years of decline in container throughput, said Sunny Ho, Executive Director of the Hong Kong Shippers' Council. In the first 11 months of last year, throughput at the city fell 4.2% to 20.36 millionTEU after dropping 5.2% in 2012. In contrast, Shenzhen's throughput rose 1.2% to 21.3 million TEU in the first 11 months.
- Shanghai remained the world’s busiest container port in 2013 as the city moved toward its goal of becoming a shipping center. Container throughput rose 3.3% to a record 33.6 million TEU last year. The city first became the world’s biggest container port in 2010 when it surpassed Singapore.
- Sinotrans Shipping, one of China's largest operators of dry bulk ships, bought four 64,000 DWT vessels this month for HKD805 million, their second purchase in the space of four months. It acquired four 93,203 DWT vessels in October 2013 for HKD540 million.
- China Shipping Group, China's second-biggest shipping company by assets, is considering selling bonds denominated in U.S. dollars for the first time as borrowing costs in Asia drop to a more than one-month low. The Shanghai-based firm provides container, tanker and freight transport services. The company has the equivalent of USD3.7 billion in bonds and loans outstanding.
- China Cosco, China's largest bulk shipping company, said it would have returned to profit last year, avoiding a possible delisting after losses for two consecutive years. The company, controlled by state-owned China Ocean Shipping (Group), has posted losses for two years, and running a loss for a third year to December, would trigger a delisting from the Shanghai stock exchange. In August, Cosco posted a smaller first-half net loss of CNY990 million, compared with a net loss of CNY9.56 billion in 2012 and CNY10.4 billion in 2011. To return to profitability, Cosco sold its logistics business, stakes in a container manufacturer and office properties last year.
- China’s shipbuilding industry in 2013 received new orders of 70 million DWT, up 242% year-on-year, according to a report by the Ministry of Industry and Information Technology (MIIT). Altogether, 80% of these new orders went to the 20 industry leaders. The industry had won orders for six liquefied natural gas (LNG) carriers and four very large gas carriers (VLGC), the report said. Zhang Guangqin, President of the China Association of the National Shipbuilding Industry, said it will take at least another five years for overcapacity to be eased.
- China Shipbuilding Industry Corp (CSIC), one of China's two major shipbuilding conglomerates, said its operating revenue jumped by 7.3% year-on-year to CNY187.3 billion. CSIC attributed the increase to its strategy of diversifying and adjusting its core products. CSIC devoted more of its resources to non-marine products, such as heavy port cranes, large steel parts and equipment needed for offshore oil exploration and the generation of wind power. Sun Bo, CSIC's Executive Vice President, said that the proportion of its non-marine products now exceeds its shipbuilding operations by more than half.

RAIL TRANSPORT

China Railway Corp expected to raise freight rates

China Railway Corp (CRC) is expected to raise freight rates early this year to relieve its massive debt burden and speed up market-oriented reform in the industry, which it monopolizes. However, such a move may further reduce the competitiveness of rail against road freight, which has rapidly overtaken it in market share. The rail freight rate in China may rise from CNY0.12 per ton per kilometer to an average of CNY0.15, which the railway operator said would be “more reasonable”. “Freight services are a major source of income for the railway operator. However, the freight rate has long been under the market value,” said Li Hongchang, Railway Expert and Economics Professor at Beijing Jiaotong University. CRC was spun off from the former Ministry of Railways (MOR) in March last year, taking over its entire assets and debts. A reform in the railway freight sector has since been at the top of its agenda. Statistics from the National Audit Office show that the new national railway operator was bogged down in debt of CNY2.9 trillion in June last year, while its total assets were valued at CNY4.66 trillion. “The primary goal for the company is to increase revenues and cut costs. To raise the freight rate is a natural solution," Li said. A rise in freight rates would also be an important measure to make the highly monopolized industry more lucrative for potential private investors, analysts say. As the rail network expanded, the country's annual rail freight volume increased from 2.04 billion tons to 3.9 billion tons between 2002 and 2012. The average freight rate rose from CNY0.08 to CNY0.12 per ton per km during the decade. The research shows CRC would be able to pay off its debts within seven to 10 years assuming the freight rate rose to CNY0.13 per ton/km and annual growth in railway freight and passenger volume remained at 5% to 8%. Over the past three decades, railway freight has lost market share to road transport. The railway network's share of the country's freight volume shrank dramatically from about 48% to 17% between 1980 and 2012, CRC General Manager Sheng Guangzu said earlier. By contrast, the market share of road freight jumped from 6.4% to 35%. One reason is the overtaking of "dark goods" by "white goods". Dark goods, a term used in the railway industry to describe coal and other raw materials, are the principal type of railway cargo. While the volume of dark goods has remained steady in recent years, that of "white goods", which are those other than raw materials, has been growing rapidly, and they are mostly transported by road.

ROAD TRANSPORT

Last mile transport is greatest challenge

Last mile transport is the greatest challenge for logistics companies in China, while high road tolls and unregulated penalties have forced them to think of ways to lower costs. Total logistics costs in China topped CNY9.4 trillion in 2012, equivalent to 18% of gross domestic product (GDP), according to the China Federation of Logistics and Purchasing (CFLP). Road tolls and trucking penalties accounted for a third of those costs. About 95% of the country's highways and 61% of its first-tier roads are toll roads, with only the roads leading to suburban areas or within villages free of charge. Trucks are also subject to many restrictions and penalties that weigh on the costs of logistics firms. "I wish the government could allow trucks to use highways after midnight," said Johnny Chou, President and Chief Executive of Best Logistics Technology. The ban has left trucking companies with no option but to use highways illegally after midnight in order to guarantee timely delivery. China's logistics market is very fragmented, with up to 10,000 logistics companies in operation, meaning that only a handful can take advantage of economies of scale. Traveling empty is also a severe problem for trucking companies, because they lack the comprehensive networks needed to optimize the routes they serve, leading to wasted capacity. Shenzhen Speed Distribution, a logistics subsidiary of consumer electronics manufacturer TCL, said it tried to mitigate costs through the use of an extensive warehouse network and better inventory control. Transport-related costs accounted for 70% to 80% of the operating costs of the Shenzhen-based logistics company, with warehouse costs making up the rest, General Manager Jiang Huangfa said. Most costs are out of the company's control. "What we can do is to minimize the percentage of empty-leg trips and control the stock to just-in-time inventory level", Jiang said. TCL has 20 non-factory warehouses and 40 regional distribution centers to increase the utilization rate of trucks on pre-designed routes and has outsourced its trucking needs to more than 200 companies with nearly 1,000 trucks, the South China Morning Post reports.

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