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AIRLINES & AIRPORTS

Cathay cargo terminal opens in weeks

Cathay Pacific Airways will open its HKD5.9 billion air cargo terminal at Hong Kong International Airport about five months early on February 21. The complex, which will become fully operational by the end of this year, will boost airfreight capacity at the airport by 50% to 7.4 million tons. By comparison, total cargo throughput rose about 1% last year to 4 million tons. Cathay Pacific Chief Executive John Slosar was able to shorten the construction and development program by carrying out more detailed project planning when work on the 240,000 square meter complex stopped due to poor global economic conditions. Construction of the facility, which will be able to handle 2.6 million tons of cargo, was halted soon after work started in late 2008, and restarted in April 2010. The complex, which has been built on a 109,000 sq m site between Hong Kong Air Cargo Terminals (HACTL) and the Asia Airfreight Terminal (AAT), will become operational in three phases. Portia Cheuk, Spokeswoman for Cathay Pacific Services, which was set up to design, build and operate the terminal, said the facility will initially handle transit and valuable cargo. Phase two will see the terminal handling transshipment and import cargo from summer, while the third phase, covering export cargo, is planned to start "late in the third quarter or early in the fourth quarter". Slosar said the facility will first handle Cathay Pacific and Dragonair cargo, but under its 20-year franchise from the Airport Authority, Cathay Pacific could later handle cargo for other airlines in competition with HACTL and AAT. The facility is equipped with an automated material handling system to help move and store laden and empty airfreight containers together with areas for bulk cargo, dangerous goods, livestock and perishables such as seafood and flowers. About 1,800 people will be employed at the seven-story building when it is fully operational, including 500 to 600 directly employed by Cathay Pacific Services, the South China Morning Post reports.

Rebound in Asian cargo buoys U.S. shippers

A pickup in air cargo shipments from Asia may benefit shares of Expeditors International and FedEx as global economic growth improves. Exports at Hong Kong Air Cargo Terminals (HACTL) grew 5.9% in December from a year earlier, following an 8.5% increase in November, based on data from the biggest handler in the world's busiest freight airport. The recent gains came after shipments had contracted by an average 4.2% in the 24 months to October. The rise in shipments from Asia was encouraging for Expeditors, with 2011 revenue of USD2.9 billion from airfreight services, and FedEx, said David Ross, Transport Analyst at Stifel Nicolaus. These exports – particularly high-technology shipments – were "part of the equation" that boosted earnings for those companies. While Expeditors had missed analysts' earnings estimates for the past four quarters, it might be "nearing a beatable quarter" this year, he said. The company is scheduled to report fourth-quarter results on February 26. Exports from Hong Kong Air Cargo Terminals have a "strong correlation" with annual growth in airfreight revenue at Expeditors and yearly gains in the average daily weight of FedEx's international priority freight, according to Peter Nesvold, Analyst in New York at Jefferies & Co.

Hong Kong Secretary urges adoption of anti-terrorism measures

Hong Kong's logistics industry has to act quickly to meet tougher anti-terrorism security measures overseas, Financial Secretary John Tsang said. There are concerns in the logistics sector about whether the process can be successfully implemented, given the high cargo volume from the southern mainland for shipment out of Hong Kong's airport. "If Hong Kong businesses are among the first batch of service providers that satisfy these requirements, it is very possible that we can beat other less-prepared rivals", Tsang said. "Hong Kong is best known for its efficiency and speed in terms of cargo handling," said Transport Sector Lawmaker Frankie Yick. "But our three [cargo terminal operators] do not have the capacity to comply with the proposed requirements at present." The "air cargo advance screening" regulation implemented in the U.S. last month requires details about the shipper, consignee and cargo to be lodged with the Transportation Security Administration before the cargo is loaded onto the aircraft. The U.S. authorities plan to extend the advance screening pilot scheme to cover cargo transported on freighter aircraft, and local businessmen expect the law to come into full effect by the middle of next year. Meanwhile, EU regulation 859, which will take effect from July next year, requires all air cargo shippers and forwarders to be independently validated. Any suspect cargo to Europe will have to be X-rayed before being loaded on to the aircraft. Yick said the EU regulation could pose a difficulty for local businesses, because many Hong Kong companies own factories in the Pearl River Delta, and the ways through which their products can be validated have yet to be addressed.

- China's first homegrown army transport aircraft, the Y-20, has successfully completed its maiden flight and will now undergo further experiments and test flights. The Y-20, or Transport-20, is a huge, multifunction freighter similar in size to the Russian IL-76 but smaller than the United States' C-17. The giant aircraft makes China the fourth country in the world, following the U.S., Russia and Ukraine, to develop a jumbo airfreighter. The aircraft can handle a payload of up to 66 tons. The Y-20 program is part of an effort to develop an indigenous long-range jet-powered heavy transport aircraft.

EXPRESS DELIVERY

China possibly largest market for express deliveries

Last year saw 5.7 billion packages delivered through express services in China, prompting analysts to speculate over whether the country has surpassed Japan to become the world's second-largest market for express deliveries. Ma Junsheng, Director General of the State Post Bureau of China, said that China's postal industry made significant strides in 2012, with the domestic express industry earning CNY106 billion in revenue last year, a year-on-year increase of 40%. The number of packages delivered in 2012 was up 55% from the previous year, Ma said, and he expects the figure to increase by 40% this year, hitting 8 billion. Xu Yong, Chief Consultant with the express and logistics website www.cecss.com, said China has already emerged as the world's second-biggest market for express deliveries. The website estimates Japan saw about 5.5 billion package deliveries in 2012, and the United States 7.5 billion. "But China's express market is still in its initial stage of development," Xu said. "Compared with developed economies, China lags behind in the diversity and quality of its services." The express delivery market is expanding thanks to e-commerce. A report from the

Boston Consulting Group has suggested that China is likely to surpass the United States to become the world's biggest online retail market in 2015, a year in which the country's online retail sales are expected to be worth more than USD360 billion. But the surge in e-commerce transactions has resulted in difficulties for Chinese courier companies. Da Wa, Secretary General of the China Express Service Association, said domestic demand for express services will far exceed the supply for at least the next five years. The combined number of packages ordered on peak days from Tmall.com and Taobao.com could even "exceed the total number of packages that Chinese courier firms can handle in a single day", according to Daniel Zhang, President of Tmall.com. "The revenue from the domestic express industry is expected to triple in 10 years by 2020," Ma of the State Post Bureau said, as reported by the China Daily.

Courier companies to remain in service during holiday

Couriers are gearing up for the upcoming Spring Festival business surge after a government directive was issued requiring all express delivery companies to remain open during the Chinese New Year holiday. During Spring Festival, each company must appoint a transfer station for distribution and dispatch of parcels, and provide delivery services to both bricks-and-mortar and online vendors, according to a notice published on the website of the State Post Bureau. "The express delivery service industry is a public service in the same vein as the civil aviation and railway industries, so they should stay open during the Spring Festival," said Shao Zhonglin, Deputy Secretary General of China Express Association. Greater supervision of the industry is also urged, after postal authorities canceled the licenses of 116 couriers in the past year for allegedly losing mail and poor sorting. Such complaints plague China's fragmented but booming express delivery industry, where delay, damage and outright loss of packages continually erode operators' reliability and reputations. Some vendors warn their customers that what is usually a three-day delivery could take up to two weeks. China's express delivery sector was worth CNY48.9 billion in the first half of 2012, according to the latest data from China Express and Logistics Consulting. "The number of express deliveries will increase by 50% or could even double during the Spring Festival holidays," said Xu Yong, Principal Analyst of China Express and Logistics Consulting website, the China Daily reports.

LOGISTICS INDUSTRY

Alibaba to build national logistics network

Alibaba Group Holding, China's largest e-commerce company, plans to join hands with partners to build a logistics network across China that can support CNY10 trillion worth of transactions a year within the next decade. It will take the lead in a CNY100 billion investment in the network by teaming up with industry players, banks and the biggest express delivery companies, including Chinese retailer Yintai Group and private conglomerate Fosun Group, Alibaba said. China's logistics industry has been criticized for its inability to satisfy the great demand of e-commerce delivery. Alibaba aims to make deliveries between any two places in China within 24 hours once the network – China Smart Logistic Network – is finished. "It's like building a road so that cars can run on it," said Yang Lei, public relations director of Alibaba. He added that Alibaba will not do the deliveries itself, just like it doesn't sell things itself but instead builds the infrastructure for others to sell. Alibaba and its partners will set up warehouses across China and build a data system that tracks trade and delivery information of suppliers, sellers and buyers to improve the efficiency and quality of deliveries, Yang said. A new company will be set up, and Jack Ma, Alibaba's Chairman, will act as the Chairman, while Shen Guojun, Chairman of Yintai Group, will be CEO. Xu Yong, Chief Consultant with the express and logistics website cecss.com, said that Alibaba's promise to deliver packages in 24 hours will be hard to fulfill. A single logistics network may also prevent Alibaba's e-commerce rivals, such as Jingdong Mall, from joining, Xu added. Jingdong Mall, the second-biggest business-to-customer website in China, has established six logistics centers, covering more than 300 cities across China. The company is building up a warehouse and logistics system in major cities like Beijing, Shanghai and Guangzhou. Last year, China's express delivery industry had CNY106 billion in revenue, a year-on-year increase of 40%, according to the State Post Bureau. The number of packages delivered last year increased 55% from a year earlier, and Ma Junsheng, Director General of the State Post Bureau, expected the figure to increase by 40% this year, hitting 8 billion, the China Daily reports.

- Shanghai will more than double its bonded warehouse space this year amid speculation the world's biggest harbor will be the site of China's first delivery point approved by the London Metal Exchange. Shanghai will add 80,000 to 90,000 square meters by the middle of this year to an existing 50,000 sq m, said Eric Ni, Business Development Manager at Shanghai Free Trade Zones United Development Co. Record copper inventories forced warehouses to stack stocks outdoors last year.

PORTS & SEA TRANSPORT

Ship manager Wallem sets up Singapore unit

Burgeoning growth in specialist ship management services is leading Hong Kong-based Wallem Group to open its first ship management and broking operation in Singapore. Captain Deepak Honawar, Director of Wallem Shipmanagement, said launching in Singapore would provide more space for the company to grow its Hong Kong ship management business. "Ships call more frequently at Singapore than Hong Kong" to refuel and change crews, he said. As a result, it was likely some of the ships currently managed from Hong Kong, along with technical staff, will be transferred to the Singapore operation. "This will make room for expansion in Hong Kong," Honawar said. Wallem manages more than 400 ships globally including tankers, dry cargo bulk carriers, container ships and vehicle carriers on behalf of shipowners. Honawar said the company saw a net increase in its managed fleet of about 40 ships last year. The move into Singapore comes six months after Wallem formed a ship management joint venture with Chinese shipowner Nanjing Tanker in Singapore. Honawar said the partnership, NW Shipmanagement, had 16 tankers in its fleet and the tie-up would give Wallem the opportunity to recruit more Chinese officers with tanker experience. He said NW Shipmanagement was the latest of several joint ventures Wallem had with shipowners including Cosco in Qingdao, and Fesco and ID Maritime in Hong Kong. Honawar will become Managing Director of Wallem Singapore, moving to the city state in February ready for Wallem Shipmanagement (Singapore) and Wallem Commercial Services to launch in April, the South China Morning Post reports.

Cosco eyes 60% stake in Piraeus Port

Chinese shipping group Cosco is considering investing €1 billion to acquire a 60% stake in Greece's largest port at Piraeus, which is on the government's privatizations list. Greek Finance Minister Yannis Stournaras said Cosco had "shown an interest" in expanding its investment in Piraeus, without giving details. Cosco has already made a major investment in Piraeus port, which is 74% state-owned. Cosco spent €4.3 billion on a 35-year management lease for the No 2 and No 3 piers, which it has been operating since June 2010. In 2011, about 1.7 million containers passed through Piraeus, the country's busiest port and a gateway to Eastern Europe. Cosco also announced investment plans to improve port facilities, build a new pier and almost triple the volume of cargo the port can handle. The company pays €100 million a year to the Greek government to maintain its presence at the port. The Greek port has generated moderate profits for the group compared with its financial losses over the last two years. During the first three quarters of 2012, China Cosco Holdings Co, the group's Shanghai-listed unit, suffered a loss of CNY6.4 billion, the largest loss among the more than 2,000 listed companies. Two consecutive years of losses will put the company on the special-treatment list of the Shanghai Stock Exchange, which would limit the daily trading movement of its stock to 5%, compared with the standard 10%. Three years of losses could result in it being removed from the exchange. Investment in the port could strengthen Cosco's market position. "As global trade is increasingly relying on China's growing imports, it is very important for shipping companies such as Cosco to strengthen their global presence," said Han Yichao, Analyst with Changjiang Securities Co.

Hebei's Huanghua port reports increasing cargo volumes

Huanghua port in Hebei province has reported steady annual increases in cargo and container volumes. According to the latest data from the port, it handled a total of 130 million metric tons of cargo in 2012, an increase of 12.4% on 2011. Coal throughput jumped by 5% from a year earlier to 105 million tons, accounting for 81% of its total cargo flow. The figures represent a sound performance compared with the industry's national average growth, analysts said. During the first 11 months of 2012, Chinese ports handled cargo volume totaling 8.9 billion tons, up 6.9% compared with the same period last year, according to the Ministry of Transport, but 7 percentage points lower than the year before. Huanghua port saw two 400,000-container capacity terminals start operating at the beginning of 2012. They handled a total of 102,000 containers for the whole year – a record for new terminals in China. By contrast, container throughput processed by all Chinese ports in 2012 jumped 8% from a year earlier to 146 million containers, a growth rate about 4 percentage points lower than 2011. Officials at Huanghua attributed the solid performance to its key geological location, which can substantially reduce logistics costs for energy companies, steel makers and coal exporters based in China’s coal-rich central provinces. The port has also implemented favorable policies, including subsidies for shipping companies that chose to ship their cargo through the port. Since October 1, 2012, it has also exempted trucks carrying containers to and from the port from paying expressway tolls in the province. The port is currently building a CNY3.76 billion, 58.8-km-long, 200,000-tonnage deep-water channel, which should be in use by the end of this year. Cangzhou Mayor Jiao Yanlong said the local government wants to build Huanghua into a key national port by 2020, the China Daily reports.

Little evidence of rebound in shipping

Some executives from shipping companies that carry containers full of China-made products mainly to Europe and North America say they see little evidence of a strong rebound in seaborne exports. Stephen Ng, Director of trade for Orient Overseas Container Line, said the company wasn't seeing “any particular upsurge” in container volumes on its Asia-to-Europe or trans-Pacific services. Parent Orient Overseas International said its container-shipping trans-Pacific services volume fell 6.8% in the fourth quarter compared with a year earlier. Volume on Asia-to-Europe services grew 2.8% compared with the year-earlier quarter. Consulting firm Alphaliner expects modest demand growth this year, forecasting a 1% rise on Asia-Europe services and a 1.6% trans-Pacific rise. Last year, Asia-to-Europe volumes declined 5% while trans-Pacific volumes fell 0.4%, according to Alphaliner estimates. The vast majority of containers on both routes carry exports from China. “We see a rally in shipping-company shares but the industry has not fundamentally improved,” says Bonnie Chan, Analyst with Macquarie Securities, citing a continued weak trade outlook as well as overcapacity and low rates within the industry. Despite a recent rise in China’s exports, analysts say the latest figures are influenced by exceptional factors such as backlogs caused by port strikes in the U.S. Others in the industry said they see some growth. Tim Smith, Maersk Line's North Asia Chief Executive, said the company was experiencing “a rather unexpected strong pickup in exports” from China, especially to Europe, a rise he said looks set to continue up to the Lunar New Year in mid-February. Global supply of container-shipping capacity is expected to grow up to 9% in 2013 while demand growth is expected to grow between 4% and 6%, Alphaliner said, the Wall Street Journal reports.

Shippers renew low-sulphur fuel pact

A group of shipping companies has extended, for another year, a voluntary scheme to use low-sulphur fuel to reduce air pollution from emissions while ships are berthed in Hong Kong. But they warned they could end the initiative, called the Fair Winds Charter, if “there is no substantial progress towards mandatory regulation by December 31, 2013”. The firms, who are members of the Hong Kong Liner Shipping Association (HKLSA) or the Hong Kong Shipowners' Association (HKSOA), also urged the government to improve and simplify the incentive scheme launched by the Environmental Protection Department in September. Nearly 570 ships have been registered for the scheme, which gives a 50% reduction in port- and navigation-related charges for oceangoing ships using low-sulphur diesel. Tim Smith, Chairman of the HKLSA, said the incentive scheme covered only part of the extra cost of using the more expensive cleaner low-sulphur fuel. He said the actual proportion varied among shipping companies but for Maersk Line, where Smith is Chief Executive for north Asia, the cost was between USD1.5 million and USD2 million. Hong Kong’s Undersecretary for the Environment Christine Loh said legislation requiring oceangoing ships to use low-sulphur fuel was expected to be lodged with the Legislative Council after the summer recess. Loh hoped it could be approved by Legco “sooner rather than later”. Secretary for the Environment Wong Kam-sing said mandatory fuel switching at berth was the government's “near-term target”, while an internationally recognized emission-control area covering the whole Pearl River Delta “is a long-term goal”. Preliminary discussions with officials in Guangdong and the Ministry of Transport in Beijing to create the emission-control area had begun, the South China Morning Post reports. If all container lines calling at Hong Kong switch to the cleanest fuel available, sulphur dioxide emissions from shipping will drop 80%.

- About 464 shipyards in China won 18.7 million DWT of orders worth USD14.3 billion last year, the lowest since 2004, according to Clarkson. That compares with contracts for 14.6 million tons worth USD29.6 billion received by 88 yards in South Korea, the world's second-biggest shipbuilding nation. 38% of yards in China did not get contracts for new vessels last year, and 10% had no deliveries scheduled beyond year-end, the London-based shipbroking unit of ICAP said last month.

- China Shipbuilding Industry Corp recorded higher revenue and profits in 2012. Revenue increased 7.7% year-on-year to CNY175 billion, while profits increased more than 7% from a year earlier. China Shipbuilding attributed the increases to its strategy of diversifying and adjusting its products. To reduce its business risks, the company devoted more of its resources in 2012 to various non-marine products, such as equipment needed for offshore oil exploration and the generation of wind power. Such products are likely to be the source of more than half of our sales revenue over the next few years. During the first 10 months of 2012, the Chinese shipbuilding industry's revenue declined by 5% year-on-year to CNY41.3 billion.
- Zhang Zhirong, one of the richest men in China, gave up his controlling stake in China Rongsheng Heavy Industries Group Holdings, the country's largest shipbuilder outside state control, which he co-founded. The former Chairman has reduced his interest to 29.32% from almost 48% in two transactions, according to a filing to the Hong Kong stock exchange.
- Orient Overseas Container Line said revenue from its container shipping division rose 6.7% to USD5.9 billion last year following a 3.7% rise in box volumes to 5.2 million TEU. But Barclays Analyst Jon Windham said fourth-quarter revenue dropped 10.9% compared with the third quarter after container volumes saw a quarter-on-quarter fall of 6.7%.

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Contact:
Flanders-China Chamber of Commerce
Voldersstraat 5, B-9000 Gent
Tel.: +32 9 264 84 86/82 – Fax: +32 9 264 69 93
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 or mobile phone +86-13901323431. Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.