法兰德斯中国商会 FCCC VCKK

FLANDERS-CHINA CHAMBER OF COMMERCE
VLAAMS-CHINESE KAMER VAN KOOPHANDEL

LOGISTICS NEWSLETTER | 28 FEBRUARY 2013

AIRLINES & AIRPORTS

Cathay Pacific looks to increase higher-value cargo

Cathay Pacific Airways aims to replicate its business-class strategy in a cargo trade upgrade. It wants to fly more diamonds and medicines rather than T-shirts. Nick Rhodes, the airline's Cargo Director, said: “Similar to the passenger service, we are not a low-cost carrier. We try to be a full-service cargo carrier. That's really our DNA.” The airline, the world's biggest international air-cargo carrier, started operating its first independently-owned goods terminal in Hong Kong this month, increasing the airport's capacity by half. The airline has spent HKD5.9 billion on a facility it says will help Cathay target an increase of up to 20% in more profitable shipments of high-value goods, perishables and vaccines. Success with that strategy is critical to boosting profit in a business that accounts for over a fifth of the airline's revenue. Both Singapore and Korean Air Lines also want to move to higher-value goods even as the global air-freight market declined for a second straight year in 2012, amid a slump in demand across Europe. Cathay, which moves cargo with 22 dedicated aircraft and in the bellies of passenger aircraft, carried 1.56 million tons of cargo and mail last year, 5.3% less than a year earlier. Revenue, measured by weight multiplied by kilometers, also fell 7.3% to CNY8.94 million.

Older Boeing 747s no longer cost efficient

Air cargo and passenger airlines using older fuel-guzzling long-range freighters could pull out of the air cargo market this year as they battle falling yields and persistently high fuel costs, according to industry observers. They said this could remove capacity and help balance supply and demand growth, which would support yields for major airlines in the air freight market. Nick Rhodes, Cathay Pacific Cargo Director, said carriers operating older Boeing 747s on long-haul routes will find it extremely difficult to make a positive return in the current climate, even if the aircraft are fully depreciated. Rhodes said Cathay Pacific had already scrapped one of its six 747-400s that was converted from a passenger to a freighter aircraft. Four cargo aircraft have been parked as the airline reduces freighter capacity and prepares for the arrival of more Boeing 747-8 freighters and the launch of its 777-200 freighter services. Air China Cargo, Cathay's joint venture with Air China, is rumored to be the recipient of some of the 777 freighters to replace 747-400 converted freighters as it seeks to stem losses. The International Air Transport Association (IATA) estimated that fuel accounted for 33% of an airline's operating expenses last year compared with just 14% in 2003.

Memphis closes in on Hong Kong in air cargo

Growth of shipments at FedEx's home hub in Memphis, Tennessee, topped Hong Kong's for the first time since the U.S. facility lost the title of world's busiest cargo airport in 2010. Volume rose 2.5% in Memphis, outpacing Hong Kong's 2.3%, Bloomberg data show. That helped shrink Hong Kong's lead in tonnage to 0.2% from 5.3% in 2010. Kevin Sterling, Analyst at BB&T, said: “Memphis has kind of held steady versus Hong Kong, which has been on more of a roller-coaster ride.” The International Air Transport Association (IATA) forecast that air cargo demand worldwide would increase 1.4% this year, resuming growth after declines of 1.5% last year and 0.6% in 2011. The U.S. will be the top cargo market in 2016, with 7.7 million tons of international freight that year, against 3.49 million for mainland China and 3.23 million for Hong Kong, it predicted. Hong Kong faced more challenges, grappling with slower mainland Chinese expansion, declining shipments to Europe and fiercer competition from other airports, Wells Fargo Senior Economist Mark Vitner said. Lower European volumes would probably remain a challenge in the next four years, the IATA predicted. Shipments between the Asia-Pacific region and Europe would drop to 17% of global freight traffic by 2016 from about 18% in 2011. At the same time, Hong Kong's regional competitors are vying for larger market share. Terminals in China, such as Shenzhen Baoan International Airport and Guangzhou Baiyun International Airport, where FedEx opened a hub in 2009, were getting more traffic because of infrastructure improvements, said Chris McNally, Political Economist at the East-West Center.

- Air cargo throughput in Hong Kong grew 21.2% last month year-on-year to 334,000 tons, according to the Airport Authority. Stanley Hui, Chief Executive of the Authority, said the jump in cargo throughput was mainly attributable to the timing of the Lunar New Year. All major markets showed growth over January last year, with Taiwan and North America outperforming other key regions. Imports, exports and transshipments all grew by double digits.
- Cathay Pacific Services started handling airfreight at the airline's HKD5.9 billion cargo terminal at Hong Kong International Airport on February 21. The complex, which can handle 2.6 million tons of cargo a year, will initially handle transfer transshipments, valuable cargo and transit mail under a three-stage opening program.

EXPRESS DELIVERY

PE interest in Quanfeng could lead to IPO

Quanfeng Express, a Chinese courier that started operations in July 2011, has attracted investment interest from private equity companies. The funding is likely to pave the way for the first initial public offering (IPO) in the industry, analysts say. Leading Capital Fortune, Beijing Pengkang Investment Co and Phoenix Capital Asset Management have announced they will inject CNY200 million into the courier to bolster its nationwide expansion, said the company’s President Chen Jiahai. Quanfeng’s existing shareholders maintain the controlling right in the company, and investors will only intervene in financial issues, not in daily operations, company Spokesman Dai Changzheng said. The company aims to turn itself into a mid-to-high-end express delivery firm, following in the footsteps of SF Express (Group) Co, which charges double for same-city deliveries compared with local rivals, Dai said. Aided by the funding, the company also plans to seek a listing in three to five years, according to Dai. He added that Quanfeng targets small parcels weighing less than 5 kg, and focuses on cross-town businesses in first-tier cities such as Beijing, Shanghai and Guangzhou. Greater supervision of the industry has been called for after postal authorities canceled the licenses of 116 couriers in the past year for allegedly losing mail and poor sorting. “We want to guarantee customers speed, safety and quality of services, so that they are willing to pay more for our services," Dai said. China's express delivery sector was worth CNY48.9 billion in the first half of 2012, according to China Express and Logistics Consulting. Compared with interregional and international businesses, cross-town delivery enjoyed the fastest year-on-year growth of 54.5% in the first quarter of 2012, with revenue reaching CNY2.02 billion, according to China Venture Group, as reported by the China Daily.

Delivery companies start recruiting, offer higher salaries

Many parcel delivery companies are offering higher salaries and other incentives to lure workers returning from the Chinese New Year holiday. Many companies started recruiting more heavily, with some offering salaries up to CNY8,000 or extra subsidies. The average salary offered by delivery firms has been about CNY5,000, industry insiders said. Some salary offers are even pulling workers from other industries and regions. "Many local deliverymen are temporary workers and have no long-term contracts with the firms, so it is always difficult for the firms to call them back after holidays," said Chen Guoqiang, Manager with YTO Express in Shanghai. While salaries may go up, workers may be working harder. Many online orders for holiday gifts, which boomed this year, have been waiting in warehouses because of the labor shortage. "The workload has been nearly doubled," said He Rubin, a courier with TTK Express. Workers said some of those who didn't go home for the holidays stopped working because of the heavy workload. The work was also more difficult because people weren't at home to take deliveries during the holiday.

PORTS & SEA TRANSPORT

China could support Vale's Valemaxes

China's steel industry will support Brazil's Vale mega ships if it could lead to lower iron ore prices, the China Iron and Steel Association (CISA) said. Vale is building the so-called very large ore carriers (VLOC), known as Valemax, to better compete with Australian miners Rio Tinto and BHP Billiton in supplying China with the steelmaking ingredient. Vale's ore for China has to travel three times the distance as ore from Australia. "Chinese steel companies hope that transport costs will fall and that iron ore prices will fall," said Zhang Changfu, Secretary General of the Association. Vale has ordered building a fleet of 35 Valemax carriers, each with a cargo capacity of up to 400,000 tons. Shipbuilders in China and South Korea are building them for the company. But the Ministry of Transport's ruling in January last year bans dry bulk ships as huge as the Valemax from docking at Chinese ports because of lobbying by the shipping industry which cited the potential impact on domestic loss-making shippers.

Chinese company to manage Pakistan's Gwadar Port

Pakistan transfered the management of the strategically located Gwadar port from Singapore to China. Because Singapore's PSA International has not developed the deep-sea port on the Arabian Sea "as desired", Pakistan's government agreed to transfer the port's management to Chinese Overseas Port Holdings. China provided about 75% of the initial USD250 million in funding for the construction of the port in Pakistan's southwestern Baluchistan province. Gwadar port may provide supplies for Chinese merchant ships and escort vessels, as well as serving China's energy interests in the Middle East. Chinese investment can also help Islamabad to better develop Baluchistan province. "The contract of operation of Gwadar Port was transferred from the Port of Singapore Authority to China Overseas Ports Holding Co," Pakistani President Asif Ali Zardari announced. On January 30 the Pakistani government approved the transfer of Gwadar, currently a commercial failure cut off from the national road network. The Pakistanis pitched the deal as offering an energy and trade corridor to connect China to the Arabian Sea and the Strait of Hormuz, a gateway for a third of the world's traded oil, overland through an expanded Karakoram Highway. Experts say it would cut thousands of kilometers off the distance which oil and gas imports from Africa and the Middle East have to travel to reach China. China paid about 75% of the initial USD250 million used to build the port but in 2007 PSA International won a 40-year operating lease.

Damaged OOCL Brussels facing expensive repairs

A massive container ship that was meant to be the pride of Orient Overseas Container Line is languishing in a South Korean shipyard facing expensive repairs. The OOCL Brussels is one of 10 ships, and the first in the OOCL logo, ordered by parent Orient Overseas (International) for USD1.36 billion in 2011. The ship and its sister vessels will be the biggest in the company's fleet, capable of carrying 13,208 20-foot containers. OOCL and Samsung Heavy Industries went ahead with a lavish dual-christening ceremony for OOCL Brussels and sister vessel NYK Helios on January 18, despite knowing that the delivery of OOCL Brussels would be delayed. There were more than 80 guests, including Shiu Kuang-si, President of Taiwan's Mega International Commercial Bank, Chartsiri Sophonpanich, President of Bangkok Bank, and OOCL Chief Executive Andrew Tung. The OOCL Brussels is a very complicated piece of machinery and it is now in the final stage of being prepared for delivery. The ship was to have entered service on OOCL's important Asia-Europe line at the end of last month, but now would not be delivered by Samsung until March 26. Delivery of the ship has been delayed after the tail shaft, which connects the engine to the propeller, was damaged during engine tests. Kim Ho-kwon, Samsung's General Manager, confirmed that two sections of tail shaft, including the aft section closest to the propeller, both of which are 14 meters long, were damaged by shipyard workers. Speaking from Samsung's Geoje shipyard, Kim added that “another very small accident” involving shaft bearings took place while the shaft sections were being removed. He said the cost of the damage was the shipyard’s responsibility. Two Hong Kong ship management companies contacted by the South China Morning Post said the tail shaft was custom-made for each vessel so it was difficult to estimate the cost of repairs. But they said repairs could cost up to at least USD2.25 million, which should be covered by Samsung's insurers.

Cosco International considering ship leasing

Cosco International, the marine fuels, paints and ship trading offshoot of China's largest shipping company, is mulling entering the ship leasing market as part of a range of options to expand its operations. One person said the proposal was “still at the study stage” and could involve leasing newly ordered ships or those that have been completed but not delivered, possibly because the owners cannot get financing. Several banks, including ICBC and Standard Chartered, have launched ship leasing businesses where they retain ownership of vessels and charter them to operators at a daily rate, while the operator is responsible for repairs and crew costs. Standard Chartered has more than 20 ships on these bareboat charter contracts, including vessels operated by Wah Kwong Maritime Transport and commodities group Noble. Asked if Cosco International planned to deal exclusively with shipyards owned by its parent, China Ocean Shipping (Group), in offering ships on bareboat charters to Chinese and foreign operators, the person said: “In the long term, there is a definite focus on developing non-Cosco customers.” He said Beijing had policies to help with vessel financing, including tax breaks. Cosco International may also consider expanding its ship trading operation from the sale and purchase of Cosco vessels to cover ship chartering, where vessels are leased to commodity firms and traders. Sources said other plans included opening two new paint factories in China and acquisitions to strengthen its existing five businesses, which cover paints, marine equipment, ship trading, marine fuel and insurance. They believed the fastest-growing operation would be marine coatings because of two upcoming factories. Jotun Cosco (Qingdao) is due to complete a marine paint factory by the end of next month to produce up to 67,500 tons of coatings a year. Cosco Kansai (Shanghai) is also planning to start construction in October of a facility producing paint for shipping containers to replace an outdated plant, the South China Morning Post reports.

BIMCO opens Shanghai Center

The Copenhagen-based Baltic and International Maritime Council (BIMCO) has opened its Shanghai Center. BIMCO has more than 2,500 members globally, controlling more than 15,000 ships and 65% of the world’s tonnage, the Shanghai Daily reports. Torben Skaanild, Secretary General of BIMCO, said the set-up of the center in Shanghai is a milestone for the Council. BIMCO will help China amplify the “voice” of the Chinese shipping industry on the world maritime stage, especially in crafting global shipping standards and trade rules, he said. Shanghai will improve its infrastructure construction to build itself into an international shipping center, as well as develop its shipping service industries that rely on BIMCO, said Zhang Lin, Vice Director of the Shanghai Municipal Transport and Port Authority.

- The history of Shanghai as an important shipping center for China could be older than first thought, following the discovery of about 2,000 ancient relics from the Tang Dynasty (AD 618-907). “The discovery is groundbreaking,” said Chen Xiejun, Director of the Shanghai Museum. “The porcelain uncovered not only proves the city was a major port of trade, but also a prototype as an international shipping center,” said Song Jian, Director of the Archaeology Research Department of the Shanghai Museum. “The finding is just the tip of the iceberg,” said Song, describing the 15-square-km Qinglong site southwest of Shanghai. Field research at the site could take years.

- Rongsheng Heavy Industries has entered closed-door talks with China Citic Group to issue new shares in a private placement to raise USD200 million. With Citic investment, the privately-run Rongsheng could eventually become a state-controlled enterprise. Rongsheng’s largest shareholder and former Chairman Zhang Zhirong last year paid USD14 million to settle an insider trading case in the United States. Zhang needs new investors, in particular an entity like Citic with a strong government background, to help Rongsheng overcome business challenges and financial difficulties as the global shipbuilding industry suffers a downturn amid a weak economic recovery worldwide, sources said.

RAIL TRANSPORT

High-speed rail frees traditional link for cargo

High-speed rail projects create broader economic benefits not measured in traditional cost-benefit analysis, according to a study by the World Bank. “High-speed rail will push China's economy forward significantly,” said Anthony Wong, former President of the Hong Kong Logistics Association. The comments followed a report by the World Bank, which stated: “The wider economic benefits of high-speed rail in China seem more significant than in developed countries. [The projects] have the potential to deliver significant benefits.” The report said the high-speed railway between Guangzhou, in Guangdong province, and Nanning, in Guangxi, would generate benefits of CNY99 billion over the next 30 years, including CNY49 billion in indirect economic benefits not captured in conventional cost-benefit analysis. After the Beijing-Guangzhou high-speed line opened, the traditional rail link between these two cities was used to transport an additional 20 million tons of freight annually, because passengers switched to high-speed trains, said Zheng Tianxiang, Transport Professor at Sun Yat-sen University in Guangzhou. “This is very important, because trains can bring coal from the south to the north this winter while many trucks can't transport coal due to the snow,” Zheng said. He said China was overly reliant on trucks to transport freight and needed to expand rail freight transport.

Rail Ministry's debts bring biggest freight fees rise in a decade

The crushing debt burden of the Ministry of Railways (MOR) has compelled Beijing to impose the biggest rise in rail freight tariffs in a decade. Although that may be bad news for freighters, it came as welcome news on the stock market, where the Hong Kong share price of Guangshen Railway, a freight and passenger rail company operating in Guangdong province, and of Daqin Railway, a coal rail operator; and shares in China Railway Tielong Container Logistics, a rail container operator, all rose on the news. The rate rise will increase Daqin's revenue by about CNY1.6 billion this year, the Shanghai-listed firm announced. Its turnover was CNY43.5 billion in 2011. The Railways Ministry and the National Development and Reform Commission (NDRC) raised the rail freight tariff by 13%, the largest increase since 2003. Macquarie Analyst He Saiyi said the Railways Ministry's debt burden was rising and its gearing ratio was beyond control, requiring it to generate more income. “The fact that they raised the tariffs higher than expected shows how desperate they are for cash,” she said. As of September 30 last year, the Railways Ministry's debt was CNY2.6 trillion and its gearing ratio stood at 61.8%. Freight charges accounted for 50% to 70% of the Ministry's revenue, and last year it collected CNY320 billion in freight revenues, only slightly above its repayment of principal and interest of CNY300 billion. He Saiyi said freight rates would continue to increase in the next few years. Last year's 9.5% jump was already high, Bocom International Analyst Geoffrey Cheng said. In 2011, coal accounted for 64.2% of the country's rail freight, the South China Morning Post reports.

FOUNDING MEMBERS

STRUCTURAL PARTNERS

Your banner at the FCCC website or newsletter

Companies interested in posting a banner/an advertisement on the FCCC website, FCCC weekly newsletter or bi-weekly sectoral newsletters are kindly invited to contact the FCCC at: info@flanders-china.be

Organisation and founding members FCCC

President: Mr. Bert De Graeve, C.E.O., NV BEKAERT SA
Vice-President: Mr. Stefaan Vanhooren, President Agfa Graphics, Member of the Executive Committee of the Agfa Gevaert Group, NV THE AGFA-GEVAERT GROUP SA
Secretary and Treasurer: Mr. Dirk Mampaey, Senior General Manager Corporate Services, NV KBC Bank SA
Executive Director: Ms. Gwenn Sonck
Members of the Board of Directors and Founding Members:
Mr. Bert De Graeve, C.E.O., NV BEKAERT SA
Mr. Jozef De Mey, Chairman of the Board, NV AGEAS SA
Mrs. Elisabeth Schraepen, Public Affairs Manager, Belgium and Luxembourg, NV AB INBEV SA
Mr. JP Tanghe, Senior Vice President, NV BARCO SA
Mr. Kris Verheye, Vice President Corporate Division, NV BELGACOM SA
Mr. Johan Verstraete, Vice-President Marketing, Sales & Services Weaving Solutions, NV PICANOL SA
Mr. Luc Maton, General Manager Asia Region, NV AHLERS SA
Mr. Marc Stordiau, Member of the Board of Directors, NV DEME SA
Mr. Stephan Csoma, Senior Vice-President Government Affairs, NV UMICORE SA
Mr. Dirk Mampaey, Senior General Manager Corporate Services, NV KBC Bank SA

Membership rates for 2013:

- Large enterprises: €975
- SMEs: €385

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

Share your story:
To send your input for publication in a future newsletter mail to: info@flanders-china.be

This newsletter is realized with the support of the Federal Government of Belgium, the Flemish Government, the Walloon Government and the Government of the Brussels-Capital Region.

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 .