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AIRLINES & AIRPORTS

Air China to buy 8 Boeing 777-200F freighters

The Air China board has authorized guaranteed funding for the purchase of eight Boeing 777-200F freighters for Air China Cargo Co. The guarantee will be provided jointly with Cathay Pacific Airways, its partner in Air China Cargo, in accordance with their respective 51% and 49% stakes in the business.

EXPRESS DELIVERY

DHL announces new China-Europe service

DHL Global Forwarding introduced a second multimodal overland service connecting Asia and Europe. A train will depart every Friday from Chengdu to Europe, passing through western China and Kazakhstan to DHL's intermodal hub in Malaszewicze, Poland. The new weekly service comes as an addition to DHL's daily service, which departs from Shanghai and runs along the trans-Siberian North Corridor. It will reduce the overall Asia-Europe transport time by up to eight days, further cutting costs and CO_2 emissions.

Express delivery market grows 5-fold in 5 years

China's express delivery market has grown five-fold in the past five years, according to the State Post Bureau. The number of units delivered in April surged by 64.1% compared to last year, with revenue reaching CNY10.9 billion, an increase of 41%. The first quarter of this year saw 1.71 billion units of post delivered, up 64.3% year-on-year. About 5.7 billion units were delivered through couriers in 2012, with a market value of CNY106 billion. Private companies claimed three-fourths of the market share and 61.9% in terms of sales. Around 800,000 couriers were employed.

LOGISTICS INDUSTRY

Guangdong to create network of ports, railways and waterways

Guangdong's plan to spend billions of yuan to create a network of ports, railways and waterways will pose a competitive threat to Hong Kong, but it may benefit Hong Kong exporters. Guangdong ports are reaching the limits of their capacity. Guangzhou's Nansha port can hardly handle more than 20% of Hong Kong's cargo, so the province could use more port facilities. Over the next three years, the province will spend CNY55.4 billion on building port facilities, waterways and railways, according to the Shenzhen Ports Association's website. About CNY28.7 billion of that will be spent on port projects, including the third phase of Nansha, container terminals at Yantian port in Shenzhen, container terminals in Gaolan port in Zhuhai and a coal terminal in Quanwan port in Huizhou. This will increase Guangdong's annual container capacity by 10.5 million TEU to 50 million TEU and raise Guangdong's annual cargo capacity to more than 1.3 billion tons. A further CNY8.2 billion will be invested in waterways in Guangdong in the next three years. The province will invest CNY18.5 billion in building railways over the next three years, linking various ports including Nansha, Maoming and Zhanjiang in southwest Guangdong, and Chaozhou and Shantou in northeast Guangdong. Creating rail links to ports would improve the hardware, efficiency and cost of Guangdong's ports, said Anthony Wong, former President of the Hong Kong Logistics Association. "Guangdong's ports will be more competitive, efficient and cost-effective. That will not be good for Hong Kong, which competes with them." Guangdong ports were offering much lower fees than Shenzhen and Hong Kong to attract volume, Liu Boyong, Equity Analyst at investment bank Jefferies, said. He warned that the return on investment on some of these port facilities would probably be low. Guangzhou Port Group, the state-owned operator of Guangzhou's ports, has been planning a listing since 2007, the South China Morning Post reports.

PORTS & SEA TRANSPORT

Shipping industry hit by Hong Kong dock strike

The dockers strike at Hongkong International Terminals (HIT) ended on May 6, but it cost the company a reported HKD5 million a day. The strike started on March 28, lasting for 40 days. The actual cost to the maritime and logistics industry was much higher as ships and cargo were diverted to other ports. The strike was the longest in Hong Kong's history. Estimates from the Port Development Council show container volumes through the nine Kwai Tsing container ports fell 5.9% in March to 1.42 million TEU compared with a year earlier. Shipping lines and logistics firms have also been hit with extra costs as ships burn extra fuel while waiting to berth and vessels and cargo are diverted to other ports. Roberto Giannetta from the Hong Kong Liner Shipping Association said the strike's adverse impact on shipping lines was "particularly an issue in the days and weeks immediately after the strike started" when arrangements for each Hong Kong shipment had to be sorted out individually. During the strike some freight was being delayed while ships waited to dock at the terminals, other cargo was being discharged at other Hong Kong facilities or at alternative ports and being barged or trucked to Hong Kong. Industry executives were worried about the longer term damage to Hong Kong's reputation as a fast and efficient transshipment port. Once container shipping lines consider costs to be too high, they would shift to other ports, such as Shenzhen, Shanghai, Kaohsiung and Busan. The last three cities already handle more transshipment cargo than Hong Kong, according to figures compiled by Hong Kong port planning consultant ICF GHK. Days before the strike ended, the Hong Kong dockworkers received a delegation from their Dutch colleagues employed by the same company. They earn 50% to 67% more than their Hong Kong counterparts and work 178 hours a month, compared to the 330 hours Hong Kong dockers put in. HIT said about 100 vessels avoided its terminals during the strike, only 1% of vessels that were scheduled to arrive, Chairman of Freight Forwarding and Logistics Dr Paul Tsui said.

Dock workers complain that their real wages have fallen in the past 17 years, while their working conditions have deteriorated. Many work 24-hour shifts without toilet or lunch breaks, said Lee Cheuk Yan, the strike organizer. Most of the 450 protesting workers at HIT were hired by subcontractors. “Inflation is coming back, housing prices are rising, food prices are rising. It’s placing much higher pressure on grassroots people,” said Wong Hung, Professor at the Chinese University of Hong Kong. The dock workers were demanding a pay increase of about 23%, but ultimately settled for 9.8%. At the end of the strike, the terminal was already back to around 80% to 90% of operating capacity, after HIT hired new contract workers, and waiting times at the port had come down to 20 to 25 hours, down from around 60 hours in the early days of the strike, but still far above the standard three hours before the walkout.

Vale’s Valemax ships gain access to Asian ports

Brazil’s Vale said it has increased access of its “Valemax” iron ore carriers to Asian ports and has even docked one of its ships in China where a ban on the giant vessels has been in effect for more than a year. The Vale Malaysia docked at China’s port of Lianyungang on April 15 and left on April 17 after unloading its cargo. The 402,285 DWT ship, one of the world’s largest bulk freighters, was only partly loaded. The company is counting on the giant ships to help slash costs of shipping ore to China, the world’s largest iron ore market, and compete with Australian rivals BHP Billiton and Rio Tinto, whose mines are closer to Chinese customers. China banned the Brazilian miner’s mega ships early last year over alleged safety concerns. Most of the vessels were built in China with Chinese government finance. The ban was also made to protect China’s own ocean-freight industry as a glut in vessels dragged down global shipping rates. No bulk cargo vessels of more than 300,000 DWT have clearance for Chinese ports under the ban. Before the latest port call, the last time a Valemax entered a Chinese port was in late December 2011 when the 388,000 DWT Berge Everest called at the port of Dalian. The 35 Valemax vessels afloat or under construction can reduce transport costs by up to a third and produce far fewer greenhouse gases. Vale owns part of the fleet and has given third-party owners long-term contracts to ship ore with the other vessels. In April, Vale opened a second floating iron ore distribution station in the Philippines to keep the Valemax ships in business. The stations, floating bulk freighters with ore-moving equipment, can transship ore from the Valemaxes to smaller vessels for the final trip to Asian ports. Vale is also working to open new ports to Valemax ships in Japan and Korea.

China Shipping orders five 18,000 TEU vessels

China Shipping, China's second-biggest shipping group, is set to pay USD2.2 billion on a fleet of gas carriers and ultra-large container ships capable of carrying 18,000 TEU. China Shipping Container Lines (CSCL) will become only the second box line globally, after the Danish Maersk, to operate the 18,000 TEU vessels, which will be the biggest container ships in the world. Maersk is due to take delivery of its first 18,000 TEU Triple-E ship on June 28. South Korea’s Hyundai Heavy Industries has won the bid to build the container ships and discussions are taking place between CSCL and Hyundai to finalize shipbuilding contracts for five vessels. China Shipping management agreed to the order at a board meeting in April. The container ships will be deployed on the Asia-Europe route. Martin Rowe, Managing Director of Clarksons Asia in Hong Kong, estimated each ship would cost in “the region of USD130 million to USD140 million”, depending on specifications. Hyundai has already set up a China Shipping group within its container ship sales team to handle its involvement in the project. China Shipping Development, in partnership with Japan's Mitsui OSK Lines, has also confirmed a USD1.51 billion order with Shanghai's Hudong-Zhonghua Shipbuilding for six liquefied natural gas (LNG) carriers. The ships, with a capacity of 174,000 cubic meters, will be used by Sinopec to transport LNG from its Australia Pacific LNG project in Queensland to China, starting in 2016. China Shipping and Mitsui OSK Lines will provide 20% of the financing for the ships, while a Sino-Japanese banking syndicate including ICBC, Bank of China, Export-Import Bank of China and Sumitomo Mitsui Banking will provide the remaining 80%, equivalent to USD1.2 billion. China Shipping narrowed its financial loss to CNY689 million in the first quarter of this year from CNY1.45 billion a year ago. In 2012, the company delivered a profit of CNY523 million, compared with a loss of CNY2.74 billion the previous year.

Swire denies closure of HUD repair business

Hongkong United Dockyards, jointly owned by Swire Pacific and Hutchison Whampoa, has stopped taking ship-repair business but Swire Executive Director John Rae-Smith denied industry speculation that ship-repair operations were being closed and equipment sold. He said that “HUD has temporarily stopped taking bookings” because its floating dry dock needed repairing. “A large amount of steel deck plate needs to be replaced by the end of the year. This is normal for a 20-year-old dock, but it does mean that the yard can't accept third-party business while the work is being done,” he added. The company’s key customers include Star Cruises and the Hapag-Lloyd container line. “HUD is definitely still in the ship-repair business. We have no plans to get out of it and indeed are looking at seeing what opportunities the downturn in the maritime business presents,” Rae-Smith said. HUD made a pre-tax loss of HKD61 million last year on ship repairs. HUD management floated a plan last year to build a second dry dock to handle larger container ships that would double the size of the workforce, but the scheme has yet to be approved by HUD's joint Swire and Hutchison board. The existing facility can repair 35 to 40 ships a year but HUD estimated it was losing 10 ships a year because it was unable to repair larger vessels. The firm is also facing a shortage of skilled workers, including welders, which would be exacerbated by the second-dock project. HUD hoped to solve the problem by being allowed to import foreign workers, the South China Morning Post reports.

Cosco (Lianyungang) Shipyard to be dissolved

Cosco (Lianyungang) Shipyard Co, a joint venture between Jiangsu Lianyungang Port Corp and Cosco Shipyard Group Co, is to be dissolved after steep losses incurred during the industry downturn. The joint venture was set up in early 2008 with a registered capital of CNY180 million. The company is engaged in the construction, design, manufacture and repair of steel structures for vessels. Shanghai-listed Lianyungang Port owns 40%, and Cosco Shipyard has a 60% stake in the business. The company posted a CNY44.98 million profit in 2008, and remained profitable in 2009 and 2010, but it registered a CNY30.28 million loss in 2011, which widened to CNY80.98 million in 2012, according to Liu Kun, Securities Representative from Liangyungang Port. Orders are drying up for domestic shipyards and freight rates keep diving, without any signs of imminent recovery in the industry. Analysts warn that more medium-sized shipbuilding companies are likely to close as the industrial slowdown continues. Liu Pan, Industrial Analyst with Xiangcai Securities, said that consolidation was inevitable. Cosco (Lianyungang) contributed a CNY32.39 million loss to Lianyungang Port’s annual figures in 2012, its only money-loosing subsidiary. South Korea’s STX Offshore & Shipbuilding Co said last month it is planning to sell operations in China to cut mounting debts. Its Chinese arm, STX Dalian Shipbuilding Co, is seeking fresh capital through selling a 40% stake in the business. It was set up in 2007 with investment totaling USD1.5 billion, the China Daily reports.

Hong Kong’s April cargo decline points to structural problem

The 12.2% slide in Hong Kong's container throughput last month to 1.73 million TEU underpinned a structural problem exacerbated by the Hong Kong dockers' strike, according to Hung Tam-yuen, Chairman of Turbo Maritime. The company, which has operated barge services to mainland cities for more than 20 years, is worried that an increasing number of exporters will switch to ports in Shenzhen and Nansha in Guangdong province. Buyers in the United States and Europe were told to use mainland ports to avoid any disruptions caused by the strike last month, Hung said. The 40-day strike caused a backlog of containers at the dock that needed seven days to clear. More than 60% of the containers handled in Hong Kong carried goods made in Guangdong province. Manufacturer and buyers use Hong Kong ports mainly for the perceived higher efficiency, but these advantages are disappearing as mainland ports have modernized over the past 10 years. “When they find that the difference in efficiency is not that much between Hong Kong and Shenzhen, they will switch to the mainland for good,” Hung said. Last month, Hung's company moved 8,000 TEU, down 20% from a year ago. Throughput at the Kwai Tsing container terminals decreased 10.7% while the river trade terminals recorded a 17% decline. Shenzhen Port, on the other hand, handled 1.8 million TEU, an increase of 2.2%. Guangzhou Port recorded a 0.2% rise to 1.3 million TEU. “It is more of a structural problem than a one-off problem for Hong Kong losing shipments to Shenzhen. The infrastructure of our terminals is lagging our rivals across the border,” said Peter Wong, Managing Director of DP World Asia Pacific, which operates Terminal 3 in Hong Kong, the South China Morning Post reports.

Chinese shipyards at No 1, but profits elusive

Chinese shipyards are now producing more ships than those of other countries but profits are harder to come by. South Korean mega-yards no longer dominate every sector of the market.

China is making more bulk carriers than any other ship producer in the world and Japan is also making a comeback, partly spurred by a lower yen. China's output of ships in 2012 was close to 20 million compensated gross tons. The nation's shipbuilding industry is extremely diversified, with 153 shipyards in operation, while in South Korea production is concentrated in just four or five "super-yards" that dominate the industry. "A vast number of yards, particularly in China, have either been mothballed, keeping the facilities running without producing anything, or have gone into liquidation," according to Martin Rowe, Managing Director of Clarkson Asia. Although the number of ships ordered around the world in the first couple of months of this year was surprisingly high for an industry trying to deal with overcapacity, the orders were anything but uniform. The top yard in China by order book is Jiangsu Rongsheng Heavy Industries Co, which builds bulk carriers, ore carriers, oil tankers, and a variety of other vessels. Despite the country's position as the world's leading shipbuilder, the company has faced difficult times in 2012. Revenue at its Hong Kong listed arm in 2012 dropped to half of the 2011 figure, and the company posted a net loss for the year. New environmental regulations are also weighing on the industry, the China Daily reports.

China faces challenges as it develops Myanmar port

China is spending billions to develop Kyaukpyu as its international gateway in Myanmar, but the development threatens to be derailed by communal violence. Kyaukpyu offers the shortest trade route from India to China, according to Kyaw Oo, Deputy Chief Engineer of the Myanmar Port Authority, saving ships 5,000 kilometers of sailing through the Straits of Malacca to China, as cargo can go overland from Kyaukpyu to southern China. In 2011, China Railway Engineering and the Myanmar Ministry of Railways signed a memorandum of understanding (MOU) to build an 868-kilometer passenger and cargo railway between Kyaukpyu and Kunming, the capital of Yunnan province. The railway would cost USD20 billion and be fully financed by China, said Myint Wai, General Manager at the Ministry. The project was undergoing feasibility studies, he said. China and Myanmar are also negotiating the construction of an expressway from Ruili, a Chinese city near the border, through Mandalay to Kyaukpyu. Its length will range between 794 and 900 km, said Han Soe, Deputy Managing Director of Public Works at the Myanmar Ministry of Construction. A deep-sea port on Maday Island, off Kyaukpyu, would be completed next month, while an oil and gas terminal on the island would be completed later this year, Kyaw Oo said. At present, Myanmar had no deep-sea ports but needed them to develop its shipping industry, he said. China National Petroleum Corp (CNPC) is developing an oil tanker port on the island to connect to an oil and gas pipeline it is building. But last month, 400 people on the island protested against what they claimed was inadequate compensation for appropriating land and low salaries for local workers on the gas project undertaken by CNPC and Myanmar Oil and Gas Enterprise. CNPC said it had made the full compensation payment, the South China Morning Post reports.

Cosco Pacific sells container manufacturer to parent

Cosco Pacific, the container-terminal arm of China's biggest shipping group, agreed to sell its stake in the world's largest shipping-container manufacturer to its parent for USD1.22 billion. The company will sell Cosco Container Industries to a unit of China Ocean Shipping Group Co, according to a Hong Kong stock exchange filing. Cosco Container's major asset is its 21.8% holding in China International Marine Containers Group Co. Cosco Group Chairman Wei Jiafu is restructuring the assets of his flagship China Cosco Holdings Co to help the company return to profitability as a third straight annual loss may result in its shares being delisted in Shanghai. The deal will help China Cosco book about USD1.2 billion of gains, according to Credit Suisse AG Analysts led by Davin Wu. "We see the deal as slightly positive news," Hong Kong-based Wu wrote in a note. "Although this has resulted in the loss of a profitable asset, Cosco Pacific is compensated by a 16% valuation premium." China International Marine Containers Group's plans to sell U.S. dollar-denominated bonds have been delayed. Under the terms of the planned bond, a change of control would have taken place if China Merchants Holdings International Co, which indirectly held 25.54% of China International Marine Containers Group as of May 3, Cosco Pacific or any other China state-owned-related entities collectively ceased to be the largest beneficial holder of the voting rights of China International Marine Containers Group, the Shanghai Daily reports.

- Greek shipowners have placed orders for 142 vessels in Chinese shipyards in April, accounting for more than 60% of recent global orders by Greek shipowners, according to Greek Shipping Minister Kostis Moussouroulis. The technological competence of

Chinese shipyards has improved considerably, making them more appealing even as global prices hit one of their lowest points in recent years, Moussouroulis said.

WAREHOUSING

China's largest cotton storage base set up

China National Cotton Group has set up North China's largest cotton storage base in Weifang city, Shandong province. Warehouses at the base have a total storage capacity of 100,000 metric tons and to date have stored more than 20,000 tons of the state's reserve cotton. Officials said the base is expected to raise its commodity handling capacity as high as 500,000 tons, making it the largest cotton storage base in China.

- The Wall Street Journal reports that more and more investors are interested in the Chinese logistics and warehousing sector. In a survey by industry association Anrev tracking investment intentions in the Asian-Pacific region early this year, 68% of the 110 respondents noted a preference for investing in the industrial and logistics real-estate sector this year, up sharply from 28% in 2012. When asked to identify three locations and real-estate sector combinations, investors pointed to industrial and logistics real estate in Greater China as the second most appealing sector, behind the office market in Australia.

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