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EXPRESS DELIVERY

UPS opens facility for medical products

United Parcel Service (UPS), the world's largest package delivery company by revenue, is betting on China's growing demand for healthcare products after opening a specialist facility in Hangzhou, capital of Zhejiang province, to handle shipments of medical products. In 2011, China overtook Germany to become the third-largest pharmaceutical market, with an estimated value of USD64 billion, and it is expected to overtake Japan to become the second-largest market in 2015. China was recently voted the market with the most expansion opportunities by healthcare industry executives surveyed for UPS's fifth annual "Pain in the Supply Chain" study, a global survey of issues and opportunities in the industry. The new Hangzhou facility consists of 22,000 square meters of storage space and is designed to meet the demands of specific storage of medical devices, biologicals and pharmaceuticals, and distribution needs of pharmaceutical companies, said Jim Barber, UPS' International President. Merck Sharp and Dohme (MSD) is the facility's first partner company. Since 2002, UPS has invested USD1 billion to increase market share in China. "China's healthcare logistics distribution model will change from internal operation to outsourcing services," Barber said. "With many healthcare companies demanding rigorous supply chain solutions in China, we are seeing increasing opportunities," added Richard Loi, UPS President in China. UPS opened its first Asia healthcare facility in Singapore in 2011, and has followed that with the opening of three additional facilities in Hangzhou, Shanghai and in Sydney, Australia. Its global healthcare network is made up of 41 dedicated facilities and 683 aircraft worldwide. UPS has so far been granted 19 licenses by the State Post Bureau of China to operate domestic courier services in cities such as Shenzhen, Guangzhou and Shanghai, the China Daily reports.

DHL setting its sights on China's western regions

Deutsche Post DHL, one of the first foreign courier companies to enter China, will tailor its services for the country's booming western regions, according to William Meahl, DHL's Chief Commercial Officer. A growing number of enterprises are relocating to these regions to better manage costs and increase efficiency. The company will provide a range of solutions, including new warehouse management systems, to help manufacturers rein in logistics spending following the huge urbanization drive in China's inland areas. “West China is where people move their operations for lower labor and property costs. But if logistics doesn't move along with manufacturing, you cannot move up the value chain,” Meahl told China Daily on the sidelines of DHL's annual global technology conference in Shanghai. The company will strengthen its ability to connect clients in western China to the rest of the world. Asia accounted for 20% of DHL's global sales last year, with China claiming half of this share. Meahl said he expects the Asian percentage to rise to one-third in the next five years, with China continuing to take the lead. He identified the high-tech sector as one of the key growth areas of DHL's China business portfolio. The changing nature of technology will amplify the role of logistics in having a competitive edge, Meahl said. “From a logistics point of view, the prevalence of mobile devices translates into shrinking size of goods, meaning that each shipment has to handle many more units of goods than before,” Meahl said. DHL has developed a range of solutions to help address such challenges, including direct distribution services like Door-to-More and Break Bulk Express, and options to reinforce high-quality customer service offerings, such as Technical Service. Up to 20% of DHL's annual spending goes to developing IT solutions. On Alibaba Group setting up a national logistics network, Meahl said it means more of a partnership, rather than competition. DHL invested USD175 million last year in Shanghai to launch its biggest express hub in Asia, the China Daily reports.

INLAND RIVER TRANSPORT

Nicaragua approves building of new canal

The Nicaraguan Congress has approved a proposal to have a canal built linking the Pacific and the Atlantic Oceans. A Hong Kong-based company – the Hong Kong Nicaragua Canal Development Investment Co (HKND) – has been granted a 50-year concession to build the waterway, which will rival the Panama Canal. Development plans include two free-trade zones, a railway, an oil pipeline and airports. HKND is headed by Chinese lawyer Wang Jing, who also leads Xinwei Telecom Enterprise Group, which last year received a cellphone concession in Nicaragua. “Central America is at the center of North-South and East-West global trade flows, and we believe Nicaragua provides the perfect location for a new international shipping and logistics hub,” Wang said in a statement after the plan’s approval. Feasibility studies are expected to be completed by 2015, when work on the canal could begin. Any design would almost certainly bisect Lake Nicaragua. The channel would likely be three times longer than the 77-kilometer Panama Canal, which took the U.S. a decade to build at the narrowest part of the isthmus. It was completed in 1914.

LOGISTICS INDUSTRY

Alibaba to build smart logistics system

Alibaba Group, China’s largest e-commerce company, is leading a group of investors with plans to build a CNY100 billion “smart” logistics system to connect existing networks and provide faster, more efficient delivery of goods ordered online. The new company, called Cainiao Network Technology Co, was unveiled in Shenzhen in May. “Cainiao” is a popular term on the internet in Chinese, referring to a rookie lacking experience. “The new company is named Cainiao because we’re a group of newcomers in the logistics industry,” said Shen Guojun, Chairman of Yintai Holdings Co, one of the investors in the project. “We will learn and grow together with start-up firms.” Total investment in the project could reach CNY300 billion. The project is expected to link hundreds of domestic cities. “We’ll dedicate at least 10 years to developing the new company and hope to reduce the logistics cost for privately-owned companies and small vendors,” said Jack Ma, Chairman of Alibaba, who will also chair the new company. Improved logistics services is a key element for growth in the e-commerce industry. The new venture will become a platform connecting existing logistics networks with internet infrastructure so that data about packages and delivery information can be easily accessed and managed, said Tong Wenhong, Vice President of Alibaba. The initial focus will be on cities where logistics services are less developed and online orders may take days to arrive. Construction of warehouses and logistics centers is starting in a dozen cities.

Alibaba aims to provide a full industry chain of services for online vendors so that they can sell merchandise, advertise, receive online payments and manage delivery services on the platform. Other shareholders in the project include the Fosun Group, China's largest privately-owned conglomerate; major courier firms including SF Express (Group), Shentong Express, Zhontong Courier, Yuantong Express and Shanghai Yunda Express; and financial institutions such as China Life Insurance Group and CITIC Group, the Shanghai Daily reports. The warehouses to be built will have a total storage space of three million square meters, or the equivalent of 356 soccer fields. China's logistics costs accounted for 18% of its gross domestic product (GDP) in 2012, compared with just 8% in the United States, according to the China Logistics Association. Alibaba's project may be interpreted as a fight-back against Jingdong Mall, another e-commerce giant, which has built a combined inventory space of more than 1 million square meters and poured CNY3.6 billion into its logistics system in the past year, said Xu Yong, Analyst with China Express and Logistics Consulting, an independent logistics think tank. A combined 60% of all express-delivered parcels in 2012 – or 12 million units per day – were from Alibaba's two major trading platforms, Taobao and Tmall. These figures propelled Xu to regard the network as a possible attempt to achieve a monopoly. Taking part in the network may also diminish the couriers' chances to cooperate with other e-commerce firms, Xu added.

Call for improved logistics for mainland-Taiwan trade

Experts have called for improved logistics services to handle growing trade between the Chinese mainland and Taiwan during a two-day forum on cross-Strait logistics. "Increased trade and strong policy support on both sides of the Taiwan Strait have provided fresh opportunities for logistic services to grow," Eric Chiang, Secretary General of the Kaohsiung Commerce and Trade Development Association, said at the forum held in Xiamen in Fujian province. Logistics have become a major challenge in expanding trade, experts attending the forum said. Trade between the mainland and Taiwan surged 46.5% in the first quarter to USD51.44 billion, according to the General Administration of Customs. Fujian province, across the strait from Taiwan, has been a major destination for goods imported from the island for further distribution across the mainland. Experts called for improvements in the channels that are used to move goods between Fujian and Taiwan. "Whereas logistics in Fujian is lagging behind that in Taiwan, the mainland market has been very attractive for the island and promises a large and sustainable demand," Guo Zhenjia, Deputy Director of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference (CPPCC) said.

PORTS & SEA TRANSPORT

Cosco Pacific eyes ports abroad

Cosco Pacific says it is in advanced talks to buy ports in China, South-east Asia and Greece because of their attractive prices. The port operator, which earned USD1.2 billion from selling its container manufacturing unit to its parent Cosco Group, wants to further focus on its core port and container leasing businesses when the global economy recovers. Some factories have left China to set up in South-east Asia to take advantage of lower labor and land costs as well as more beneficial tax treatments from Europe and the United States. "We have been pressing hard to invest in ports in Indonesia, Myanmar and Malaysia," said Qiu Jinguang, Deputy Managing Director at Cosco Pacific, after the company's annual shareholders' meeting in May. Cosco Pacific is jostling for overseas port projects with its counterpart, China Merchants Holdings (International), which recently secured projects in Tanzania and acquired a stake in French firm Terminal Link, which operates 15 Chinese and overseas terminals. Wang Xingru, Vice Chairman of Cosco Pacific, said the backing from China Cosco Group, which operates one of the largest container shipping lines, would help them to secure port deals. "Ports authorities are welcoming us as their investors as we can bring more shipments to them," Wang said. Piraeus Container Port in Greece turned around in 2011 after two years of losses after Cosco Pacific took control of the operation in 2009. Cosco Pacific brought in new shipping line customers and pier workers when the ports in Spain and Italy were affected by strikes. Wang said they were interested in acquiring stakes in the Piraeus Port Authority as Greece was obliged to privatize its state-owned enterprises in accordance with the European Union's bailout package. Cosco Pacific is also talking to Chinese port authorities, including those in Qingdao, Guangzhou and Rizhao, as they were in the process of listing their port assets on the stock market, the South China Morning Post reports.

Chinese banks raise loans to ship buyers

Chinese banks have sharply increased loans to global shipowners as European lenders retreat from the market but some are driving a hard bargain: the finance often comes with the condition that vessels be built in China. The financing has given China's shipyards a lifeline after new orders dropped to a seven-year low last year. Chinese shipyards won new orders of 11.57 million DWT in the first four months of the year, up 57% from the same period last year, data from the China Association of the National Shipbuilding Industry showed. The Export-Import Bank and the Industrial and Commercial Bank of China (ICBC) together doubled their share of the loan book of the top 40 lenders to the shipping industry in the last two years to 11%, or about USD46.5 billion in loans, data from Norway's DNB, the world's largest shipping loan provider, shows. Ex-Im Bank had about USD13 billion in outstanding shipping loans in May, up 30% from the end of 2011, and planned to offer more. "The enticement to order at particular yards on the basis that you will get financed certainly attracted a lot of non-listed European companies," said Timothy Ross, head of Asia-Pacific transport research at Credit Suisse. Larry Pupkin, Director of Singapore-based Littoral Management, which helps shipowners find yards for construction and arrange financing, said Chinese quotes and financing terms were attractive. Last year, South Korea won contracts worth nearly USD30 billion, while Chinese yards received USD18.2 billion in orders, according to the World Shipyard Monitor published by Clarkson Research Services. By the end of May, Chinese yards have won orders worth USD5.4 billion for 184 vessels, compared to USD11.5 billion in contracts for 125 new ships at Korean yards. In tonnage terms, China and South Korea were neck-and-neck, Clarkson data showed. But some warned about overcapacity. "Banks, shipowners and cargo owners should take an extremely cautious attitude towards shipping investment under this catastrophically oversupplied market," said Zhang Shouguo, Executive Vice President of China's Shipowners' Association. He estimated that global ship supply exceeded demand by 30%, the South China Morning Post reports.

Slower growth in China port throughput worries China Merchants

Slowing growth in terminal throughput in May and uncertainty about global export markets in the second half are worrying Hong Kong-based port operator China Merchants Holdings (International). Growth at China's container ports slowed to 7.6% in May from 9.4% in April, the Transport Ministry said. Throughput growth in the first five months of the year slowed to 9.2%. Speaking after the firm's annual general meeting, China Merchant's Vice Chairman Li Jianhong said it would be problematic if throughput slowed further in the third quarter. Hong Kong container trade contracted 10.5% year-on-year in May after a 12.2% contraction in April, partly because of a strike by dock workers. "The biggest uncertainty is volatility in mainland port volumes," said Deputy Managing Director Zheng Shaoping. Some analysts think recent port throughput figures were skewed by fabrications that boosted cargo growth figures. Exporters may have faked trade by trucking goods to bonded warehouses in order to receive tax rebates. Goods in bonded warehouses are considered to have already passed through customs. In the first five months, China Merchants handled 9.2% more container cargo than a year earlier, boosted by ports in northern and eastern regions. Throughput at its Western Shenzhen port dropped 2% year-on-year in the first five months. The company is pinning its hopes on its overseas ports, including those in Sri Lanka and Nigeria. "We think the new ports will offset the slowdown in the mainland," Li said, adding that their throughput would increase 10% this year. The firm expects throughput at its overseas ports to rise to 30% of the firm's total within a few years from its current 10%. The firm is eyeing further acquisitions, the South China Morning Post reports.

- Tim Smith, North Asia region CEO of Maersk Line, said the company expects to see "good growth" in China's imports in the near future. The Danish company, which ships about 14% of world container cargo by tonnage, recently slashed its growth forecast for global seaborne demand this year to between 2% and 4% from above 4% previously. The Shanghai Containerized Freight Index, which measures the cost of shipping containers from China, has fallen to one of its lowest points in recent years.

RAIL TRANSPORT

China Railway Corp to improve its freight logistics

China Railway Corp said it will revamp its freight transport business. Many factors have hindered the growth of CRC's transport business, such as complicated procedures for customers in making orders, as well as problems with deliveries and a lack of standardized rates for its services, said Cheng Xiandong, Director of the Transport Bureau of CRC. The reform of its freight transport is the first substantial move since CRC was established in March. CRC plans to become more streamlined by cutting red tape for customers and enhance cooperation with its clients, which the former Ministry of Railways (MOR) failed to do. Procedures for customers will be made simpler, transport will be tailored to customers' needs, charges will be standardized and a network for a pickup and delivery service that goes from door to door will be set up, Cheng said. CRC will transport goods that range from coal and oil to cars and chilled fresh food.

The central government plans to reform its railway freight industry to boost efficiency and drive down costs in the fragmented logistics sector. The reforms are expected to simplify railway freight procedures and provide customers with better service. The move is the first of a series of measures planned by China Railway Corp (CRC) for the next few years as it faces pressure to boost demand for railway freight services and turn itself into an efficient and profitable business following the abolition in March of the Ministry of Railways (MOR). While China continues to invest in high-speed railway networks, the railway freight business is shrinking. Ministry of Transport statistics show railway freight volume dropped 0.7% to 3.9 billion tons last year because of economic weakness and less demand for coal. The trend continued this year, with freight traffic falling 0.8% in the first quarter. “We must turn from being a bulk-goods-focused transport service provider to being a full-service logistics provider,” Sheng Guangzu, General Manager at China Railway, said last month. Railway freight services in China are notorious for their complicated application procedures, long waiting times and inefficiency. Under the reform plan, customers will be able to arrange cargo delivery through a hotline and online platforms, in addition to traditional counter services. China Railway, while guaranteeing sufficient transport capacity for bulk goods, such as coal and petroleum, also promises to offer prompt service for customers with goods such as electrical equipment and daily necessities. It also plans to make pricing more transparent. The company's subsidiaries in provinces such as Guangdong, Hunan and Hainan are among the first to launch door-to-door services that include the collecting, loading, packing, processing and delivering of goods. Previously, clients were required to deliver and pick up their goods at train stations themselves.

WAREHOUSING

Kaohsiung new port for physical delivery of LME contracts

The London Metal Exchange (LME) has approved Kaohsiung in Taiwan to be the ninth port in Asia that can accept physical delivery of seven types of its metal contracts. The world's largest metal exchange, which became a subsidiary of Hong Kong Exchanges and Clearing (HKEx) in December, said the Taiwanese city would be a delivery point for primary aluminum, aluminum alloy, copper, lead, nickel, tin and zinc. Kaohsiung is the first city in Asia to be added to LME's delivery location list since Port Klang, Malaysia, was added in 2009. Charles Li, HKEx's Chief Executive, said Kaohsiung warehouses would help in the delivery of metal to mainland users. Li added that he hoped the LME would be allowed to set up warehouses on the mainland in the future. “The LME has licensed more than 700 warehouses in 36 locations in 14 countries around the world, predominantly in North America, Northern Europe, and now, increasingly, East Asia,” he said. “Although only a small percentage of futures contracts are eventually settled in physical delivery, the possibility of physical delivery prevents futures prices from diverging too far from the price of the physical metal.” “It is important that the LME's network of goods delivery points are located in the correct regions to meet the demands of the metals industry,” said Rob Hall, Director of Physical Operations at the LME. In Asia, the LME also has warehouses for the physical settlement of contracts in Singapore; Nagoya and Yokohama in Japan; Busan, Gwangyang and Incheon in South Korea; and Johor and Port Klang in Malaysia, the South China Morning Post reports.

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