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AIRLINES & AIRPORTS

Cathay Pacific loses out as cargo demand dwindles in Europe

Cathay Pacific Airways has lost market share on European cargo routes as freight rates sink on weak demand from the euro zone. The carrier expects the overcapacity problem in the cargo market will only be corrected in the last quarter of the year. “Cathay has lost some market share during the downturn, especially to Europe,” said Cargo Director Nick Rhodes. “If the rates reach a level where we cannot cover our operating costs, we have no choice but to reduce our freight capacity.” Cathay has halved its freighter capacity on European routes to 11 freighters weekly from 21 last year. Overall capacity fell 1.8% in the first half of the year. Rhodes said Cathay was opting to carry high-yield or special cargo, which was still profitable. The disequilibrium would only be corrected in the last quarter when new high-technology products were launched, he said. But as high-tech manufacturing in China is moving inland, products are shipped directly to Europe and the U.S., bypassing Hong Kong, according to Sunny Ho, Executive Director of the Hong Kong Shippers' Council. Zhengzhou Airport handled 150,000 tons of cargo last year, up nearly 50% on 2011 and is building a dedicated runway for freighter services. Air cargo in southern China, including Hong Kong, had entered a low growth period, said Sunny Yu, Chairman of ASR Holdings, a logistics company. In the first six months, Hong Kong airport posted a 2% growth in cargo tonnage to 2 million tons. Cargo handled by the Shanghai Pudong cargo terminal also saw slower growth of 1.5% in the first half to 604,019 tons as the airport faces the same problem as Hong Kong.

EXPRESS DELIVERY

DHL launched new Moscow service on 21 June

Increasing trade between China and Russia has prompted DHL to launch a an new intermodal service from Chengdu to Moscow via Poland. The new service comes as the outdated Trans-Siberian Railway fails to meet demand. Foreign trade between the two countries rose 11.2% to USD88.2 billion last year and is expected to rise to USD100 billion in 2015, before doubling to USD200 billion in 2020. However, logistical bottlenecks are becoming a drag on trade growth. The century-old Trans-Siberian Railway and the overloaded shipment facilities at the border city of Manzhouli in Inner Mongolia, account for 60% of the land transport between the two nations. DHL Global Forwarding started a weekly train-and-truck service from Chengdu to Moscow via Malaszewicze, Poland, on April 26. The dedicated freight train from Chengdu to Malaszewicze, dubbed the Chengdu Express, takes 14 days, followed by a truck service to Moscow in two to three days. This compares with at least 20 days via the Trans-Siberian Railway from China to Moscow, subject to delays. The punctuality of the western corridor from Chengdu was plus six hours or minus four hours while the trans-Siberian service could face delays of days, said Bruno Selmoni, head of road freight and multimodal, Asia Pacific, for DHL Global Forwarding. The company has operations on both railways. “We are looking into the Chengdu express train with a boarder perspective. Its potential is not just to Moscow but to the whole of Europe”, he said. DHL consolidated all the shipments from China in its cargo hub in Malaszewicze, from where it linked up with most European cities in two to three days by truck or train, Selmoni said. The train services are usually loaded with electronic goods from China and engineering machines on the way back. DHL has run an intermodal service from Shanghai to Moscow via the Trans-Siberian Railway since 2011, which it is still maintaining.

China to become largest market for express deliveries

China is expected to surpass the United States this year to become the world's largest market for express deliveries, but analysts warned of rapid development that ignores quality. Ma Junsheng, director-general of the State Post Bureau of China, said at an internal conference on July 18 that China's postal industry maintained fast, steady development in the first half. He attributed the trend to national economic policies and booming e-commerce. Express delivery volumes grew more than 50% year-on-year in each of the past 28 months, the Bureau said. The number of packages delivered by major courier companies rose 61% in the first half to 3.84 billion items. Couriers' revenue grew 34.5% to CNY63 billion. Xu Yong, Chief Consultant for the express and logistics website cecss.com, said China will probably catch up with the United States in terms of mail and package deliveries this year, estimating that 8.5 billion to 10 billion parcels will be delivered in China in 2013, compared with about 9 billion in the U.S. “However, we see China's development in the express industry as too fast and unhealthy. The country's express companies sacrifice profit and service quality to pursue volume,” Xu said. Chinese courier firms are making CNY16.4 on average from every parcel, down sharply from CNY28.6 five years ago. “Companies' profit margins are down to about 5% from 30% a decade ago. Some of them are losing money,” Xu said. Meanwhile, delivery workers struggle with heavier workloads but low incomes, as customers complain about bad service, he said. Bad service and lost parcels were major problems in the industry, according to a survey conducted in March by the Legal Daily. “In addition, express companies also sometimes conducted misleading promotions, engaged in unfair competition and operated without licenses," said Liu Junhai, Professor at Renmin University of China. Transport Minister Yang Chuantang said that Chinese postal and express companies have to aim high and work fast to catch up with international leaders. "Revenue from the domestic express industry is expected to triple by 2020," he said. "But we should first improve the quality of the service."

LOGISTICS INDUSTRY

Shenzhen International to invest in Qianhai zone

Logistics park and toll-road operator Shenzhen International, which owns 380,000 square meters of land in Qianhai, has signed a cooperation agreement with New World Development to explore investment opportunities in the special economic zone. Chairman Gao Lei said the alliance with New World would largely involve logistics investments in Qianhai and other cities. He also said Shenzhen International would take a majority stake in logistics projects, but he did not rule out the possibility of allowing the joint-venture partner to take a bigger interest in residential and office developments. The firm formed a consulting company with Shenzhen government-backed Shenzhen Investment in a 50-50 joint venture. The consulting firm would work with the municipal authorities in Shenzhen on the land-use conversion rights for its Western Logistic Park in Qianhai. The park will span 400,000 sq m in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. Currently being used for warehousing and logistical purposes, the site will be converted to commercial and residential use. Gao said Shenzhen International planned to expand its logistics business to 30 cities over the next five to 10 years in view of the strong demand for such services. He did not give an estimated investment amount but said the land cost for each project would be at least CNY1 billion. Shenzhen International announced net profit attributable to shareholders rose 6.54% to HKD857.35 million for the six months to June. Turnover declined 2.1% to HKD2.79 billion as toll revenue fell because of a policy change.

- China's biggest e-commerce company, Alibaba, has pledged to create an internet logistics network that will enable suburban farmers to deliver their products to city dwellers directly and swiftly. Established in May, the CNY10 billion Cai Niao joint venture – of which Hangzhou-based Alibaba owns about 43% - is poised to be the next big project for Jack Ma, who stayed on as Alibaba's Chairman after stepping down as Chief Executive in May. Alibaba's new Chief Executive, Jonathan Lu said: "The low-cost and low-barrier-to-entry model of Cai Niao aims to be a consortium of e-commerce, logistics and warehouse inventory, which can make delivery within 24 hours in mainland China."
- Kerry Logistics Network, the logistics arm of Kerry Properties, aims to list in Hong Kong in the fourth quarter with a valuation that could top its peers, including Sinotrans and ASR. The company's net profit, stripping out a paper gain from property revaluations, topped HKD815 million last year on HKD19.3 billion in sales. Earnings amounted to HKD1.07 billion if the one-off gain was included. About 27% of the 30 million square feet of logistics space operated by the company is on the mainland.

PORTS & SEA TRANSPORT

Cosco Chairman replaced

Wei Jiafu, Chairman of China Ocean Shipping (Group) Co (Cosco) has resigned. His successor will have to carry on the unfinished task of returning the company to profit to avoid being delisted from the stock exchange. He was succeeded by the group's General Manager, Ma Zehua. Meng Xiangjun, head of Cocso's securities department, said that any leadership reshuffle will adhere to legal procedures. Wei, who holds a doctorate in the design and manufacture of naval architecture, developed Cosco into the country's top shipping conglomerate and the world's largest dry bulk company. But the slump in global shipping demand and the supply glut in the industry has resulted in two years of losses for China Cosco Holdings. If the company cannot return to profit this year it may be delisted from the main board. In 2011, China Cosco Holdings recorded a loss of CNY10.45 billion, followed by a loss of CNY9.56 billion a year later. "Now Ma Zehua has to be more cautious in making any investment decision and he is required to put more effort into strengthening internal management," said Qu Linchi, Dean of the School of Economics and Management at Shanghai Maritime University. Ma said the company will try its best to minimize losses in its core business and will optimize routes and product designs to meet market demand. He added that he would also seek to reduce costs by cutting expenditure on fuel.

China Cosco Holdings, the world's largest bulk shipper, decided to sell its wholly-owned China Cosco Logistics Co to the parent Cosco Group. The sale will generate investment proceeds and help lower delisting risks. China Cosco Holdings is still bullish on the outlook for the shipping industry and it will have the preemptive right to buy back Cosco Logistics once conditions are ripe. China Cosco is also disposing two more assets for CNY3.67 billion to its parent firm in a last-ditch attempt to avoid a third year of losses. Earlier sell-offs failed to prevent the country's largest shipping firm from posting a net loss of CNY990 million for the first half of the year. While the loss was lower than market expectations of CNY1.42 billion and marked a big improvement from a deficit of CNY4.87 billion a year earlier, analysts said a persistent slump in shipping would keep Cosco from returning to the black this year in the absence of further disposals of assets.

China Rongsheng needs government help

China Rongsheng Heavy Industries Group, China's largest private shipbuilder, sought financial help from the Chinese government and big shareholders after laying off some workers and delaying payments to suppliers. Suffering from a downturn in the shipping industry, China Rongsheng suffered a net loss for the six months that ended June 30 from a year earlier. There had been 8,000 job cuts at China Rongsheng in recent months, representing some 40% of the firm's workforce. China Rongsheng said it was coping with tightened cash flow by delaying payments to suppliers and workers. The company said in July it was in talks with banks and financial institutions to renew existing credit lines. “The group is also actively seeking financial support from the government and the substantial shareholders of the company, and increasing its efforts in negotiations with its customers to maximize the collection of receivables,” the company said. Shareholder Zhang Zhirong gave an interest-free CNY200 million loan. China Rongsheng is a major supplier of bulk carriers that ship iron ore from producer nations such as Brazil to China. Brazil's Vale is one of its customers. It posted a net loss of CNY572.6 million last year, its worst-ever, despite getting government subsidies of CNY1.27 billion. According to last year's annual report, China Rongsheng's cash and cash equivalents fell to CNY2.1 billion from CNY6.3 billion a year ago. It had borrowings of CNY16.26 billion that were due in less than a year. The company said it had “significant” cash outflows since some customers had sought to delay the delivery of new vessels. The Chinese government is considering policies to revive the shipbuilding industry, where new orders had been reduced by half last year. China Rongsheng agreed to issue convertible bonds maturing in 2016 to raise capital. The Shanghai-based company aims to raise a net HKD1.38 billion from selling the bonds to Action Phoenix. “Rongsheng is desperate for cash as there are signs that its balance sheet is really stretched,” said Lawrence Li, Shanghai-based Analyst at UOB-Kay Hian Holdings. Rongsheng had CNY28.8 billion of debts at the end of last year, including CNY19.34 billion of short-term debt.

The shipbuilder posted an underlying loss of CNY1.3 billion in the first six months of the year, excluding a revaluation gain on its assets, compared to a profit of CNY243 million a year ago. It had net cash and cash equivalent of CNY870 million as of June 30. The company has secured orders for only two new dry bulk carriers totaling 360,000 DWT and another order for a marine engine over the period. Capital expenditure of CNY1.31 billion last year to develop its offshore engineering sector, including the development of gas carriers and high-end products such as drilling vessels and offshore platforms, will further strain the company's cash position. Company Chairman Chen Qiang said there would be no more large capital expenditure. Chen said the shipyard had not actively pursued new orders because ship prices were at a historic low. Any contracts committed to now could incur losses for the company. The company still has 86 vessels on its order books with a value of USD4.6 billion – the highest of all Chinese shipyards. All are due to be delivered by 2016.

Shipping rate reporting rule under consideration

China's transport authorities are mulling new measures to give the ailing shipping industry a shot in the arm and prevent foreign firms from creating unfair competition. A policy under consideration is to ask shipping companies to report their shipping rates to the Shanghai Shipping Exchange, in order to maintain a stable market, said Song Dexing, Director of the Water Transport Department under the Ministry of Transport. Currently, shipping companies must report a range of rates, a measure the Ministry adopted a few years back to keep shippers from slashing rates to compete for business, he said. The new policy will ask for the exact rates being offered. Companies can update their rates frequently, but every change will be subject to market supervision, he said. “If a company is suspected by other players to have slashed or raised rates maliciously when the market is volatile, we can launch an investigation against it to find out if there is unfair competition. I believe the shipping companies will act more cautiously when changing rates,” he said. The new system will be helpful if “super” shipping leagues attempt to stage unfair competition in China, he added. The Ministry is also considering other policies, including restructuring shipping capacity, setting up a special capital fund for phasing out old ships and cutting taxes for shipping lines, he said. The measures come as the country's shipping companies have continued to struggle. Lin Guolong, Director of the Shanghai Maritime University's Logistics Research Center, said the shipping rates reporting mechanism underscores the government's commitment to boosting market transparency and fighting unfair competition, which is also in line with international practices. According to Lin, a few industrial giants are monopolizing the shipping market by offering extremely low rates in private deals, leading to a disorderly market. “European countries and the United States have implemented similar measures for more than a decade”, he added.

Shipping industry facing weak demand, higher costs

Zhang Shouguo, Vice President of the China Shipowners' Association, said the country's shipping industry is at a critical point as it grapples with waning demand and higher costs, and many small businesses face bankruptcy. The Shanghai Containerized Freight Index, which measures outbound container rates, has fallen to one of its lowest points in recent years. The current cost of transporting a container to Europe is about USD720, far below the break-even point. China Cosco Holding said first-half operating revenue rose 0.69% to CNY3.63 billion. It posted a loss of CNY78 million, compared with a year-earlier loss of CNY4.87 billion. Cosco Shipping Co said its first-half net loss tripled to CNY78 million, another sign that slowing growth in China is eroding corporate earnings. The company invested heavily to expand capacity in 2008, when international freight rates were at record highs, but as the economy further slows and demand shrinks, its huge capacity has become a big liability. “Cosco's troubles are part of a broader industry shakeout that has been exacerbated by the nation's rise as a global shipping power,” said Liu Bin, Professor at the Dalian Maritime University in Liaoning province. “Because the flagging European and U.S. economies and increased shipping capacity have led to long-term lower profitability, Chinese shipping companies will continue to struggle in the second half of the year as the nation is experiencing an economic slowdown and high oil prices,” said Zhou Liwei, Researcher at the China Classification Society in Beijing. Analysts don't expect the shipping sector to return to profitability in the short term, and most Chinese shipping lines hope to get government subsidies. The combined profits of 80 major shipbuilders monitored by the Chinese Association of the National Shipbuilding Industry fell 54% in the first half to CNY3.58 billion.

Maersk deploys Triple-E vessels on China route

Maersk Line has deployed the world's largest container ship on its China services. The first of the Triple-E vessels made its maiden call at Shanghai Yangshan port in July. The new ship is the first of the 20 Triple-E vessels ordered by the Danish firm and built by Daewoo Shipbuilding and Marine Engineering Co in South Korea. The Triple-E vessels are designed to carry 18,000 20-foot equivalent units. The ship, which is 400 meters long and 59 meters wide, is the largest vessel of any type, but only requires 22 crew members. David Williams, Managing Director of Maersk Line East and Central China, said the Triple-E fleet will help position the cargo carrier to meet China's growth in foreign trade. It is the most efficient way for Maersk Line to tap into the development of China, he said. Another five Triple-E vessels will be delivered to Maersk Line by December, and they will be deployed on the Asia-Europe route. The remaining 14 ships will be delivered by 2015. The expected service life of each vessel is 25 to 30 years. “The Triple-E vessels feature innovative technology, leading to energy efficiency and environmental performance. The unprecedented dimensions provide economies of scale, while the unique design features enable the vessesl to emit 50% less carbon dioxide per container moved than the current average on the Asia-Europe route,” Williams said. Chen Xuyuan, Chairman of Shanghai International Port Group, said the Port of Shanghai, the world's largest by throughput, has the facilities and experience to serve this new vessel. Deployed on the Asia-Europe route, the Triple-E vessel will berth at four Chinese ports: Shanghai, Ningbo, Yantian and Hong Kong. “Maersk has the largest market share of any container shipping line on the Asia-Europe route, moving 20% of the container cargo from Asia to Europe and 18% in the opposite direction. It makes up one-quarter of Maersk Line's business; therefore, we put the new vessel on this route,” said Brian Kristensen, Vice

President of the Far East Asia liner operations cluster for Maersk Line.

Slump forces yards to cut down payments

During the 2007 shipping boom, Chinese shipyards required down payments of as much as 60% of a vessel's value. Now, they have had to cut the amount to 5% to 10% and exceptionally to as little as 2%, resulting in an advantage to state-owned companies that have access to government credit. “The payment terms mean shipyards have to burn their own money to build ships, which brings them extraordinary cash-flow pressure,” said Lawrence Li, Shanghai-based Analyst at UOB Kay Hian. “Only state-owned yards that are able to secure funding can offer such aggressive down-payment terms.” State-backed companies grabbed 74% of orders for new vessels in China in the first half of this year, according to UOB Kay Hian, compared with 52% in all of last year. In some cases the banks were also cutting credit lines and moving to recover outstanding loans, the China Association of the National Shipbuilding Industry said. Dalian Shipbuilding Industry, a unit of state-owned China Shipbuilding Industry, won an order in July to build seven ships that can carry 8,800 containers each. The buyer, a unit of state-run China International Marine Containers (CIMC), agreed to pay 2% of the total amount of USD595 million as a first installment and the rest on delivery. New orders for commercial vessels at Dalian Shipbuilding's parent surged more than five-fold in contract value in the first half. The ability to get financing had become one of the most critical issues for yards trying to win orders, said Bao Zhangjing, Deputy Director of the China Shipbuilding Industry Economy Research Center. “The market is going to be more dominated by fewer players given the current situation,” Bao added. Of the 1,591 shipyards in the country in 2011, 70 were state-owned and a third of the all shipyards might be shut in about five years as they failed to win orders.

New orders threaten dry-bulk recovery

A flood of orders for new vessels and slower growth in Chinese demand for commodities could derail a recovery in dry bulk shipping, industry leaders warn, keeping freight rates low and threatening a further shake-out among shipping firms. The rise in capacity comes at a time of slowing economic growth in China, which has raised fears that its vast appetite for imported raw materials may start to wane. “The ordering wave is indeed worrying,” said Henning Oldendorff, Chairman of Oldendorff Carriers, one of the world's largest dry cargo operators with about 400 owned and chartered ships. “If it coincides with a China slowdown and possible recession in the global steel industry, then freight rates could potentially stay low for many years to come.” He estimated some 35 million DWT of new capacity was ordered during the first half of this year, well above the 22 million DWT ordered during the whole of last year. More than 50% of recently ordered tonnage was contracted at just a handful of Chinese shipyards, figures from Norwegian shipbroker Fearnleys showed. The influx of new tonnage, which outpaced the actual growth in cargo volumes, saw average rates plummet to USD1,700 a day in late March this year, the lowest in 14 years, leading to a series of shipping company failures including STX Pan Ocean, South Korea's fourth-largest ship operator.

Pacific Basin's fleet strategy pays off

Pacific Basin Shipping's strategy to expand its fleet at a time when the market was down is paying off as its earnings from Handysize ships outperformed its peers by 32% and helped the dry bulk operator to turn around in the first half. Thanks to lower vessel costs and strong Chinese imports, the world's largest Handysize operator posted a net profit of USD300,000 in the six months to June, after a loss of USD195.9 million a year ago. The dry bulk ship owner's underlying profit jumped four times to USD13.6 million year-on-year, despite a 12% drop in rates for its Handysize ships. Chief Executive Mats Berglund said he expected the dry bulk market to remain weak this year. In a filing to the Hong Kong stock exchange, he said the firm would continue to expand its fleet. An increase in new capacity peaked last year, when a large number of vessels were delivered, and freight rates and ship values were bottoming out, he said in the filing. Pacific Basin has committed to purchase 21 second-hand ships and ordered six new ones from Japanese yards. The group has cash and deposits of USD442 million and net borrowings of USD415 million. It is expected to settle USD298 million of debt in the next three years for orders of 19 dry bulk ships.

Three-year plan for shipbuilding industry unveiled

The Chinese government has unveiled a three-year plan to upgrade and restructure the struggling shipbuilding industry by 2015. The plan puts a limit on new capacity and encourages companies to make more high-tech vessels. The plan urged the industry to boost innovation and called on local governments to restrict new shipbuilding capacity. It also encouraged financial institutions to provide support so that Chinese shipyards could maintain their international market share. Analysts said the plan, in addition to President Xi Jinping's pledge to turn China into a maritime power and make maritime industries a pillar of the national economy, could provide a short-term boost to the shipbuilding sector. Shipyards should develop more high-end offshore engineering equipment, according to the plan. "Developing offshore engineering products and specialized vessels is not just an upgrade plan for 2013-2015, but also the direction of the future," Northeast Securities Analyst Wu Jiangtao suggested. Consolidation may help the government achieve the target to have the top 10 yards account for 70% of output by 2015. The central government also aims to have more than 50 brands of different types of ships manufactured in that period. In comparison to that goal, the country's top 10 builders accounted for 48% of output in 2011, industry data showed.

Chinese ship on first trip along Northeast Passage to Europe

A 19,000-ton cargo vessel has made the first journey by a Chinese merchant ship to Europe via the Northeast Passage, a shortened route that could revolutionize trade. The Arctic route has become navigable due to global warming melting sea ice and promises to slash journey times by about 12 to 15 days, saving shipping companies and Chinese exporters millions in lower fuel bills and reduced operating costs. A freighter belonging to Chinese shipping firm Cosco left the port of Dalian in August to reach Rotterdam via the Bering Strait and Russia's northern coastline. The new route, now navigable for about four months of the year from the end of July, avoids the politically unstable Suez canal, and trims about 7,000 kilometers off the journey. About 90% of China's foreign trade is carried by sea and Beijing is also hoping the new shipping route can help develop the nation's northeast. In 2012, 46 ships used the Northeast Passage, compared with four in 2010, according to Rosatomflot, a Russian operator of icebreakers, but the traffic is still negligible compared with traditional commercial shipping routes, such as the Suez Canal, which has 19,000 ships pass through it a year. Previous estimates have suggested up to 15% of Chinese foreign trade could use the Arctic route by 2020. The Chinese will use the Arctic route in a very big way. It's all about having options, having alternatives in case of emergency, Sam Chambers, Editor of SinoShip magazine said. "It's potentially going to change the face of world trade," he added. "The opening of the new shipping route indicates China is participating more in Arctic Ocean affairs," said Zhang Yongfeng, Researcher at the Shanghai International Shipping Institute. "The Arctic route can cut 12-15 days from traditional routes so the maritime industry calls it the 'Golden Waterway'," Cosco said in announcing the journey.

Sinotrans' results recovering

Sinotrans said the shipping industry is recovering but it is too early to predict an upturn in freight rates. The company saw its net profit increase 15% year-on-year to CNY449.8 million in the first six months of the year as losses from its marine transport unit narrowed by 74% over the period. Sales increased 8.4% to CNY25.1 billion. The company's Marine Transport Division moved 7.8% more containers in the first half to 1.45 million TEU. Revenue fell 6.5% to CNY2.3 billion while net losses narrowed to CNY35 million from CNY137 million a year earlier. Profit from freight forwarding increased 16.4% to CNY417 million while the shipping agency business decreased 18% to CNY116 million. The profit margin of Sinotrans' freight forwarding business was 1.9%. The company said it is trying to reach out for more value-added services, such as third-party logistics services, to increase its profit margins. Sinotrans also runs a joint venture with DHL providing international express services in China. The number of packages increased 8.2% year-on-year to 8.7 million in the first half.

Singamas Container recovery delayed to 2015 as profit falls

The recovery that Singamas Container had projected for the second half of this year may not come until 2015 as slow trade and falling profits of shipping lines hurt demand and pushed the group's net profit down 28% to USD27.5 million in the first half. But the world's second-largest marine container maker said strengthening consumption in the United States would help boost demand for special containers such as refrigerated containers or the 53-foot boxes used on

U.S. roads – which cost twice as much as standard 20-foot containers and offer better profit margins. While the Singapore-based company now expects growth to stay flat this year, Chairman and Chief Executive Teo Siong-seng said the lull would provide it opportunities to speed up expansion on the more profitable special containers. He said these containers, which account for just 22% of the company's revenue, should contribute between 40% and 50% in two to three years. The company is restructuring its 13 production plants in China over slowing demand in the Pearl River Delta as factories migrate out of the region. In May, Singamas disposed of a 20-year-old plant in Shunde, Guangdong, and redeployed it in Huizhou and Shanghai. The company will also consider closing another of its ageing factories in Yixing, when its new production base in Qidong – which began rolling out special containers in April – achieves full capacity. The company maintained a gross profit margin of 12% even as container box prices slipped another 6.7% to an average of USD2,287. The rebound expected in the second quarter didn't happen, but as most of the boxes purchased during the shipping trade boom in 2005 were due for replacement, and up to 4 million TEU of new container vessels will be delivered in the next three years, Chairman Teo expected demand and prices of containers to resume growth.

Cosco Pacific container throughput up 10%, interim profit up 231%

Cosco Pacific, the largest port operator in China, said it was on track to increase throughput 10% this year and acquire other firms, after its first-half net profit rose 213% to USD560.3 million. Underlying net profit dipped 3.6% to USD143.8 million after stripping out a USD393.4 million one-off gain from the disposal of a container manufacturing unit. Profit at its terminal business dropped 5% year-on-year to USD92.8 million on an increase in tax and losses at its new port in Xiamen. Container throughput grew 9.7% in the first half from the same period last year. The 40-day strike at Hong Kong Kwai Tsing Terminal in the first half dented the profit of the Cosco-HIT terminal, with its earnings falling 18.6% to USD9.75 million. Consumption in Europe and the United States remained weak, affecting ports in the Pearl River Delta and the Yangtze River Delta, the company said. The outlook for ports in northern China was better, it added. In the first half, throughput in the Bohai Rim region grew 12.5% year-on-year. “The company will be committed to meeting the full-year target for throughput growth in 2013 and the throughput is believed to grow steadily,” Vice Chairman Wang Xingru said in a filing with the Hong Kong stock exchange. Wang said the company would continue to develop its terminal business and assess investment opportunities in terminal projects in China, Southeast Asia, North America and Europe. The profit of its container leasing business rose 5% year-on-year in the first half to USD76.3 million, as its container fleet increased 4% to 1.87 million TEU in the first six months. In that period, the company took delivery of 65,000 TEU of new containers, all of which were purchased from sister company Cosco Container Lines (COSCON).

Cosco Holdings to expand operations at Piraeus

Cosco Holdings Co has agreed to a multi-million-euro expansion of its container operations at Greece’s biggest port Piraeus (OLP), easing the way for the port’s privatization. Cosco will not pay fees to OLP in return for making the investment, moving Greece a step closer to selling its 74% stake. Cosco took over management of OLP’s container port in 2008. Under the agreement, Cosco will spend €230 million to increase Piraeus’s cargo handling capacity by two-thirds over the next seven years to an annual 6.2 million TEU. In exchange, the deal suspends the fixed guaranteed fees Cosco was contractually obliged to pay to OLP, until Greece’s gross domestic product (GDP) returns to its pre-crisis level of 2008, “plus 2% each year.” This effectively suspends Cosco’s payments until after 2020, saving the Chinese company at least €250 million. The deal will be submitted to the two companies’ boards for final approval. Piraeus port hopes to become a gateway for Chinese trade into the region.

Floods to have little impact on Dalian port

Hong Kong-listed Dalian Port says floods in the Northeast of the country would have little impact on its bottom line in the second half because an increase in imports should offset the expected drop in grain exports. General Manager Xu Song said that although the floods would slash corn output and the firm's container throughput, demand for other grains, such as soya beans, would help make up for the losses. The volume of corn handled by the port in the first half fell 2.3% year-on-year to 2 million tons, while soya bean tonnage surged 46.8% to 1.09 million. The group expects its gross profit margin to stay at about 27% in the second half. In the medium term, the shipping of cars would provide new revenue as the port's vehicle handling capacity would increase 87% to 840,000 units when a new pier jointly developed with Shanghai Anji Automobile Logistics opens in 2015, said Xu. He added that demand for vehicle shipping in Dalian would reach 800,000 units by 2016. The number of vehicles handled by the port jumped 49.2% to 159,827 units in the first six months.

- The London-based Baltic Exchange, whose indices and assessments are relied on by the global bulk shipping industry, opened its first China representative office in Shanghai. The publisher of the widely followed daily Baltic Dry Index said it expects to create closer ties with the Chinese shipping and trade community with the new office.
- A USD500 million Chinese-built port opened in Colombo, Sri Lanka, in August, giving Beijing a vital foothold on the busy international shipping lane. The Colombo International Container Terminal, which is 85%-owned by state-run China Merchant Holdings International, is designed to handle megaships. About half of all world sea trade passed through the east-west shipping route and a presence at the midway point gives China a commanding position on its supply route. The Sri Lanka Ports Authority hopes to have a container capacity of 10 million TEU by 2020, while revenue is forecast to triple to USD1 billion by 2020.
- A main port facility at Shanghai’s Lingang Industrial Zone opened for business in August. With nine berths along 760 meters of coastline, it will help attract more major equipment manufacturing companies and logistics enterprises to Lingang. Total investment in the zone has exceeded CNY80 billion since the industrial park was launched 10 years ago.
- Sinotrans Shipping said it will seek to expand its fleet in the second half of the year despite persistent sluggish demand and slumping profit. General Manager Li Hua said the company would look to buy different types of dry-cargo ships, including the 55,000 DWT Supramax or the 82,000 DWT Kamsarmax with more fuel-efficient engines. He said that in the long run, China’s import volumes should at least remain stable.
- China Shipbuilding Industry Corp said its Wuhan Institute of Marine Electric Propulsion has developed cutting-edge propulsion technology that will bring the nation closer to its goal of modernizing its shipping and naval fleets. Most surface vessels in China use mechanical transmissions and are propelled by a motor or an engine spinning a propeller. Many Western countries have adopted integrated electric propulsion, in which gas turbines or diesel generators produce electricity that powers electric motors.
- China Shipping Development, an oil and bulk cargo carrier, said it had a first half net loss of CNY923 million. The company reported sales of CNY5.2 billion for the January to June period, down 7.5%, compared with a net loss of CNY492 million on sales of CNY5.67 billion in the same period last year. The company was in talks with shipyards to delay delivery of some of its ships on order. It is scheduled to take delivery of 20 ships in the second half with 1.59 million DWT. The shipping firm should return to profit in 2014 when it has fewer vessel deliveries, and volume and freight rates are forecast to trend up.
- China Shipping Container Lines, the second largest Chinese shipping firm, posted another half-yearly net loss of CNY1.26 billion following a CNY1.28 billion loss for the first half of last year. The company moved 3.9 million TEU of containers, down 1.6% year-on-year in the six months to June. China International Marine Containers (CIMC), the world's largest container manufacturer, reported a 41% plunge in net profit to CNY552 million for the first half. Sales increased 4.5% to CNY28.60 billion and container production rose 15% but prices dropped, slashing the company's operating profit by 22.4% to CNY1.12 billion.
- China Merchants Holdings (International) – which saw net profit jump 10.2% to HKD1.94 billion in the first six months of the year – expects to perform even better during the second half, as two acquisitions start to contribute to its bottom line. Falling container throughput in its home-base ports in Shenzhen West dragged the growth rate down at the group's Chinese ports to 6% in the first half, as compared to the national growth of 8.6%. But Li Jianhong, the group's Executive Vice Chairman, said income from its investments in Terminal Link – a port network that covers 15 container terminals in eight countries – and another port in Djibouti, East Africa, would be booked during the second half.
- Singapore-listed Hutchison Port Holdings Trust (HPH Trust) – which operates deep water container ports including Kwai Chung in Hong Kong and Yantian in Shenzhen –

saw throughput volume fall 2% in the first six months of the year compared with 2012. Earnings before interest, tax, depreciation and amortization (EBITDA) of the group's 276 berths was flat in the first-half, with the firm blaming rising energy and labor costs.

RAIL TRANSPORT

China Railway to develop express business

China Railway Corp, a spin-off of the former Ministry of Railways (MOR), has announced its decision to develop the high-speed rail express business in a bid to make gains in the country's logistics market. Currently in China, about 80% of express deliveries are carried out on the road, 15% via air and 5% via railway and other modes of transport, according to Hong Houxing, Analyst with Anbang Logistics. Sun Zhang, Professor at the Urban Mass Transit Railway Research Institute at Shanghai's Tongji University, said the proportion of rail express' share in the country's logistic market only counted for about 1%. “Express delivery by rail will grow for sure in the long run as it's faster compared to road transportation and costs less than cargo flights,” said Hong, adding that air freight is also believed to be more vulnerable to weather conditions. “Take the trail of high-speed rail delivery between Guangzhou in Guangdong province to Changsha in Hunan province launched last year as example – the cost is CNY1.5 per kilo, 25% less than delivering by air,” he said. Hong said that airfreight is most suited for long-distance express deliveries that need to travel more than 1,000 km; rail is most suited for deliveries in a radius from 500 to 1,000 km; and delivery vans are most suited for deliveries in a 500 km radius. Though distances between Shanghai, Nanjing and Hangzhou are under 500 km, Hong still believed the new Nanjing-Hangzhou and Hangzhou-Ningbo lines would reshape the country's logistics landscape as they are part of the essential rail routes to link cities in the Yangtze River Delta to Fujian and Hainan provinces in the south. Prof Sun said railways could be used for cargo transport at night. Moreover, new high-speed services free traditional trains for cargo transport and increase transportation capacity for commodities such as coal, steel, rice, oil and ore.

Zhengzhou starts rail cargo service to Hamburg

Responding to rising trade volumes, Zhengzhou in Central China has started a rail service to Hamburg, Germany. The train takes 18 days to make the 10,214-kilometer trip, more than twice as fast as maritime transport. It can also effectively save 80% of the cost compared with air shipments, and it is also cheaper compared with road transportation. The route reaches Germany via Kazakhstan, Russia, Belarus and Poland. Zhengzhou International Inland Port Development Co is responsible for cooperating with partner rail companies in each country. The containers have to be transferred by crane to different gauges twice. First comes a change to the Russian style broad gauge line at the Kazakhstan-China border at Alashankou, in Xinjiang. The second is a transfer to the standard gauge at the Polish-Belarusian border. DB Schenker, the transport and logistics arm of Deutsche Bahn, is the rail route's main partner outside China. It provides gauge transfers and technical services through its service network in Central Asia and East Europe after the trains leave China. The Railway Bureau in Zhengzhou said the first train to Europe carried 655 tons of goods worth USD1.52 million – including tires, textiles, shoes and apparel – in 51 containers. Two-thirds of the goods are from Henan and the rest from the provinces of Zhejiang, Fujian and Jiangxi. Shi Fenghua, Assistant to the General Manager of China Railway Container Transport's Zhengzhou branch, said local traders used to transport their goods by road to ports in Liangyungang in Jiangsu or Qingdao in Shandong and then ship them overseas before the rail line came into operation. “We expect the majority of them will turn to the railroad in future for its efficiency and convenience,” Shi said. The Bureau charges CNY15,200 to transport a single container to the Alataw Pass. Customers have to pay separately for the remainder of the journey, from Xinjiang to Hamburg. There would be 14 such trains to Germany this year. In addition to the route from Zhengzhou to Hamburg, the Bureau has opened three branch lines to Moscow, Klaipeda in Lithuania and Almaty in Kazakhstan.

WAREHOUSING

Kerry looks to spin off logistics operations

Kerry Properties intends to spin off its logistics arm in a Hong Kong listing. Kerry Logistics Network, a wholly-owned subsidiary, operated the largest distribution network and hub operations in greater China and Asean, Kerry Properties' annual report said. It operated 30 million square feet of logistics space in more than 30 countries in five continents, of which 9 million sq ft were in mainland China. Former Singapore Foreign Minister George Yeo Yong Boon has been Chairman of Kerry Logistics since August last year. Net profit at Kerry Logistics, excluding a one-off gain from property revaluations, rose 10% last year to HKD815 million from 2011, as sales grew 20% to HKD19.3 billion. Kerry Logistics aimed to ride the growth of domestic consumption in China, leveraging its network in 2,600 cities and townships nationwide, the report said. Net profit margin, which exceeded 4% last year, was double the industry average of 2%, RCM Analyst Karen Chan said. Third-party supply-chain management, with a margin of 7%, was the key factor distinguishing Kerry Logistics from pure warehouse and freight-forwarding firms, she said. Of its 30 million sq ft of logistics space, a third is taken up by warehouses and nearly 40% by logistics centers. About 23% is used for port facilities. A third of the space is in Hong Kong, 27% in mainland China and 40% in other markets.

- Private equity firm Carlyle Group will partner with U.S. investment management firm Townsend Group to invest in 17 modern warehouses in China. They will jointly pay USD200 million to buy stakes in five warehouses owned by Shanghai-based warehousing firm Yupei Group and to build 12 new warehouses in the next two years. Shanghai Yupei Group, one of the largest warehouse developers and operators in China, will invest the same amount to bring the total to USD400 million. The 17 warehouses will be located in major logistics hubs across China and will be part of a nationwide logistics network with more than 1.8 million square meters of gross floor area.

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