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EXPRESS DELIVERY

Domestic express business shows strong growth

Revenue from China's postal services jumped by 22.3% in 2011 to CNY15.6 billion. Half of the revenue (CNY7.58 billion) came from the express business, up 32% year-on-year. Revenue from the international express business in 2011 accounted for only 24.4% of the industry's total, declining 6.7 percentage points from the previous year. Geologically, East China accounts for 81.1% of the country's total express business revenue, almost unchanged from 2010. In comparison, Central China took up 9.9% and West China 9%. The market was partly driven by the country's booming e-commerce industry. The country's total online shopping revenue reached CNY800 billion in 2011, said He Liming, Chairman of the China Federation of Logistics and Purchasing. This generated a total business volume of 3.65 billion pieces of express mail and parcels, He said. Analysts said logistics services need to be further improved and might hold back the development of the country's robust e-commerce industry. In 2011, the country's total logistics costs increased by 12%.

INLAND RIVER TRANSPORT

South Korean vessel detained for polluting Yangtze

A South Korean cargo ship that allegedly spilled phenol into the Yangtze river causing water pollution was detained and the owners of the vessel could face trial. The Wuhan Maritime Court, which has jurisdiction over the waters in the region, ordered the detention of the cargo ship Gloria, which was docked at the city of Nantong in Jiangsu province in early Feburary. Bail of CNY20.6 million has been set. The ship spilled the chemical into the river through underwater pipes. A court official said the shipping company would not face trial if a compensation agreement was reached with the local water supply company. The ship, which on February 2 was docked in Zhenjiang, leaked phenol on February 2 and 3 due to a faulty valve. Following the leak residents of Zhenjiang, a city of 3 million people, reported that their tap water had a pungent smell. The drinking water supply returned to normal on February 4.

PORTS & SEA TRANSPORT

Seized tanker sold for USD29 million

Samho Dream, a supertanker under arrest in Hong Kong since October for non-payment of a bank loan, has been sold at auction for USD29 million, a fraction of the USD137.5 million the distressed South Korean owner paid for the ship in 2008. The ship was bought by London's Embiricos Shipbrokers on behalf of the owner of a Greek ship management company. The shipbroker confirmed it acted as agent for the new owner, which it declined to name. The buyer is thought to be linked to the Embiricos shipping dynasty, one of Greece's largest shipowners. Hong Kong shipbrokers estimated the ship was worth USD35 million to USD40 million before the vessel was sold in an auction ordered by the court in December. Seven bids were received when tenders closed, but all were under the USD30 million reserve price fixed after two valuations of the tanker by a shipbroker and surveyor. Admiralty Judge Anselmo Reyes decided to sell the ship rather than seek new valuations and tenders. The ship hit the headlines in November 2010 when Samho paid a record USD9.5 million to get the hijacked tanker and 24 crew members freed from Somali pirates. The tanker was transporting crude oil from Iraq to the United States when it was hijacked in April 2010. Samho acquired the 319,360 DWT very large crude carrier (VLCC) at the height of the shipping boom in early 2008 from Greek shipowner Dynacom using a USD120 million loan from a syndicate led by South Korea's Shinhan Bank. Lawyers from the Hong Kong office of Holman Fenwick Willan, acting on behalf of Shinhan Bank, had the tanker arrested on arrival in Hong Kong on October 18 last year after Samho had filed for bankruptcy, the South China Morning Post reports.

Slowdown set to hit port investments

Slowing global trade this year will force China's ports to scale back investment in container terminals, but investment in bulk-cargo terminals should continue, analysts say. Container throughput this year in Hong Kong, the world's third-busiest port, will match last year's at best and could even shrink, said Sunny Ho, Executive Director of the Hong Kong Shippers' Council. “Southern China is suffering from a surge in labor costs and the impact of contracting demand in Europe and the U.S.,” Ho said. Guotai Junan Analyst James Song forecast container throughput growth at Chinese ports would be roughly 5 percentage points lower than last year's growth of nearly 12%. The growth in annual cargo throughput at Chinese ports and in the rest of Asia would be 3% to 5% for last year and this year, JP Morgan Analyst Karen Li predicted. “Globally, it will be even lower,” she added. Throughput growth at Chinese ports was 11.6% last year and 18.6% in 2010. In 2009, amid the global financial crisis, the cargo throughput of Chinese ports fell 5.9%, Li said. “Port operators will focus on the bottom line this year. Some Chinese ports will delay some projects.” For example, Shenzhen's Yantian port is building three container terminals to be completed in 2013, 2014 and 2015. Li expects the completion of the container terminal originally scheduled for 2015 to be delayed. No new container terminal projects had been approved recently in Shenzhen, said Luo Ping, Transport Planning Director of the National Development and Reform Commission (NDRC). “Ongoing container projects in Chinese ports may slow down due to the slowdown in global trade,” Luo said. “Some new container projects in Chinese ports may not be approved,” the South China Morning Post reports. But Chinese ports would continue to build facilities for coal and iron ore, as iron-ore handling capacity was far from sufficient to meet demand, Luo said. This year, ports would focus on upgrading bulk-cargo capacity, such as the recently announced plan to build a 300,000 DWT berth in Tianjin, said Charles de Trenck, Transport Analyst at Transport Trackers, a Hong Kong shipping consultancy. Hutchison Port Holdings (HPH) and Modern Terminals, two Hong Kong port operators with operations in Hong Kong and Shenzhen, declined to say whether they would delay port projects.

OOCL's terminal expansion moves ahead in Long Beach

Orient Overseas Container Line (OOCL) has secured a key vote from harbor commissioners in the port of Long Beach, California, for its USD4.6 billion, 40-year lease on a new container terminal. It would be the largest port lease deal in United States history. If approved, executives from OOCL and the port would sign the formal lease agreement later this month. Under the plan, the port would spend USD1.2 billion to merge two existing container terminals into a 122 hectare terminal complex capable of handling 3 million TEU a year. OOCL already operates one of the terminals, the Long Beach Container Terminal. The second one, California United Terminals, was operated by South Korea's Hyundai Merchant Marine until late 2010 when it moved to Los Angeles. The capacity of the new complex, which includes the construction of 1.4 km of new wharves, rail facilities and 37 container-storage areas, would be equivalent to half the 6.1 million TEU handled by Long Beach in 2011 last year. Chris Lytle, Executive Director at the Long Beach port, said if the planned terminal were an independent port, it would be the U.S.'s fourth largest behind Los Angeles, Long Beach and New York-New Jersey. OOCL also plans to spend USD500 million to equip the new terminal with modern, less-polluting cargo-handling and port equipment, including replacing diesel-powered cranes with electric ones. Anthony Otto, President of Long Beach Container Terminal, said OOCL would approach other container lines, including its partners in the Grand Alliance shipping group, to share the complex. He also did not rule out the possibility that OOCL might seek a second shareholder in its terminal, the South China Morning Post reports.

Vale enlists ore transfer vessels to get around ban

Brazilian mining group Vale has expanded the flexibility of its iron ore shipping operations, especially to Chinese ports, after taking delivery of a ship that is capable of loading and unloading other ships at sea. The 280,815 DWT Ore Fabrica was delivered by Jiangsu Xinrong Shipyard, part of China's largest ship building company, China State Shipbuilding Corporation (CSSC), after conversion into a floating transshipment vessel. The 322-m-long vessel has been equipped with a cargo handling system that includes hoppers and five cranes, together with new generators, upgraded electrical systems and improved crew accommodation. The conversion cost CNY100 million. The shipyard confirmed the vessel belonged to Seamar Shipping, an offshoot of Vale. The vessel will be joined by two very large ore carriers, the 400,606 DWT Vale China and the 402,347 DWT Vale Brazil, in the Philippines. Vale and the Subic Bay Metropolitan Authority signed an agreement in September to set-up a specially designed floating transshipment facility that will transfer iron ore from these ultra-large vessels into smaller ships that can enter more ports in China, Taiwan, Japan and South Korea.

China Communications Construction cuts Shanghai listing target by 75%

China Communications Construction (CCC) cut its listing target by 75% to CNY5 billion instead of the previously planned CNY20 billion. CCC, the country's biggest port construction company, planned to issue up to 1.6 billion A shares in Shanghai to raise the CNY5 billion, its latest IPO prospectus said. Of the 1.6 billion A shares, CCC would use 504 million shares to merge with its Shanghai-listed construction subsidiary Road and Bridge International via a share swap. The Shanghai listing was approved by the China Securities Regulatory Commission (CSRC) in September. Had CCC stuck to the original CNY20 billion listing, it would have been last year's biggest Chinese IPO but the CSRC did not allow it to proceed because of weak market conditions. CCC's IPO prospectus forecast its net profit for 2011 will be CNY11.37 billion, lower than the Bloomberg consensus estimate of CNY11.66 billion. CCC would announce its IPO share price on February 17, after which it would ask the CSRC to allow its shares to trade “as soon as possible”, according to the prospectus.

China blocks Vale’s large iron ore carriers

China's Ministry of Transport said it would restrict port access to large iron ore carriers – the so-called Valemaxes – such as those used by Vale. The Ministry said it was “not optimistic” about the safe berthing of super-large ships at its ports. “Considering the sizeable hidden dangers, we have decided to adjust the port management system for the berthing of large ships,” it said. Ports would no longer be able to accept such vessels on the “one vessel, one discussion” basis that had allowed ports to accept on a case-by-case basis carriers that under a 2006 Chinese law should have required special permits to berth. Vale had been trying to gain permission for 35 very large ore carriers – the biggest dry bulk carriers ever built – to call at Chinese ports. The vessels, some owned by Vale and some chartered from other shipowners, were ordered to ensure Vale could compete more efficiently with Australian iron ore miners when moving ore to China. Miners with Australian operations – including BHP Billiton and Rio Tinto, who along with Vale make up the "big three" of iron ore producers – are only 10 days' sailing from Chinese ports, while Brazil is 45 days away. Vale declined to comment on the new rules. Rob Lomas, Secretary General of Intercargo, the international dry bulk shipowners' association, said his organization was trying to find out what the rules meant. If it covered all vessels with a capacity greater than 250,000 DWT, more than 100 vessels would be affected. There had been optimism that the standoff between China and Vale had been resolved after one Valemax, the Bergé Everest, was allowed to unload in Dalian in December, the Financial Times reports.

"Regulation of vessel capacity is necessary for the safe operation of ports and shipping routes," said Sun Guangqin, Director of the Port and Shipping Institute at Dalian Maritime University. At present, no Chinese ports have the capability to receive dry bulk vessels of 400,000 tons, Sun said. Heavy Industries Group Holdings has a contract to build 12 Valemaxes by the end of this year, but the decision might hold back Vale from giving more orders for the giant vessels to Rongsheng. Vale said the mega-vessels would cut freight costs from Brazil to China by 20% to 25% and significantly reduce carbon emissions. "At the end of the day, [Chinese leaders] want to support their own," said George Lazardis, Analyst at Greek broker Intermodal. "They are interested in giving support to their shipowners, which are starting to become a significant force. [Beijing is] not interested in whether Vale will be able to provide cheap imports in comparison to Australian imports," Lazardis said.

Troubled shipping lines raise rates on key routes

Exporters and importers face higher shipping costs as loss-making and financially troubled shipping lines raise freight rates on key trade routes to Europe, the Mediterranean and South Asia in the next few months. The increases will more than double freight rates on some routes compared with December, as global container shipping lines contend with estimated collective losses last year of USD5.2 billion. Sunny Ho, Executive Director of the Hong Kong Shippers' Council, criticized the rate increases, saying consumer demand remained soft for Hong Kong and Chinese exporters in western economies. Ho, whose group represents 47 trade associations, manufacturers and other trade companies, said: "Many shippers are facing a very difficult time. We will be facing a very quiet period." Share prices of container lines have climbed on the news in the expectation that revenues and profitability will rise on the back of higher freight rates, including those of China Shipping Container Lines and Orient Overseas (International). OOCL said a USD200 per TEU increase would apply on cargo from north Europe to Asia from February 15. The carrier said "further rate restorations" would be applied this year.

Waigaoqiao Shipbuilding wins huge order from U-Ming

Shanghai Waigaoqiao Shipbuilding (SWS), one of China's largest shipyards, has won a contract that may be worth up to USD500 million. The huge order, for up to 10 dry cargo iron ore and coal carriers, was placed by the Singapore subsidiary of Taiwan's U-Ming Marine Transport. The deal, signed between U-Ming President Ong Choo Kiat and SWS President Wang Qi, comprised a firm order for four 186,300 DWT capesize dry bulk ships, plus options for six more. The ships, each costing USD49.83 million, are due for delivery from 2014. One Hong Kong-based shipbroker confirmed the order was the first major order to a Chinese shipyard this year. "It also shows Taiwanese owners are not afraid of ordering at a mainland shipbuilder. Previously, an order like this would have gone to a Taiwanese shipbuilder," the broker said. U-Ming said the ships would be equipped with fuel-efficient engines and other pollution-reducing equipment, with a new hull design that would help reduce carbon emissions. U-Ming is already part owner, with Wah Kwong Maritime Transport, of a 177,000 DWT capesize bulk carrier that was built by the Shanghai shipyard in 2010. The new ships will be entirely owned by U-Ming. Ong said the ships were part of a fleet expansion and replacement program that was being implemented, despite the downturn in the dry bulk market caused by new tonnage coming on stream. British shipbroker Clarkson estimates 401 capesize vessels totaling 81.1 million DWT are set for delivery in the next four years, equivalent to 32.4% of the global fleet. Most of these ships, totaling 52.1 million DWT, are to be delivered this year.

China and Brazil negotiating about Valemax access

China and Brazil are negotiating access to Chinese ports for Vale's fleet of giant vessels as China tightened regulations on the access of large carriers to its ports. During a meeting in Brasilia on February 14, Brazilian Vice President Michel Temer discussed the issue of access for Vale's Valemax vessels — the world's biggest dry-bulk carriers — with China's Vice Premier Wang Qishan. "It will be dealt with at a political level," Marco Aurelio Garcia, Foreign Policy Adviser to Brazilian President Dilma Rousseff said. The Chinese Ministry of Transport said its decision to bar giant ships was taken because of "maritime safety issues". Vale's Valemax vessels are designed to carry 400,000 metric tons of iron ore and are "too large for Chinese ports to accommodate", said Sun Guangqin, Director of the Port and Shipping Institute at Dalian Maritime University. "To tighten the regulations on giant vessels is necessary for the safe operation of ports and shipping routes," he added. Iron ore plays an important role in Sino-Brazilian trade. China, the largest consumer of iron ore, imported 686 million tons of the material in 2011, an increase of 10.9% from the previous year, according to the Chinese General Administration of Customs. Miners such as Vale might attain monopolies on the transportation of iron ore by setting up their own fleets, Zhang Shouguo, Executive Vice President of the China Shipowners' Association, said. "It (the monopoly) will hurt China's shipping industry as well as the steel industry," said Zhang. Vale has invested USD2.3 billion in 19 of the 400,000-ton giant bulk carriers and will control another 16 under long-term contracts. The miner currently operates five Valemax vessels, but only the Bergé Everest was allowed to dock at Dalian port on December 28, prompting protests from domestic shipping companies and the China Shipowners' Association, the China Daily reports.

- The Hong Kong-based ship management operation of MSC Ship Management – one of the world's largest container shipping lines – is set to close and relocate to Cyprus, threatening more than 70 jobs, according to senior shipping sources. The company oversees the day-to-day operation of about 80 ships operated by Mediterranean Shipping, the world's second largest container line, but the size of the Hong Kong-managed fleet will be cut significantly as older ships are sold for scrap. The Hong Kong operation manages 33 container ships that are at least 25 years old, according to the ship information database Equasis.
- So Ping-chi, Convenor of the Hong Kong Maritime Forum, which represents 23 organizations out of more than 40 maritime-related bodies in the territory, said a visit to Beijing and Shanghai was scheduled for April. The group would "visit the headquarters of major shipowners" and talk to the Ministry of Transport, Maritime Safety Administration, training institutes, maritime universities and other organizations. He said the main purpose was to get more details about the 12th Five Year Plan and how it relates to Hong Kong's shipping sector.
- According to the China Association of the National Shipbuilding Industry (CANSI), the volume of new shipbuilding orders in 2011 fell 52%. More than 30% of the country's small shipyards are likely to go bankrupt this year, industry insiders said. Small shipyards, though many in number, accounted for no more than 20% of the country's vessel production, said CANSI Chairman Zhang Guangqin.

RAIL TRANSPORT

Rail new hope for Shenzhen shipping

To survive as an international port, Shenzhen now relies on container railways to serve factories that have moved from Guangdong to more remote inland regions, according to a senior Shenzhen port official. "China's industry is changing and factories are shifting inland," Ma Yongzhi, Deputy Director General of the Shenzhen Port Administration, said. The exodus of factories from Guangdong to the interior made Shenzhen the worst-performing major Chinese port last year. Container throughput rose only 0.27% to 22.57 million TEU, according to the Shenzhen Ports Association. In comparison, container throughput in Shanghai, the world's busiest port, increased 9.2% to 31.74 million TEU last year, the Shanghai International Port Group (SIPG) said. Ma said Shenzhen's port was aggressively building rail links to the interior to transport containerized cargo for factories there. The port had 15 container rail connections to cities, including Chongqing and Kunming, Ma said. This year it would open two new container rail lines: to Xian, the capital of Shaanxi province, and Zhengzhou, the capital of Henan province. Kerry Logistics was planning or building six logistics centers in central and western China, including a 40,000 square meter logistics center in Zhengzhou to be completed in March next year. Kerry Logistics started operating logistics centers in Chengdu in 2009 and Chongqing in 2010 to tap inland cities. One example of an interior city benefiting from the inward shift of manufacturing is Chongqing. Last year, it saw the biggest increase in international trade in China – a 140% increase to USD29.2 billion, according to the Chongqing government. By comparison, China's international trade rose 22.5%. Willy Lin, Chairman of the Hong Kong Shippers' Council, said Shenzhen's container rail business was now threatened by a direct rail link between Chongqing and Europe, which had been operating for the past year. Lin said it took 14 days to transport cargo by rail to Europe from Chongqing and 21 days to move freight from Chongqing to Shenzhen and then ship it to Europe. The cost of transporting cargo by rail from Chongqing to Europe was roughly one-third the combined cost of land transport to Shenzhen and shipment from Shenzhen, Lin added. At present, less than 1% of China's container throughput is transported by rail, the South China Morning Post reports.

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