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AIRLINES & AIRPORTS

Cathay Pacific faces cargo slump

Cathay Pacific said it faced weakened demand for cargo shipments from its two key markets, Hong Kong and mainland China, as well as the European market, due to falling exports amid weak consumer sentiment. Cargo revenue for last year was up 0.3% to HKD25.98 billion compared with 2010, but the load factor fell. Chairman Christopher Pratt warned of pressure on Cathay's cargo business in the coming year due to global economic uncertainties.

EXPRESS DELIVERY

Courier services to examine parcels

Shanghai's major courier firms have begun ordering their delivery personnel to examine the contents of parcels they receive from customers more often as a prelude to a new rule to be carried out starting May 1 by the State Post Bureau of China. "The company has authorized the couriers to refuse to take the parcels if the customers refuse to open them," an official with YTO Express said. He said the company also began asking the customers to use a common wrapping that the company can provide upon picking up the package. This way the customers can open the parcels for inspection before they are wrapped. Couriers will have the right to refuse to deliver parcels if customers refuse to open them, according to the Courier Service Rule from the State Post Bureau of China. The stricter regulations come after a man in Guangzhou was severely injured in a blast from a package containing explosives that was delivered to him on February 6. A national regulation for courier services enacted in 2008 has actually required delivery personnel to check the content of parcels, but it has not been followed, said Shao Zhonglin, Deputy Secretary General of the China Express Association. Customers in Shanghai sending packages via major courier companies are now also required to provide identity details, under rules introduced due to safety concerns. Recipients are not required to provide ID details. The measure was aimed to prevent prohibited, inflammable and explosive material being delivered. The Beijing postal authority has ordered express delivery workers to stamp their names or job numbers on waybills and denied saying that clients are required to provide real names when sending or receiving packages. Staff members must open packages to check what clients send or receive since March 1, Wang Wentai, Director of the Market Supervision Department of the Beijing Municipal Postal Administration, said. He added that the real-name policy is an experiment by some individual companies in some specific regions instead of a nationwide mandatory requirement.

LOGISTICS INDUSTRY

Modest growth expected for Hong Kong's logistics

Industry players expect modest single-digit annual growth for Hong Kong's logistics sector in the next five years, despite Chinese officials asking the city to join Shenzhen's CNY285 billion plan to develop a global logistics hub by 2015. The growth of Hong Kong's external merchandise trade will slow to 6% this year from 11% due to the uncertain global outlook, said R. Gopal, Vice President of Frost & Sullivan, an international market research firm. After enjoying 23.3% growth in 2010, Hong Kong's air cargo traffic was expected to drop 4.6%, Gopal said. “Hong Kong's air cargo traffic will grow marginally by 1% to 3.98 million tons this year. Air cargo has been affected by uncertainties in the U.S. and Europe.” The firm predicts Hong Kong's sea cargo volume will rise 5.5% to 293.8 million tons this year. It says that from 2011 to 2016, Hong Kong's logistics industry is expected to have a compound annual growth of 6.7% to reach USD40.58 billion. After taking out inflation, the real annual growth rate of Hong Kong's logistics will be cut about two percentage points to 4.7%, Gopal estimates. Single-digit growth of Hong Kong's logistics industry in the next five years would be better than the past six years, which saw only 1.7% average growth. “If Hong Kong's logistics industry has a real growth of 5% each year, that will be great,” said Anthony Wong, past President of the Hong Kong Logistics Association. The Shenzhen government wants to increase Shenzhen's value-added logistics output to CNY150 billion by 2015. In 2011, it rose 14.5% to CNY110 billion, accounting for more than 10% of the city's GDP, according to official data. Foreign direct investment (FDI) in Hong Kong's logistics sector will increase from USD4.52 billion last year to USD4.73 billion this year, Gopal predicts. In 2011, China's logistics revenue grew 12.3% to CNY158.4 trillion, 2.7 points slower than 2010, the South China Morning Post reports.

PORTS & SEA TRANSPORT

No need for Hong Kong Terminal 10 until 2018, says Wharf

Modern Terminals, the port arm of Wharf and Hong Kong's second largest container terminal operator, says there is no need for a 10th terminal in Hong Kong until at least 2018. As global trade continued to slow in the second half of last year, Modern Terminals handled just 5.3 million TEU at Kwai Chung Container Terminal last year, a slight year-on-year drop of 1.85%. Managing Director Benjamin Lai expects only a moderate single-digit growth this year. “We don't have a clear picture at this point of where Hong Kong's port business is heading in the long run, but assuming a moderate growth in each of the next few years, our capacity would be sufficient to handle the demand at least until 2018.” In 2008, the government said Hong Kong would need a 10th container terminal by 2015 to cope with growth in throughput. But it was not until early last year officials launched a feasibility study on the infrastructure. It was proposed the terminal would be located at southwestern Tsing Yi. Modern Terminals now operates in busy seasons at about 80% of its capacity of 7 million TEU. “Increase in throughput does not necessarily take up capacity in direct proportion. Over the years, we have raised our productivity through automation, and adding new facilities such as Wi-fi, in a bid to meet cargo growth with the same amount of capacity,” said Frankie Yick, Director at Wharf. “Even when our capacity runs out, we'll still have a few back-up sites that could help boost our capacity by another million TEU." According to the Port Development Council, the nine container terminals in Kwai Tsing handled 24.37 million TEU last year, a growth of 2.8%. Ports in Shenzhen, including the Modern Terminals-invested Da Chan Bay and Hutchison Whampoa's Yantian, handled 18.8 million TEU in the first 10 months last year, a 0.1% growth from a year ago, the South China Morning Post reports.

Shipping lines and terminal operators are divided over whether Hong Kong will need a tenth container terminal – known as CT10 – as manufacturing continues to migrate to China's inland provinces and emerging Asian economies. Terminal capacity in southern China, excluding Hong Kong, is forecast to climb 56% from 85 berths in 2010 to 133 berths by 2030 if all expansion projects come to fruition, delegates to the TOC Asia conference were told. This includes additional berths at Nansha on the western side of the Pearl River, Dachan Bay and Yantian in Shenzhen, and Gaolan near Zhuhai. Each berth will have a capacity to handle between 500,000 and 750,000 TEU a year. Asked if a tenth terminal in Hong Kong was needed, Stephane Mazain, Asia Vice President for French container line CMA CGM, said: "Yes, we want it. We need the terminal." He said congestion at the Kwai Tsing container port last year "was really, really bad", although several measures including increased productivity had improved the situation. Senior executives from Maersk and Mitsui OSK Lines warned last year that if congestion was not tackled it would deter lines from putting more activity in Hong Kong. Shipping lines saw containerized cargo shipments delayed significantly because of congestion, mainly at the barge and feeder vessel berthing facilities operated by Hongkong International Terminals. Mazain said CMA CGM's imports in China had increased more than 30%, while the carrier handled more cargo "within 100 kilometers of Shunde than the whole of Vietnam". But Ken Chan Hang, Deputy Managing Director at Cosco Pacific, the terminals subsidiary of China's largest shipping company, said there was no need for a tenth terminal. "We operate in Hong Kong and we do have capacity," he said. Chan also pointed out that the challenge for Hong Kong's port was to have enough capacity to handle bigger vessels. "If the port has the equipment and draft to service 18,000 TEU container ships I think Hong Kong's capacity is sufficient for 10 years," he said.

Shipowners facing financing crisis

Hong Kong and foreign shipowners are expected to need between USD126 billion and USD150 billion to finance all the ships that are on order and due to be delivered over the next three years. But doubts over whether this volume of finance will be available through banks, private equity or other financing methods have already raised concerns that some orders could be cancelled. This, in turn, would affect shipyards, particularly smaller facilities in China, where up to half of the yards could fail by 2014, according to China State Shipbuilding President Tan Zuojun. Concerns over the availability of finance were highlighted in a survey published by law firm Norton Rose in February. According to the survey, 42% of shipping respondents said a shortage of cash was the greatest threat to their business. Andrew Hampson, Managing Director of private equity house Tufton Oceanic, estimated the total contract value of ships on order was USD271 billion, but only USD146 billion of this was financed. Hampson estimated ships worth USD144 billion were due for delivery this year, followed by USD80 billion worth of ships next year. Export credit was one of six primary sources of funding identified by the shipping sector over the next two years, according to the Norton Rose survey. The others were bank debt, which has historically provided most ship finance; shareholder equity; bond issues; private equity investment; and internal cash reserves. Shipowners have already seen several European banks, which have traditionally been the major players in the sector, either pull out or reduce their involvement because of the euro-zone credit crisis and tougher capital requirements under the Basel II and III accords. Ted Petropoulos of Petrofin Research estimated that USD105 billion in loan payments would be made by shipowners on existing ship loans over the next three years. But he questioned whether all this cash would be re-lent, the South China Morning Post reports.

Cosco Pacific to invest in Kaohsiung port

Cosco Pacific, China's leading port operator, said that talks to acquire a stake in Kaohsiung Port, Taiwan's busiest, were continuing, but there was nothing yet to disclose. The port arm of China COSCO Holding, the largest shipping conglomerate in China, is poised to be the first mainland operator to invest in a Taiwanese port, a significant milestone that reflects the improving cross-strait relationship between Beijing and Taipei. China Cosco is said to be interested in acquiring half of the 40% stake being sold by Yang Ming Shipping, Taiwan's second-largest shipping line, in Kaohsiung's No 6 terminal. K-Line is also reported to be in talks with the Taiwanese shipping line about buying the remaining half. Yang Ming will first increase the equity capital of the port before selling the stakes, lifting the port's equity capital to as much as NTD7 billion from NTD4.1 billion. It is estimated that the investment in a 20% stake would be NTD1.2 billion to NTD1.4 billion, Reuters said. China Merchants Holdings (International), a rival of Cosco Pacific, has also held talks with Taiwan counterparts over purchasing stakes in Kaohsiung Port in the past. China Merchants Chairman Fu Yuning visited Kaohsiung Port and expressed an interest in taking a stake.

Yangshan Port now accepting bonded ship registrations

Chinese ships registered at the Yangshan Deep-water Port in Shanghai can now enjoy export rebates and other favorable policies as the port became the first in the country to accept bonded ship registration. Domestic shipowners previously needed to pay more for China-flagged vessels because they couldn't enjoy the export rebates for them. This led many domestic companies which are engaged in international shipping to register their vessels in foreign countries to trim operating costs and avoid China's strict quarantine and other regulations. Shanghai, the world's largest container port, only has 380 registered international ships, which lags far behind Hong Kong and other global ports, the Shanghai Maritime Administration said, adding that the number of Chinese ships registered overseas increases annually. "The trend restricted the development of shipping-related financial services, including ship mortgage and insurance," said Administration Spokesman Chang Fuzhi. Shanghai aims to attract more international ships to register in the city to boost the financial leasing and other service sectors related to the shipping industry as the city tries to develop itself into a global shipping hub by 2020. The next step will see the Shanghai Free Trade Zones working with the maritime authorities to develop favorable policies in customs, foreign exchange and tax exemption, the Shanghai Daily reports.

COSCO earns recognition for Boston service

China Ocean Shipping (Group) Company (COSCO) has been recognized in Massachusetts for its contribution in helping the ailing U.S. economy and job market, a decade after it opened a direct service between China and Boston, saving about 9,000 jobs in the New England area. In March 2002, COSCO decided to open a direct vessel service to the Port of Boston after the Danish shipping firm Maersk Line, part of AP Moller-Maersk Group, closed its lines to the port. Over the past 10 years, COSCO's cooperation with the Massachusetts Port Authority (Massport), known as the "COSCO-Massport model", has preserved more than 34,000 jobs, said David Mackey, interim CEO of Massport. On March 2, the 10th anniversary of the start of the service, COSCO Chairman Wei Jiafu received an "International Business Leader" award from the Coalition of New England Companies for Trade in recognition of the Chinese company's continued support. Two years after opening the service, Premier Wen Jiabao visited Boston's Conley Terminal, where he praised the COSCO-Massport relationship as a model that other Chinese and U.S. businesses should follow. Zhang Yesui, the Chinese Ambassador to the U.S., who collected the award on behalf of Wei, said the COSCO-Massport model reflects the win-win economic relationship between the U.S. and China. Zhang said this showed that Chinese business and trade can make a contribution to the U.S. economy and help create jobs. Before the arrival of COSCO, the Port of Boston only had a direct connection with Europe. However, COSCO's weekly service made it possible to connect the New England region with Asia and China — important emerging markets in the global economy. When the service first started, fewer than 50 containers per week came into Boston from China and Asia. Now the average weekly number is more than 1,000. Michael Leone, Port Director at Massport, said COSCO is a primary carrier at the Port of Boston, shipping about 60% of TEU at the Port.

Port of Shanghai sees slower growth of container traffic

In a sign of slowing global trade, the throughput of Shanghai, the world's busiest port, turned out to be weaker than expected in the first two months of this year. Shanghai's container throughput rose 3.6% to 4.8 million TEU in January and February, while cargo throughput grew 7% to 76.16 million tons, according to the Shanghai International Port Group, the port operator. Cargo throughput for the whole of last year rose 13.1%. While container throughput measures the traffic in finished goods, cargo throughput is a measure of raw materials passing through a port. Given that Shanghai's container throughput enjoyed 7% to 9% year-on-year growth in the second, third and fourth quarters last year, a growth of 3.6% falls short of expectations, said Nomura Analyst Jim Wong. Combining the data of January and February and eliminating the distorting effects of the Lunar New Year, Wong said: “This year people are more cautious. They are delaying things all over the world. Factories in China stayed closed for a longer period.” Willy Lin, Chairman of the Hong Kong Shippers' Council, said: “At this moment, the forecast is it's going to be a very difficult season in the first six months of this year.” Nomura's Wong said however that “most people are expecting stronger recovery in March.”

Qingdao Port to start operating iron ore terminal this year

Qingdao Port (Group) Co expects to start operating its 400,000-ton Dongjiakou ore terminal this year, Group Chairman Chang Dechuan said. Analysts said the terminal would have the capacity to handle Brazilian miner Vale’s giant vessels, which have been barred from Chinese ports over safety concerns. But Chang said the miner had not contacted the port to discuss access for its vessels. “Neither have we done safety studies about letting Vale’s vessels dock at our terminal,” Chang said, declining to elaborate. 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, according to the company. The miner currently operates five Valemax vessels, but only one has visited a Chinese port since being put into service in May. The 388,000-ton Berge Everest unloaded its cargo at Dalian port on December 28, prompting protests from domestic shipping companies and the China Shipowners’ Association. On January 31, the Ministry of Transport tightened port regulations, so no Chinese port was allowed to accommodate vessels exceeding 300,000 tons. Analysts said Qingdao port would face pressure if it accommodated Vale’s giant vessels at the new terminal, as business volume in other ports would decline, said Zhang Hui, Analyst with Donghai Securities Co. Qingdao Port (Group) Chairman Chang also expressed concerns about the port’s plan to go public within the next five years. “We have encountered some problem in asset stripping,” Chang said, without elaborating. The port has been trying to obtain a listing for the past decade, Chang said, adding that he was “pessimistic” about the prospects of an IPO. Chang said that Qingdao port intends to build a 300,000-ton oil terminal this year, in addition to the Dongjiakou ore terminal, as well as a coal terminal whose capacity “is still under discussion”. The port’s investment budget this year would be CNY4 billion, Chang said, and it would invest CNY30 billion over the five-year period starting this year.

Sinopec and CNPC to build crude oil terminals in Tianjin

China’s two biggest oil companies each plan to establish a 300,000-ton crude oil terminal in Tianjin Port as part of the country’s strategy to increase oil supplies to Beijing and Tianjin. China Petrochemical Corp (Sinopec Group), plans to start construction on the project next year, Yu Rumin, Chairman of Tianjin Port, said. The work follows Sinopec’s establishment of the first such terminal in the port, a project that began operating in November 2008. The company will also establish a stockpile zone where crude oil from the terminals will be stored, Yu said. Work is to start on that project in July. China National Petroleum Corp (CNPC) is also talking with Tianjin Port about building its first crude-oil terminal there. It has not set a schedule yet. CNPC forecast that China will import 266 million tons of crude oil in 2012, when the country’s annual oil output may level off at 220 million tons. The net amount of crude oil China imported increased by 6.3% in 2011 from a year earlier. “We plan to add two more 300,000-ton crude-oil terminals to the port after 2015 to meet demand from rising crude imports,” Yu said. In addition, work on the first phase of a liquefied natural gas (LNG) terminal is expected to start next March. China National Offshore Oil Corp (CNOOC) will hold a 51% share of the project, while the port will have a 44% share and a local gas company the rest. In total, CNY5.7 billion have been invested in the terminal, which is designed to process 2.2 million tons a year. Yu said the port plans to build an additional one or two such terminals after 2015, when the southern part of the port will be expanded eastward through land reclamation, the China Daily reports.

China Communications Construction debuts on Shanghai exchange

Shares of China Communications Construction (CCC) made a strong debut on the Shanghai Stock Exchange last week as investors took heart from the upbeat remarks by its Chairman Zhou Jichang. Shares ended 23.3% higher than their offering price on the first day of trading. The hefty gain was in line with expectations of analysts who believed the port builder's CNY5 billion initial public offering (IPO) was greatly undervalued after it cut the fund-raising size by 75% from the original target of CNY20 billion. CCC's offering price of CNY5.4 translated into a price to earnings ratio of 7.68, the lowest in the history of China's stock market. In order to soothe investor concerns about CCC's potential losses abroad, Chairman Zhou said the company, whose overseas businesses contributed one-third of its total profits, did not see a single loss-making project outside China. He said construction of USD1 billion worth of unfinished projects in Libya had been resumed. The company had USD2 billion worth of projects in Libya, comprising mainly housing construction, of which more than USD1 billion had yet to be completed, Zhou said. The closing price of CCC's Shanghai-listed shares represented a 4.9% premium to its Hong Kong-traded counterpart.

Orient Overseas expects costs and rates to rise this year

Overcapacity, sluggish cargo growth and high fuel prices are set to make 2012 a difficult year for container shipping lines even though they have started to increase freight rates, Ken Cambie, Chief Financial Officer at Orient Overseas (International) said. He said capacity was forecast to grow by 9% this year as new container ships were delivered to ship owners and operators. By comparison, overall growth in cargo demand was expected to be between 5% and 6%, with “significantly lower growth rates on Asia-Europe services”. He said the impact of the new tonnage, with more deliveries this year compared with last year, would especially be felt on Asia-Europe routes because a higher proportion of the new ships were mega vessels of more than 10,000 TEU. Cambie pointed to Mediterranean Shipping, the world's second largest container line, which has 16 such large ships due for delivery, including 12 by mid-year. All will be deployed on Asia-Europe services. Fuel costs had reached USD740 per ton, up from an average of USD458 in 2010. Cambie was commenting after OOIL saw net profit slump to USD182.4 million last year, down from USD1.87 billion in 2010 although this included a USD1 billion profit contribution from Orient Overseas Developments. Revenue was unchanged at USD6 billion. Profit from Orient Overseas Container Line, OOIL's container shipping company, dropped to USD86 million last year, against USD834.3 million a year earlier, while revenue slipped to USD5.9 billion, down from USD6 billion a year earlier. Cambie said OOCL lost money in the second half of last year, although OOIL remained in the black. He pointed out that overall revenue per TEU dropped 6.7% last year to USD1,703. To counter the drop in rates, OOCL, along with several other carriers including Maersk and Hapag-Lloyd, had announced rate increases this year on Asia-Europe and transpacific trades. Figures from the Shanghai Shipping Exchange show spot freight rates from Shanghai to Europe surged 163% between January 1 and March 2. Cambie said a further round of rate increases was planned for May, adding that “freight rates are moving back to break-even”, the South China Morning Post reports.

Sinotrans may look to acquire new or second-hand ships

Sinotrans Shipping is eyeing the acquisition of more dry-cargo and container ships and could expand by chartering tonnage, Li Hua, Executive Director and Deputy General Manager, said, adding that the firm's target of building a fleet of 5 million to 7 million DWT over at least the next five years had not changed. The company has a fleet of 53 ships totaling 3.35 million DWT, including two vessels that were delivered in February. Financial Controller Xie Shaohua added: “We are looking for opportunities. As of now we have no new contracts.” He said the company had an “open attitude” towards acquiring second-hand or newly built tonnage after ship prices dropped last year. Li indicated that second-hand vessels acquired now would enter the Sinotrans fleet with market conditions expected to be sluggish. But new ships ordered now would be delivered in one or two years, by which point conditions may have improved. Xie forecast total seaborne dry cargo volumes would rise by 4% this year as China and India continued to increase coal imports and the volume of minor bulk cargoes, including fertilizer, cement and steel, also rise. But charter rates are expected to remain under pressure as the global dry bulk fleet is expected to climb by 12.1% this year, or 94.5 million DWT. Sinotrans saw net profit drop 28.1% last year to USD91.7 million from USD127.5 million a year earlier. Turnover edged up 1.1% to USD281.4 million compared with USD278.5 million in 2010. Xie said revenues from the dry bulk division, comprising 40 ships, rose to USD259.4 million last year, up from USD258.4 million. This reflected a 29.1% rise in freight income to USD50.5 million, which offset a 4.7% fall in charter hire income that followed a 19% fall in average charter hire to USD15,654 per day. He added that revenue from the firm's fleet of 10 container ships rose 13.2% to USD23 million last year as average time charter equivalent rates rose 14.2% to USD6,441 per day. Operating costs surged 21.5% to USD198.7 million, the South China Morning Post reports.

- The local government in Yueqing, Zhejiang province, has denied rumors that Chen Tongkao, chief shareholder of Dongfang Shipbuilding (Group) Co, has fled in response to pressure to pay off debts. In August 2011, the company became the first Chinese shipbuilder to be listed on London's AIM. The city noted that Chen has a 71.4% stake in the company, which has debts of CNY1.13 billion. Liu Xunliang, Secretary General of the Shanghai Shipbrokers Association, said the slump in the industry may force as many as 30% of the small shipbuilders in the country into bankruptcy.
- A sister port agreement between the Port of Nanjing and the Port of San Diego, California, was signed in Nanjing on February 27.
- Pacific Basin Shipping, which may need to raise up to about USD225 million to finance existing ship purchases, expects to find the cash despite the likelihood of a fall in bank lending to the shipping industry. The company, which operates dry bulk cargo ships and tugs, will spend USD322 million over the next three years to acquire 16 new ships that are already on order, of which USD171 million is committed this year and USD130.8 million in 2013. Banks typically finance up to 70% of the purchase price of new ships.
- By the end of 2015,China's shipbuilding industry may hit CNY1.2 trillion with the value of exports touching USD80 billion, the Ministry of Industry and Information Technology (MIIT) said. Chinese shipyards may take up at least five spots among the world’s top 10 shipbuilders and the country’s 10 biggest domestic shipbuilders may contribute more than 70% of the world's total output. In February, new orders won by domestic shipyards sank 23% year on year to 1.29 million DWT.

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Contact:

Flanders-China Chamber of Commerce
Voldersstraat 5, B-9000 Gent
Tel.: +32 9 264 84 86/82 – Fax: +32 9 264 69 93
E-mail: info@flanders-china.be
Website: www.flanders-china.be

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The FCCC Newsletters are edited by Michel Lens, who is based in Beijing and can be contacted by e-mail michel.jc.lens@gmail.com or mobile phone +86-13901323431. Disclaimer: the views expressed in this newsletter are not necessarily those of the FCCC or its Board of Directors.