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AIRLINES & AIRPORTS

Pudong to become world's No 1 air cargo center

Shanghai plans to turn Pudong International Airport into the world's No 1 cargo transport center by 2015 as the city seeks to build itself into an international air hub. The two Shanghai airports – Hongqiao and Pudong – handled 3.54 million tons of cargo last year, according to the Shanghai Airport Authority. Cargo volume is expected to reach 5.5 million tons by 2015.

- Air cargo tonnage handled by Hong Kong's airport rebounded by 18.6% year on year in February after sustained shrinkage since April. It had dropped 17.5% in January. The turnaround was partly due to the Lunar New Year falling in February last year and in January this year. Combining the figures for both months, cargo volume dropped 2.3% from a year ago, apace with a 7% drop in exports.

LOGISTICS INDUSTRY

Tax relief measure leaves some firms paying more

A reform that was designed to ease tax burdens on some logistics service firms ended up levying increased payments. A poll conducted recently by the China Federation of Logistics and Purchasing showed that two-thirds of 120 corporate respondents paid more under the new business-tax regime since the new rates took effect in Shanghai on January 1 under a pilot scheme. The service firms, including logistics service providers, were subject to a sales tax of 3% before the reform. This percentage was based on the value of their total sales. The trial program that got under way for locally based logistics firms in Shanghai abandoned the tax on sales and replaced it with a value added tax (VAT), levied at a rate of 11%. The change was supposed to reduce their tax rates. The Federation's survey showed that 67% of respondents were hit with tax bills of more than CNY50,000 for January alone, while 24% had to pay additional tax of more than CNY100,000. “The new tax regime has given logistics companies a lot of trouble,” said Zhou Zhicheng, Researcher with the Federation, who conducted the survey.

- One in three letters posted in China do not reach their destination, according to a investigation by China Central Television (CCTV). CCTV reporters sent 100 letters by regular mail to 33 Chinese provinces and cities and eight overseas cities. Of these, only 67 reached their destination. This falls way short of regulatory requirements that at least 95% of mail should be delivered correctly, CCTV said. Some letters arrived much later than delivery times set out in regulations. A letter sent to an address in the same city should be delivered within three days. The maximum period allowed for letters to travel between provinces is 15 days.

PORTS & SEA TRANSPORT

Jinhui expects bargain buys of shipping assets

Shipping firms may see more charter and corporate defaults because of a tougher operating environment, says Ng Siu-fai, Chairman of Jinhui Holdings, a leading local dry cargo shipping firm. He added there should also be “interesting opportunities” to acquire shipping assets that are expected to be put up for sale amid the adverse climate. In 2010, Jinhui Shipping and Transportation, the firm's Oslo-listed unit, took legal action, including launching arbitration proceedings, against Chinese shipping firm Grand China Logistics to recover almost HKD202.8 million it was owed in unpaid lease and related payments. Payment plus interest were received in early 2012. Jinhui would seek to recover a further outstanding claim, totaling HKD39 million, against Grand China in due course. Sanko Line, one of Japan's leading shipping lines, plans to restructure after running into financial difficulties, but Raymond Ching, Vice President at Jinhui Shipping and Transportation, said Jinhui was not exposed to the Japanese firm. Ng said the freight market would remain challenging this year, as the volume of new ships being delivered has been outpacing the growth in dry cargo volumes. Jinhui Holdings posted a drop in net profit attributable to shareholders for last year to HKD259.27 million, down from HKD366.82 million in 2010. Revenue fell 11% to HKD2.78 billion last year from 2010. Revenue from Jinhui Shipping & Transportation, in which the parent firm holds a 54.77%, declined to HKD2.38 billion last year, the South China Morning Post reports.

London port project woos Chinese firms

Senior executives from the GBP1.5 billion London Gateway port and logistics development due to open at the end of next year are wooing Hong Kong and China-based shipping and cargo firms. Top management, including Chief Executive Simon Moore, visited Hong Kong and mainland China as part of an Asian roadshow to promote the complex. They are mulling plans to open a representative office in Hong Kong to boost relations between the port company and carriers, cargo owners and freight forwarders in China and the rest of Asia. London Gateway, which is being developed by Dubai-based DP World in five phases, will have a capacity of 3.5 million TEU and contain a 940,000 square meters logistics park with dedicated rail and road links. In January, Hutchison Ports (UK) Port Development Director Andrew Harston said London Gateway “will be the biggest threat that we have seen to our business for many, many years”. Moore avoided direct comment on the impact of the port on competitors, but said: “London Gateway is unique in the UK.” He said the port with Europe's largest logistics park was “located to give cargo owners significant economic gains” and would “provide more choice to the market”. Shanghai-based Zhenhua Port Machinery has signed a deal to supply three rail-mounted gantry cranes and eight container cranes to London Gateway for the first phase.

China to set up shipping system for oil imports

China might create its own integrated shipping system for imported oil via cooperative agreements among state-owned shipping lines, refineries and insurers, with the goal of ensuring energy security, said He Yongjian, Deputy Director of the Department of

Development Planning of the National Energy Administration (NEA). Up to 90% of China's crude oil imports are transported by sea. "Only one-third of the imported oil is transported by our own ships," He said, adding that the Chinese government would encourage domestic insurers to expand coverage for seaborne oil trade. The main reasons for Chinese shippers' low participation in the oil trade include the long construction periods for crude carriers and the high risks of long distance ocean shipping, said Huang Wensheng, Spokesman for Sinopec Group, the country's second-largest oil producer. China imported more than 260 million tons of crude oil in 2011, taking its external dependency rate to 56.5%. Huang estimated that the figure will surpass 65% by the end of 2015. The total global ocean shipping capacity is about 700 million tons and tankers account for one-third of it. However, Chinese tankers account for only about 2.6% of global capacity.

Cosco Pacific facing mixed prospects

Cosco Pacific, the terminals and shipping-container division of China's largest shipping company, is facing mixed prospects this year after net profit climbed 7.6% to USD388.8 million last year, up from USD366.2 million in 2010. Excluding one-off gains from terminal disposals, the company saw net profit surge 35.2% to USD364.4 million. Revenue rose by 34.2% to USD599.2 million, up from USD446.5 million a year earlier. Wang Xingru, Vice Chairman and Managing Director, said growth in throughput at its 19 terminals was expected to slow this year amid an uncertain outlook for the global economy, following a 15.1% increase to 50.7 million TEU in overall container throughput, including a 13.9% rise to 44 million TEU at its Chinese and Hong Kong facilities. The terminals business contributed net profit of USD184.9 million and revenue of USD323.3 million. Barclays Capital Analysts were more positive and estimated container growth at Chinese ports would stabilize at 10% to 12% this year and next. Among the star performers were Tianjin Port Euroasia International container terminal, where volume soared 135.2% to 1.35 million TEU, and the Piraeus container terminal in Greece, which saw a 73.5% throughput increase to 1.19 million TEU. Wang said seven new berths with an annual handling capacity of 4.2 million TEU were added to the Cosco Pacific portfolio last year, to take the number of berths to 93. He said there would be a further capacity increase of 5.15 million TEU this year. Wang was more upbeat about container operations and had a "cautiously optimistic outlook" after net profit grew to USD116.5 million last year against USD96.4 million in 2010. He said the majority of boxes bought last year by its offshoot Florens Container had been rented on long-term leases, and rental income was forecast to grow steadily this year. Wang said China International Marine Containers, in which Cosco Pacific held a 21.8% stake, saw net profit climb 30.4% to USD119.8 million last year against USD91.8 million a year earlier, although demand for containers slowed in the second half, the South China Morning Post reports.

Chinese shipping companies suffer losses

China Ocean Shipping (Group) Company suffered a loss of CNY10.5 billion in 2011, its biggest since it was listed seven years ago, compared with a profit of CNY6.8 billion in the previous year. China Shipping (Group) Co, another major Chinese shipping company, saw a loss of CNY2.7 billion in 2011 while it had gained a profit of CNY4.2 billion in the previous year. "The year 2011 was disappointing for the global shipping industry and we regret to see such a result," COSCO Chairman Wei Jiafu said at a news conference in Beijing. Containers and dry bulk carriers were the major drags on COSCO's financial performance. In 2011, the company's revenue from its container business declined 11.8% from the previous year, while oil costs in the sector surged 36.6%. Revenue from the dry bulk carrier sector fell 28.7% year-on-year while oil costs surged 31.7%, the company said. "The difficult market conditions for the dry bulk carrier sector are likely to persist until 2014," said Li Chengshan, Analyst with Clarksons. COSCO expects the shipping market to remain troubled throughout this year, as the global trade volume slackens, the oil price remains high and more tonnage is due to be launched into the market. Wei said the company is confident it will slash its financial losses in 2012, "but the exact amount remains unclear". As most shipping companies were struggling on the verge of bankruptcy, "we expect to see an industry reshuffle this year", Wei added. COSCO General Manager Jiang Lijun said the company will take advantage of the coming industry rationalization to acquire some shipping companies "if there is an opportunity", the China Daily reports.

Shipping lines to receive low-sulphur fuel rebates in HK

Shipping lines voluntarily using costly low-sulphur fuel to reduce air pollution in Hong Kong will get government help to offset their higher fuel bills. But soaring fuel costs and a lack of government action to force all shipping firms to use low-sulphur fuel in Hong Kong may see some operators switch back to oil with a higher sulphur content. Chan Ming-yau, General Manager of the Marine Department's ship safety branch, said shipping lines that were signatories to the Fair Winds Charter would start to receive a rebate on port charges in June or July. The Marine Department and Environmental Protection Department are finalizing details of how the scheme will be implemented, but these issues should be resolved quickly and the first payments made in two or three months, he said. Under the scheme, which will cost the government HKD260 million over three years, shipping companies using low-sulphur fuel will be entitled to a 50% cut in port and light dues charged on ocean-going vessels while berthed in Hong Kong. The scheme was included in the Financial Secretary's budget proposals approved by legislators. Seventeen global shipping firms, including Cosco Container Lines, Orient Overseas Container Line, Maersk and CMA CGM, signed the Fair Winds Charter in October 2010 to voluntarily switch to fuel with a sulphur content of 0.5% or less while berthed in Hong Kong. The sulphur content of normal marine fuel is between 2.8% and 4.5%. The Hong Kong government said vessels had become “one of the major local air pollution sources ... and the second largest sulphur dioxide and nitrogen oxide emitter after power plants”. The subsidy is for three years, after which regulations on ship pollution could be introduced. Senior shipping executives said the cut in port dues covered between 30% and 50% of the extra cost of switching to low-sulphur fuel but the higher cost of the fuel put them at a competitive disadvantage with non-signatory carriers, costing each shipping line an extra USD600,000 to USD800,000 a year. Tim Smith, Maersk Line Chief Executive for North Asia, was worried that at this level the subsidy won't be enough to encourage those lines that don't switch to do so. “We may see some existing charter members drop out after expiration of the original two-year commitment at the end of 2012,” he said.

Orient Overseas signs 40-year Long Beach lease

Orient Overseas Container Line has signed a deal with the Port of Long Beach to lease the Californian port's Middle Harbor container terminal for 40 years in what is the biggest port agreement in United States history. The Tung family-controlled shipping firm will pay a total of USD4.6 billion to rent the 121.6 hectare box terminal until 2052. The pact was signed about two and a half months after the port's harbor commissioners gave preliminary approval for OOCL to lease the Middle Harbor facility after 12 months of talks. Stanley Shen, OOCL's Investor Relations Manager, said Middle Harbor was “an exclusive terminal for us and Grand Alliance partners”. These comprise German container line Hapag-Lloyd and Japan's Nippon Yusen Kaisha. He said it was likely the three container line partners would deploy ultra-large container ships of more than 10,000 TEU on transpacific services to serve the new terminal. The 12,562 TEU container ship, MSC Fabiola, operated by rival container line Mediterranean Shipping, became the largest ship to call at a North American port when she docked at Long Beach on March 16. A ceremonial ground breaking will be held at Long Beach next month, although construction work on the project is already well under way. The terminal will be capable of handling 3 million TEU a year, equivalent to about half of the 6.1 million TEU Long Beach handled last year. The port is spending USD1.2 billion to merge two existing container terminals, one of which is operated by OOCL subsidiary Long Beach Container Terminal, into the single Middle Harbor terminal. Construction, which will be completed in 2020, involves 1.4 kilometers of new wharves, rail facilities and 37 container-storage areas. OOCL will invest USD500 million to equip the facility with more environmentally-friendly equipment including electric powered cranes to replace diesel cranes, the South China Morning Post reports.

Goldman Sachs expects continuing volatile freight rates

Heightened volatility in freight rates is set to continue over the next few years as the global shipping industry absorbs new tonnage and cargo demand remains uncertain, Tom Kim, Senior Analyst at Goldman Sachs said. He added the problems of low demand growth and overcapacity would be especially felt by owners of tankers and dry bulk ships. With 2,419 dry bulk ships on order totaling 200 million DWT and equivalent to more than 30% of the existing fleet, Kim said it would take almost five years to absorb the new vessels. There would be 27% growth in the global container fleet, while annual demand would grow 9.9%. China was expected to transport more cargo in its own ships. China's imports and exports account for 35% of global cargo volumes, but its shipowners own just 5% of the global merchant fleet. Kim said that for China, it was “strategically important to carry its own cargo” and it “wants to control the shipping of oil long-term". He believes China has a similar "strategic objective" to control the transport of dry bulk cargoes, especially coal. "China is building ships to own and transport freight," he said, adding that Japan did the same in the 1970s. China has said it wants to carry 50% of its oil imports on China-controlled ships by 2015.

Chinese ports see surge in cargo

China's two largest ports – Shanghai and Shenzhen – saw container throughput volumes rise 3.5% last month, about half the combined increase in the value of the country's foreign trade. But there was double-digit growth in the volume of bulk goods such as coal and soya beans. Shanghai International Port, which controls the world's largest container port, said volumes rose to 2.73 million TEU last month, up from 2.64 million TEU a year earlier. Bulk cargo volumes climbed 11.2% to 44.79 million tons, compared with 40.28 million tons in March last year. The Shenzhen Ports Association said container throughput increased to 1.77 million TEU at terminals including Yantian, Shekou and Chiwan, from 1.71 million TEU in March last year. The volume of bulk cargo increased 11.9% to 19.12 million tons from 17.09 million tons a year earlier. The increase in Shanghai's container volumes followed a 3.6% rise in the first two months of this year. Port officials have forecast 4% growth in container throughput to 33 million TEU this year as global economic woes take their toll on trade. By comparison, Shenzhen saw container volumes drop 1.4% to 3.33 million TEU for January and February. Container volumes at Hong Kong slipped 0.3% to 3.62 million TEU in the first two months of this year, according to estimates from the Port Development Council. Hong Kong's figures for last month will be released on April 18, the South China Morning Post reports.

- China Shipping Development said a capacity glut and high oil prices will continue to cast a pall over the industry this year. Last year's net profit dropped 39% year on year to CNY1.05 billion due to plummeting freight rates for crude oil. Sales rose 8% to CNY12.1 billion.
- Chenglingji port in Yueyang, Hunan province, opened a direct shipping line to Hong Kong at the end of March. The new line allows cargo ships to cut shipping times from Hunan to Hong Kong by three to four days and save up to CNY300 for each standard container because the ships do not have to take a detour through Shanghai.
- Fujian province's Xiaosui island, which covers an area of 8.57 hectares, will be turned into a port with two general-purpose berths to be built by the Ningde Port Group.
- Shanghai has set a target of handling 33 million TEU this year, up 4% from last year — a slower growth pace compared with the last few years due to shrinking trade volume. Shanghai is likely to stay ahead of Singapore and remain the world's busiest port this year. Last year, Shanghai port handled 31.7 million TEU, a 9.2% increase from 2010.
- China Rongsheng Heavy Industries' net profit was CNY1.72 billion last year, largely unchanged from 2010. This included subsidies of CNY1.2 billion from the Jiangsu government, against CNY800 million in subsidies received in 2010, said Chief Executive Chen Qiang. Total revenue climbed 25.6% to CNY15.9 billion, reflecting an increase in installment payments made by Vale on its fleet of 12 very large ore carriers.
- Huge volatility in charter rates, debt problems at some shipowners and overcapacity has created "an uncertain time for shipowners" this year, though there are still opportunities in Asia, Russell Beardmore, head of shipping finance in North East Asia for Standard Chartered Bank (Hong Kong), said. The dry bulk sector, focused on iron ore, coal and grain trades, is under "significant stress", he added. "Not many people are forecasting a significant recovery until 2013" because overcapacity is expected to keep charter rates depressed. His comments came after the bank published its ship finance guide, Insights into Shipping 2012.
- British shipbroker Clarkson estimates there are more than 5,300 merchant ships on order globally, totaling 344.5 million DWT, equivalent to 23.2% of the existing world fleet by tonnage.
- The net profit of China Communications Construction rose 22.6% to CNY11.77 billion last year. The turnover of China's biggest builder of ports rose 7.9% to CNY294.28 billion last year, while the value of its new contracts grew 11.2% to CNY457.85 billion.

- China Cosco reported CNY10.5 billion in net losses for last year, compared with a net profit of CNY6.79 billion in the year before as the group's revenue dropped 12.3% to CNY84.6 billion. The company said global demand on container shipping routes fell significantly last year, while fuel costs during the period soared 31.7% year on year.
- China Merchants Holdings (International), one of China's largest port operators, saw its net profit drop 5.2% year on year to HKD5.57 billion last year as revenue rose 63% to HKD9.4 billion. It said volumes at its ports would be halved this year as trade slows.
- China's Maritime Safety Administration will launch a three-month campaign on April 16 to improve safety by checking crew numbers and qualifications on all domestic cargo and passenger ships with 5,000 gross tonnage or less. Huang He, Deputy Director of the Administration, said the move followed an unusually high number of accidents involving ships in coastal waters or offshore since February.
- China P&I Club, a major Chinese ship insurer, will halt indemnity cover for tankers carrying Iranian oil from July. Refiners in China, Iran's top crude buyer, may struggle to obtain the shipping and insurance to keep importing from the country. The China P&I Club, whose members include Sinotrans and Cosco Group, is the first Chinese maritime insurer to confirm it will halt business with tankers operating in Iran.
- The 15,000-ton Xianghuamen, a Chinese cargo vessel with 28 Chinese seamen on board, was hijacked by pirates in the Gulf of Oman south of Iran on April 6. The ship, owned by the Nanjing Ocean Shipping Co, was heading to the Iranian port of Bandar Imam Khomeini from Shanghai with a consignment of steel and equipment. The ship and crew were rescued the same day after they had disconnected the ship's power supply and two Iranian warships intervened.
- Chellaram Shipping, one of Hong Kong's largest independent shipowners, is looking to further expand its fleet of dry cargo ships despite concerns about the challenges facing the dry bulk sector. The company, controlled by founder Lal Chellaram, has recently taken delivery of two large dry cargo ships and a third will join the fleet this month. The firm owns 11 dry cargo ships for transporting coal, grain and other dry bulk commodities, and two dredgers. The average age of its dry cargo fleet was under 3.5 years.
- Shipping stocks tumbled on April 11 after China Shipping Development warned it would report a first quarter net loss. The firm, which focuses on the transport of oil, coal, grain and other bulk commodities, said the loss between January and March was due to insufficient domestic and international cargo demand, an oversupply of ships and rising fuel prices. China Shipping Development extended the life of its fleet from 17-22 years to 17-25 years, increase net income by CNY596 million this year.

ROAD TRANSPORT

Improved highways to boost truck sales

Sales of mid-sized and professional vehicles are expected to soar in China over the next five years due to the rapid development of the country’s logistics and highway infrastructure, according to Baotou Bei Ben Heavy-duty Truck Co in Inner Mongolia. The company aims to double its current production capacity of 100,000 units by the end of the 12th Five Year Plan period (2011-2015). By that time, it hopes to generate more than CNY40 billion in sales revenue. Su Ritu, Deputy General Manager of a truck assembly company owned by Baotou Truck Co, said the demand for heavy-duty vehicles will rapidly grow because the country will pay more attention to the construction of highways, large-scale projects and logistics infrastructure in the coming years. Baotou Truck Co sold 118,197 vehicles during the 11th Five Year Plan period (2006-2010), raising its market share to more than 5% in the country. It aims to sell 150,000 vehicles during the next four years, according to the company.

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