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AIRLINES & AIRPORTS

Exports lift cargo at Hong Kong Airport

Cargo volumes at Hong Kong International Airport grew in May for the first time in 14 months, buoyed by an increase in exports, the Airport Authority said. Total airfreight volumes climbed

1.1% in May to 333,000 tons, including 213,000 tons of export cargo, a 1.8% increase compared with the 209,000 tons handled in May last year. Inbound airfreight volumes were unchanged at 120,000 tons. Hong Kong Air Cargo Terminals, the biggest cargo operator, handled 231,361 tons of May's total.

Pudong expected to become world's busiest cargo airport

Shanghai's Pudong International Airport may become the world's busiest by cargo traffic in five years with the opening of freight hubs at the airport by the world's major logistic companies. The airport moved 3.1 million tons of freight last year and ranks third after Hong Kong and Memphis in the U.S. Pudong trails the top two airports by about 500,000 tons. "Despite a 7% drop in the freight turnover at (Pudong) airport this year amid the global economic turmoil, the volume may rebound soon as DHL and FedEx opened their hubs at the airport," said Li Derun, President of the Shanghai Airport Authority. "International transfer business accounts for just 5% of our portfolio. To take the top spot, we need to lift this to 16% over the next three years." Cargo handled by the three global logistic giants — DHL, Fedex and UPS — accounts for 10% of the airport's total freight volume while the value accounts for over 40% of the total, Li said. DHL in July opened a USD175 million North Asia Hub, the largest express facility at Pudong airport, and the company's biggest investment in China. The German company planned to invest another USD132 million to add eight cargo planes to serve the new hub over the next two years, CEO Frank Appel said. Meanwhile, FedEx opened a new operating center in the western part of the airport to expand its handling capacity by 50%. It also planned to raise flights by adding two Boeing 777 freighters. Li Derun expects the airport's freight capacity to reach 5 million tons annually by 2020, the Shanghai Daily reported. FedEx is planning an inter-continental express hub at the airport, even bigger than that opened by DHL.

Cathay Pacific bans shark fin from its cargo flights

Cathay Pacific has bowed to pressure from environmental groups and banned shark fin from its cargo flights. The move by the airline – believed by environmentalists to fly up to 50% of all shark fin imported by air to Hong Kong – was hailed as a major victory for opponents of the trade. Cathay imposed the ban – which also applies to subsidiary carrier Dragonair – weeks after receiving a letter signed by 40 groups ranging from Greenpeace Hong Kong and the Hong Kong Dolphin Conservation Society to the U.S.-based Humane Society International and Ric O'Barry's Dolphin Project. The green groups estimate that Cathay flew up to 650 tons of shark fin into Hong Kong last year, although the airline is understood to have told campaigners that it only carries a fraction of that amount. "The carrier expects the transition to this new policy will take approximately three months as it notifies shippers and puts the appropriate procedures in place. However, effective immediately, Cathay Pacific will not enter into any new contracts in this regard," Cathay announced.Cathay Pacific said it had been researching the issue for "a very long time". Carriage of shark fins is inconsistent with a commitment to sustainable development, the airline added. Hong Kong handles about half the world's shark fin trade. The shark fin the airline transported came primarily from Southeast Asia for the Hong Kong and mainland markets, where shark's fin soup is popular at wedding banquets.

Dragged down by the sluggish cargo business and falling ticket prices, Cathay Pacific plunged into the red in the first half, reporting a HKD935 million loss, compared with a HKD2.8 billion profit a year earlier. It was the biggest first-half loss since January-June 2003, when it lost HKD1.2 billion amid the Sars crisis. The abrupt rise in maintenance costs and the marked decline in earnings from its associate Air China, in which Cathay holds 20%, also dented Cathay's earnings. The losses in the cargo joint venture with Air China also added to the woes of the carrier. Cathay, which is the largest air cargo carrier in the world excluding the express giants, is relying heavily on a rebound in international trade and a pick-up in the global economy. "We are still pinning high hopes on an uptick in cargo demand in the fourth quarter, which is the traditional peak season for cargo," Chief Operating Officer (COO) Ivan Chu said. Cathay's cargo unit in Hong Kong carried 9.8% less cargo in the first half. Air China Cargo saw its losses rise to HKD600 million in the first half, due to withering export volumes.

Cathay may review the fleet at its cargo venture with Air China after losses at the operations contributed to the Hong Kong carrier's first unprofitable half year since 2008. Air China Cargo will have to assess what will be the right aircraft to make it profitable in the long term, Cathay Pacific CEO John Slosar said. The venture is taking four Boeing Co 747-400 freighters from Cathay, which the Hong Kong-based airline is replacing with newer models. The carrier agreed to buy a 49% stake in Air China's cargo unit in 2010. It is using the four 747-400 freighters, which were converted from passenger planes, to help pay for the investment. The new joint company began offering flights in March 2011.

- Cargo volume at Hong Kong Air Cargo Terminals showed steady growth in the second quarter, the first solid rebound since February 2011. In the quarter to June, the ground handler at Chek Lap Kok airport handled 1.3 million tons of cargo, 2.4% more than a year earlier. The rebound was mainly driven by a rise in exports.

EXPRESS DELIVERY

Second express provider to declare bankruptcy this year

Shanghai-based CCES Co, one of the top 10 express service providers in China, is on the verge of bankruptcy and may become the second courier to quit the market this year. Huitong Express' Guangdong branch gained a majority stake in CCES, but later decided to cease cooperation after they found it was in a worse financial state than they had envisaged. It was revealed by industry insiders that express service providers need to deliver more than 350,000 items a day to break even. However, CCES only delivered an average of 200,000 items daily. Chen Linhua, Secretary General of the Shanghai Express Trade Association, warned that some low-end companies would go under as a result of intense price competition. Chen did not disclose the average profit margin that can be generated by small delivery companies. However, some industry insiders said it may be around 3% to 5%, lower than annual fixed-term deposit rates in China. To broaden its consumer base, CCES invested heavily to expand its operating network around China and also developed a franchising business model to achieve quick expansion. Mo Daiqing, Analyst with the China E-commerce Research Center, said the franchising business model meant that the company was unable to control the quality of its service.

General Logistics Systems and ZJS Express team up

General Logistics Systems, an Amsterdam-based international logistics company under the British Royal Mail Group, announced a partnership with China's domestic express company ZJS Express to provide a business-to-business parcel delivery service from China to Europe. The cooperation combines the two companies' networks and knowledge in either region, putting them in direct competition with the world's four largest logistics companies, including DHL Express, Deutsche Post-DHL's express division, the current leader in China's international express market. "We expect to become No 3 (in terms of market share) within the next three years," said Mark Thomson, Managing Director International of Royal Mail Group. The service, named Euro Business Parcel, is intended for cases in which fast deliveries are needed and will take items between China and Europe in three to five days. That is one to two days longer than is offered by the current express services in China, but is 10% to 20% cheaper, according to the company. Thomson said he was not worried about the slowing trade growth between China and Europe as it was still increasing at a faster rate than other markets. During the first half of this year, China's express industry handled a total of 2.39 billion items of express mail and parcels, up 51% year-on-year, according to the China's State Post Bureau. The industry's revenue increased by 39.7% year-on-year in the first half of the year to CNY46.8 billion. Revenue from the international express business, meanwhile, jumped 11.8% year-on-year to CNY9.92 billion, the China Daily reported.

- Fedex is suing Fubang Furniture Industries in the Shanghai No 1 Intermediate People's Court for an air freight charge of more than CNY307,800 for baby cribs and sliding doors after the receiver in Robbinsville in New Jersey (U.S.) refused to pay the fee in 2009. According to the agreement between FedEx and Fubang, the air freight was supposed to be paid by the receiver, Stanley Furniture Company, within 30 days after it signed for the delivery, but the U.S. firm took the goods and refused to pay for the transportation.
- China's express delivery industry is expected to expand steadily over the next four years and have annual sales of CNY143 billion by 2015, the State Post Bureau estimated.
- China's postal industry reaped a business revenue of CNY97.34 billion in the first half of the year, up 24.4% year-on-year, the State Post Bureau said. The country's large

logistics enterprises made nearly 2.4 billion deliveries in the first half, up 51% year-on-year and exceeding the total delivery volume in 2010. The business revenue of these logistics enterprises jumped 39.7% to CNY46.82 billion in the January-June period, up 13.2 percentage points from the growth over the same period last year.

- Some 12 domestic courier companies, including ZJS Express and Baishihuitong Express, have applied to the State Postal Bureau of China to enter the international market. An increasing number of domestic customers are asking to ship parcels abroad, pushing couriers to enter the international market. The courier business from the overseas market, including Hong Kong, Macao and Taiwan, accounts for 3.5% of the total volume of domestic couriers but the revenues from these areas account for 24% of their total profits.
- People in Shanghai who use their own stamps to send international packages are now required to take their parcels to 12 designated post offices after fake stamps with a total value of more than CNY100,000 were found between February and August. Shanghai Post Co said the fake stamps have been a severe disturbance to postal operations and caused damage to the company. Shanghai Post will start to use machines to check the authenticity of stamps. Those who forge and sell fake stamps face jail up to seven years in prison.

LOGISTICS INDUSTRY

Logistics sector is divided on roll-out of VAT pilot scheme in Shanghai

A program to overhaul the tax system for logistics, shipping and other cargo firms by replacing business taxes with a value-added tax (VAT) has generated mixed views. Some observers said the pilot implementation of the scheme in Shanghai had already caused confusion and could have been better implemented, while others said there had been little impact so far. The roll-out of the trial in Beijing and other cities and provinces including Shenzhen, Xiamen, Hainan, Anhui and Fujian had been postponed to early October. Under the Shanghai pilot scheme, value-added tax replaced business taxes on freight transport-related services from January 1. This made airlines headquartered in Shanghai, including China Cargo Airlines and China Eastern Airlines, subject to VAT on domestic cargo shipments, while airlines not headquartered in the city continued to pay business taxes. International shipping lines, logistics companies, ship agencies and warehousing operators were also affected. KPMG said some services bought and provided by these companies were exempt from VAT while other operations should include VAT. Typically, a 6% to 7% VAT rate has replaced an 11% business tax charge. Mark Millar, Managing Partner of logistics consultancy M Power Associates, said: “The whole VAT thing is a complete mess, but it will work its way through eventually.” Explaining the impact of the pilot program, Rick Leo, Managing Director of CEVA Logistics Shanghai, said the firm's business grew by about 10% in the first quarter but its tax liability doubled. He added he was not against the tax revamp, which had been designed to restructure the industry and make the tax system more equitable. Jacques Chan, General Manager for Hong Kong and South China at logistics company BDP International, also supported the change in the tax system, with some reservations. “The main objective is to eliminate double taxation or differential business tax rates and enable a fairer VAT deduction system,” Chan said. But implementation issues had arisen because the system did not provide a proper channel for firms to claim their VAT credits. “As a result the impact of the pilot project on transportation companies remains uncertain,” he said in June.

Investment in cold chain facilities needed to reduce food waste

Billions of dollars will have to be invested if China is to bring its cold and chilled logistics facilities up to international standards and cut food wastage, experts say. The National Development and Reform Commission (NDRC) has targeted this specialist logistics sector for improvement in an effort to slash the huge amount of food that goes rotten or is wasted before it reaches consumers. Michael McCool, Partner and General Manager of consultancy AT Kearney (Hong Kong), said more than 30% of fruit and vegetables are spoiled before reaching the market, while about 13% of meat is also unfit for human consumption. “The only reason the figure is not higher is because so much meat is slaughtered close to consumption,” he said. McCool said 86% of China's cold chain logistics market was focused on the food industry, of which 80% was fruit and vegetables. Of the 14% that was non-food, pharmaceuticals made up 8% and electronics and chemicals 6%. McCool said the NDRC planned to cut the amount of food wasted by around half during the current five year plan. This meant the volume of fruit and vegetables that went to waste would fall to about 15% by 2015, while the volume of meat that was spoilt would drop to 6% to 7%. He said the improvement would require billions of dollars worth of investment, but "the reduction in wastage should provide the return on investment". The China Federation of Logistics & Purchasing (CFLP) estimated China's agricultural logistics market was worth CNY2.6 billion annually, equivalent to just 1.8% of its total logistics market of CNY158.4 trillion. The average profit margin for logistics operators was 5.4% in 2010, the Li & Fung Research Center said. The cost of building cold chain storage and buying refrigerated trucks can be three to five times higher than normal warehouses and trucks, the NDRC's cold chain logistics development plan said. The blueprint outlined seven areas of improvement including investment in cold chain logistics networks and systems for major types of agricultural products. This included eight projects such as building 10 million tons of total cold storage capacity and almost doubling the nation's refrigerated vehicle fleet by 40,000 trucks to around 95,000 vehicles, the South China Morning Post reported.

MOFCOM to launch modern logistics project

The Ministry of Commerce (MOFCOM) will start implementing a modern logistics technology project this year to reduce distribution costs and expand domestic consumption. Nine cities, including Guangzhou, Wuhan and Lanzhou, were selected as pilot cities for the Ministry's initiative and will receive funding of CNY15 million. "At the end of the 12th Five Year Plan (2011-15), we will strive to have network coverage for common deliveries, including uniform distribution, above 40% in major cities, to reduce the equivalent volume of freight transport by at least 30%," said a Ministry document. Logistics costs in the commodities supply chain are expected to decline 2% at the end of the 12th Five Year Plan. This is the first time that the central government is funding the application of a modern logistics technology project driven by common deliveries, which allows several companies to share logistics services to achieve greater synergy, the Shanghai Securities News reported. China's commercial logistics services have dispersed networks and outdated technical equipment and are poorly organized. Also, the last kilometer in the delivery process accounts for a significant portion of supply chain costs, the document said. Xu Wei, Researcher from the China Center for International Economic Exchanges, said the move may lower the prices of consumer goods and thus expand consumption, while boosting production by reducing companies' costs. The Ministry will build urban distribution networks supported by major logistics parks, public distribution centers and terminal nodes for common deliveries. It will also encourage the modernization of distribution models. "High transportation costs and frequent toll station fees have become an outstanding problem in China's supply chain because they not only increase the cost of logistics but also affect the quality of the transported commodities," said He Dengcai, Deputy Director of the China Federation of Logistics and Purchasing (CFLP). "It's important to fully extend the pilot program of replacing the business tax with a value-added tax (VAT) because this will greatly ease the burdens of small and medium-sized companies, which are the main players in the supply chain business," Xu said. The Ministry will also support companies' efforts to update their logistics information systems and share data and resources with producers and regulators, the South China Morning Post reported.

Cargo traffic to Africa to increase

The Chinese government's pledge to provide USD20 billion in new loans to Africa is set to boost cargo volumes for shipping lines, airlines and freight forwarders. In South Africa, the proportion of Chinese imports grew from 5.3% in 2000 to 19.2% in 2010, reaching a total value of USD10.8 billion. At the same time, China also raised exports to Nigeria to 17.5% from 12.6% over the decade to 2010. Exports from Africa to China grew 39% last year to USD93.2 billion from 2010. In the first four months of this year, they climbed about 24% to USD38.2 billion from the same period a year earlier. Safmarine, the South African shipping line subsidiary of Maersk, has recently introduced three 4,500 TEU container ships to boost the trade for refrigerated products between West Africa and Asia, especially China.

- Logistical costs, as part of the nation's GDP in 2010, reached 17.8%, according to the National Bureau of Statistics (NBS). That was higher than the 10% average in developed nations. Reducing logistics costs is seen as an efficient way to stimulate domestic consumption.
- Improper storage costs China as much as 12% of its annual grain production and 20% of its potato and fruit yields, Zhang Tianzuo, the Ministry of Agriculture's Farm Produce

Processing Director, said. In total, the annual economic losses involving agricultural produce total more than CNY300 billion. The central government said earlier this year that it would allocate CNY500 million to subsidize new storage and drying facilities for potatoes and fruit in 11 provinces.

- The China State Shipbuilding Corp (CSSC), one of the country's largest shipbuilding conglomerates, has set up a fully owned logistics subsidiary in Shanghai. CSSC Logistics Co is an extension of its purchasing department, and has been set up with registered funds of CNY320 million to focus on expanding business in sectors including steel, coal and iron ore. The new company is expected to achieve annual revenues of CNY70 billion by the end of 2015, said Chairman Sun Wei.

PORTS & SEA TRANSPORT

Number of seamen fails to keep up with trade expansion

Colleges are struggling to produce enough merchant seamen to meet demand, even though more graduates with non-maritime degrees are opting for a life at sea, experts have warned. More than 10,000 graduates who studied non-maritime majors have joined the merchant fleet since 2006. However, colleges are able to produce only a few thousand merchant sailors every year, far short of what is needed. It takes just months to build a large vessel, but at least four to five years to train a qualified seaman to operate it. China's fast developing trade requires an increasing number of merchant seamen. More than 100,000 Chinese maritime workers were sent overseas last year, making China the fourth-largest exporter of maritime labor, according to the Ministry of Transport. "We recruit about 250 maritime college graduates across China every year for shipping companies in Singapore and European countries," said Liang Weizhen, Training Manager at a branch of Singhai Marine Services in Shanghai. "Many of them are graduates with non-maritime majors."

Transshipments at Yangshan to enjoy tax rebates

Domestic export transshipments to Shanghai's Yangshan Deep-water Port will enjoy a tax refund at their port of origin in a new policy. Shanghai has been given the green light to pilot a system of tax rebates at ports of departure. Export goods using the Yangshan port as a transfer hub will be eligible for export rebates at their departure ports. The new project will help exporters trim the procedure for tax rebates and increase their capital efficiency, experts said. Tao Baoxuan, General Manager of the Hubei branch of the Sinotrans Landbridge Transportation Co, said: "The policy can help improve a company's cash flow and reduce operation cost." In the past, shipping companies could only get tax rebates after their ships left Yangshan for overseas ports. Many ships turned to overseas shipment transfers to enjoy some tax rebates, such as Qingdao ships turning to South Korea's Busan, which meant a loss of tens of billions of yuan for the country. Now qualified exporters can get their tax rebates at the customs of Qingdao in Shandong province or Wuhan in Hubei province once their export cargo leaves for Yangshan. The policy is being implemented on a trial basis between Qingdao, Wuhan and Yangshan. The policy will help Yangshan attract more transshipments and make it internationally competitive.

Pacific Basin faces tough year

Pacific Basin Shipping is facing a harsh year at its core dry-cargo division, with average charter rates lower this year than last as a glut of new tonnage outpaces growth in cargo demand. The firm operated an average of 148 dry cargo ships in the first half of the year, of which about 100 were Handysize ships of between 25,000 and 38,000 DWT. Average daily earnings from the Handysize fleet fell 23% year-on-year, although average rates were still 38% higher than the market spot rates between January and June. Dry cargo vessels totaling 139 million DWT are scheduled for delivery this year out of a total dry bulk order book over at least the next three years of 164 million DWT. Pacific Basin saw a 22% increase in the volume of minor bulk cargoes such as fertilizer going into China in the first half of this year. Mats Berglund, who took over as Chief Executive on June 1, said the company was eyeing the purchase of further dry cargo ships to expand its fleet, because ship prices had returned to pre-boom levels. The firm announced a first-half net loss of USD195.93 million compared with a net profit of USD2.95 million in the first six months of last year. The loss included a USD190 million impairment for its loss-making fleet of six roll-on/roll-off (ro-ro) vehicle ferries. Berglund said the firm made an underlying net profit of USD3.2 million in the first half, including a net profit contribution of USD7.5 million from the dry bulk division and USD14.1 million from its towage business. But there was a USD8.5 million net loss from the ro-ro business. Berglund said in August three of the six ferries were idled because of poor market conditions in Europe, while the average charter rate for those in service was USD19,450 per day. He reiterated plans to sell the ferries, as well as other non-core businesses, including the firm's stakes in ports, although he gave no timeline for the disposals.

Orient Overseas reported drop in net profit

Orient Overseas (International) reported a 33% drop in net profit to USD116.77 million in the first half of this year. The figure, which included USD42.6 million in dividends from the Hui Xian real estate investment trust (REIT), compares with a net profit of USD174.97 million in the first six months of last year even as revenue climbed 7% to USD3.12 billion. Its shares dropped on the news, surprising analysts, who pointed out that the result, which included a USD43.1 million profit from OOCL and OOCL Logistics, was “good”, given the current weakness in shipping. OOCL plans to boost its container shipping capacity with the delivery of eight 13,200 TEU and four 8,888 TEU container ships next year, followed by two 13,000 TEU and two 8,888 TEU vessels in 2014. Up to four of the 13,200 TEU ships have been chartered to Japanese shipping line Nippon Yusen Kaisha.

Freight capacity and loading volumes on the rise

China has strengthened its leading position in the shipping industry, with freight capacity and loading volumes steadily rising. A report on the ship industry by the Ministry of Transport said freight turnover at China’s ports exceeded 10 billion tons last year, an increase of 12.4% year on year. Shipping container turn-over reached 164 million TEU , up 11.4% from a year ago. The number of berths at domestic ports increased by 334 from a year earlier to 31,968, the report said. Shipping fleets have also expanded. China had 179,200 transportation ships at the end of last year, an increase of 0.5%, the report said. However, China’s shipping industry is grappling with a recession caused by waning demand and higher costs, the Ministry said.

Maersk expects “slightly negative growth” in South China-Europe trade

Maersk Line is set to see a fall in box volumes from southern China to Europe and the Mediterranean this year as the European debt crisis and economic uncertainty hit exports from the Pearl River Delta. David Skov, head of Maersk Line in South China, expected “slightly negative growth” in South China-Europe trades. Maersk's forecast was “in line” with a 1.7% drop predicted by maritime consultancy Drewry for container volumes from South China. Skov said container volumes to the Mediterranean had been particular hard hit because of the economic crisis in Spain and Italy, but he also pointed out there would “still be growth overall … although not a lot” on Maersk's services from China to Europe because of an increase in volumes from central and northern Chinese ports. “The trend of South China is that it's not growing as much as other parts of China. There is still high growth out of East China,” he said. “We believe global container growth will be 4% with declining inbound European volumes. We are still experiencing volume growth in China well above the global average.” Figures from Hong Kong's Port Development Council show container volumes dropped 0.7% to 11.77 million TEU in the first six months of this year. China Merchants Holdings (International), which has extensive container terminal interests in China, saw a 2.6% increase to 6.74 million TEU in box volumes at its western Shenzhen ports between January and July. By comparison, container volumes at its Ningbo terminal rose 7.5% in the first seven months of this year, with a 7.1% increase in Qingdao. Skov estimated that about 60% of Maersk's cargo volume on Asia-to-Europe routes was carried on spot contracts where it could impose rate increases and peak-season surcharges, while around half of transpacific volumes was carried on spot contracts. He was “not overly optimistic” there would be a pre-Christmas spike in container volumes as global economic conditions weighed on consumer sentiment. Overall, Maersk Line had forecast 4% growth in total container volumes this year, the South China Morning Post reported. The Maersk group announced a second-quarter net profit of USD1 billion. Overall, Maersk Line saw an 11% rise in container volumes to 2.2 million FEU, while average freight rates climbed 4.2% to USD3,014 per FEU.

No major benefits for HK shipping from Panama Canal expansion

The widened Panama Canal will definitely benefit the global shipping industry but industry insiders differ as to the benefits for Hong Kong and China shippers. The expansion is expected to be completed by 2014. The crossing from China via the southern tip of Latin America to the U.S. east coast takes more than a month, but passing through the Panama Canal would cut 10 days off the trip, Guotai Junan Analyst Jason Song estimates. The beam (width) limit of ships passing through the canal is now 32.2 meters and will increase to 49 m after the expansion. Although large oil tankers, such as Very Large Crude Carriers (VLCCs), still won't be able to use the canal as they have beams of around 60 m, the canal will probably be accessible to most bulk carriers weighing less than 200,000 tons. Today, most cargo destined for the U.S. from Asia is delivered to the U.S. west coast and onward by rail. Bigger container ships will make delivery via the canal and up the U.S. east coast more cost-effective. But Willy Lin, Chairman of the Hong Kong Shippers' Council, said the benefits to local shippers would not be that great. Although bigger ships would be able to pass through the canal the number would still be limited because of the limits of the lock system. Lin estimated that Hong Kong and Chinese shippers that did use the canal might save USD500 to USD600 per FEU and seven days in traveling time.

Sinking orders for China's shipyards

A mix of factors including overcapacity and low freight rates are setting the country's shipbuilding industry on course for its worst year in a decade. Shipbrokers said a combination of factors, including overcapacity, difficulty in raising cash and low freight rates, had deterred shipowners from ordering new vessels. “The influx of new tonnage hitting the water in the past few years has hit the big three markets – dry cargo, tankers and container ships – forcing down freight rates as overcapacity outpaced the growth in cargo volumes,” one Hong Kong shipbroker said. The Ministry of Knowledge Economy in Seoul said the export value of ships and offshore structures produced by South Korean shipbuilders could fall to USD43 billion this year, down from a record USD54.5 billion last year, and the first annual drop in 19 years. Figures released by British shipbroking house Clarkson show that China's shipyards secured contracts for just 182 ships in the first six months of the year. Last year the shipyards won orders for 561 vessels. The number of orders is down from the peak of 2,036 vessels secured in 2007 and 463 ships in 2004. In tonnage terms, Chinese shipyards secured deals for 3 million compensated gross tons (CGT) between January and June this year, against 32.54 million CGT at the peak in 2007. Clarkson figures show that 46 out of 180 shipyards listed failed to deliver a single vessel last year. One of the worst-affected provinces is Jiangsu, home to many large shipyards including China's biggest shipbuilder, China Rongsheng Heavy Industries. The province's shipyards received deals for 72 new ships in the first five months, down 61.7% compared with the same period last year.

Rongsheng posts sharp fall in profit

China Rongsheng Heavy Industries Group Holdings posted its sharpest fall of 82% in half-year profit to CNY215.8 million on falling demand for new vessels, as sales fell 37% to CNY5.5 billion. The company received orders for two vessels in the period, compared with 24 a year earlier. Rongsheng has also canceled the CNY2.15 billion acquisition of engine maker Anhui Quanchai Engine. The company’s inventories rose 28% from the end of last year to CNY3.3 billion on June 30. Operating profit, or sales minus the cost of goods sold and administrative expenses, fell 43% to CNY859 million. Chief Financial Officer (CFO) Sean Wang said the shipbuilder received CNY670 million in government subsidies in the first half of the year. Without this cash, it would have made a net loss. The decline in profitability was also affected by an increase, to CNY567 million, in finance costs after total short- and long-term borrowing rose to CNY28.66 billion. Revenue dropped 37.2% to CNY5.46 billion, down from CNY8.7 billion in the first six months of last year. Chief Executive Chen Qiang said: “Our results are more or less in line with what the rest of the industry is achieving right now.” Deals in the second half are expected to include contracts for up to four semi-submersible and tender drilling rigs from PrimePoint Oil & Gas, a Singapore-based hydrocarbons exploration company. Chen said four very large ore carriers (VLOCs) had been delivered since the beginning of this year. These comprised three to Brazilian iron ore miner Vale and the first of four VLOCs to Oman Shipping. A further three or four VLOCs would be delivered this year and Chen said all 16 VLOCs ordered by Vale and Oman Shipping would be delivered by the end of next year. Rongsheng said the cost of financing had gone up but it could rely on local Chinese banks for funding support and that it had the government’s full backing while many Chinese shipyards were expected to close.

Cosco Holdings reports widening losses

China Cosco Holdings' first-half loss widened to CNY4.87 billion from CNY2.76 billion a year ago due low freight rates and high operating costs. Its dry-bulk shipping unit widened its loss to CNY3.42 billion in the first half from CNY2.7 billion a year earlier. Its container-shipping sector had a loss of CNY1.3 billion, compared with CNY947 million a year earlier. The company also warned that market competition in the second half of the year may intensify. Reuters said the losses have drained Cosco of cash and pushed it deeper into debt as it has borrowed to meet higher fuel costs and other operating expenses. Should Cosco report a second consecutive annual loss, after last year's loss of CNY10.5 billion, it would risk being put on the Shanghai Stock Exchange's "special treatment" list, limiting the daily trading movement of Cosco's shares to 5% from 10%. If losses extend into a third year, the company would be automatically delisted. The company's operating fleet comprised 166 container vessels by the end of June, representing an increase of 16.8% year-on-year in terms of total shipping capacity. Last year the company engaged in a high-profile spat with foreign shipowners to halt or repay payments for vessels it chartered at the height of the shipping boom. Cosco said it renegotiated contracts for 18 ships. The company in 2011 logged a provision of CNY1.4 billion for what it called onerous contracts.

- Vale is continuing to negotiate with Chinese and foreign shipowners over the sale of its fleet of 19 400,000 DWT Valemax very large iron ore carriers. The vessels were banned from calling at Chinese ports by the Ministry of Transport earlier this year. Twelve of the Vale ships are being built by China Rongsheng Heavy Industries under contracts totaling USD1.6 billion, while a further seven similar sized ships were ordered from South Korea's Daewoo Shipbuilding and Marine Engineering. Work is under way at Tianjin, Yantai, Rizhao, Ningbo Zhoushan and Zhanjiang to make them ready for the the ships to berth .
- Shanghai expects annual container turnover to reach 33 million TEU by 2015, up just 4% from last year's 31.74 million TEU, which is already the world's highest, according to the city's plan for the shipping industry. Container traffic in 2011 rose 9% from a year earlier.
- The handling capacity of ports in the Beibu Gulf may hit 200 million tons this year and will rise to 357 million tons by the end of 2015, Chen Ruixian, Deputy Director of the Management Committee of the Guangxi Beibu Gulf Economic Zone said. The Guangxi Beibu Gulf Port is composed of Fangcheng, Qinzhou and Beihai ports. It is seen an important outlet for cargo from China's hinterland bound for ASEAN countries. The port cluster has more than 30 container shipment routes that link with over 200 ports in the world.
- A company controlled by 43-year-old entrepreneur Zhang Zhirong, who founded Hong Kong-listed shipbuilder China Rongsheng Heavy Industries, is the subject of an insider-trading complaint filed by the U.S. Securities and Exchange Commission (SEC). The alleged illegal trading was in connection with a USD15.1 billion takeover offer by state-owned China National Overseas Oil Corporation (CNOOC) for Canadian energy company Nexen. Zhang owns a controlling 47.75% stake in Rongsheng, and 68.39% of Glorious Property, according to the Hong Kong stock exchange website.
- Shun Tak, the property and shipping conglomerate chaired by Stanley Ho, announced a 177.14% jump in underlying profit for the first half to HKD97 million. Including a revaluation gain on investment properties, net profit surged 352.25% to HKD1 billion from last year. No interim dividend was declared.
- Brazil's Vale is to sell and lease back 10 very large ore carriers (VLOC) to South Korea's Polaris Shipping in a deal worth USD600 million. The 300,000 DWT ships were converted from oil tankers into iron ore carriers and were acquired by Vale in 2009 and 2010. Vale's orders for 400,000 DWT very large ore carriers at China Rongsheng Heavy Industries and Daewoo Shipbuilding and Marine Engineering are not affected by the Polaris deal.
- Orient Overseas (International), parent of Orient Overseas Container Line, has delayed delivery by a year of two 8,600 TEU container ships on order at Hudong-Zhonghua Shipbuilding (Group) in Shanghai. The ships, each costing USD120.7 million, were originally due to join the OOCL fleet in the fourth quarter next year, but delivery has been delayed until the fourth quarter of 2014 due to poor market conditions.

- Shipping-insurance premiums in China amounted to CNY2.8 billion last year, up about 10% year-on-year. There were at least 39 companies offering shipping insurance services by the end of 2011.
- Chinese ports with a minimum coastal-cargo throughput of 15 million metric tons and a minimum inland-waterway cargo throughput of 10 million tons reached 4.74 billion tons of cargo throughput in the first half of this year, up about 7.2% year-on-year. However, the growth rate decelerated by 6.1 percentage points year-on-year. These ports reached an exported-cargo throughput of 1.52 billion tons in the first six months, up about 13.6% year-on-year; the growth rate increased by 5.5 percentage points. Domestic-cargo throughput reached 3.23 billion tons, up by 4.4%, while the growth rate for this sector went down by 11.3 percentage points. The container throughput of these ports reached 84.59 million TEU in the first half of the year, up by 8.8%, but was down 4.3% year-on-year in terms of growth rate.
- A Sierra Leone-flagged cargo ship has been detained on orders of the Xiamen Maritime Court because the crew refused to bring the ship to Fujian province's Putian Port and unload its iron ore, which belongs to a Chinese company. The vessel, Ledor, with an Albanian captain and 16 Syrian crew, has been 10 nautical miles off the port for more than nine months. Carrying 22,000 tons of iron ore, the freighter was en route from India to Yangzijiang port in Jiangsu province when it anchored off the port while seeking shelter in bad weather. The ship's owner, an Albanian, abandoned the vessel in October because he couldn't pay for the vessel's repairs.
- Sinotrans is consolidating more than CNY4 billion worth of assets in its parent company to cut costs. Net profit slipped 11% year-on-year to CNY390 million in the first half on CNY23.16 billion of sales, dragged down mainly by widening losses in its container shipping division. Losses in the marine transport division overall rose to CNY137.1 million from CNY82.4 million a year ago as shipping rates fell. The consolidation is expected to eliminate competition between the listed company and parent Sinotrans Group. In the next two to three years, the parent's unlisted businesses valued at up to CNY5 billion will be injected into Sinotrans.
- China Shipping Development Co posted its first half-year loss since at least 1998 because of slumping freight rates and high fuel costs. The loss of CNY495 million compared with a net income of CNY684 million a year earlier. First-half sales fell 9% to CNY5.7 billion. The company also forecast a loss for the nine months through September 30 as fuel prices have risen and dry bulk rates have fallen. The shipper, a unit of China Shipping Group Co, plans to almost double its fleet to more than 20 million tons by 2015.
- In the first half of this year, the throughput of oil and iron ore, two commodities that account for more than 80% of Zhanjiang port's transport flow, dropped 9.6% compared with the same period last year. The overall throughput at Zhanjiang dropped to 35.77 million DWT. Last year, throughput surged by 16.7%, from 68.6 million DWT in 2010 to 80 million DWT in 2011. The port has two 300,000 DWT coastal crude oil terminals, the biggest of their kind in China, and one 250,000 DWT iron ore terminal, the biggest in southern China.
- Shipping services firm Cosco International is eyeing acquisitions both inside and outside its parent as it seeks to develop synergies with existing businesses, including marine fuel trading, marine paint manufacturing and supply, marine equipment, ship trading and insurance. The firm had net cash reserves of HKD5.5 billion as of the end of June. It reported a 1% fall in net profit to HKD232.42 million in the first six months of this year from the same period last year. Revenue fell 21% to HKD4.48 billion between January and June, against HKD5.7 billion in the same period in 2011.
- Senior executives from Sinotrans Shipping are likely to start negotiations with shipyards later this year for orders of new dry cargo ships to boost its fleet of more fuel-efficient and environmentally friendly vessels. The company had no more ships on order after it took delivery of two 75,500 DWT Panamax dry bulk ships in the first half of this year. The firm had USD885.15 million in cash and bank balances at the end of June that it could earmark for new ship purchases. The firm was looking at several different sizes of dry cargo ships, including 50,000-60,000 DWT Supramax and smaller Handysize vessels of 30,000-40,000 DWT. Sinotrans Shipping reported a 63.6% drop in net profit to USD20.1 million in the first half of this year.
- Under a new policy by the Ministry of Transport, ships leased by shipping companies from financing firms could be regarded as part of the shipper's own fleet upon

agreement between the two sides and on condition paid rents reach certain levels. That means rented vessels could receive the same fiscal subsidies as those owned by shipping firms and be exempted from some transaction fees. The policy will be first implemented in Shanghai.

- China International Marine Container (Group) (CIMC), the world's largest container maker, plans to relist its B shares from the Shenzhen onto the Hong Kong exchange. CIMC's plan was endorsed by the China Securities Regulatory Commission (CSRC).
- To prevail over the gloomy market, China Shipping Industry announced plans last year to expand its business into manufacturing equipment for non-maritime industries such as the wind and solar energy industries. During the first half of the year, the company made 42.8% of its income from its non-maritime business, surpassing for the first time what it made from its shipbuilding business, the company said.
- Hong Kong shipowner KC Maritime is aiming to expand its fleet of dry bulk ships to take advantage of a crash in new and second-hand ship prices, which have fallen between 20% and 30% since 2010. Chief Executive Captain Vikrant Bhatia said the firm was looking at different types of dry cargo ships, from 55,000 DWT Supramax vessels up to 170,000 DWT Capesize ships. Bhatia said all options were being considered, including ordering vessels from shipbuilders, buying modern second-hand ships or acquiring resales. KC Maritime was expected to make its first acquisition within this year, Bhatia said.
- China Shipping Container Lines reported a CNY1.28 billion net loss in the first half, up 120% from the same period a year earlier, despite a 9.6% increase in revenue to CNY15.3 billion. However, the company saw a recovery in the second quarter, generating a profit of CNY173 million as against a first-quarter loss of CNY1.5 billion. Jon Windham, Shipping Analyst with Barclays, expected CSCL's earnings to peak in the third quarter before declining in the traditionally weaker fourth quarter.
- Singamas Container Holdings, the world's second-largest marine container maker, may see a small peak in orders for shipping containers in the next two months to coincide with the pre-Christmas export season, Teo Siong Seng, President and Chief Executive, said. He said the company, which has 12 container factories in China with an annual capacity of 925,000 TEU, has a full order book until the middle of next month. He added the price of a 20-foot box peaked in July at USD2,700 but has since remained stable at about USD2,400. The company posted a 62.5% drop in net profit to USD38.2 million in the first six months of this year, down from USD101.9 million in the same period last year, as revenue fell 13.5% to USD886.2 million in the period.

RAIL TRANSPORT

Rail services along Yangtze need improvement

More investment in road, railway and barge networks along the Yangtze River needs to take place to cope with the swift pace of manufacturing and development in the western part of China, logistics experts say. Total domestic and international cargo volumes in the Yangtze River Delta are forecast to grow from 62 million TEU this year to 82 million TEU in 2015 and 122 million TEU in 2020. Jonathan Beard, Managing Director of transport consultancy GHK (Hong Kong), said bottlenecks had emerged along the river, partly caused by ship congestion at the Three Gorges Dam and seasonal low-water restrictions. Beard said intermodal rail services, including inland container depots to handle rail cargoes, were undeveloped and service was unreliable. It cost almost double and took an extra four to 14 days for a container to reach Shanghai from Chongqing by railway compared with barge, based on data from Sinotrans and Singapore shipping line APL, he said. “Service reliability and speed have to improve before rail becomes a serious player for inland container movements,” he said. More frequent trains and better reliability would drive up rail cargo volumes, spurring further service improvements, he said. A consortium including NWS is developing a network of 18 container rail depots; the first eight handled 1.25 million TEU last year. China Shipping Container Lines also helped launch a dedicated rail service between Changsha and Shekou, but utilization has been low. Beard added that trucking costs were higher at about USD2.50 to USD3 per mile in the Yangtze River Delta, compared with USD1.75 in the U.S. even though salaries were low. These higher costs are partly the result of a fragmented trucking sector together with regulatory inefficiencies, including restrictions on cross-province movements. Beard said a shift to larger river vessels would improve the economies of scale of barge services, while removing cabotage rules and reforming customs operations would improve competitiveness, the South China Morning Post reports.

- China Coal Energy has formed a joint venture, with registered capital expected to gradually increase to CNY54 billion from CNY1 billion, to build and operate a coal transportation railway about 1,800 km long linking northwestern China with the rest of the country. The move is part of plans to rapidly expand large coal mines and power plants in the arid northern and western provinces.
- “Although rail transportation between China and Europe is around 15 days compared to 35 days by ocean shipping, the cost is high because the trade volume is still low,” said Che Tanlai, Researcher at the Economic Planning Institute of the Ministry of Railways (MOR). Since the Eurasian Land Bridge was completed and put in operation in 1992, the annual rail transit volume increased from a few hundred thousand tons to more than 15 million tons. On August 31, the 11,179-km Chongqing-Xinjiang-Europe International Railway, also known as “the modern Silk Road”, was officially put into operation.

WAREHOUSING

Hong Kong's largest gold storage facility to open

Hong Kong's largest gold-storage facility, which can hold about 225 of the bullion now in the U.S. depository in Fort Knox, will open in September to meet rising demand from banks and the wealthy, according to owner Malca-Amit Global. The facility, located on the ground floor of a building within the international airport compound, has capacity for 1,000 tons, said Joshua Rotbart, General Manager for the company's Malca-Amit Precious Metals unit. Two of the vaults may hold assets, including gold, for banks and financial institutions, and others will be used for diamonds, jewelery, fine art and precious metals. “Hong Kong is a very important center for gold, especially because it acts as a doorway to China," said Sunil Kashyap, Manager of Asia-Pacific Foreign Exchange and Precious Metals at Scotiabank. “Current international hubs are in New York, Zurich and London. There's still a need to set up an Asian hub for physical gold.” Gold demand in China may rise 13% to 870 tons this year, according to a revised forecast from the World Gold Council (WGC).

- Global Logistic Properties, a unit of Singapore’s sovereign wealth fund, said its China assets will match those in Japan as its tenants, including online retailers Amazon.com and 360buy.com, add more space. The company invested CNY1 billion in China last year. It expects to expand from that base as it attracts tenants with modern warehouses, Chief Executive Officer Ming Z. Mei said. The net asset value in China will match that in Japan in six to 12 months, he said. “80% of China’s logistics facilities are old and obsolete, so it will be a long time before we can refill all those spaces. We can grow on that USD1 billion base,” he added.
- Vanke Group, one of the largest real estate developers in China, is building a warehouse self-storage area in its Vanke City Garden complex in southwest Minhang District. Residents will be able to rent cubicles to store extra appliances, furniture or other goods. The company plans to charge based on monthly rents for various sizes of yellow storage cubicles, each with its own lock, inside a 24-hour secured warehouse building. While self-storage is not a new concept, and some companies have opened facilities in Shanghai and elsewhere in China, some residents still have some doubts about its safety and cost-effectiveness. The warehouse will be under 24-hour surveillance with only authorized customers granted an electronic card to open the warehouse gate.

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