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EXPRESS DELIVERY

FedEx, UPS get a toehold in China's express delivery

China's State Post Bureau gave FedEx Corp and United Parcel Service (UPS) approval to provide express-package services – excluding letters – within the country, potentially spurring competition just as the Chinese market leader prepares for an initial public offering (IPO). Still, the approvals fell short of what was requested by the U.S. companies. Both companies have invested heavily in Chinese hubs for their international business to and from Asia. Though it remains small, the intra-China market for document and package express delivery is expected to grow at 20% a year, according to the prospectus for the CNY9.98 billion planned offering by China Postal Express & Logistics Co. FedEx already provides service to more than 400 Chinese cities through joint ventures in the country and had sought countrywide access of its own, but FedEx was granted rights to serve only eight cities: Shanghai, Guangzhou, Shenzhen, Hangzhou, Tianjin, Dalian, Zhengzhou and Chengdu. UPS, which has a smaller Chinese presence, was given rights to five cities: Shanghai, Guangzhou, Shenzhen, Tianjin and Xian. UPS, which doesn't have partnerships with Chinese companies to provide a significant domestic delivery service inside China, said it was pleased with the decision, viewing it as a toehold. FedEx has forecast that the Chinese market for express delivery would grow to USD26.3 billion overall in 2020 from USD5.1 billion in 2010. State-controlled China Postal Express is the largest player in what remains a fragmented domestic express market, the Wall Street Journal reports. The Chinese market leader has a 30% market share. A Spokesman for UPS said China's State Post Bureau was expected to continue its review for more cities in the months ahead because approvals were done in batches. FedEx had been working to gain its own domestic licenses in China for three years, Spokeswoman Shea Leordeanu said.

LOGISTICS INDUSTRY

Improved logistics needed to boost China-ASEAN trade

Integrated logistics cooperation is seen as essential to further boosting China-ASEAN trade. "With the establishment of the China-ASEAN Free Trade Area two years ago, the trade volume between the two regions has increased rapidly," Liao Xiaobo, Vice Director of the Development and Reform Commission of the Guangxi Zhuang Autonomous Region, said at the China-ASEAN Logistics Cooperation Forum. "However, the key to develop bilateral trade — logistics services — have not improved accordingly." Last year, trade between China and ASEAN reached USD362.85 billion, an increase of 23.9% year-on-year. The figure was USD105.9 billion in 2004. Liao said several obstacles are hampering the development of an integrated logistics system. "Although air and maritime transportation have been improved greatly in recent years, basic overland infrastructure construction is lagging behind. Due to our geographic advantage regarding ASEAN countries, transportation over land should be a core part of logistics services," he said. The first cross-border highway between China and Vietnam was built seven years ago, but a planned full road project to connect China and Singapore via Vietnam, Laos, Thailand and Malaysia is far from completion. "The whole project is of strategic importance to both China and ASEAN, and it's the basis of an integrated logistics system. If countries such as Vietnam and Laos are having difficulties completing the project, then Guangxi is very glad to help," said Liao. Zhang Fuli, President of the Guangxi Federation of Logistics and Purchasing, said a lack of a unified standardization system in logistics is another problem. "The absence of standardization has been a big problem for many years," he said, adding that a standardized regulation system that can also be applied to ASEAN countries is expected to be introduced next year. Chinese logistics companies said they would have developed faster if an integrated logistics system was already in place, the China Daily reports.

- The average net effective rent of Beijing logistics property rose to a new high of CNY33.20 per square meter a month in the third quarter, up 2.78% quarter-on-quarter, real estate service provider Colliers said in a report. Demand for quality logistics property remained strong in the quarter. The growth of online shopping means demand for logistics property should remain healthy, with companies sourcing from e-commerce and third party logistics enterprises, the report added.
- Logistics costs increased in the first eight months of the year, according to a report by the China Federation of Logistics and Purchasing (CFLP). The total value of goods transported by logistics companies in the first eight months was CNY113.9 trillion, up 9.7% year-on-year. Industrial goods transported totaled CNY103.9 trillion, accounting for 91.2% of the total. From January to August, total logistics costs amounted to CNY5.6 trillion, up 11.3% year-on-year.

PORTS & SEA TRANSPORT

Many Chinese shipping companies and shipyards report losses

China COSCO Holdings Co, controlled by the state-owned shipping conglomerate China Ocean Shipping (Group) Co and the country's largest shipping line measured by capacity, registered a loss of CNY4.87 billion during the first half of this year, up from a deficit of CNY2.76 billion during the same period a year ago. The latest figure marked the company's sixth consecutive quarterly loss. China Shipping Container Lines Co, under the state-owned China Shipping (Group) Co, saw a loss of CNY1.28 billion during the first half, up from a loss of CNY630.3 million in the same period last year. The company's profit of CNY173 million during the second quarter was offset by a loss of CNY1.45 billion in the first. Shipping companies blamed the industry's woes in part on the difficult market conditions that have resulted from surging oil prices, an oversupply of vessels, depressed freight rates and the world economy's lackluster recovery. "We expect the global container demand to bottom out in the third quarter before improving somewhat in 2013," said Soren Skou, Chief Executive of Maersk Line, the container unit of the Danish shipping conglomerate AP Moller-Maersk Group. China's A-share listed shipping companies suffered a loss of CNY7.8 billion in the first half of this year. Only four companies of the 13 made a profit, including Cosco Shipping Co and China Merchants Energy Shipping Co.

Shipyards are also suffering. According to industry analysts, a considerable number of the country's small shipyards are teetering on the verge of bankruptcy, and many now believe that just the largest 300 out of the country's current total of more than 3,400 shipyards are likely to survive the current downturn, which could still last another three years. According to the China Association of the National Shipbuilding Industry, during the first seven months of this year, finished capacity at Chinese shipyards dropped by 7.7% from last year to 35.49 million DWT. Total new orders stood at 11.64 million DWT, a dramatic 50.7% drop compared with the same period last year. The current order book amounted to 123.5 million DWT, a 29.9% decline from last year. Pressured by low prices, a growing number of Chinese shipbuilders are now refusing to take orders and have suspended production, while some smaller shipyards have gone bankrupt. The bigger players such as China Shipbuilding have been trying to manage the risk by tapping into the manufacturing of marine engineering equipment, and analysts suggest the boom in offshore drilling activities represents the most lucrative sector for the industry. Shipyards are also facing the added pressure of tougher loan conditions being imposed on them by banks, with many finding it increasingly difficult to secure much-needed funding, the China Daily reports. On the other hand, the demand for surveillance ships in China has picked up significantly in recent months, as the country aims to equip one of its major maritime law enforcement bodies with more vessels. At least eight new orders for maritime surveillance ships have been secured by Wuchang Shipbuilding Industry Co, a subsidiary of China Shipbuilding Industry Corp (CSIC). Liu Cigui, Director of the State Oceanic Administration, said that 36 patrol vessels are being built and will be put into operation within the next two years by China Marine Surveillance. Everbright Securities Co has forecast a 5.01% growth in CSIC's net profits in 2012, and a 8.6% growth in 2013.

Cosco Pacific preparing operations at Piraeus terminal 3

Cosco Pacific, the terminals offshoot of China's largest shipping company, is on course to start container stevedoring operations at terminal three at Piraeus port in Greece next year. The move is earlier than the 2015 target date given in the concession agreement Cosco Pacific signed with Greek authorities in 2009 to manage terminals two and three at the port. The Chinese company formed Piraeus Container Terminal to manage and operate the terminals under a 35-year concession. Piraeus was the fastest-growing facility in Cosco Pacific's terminals portfolio in the first half of this year, with box throughput climbing 117.5% to more than 1 million TEU, up from 484,280 TEU in the first six months of last year. Cosco Pacific completed the upgrade of terminal two in June, which increased the annual handling capacity to 2.6 million TEU. Cosco Pacific Financial Controller Eddie Lui said 72% of the containers handled by terminal two was transshipment traffic that was unaffected by Greece's economic and debt problems. The increase in volumes helped boost total revenue at Piraeus Container Terminal by 46.1% to USD69.55 million, while profit surged nearly six times to USD11.83 million. Overall, Cosco Pacific handled 26.88 million TEU at its Chinese and international terminals in the first half, up 10.8% year-on-year, while revenue rose 31.8% to USD367.36 million, although net profit dropped to USD178.93 million. Deputy Managing Director Qiu Jinguang, said the first phase of terminal three, which will have a capacity of 1.1 million TEU, would become operational next year. The first phase is due to be completed in February and will have a 450-meter berth. Qiu said phase one would handle about 65% of the designed capacity of terminal three and the rest would be handled in phase two, which would have a 350 m berth. Cosco Pacific would spend about USD1 billion on capital expenditure this year, of which USD320 million was spent in the first half. About 60% of this year's budget is earmarked for terminal investments and 40% for the container leasing business. Cosco Pacific will add 2.75 million TEU of container handling capacity at its Chinese terminals in the second half, the South China Morning Post reports.

Xiamen to become China's 4th international shipping center

The Southeast China International Shipping Center, initially proposed by the Fujian provincial government in 2010, is to be established in Xiamen to gather important shipping resources and create a comprehensive shipping services system at the port. The shipping center will also strengthen ties with port cities in Taiwan, such as Kaohsiung, Taichung and Keelong, said Cai Liangya, Director of the Xiamen Port Authority. "The shipping hub will become the country's fourth international shipping center," Cai said. "Together with Shanghai, Tianjin, and Dalian, Xiamen will help enhance the country's shipping intelligence network," Cai said. According to the Xiamen Port Authority, inbound imported cargo will be free of duties. Domestic cargo entering the zone will be designated as exports and relevant taxes will be refunded. Local government officials believe tax refund policies will attract more companies to ship goods in Xiamen and help the city further its goal of becoming an international shipping center. The Xiamen Shipping Exchange officially became operational in June. In addition to serving as a platform for buying, selling and leasing ships, the exchange will act as a clearinghouse for shipping information and a provider of other services, such as cargo trading, personnel training, and trading agency services. Also in June, a maritime arbitration center was set up in Xiamen, which positions the city to serve as an international site for resolving disputes in world shipping. As an important supporting project of the international shipping center, construction of the Xiamen Qianchang Railway Logistics Park commenced during the 16th China International Fair for Investment and Trade, which was held from September 8 to 11. Construction work for the headquarters of the Southeast China International Shipping Center will begin by the end of this year. The building is expected to be fully operational before 2016. The efforts to build Xiamen into an international shipping center are expected to achieve initial results by 2015, and by that time, the cargo throughput of Xiamen port will reach 200 million tons and the container throughput will hit 10 million TEU. Last year, Xiamen handled 6.47 million TEU, ranking seventh among Chinese ports and 18th in the world. The city currently has 81 berths that can handle vessels of all sizes, including 16 deep-water berths, the China Daily reports.

Ministry of Transport calls for cooperation between shipping companies

China will stick to opening-up policies to encourage cooperation between Chinese and foreign shipping companies, Xu Zuyuan, Vice Minister of Transport, said in a speech at the opening ceremony of the World Shipping (China) Summit 2012 in Xiamen. Cargo flows in Chinese ports during the first half of the year increased 7.2% compared with the same period last year. Wei Jiafu, Chairman of China Ocean Shipping (Group) Co, said that the shipping market imbalance stems from three problems: price wars among shipping companies, irrational expansion of fleet sizes, and cargo owners developing their own fleets. Wei joined Xu in saying that the industry needs to restore its confidence, which “is more precious than gold in times of crisis”. Wei said that the industry should believe in the eventual recovery of the shipping market, which largely depends on the global economic cycle. But he also admitted that a market upturn is unlikely to happen in the next two or three years. To facilitate the recovery, Wei urged the whole industry to better communicate and cooperate, to curb the irrational expansion of market oversupply, and focus on improving shipping companies’ services for the customers. Some people in the industry, however, doubt that a consensus of building no new vessels can be achieved, and they believe that industry consolidation is inevitable. “We need to face the reality: there is no magic solution to the current market problems,” said Hermann Klein, CEO of E R Schiffahrt, a Hamburg-based ship owner and ship manager. More energy efficient ship designs are reshaping the industry, bringing ship owners higher financial returns and less environmental concerns, the China Daily reports.

Growth in cargo throughput drops to slowest pace

Cargo flows through Chinese ports increased at the slowest pace in August since the beginning of this year. Chinese ports handled a total cargo volume of 792 million metric tons in August, up 2% from the same period last year. Container throughput reached 15.11 million TEU in August, up 3.9% from the same period last year. “China’s trade growth is likely to remain weak for the next two to three years, and for this year, the second half might be even more difficult than the first,” Chang Dechuan, Group Chairman of China’s Qingdao Port (Group) Co, said. Zhang Liang, Analyst with GF Securities Co, said some ports may see their profits decline in the third quarter of this year from a year ago. “Ports that centered on handling bulk commodities are likely to see a dent in their throughput, while those that concentrated on containers may increase their profits as trade volume picks up,” he added. China’s exports increased by 7.1% during the first eight months from a year earlier, registering one of the lowest growth rates since the 2008 world recession, according to the General Administration of Customs.

- China Marine Bunker (PetroChina) Co, the country’s largest supplier of ship fuel, expanded its supply of low-sulfur bunker to Shanghai's Yangshan Deep-water port to satisfy increased demand. Demand for low-sulfur marine fuel in Asia is rising as air pollution standards are tightened for vessels traveling to North America. Ships sailing in U.S. and Canadian waters are required to use bunker with a maximum sulfur content of 1% starting last month under rules set by the North American Emission Control Area. Vessels outside the controlled areas typically use a maximum sulfur content of 3.5%. The country’s only low-sulfur bunker provider started offering the fuel at Tianjin port in July after it bought 8,000 tons from Russia.

- Shanghai's August container throughput fell 7.1% year-on-year and 8.3% on the previous month to 2.6 million TEU, according to Shanghai International Port Group. Cargo throughput dropped 1.5% year on year.
- China has bought the rights to use a North Korean port giving Chinese exporters access to the Sea of Japan and bringing much needed income to Pyongyang. The state-owned Yanbian Haihua Group bought the rights to use two wharves at Chongjin port, on North Korea's east coast, for 30 years after setting up a joint venture company worth USD7.83 million. The port is close to the Rason special economic zone, near North Korea's borders with Russia and China, in which China would invest about USD3 billion.
- Sinotrans Eastern Co signed a memorandum of understanding with CentrePort Canada, the only inland port in the country, and INVENT, a company specializing in radio-frequency identification technology which is used to ensure the security of shipments as well as verify the quality and origin of products. CentrePort Canada is seeking to bolster exports to China of Canadian products such as grain, timber and beef.
- China's two biggest shipowners said a market slump may continue for at least another two years as more vessels enter service and economic growth slows. "I fear the future two to three years will still remain in a downtrend," Wei Jiafu, Chairman of China Ocean Shipping Group Co (COSCO), said at a conference in Xiamen, Fujian province. "Many people don't have confidence." "In the coming two years, it's unlikely that the world shipping sector will bottom out," added Xu Lirong, General Manager of China Shipping Group Co, the country's No 2 shipper. COSCO may follow AP Moeller-Maersk A/S, the world's largest containership operator, by investing in areas outside of shipping, Wei said.
- A group of state-owned Chinese shipping companies, including China Shipping Group, Dalian Ocean Shipping Co and China Merchants Group, has placed a USD4.5 billion order for 50 supertankers, throwing a financial lifeline to China's struggling shipbuilders.

RAIL TRANSPORT

Ministry of Railways to take minority share in coal railway

In a further sign that the Ministry of Railways (MOR) is losing its monopolistic grip, Shanxi Energy & Transport Investment announced it would invest in rail projects where the Ministry will take a smaller share than usual. Shanxi Energy, wholly owned by the Shanxi provincial government, will invest in five rail projects with a total investment of CNY218.72 billion. One of the five projects is the CNY103.8 billion central and southern Shanxi coal railway, with an annual freight capacity of 200 million tons. Spanning 1,260 kilometers from Watang city, Shanxi province, to Rizhao port in Shandong, it is the world's longest heavy freight railway and China's first dedicated heavy freight line. Construction will begin in 2014. The Ministry will take only a 34.29% share of this project, while Bank of China (BOC) will invest CNY7.5 billion for a 14.45% stake and Shanxi Energy will invest CNY10.38 billion for a 20% stake. The remaining budget for this project is being borne by local governments and coal companies. Another of the five projects is the CNY8.6 billion Taixing coal railway, where the Railways Ministry will take a 70% stake and the Shanxi government 30%. Jefferies Analyst Julian Bu said coal rail services were more profitable than high-speed passenger rail. He said coal accounted for 60% of the freight on China's railways. Separately, financing was secured last month for the CNY158 billion Mengxi-Huazhong coal railway. This is the first time MOR has taken a minority stake of 20% in a major rail project. On July 30, the Chinese government called for private investment in major infrastructure projects, including railways.

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