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LOGISTICS NEWSLETTER | 2

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AIRLINES & AIRPORTS

China key to revival in air cargo growth

Asia, in particular China, is key to rejuvenating growth in air cargo, a USD6 trillion industry that has suffered from sustained stagnation since the 2008 financial crisis, and e-commerce is expected to spearhead that revival, according to global aviation and air-cargo leaders meeting in Zhengzhou, China, for the first Air Cargo Development Forum. Air cargo, which transports 35% of global trade by value, has yet to return to pre-recession levels by volume, but fresh data showed acceleration in traffic growth. During the first half of 2014, world freight traffic grew 3.7%. Asia, by far the world's largest cargo market and responsible for 39% of the total volume, recorded growth above the worldwide average in 2013, with eastern Asia growing at 4.5%. China represents 45% of the region's air-cargo market while Chek Lap Kok in Hong Kong is the world's largest cargo airport. Cargo throughput at Hong Kong International Airport recorded a 5% increase in 2013 to 4.2 million tons, above the regional average of 2.1%. Xia Xinghua, Director General of the China Civil Airports Association, noted that one-third of Chinese rely on e-commerce, forcing freight handlers and airlines to work together. Wang Zhiqing, Deputy Administrator of the Civil Aviation Administration of China (CAAC), said air cargo in the country experienced rapid growth between 2002 and 2010, with yearly growth close to 10%, followed by a decline in 2011 to 2013. In the first half of this year, domestic freight increased 5.7% and international 6.6%. China's express market has grown 43.5% per year since 2008 to become the world's second-largest after the United States, underpinned by the rise of e-commerce. China currently has 101 air freighters, 80% of which are used for express deliveries.

China to further liberalize air cargo market

China will push for further liberalization of its air cargo market because it is vital to facilitating trade flows and expanding its economy. "China, as the biggest exporting country in international trade, relies heavily on the air cargo business. We are actually taking a proactive attitude towards air cargo liberalization," said Han Jun, Director General of the International Affairs Department of the Civil Aviation Administration of China (CAAC) at the first Air Cargo Development Forum organized by the International Civil Aviation Organization (ICAO). International cargo traffic turnover accounted for nearly a third, or 21.07 billion ton-kilometers, of China traffic turnover of 67.17 billion ton/km last year. China's international cargo business soared between 1980 and 2008 before it was hit by the financial crisis. It showed signs of recovery last year, when international traffic grew 8.3%. "We will lower access requirements as appropriate and also encourage Chinese airlines to expand their international routes to more domestic points, and work with foreign operators to create international routes," Wang Zhiqing, Deputy Administrator of CAAC, said. China has signed air service agreements with 115 countries and regions, of which 21 have introduced unlimited capacity entitlements for all cargo services. The China-U.S. air traffic agreement has for the first time introduced the concept of air cargo hub operators, which are entitled to the seventh freedom traffic right – the right to operate between two points with neither being the airline's home country. It is the only such arrangement China has reached with another country.

Cathay Pacific cargo revival hinges on festive U.S. buyers

Cathay Pacific, one of the world's largest cargo carriers, is hoping the Christmas season will start a little earlier this year. The last quarter, traditionally a peak season for cargo, may signal the start of a real recovery for the sluggish global cargo market thanks to new hi-tech consumer product launches and recovery in the U.S. economy, said Cathay's Cargo Director James Woodrow. Speaking to the South China Morning Post in Zhengzhou, he said there was a good chance Apple's iPhone 6 will help improve not only the China market but also the Hong Kong market. Mainland China is Cathay's largest cargo market after Hong Kong, while "almost everything" it ships from Hong Kong comes from the Pearl River Delta, Woodrow said. But to Cathay the U.S. market is still more important than China. "I think critical to global cargo growth is growth in the U.S. economy. The more the U.S. and global economy accelerates, the faster our load factor will grow," Woodrow said. Tonnage at Cathay Pacific and Dragonair increased 8.5% to 804,000 tons in the first half of the year, but there was a 6.9% decline in yield – per unit profitability. Airlines have had cargo yields eroded by overcapacity and weak demand, while the growth of belly space in passenger jets adds further cargo capacity.

- Apple's new iPhone 6 is expected to give the sluggish global cargo market a boost, especially in Zhengzhou, Henan, where two-thirds of the world's iPhones were produced last year. “Last year in November we had a boost from both the PlayStation 4 and the Xbox One and that lasted for three months,” said Enno Osinga, Vice Chairman of the International Air Cargo Association (IACA). Zhengzhou airport is now the fastest growing cargo airport in China. Traffic increased 120% in the first seven months of 2014, almost 20 times faster than the national average of 6%.

EXPRESS DELIVERY

Online sales lead to boom in delivery services

The increase in online sales has led to soaring demand for delivery services. In 2013, some 1 billion parcels were delivered in Shanghai alone, with a total revenue of CNY25.8 billion. Every day, about 100,000 couriers crisscross the city. A Shanghai resident received an average of 39 parcels last year. About 70% of the nation’s express companies have their headquarters in Shanghai, including leading courier firms SF, STO, ZTO and Yunda Express. Service quality remains a work in progress. Many people have had bad experiences with couriers – the loss of packages, refusal to deliver the package at the door or a rude attitude. The government plans to launch a campaign to regulate such firms within three years, and “black and red lists” will be released so residents can evaluate the firms based on criteria such as manners, service, integrity, standards and facilities. Both lists will be released by the end of the year. Delivery personnel will be required to have licenses. Customers' complaints to the Postal Administration often lead to punishments for the courier firms. Most couriers earn CNY1 per parcel delivered, while others earn a fixed salary of CNY3,500 a month.

Express delivery companies investigated for price collusion

Six domestic express delivery companies are being investigated for alleged collusion after they raised their rates simultaneously in Chongqing. The six companies held several meetings earlier this year to discuss an increase and decided to raise their rates simultaneously on August 1. Delivery companies involved in this case include the Chongqing branches of YTO Express Co, ZTO Express Co, Yunda Express Co and TTKD Express Co. Because of the size of these companies, their action amounts to a pact to control market rates and violates China's price law. The Chongqing Price Bureau has ordered the six companies to stop charging the higher rates or face fines and other administrative action. YTO Express said that the increase was imposed independently by its franchisee in Chongqing and the corporate headquarters in Shanghai was not aware of the move until the Chongqing authorities acted. Zhang Qizuo, Professor at Chengdu University specializing in the service sector, said it is hard for express companies to get orders in China's southwestern logistics market, where consumers usually call the cheapest company to deliver their packages or documents.

China express firms opt for self pick-up outlets to save costs

China's express delivery companies and their e-commerce partners have been forced by high costs to pull back from door-to-door delivery and instead ask customers to pick up their packages to keep shipment prices low and remain competitive. Taobao, the customer-to-customer online trading platform of Alibaba, launched a self-pick-up service in Hong Kong in late August, allowing consumers to choose from 200 pick-up points, including the 125 post offices in Hong Kong, for their shipment options. Picking up purchased goods instead of requesting door-to-door delivery may save consumers more than 50% in shipping costs. Delivery industry analysts feel the “self-pick-up solution” is an option Taobao and its logistics partners were forced to take. “As Taobao expands outside China, with Hong Kong as the first key overseas market, it realized managing logistics capacity is a challenge,” said Gary Ng, Chairman of the Hong Kong Courier Association. Taobao's registered users in Hong Kong reached 1.4 million at the end of 2012, comprising almost one fifth of the city's population. China's express delivery companies delivered 9.2 billion pieces of goods in 2013, up 61.5% over 2012 and ranking it No 2 in terms of business volume after the United States, the South China Morning Post reported.

China to further open express delivery to foreign enterprises

China will further open the domestic express delivery market to qualified foreign enterprises. The country will streamline license approval procedures and encourage mergers and acquisitions (M&As), even those launched with foreign capital, within the necessary review system. China’s international delivery business has become basically open to overseas capital, while domestic markets in major cities have gradually become available to foreign players. The enhanced competition will be an incentive for domestic companies to improve their operations and services, stimulate domestic demand and create more jobs, a government announcement said. United Parcel Service (UPS) has received licenses to operate express services in 33 Chinese cities, and 19 of these were granted this year. Apart from the two major hubs in Shanghai and Shenzhen, UPS also has about 250 operating facilities throughout China. FedEx said that it has been working closely with the relevant authorities to obtain express delivery service permits ever since the new Postal Law came into effect. According to a report released by Deloitte Touche Tohmatsu and the Development and Research Center of the State Post Bureau, 78.9% of market share is held by private companies, 19.9% by state-owned enterprises and the remaining 1.2% by foreign ones. Chu Xuejian, Vice Chairman of the Shanghai Logistics Association, said: “It is very likely that consumers will opt for Chinese companies, which charge less, when they want to deliver less important shipments but opt for foreign ones, which charge more but provide better and much safer service for important goods.”

- After years of waiting, United Parcel Service (UPS) and FedEx have received licenses in China to extend domestic express package services to Beijing and other cities without needing joint-venture partners. Thanks to online shopping, the Chinese market is growing 60% annually and next year could be worth CNY280 billion.
- Alibaba logistics partner ZTO Express is cooperating with the French post office, La Poste, to launch an express delivery service from China to Europe as part of Alibaba's overseas expansion. Parcels can be delivered in four to five days, and ZTO would also provide insurance and full tracking for parcels, and arrangements for returning purchased goods. It will be the first Chinese private delivery firm to provide services to Europe.

LOGISTICS INDUSTRY

Logistics integration strengthens ASEAN region

Maritime connection projects under construction in the ASEAN region include the shipping route between Qinzhou Port in Guangxi and Kuantan Port in Malaysia, the China-ASEAN port logistics information center, and the cooperation mechanism between port cities in China and ASEAN. In terms of land transport connections, the construction of the Pan-Asia Railroad and the Nanning-Singapore Corridor are being discussed. The government of Thailand suggested two railway routes based on the current lines, one from Kunming to Bangkok and the other from Kunming to Vientiane, both of which could connect the China-ASEAN Free Trade Area with the pan-Asia region. The 3,800-km Nanning-Singapore Corridor starts from Nanning in Guangxi and runs south all the way to Singapore. The corridor covers Vietnam, Laos, Thailand and Malaysia and once complete, it will connect 1.5 billion people. Yang Xiuping, the Chinese Ambassador to ASEAN, said that logistics integration would not only improve transport but also bring people in the region together.

- China Shipping Network Technology (CSNT) unveiled a partnership with e-commerce firm Alibaba and China Shipping Container Lines to build an online logistics information platform to allow vendors or carriers to search for logistics quotations, complete orders online and check delivery status.

- The World Bank has constructed a Logistics Performance Index that ranks economies on the basis of logistics performance in relation to six benchmarks: customs, infrastructure, ease of arranging shipments, quality of logistics services, tracking and tracing, and timeliness. Hong Kong ranks 15th, ahead of China, which is 28th.
- Kerry Logistics Network is looking to expand in China and Southeast Asia after reporting an 8% rise in core net profit to HKD490 million for the first half. The mainland and Hong Kong accounted for the bulk of the company's core profit. While Hong Kong contributed 34%, the mainland accounted for 27%. The core profit from the mainland rose 9% and that from Hong Kong increased 7%. The fastest growing segment was Europe, at 75%, but it only accounted for 4% of core profit.
- Singamas Container Holdings, the world's second-largest container manufacturer, is expecting a surge in orders as it reported a sharp fall in profit for the first half. Net profit plunged 51.7% to USD13.28 million for the six months to June from USD27.49 million a year earlier because of unstable demand. "New containers on the ground in China are about 0.5 million TEU, equivalent to two months' production, which is a fairly low level. I'm cautiously optimistic about a rush for new orders soon," Chairman and Chief Executive Teo Siong Seng said. The bulk of containers currently in service are about nine to 10 years old and they will need to be replaced in one to two years.
- Haier Electronics plans new acquisitions to bolster its fast-growing logistics service business, after the company posted a 19% year-on-year increase in first-half net profit. The company said more enterprises are expected to outsource the storage, transport and distribution of their goods to professional third-party logistics companies. Total capital expenditure of CNY367.53 million in the first six months of the year was mainly used for developing its integrated channel services business, including the construction of logistics warehouse projects.
- Cosco Pacific reported operating profit from its container leasing segment sank 30.2% from the year-ago level to USD53.3 million in the first six months of this year. Cosco's sagging profit was achieved against a 2.1% rise in revenue and 0.3% higher utilization rate of its container fleet. China International Marine Containers (CIMC), the world's top container maker, saw first-half net profit from container manufacturing slide 21.3% to CNY322.7 million.
- Titan Petrochemicals, a debt-laden fuel logistics firm controlled by Guangdong Zhenrong Energy, said that its interim earnings had reverted to the black after it disposed of at least 10 subsidiaries. Titan reported profit before tax from continuing operations of HKD3.77 billion in the first half of the year, compared with a loss of HKD5.02 billion for the same period last year, thanks to a gain of HKD4.14 billion on asset disposals.
- Smaller logistics companies in China are being hindered by a shortage of funds and land and may have to merge in order to survive. "Compared with developed nations, our industry faces very high costs and very low efficiency," said Geng Shuhai, Deputy Director of the Economic and Trade Department of the National Development and Reform Commission (NDRC). Geng said the government was in the final stage of amending a plan governing the logistics industry's development, which will be made public soon.

PORTS & SEA TRANSPORT

COSCO Shipping expands business in Latin America

COSCO Shipping's business has expanded to eight Latin American countries this year as the continent's economy is expanding. COSCO Shipping entered Latin America in the 1960s and has now deployed 20 vessels between China and Latin America, with six ships operated on the route each month. Thanks to China's surging vehicle trade with Venezuela, Brazil, Uruguay and Argentina in recent years, the company's China-Latin American route has seen rapid growth in maritime vehicle transportation. Its business rose 45% year-on-year in 2013. It also delivers vehicles from South Korea and Japan to Latin America. One of COSCO's biggest shipping assignments this year was the contract to transport more than

1,000 rail products including locomotives, trams, and freight and passenger cars to Brazil and Argentina within two years. The carrier also sealed deals to transport wind turbines, wind power systems, mechanical and electrical products, as well as construction materials for building new power plants, cement and sugar refinery factories, and other projects throughout Latin America this year.

Chinese shipping firms to face competition from 2M

Container ship operators from China are facing fresh pressure from the new 2M alliance between Denmark-based Maersk Line and Switzerland-based Mediterranean Shipping Co. The new grouping comes after the three-party pooling alliance P3 was turned down by the Chinese government. The two European companies signed a 10-year vessel sharing agreement earlier in July to enhance their earnings capabilities. Zhang Shouguo, Vice President of the China Shipowners' Association, said the government had rejected the P3 alliance because it had a combined market share of about 30% of the global container shipping market. Maersk and MSC have jettisoned the French container line and formed a vessel-sharing agreement in such a way that their combined market share is below the 30% threshold. Unlike the P3 network, the 2M partnership will operate more as a vessel sharing agreement without any separate independent organizations or executive powers managing the network. The agreement doesn't include joint marine operations. Each party will execute its own operations, including stowage, voyage planning and port operations. Maersk and MSC can also manage their sales, pricing, marketing and customer service functions independently. The 2M network includes 185 vessels with an estimated capacity of 2.1 million TEU, deployed on 21 routes on three trade lanes: Asia-Europe, trans-Pacific and trans-Atlantic. The 2M vessel-sharing agreement is expected to start in early 2015 following approval by relevant authorities.

Crude oil tanker joint venture set up

Shanghai-listed, Hong Kong-based China Merchants Energy Shipping (CMES) is partnering with Sinotrans & CSC, China’s third-largest shipping and logistics conglomerate to set up a USD1.1 billion joint venture that could boost China's energy shipping capacity. CMES is taking a 51% stake in the new venture, injecting its 19 very large crude carriers (VLCCs), both live and on order, valued at USD565.9 million, in addition to cash. Sinotrans & CSC will pay cash for its share of the venture. The vessels will be managed by CMES subsidiary Associated Maritime Co (Hong Kong). Sinotrans & CSC, with its main energy shipping subsidiary Nanjing Tanker, is ranked as the world’s ninth-largest VLCC operator by live fleet size, according to Clarksons data.

Qinhuangdao Port set for record coal deliveries

Qinhuangdao, China’s largest coal port, is set for record commodity deliveries over the next three years as urbanization boosts demand for the fuel. Shipments of mainly coal and ores via the port may rise by 20 million to 30 million tons by 2017, said Xing Luzhen, Chairman of Qinhuangdao Port. Supplies hit a record high of 279 million tons in 2011. China depends on coal for 66% of its energy. The port is the delivery point for about 40% of China's seaborne coal. Qinhuangdao Port's new terminal in Caofeidian, with an annual capacity of 50 million tons, may begin trial operations this year, Xing said. Qinhuangdao Port will benefit from having stable contracts of as long as 10 years that cover about 70% of throughput.

ASEAN Ministers agree to promote Maritime Silk Road

Economic and Trade Ministers of ASEAN countries have reached a consensus at a meeting in Nay Pyi Taw, Myanmar, to work with China to accelerate the development of the maritime Silk Road. Chen Yingming, Executive Vice President of the Shanghai-based China Port and Harbors Association, said that as a majority of ASEAN nations have long coastlines and important regional ports, this move will help link growth centers like Shanghai, Singapore and Penang in Malaysia, as well as develop new regional hubs, such as Jakarta in Indonesia and Danang in Vietnam. The maritime Silk Road begins in Fuzhou in Fujian province, and heads south into the ASEAN region. From the Malacca Strait, it then turns west to Europe, according to one version of the blueprint. China has maintained its position as ASEAN's largest trading partner, with trade volume reaching USD350.5 billion at the end of 2013. The figure accounted for 14% of ASEAN's total trade and represented an increase of 7.7% year-on-year. Last year, ASEAN received USD8.6 billion of direct investment from China, a significant 60.8% increase year-on-year and representing 7.1% of total inflow to ASEAN. Guangdong province plans to set up overseas trade offices in ASEAN countries as part of plans to improve business links. The province is also encouraging local enterprises to establish production bases, marketing networks and regional headquarters in ASEAN countries.

China's courts build reputation in maritime disputes

More foreign companies prefer to have marine disputes resolved in Chinese courts nowadays as the judiciary's reputation grows with the increasing number of maritime cases in which it has provided equal protection to overseas litigants, China's top court said. Disputes over marine freight, watercraft rentals, vessel collisions, ship construction and ocean pollution have multiplied, according to China's Maritime Adjudication, a white book of marine trial records over the past 30 years in Chinese and English issued by the Supreme People's Court (SPC). The figure shows an annual increase of about 10% a year, and China now handles the most marine disputes in the world as it becomes the main maritime cargo center in the Asia-Pacific region. So far, these tribunals have heard 64,747 marine cases involving overseas litigants from more than 70 countries and regions. By August, 8,258 marine rulings with English versions have been released on the internet, Wang Yanjun, Deputy Chief Judge of the Marine Tribunal under the SPC said. As of 2013, Chinese maritime courts had detained 7,744 ships, of which 1,660 were from foreign companies, the China Daily reported.

Foreign investors to be allowed to set up shipping enterprises

China will allow overseas investors and private Chinese companies to establish shipping enterprises, according to the “Guidelines on promoting a healthy development of the maritime industry”, a new 15-point policy. Zhang Shouguo, Vice Chairman of the China Shipowners' Association, said that he had been expecting the release of the policy for years. Shipping businesses fully-owned and controlled by foreign investors can be set up in the China (Shanghai) Pilot Free Trade Zone (FTZ). The 10 shipping companies listed in China reported a total loss of nearly CNY1.5 billion for the first six months of this year, according to their financial reports. He Jianzhong, Vice Minister of Transport, said at a Beijing news conference that Chinese shipping companies' technological capability was weaker than foreign competitors. Currently, more than 90% of China's international trade is carried out by sea, but only 25% of China's imports and exports are carried by domestic shipping companies. The Vice Minister said that there are more than 240 shipping companies in China and their fleets have a total cargo capacity of more than 100 million metric tons, accounting for 8% of the global cargo shipping industry. To boost the industry, the central government has decided to restructure the shipping sector by prioritizing its development as a national strategy, facilitating the expansion of selected enterprises and helping coastal cities build “international shipping hubs”. Favorable taxation and fiscal policies will play an important role in enhancing shipping enterprises' capacity and making them greener and more competitive, the guidelines said, noting the government plans to create a modern shipping industry by 2020. Over the past year, the Ministry of Transport has abolished 26 administrative approval procedures that governed shipping operations, aiming to reduce government intervention, He said. Because of high tax burdens, from corporate tax to seafarers' salary tax, and red tape in vessel registration and importation, most Chinese shipping companies sailing international routes have shunned the homeland, setting up operational bases in low-taxed jurisdictions and flying their vessels with foreign flags. The guidelines also encourage development of sea-rail intermodal and inland waterway transport.

China's first automated terminal to be put into service

The Xiamen Ocean Gate Container Terminal is to become the first fully-automated terminal in China. All loading and delivery work will be done by machines. A video of the terminal in action showed a passing container being picked up by an automated bridge crane and being placed on an automated container truck. Under GPS guidance, the truck moved to a designated freight yard before a gantry crane picked up the container again and placed it in a designated area. The automated version that will become operational in September can save 25% in energy and cut carbon emissions by 15%, said Wang Shenyuan, General Manager of the Technology Department for the new terminal. Construction of the terminal, which cost CNY658 million, started on October 27 last year, and when complete, its throughput is expected to reach 78,000 to 91,000 TEU per year. The Haicang bonded terminal area has become a hub for Southeast China's international shipping industry. So far, the bonded terminal area has a freight throughput of 100 million tons and 10 million TEU of containers. There are 12 berths with a rating of 100,000 tons, which are under construction, and 10 berths with a handling capacity of 50,0000 tons, used by 54 international shipping lines.

Cosco to transport iron ore for Vale

China Cosco Holdings has signed a landmark deal with Brazilian miner Vale for the transport of iron ore and the purchase of 14 very large ore carriers, which have been barred from entering Chinese ports since early 2012. The two companies had agreed on a contract lasting up to 25 years for China Cosco to ship iron ore for Vale. To fulfill the contract, China Cosco will buy four Valemax vessels – giant ore carriers with a capacity of 400,000 DWT – and build 10 more. In 2009, Valemax vessels were ordered at USD120 million each, indicating China Cosco's purchase could cost more than USD1 billion. As China had banned Valemaxes from docking at its ports, since 2012 two-thirds of the Valemax fleet have gone through Subic Bay, in the Philippines, for transshipment, discharging cargo to smaller capsize vessels, which have a capacity of 180,000 DWT, for the final journey to China. If the ban is indeed lifted, it could actually be positive for the shipping market, according to James Leake, Managing Director at London-based Arrow Research. About 11 Chinese ports are capable of receiving Valemax vessels.

China Shipping Development pays HKD1 billion to boost stake in Beihai Shipping

China Shipping Development, the country’s largest tanker operator by fleet size, is acquiring a 20% stake in Shanghai Beihai Shipping for HKD1 billion from parent China Shipping (Group) in a bid to capitalize on the growth of hauling petroleum along China’s coast and inland waterways. The latest purchase raises China Shipping Development’s shareholding in Shanghai Beihai to 40%. In June, it bought a 20% stake in Beihai from Sinochem International Corp. Other Beihai shareholders include CNOOC Petrochemical Import & Export, with 30%, Silverbond Overseas with 20% and China Ocean Oilfields Services (Hong Kong), another CNOOC subsidiary, with 10%. China Shipping Development, which also has one of the world’s largest dry-bulk fleets, said in a statement to the Hong Kong stock exchange that the transaction would “further entrench its position in the coastal and domestic crude oil shipping market” in China and enhance its relationship with CNOOC, the firm’s major customer. Beihai, which owns a fleet of eight tankers, was forecast to generate HKD455 million and HKD472 million in net profit for 2014 and 2015, respectively. China Shipping Development will be compensated by an indemnity clause with its parent should Beihai’s profits fall short of the projection. China Shipping Development recorded CNY39 million in net profit for the first half of this year, reversing huge losses from a year ago.

China's rising fruit imports push up demand for refrigerated shipping

Growth in China's imports of fruit and vegetables is spurring demand for seaborne transport in refrigerated containers. China's fruit imports are up 26% over the past five years to USD4 billion last year, with exotic fruit such as longan and durian, as well as grapes, showing the biggest increases, according to the International Trade Center (ITC). The sources of the imports are becoming more diverse, extending from its Southeast Asian neighbors to countries in the southern hemisphere. For example, 82% of China's imports of cherries – popular around Lunar New Year – are from Chile, with which China signed a free trade agreement (FTA) in 2005. Cold chain logistics, historically a weak point for domestic distribution of perishable goods, has attracted significant investment over the past five years. “Cold storage capacity has greatly improved in China. Before it was pretty basic – brick warehouse, chain link fence and a padlock. But now investments are coming, which enables China to handle more perishable imports," Michael Britton, Asia-Pacific Region General Manager at Hamburg Süd, the world's fourth-largest refrigerated, or reefer, container carrier by fleet size. For shipping lines, reefer trade is a growing niche market that offers higher returns, but with higher upfront investment. A new reefer container is priced at between USD15,000 to USD20,000 per TEU, eight to 10 times the cost of a dry freight container of the same size, the South China Morning Post reports.

China Merchants to operate Sri Lankan container terminal

Logistics conglomerate China Merchants has won approval to operate phase two of Sri Lanka's largest container terminals in a deal signed during President Xi Jinping's trip. The Hong Kong-listed firm has been granted a 35-year lease to manage the Hambantota Port Development Project in a joint venture with the Sri Lanka Ports Authority and China Harbor Engineering Co. The two Chinese partners will invest a combined HKD3 billion into the project in return for a 64.98% stake. Hambantota is on Sri Lanka's southern coast and is billed as a future transit hub for goods moving around Southeast Asia. Xi also inaugurated a USD1.5 billion project to build a port city on reclaimed land in the Sri Lankan capital Colombo.

Cosco shifts to fuel-efficient, smaller vessels

China Cosco Holdings Co, the container shipping line that posted three annual operating losses, said adding more fuel-efficient vessels will help cut costs enough to revive profits amid a capacity glut. "The ships need to be filled for the cost savings to be achieved," said Guo Huawei, Board Secretary. COSCO ordered five fuel-efficient container transports that carry up to 14,500 TEU for delivery between 2017 and 2018. The ships are slightly smaller than the industry's largest on order by rivals including China Shipping Container Lines Co and AP Moeller-Maersk, which are betting on economies of scale from vessels large enough to carry as many as 19,100 containers. "Reducing container line costs is probably the only thing COSCO can do right now," Lawrence Li, Shanghai-based Analyst with UOB-Kay Hian Holdings, said. "Other things like refining its branding and operational know-how takes a longer time." COSCO's container arm cut fuel spending by 18% in the first half of the year by sailing ships more slowly, which boosts efficiency. Containers used to deliver consumer goods such as clothing, bicycles and televisions accounted for about 73% of revenue last year. Dry bulk shipping, including grain and ore, accounted for about 21%.

- Bulk ship operators in China may face liquidity problems, according to a report by the Shanghai International Shipping Institute (SISI). The SISI index shows that the prosperity level of the country's shipping companies in the second quarter dropped 0.1 point quarter-on-quarter to 88.09 points. The shipping industry is being pressured by excess tonnage and depressed freight rates, as well as rising operating costs. Analysts advised shipping companies to exert self-control in putting new dry bulk ships into the market. Meanwhile, the profitability of Chinese ports improved in the second quarter compared with the same period in 2013.
- Orient Overseas Container Line (OOCL) has been found guilty by the Tribunal de Grande Instance in Le Havre, France, of involuntary manslaughter over the death 11 years ago of Courtenay Allan, one of its senior executives, and was fined €50,000. Allan, a British national, was OOCL's London-based Transatlantic Trades Director at the time of his death. He fell down a lift shaft on the container ship OOCL Montreal during a customer cocktail reception aboard the vessel during its maiden voyage in the French port city of Le Havre.
- Chinese shipyards are aiming to take USD10 billion in orders for gas tankers over the rest of the decade. The push to build its own natural gas delivery vessels will boost China's capability in high-technology ships and pose a challenge to South Korean and Japanese shipyards that have been the main suppliers of large gas tankers for 30 years. Up to 50 liquefied natural gas tankers, or more than 20% of the 225 LNG vessels expected to be added worldwide by the end of 2020, are set to be built in China, according to the American Bureau of Shipping.
- Police in Shangdong province were looking into the death from unnatural causes on August 5 of Bian Peiquan, Deputy Commissioner of Customs at Qingdao port,

which is under investigation over an alleged commodity financing fraud. It was not clear whether Bian's death was linked to the scandal.

- China Ocean Shipbuilding Industry has entered into a CNY508 million joint venture with two Chinese state-linked companies in Zhoushan, part of the port of Ningbo in Zhejiang province. Zhoushan China Ocean Investment Fund will invest in and provide management consultancy services for the shipbuilding and ocean engineering sectors. China Ocean Shipbuilding will contribute CNY400 million, representing 78.7% of the joint venture's funding. Zhoushan Marine will contribute CNY100 million, while Zhoushan Zhouyi will contribute CNY8 million.
- Shanghai-based Zhenhua Heavy Industries Co has won a GBP100 million contract to supply cranes for what is the biggest-ever expansion project at the Port of Liverpool. The owner of the port, Manchester-based Peel Ports, has placed an order for eight ship-to-shore megamax quay cranes and 22 cantilever rail-mounted gantry cranes for its new GBP300 million deep-water port currently under construction on the River Mersey in northern England. The project will enable the Port of Liverpool to handle the world’s largest container ships, carrying up to 13,000 standard-sized containers.
- Earnings at Hong Kong-listed Orient Overseas (International) (OOIL) turned around sharply in the first half of the year. The container transport and logistics firm declared a profit attributable to shareholders of USD181.3 million in the first six months, compared with a USD15.3 million loss in the same period last year. Sales rose 7% to USD3.2 billion. Revenue at subsidiary Orient Overseas Container (OOCL) rose 4% over the same period last year on a 10% increase in lifting and a higher load factor.
- Maersk Supply Service, the offshore supply unit of AP Moller-Maersk Group, has ordered vessels from China for the first time in a USD470 million deal as the company seeks to revamp its fleet. Cosco Shipyard, the shipbuilding arm of China Ocean Shipping Group, won an order for four subsea supply vessels from the Danish company, putting the price of the vessels at USD117.5 million each. The deal also includes an option for two more vessels. Construction will take place at Cosco's shipyard in Dalian, Liaoning province. Delivery is scheduled between the fourth quarter of 2016 and the first quarter of 2017.
- Huanghua port, with its hundred-million-ton deepwater harbor and a comprehensive transport system, and located at the center of Cangzhou Bohai New Area, is developing into a vital transport hub in the Beijing-Tianjin-Hebei region. Huanghua port has a 200,000-tonnage deep-water channel and 25 berths, each of which can hold more than 10,000 tons of cargo. The port handled 170 million metric tons of cargo in 2013, with the growth rate topping the port list in China. Huanghua port has sped up the construction of a series of 50,000-to-200,000-tonnage berths for carrying crude oil, liquid chemicals, liquefied natural gas and coal.
- The vast majority of new ships are coming from China, which built 591 dry bulk ships last year compared with 237 in Japan, 60 in South Korea and another 46 elsewhere in the region. In 2012, Chinese ship-yards built less than a third compared to 2013. New orders may create a serious problem for shipping companies and ship owners. Even as new ships are delivered over the next year or two, a lot of old ships that have been sidelined or operating at reduced capacity are being brought back online.
- A joint venture port corporation was established by Tianjin Port Group and Hebei Port Group to combine the maritime transport resources in the area around Beijing. About CNY2 billion will be invested by the Bohai Jinji Port Investment and Development Co to develop port facilities in Tianjin and Hebei. Tianjin is a regional hub for many railroads in northern China. It is also the country's third-largest maritime port by bulk cargo throughput and the fourth-largest by container throughput. Hebei Port Group, established in 2009, has experience in bulk cargo transportation and favorable seashore resources.
- Singapore-based container shipping operator Neptune Orient Lines (NOL) is considering the sale or spin-off of APL Logistics to free up capital to repay debt. APL is the world's 10th-largest container shipping line by fleet size, according to Alphaliner. NOL, like many of its rivals, has reported losses due to a protracted

downturn in the container shipping market. NOL is 67% owned by Temasek Holdings, the Singapore government's sovereign wealth fund. APLL, which owns 20 million square feet of warehouse space, has a presence in 260 locations and 73 countries, providing multi-modal transport and door-to-door freight delivery.

- Hundreds of container truck drivers in the coastal city of Ningbo went on strike for three days in August as they complained that transportation fees have not increased for eight years, while petrol prices have more than doubled. Ningbo's Container Transportation Association said it had already decided to raise the present guide rate for transport workers by 12% after multiple rounds of negotiations that started in July, but added that transportation rates should ultimately be set by transport companies and private enterprises themselves. The impact on the port's daily operations was limited.
- Shipbuilder China Rongsheng Heavy Industries is diversifying into oil and gas exploration via a HKD2.2 billion acquisition in Kyrgyzstan. The Hong Kong-listed, Jiangsu-based company agreed to buy a 60% stake in New Continental Oil & Gas, a company that operates four oilfields in Kyrgyzstan with the country's national oil company. Rongsheng said the diversification into the energy sector would help it "withstand risks and alleviate the periodic volatility of the shipbuilding business".
- Four of the world's biggest container shipping lines have come together to run a joint service that will carry cargoes between North East Asia and Oceania. Hong Kong-based Orient Overseas Container Lines (OOCL), Shanghai-based China Shipping Container Lines, Singapore's Pacific International Lines (PIL), and France's CMA CGM are to run a service departing from Shanghai to North East Asia, New Zealand and Australia starting in November.
- China Merchants Bank has granted a CNY300 million credit line to its second-largest shareholder, China Ocean Shipping (Group) Co (Cosco). Cosco has a 6.24% stake. Cosco is the second-largest shareholder of China Merchants Bank after its parent, China Merchants Group. Last year, Cosco recorded CNY164.81 billion in revenue and CNY3.96 billion in net losses. Its total assets stood at CNY341.84 billion and equity at CNY137.27 billion. The bank also said it had received regulatory approval to appoint Cosco Group Chairman Ma Zehua as Vice Chairman.
- China Rongsheng Heavy Industries, one of China's largest privately-owned shipbuilders, sank deeper into loss despite a budding recovery in the shipping market that helped recoup losses for companies like China Cosco and China Shipping Container Lines (CSCL). Rongsheng reported first-half net loss more than doubled from a year ago to CNY3 billion and revenue plummeted 78.4% to CNY340.6 million as orders dried up. The shipbuilder delivered five vessels and canceled eight contracts in the reporting period. Meanwhile, CSCL, the world's seventh-largest container shipping line by fleet size, returned to the black with a net profit of CNY431.6 million while revenue rose 8.5% year-on-year to CNY17.4 billion.
- China Cosco, the flagship listed unit of China Ocean Shipping (Group), narrowed first-half losses by 45.7% from a year ago to CNY2.28 billion. Revenue rose 4.6% to CNY32.49 billion in the six months to June 30. China Cosco's dry bulk fleet, the largest in the world, reported CNY710.2 million in operating losses. The container fleet, the fifth largest in the world, posted CNY868.6 million in operating losses.
- Embattled shipbuilder China Rongsheng Heavy Industries has suffered fresh order cancellations valued at more than USD102 million from Athens-based, Nasdaq-listed DryShips, which canceled four ice-class Panamax dry-bulk vessels in exchange for the refund of all installments paid to the builder plus interest. The four vessels were ordered between December 2011 and February 2012 at USD34 million apiece, or USD102 million in total, according to Clarksons Research.
- The Chinese government published a list of 51 shipyards – 23 of them state-owned – that will be given preferential policy treatment, including China Rongsheng Heavy Industries Group Holdings. China has been the world's top shipbuilder by capacity but lags far behind South Korea and Japan in constructing high-end vessels such as liquefied natural gas carriers and offshore drilling rigs.
- Three of the world's largest container shipping lines are forming an alliance that will

cover major trade lanes between Asia, Europe and the United States. France's CMA CGM, Shanghai-based China Shipping Container Lines and Dubai-based United Arab Shipping Co said they had agreed to cooperate on east-west trades in 15 services. The Ocean Three pact will operate for an initial 24 months, pending approval from the U.S. Federal Maritime Commission. It will garner 20.3% market share in Asia-Europe trade and 13.1% on Asia-North America trade.

- China Cosco Holdings has finalized the order of five container ships worth USD618 million at Shanghai Jiangnan-Changxing Shipbuilding Co. The latest transaction is part of China Cosco's plan to renew its fleet, taking advantage of Beijing's cash rebate scheme for demolishing ageing vessels and the relatively low cost to build modern, fuel-efficient vessels. The new ships have a capacity of 14,500 TEU. The company has ordered 35 vessels since late last year, including 30 dry bulk carriers and five 9,400 TEU container ships.
- Qinzhou, in Guangxi, once one of the starting ports of the ancient maritime Silk Road, is now an important part of China's new national project to construct a 21st Century Maritime Silk Road. The city is accelerating the construction of 300,000-ton new berths and shipping routes. Qinzhou already has shipping lines to Singapore, Africa, Thailand, Vietnam, South Korea, Hong Kong and Taiwan, and it is now the main outlet for domestic containers in the Beibu Gulf. Qinzhou port aims to handle 150 million tons of cargo and 6 million standard containers a year by 2020.
- The Shenzhen government plans to spend CNY200 million a year on cash rebates to encourage shipping lines to switch to low-sulfur fuel while at berth, following initiatives taken by Hong Kong, as both cities attempt to rein in vessel exhaust emissions. The Shenzhen government will subsidize between 75% and 100% of the extra costs incurred in the voluntary switch to fuel with a maximum 0.5% sulfur content, which is more expensive than regular marine bunker that contains 3% to 3.5% sulfur. The scheme will take effect next month and last for three years. While mooring at ports, cargo ships contribute to 66% of sulfur dioxide emissions in Shenzhen. In Hong Kong, the proportion is 78%.

RAIL TRANSPORT

Special trains ready for e-commerce deliveries

The first special trains for e-commerce freight delivery services between Shanghai and Beijing started running in July, marking the initial step of opening up rail services to commercial clients, China Railway Corp (CRC) said. CRC has reached an agreement with courier service providers and postal services authorities that the fast trains for e-commerce freight delivery may extend to the Yangtze River Delta, Pearl River Delta and Bohai Rim. SF Express, one of China's largest courier services, contracted the first fast freight delivery train between Beijing and Shanghai. Other e-commerce platforms and courier services also are in negotiations with CRC to contract trains for parcel delivery. Rail delivery is faster than road transportation and much cheaper than cargo shipping. “Current air freight from Shanghai to Beijing may cost more than CNY0.8 per kilometer, while train freight is under CNY0.4 per kilometer. Intercity freight by train may be both cost-saving and time-saving,” said Huang Zhijun, a freight agent in Shanghai. “But for long-term cooperation and smooth operations, railway services must improve current warehousing, adjust to their schedules and link up railway and couriers' outlets”, said Shi Jianjun, Manager with Shanghai Yuntong Shipping Consultancy Service. According to a report by CRC, in the first half of 2014, combined parcel delivery volume by rail in China totaled 770,000 metric tons, a 23.4% year-on-year drop. More fast trains for e-commerce and courier clients running between Beijing, Shanghai and Guangzhou were launched at the end of August.

Plans for cross-border rail lines made

China is negotiating with the governments of Mongolia, Uzbekistan, Kyrgyzstan and Pakistan to build three connective railroads to improve regional trade in the Silk Road economic belt. Huang Shengqiang, Director of the China Port Management Office, said China has already opened 25 international airports and land ports as well as 12 special trade areas along the economic belt within the country. It will continue to build regional freight stations and create more trading platforms with Kyrgyzstan, Pakistan, Mongolia and Nepal, Huang said. Since 2010, major Chinese cities, including Chengdu, Chongqing, Xian, Zhengzhou, Wuhan and Yiwu have began weekly or monthly train services to European and Central Asian destinations, part of China's efforts to turn its inland resources and labor-rich cities into international trade hubs. Eighty-six cargo trains carrying 7,450 containers passed through the Alataw Pass railway station on the China-Kazakhstan border between January and July of this year, with trade volume reaching USD1 billion, according to customs. Transport Minister Yang Chuantang said regional connectivity is in the interests of all countries on the Silk Road Economic Belt. Yang added that China is following the Asian Highway Network deal signed in 2004 and the Trans-Asian Railway agreement of 2006 to continue its railway investment and develop major entry-exit rail and road projects.

WAREHOUSING

Citic Resources sues Qingdao Port

Citic Resources has filed a lawsuit against Qingdao Port International, demanding USD108 million in compensation if its fails to deliver base metals retained by the authorities as part of a fraud investigation. Citic Resources claims it suffered a severe loss from its inability to dispose of 223,270 tons of sandy metallurgical grade aluminum and 5,004 tons of electrolytic copper as a result of Qingdao Port's refusal to deliver the metals. Meanwhile, HSBC and ABN Amro Bank sued Chen Jihong, the Singapore national said to be at the center of a probe over whether metals were pledged multiple times as collateral for loans. He has been detained in China. HSBC has asked Singapore's High Court to liquidate Chen's Zhong Jun Resources after it failed to repay USD4.3 million. ABN Amro won an order for Chen to pay USD22 million owed under a loan agreement with Zhong Jun and another of his companies. Yu Shengping of Qingdao Port International's Legal Department, told the South China Morning Post that all parties would have to wait for the result of the criminal investigation before there could be any meaningful progress in civil actions. “This incident has brought damage to the reputation of Qingdao Port. We are also victims,” said Yu. The court held its first hearing earlier this month. Commodity financing has come to the fore because millions of dollars were lent by banks to groups or firms using metals or agricultural goods as collateral. Lenders are deeply worried that in some cases, the same commodity was used for loans multiple times.

Swire Pacific Cold Storage inaugurates facility in Shanghai

Swire Pacific Cold Storage, the world’s third-largest in terms of capacity, inaugurated a CNY440 million facility in Shanghai as the company continues to expand into China’s rapidly growing cold chain logistics industry. The facility in Fengxian district has a capacity to provide 50,000 pallet positions, or 354,000 cubic meters of temperature-controlled space. It is the company’s first wholly-owned property on the Chinese mainland. “The opening of this new facility, one of the largest and most advanced of its kind in east China, is a significant milestone,” J.B. Rae-Smith, Swire Pacific’s Executive Director of the Trading & Industrial Division, said at the opening. “Our long-term plan is to build a nationwide cold chain logistics network of 13 large-scale cold storage facilities by 2020.” In addition to the Shanghai facility, Swire Pacific’s new facility in Langfang, Hebei province, is having trial operations. Two more cold storage facilities are under construction in Nanjing, Jiangsu province, and Ningbo, Zhejiang province. A third is being planned for Chengdu, Sichuan province. All these facilities are scheduled to commence operation between 2015 and 2016. The company’s first facility on the Chinese mainland, a joint venture with Guangdong Foodstuffs, started operations in 2008.

- The legal dispute between Citic Resources and Qingdao Port over a cargo of base metals involved in a fraud investigation centers on warehouse receipts that the port denies issuing, legal representatives of the firms said at the first hearing of the case in Qingdao Maritime Court. Banks suspect the same cargoes of aluminum and copper were pledged multiple times as collateral for loans, and the investigation has prompted banks, warehouses and trading firms worldwide to launch lawsuits to protect their rights to the metals.

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