Sustainable Development Study for HK Logistics Industry
香港物流業持續發展研究

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Current Situations

Kwai Tsing Container Port

- HK port is the Fourth-busiest port in the world (22.3 millions TEUs in 2013)
- Altogether 24 berths in 9 terminals, with 7,694 meters of quay length, and a total estimated capacity of 23 millions TEUs.
- Kwai Tsing Container Port contributed around 70% of total HK throughput
  - Transshipment throughput increase from **35.1%** (2000) to **56.8%** (2013) of HK Port cargo throughput
  - River cargo throughput increase from **25.0%** (2000) to **33.3%** (2013) of HK Port cargo throughput



HK Airport

- The busiest airport by cargo traffic (4.12 Million Tons in 2013)
- 3 cargo terminals
- 1 express terminal
- 2 second Tier cargo handling facilities :
  - Airport Freight Forwarding Centre (AFFC)
  - Tradeport Logistics Centre
- Total Around 1 million sqm^2 gross space
- Running at 90% of Movement capacity



Warehouse: Supply and Rentals

Plenty of warehouse supply, very little vacancy, mostly not suitable for RDC activities

- **Low warehouse vacancy** due to :
  - Strong local retail sector;
  - Data centres competing for space;
  - Factory revitalisation / demolition; and
  - Little new warehouse supply.
- Existing warehouses are **not purpose-built for RDC**:
  - Low, ceiling, insufficient lifts and docks, etc.
- **Rentals stay high** (December 2012):
  - Cargo-lift access : HKD 8.48 /sqf/month
  - Ramp access : HKD 12.44 /sqf/month
- Hong Kong is among the **top 3 most expensive** in the world.

Storage Facilities to be Demolished / Revitalised

Name	Location
Big Orange	Kwai Chung
Kowloon Godown	Kowloon Bay
Pioneer Industrial Building	Kwun Tong
Success Centre	Kwai Chung
Unimix	San Po Kong
Nan Sing	Kwai Chung

Global Top Five Industrial Warehouse Rents* (December 2011)

City	Prime Warehouse Rent (HKD/sqf/month)	6-Month Change (Local Currency,%)
Tokyo	15.0	-3.0%
London – Heathrow	13.6	3.8%
Hong Kong	13.3	8.1%
Singapore	12.2	6.8%
Zurich	11.6	0.0%

Source : Colliers International

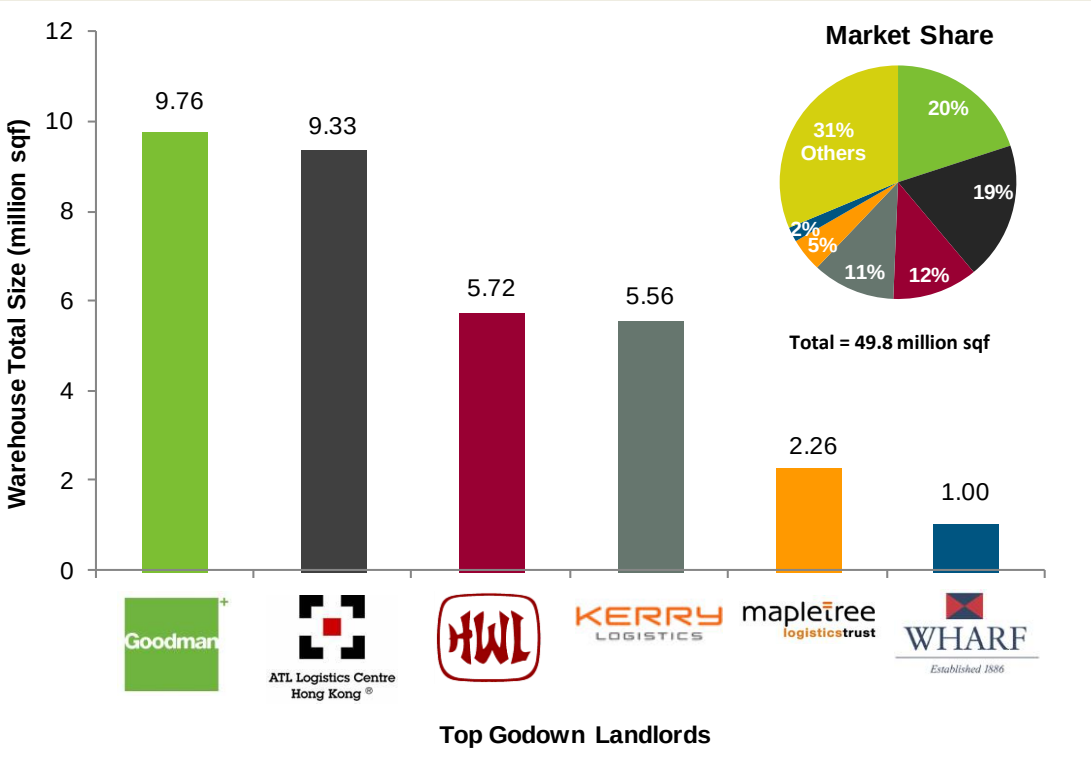
** Prime warehouse space is defined as warehouse space measuring 20,000 sqf or more, with up to 15 percent of office space.*

HK Warehouse Sizes and Market Shares by key Landlords

About 70% of the warehousing space is offered by the top 5 major landlords.

The *top* 5 warehouse landlords include:

- Goodman Hong Kong Properties (20%);
- ATL (19%);
- Hutchison Whampoa Limited (12%);
- Kerry Logistics (11 %);
- Maple Tree Logistics Trust (5%); and
- Wharf (2%).



Important & Competitive

Highlights

The logistics industry will continue to be an important pillar of the Hong Kong economy

- Modern logistics concentrates more on value-added service, where innovative skills, technology and concept have been developed and applied

Economic Contributions, 2012 Data	Number of Persons Engaged	Value Added (in million HKD)
Direct Contribution	183,200	67,100
% of Hong Kong Economy	5.0%	3.3%
Indirect Contribution	46,354	22,219
Induced Contribution	40,226	18,555
Total Contribution	**269,780**	107,874
Percentage in Hong Kong Economy	7.4%	**5.3%**

Source: HK Census and Statistics Department

Competitiveness of the HK logistics industry is still strong

- World class air cargo (#1) and ocean cargo (#4) ports;
  - Call frequency and connectivity network are the advance competitiveness of HK
- Hong Kong is a free port – with efficient customs clearance
- Maximum flexibility for sophisticated services
- Excellent financial and legal systems/supports

Not Without Challenges

with Major Challenges

- Capacity bottleneck - infrastructure and facilities;
- Cost pressure;
  - Labor cost is twice of SZ
  - Rent cost is 3 times as in SZ
- Capacity limitations – third runway, land, warehouse facilities and labors
  - Over 70% of land is green area in HK, the ratio is much high than worldwide
  - Labour shortage - both low-skilled workers and professionals;
- Insufficient policy support; and
- Uprising competitors - Singapore, Shenzhen and Shanghai

Wish List from Industry

- **Land issues**
  - Need industry policy support the logistics industry
  - More land provision to lower rentals
  - To provide more long-term / designated and sizable land for logistics purposes
  - Tuen Mun is highly rated for logistics use

- **Labor issues**
  - To improve image and the public awareness of the industries.
  - To support educational institutes and trade organizations to provide logistics trainings

Wish List from Industry

- **Facilities support**
  - Long term and sustainable planning for industry
  - Proactively government department and/or office, dedicated for logistics
  - The third runway
  - Cooperation with Zhuhai and Macao with the HZMB
  - Single window
  - Electronic documentation and paperless
  - e-platform for SMEs

What can we do?

Way Forward

- Maintain the critical mass to remain competitive
  - Competitions between Hong Kong and Shenzhen should not be purely on cargo volume and cost.
  - Move into service mix that requires high level of flexibility, reliability, safety, and sophisticated processing.
  - Collaborate with Shenzhen in order to take advantage of land and labor resources in the PRD.

Emphasize on VASs

Definition of Logistics Cluster

Modern logistics focuses more the management of cargo and information flows where innovative skills, technology and concept are widely developed and applied.

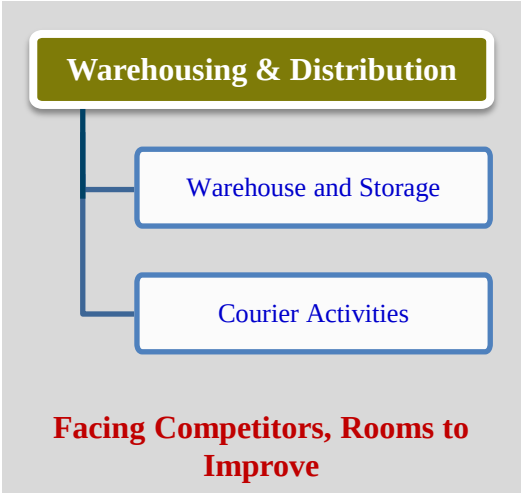
– *Logistics management is an integration function which coordinates and optimizes all logistics activities, as well as integrates logistics activities with other functions, including marketing, sales, manufacturing, finance, and information technology.*

- Council of Supply Chain Management Professionals

Logistics Cluster Defined under Census & Statistical Dept.

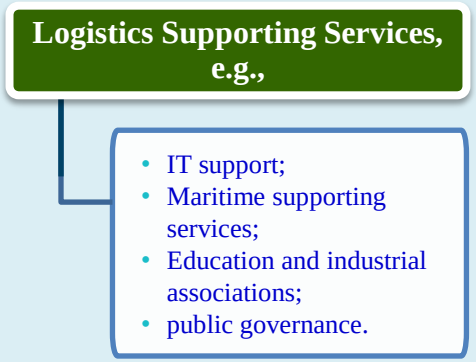


Hong Kong's Traditional Strengths



Facing Competitors, Rooms to Improve

Wider-defined Logistics Cluster



Drive HK's Future Positioning as a Maritime Centre and a Regional Distribution Center

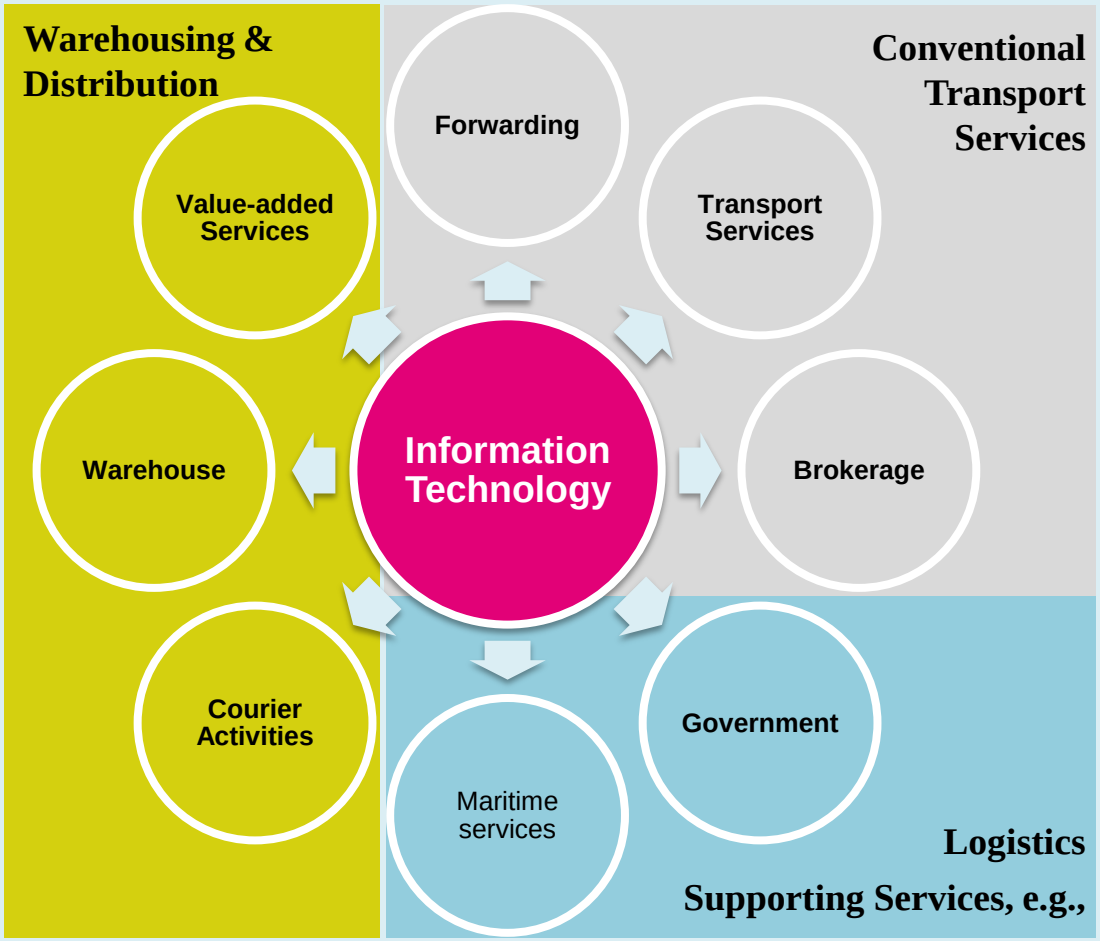
Innovations with IT

Transportation: enhance the track and trace ability by improving the visibility of information (order status, security, location and delivery schedule)

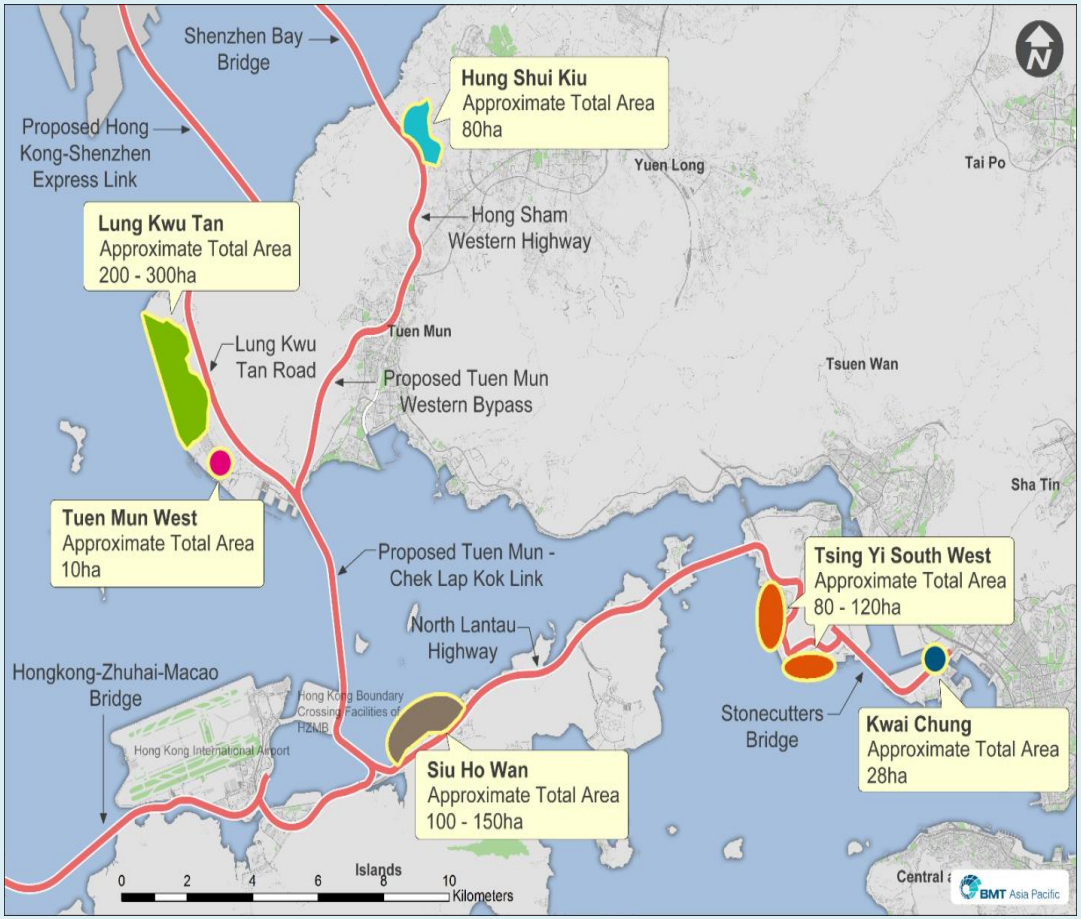
- EDI
- Bar coding
- Fleet scheduling
- Track and Trace systems
- RFID
- Global Positioning Systems

Warehousing: to perform various value added logistics functions, such as Just-in-Time(JIT), Vendor Managed Inventory (VMI), Finished Goods Inventory (FGI) distribution etc.

- Bar coding
- Inventory management systems
- Warehouse management system
- Order management system



Dedicated Land for Logistics Use



Dedicated Land for Logistics:

- To accommodate various value added logistics services
- To allow SEMs operating in long-term development with low rental fee
- To allow International operators building their own facilities

Land Selection Criteria

- Considerable size with Low land premium,
- Close proximity to sea ports and airport for intermodal,
- Easy access to major truck routes and highways,
- Away from city centres or commercial districts to avoid urban traffics, and
- Easy access from residential districts for attracting medium to low skill labours.

Port Relocation

Stakeholders' Feedback

- Many support, no objection on relocating the Kwai Tsing terminal
- Many doubt that there is another suitable location for a full scale container port
- The size of new port maybe less than existing one
- The design of Kwai Tsing terminal was for gate in / out cargoes, but the terminal now servers over 65% of transshipment cargoes. New model terminal is needed
- Lantau island could be one of the suitable locations for new terminal
- Relocating terminal is not a new topic, Shanghai is building Yangshan port (expect open in 2020) and Singapore is planning relocate the transshipment port operation to Tuas (expect open in 2020)

Recommendations

- **To establish a separate branch for the logistics and transportation sector;**
- **To develop industry policy for facilitating long term and sustainable development of the logistics industry:**
  - Dedicated land for logistics use
  - Manpower development including promotion, training and education,
  - Single window for customs clearance and related import/export practices
- **To proactively promote logistics industries through a dedicated government department and/or office, showing presence and facilitating transactions to attract logistics users and service providers;**
- **To complete the major infrastructure development such as HZMB, third runway;**
- **To seek potential cooperation with Zhuhai and Macao by facilitating the HZMB;**
- **To develop e-platform for SMEs and enable electronic documentation and paperless;**

Thank You