

## **Latest Developments in Logistics in Hong Kong and Related Matters**

### **Introduction**

This paper provides information requested by the Legislative Council Panel on Economic Development on –

- (a) the latest developments in logistics in Hong Kong vis-à-vis the Pearl River Delta (“PRD”) Region;
- (b) areas of cooperation with the PRD Region in the implementation of the Outline of the Plan for the Reform and Development of the PRD (2008-2020); and
- (c) the input of the Hong Kong Special Administrative Region (“HKSAR”) to complement the preparation of the National 12<sup>th</sup> Five-Year Plan.

### **Latest Developments in Logistics in Hong Kong**

2. Hong Kong has become a regional transport and logistics hub because of its strategic location on the East-West trade route and its role as the gateway to the PRD. Our geographical advantage is further reinforced by our free port status, an open and transparent regulatory regime, a simple tax system with a low tax rate, free flow of capital and information, efficient customs, the rule of law and independent judiciary and our world class infrastructure. The Hong Kong International Airport (HKIA) is the world’s busiest airport for international air cargo, while the Hong Kong Port (HKP) is the world’s third busiest container port.

3. The trading and logistics sector is one of the four economic pillars of Hong Kong. In 2007, it produced HK\$400.1 billion in value added, contributing to 25.8% of GDP. The number of persons engaged in trading and logistics services totalled 842,200 or 24.2% of the total employment (208,600 of 842,200 being in logistics). The value added

of the logistics sector alone increased at an average annual rate of 5.3% in 2002-07 to HK\$71.1 billion, equivalent to 4.6% of Hong Kong's GDP. Trading and logistics services also create demand for other services such as banking, insurance and a wide range of professional services. Such indirect contributions have not been included in the above figures.

### *Cross-boundary land logistics*

4. Cross-boundary freight transport forms an important part of Hong Kong's logistics operations since around 70% of the cargo handled by Hong Kong's port and airport is related to South China. In terms of container throughput, land transport handled about 40% of the cross-boundary cargo movements and the rest by river transport. In terms of airport cargo throughput, most air-bound cargo originating from the PRD region are conveyed to the HKIA through land transport.

5. There are now four land boundary crossing points, namely Lok Ma Chau, Man Kam To, Sha Tau Kok, and the Shenzhen Bay Port (opened in mid-2007). In 2008, cross-boundary goods vehicle trips totalled 8.6 million (3.6 million container truck trips and 5.0 million other goods vehicle trips). The Lok Ma Chau Control Point is the busiest for freight transport, followed by Man Kam To.

6. Over the past few years, there has been a shift in cross-boundary freight movements from land to river transport, due to both cost and location considerations. The proportion of cross-boundary containerised cargo handled by river transport rose to 61% in 2008 from 48% in 2003. Cross-boundary container truck trips have been on a declining trend since 2003 (an 11% decrease in 2008). Because of the global economic downturn, the number of container truck trips fell by 26% year-on-year in the first four months of 2009. As to the non-containerised goods vehicle trips, they fell by 7% in 2008 and 17% in the first four months of 2009.

## *Air logistics*

7. Hong Kong offers a strategic location in air logistics. We are at the heart of East and Southeast Asia, and right at the mouth of the PRD, with all the major cities in Asia Pacific falling within an average flying time of five hours from the HKIA. The HKIA provides excellent connectivity and is equipped with state-of-art air cargo ground-handling facilities, with air services to about 150 destinations including 40 on the Mainland, which adds up to about 5,800 flights per week. The HKIA handled 3.63 million tonnes in 2008, being the world's busiest airport for international air cargo.

8. In 2008, whilst air cargo was responsible for about 1.3% of Hong Kong's total cargo tonnage, it accounted for 35.5% of the total value of the territory's external trade, or HK\$2,075 billion. As the adverse impact of the global economic downturn has set in since the 4<sup>th</sup> quarter of 2008, the air cargo business at the HKIA has been on the decrease. In the first five months of 2009, the HKIA handled 1.2 million tonnes cargo, representing a 21% decrease year-on-year. The traffic drop is by and large comparable to that of other international air cargo hubs in the region.

9. To optimise land use and enable economies of scale in airport support and related cargo services, the HKIA has franchised most aviation logistics activities to specific service providers. The HKIA works in partnership with the franchisees, regularly reviewing their performance. Currently, the two general air cargo terminals, namely, the Hong Kong Air Cargo Terminals and Asia Airfreight Terminal, have a combined handling capacity of more than 4 million tonnes of cargo per annum. The HKIA awarded the franchise of a new air cargo terminal in 2008 which will, upon completion, increase the handling capacity by another 2.6 million tonnes per annum. The DHL Central Asia Hub, a dedicated express cargo terminal at the HKIA, handles more than 35,000 parcels and 40,000 documents per hour. These cargo terminals are equipped with state-of-art automated cargo handling systems to minimise the lead time required to sort and convey air cargo to aircraft.

10. Second tier cargo handling facilities are also provided at the HKIA to support air logistics. The Marine Cargo Terminal on the eastern coast of the airport island provides one-stop multimodal service links with 17 PRD ports and it operates round the clock with a capacity of handling 150,000 tonnes of cargo per annum. The Airport Freight Forwarding Centre provides cargo warehousing and logistics operations and it enables freight forwarders to undertake consolidation and distribution at the airport. The Tradeport Logistic Centre provides custom-designed logistics services such as inventory management and order processing to support the business operations of the air logistics trade.

11. The Airport Authority (AA) has undertaken a number of measures and studies to help upgrade the facilities for more efficient freight movements and supply chain activities with a view to boosting the competitiveness of the HKIA. The AA has added ten additional air cargo parking stands which became operational in late 2007, increasing the total number of cargo stands for large freighters to 34. The AA is actively pursuing the airport midfield expansion project which will provide additional cargo stands. To meet the demand in the longer term, the AA is conducting the Airport Master Plan 2030 Study which will lay down the blueprint for the airport's development for the next two decades.

### *Sea logistics*

12. The HKP is the world's third busiest container port after Singapore and Shanghai, followed by Shenzhen. As a mature port, the growth of the HKP has become more moderate in recent years. The long-term development potential of the HKP is inevitably constrained by our land resources, but a sustained moderate growth is forecast. This will allow the maintenance of a critical mass of sea cargo such that international shipping lines will continue to call the HKP. To meet the demand from increasing cargo throughput, the Government will ensure that the port and its supporting infrastructural facilities would be provided in a timely manner.

13. The HKP is renowned for its efficient cargo-handling operations. There are more than 100 shipping lines operating about 450 calls per week to over 500 destinations globally. The average turnaround time per container vessel is around 14 hours. Our efficient port operations, comprehensive and frequent shipping schedule, coupled with our transparent customs procedures and advantage as a free port, make the HKP a preferred shipping hub in the region.

14. In 2008, total container throughput rose by 2.1% to 24.5 million TEUs. During the year, 133,470 cargo vessels, including 32,850 ocean vessels and 100,610 river vessels, visited the HKP. Because of the global economic downturn, container throughput of the HKP decreased by 18% year-on-year in the first five months of 2009.

#### *Kwai Tsing Container Terminals*

15. The Kwai Chung-Tsing Yi Container Terminals (KTCT) consist of nine container terminals with 24 berths and 7,804 metres deep water frontage. They are operated by five operators, namely Hongkong International Terminals Ltd (HIT) (Terminals 4, 6, 7 and 9 (North) with 12 berths), Modern Terminals Ltd (Terminals 1, 2, 5 and 9 (South) with 7 berths), COSCO-HIT (Terminal 8 (East) with 2 berths), Asia Container Terminals Ltd (Terminal 8 (West) with 2 berths), and DP World (Terminal 3 with 1 berth).

16. In 2008, 17.7 million TEUs or 72% of the total container throughput were handled at the KTCT. At a handling capacity of over 19 million TEUs, the utilisation rate of the KTCT has reached 90%.

#### *Other port facilities*

17. The River Trade Terminal (RTT) in Tuen Mun is operated by the River Trade Terminal Company Ltd. It is strategically located at the west of Tuen Mun and estuary of the Pearl River, facilitating the movement of cargo between Hong Kong and the PRD. It handles both containers and bulk cargo, and provides cargo consolidation and container repair services. The RTT operates with a total of 49 berths spanning over 3,000-metre quay length. The RTT, mid-streams sites and other private berths handled a total container throughput of 2.2 million TEUs in 2008, representing 8.9% of the HKP's total.

18. The eight public cargo working areas (PCWAs) are located at Yaumatei, Stonecutters Island, Rambler Channel, Tuen Mun, Cha Kwo Ling, Kwun Tong, Chai Wan and Western District respectively. They have a combined total quay length of 6,672 metres. The PCWAs are managed by the Marine Department (MD) and let out on a short-term basis to private operators. A variety of cargo is handled at the PCWAs. In terms of container throughput, they handle mainly river cargo. A total of 2 million TEUs were handled at the PCWAs in 2008, equivalent to 8.4% of the HKP's total.

19. Cargo is also handled at anchorages and mooring buoys. There are currently 29 buoys and 24 anchorages managed by the MD. They are mainly for the berthing of ocean going vessels. A total of 2.5 million TEUs or 10.3% of the HKP's total container throughput was handled at the anchorages and mooring buoys in 2008.

#### *Planning for Container Terminal 10*

20. The Study on Hong Kong Port Cargo Forecasts 2005/2006 (PCF Study) released in April 2008 forecasts that the total container throughput of the HKP would continue to have moderate and stable growth in the period up to 2030. Taking into account the supply of port facilities in South China and the relative competitiveness of the HKP, the PCF Study projects that Hong Kong will need the first new container berth by 2015 at the earliest.

21. We are actively studying the feasibility of the development of Container Terminal 10 at the Southwest Tsing Yi site. The relevant preliminary feasibility study and environmental impact assessment commenced in March 2009 and are scheduled for completion in early 2011. The Administration will closely monitor the changes in Hong Kong's container throughput, with a view to working out the optimal timing for providing the new berths.

### *Dredging for Kwai Tsing Container Basin*

22. The existing depth of the Kwai Tsing Container Basin is maintained at 15 metres, which is adequate for the safe navigation of the large containerships that are currently in service, but not for the new ultra-large containerships which draw a maximum draft of 15.5 metres. The Administration is taking forward a project to dredge the Kwai Tsing Container Basin and its approach down to 17 metres so as to meet the demand of the container shipping industry. We expect the project to be completed by 2012.

### *Lantau Logistics Park*

23. The Mainland is posing keen competition to us with its certain competitive advantages, for example, in cost. Moreover, as a result of the global financial crisis, there has been a significant drop in the trading and freight activities worldwide. Our logistics sector, like their counterparts in other economies and other industries, is operating in a very difficult business environment. In the face of the challenges, Hong Kong should expand its cargo hinterland and sharpen its competitive advantages in providing tailor-made logistics services and solutions to complicated tasks.

24. In view of the uncertain global economic situation, the Government has to take into account Hong Kong's and the global economic trend and outlook in deciding on the way forward for the Lantau Logistics Park, including the scale and timing of the proposed development. This is to make sure that public resources are used in a cost-effective way in the development of the logistics sector. In parallel, we would continue to make available more land for both long-term and short-term logistics use as far as possible. We shall also continue to work closely with the sector to promote e-logistics and to provide professional training courses to the industry to enhance the efficiency and competitiveness of our services.

## **Cooperation with the PRD Region**

25. The Outline of the Plan for the Reform and Development of the PRD (2008-2020) released by the National Development and Reform Commission in January 2009 highlights the need for in-depth cooperation between the PRD and Hong Kong/Macao in modern service industries, among which logistics services is one of the focus areas of cooperation.

26. The Hong Kong and Guangdong authorities have been working closely to improve cross-boundary infrastructural facilities which help to expand our cargo catchment area and sustain the development of the logistics sector.

### ***Hong Kong-Zhuhai-Macao Bridge***

27. The Administration is pressing ahead with the Hong Kong-Zhuhai-Macao Bridge (HZMB) project and expects the construction to commence before end 2009. When the bridge opens in around 2015/2016, it would bring a total area of nearly 17,000 square kilometres and a 50 million-customer base to within a three-hour commuting radius from Hong Kong. The travelling time between Zhuhai and KTCT and the HKIA will be reduced by more than 60% and 80% respectively. Currently, about 70% of the air freight cargo handled by the HKIA comes from the PRD. The improved connectivity will no doubt expand our cargo hinterland and open up new consumer markets, thus bringing new impetus for our freight and logistics sectors.

28. Better external transport connections to the Western PRD are expected to attract investment. The low land cost and abundant supply of relatively low-cost labour offers huge development potential. For example, the average monthly wage of staff and workers in 2007 is reported as in the region of US\$400 in the Eastern PRD, considerably higher than that of US\$200-300 on the western side. It will contribute to a larger South China cargo base. In return, the HKIA and HKP will be in a good position to capture the additional cargo by both road and river transport.



29. The significantly shorter travelling time will facilitate the transport of time-critical freight from the Western PRD to catch the ocean-going vessels berthing at the HKP and the airlines to/from the HKIA. With the boundary crossing facilities (“BCF”) of the HZMB to be located at the northeast of the HKIA, there will be a convenient interface between the land and air modes of freight transport.

30. The BCF of the HZMB also provides a landing point for the planned Tuen Mun-Chek Lap Kok Link and the Tuen Mun Western Bypass which connect to the Shenzhen Bay Port. As a result, a much shorter and direct route between the HKIA and the Eastern PRD is created. This strategic highway network linking Shenzhen, Hong Kong, Zhuhai and Macao will allow cities on both sides of the PRD to have convenient access to the efficient and reliable logistics services at the HKIA and HKP, thereby further enhancing Hong Kong’s competitiveness as an aviation and logistics hub.

#### ***Liantang / Heung Yuen Wai Boundary Control Point***

31. In September 2008, the Hong Kong SAR Government and the Shenzhen Municipal People's Government jointly announced the implementation of the new boundary control point at Liantang/Heung Yuen Wai, which is aimed to be operational in 2018. It will have direct linkage with eastern part of Guangdong (including Shantou, Shanwei, Chaozhou, Jieyang etc.) and adjacent provinces like Fujian and Jiangxi via the Eastern Corridor in Shenzhen, and then the Shenzhen-Huizhou and Shenzhen-Shantou Expressways. In Hong Kong, a new dual 2-lane trunk road linking up the new boundary control point with the Tolo Highway via Fanling Highway is being planned. It will also provide convenient access to the proposed Ping Che/Ta Kwu Ling New Development Area and thus enhance future development and improve the overall transport network in New Territories East.

32. Guangdong East is identified as one of the receiving areas for the relocation of traditional manufacturing industries. The new boundary control point will serve both cross-boundary goods and passenger vehicles. It will significantly reduce the travelling time between Hong Kong and the eastern part of Shenzhen and Guangdong,

thereby facilitating future development of these areas and extending the economic hinterland of Hong Kong.

33. The enhanced cross-boundary transport infrastructure is conducive to long-term economic growth and further regional co-operation. Locally, the new crossing will improve the total handling capacity of the boundary control points in the east and help achieve a more rational distribution of cross-boundary traffic.

### **Preparation of the National 12<sup>th</sup> Five-Year Plan**

34. As mentioned in the 2007-08 Policy Address, the Administration will strengthen communication with the relevant Mainland authorities and put in place appropriate working mechanisms, so that the HKSAR can take early action in supporting the preparation of the National 12<sup>th</sup> Five-Year Plan ("Plan") under the principle of "One Country, Two Systems". In this way, Hong Kong can leverage on the latest developments of the region to set the stage for our long-term development. We will also better understand the directions of socio-economic development on the Mainland when the Plan is being drawn up. This will enable us to make more timely and effective contributions to the development of our country while maintaining Hong Kong's irreplaceable role in the course of national development.

35. Secretary for Constitutional and Mainland Affairs and representatives from the Environment Bureau, Financial Services and the Treasury Bureau, and Transport and Housing Bureau met officials of the National Development and Reform Commission in Beijing on 7 May 2009 to discuss the preparatory work of the Administration in complementing the Plan. The Administration will continue to work closely with the relevant Mainland authorities on this front.

**Transport and Housing Bureau  
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