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Dear Sir,

**Hung Shui Kiu New Development Area Planning and Engineering Study
– Stage 2 Community Engagement**

The Hung Shui Kiu (HSK) New Development Area (NDA) Planning and Engineering Study (referred to as "the Study" here below) entered the second stage of community engagement in July 2013. This paper expresses, from the shipping and logistics industry's point of view, how the preliminary development plan will have a foreseeable negative impact on the sea freight industry.

Background

Being located close to Tuen Mun, Tin Shui Wai and Yuen Long New Towns, HSK is considered to be having good potential for becoming a regional centre of North West New Territories. There are also well-developed railway and road systems linking HSK to other parts of Hong Kong and to urban areas of Shenzhen (close to Shenzhen Bay Checkpoint), providing fast transit time to inland locations of China. This strengthens HSK's position as a regional transport hub.

As a result, HSK area is one of the shippers' and forwarders' first choices when they seek for additional space for container storage. On one hand, the Kwai Chung Port, without further development, is becoming saturated and gradually running out of space. On the other hand, more and more buyers and forwarders are shipping containers in large volumes to enjoy economies of scale, and they need temporary space with relatively low costs to store the containers before they are picked up and trucked out. Similarly, empties returned will also need place to for short-term storage.

HSK, with its advantage in transport linkage and relatively low cost, naturally becomes one of the most important areas outside Kwai Chung Port to provide port back-up (PBU) and open storage (OS) for containers. Currently there are over 190 hectares of land within HSK used as PBU/OS uses. However, according to the newly published development plan, this space is significantly reduced and redefined.

Reduction in space dedicated for logistics facility

Under the preliminary outline development plan (PODP), within the NDA there will be six Development Character Areas (DCAs), one of which is for Logistics and Technology Quarter. Within this area there will be 62 hectares designed for logistics related facilities. Compared to the existing 190 hectares, the new proposal means a substantial reduction of two thirds of the current land for PBU/OS uses.

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The logistics industry in Hong Kong will inevitably suffer if this plan is materialised. Hong Kong is the 3rd largest port now in terms of container throughput, naturally a huge number of containers require storage space after they are discharged from container ships and mid-stream operations. As the port is becoming congested, these storage spaces are now extended to the areas of HSK, Yuen Long and Fanling. Terminal operators and ship owners rent these spaces from land owners. If the available area is downsized, there will not be enough space for temporary storage, and it is foreseeable that this will become a “bottleneck” for sea freight businesses. The whole chain of container movement will be hindered by lack of space at this point of the supply chain. Shippers may switch to other Asian or regional ports as a result and shipment volume via Hong Kong will be affected. Thus it is possible that Hong Kong port’s competitiveness will be hampered due to insufficient port back-up facilities. This trend is worrisome as Hong Kong is already or close to being bypassed by several other ports in the region, especially Shenzhen, which is adjacent to Hong Kong and with more space for meeting operational need of the logistics industry.

Multi-level approach hardly workable

In one of its consultation documents, the government proposed that in order to minimise the impact of this plan, containers can be stacked higher inside the depot. Besides, warehouses are designed in the plan to be of higher levels which, the government believes, can accommodate the container volume the HSK area is having now. While the idea is sound conceptually, it is hardly workable for shipping business.

Firstly, even if this plan is carried out, it is very unlikely that the all current logistics activities within the HSK area can be accommodated and maintained. For the area to be reduced from 190 hectares to 62 hectares, the height of the warehouses and container levels have to be almost tripled in order to meet similar demand within HSK. This is apparently not practicable.

Currently, containers stored within HSK are already stacked with six or seven layers. When planning the storage of containers there are many considerations; one being the weight bearable by a container. In fact, the stacking of containers to six to seven layers is close to the maximum height that the container at the bottom layer can bear. It will be dangerous and unsafe if containers are stacked even higher and higher. Moreover, the operation will be subject to higher level of risks during inclement weather like rain storm and typhoon.

Besides, from the commercial point of view, it is also disadvantageous to adopt this multi-level approach as it increases the cost of operations. Having more layers of containers means longer time to pick up the containers at the bottom layers. Due to the increased number of moves required to retrieve the containers, the handling cost both in time and monetary terms will also increase. In fact the lead time for picking up and returning containers is an important factor affecting the competitiveness of a port. Take our nearby competitor, Singapore, for example, containers arriving Singapore will only be stacked at three levels in order to ensure quick pick-up. Compared to Singapore, Hong Kong storing containers at six levels already means more than doubling the time and cost. Adding further to the time and cost of operation will put Hong Kong in a more inferior position.

Concern over the development of hi-tech/value-adding logistics

In the preliminary outline development plan, the logistics and technology quarter is positioned to be much more advanced and modernised than it is now: “the layout and urban design approach of this DCA is to promote the development of an environment for special industries which is vastly superior in terms of architectural treatment and infrastructure support than which presently exists.” The plan also includes proposed designs of the new warehouses which incorporates new technologies designated for high value-adding logistics services. The wish of the government to direct local logistics industry to a more modernised and hi-tech one may be necessary in the longer term. However, there is a need for careful planning for the transition as such practice is inconsistent with the current operations model within the HSK area. Besides, the logistics industry is always cost-driven; there will always be need for relatively low-level facilities, especially in case of temporary storage use. If all container depots are replaced by modernised warehouses, there will be a shortage in supply of low cost port back-up facilities and open storage space which could lead to diminishing demand as a result.

If this change is to be materialised, the transformation of the workers will also need to be carefully planned. The HSK area currently provides employment for more than 10,000 workers in the logistics industry. The new Logistics and Technology Quarter will be the major source of employment in the HSK NDA. However the employment opportunities will be significantly reduced by the downsizing of the operating area and the increasing automation of the operation. The new development plan will pose a threat on the job security of the workers thereat and the government might face huge pressure. To minimise the impact, the government will need to allocate alternative sites of a size capable for maintaining or even improving the current level of services, put in extra resources for training workers to cope with the new working requirements and help those workers not adapting to look for other jobs. It is necessary to avoid any mismatch of the operational need of the new facilities and the requisite manpower supply as such will result in a loss-loss situation.

Besides, the business of the around 200 existing middle to small sized operators in HSK will also likely be under threat if the new plan is implemented. It is foreseeable that the middle to small sized operators will have problems for investing on the modernised and superior logistics facilities. As a result, the development of the multi-level warehouses will be dominated by the sizeable players. In consequence, many small and medium sized operators may face the risk of having to retrench or even to shut down their businesses. This is contradictory with the current policy of encouraging the small and medium businesses in the logistics industry, and the government should consider such implications during the planning of the HSK NDA and for other developments.

Conclusion and Recommendations

As elaborated above, the new HSK NDA plan will bring substantial impact on local logistics industry. In the new plan, space designated for the logistics related facilities will be cut from current 190 hectares to 62 hectares. Although it is possible to reduce space needs through consolidating current open space warehouses, the scope is really limited. Without replacement site, it will not be able to accommodate all operations that the HSK is having now. In addition, the increase in lead time and costs of storage and moving containers associated with the building of multi-level warehouses may erode Hong Kong's competitive advantage.

Despite that it is necessary for high value-adding logistics industry to be developed in any case and HSK might be a suitable location to start, it could also lead to short term problems. Firstly, it can severely affect the livings of current workers in HSK. They might face the risk of losing jobs as they do not have matching skills to operate modern facilities. While the government might help by putting additional resources and costs for training, some might still not be able to adapt. Secondly, the existing small and medium sized operators might lose out due to the lack of financial resources to compete with the sizeable operators.

It is sincerely hoped that the government will provide additional plans to address above concerns. Additional or replacement depot at suitable locations should be planned in order to ensure enough space for open storage. The government should also take the initiative to develop long-term plans and designate additional land for use by the logistics industry. Currently most of the land lease contracts for logistics operation are short-term, and there is no clear direction regarding how to develop logistics and port back-up facilities across Hong Kong. Lastly, those who work for the industry should also be considered. For helping them to cope with the operation of the more superior and hi-tech warehouses, the government should devise a plan for providing appropriate training and allowing an adequate transitional period for those affected to cope. For those who cannot adopt, the government should help them to change jobs as far as possible so as to avoid creating a social problem.

We hope you will find the above suggestions helpful.

Yours sincerely,

[Original Signed]

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