Interview with the mall king of India

Awards special

Japanese manufacturers move overseas

The key watchwords in 2012

Dynamic supply chains: a guide

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**Awarded for Supply Chain Innovation in 2011 Supply Chain Asia Logistics Award**
EDITOR’S VIEW

Future positioning

I have been writing for Supply Chain Asia magazine from issue one, based to the north of China in Dalian. Founding editor Turloch Mooney moved in November to Amsterdam to a new position at IATA.

As the new editor of Supply Chain Asia I am working hard with publisher Frank Paul to bring in a raft of new editorial initiatives this year.

I believe strongly that our magazine has positioned itself very well as a thought leadership publication for the supply chain sector and I will endeavour to ensure that we remain a vital information tool for all our readers.

Like the weather at this time of the year our industry is facing gloomy conditions. Part of my job is to impart to you, the reader, where the markets are heading. For 2012 my only advice for those in the freight transportation business is to be exceptionally nimble – move fast because opportunities will be up for grabs only briefly and rarely.

Pick up any paper or magazine and the word most readily associated with the global economy is uncertainty. So too for our industry.

All of this lack of clarity makes me believe that the winners of December’s 10th annual Supply Chain Asia Logistics Awards (see page 18) are our most worthy yet. Positioning your company for the future takes great leadership in a year like this.

Sam Chambers
Editor, Supply Chain Asia magazine
sam@asiascribbler.com

Supporting Organisations
American Society of Transportation and Logistics (ASTL)
China Federation of Logistics & Purchasing (CFLP)
Singapore Economic Development Board (EDB)
Federation of Malaysian Manufacturers (FMM)
Global Logistics Council of Taiwan (GLCT)
International Enterprise Singapore (IE Singapore)
Kainan University of Taiwan (KUT)
Korea International Logistics Council (KILC)
Logistics Association of Australia (LAA)
Philippines Institute of Supply Management (PIISM)
Supply Chain & Logistics Group of the Middle East (SCLG)
Thai Logistics and Production Society (TLAPS)
Vietnam Supply Chain Community (VSSC)
Republic Polytechnic
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Toll Global Logistics has been successfully awarded “The Supply Chain Innovation Award” at the Supply Chain Asia Logistics Award 2011. This award recognises the application of innovation and new technologies in supply chain and logistics as well as innovative and cutting edge supply chain processes.

Toll has developed processes that facilitate supply chain optimisation such as the “Delivery Schedule System” (DSS) Project. The DSS Project brings a more structured approach to the process of purchase order placement, optimises delivery volumes, enables timely delivery and improves efficiency. This new innovative optional process has lead to major cost savings, operational efficiency gains and improved customer service.

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Resilience and innovation

Last year was an eventful one – starting with earthquakes and tsunami in New Zealand and Japan and followed on with a major, uncontrollable flood in Thailand affecting production of hard disks and automobiles.

Closer to us, we also witness our own development challenges as our project to build an integrated networking and training centre has to be put aside with the withdrawal of critical governmental agency support in Singapore. At the same time, there was also a change of guard as our former editor, Turloch Mooney, moved to Europe to work for IATA and our new editor, Sam Chambers, has taken over the role of ensuring that we continue this work in providing a content-rich publication for the industry here in Asia.

We believe that 2012 will bring more exciting growth challenges for us as we expand our reach to the industry here in Asia. Besides creating more networking events in various parts of Asia, we will also be launching more training programs under the Academy @ Supply Chain Asia branding.

The annual Supply Chain Asia Forum 2012 will be held in Singapore from 28-30 August this year and we will also be bringing in some new changes to raise the level of deliberation and enhance the networking structure that we have worked so hard to put together for so many years. In the annual Forum this year, we will be incorporating the Supply Chain Solutions and Innovations Showcase, an exhibition that is designed to show the integrated nature of our industry in terms of how solutions and services are executed throughout the entire supply chain.

2012 will continue to bring renewed supply chain challenges to the industry. The supply chain fall-out from the floods is expected to last into the first quarter of this year, with companies like Intel and Dell already expecting to miss their sales targets, in part, due to shortages of hard disk drives. Supply chain risk is forcing itself onto the boardroom agenda as global natural disasters, industrial unrest and economic crisis continue to create ripple effects on supply chain strategy and execution. It may be inevitable that companies such as Intel and Dell and many others will start to become more proactive in planning to avoid the losses that a supply chain catastrophe will have on their bottom line.

As resilient supply chain professionals, we know we will continue to ride the wave of changes and developments in the industry, overcoming challenges in front of us. With better profiling and recognition of our work, we are confident that supply chain as a profession will continue to rise in tandem with its rewards – both tangible and intangible ones.

Paul Lim
Founder/President, Supply Chain Asia
Sunday, 17:15 – The engine failure of a commercial airliner in Paris spurs World Courier into action. Within 15 minutes of receiving the call, World Courier’s Swedish duty manager has mobilized a driver to retrieve the critical engine part and an on-board courier able to make the 19:15 flight to Paris, the last of the evening. Successfully coordinating the paperwork, the driver, the courier, the reservations and the hand-off of the spare part between driver and courier, delivery was achieved just 4½ hours after the initial inquiry and 3½ hours after pick-up to the waiting maintenance crew at Charles de Gaulle Airport.
The world isn’t flat

Contrary to Thomas Friedman’s opinion, a new groundbreaking survey by DHL paints a mixed picture of globalisation.

Globalisation is still not as advanced as most people believe and that continued economic integration could spur global gross domestic product gains of 5% or more, DHL’s Global Connectedness Index (GCI) analysis stated.

GCI is an industry first unveiled by global logistics leader DHL. GCI is a detailed country-by-country analysis of the flows that connect the world. GCI ranks 125 countries according to the depth and breadth of their integration into the world economy and also examines the relationship between global connectedness and welfare. The study documents that global connectedness has enormous room to expand, even among the most “connected” countries.

The study was commissioned by DHL and conducted by world-renowned global business strategist and economist, Pankaj Ghemawat, Professor of Global Strategy at the IESE Business School, Barcelona.

“This research provides evidence that a connected world is a better world, in terms of global welfare and individual development. The free trade of products and services contributes significantly to global prosperity,” said Roger Crook, chief executive officer, DHL Global Forwarding, Freight.

“Our research shows that global economic integration is not as deep as perceived. Therefore, we see untapped potential for growth for each country and globally. Increasing global gross domestic product,” added Ghemawat.

The DHL Global Connectedness Index 2011 examines data on 10 different categories of trade, capital, information and people, over the years from 2005 to 2010. Unlike existing indices, the GCI analyses not only the depth of countries’ cross-border interactions but also their geographic breadth – distinguishing countries that are truly connected across the globe from those with deep ties only to a small set of partner countries.

Cost management key concern in 2012: UPS

Just before Christmas UPS announced the results of its 2011 “Change in the (Supply) Chain” survey, which takes the pulse of the high-tech industry in Asia, notably Japanese firms, on the changes in supply chains.

The survey, which was conducted by IDC Manufacturing Insights and commissioned by UPS, revealed the shift in trends among Japanese high-tech companies in supply sourcing locations from domestic to other Asian countries such as southeast Asia. The survey also highlighted the key factors in the supply chain for Japanese high-tech companies, namely “costs” and “security risks”.

The survey unveiled that the Japanese companies interviewed, expect to reduce their domestic supply sourcing by close to half, from 96% to 53% in the next three to five years, while increasing sourcing from Mature Asia Pacific Countries (Thailand, Malaysia, Hong Kong, and Singapore) almost threefold, from 9% to 24%. The same trend was observed in the region, especially amongst emerging APAC countries such as Philippines and Vietnam.

Asian high-tech companies in the survey identified cost management as a key concern in the supply chain. Almost half the high-tech companies in Asia selected “Reducing total supply chain costs” as the top supply chain priority in the past two years. Japanese companies were found to be especially cost-conscious, with 68.9% selecting it as the top priority. This reveals the intense cost pressures Japanese companies are experiencing, in what is one of the most costly business environments in Asia. Cost is also expected to remain one of the top drivers of change in the supply chain in the next three to five years.

Beside cost considerations, the Japanese high-tech companies selected security risk as the second most important driver of change in their supply chain, with 20% of the respondents choosing it as the top driver, and over 60% considering it as a top three issue. This is higher than the rest of the region where only 6.9% chose it as the top driver, and 31.5% with the second and third combined, due to the recent natural disasters. On the other hand, risk management and security emerged as the top challenge faced by countries around the region.

More on Japanese high-tech firms can be found on page 40
Supply chain crystal ball

Ten things to watch for in 2012

Progress Software Corporation, an American software provider that enables companies to be operationally responsive, predicts that, faced with increasing pressures in 2012, supply chains will look to technology to enable greater flexibility and the ability to quickly understand and respond to changing circumstances.

Henry Hicks, industry vice president – supply chain, Progress Software, said: “In 2012, supply chains will continue to drive cost out in the quest to be ever leaner will dominate strategy. This will only increase the risk exposure to unplanned events of all shapes and sizes. In order to not only survive but achieve success in this chaotic environment, supply chains will need to gain real time visibility, understand the impact of these events and finally have the capability to react within a short time horizon. Those organisations that are able to quickly recognise changes in the supply chain and quickly implement a plan of action to circumvent the issue will be real winners over the coming year.”

Progress Software’s supply chain predictions for 2012, include:

1. **Planning is dead.** Long live planning. Even with the sophisticated planning tools available today, the best supply chain plans yield less than 50% accuracy. Organisations should use planning for the purpose it serves - setting the end goals and determining the direction in which to head.

2. **Bidirectional elasticity a must.** For many years the supply chain world has been ‘flat’ and materials are sourced from all corners of the world as organisations chase low cost manufacturing. However, some sacrifice lower costs to be closer to their customers and reduce time to market. Additionally, many of these “low cost” countries have themselves become the end client. To accommodate these changes, supply chains will have to demonstrate a level of bidirectional elasticity to address both the wide reach of production, as well as the growing mix of customers.

3. **Floods, earthquakes and war force companies to rethink their supplier strategy, but at what cost?** The Thai floods and Tsunami in Japan have made organisations recognise the sensitivity and level of risk exposure supply chains have when reliant on a small number of vendors, especially those located in volatile environments.

4. **Predictive time horizons will shorten.** With leaner supply chains, being able to understand and react to changing circumstances quickly is vital. Organisations will try to add short window predictive analytics for real-time event processing.

5. **Desperately seeking centralised command and control.** The ability to have a seamless view of what is happening across the entire supply chain network will determine the success of organisations.

6. **Successful companies will build a ‘touchless’ supply chain.** Rather than actually touch the product, large brands will simply orchestrate all the moving parts that comprise their supply chain.

7. **Logistics providers will evolve into information and management hubs.** As supply chain managers continue to feel the pressure of a leaner supply chain, they will rely on logistics firms to do more with the information they hold.

8. **Finance will become increasingly involved in the supply chain.** Supply chains, at their core, are manipulating and managing inventory or better said – working capital.

9. **Discrete manufacturers will tackle the service side of the supply chain.** Parties in the supply chain network will continue to clear out carrying costs and leverage service as a competitive advantage.

10. **Businesses will be able to tackle the ‘C-A’ in ‘P-D-C-A’ (Plan, Do, Check, Act).** The success of enterprises and their partners across an extended supply chain will depend even more on a manager’s ability to gain even more visibility across their supply chain. In the iterative four-step ‘PDCA’ (plan-do-check-act) management process used in business for the control of process and products, this enhanced visibility is only useful if these managers can act instantly on events as they occur. The ability to tackle the ‘checking’ and to act almost simultaneously on these events will become even more important in 2012.
Fighting back

New trucking security requirements have been released to handle the $10bn losses from organised crime on international highways.

A new global security standard to protect high value consumer goods travelling on international roads has been launched by the Transported Asset Protection Association (TAPA) to stamp out cargo crime levels involving attacks on vehicles estimated to cost in excess of $10bn per annum.

The updated and enhanced Trucking Security Requirements 2012 (TSR) replaces the 2008 version and takes effect from January 1 this year. TSR has proven to be extremely effective for TAPA members in helping to eradicate what is a growing problem for manufacturers and global supply chain service providers. Organised criminals target what they regard as vulnerable cargo loads as they move on roads through Asia, the Americas, and Europe, the Middle East and Africa and in one of the most recent incidents a truck driver lost his life in a violent criminal attack. The mounting cost of losses and insurance claims is also impacting product prices for consumers.

TAPA’s 700-plus global members include leading brand manufacturers in the high-tech, pharmaceutical, metal, luxury goods, tobacco and fashion industries as well as their logistics, freight forwarding, insurance and transport partners. The combined annual revenue of its members exceeds $900bn.

The association previously took similar action in 2001 when it launched its original Freight Security Requirements (FSR) to protect warehouse operations from attacks by criminals.

In a joint statement, TAPA’s regional chairmen, said: “The world of cargo crime is no longer about an opportunist individual snatching a product from a box in a warehouse. Today, we are dealing with gangs of organised criminals that are often armed and prepared to go to any lengths as we saw as recently as September with the murder of a driver during a hijack of his vehicle in the Philippines. Vehicles are attacked whilst being parked up overnight, at motorway service stations and even while moving and, in some countries, this may start with truck drivers being stopped by what turn out to be authentic-looking but bogus law enforcement officers.

“The new and enhanced TAPA Truck Security Requirements, which includes mandatory certification, supports the users and providers of trucking services, providing a common standard of security measures and taking into account the different ways these services are provided globally. When adopted, TSR is a mandatory standard and adherence to it is validated and auditable by a TAPA-approved and trained independent auditor. We believe that TSR certification will result in TAPA members globally seeing a continued reduction in crime involving vehicles, similar to the significant decline in losses from warehouse attacks witnessed by members that have FSR certified facilities.”

Cargo crime is one of the biggest supply chain challenges for manufacturers of high value, high risk products and their logistics service providers. In the European Union alone, the cost to businesses is estimated at €8.2bn a year and is still growing while in the Americas, estimates for losses range from $3-5bn per annum. Globally, some 85% of all major cargo thefts occur during road transportation.

Jason Teo, chairman of TAPA Asia, said: “With the increase in road networks throughout Asia, TAPA TSR will definitely assist companies manage the security risks of road transportation by adopting the appropriate level of security for each section of the supply chain. Besides protecting the cargo, the safety of truck drivers is also our concern and it can be enhanced with the adoption of TSR. As part of our corporate responsibility, companies need to ensure that their truck drivers are working within a secured truck and given the appropriate security training. Therefore, TAPA Asia strongly urged all manufacturers and logistics service providers to secure your ground transportation using the TSR, so that we can create a safe and secure environment for everyone.”
**Destination Hong Kong**

Suddenly everyone’s putting on freight events in the Special Administrative Region

For years those involved in freight transportation in Hong Kong have clocked up air miles and no amount of frustration as major industry events have bypassed the former British colony in favour of the likes of Singapore and Shanghai. Now, there’s a belated change with a slew of conferences and exhibitions calling Hong Kong home.

More than 500 logistics and maritime players from 15 countries and regions took part in the Asian Logistics and Maritime Conference, which was held on November 25 at the Hong Kong Convention and Exhibition Centre.

The largest logistics conference ever to take place in Hong Kong, it featured nearly 30 prominent speakers, including the Chinese mainland’s Xu Zuyuan, Vice Minister, Ministry of Transport, who delivered the keynote luncheon address.

Hong Kong Government Secretary for Transport and Housing Eva Cheng and Hong Kong Trade Development Council (HKTDC) Executive Director Fred Lam opened the conference, which was organised by the Hong Kong SAR Government and the HKTDC.

In her address, Cheng noted several industry trends, including “the rising importance of China as a consumer market”. It was, she said, creating “two-way traffic flow to and from China” and offering “immense opportunities for the logistics and maritime industries”. Cheng also noted that the new product flow was bringing with it more up-market goods. “With our professional workforce and world-class infrastructure, Hong Kong is well-positioned to provide logistics solutions tailored for the high-end market segment.”

HKTDC’s Lam noted: “According to the Asian Development Bank, Asia’s intra-regional trade reached 59.3% last year - up more than 12 percentage points over the past decade. I believe it’s a trend that will only become more visible in the coming years.”

Looking ahead the first few months of 2012 offer a wealth of events in Hong Kong. There’s the debut of China Maritime Week from February 27 to March 1, with a total of 15 shipping-related events taking place.

Taking place 13-15 March at the Hong Kong Convention & Exhibition Centre, TOC Container Supply Chain Asia 2012 will explore the future shape of Asia’s container supply chains.

Natural disasters, civil unrest, rising land and labour costs are prompting a major re-think on supply chain risk for Asian container shippers and 3PLs according to the event’s keynote speaker Tommy Lui, EVP, Li & Fung Logistics.

“We have seen rising labour and land costs across Asia, together with inflation and civil unrest,” said Lui. “This has posed a new set of challenges for 3PLs, who now need to find flexible solutions that can mitigate risk and rising costs for their existing customers and at the same time explore new market segments and niche opportunities.”

On the aviation side Seattle-based Cargo Facts will launch Cargo Facts Asia, on April 17-18 at the Hyatt Regency, bringing together the world’s aircraft community for meaningful networking and strategy discussions centred on the Asian market.

For Hong Kong, the events drought of the past few years has miraculously changed into a deluge overnight.

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“3PLs now need to find flexible solutions that can mitigate risk and rising costs.”

Tommy Lui, EVP, Li & Fung Logistics
Private Vietnamese air concerns fall by the wayside

Jason Jiang in Dalian

Trai Thien Air Cargo, the first dedicated private air cargo carrier in Vietnam, is no longer operational as its license was officially revoked by the Ministry of Transport in December.

Trai Thien Air Cargo was established in June 2008 with a total registered capital of VND500bn. It started with two leased B737-300Fs, licensed to provide air cargo transportation services on domestic routes in Vietnam. However, the carrier has since failed to start any operations. It lost its license due to the "inability to offer services and other financial problems," according to the Civil Aviation Administration of Vietnam (CAAV).

Under Vietnam’s aviation regulations, an airliner will have its license cancelled if it fails to launch services within 12 months of getting a license. CAAV has given extra time to the carrier, but Trai Thien Air Cargo still couldn’t make any improvement on the business. This year, the carrier was also involved in some debt disputes in which it was sent to court by its own employees.

A week earlier, the Ministry of Transport also cancelled the license of Indochina Airlines as the first private air carrier in Vietnam has shown no activity for the past year and no clear intention to resume its activities.

Nevertheless, Vietnam’s domestic aviation market will have a new member, VietJet Air, which started domestic flights from December 25, four years after it gained approval to become a privately owned airline.

Vietnam’s exporting potential is not backed up by decent aviation options

MASkargo to be spun off

Malaysia Airlines (MAS), the flag air carrier of Malaysia, has unveiled its new business strategy this month as it desperately plots a turnaround. Measures include cutting unviable routes and spinning off some of its non-core businesses as separate entities. Its cargo division, MASkargo, is on the spin-off list.

MAS reported a loss of RM1.2bn for the first three quarters of 2011 and does not expect to make a profit for the full year as well as for the whole of 2012. The national carrier plans to shrink its network by 12 percent in 2012 by suspending routes to South Africa, Argentina and Dubai. MAS estimates it will make a loss of RM165m (US$53m) next year and hopes it can return to profit in 2013.

MAS is going to spin off its cargo, ground services operations, engineering and pilot training to raise proceeds of as much as RM337m (US$108m), according to the firm’s ceo Ahmad Jauhari Yahya.

“We are currently looking for potential partners, mainly to open up the businesses for more opportunities and to raise cash,” he added.

MAS has also begun discussions to cooperate with AirAsia to cut costs after the two airlines’ biggest investors undertook a share swap in August.
Expansion across Thai airports

Move disputed by IATA, reports Jason Jiang

Airports of Thailand, the main airport operator of the southeast Asian kingdom, plans to invest around $2.87bn by 2017 to expand capacity and improve facilities at Bangkok’s Suvarnabhumi airport and Phuket airport in the south of the country, according to Transport Minister Sukumpol Suwanatat.

The ministry plans to strengthen Suvarnabhumi Airport’s position as the region’s aviation hub. Most of the investment will be used to develop Suvarnabhumi airport, including $1.98bn for the second phase of the airport’s expansion, $415m for the construction of a third runway and $291m to build a domestic passenger terminal, while $182m has been designated for the expansion of Phuket airport, and Don Mueang Airport, Bangkok’s second hub, will be used as an aircraft maintenance centre and for military aviation and unscheduled private charter flights.

According to Suwanatat, Airports of Thailand plans to issue bonds or borrow loans from banks to help finance the investment projects.

The plans for multiple expansion have not been met with universal approval.

The International Air Travel Association (IATA) has called on the government to continue expanding Suvarnabhumi Airport rather than renovating flooded Don Mueang Airport, which would be very costly, noting that having dual airports does not attract either airlines or tourists.

Guenther Matschnigg, senior vice president for safety, operations and infrastructure at IATA, told The Nation newspaper during its global media day in Switzerland that the government should carefully consider the cost before refurbishing Don Mueang. The association believes the money would be better spent on expanding and developing Suvarnabhumi Airport, which would provide a return on investment, especially by encouraging new airlines into Thailand.

Des Vertannes, global head of cargo at IATA, said the inundation in Thailand sent out shock waves similar to the tsunami in Japan early last year, affecting the global economy.

In the same way, the volcanic-ash cloud in Europe in 2010 caused unemployment as far afield as the United States and Kenya.

“These flooding in Thailand has shot down many businesses including car manufacturing, IT-parts companies and the tourism sector,” he said.

SF Airlines takes delivery of seventh freighter

SF Airlines, the subsidiary cargo airline of China’s express giant SF Express, has expanded its fleet to seven freighters by taking delivery of its fifth B757-200F on December 19.

“Our business is surging rapidly this year, we have to expand the fleet to meet the market demand as we will add more routes next year,” said a spokesperson from SF Express.

At the same time, SF Express has started its cross-industry business by opening more than 20 convenience stores in some commercial areas and major residences in Shenzhen. The stores can also accept express orders.

SF Express has also signed an agreement with convenience store chain 7/11 in Shenzhen whereby SF Express will authorise Seven-Eleven’s chain stores in the southern Special Economic Zone to accept express orders for them.

“The main aim of the store is to provide convenience for the express clients. Currently our own convenience store is just on a trial operation. We plan to open 1,000 of them in Shenzhen,” the spokesperson revealed.

SF Express is one of the fastest growing domestic express companies in China, regularly winning plaudits as the best express company in China in terms of service and delivery speed.
Furore across India over 51% FDI proposal in retail

In the last week of November 2011, it was announced by Food Minister K V Thomas that India had approved a proposal that had been on the anvil for over two years, to open up the retail market to global supermarket chains.

Thomas said that the cabinet had agreed to 51% foreign ownership of multi-brand retail stores, allowing multinational groups like Wal-Mart and Tesco to open stores in the country. Until now, such stores had only been permitted to sell wholesale in India, and not directly to customers.

In addition, the cabinet had decided to raise the cap on foreign investment in single-brand retailing – such as Apple or Reebok – to 100%, from its current maximum level of 51%.

Trade Minister Anand Sharma said that, before the decision was taken, there was “a broad-based consensus” in the cabinet in favour of the proposal to throw the retail sector fully open to overseas biggies.

The cabinet decision on what has been a contentious issue in India for years caused a furore in domestic markets, with supporters of the proposal saying that it would increase competition and quality while reducing prices, even as opponents claimed that multinationals with deep pockets would squeeze out India’s smaller and poorer traders and drive down prices paid to the country’s farming community.

Industry bodies widely welcomed the cabinet’s approval, saying that foreign firms could provide a healthy dose of competition, provide investment, and help to smooth out bottlenecks that have traditionally plagued India’s vast supply chains.

“If this proposal gets through Parliament, consumers will have many more choices,” said Gibson Vedamani, president of the Retailers Association of India. “It will truly be a borderless world in terms of products available, and will drive down food inflation which has been in double digits for some time.”

Giants like Wal-Mart and Tesco have long eyed the lucrative and fast-growing Indian market that is forecast by the Associated Chambers of Commerce and Industry to be worth $1.3trn by 2018. They have been pushing hard in recent times for restrictions to be lifted to allow them greater access to this market, and they unanimously welcomed the decision.

“Allowing foreign direct investment in retail would be good news for Indian consumers and businesses, and we await further details on any conditions,” a Tesco spokesman said. “We already have a franchise arrangement with Tata’s Star Bazaar stores. Learning about India and serving more customers every month is a win-win situation for customers, suppliers, Tesco and Tata.”

However, the proposal raised a storm of protest in the Lok Sabha, India’s Lower House of Parliament. Amidst widespread street protests by small traders, the main opposition Bharatiya Janata Party (BJP) expressed itself as being dead against the proposal. BJP politician Murli Manohar Joshi said the move was “a tool to kill the domestic retail industry.”

Even the Trinamool Congress, one of the allies of the ruling United Progressive Alliance (UPA) led by the Congress party, professed itself as “completely opposed to it.”

At the time of filing this report, the ruling UPA had been forced to put the proposal to relax foreign direct investment in retail on the backburner as the entire Opposition and traditional local businesses had done their best to prevent it from being implemented.

Market analysts are of the opinion that, as and when the proposal goes through Parliament, any easing of regulations could come with strict controls such as on local sourcing and levels of investment.
Asian 3PL of the Year 2011
Thank you to Supply Chain Asia, judges and readers.
Thanks and congratulations too, to our staff.

In the fast moving world of Fashion, we have become something of a trend

Why are so many top brands, local and global, using Kerry Logistics? We provide professional, cost-effective and trusted supply chain solutions tailored to the world’s top international brands, servicing tens of thousands of outlets, every day. With over 400 operational locations spanning over 2.4 million square metres across Asia, we’re here to help you penetrate the retail market in Asia.
Grand China insists further capital injection coming soon

Under fire, Grand China Logistics has dismissed rumours regarding its perilous financial position.

Fast emerging Grand China claims it is not refusing to pay charter fees and is not going to give up its shipping business.

A Grand China spokesperson admitted to Supply Chain Asia that the company had “delayed” paying charter fees for 10 bulk carriers taken in during the peak period of the dry bulk rally, and it is negotiating with owners to lower the charter amount.

“Both the international and domestic environment for the shipping industry is not very pleasant,” said a spokesperson. “The depressed period of shipping is longer than we expected. We have indeed met some difficulties at present, but it will not last long, and will not affect the development of Grand China.”

Grand China claimed it has started paying charter fees to some of the affected owners and is still negotiating with others.

Moreover, the company said it has plans to raise capital shortly, while it goes about cutting unprofitable routes. At the beginning of this month the company suspended its sole US West Coast route.

“We will be cautious about some new purchase projects at the current stage, and we have started some internal adjustment,” Li Zhong, president of Grand China, told local media in December.

Grand China insisted that parent company HNA Group continued to back its struggling shipping subsidiary.

“HNA Group keeps investing in Grand China, and has not stopped even when we met some difficulties. HNA Group will continue to inject capital to our company,” the spokesman added.

Hainan Island-based HNA Group has multiple transport related investments including China’s largest private airline.

Grand China has been hit by numerous court cases lately over failure to pay charter fees, most recently by Hong Kong’s Jinhui Shipping & Transportation.

Distressed assets hunt for China Shipping

China Shipping has a war chest hand ready to take advantage of the misfortunes of others in the downturn.

The chairman of China’s second largest shipping line, Li Shaode, was speaking at the Shanghai Shipping Exchange Forum last month. He noted how China Shipping’s debt ratio of 49% was low compared to peers and he had RMB20bn to spend on acquisitions next year.

Li said, “Currently, some shipping lines abroad have to quit from the shipping market. We have developed a special team to focus on opportunities of merger and acquisitions. However, the depressed situation of the shipping industry will last for a certain period. I think it is not a good time to spend the money now. Next year there will be more acquisition chances.”

In a reshuffle of the group earlier this year Li was bumped up to chairman from his previous position of president and CEO of China Shipping.

While China Shipping’s various listed subsidiaries are on course to post losses this year they do not bare comparison with its nearest rival, Cosco, which has had an appallingly year. Historically China Shipping has always used downturns to grow more aggressively.

CMA CGM and MSC tie the knot

France’s CMA CGM and Swiss-Italian MSC have formed a broad-based operating partnership spanning several trades including Asia-Northern Europe, Asia-Southern Africa and all of the South American markets.

The agreement, inked early December, is aimed at improving the two partners’ respective performance. On a certain number of trades, the partnership will enable the groups to deploy the “best ships” in each of their fleets, while increasing the number of ports of call and frequency of sailings.

Diego Aponte, vice president of MSC, said: “The agreement offers us new opportunities to optimise the use of our respective fleets, improve our transit times and increase our performance.”
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Build it and they will come

Competition is fierce in the deepsea liner trades and European ports are jostling to create new infrastructure to attract Asian shippers, reports Katherine Si

Leading port Rotterdam is entering the fourth and final year of building its new Maasvlakte 2 port area, a massive land reclamation project that will expand the port by 220 hectares. Construction work has included building a new seawall and elaborate connecting infrastructure for road and rail links to the new area via bridge and viaduct.

Rotterdam forecasts that its container volumes will rise from 11.1m teu in 2010 to 18m teu by 2035. Of the latter, it is hoped that 3m teu will be transported by rail to and from the port’s hinterland – which stretches as far south as Switzerland and northern Italy thanks to the Rotterdam-Genoa rail corridor, Europe’s busiest north-south rail conduit - compared to only around 0.6m teu at present.

First Maasvlakte 2 terminal to open will be the Rotterdam World Gateway (RWG) in early 2013. Partners in RWG are predominantly Asian interests: terminal operator DP World (Dubai) and liner companies APL (Singapore), MOL (Japan) and HMM (South Korea), plus CMA CGM (France). Another terminal is due to be opened the following year by APMT, port arm of the Maersk group.

Second-placed European container port Antwerp in Belgium is also beginning a massive construction project, namely the €340m Deurganckdock on the left bank of the Scheldt. Due to become operational in 2016, it will replace Antwerp’s existing Berendrecht as ‘the world’s largest dock’, with greater surface area and deeper draught in order to accommodate the latest large vessels.

Again Asian interests are to the fore in running Antwerp container operations. PSA of Singapore has its largest overseas investment there in the shape of five terminals - Duerganck Terminal, Noordzee Terminal and Europe Terminal in front of the locks, and MSC Home Terminal and Churchill Terminal behind, which between them handle some 80% of Antwerp’s container volumes - while DP World controls Antwerp Terminal, in which China’s COSCO has a 20% stake through its port terminal operating arm COSCO Pacific.

Antwerp handled 8.2m teu in 2010, a 16% increase over the previous year. Like Rotterdam it prides itself on excellent intermodal links with both inland waterways and the European rail network.

In order to further strengthen its logistics position the port started up an overland freight connection with Chongqing, the industrial hub in China’s southwest in May 2011. Direct rail services run five days a week, with transits taking only around 20-25 days, compared to 36 days by sea. Rates are more expensive than ocean shipping, meaning early cargoes have been mainly high-value products such as automotive and technological goods moving westbound, chemicals eastbound.
The service is run by Swiss intermodal logistics provider Hupac, in conjunction with Russian rail operator Russkaya Troyke and Chinese forwarding agent Eurasia Good Transport. After leaving Antwerp’s Combinant terminal, the route traverses Germany, Poland, Ukraine, Russia and Mongolia before reaching southwest China. The link is seen as an important step in developing the Eurasian Land Bridge, and will help “play a significant role in promoting development in China’s west, while also transforming the structure of China’s logistics sector for the better,” according to Chongqing municipal officials.

Over in the UK leading container hub Port of Felixstowe opened a new deepwater terminal in September. Berths 8&9 are already able to receive the world’s largest container vessels - including the 18,000+ teu ships that Maersk ordered in early 2011 for use on the Asia-Europe trade, slated to call the UK port.

Port of Felixstowe, together with nearby Harwich International Port and London Thamesport, is owned by the Hong-Kong based Hutchison Port Holdings (HPH) Group, and is said to be the largest overseas investment by any company in the SAR.

China’s Minister for Transport, Li Shenglin, visited Felixstowe just after the opening. He said the new terminal “will play a vital role in helping to facilitate future trade between our countries. It places Felixstowe firmly within a very small group of ports that will act as major hubs on this most important route.” He added the hope that “Chinese lines COSCO and China Shipping, which both call Felixstowe, and Hutchison will play an increasing role in Sino-UK trade.”

Within two years’ time, however, Felixstowe and HPH face the prospect of stiff competition from the new London Gateway port development that DP World is building on the Thames estuary. Due to begin operations in Q4 2013, it is described as “the most significant UK port development in 20 years.” Besides quay length of 2.7km and capacity for 3.5m teu, the terminal will be located adjacent to what DP World hopes will become Europe’s largest logistics park. Outline planning permission has been received for a facility covering nearly 1m sq m, designed for the distribution, manufacturing and high-tech sectors.

European ports in the north are not the only ones gearing up for a greater share of Asian cargoes. Port of Algeciras in southern Spain already acts as an important transhipment hub and main Iberian gateway, principally for Maersk, and this role will be enhanced further when the line’s new-generation mega-vessels start calling there.

Further up the coast, Port of Marseille inaugurates the first phase of its new Fos 2XL terminal development in Q1 2012. Following a turbulent port reform process punctuated by industrial stoppages, the port authority hopes it has now reached consensus on an operating arrangement comprising two terminals: Terminal de la Méditerranée, operated by Port Synergy (a subsidiary of CMA CGM and DP World), and Seayard Terminal, operated by MSC. Numerous Asian lines will call at - and in some cases have minority investment stakes in - the new terminals, including APL, China Shipping, HMM, MOL, NYK and OOCL at the former and COSCO, Hanjin, K Line, and Yang Ming at the latter. Capacity of the two terminals combined will be around 2.5m teu. The city of Marseille is currently undergoing a massive urban redevelopment, meaning demand for warehousing and distribution facilities is also on the rise. Port development director Dirk Becquart reports that the Distriport logistics park is “almost sold out”, meaning a second one will be added by 2014-15. In addition, the port is investing €300m in improving links with rail and inland waterways networks.

Finally, mention should be made of Piraeus Port outside Athens, where COSCO Pacific began a 35-year operating concession on Piers 2 and 3 in October 2009. Suffice it to say that the Chinese shipping group has gone rather quiet on its vision of helping enhance the port’s role as “Gateway to Greece and South Europe” as that country’s debt problems have intensified.
A night of celebration in Shanghai

The tenth annual ceremony of our awards was our brightest yet

The Asian supply chain community flocked to Shanghai at the start of December for the 10th annual edition of the Supply Chain Asia Logistics Awards.

More than 300 top executives gathered at the Shanghai Marriott Hotel to find out the winners for the 17 Supply Chain Asia Logistics Awards. On top of these awards this year there was a new element to the ceremony with a series of Emerging Asia Supply Chain Program Awards, a project conducted between Supply Chain Asia and consultancy Accenture.

Entering the Supply Chain Asia Hall of Fame for 2011 was the chairman of COSCO Group, Capt Wei Jiafu.

Scooping the Supply Chain Visionary of the Year gong was Australian national, Dr John Gattorna. Gattorna has spent a lifetime working in and around supply chains, in many different capacities – line executive, researcher, consultant/adviser, teacher and author.

For the inaugural Emerging Asia Supply Chain Program Awards big name manufacturers such as Unilever, Hewlett Packard and Flextronics were among the six winners.

Opening the evening Supply Chain Asia’s new editor, Sam Chambers, commented: “This year predicting where the markets are headed has been the hardest in my career covering freight transportation.

“Pick up any paper or magazine and the word most readily associated with the global economy is uncertainty. So too for our industry.

“All of this lack of clarity makes me believe that tonight's finalists and winners are our most worthy yet. Positioning your company for the future takes great leadership in a year like this.”

The Supply Chain Asia Logistics Awards bring recognition to corporations and individuals in the fields of supply chain and logistics. Each year, the Awards bring together between hundreds of senior industry executives for a five-star gala dinner and Awards presentation ceremony. The event rotates between the major Asian supply chain hubs of Hong Kong, Shanghai and Singapore.

To ensure an event of the highest standard and integrity, we have developed an airtight process of selection of finalists and winners.

This year balloting to select finalists in each category was conducted online and through our weekly e-newsletter. All ballots are tracked to ensure that only one vote per individual is cast. An independent auditor monitored the full process.

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Supply chain leaders gather for pre-dinner cocktails

A packed house enjoyed a great night

Philip Pearce of co-primary sponsor Goodman Asia presents the Education and Training Award to Robert De Souza of TLIAP.

Daryl Chan of Agility accepts the Green Supply Chain Award from Philip Pearce.

SCA Chairman Robert Yap presents the Container Terminal of the Year to PSA Singapore.

And Maersk receives the Shipping Line of the Year Award from Dr Yap.
Peter Wong of sponsors BPS Global presents the Airfreight Forwarder of the Year to Ceva Logistics

SCA President Paul Lim gives Bradley Feuling of Kong & Allan Consulting the Best Consulting Partner Award.

Neil Morrison, country representative of SCA Hong Kong and China, presents the Seafreight Forwarder of the Year Award to Kuehne + Nagel

... and also the Air Cargo Terminal of the Year to HACTL.

Daryl Chan of category sponsors Agility presents the Air Cargo Carrier of the Year Award to Singapore Airlines Cargo.

...
The Supply Chain Risk Management Award went to Kuehne + Nagel, presented by Sam Chambers.

Dominic Rego from Toll Global Logistics proudly accepts the Supply Chain Innovation Award from Stuart Ross of Jones Lang LaSalle.

And Stuart also presents the Asian 3PL of the Year to Kerry Logistics.

Philip Pearce presents the Global 3PL of the Year to Agility.
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Kevin Harris of sponsors Russell Reynolds Associates presents the first Supply Chain Manager of the year Award to Mark Shandley of Flextronics for Strategy.

And Daniel Lu from PUMA receives the Operations Award from Kevin.

Philip Pearce returned to the stage to present the final two awards of the evening. The Hall of Fame was accepted on behalf of Capt. Wei Jiafu of the Cosco Group by Madame Chan of Cosco Container Lines.

And finally John Gattorna received the Supply Chain Visionary accolade from co-sponsor Philip Pearce.
The winners:

**The Education and Training Award:**
The Logistics Institute Asia Pacific, sponsored by Co-Primary Sponsor Goodman Asia

**The Green Supply Chain Award:**
Agility, sponsored by Co-Primary Sponsor Goodman Asia

**Container Terminal of the Year:**
PSA Singapore Terminals, sponsored by YCH Group

**Shipping Line of the Year:**
Maersk Line, sponsored by YCH Group

**Seafreight Forwarder of the Year:**
Kuehne + Nagel, sponsored by Stones International

**Air Cargo Terminal of the Year:**
HACTL, sponsored by Stones International

**Air Cargo Carrier of the Year:**
Singapore Airlines Cargo, sponsored by Agility

**Airfreight Forwarder of the Year:**
CEVA Logistics, sponsored by BPS Global

**Best Supply Chain Consulting Partner:**
Kong & Allan, sponsored by Supply Chain Asia

**The Risk Management Award:**
Kuehne + Nagel, sponsored by Supply Chain Asia

**The Supply Chain Innovation Award:**
Toll Global Logistics, sponsored by Jones Lang LaSalle

**Asian 3PL of the Year:**
Kerry Logistics, sponsored by Jones Lang LaSalle

**Global 3PL of the Year:**
Agility, sponsored by Co-Primary Sponsor Goodman Asia

**Supply Chain Manager of the Year (Strategy):**
Mark Shandley, sponsored by Russell Reynolds Associates

**Supply Chain Manager of the Year (Operation):**
Daniel Lu, sponsored by Russell Reynolds Associates

Supply Chain Asia Hall of Fame:
Captain Wei Jiafu, sponsored by Co-Primary Sponsor Goodman Asia

Supply Chain Visionary of the Year:
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A profile of the latest entrant to our prestigious Hall of Fame

Entering the Supply Chain Asia Hall of Fame for 2011 was the chairman of Cosco Group, Capt Wei Jiafu. Wei has been at the helm of China’s largest maritime conglomerate for the past two decades and has transformed Cosco into one of the most modern fleets in the world while also building up a strong logistics network and a global portfolio of container terminals.

“Captain Wei is arguably the most powerful man in shipping. Under his leadership Cosco has transformed to become a market-orientated, dynamic organisation,” said Supply Chain Asia editor Sam Chambers.

In August, Wei was appointed chairman of the board and secretary of the party committee of China Ocean Shipping (Group) Co. Prior to that, Wei had been Cosco Group’s president and CEO since November 1998. He has also served as managing director of many Cosco subsidiaries both in China and abroad and, as a key member of the senior management team, was in charge of corporate asset operations and management. In 1993, as president of Cosco (Singapore), Wei led its public listing, which marked Cosco’s first step into the international capital market.

In recent years, he has received a number of distinguished awards honouring his many contributions to the international shipping industry, including 2009 placement on Business Week’s list of the 40 Most Influential People in China.

With nearly 20 years sailing history and as a well-experienced ship’s master, Wei has rich knowledge in international shipping management and operation. He is a senior engineer with a doctoral degree in naval architecture and a master’s degree in shipping management.

1961-founded Cosco now owns and operates more than 800 ships shuttling among 1,300 ports in more than 160 countries. Cosco is ready to splash the cash in a series of further terminal investments.

Wei said in December he wants to invest in either a US East Coast port or one in the Gulf of Mexico, plus one in Hamburg and also one in India.

Wei has recently been in Washington DC to start negotiations on a possible east coast investment.

Cosco acquired a 35-year concession to operate Piraeus, Greece’s largest port, in 2009. As it stands, its terminal division Cosco Pacific has stakes in 18 ports around the world with a cumulative annual throughput of 78m teu.
Looking ahead

The magazine’s editor, Sam Chambers, braces this year’s big winner, Dr John Gattorna, on what it’s like to be hailed as a visionary

Scooping the prestigious Supply Chain Asia Logistics Award for Visionary of the Year was Dr John Gattorna.

Australian native Gattorna has spent a lifetime working in and around supply chains, in many different capacities – line executive, researcher, consultant/adviser, teacher and author. In the late 1980s, Gattorna became disenchanted with the lack of conceptual depth in the ‘logistics’ field; and as it turned out this did not improve much as logistics thinking morphed into ‘supply chains’ in the 1990s. So he started to search for a new model/framework that would better inform the design and operation of enterprise supply chains, seeking to satisfy customers and consumers. And he found it in dynamic alignment.

For the last two decades Gattorna has been working with blue chip major corporations around the world to take his new model from the conceptual stage to a finer level of granularity. It has been a complex task because it has involved learning about, and combining, several disciplines – consumer/customer behaviour; internal cultural capability of the enterprise; leadership styles; and of course the operational aspects of corporate logistics networks and supply chains. The unique thing about Gattorna’s perspective is that he presents a multi-disciplinary approach to the design and management of enterprise supply chains, and this requires an eclectic mindset.

He has written several books along the way as his thinking has evolved.

**SC: What will be the watchwords and themes likely to govern supply chains in 2012?**

JG: Given that Europe is sliding into recession and the US is struggling to recover - both markets for Chinese produced goods, the watchwords for 2012 are ‘move forward with caution’.

Some companies with great brands, great products, and value for money will do well in any weather. I am thinking here of Ralph Lauren. However, most will struggle in what promises to be a very volatile year. So risk management will be essential.

**SC: How does it feel to be declared a visionary?**

JG: I’m not sure I deserve this mantle as there are many more outstanding business execs out there in the world, but I’ll accept the award, with due humility.

What I can say is that leadership, vision, and innovation are all characteristics I believe in with a vengeance, and which will be needed in spades if we are to pull out of the global dive we are in right now. I’ll do my small part to contribute to the recovery.

**SC: What are your main activities likely to be in 2012?**

In 2012 I will continue to push out my messages and suggestions about how companies can cope with the increasing turbulence in markets.

In particular, I will be leading an intense 3-day Supply Chain ‘thought leadership’ summit in Singapore in June 2012, designed to bring together the best minds in the world to focus on how to elevate supply chain performance.

This event is being co-hosted with the SP Jain Center of Management, and is by-invitation-only.

Beyond these speaking activities I will be continuing my research, writing, and advisory work, the latter on a fairly selective basis.

**SC: What kind of opportunities present themselves to those with the leanest, nimblest supply chains in the present downturn?**

Given that most enterprise supply chains are poorly designed and flawed in their operations, massive opportunities exist for those companies who take another look at their business and design their supply chains from the ‘outside-in’, in contrast to the current and historical method of ‘inside-out’. The secrets of success lie in re-interpreting and re-engaging with customers on the one hand, and re-designing the internals of the enterprise to mirror what we find on the outside. Sound simple and logical, but few companies get it.
A tie up with Accenture saw a new set of awards highlight supply chain leaders in different retail sectors

It was a special tenth anniversary edition of the Supply Chain Asia Logistics Awards and to coincide with this milestone Supply Chain Asia launched a special quartet of Emerging Asia Awards held in conjunction with Accenture.

Gary Godfrey, a partner at Accenture, explained to those attending the glittering event in Shanghai the rationale behind this important addition to the region’s leading transportation-related awards scheme.

“Asia’s emerging markets are characterised by high levels of growth as well as the associated risks and opportunities,” said Godfrey. “The supply chain processes that underpin much of the development are still evolving and there is enormous room for improvement – but there are some companies that are pulling ahead. This awards program recognizes those organizations – both local and global – that are excelling in supply chain management by adopting industry-leading practices in Asia’s emerging markets.

“Leveraging the global research we’ve done previously into supply chain capabilities, Accenture helped Supply Chain Asia to develop the methodology behind these awards. Winners in each category have been identified through a combination of analysis of publically available financial data, in-depth company interviews and an independent review by a panel of expert judges to assess supply chain capabilities and performance. There are winners in four industry categories: Consumer Goods, Electronics, Pharmaceuticals and Retail as well as two Special Awards in the areas of Talent and Technology.”
Loss ratios suffered by non-TAPA members are nearly three times higher than the average experienced by TAPA members! Surprised?

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For further information, please contact Tony Lugg Vice Chairman of TAPA Asia at tony.lugg@tapa-asia.org or the TAPA Business Manager at apple.chang@tapa-asia.org or call +65 92363500. Website is www.tapa-asia.org.

*According to the TAPA Financial Benchmark 2010 Survey

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Pharmaceuticals & Talent Management. 2 awards for AstraZeneca received by Ricardo Aguas & Guo Jian.

Consumer: David Ingram from Unilever accepts the award.

Retail: Award goes to Metro

Innovation award goes to Hewlett Packard.
The Awards return to Singapore in 2012

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Dynamic Supply Chains: A New Approach for the New Normal

Accenture provides readers with a guide to handling volatility

Wildly fluctuating commodity prices. Broad currency swings. Shrinking product life cycles. In Europe and North America, people are calling this The New Normal—a permanent state of sudden changes and rapidly shifting paradigms. In most parts of Asia, however, it’s much harder to say what the Old Normal was, so the idea of a New Normal seems less compelling. In a business context, in fact, many of Asia’s more-recently emerging economies never had much of a Normal to begin with, which means that the 21st century drama associated with commodities, currencies and customers has no comparative context.

Nevertheless, how companies react to today’s hyperactive environment is really important. A recent Accenture survey of 3,000 executives in 21 countries underscores this point: 70% expressed dissatisfaction with their ability to predict future performance, and more than 80% said they are worried about the resilience of their supply chains—the ability to adapt operationally to rapid changes in products, markets and currencies.

The above-mentioned executives recognise that supply chain management will play a huge part in almost any company’s ability to execute profitably in the 21st century. But it cannot be supply chain management as we have traditionally known (or even idealised) it. Take the concept of supply chain integration—the focus of countless companies’ efforts to efficiently acquire supplies, organise materials and serve customers. By its very nature, integration places huge dependencies on what often are a company’s weakest links. Your least-adaptive supplier, for example, can severely limit your ability to respond to market changes. Consider the fact that (after years of integration efforts to maximise efficiency and drive out cost) many US metropolitan areas now operate on three to five days of in-market grocery inventory, or that product life cycles for everything from autos to consumer electronics have dropped by as much as 50% over the past decade. So in this hyper-tightened environment, what happens when demand streams are shortened or supplies are halted by a political or climatic cataclysm, and a company bound by strict interdependencies can’t switch quickly to an alternate source of supply?

The answer, unfortunately, is usually lost sales, diminished brand strength and/or lower profits. Indeed, as players struggle to operate in markets characterised by continuous mini booms and busts, tightly integrated supply chains can actually deepen the negative impact of volatility—locking in excess cost during downturns and limiting upside potential when opportunities arise. Yesterday’s supply chain strengths, in other words, could become today’s weaknesses, which is why all companies should be working to determine how vulnerable they are to volatility and how resilient their current supply chain structures really are or should be.

Reinventing the supply chain

Many responses to today’s state of permanent volatility are possible, but one initiative traverses most of them. That solution is to reinvent the supply chain as an adaptable, malleable ecosystem of processes, people, capital assets, technology and data. One justification for this shift is particularly salient: the increasing importance and difficulty of balancing supply and demand. Research by MIT and Accenture has shown that, while disruptions caused by geopolitical events and natural disasters get the most press, disruptions due to volatility in supply/demand balancing from everyday occurrences (e.g. poor supplier performance, inaccurate forecasts and low levels of executional rigour) are actually responsible for more lost profits. Accenture and MIT also determined that, regardless of the type of risk or cause of disruption, companies that respond more dynamically—i.e. with maximum speed, preparedness and decisiveness—are significantly more profitable than their less-adaptable competitors.

Five essentials

- An adaptive operating model
- New skills in risk anticipation and mitigation
- Enhanced visibility and information acquisition
- Executional excellence consistent with the operational strategy
- Supply chain sophistication and professionalism
Simply put, the adaptable ecosystems we’re suggesting facilitate maneuverability in unpredictable markets. They are anchored and powered by dynamic supply chains that link inherent product characteristics to the specific needs of differentiated customer channels. Flexibility is part of this new equation but not the only part. This is because high levels of supply chain-wide flexibility may come at too high a cost. A truly dynamic supply chain continuously seeks the right level of flexibility for every specific link in the supply chain, based on the (often shifting) value proposition associated with each customer-, product- and geographical segment. The result is a cost-saving, value-enhancing opportunity to balance trade-offs quickly and effectively.

Different growth, profit and margin strategies also demand different mixes of functional flexibilities, which is another reason that a company’s degree of supply chain dynamism needs to vary. In fact, no two dynamic supply chains will ever be precisely alike, even among industries, geographies or business units within the same company. There is a common trait, however: speed to outcome within each functional domain. By continuously re-optimising as market conditions change, dynamic supply chain practitioners are better able to anticipate (and mitigate) a host of risks.

What makes a dynamic supply chain? As shown in Figure 2, the ways that dynamic supply chains differ from earlier approaches to supply chain excellence are myriad and significant. But if there is one key distinction, it is the dynamic supply chains’ role as a readily adaptable, value-producing asset, profit enhancer and creator of competitive differentiation.

Many changes are needed to reach this value-oriented pinnacle; but here are five essential components of any dynamic supply chain.

1. An adaptive operating model Companies are discovering that the benefits of narrowly focused labour-arbitrage strategies are diminishing. In many locales, in fact, the cost of labour is rising dramatically but the percentage of direct costs contributed by labour is still less than 10%. On the other side of the coin, transportation and commodities are consuming a rapidly rising proportion of total costs.

Each of these shifts speaks to the need for a new “total landed value” strategy that considers a wider range of costs that may not have been examined previously.

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Figure 1: Adaptiveness: focusing on risk mitigation (Source: “Operations Rules: Delivering Customer Value through Flexible Operations,” © 2010 by MIT Press).

Figure 2: Dynamic supply chains differ from earlier approaches to supply chain excellence.
including inventory, response times, lost opportunities and other risk factors. An adaptive operating model—the executional embodiment of that strategy—can help ensure that companies’ supply chains align more fully with growth and innovation strategies, and embrace standardised processes and systems that help make it possible to rapidly scale or shutter operations based on short-notice demand signals. Consider the case of a European food company that integrated a previously heterogeneous supply chain organisation spread across 54 production facilities into a single, vastly-more-efficient, end-to-end system. Another example might be Vestal Electronics, a European TV manufacturer that shifted production from China to Turkey in order to be closer to its customers and keep manufacturing costs and market response times down.

2. New skills in risk anticipation and mitigation
"Speed of response" is a critical characteristic of dynamic supply chains, and one way to get it is with advanced risk-prediction and -identification capabilities. It also is vital that companies make informed choices about 1) designing their operations to flex to known (unpredictable, but likely) risks and 2) creating planning contingencies for the relatively unknowable (the unlikely, but potentially catastrophic). Most companies are woefully inadequate in this regard. Only 11% of the aforementioned survey respondents actively manage supply chain risk. 18% have formal supply chain risk management systems in place and fewer than 20% have made their executive teams responsible for this crucial function.

Several risk-management technologies are now available to help companies proactively identify and manage threats. Combined with improved scenario planning and better execution technologies, these risk-focused innovations are key to vast increases in supply chain dynamism. A good example is the services of iJet, which combines skilled professionals, sophisticated predictive systems and a global network of data-gathering resources from multiple intelligence agencies. iJet uses these assets to provide clients with information about potential problems, such as port shut-downs, labour unrest, natural disasters and political strife. Integrating iJet’s high-frequency alerts into a company’s global operations can help it respond much more quickly, for instance by rerouting shipments around projected problem areas or committing to incremental production capacity to make up for potential shortfalls.

3. Enhanced visibility and information acquisition
Dynamic supply chains are networks—internal and external—and the information contributed by each link in the chain can enhance decision-making and enable successful responses. A large consumer products company, for example, uses crowd sourcing (sourcing tasks to larger groups rather than individuals) to boost innovation and supply chain responsiveness. In addition to bringing new ideas to light, crowd sourcing can increase planning effectiveness, ensure the most appropriate allocation of resources, and raise supply chain responsiveness by accelerating companies’ awareness of fast-breaking market trends.

Other companies are leveraging visibility and enhanced information by integrating supply chain systems with pricing, promotion, sales and marketing systems; leveraging global freight and customs-optimisation applications by companies such as GT Nexus and Management Dynamics; and applying retail-merchandise-allocation technologies with the help of cloud-based service providers such as Predicitx.

4. Executinal excellence consistent with the operational strategy
Companies focused on the development of dynamic supply chains don’t overlook the importance of investing in core business processes. One such company—a leading container manufacturer—identified enterprise speed and agility as a strategic imperative. Focused improvements in manufacturing and logistics abetted the company’s product development process significantly, particularly the ability to accelerate mould-development time. Tangible results include improved customer satisfaction, increased high-margin market share and (of particularly great importance) the ability to respond quickly to future changes in demand: Even if the company experiences an upstream misfire (e.g., a customer changes its specifications unexpectedly), rapid response times allow the company to still deliver end product faster than its competitors.

5. Supply chain sophistication and professionalism
It’s essential that the organisation as a whole understand all components of a dynamic supply chain strategy, and this means developing superior supply chain skills and ensuring that the entire organisation is receptive to new ways of doing things. One good example is a retailer seeking to overcome lost sales, excess inventories and poor in-stock performance associated with extreme complexity and an overly broad product mix. The company responded by segmenting complex product categories from the more-traditional grocery categories and then outsourcing forecasting and replenishment functions to a services firm with deeper experience, resources and process-management skills. Significant bottom line improvements followed, along with far greater supply chain “dynamism” for dealing with rapidly changing market conditions.

Making it happen: Moving from dug-in to dynamic
The bottom line is that supply chains focused solely on executional excellence, optimal flexibility or end-to-end integration are not the way for a company to thrive in a business environment characterised by permanent volatility. What companies do need is the ability to embrace the unpredictable—to concurrently anticipate and mitigate risk; maximise visibility; reallocate capacity; and, perhaps most important of all, alter capabilities node by node to meet ever-changing value propositions. In the New Normal, supply chain masters will shift smoothly and seamlessly—reorienting, repositioning and fine tuning each part of their operations as conditions change.
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One of the greatest success stories in the retail industry in India is that of Kishore Biyani, chairman and founder of the Future Group, which has today become the country’s largest retailer by size. Forbes refers to him as the Mall King of India, who operates the Big Bazaar chain of hypermarkets through Pantaloon Retail India Ltd, his group’s listed flagship company.

Among the group companies is Future Supply Chain Solutions Ltd (FSCSL), the group’s logistics and supply chain vertical that professes to be India’s first end-to-end consumer logistics company. It was born a little over four years ago, from a need to have a specialised end-to-end supply chain for consumer products.

Over the years, the company has developed competencies in managing the various operations involved in supply chains across different product categories, and delivers millions of pieces to millions of consumers on a daily basis.

Today, it operates from 60 strategically located hubs, caters to over 2,600 retail outlets spread all over India, and handles an average 1.5m pieces every day – that can go up to 4m pieces on peak days. FSCSL has 67 warehouses and distribution centres covering 3.6m sq ft of warehousing space, a dedicated fleet of 600 vehicles and many outsourced trucks, and over a thousand employees.

Below are extracts from an exclusive interview with the retail king.
How do you react to the political outcry that has followed the Indian government’s recent move to allow foreign supermarket giants to enter the country?
I am not worried about the fracas. The opposition to the proposal to throw open FDI in retail will peter out in a few weeks.

The proposal has not been understood well. The conditions are pretty tough – 30% local sourcing, 50% back-end expenditure from India, and limitation to cities with a population of over 1m.

Thus, the 50-odd cities permitted for FDI are also those with high consumption of food. Any increase in consumption will have a positive impact on agriculture; and, therefore, for farmers. Farmers will surely benefit; only a few traders may lose out.

But are you not worried by the threat that these foreign supermarket giants pose to domestic retail?
Not at all. The current retail market in India has been estimated at $450bn, and is forecast to grow to $1.3trn by the year 2018, with or without international competition. So there is a slice of the pie for everyone.

As for our group, we have 16m sq ft of space across the country, while our nearest rival only has 2.5m, which means we are at least three-and-a-half to four times bigger than our nearest rival. We have the infrastructure and the back-end. In that sense, we have a huge head start.

Also, there are several foreign chains who are keen on partnering us, and we have been holding talks with some of them (Editor’s note: believed to be Carrefour) for a joint venture partnership.

We have numerous formats, from lifestyle and hypermarkets to home furnishings and electronics – to name only a few. Our plan is to partner with foreign investors in certain selected formats, and not across-the-board. Foreign chains will be able to help in improving the quality of modern retail in a big way.

What is the sort of expertise required to manage the supply chains that FSCSL does?
Our expertise extends to the supply chain management of consumer product categories such as fashion, food, home and general merchandise. We handle more than 3m SKUs that require 30 distinct supply chains to be managed simultaneously, each with their own specific requirements that need customised solutions.

Internationally, most retailers handle fewer SKUs as they are in the form of pallets. In India, however, the consumer supply chain is unique as the SKUs are in pieces, resulting in very large numbers. Over the years, we have learned the intricacies of the Indian market, fine-tuned our systems and designed supply chain solutions that are uniquely Indian. For example, our transportation capability allows us to implement factory-gate logistics, involving pick-up of goods from vendors across the country, national distribution of goods, and city logistics that includes store deliveries and home deliveries.

FSCSL is the first organised intra-city transportation services company in India – carrying out not only B2B deliveries, but also B2C deliveries in the form of thousands of home deliveries every day across the country, especially furniture and consumer durables.

FSCSL is on the way to becoming a full-fledged logistics player and will focus on sectors like textiles, consumer durables and pharmaceuticals.

How have you achieved these uniquely Indian supply chain solutions?
Over the last three years, we have invested Rs60bn ($1.15bn) in our warehousing, transportation and distribution businesses. We placed emphasis on verticals like courier service, road transportation, freight forwarding and cold chain infrastructure through a string of joint ventures.

We have also invested heavily in technology that helps us differentiate ourselves from the competition with value-added services and lower supply chain costs. FSCSL has leveraged IT as an enabler to serve its customers faster and better.

The cornerstones of our IT strategy include an outstanding infrastructure, integration, a functional portfolio and our willingness to collaborate and connect.

Our networks and applications have been created to support our customers’ scalability, reliability and availability requirements. Our warehouses are wireless and equipped to enable RF applications; and our transportation fleet will soon be GPS/GPRS enabled for vehicle tracking purposes. We have built a robust and user-friendly integration backbone that seamlessly connects with any customer system and supports all industry standard formats/protocols of information exchange. The functional portfolio of applications that we have built or implemented includes a state-of-the-art Warehouse Management System (WMS) for our key distribution centres. Our transportation network is supported by a vehicle tracking system, load planning, freight audit/matching and systems that track our vehicles end-to-end from pick-up to delivery.

What is the basic ingredient in operating this vast distribution business?
The basic fundamental is to keep costs as low as possible. The logistics business supports my flagship retail business in cutting costs. We have built over a million sq ft of cold storages and are looking to expand our transportation fleet to over 3,000 vehicles. Logistics presents a big business opportunity, and that is why I have tried to scale it up as fast as possible in Mumbai.
Japanese makers are still struggling with severe business conditions, afflicted by the record strong yen, recession triggered by the financial downtrend in EU and the US, chronically sluggish domestic demand, and the river flood in Thailand, dwarfing gradual pickup trends induced by the reconstruction work since the tsunami disaster in March.

The yen rate against the weak dollar has been keeping at around ¥76-79 since around last July, while export-oriented companies say a range of ¥90-100 is a breakeven point. The yen also rapidly appreciated against the Euro, staying at around ¥103-105 for most of November, compared with around ¥110 in August.

The market intervention conducted by the Japanese government and Bank of Japan (BOJ) at the end of October weakened the yen a little for a few days, but shortly afterwards it went back to the previous levels.

Out of ten major Japanese auto makers, eight saw a reduction in sales in the first half of FY2011 ending last September, mainly due to the parts shortages stemming from impacts of the tsunami, although international demand had remained brisk through the period.

Sales of Toyota stood at ¥8,015.9trn ($103.07bn), 17.2% less than the same period of 2010, with an operating loss of ¥32.5bn. The company said a loss attributable to the disaster totalled ¥32bn.

“If this level of the super high yen rate will continue, the Japanese manufacturing business will inevitably break down,” said Akio Toyota, president of Toyota, on November 17 at the opening of a new Mississippi factory. “We might be compelled to accelerate shifting our manufacturing bases overseas.”

Toyota had said it would go all-out to retain its domestic production level at 3m vehicles per year, but given that 60% of the production is for exports, it might find it more difficult to keep that level.

Mazda saw a consolidated net loss of ¥39.8bn in the period, on sales of ¥959.1bn, down 17.1% on a year-on-year basis, and the company has revised down its forecast net profit for the whole year ending next March from ¥1bn yen to a loss of ¥19bn.

The negative effects of the strong yen in that six-month period amounted to ¥38.4bn, the company said. If the revised forecast is correct, Mazda will have posted a net loss for four straight years.

Mazda has started constructing a new factory in Mexico to mitigate the impact of the high yen.

“The yen’s current rate at around ¥77 against a dollar is so extraordinary that no Japanese car makers can generate profits,” said Takashi Yamauchi, president of Mazda, to Japanese media in late November. “We are planning to export cars from the Mexico factory to cater for increased demands in the North America region, keeping employment at our mainstay factories in Japanese cities as much as possible.”

The company is also to take advantage of the non-import tariff policy in the NAFTA countries of Mexico, the US and Canada. On the other hand, it plans to seek local partners for production in Russia, in which the demand is rapidly increasing, but import tariffs are comparatively high.

Sales of Nissan inched up in the first half of FY2011 by 1.1% to ¥4,367.4trn, pushed mainly by brisk demand in the overseas markets. The operating profit, however, decreased by 7.5% to ¥309.7bn.

Nissan - like Toyota and Mazda - pointed out another big contributor for the downtrend has been the severe floods beginning in October in Thailand, where many Japanese auto makers had set up factories for parts in pursuit of cheaper labour costs.

Nissan was compelled to shut down factories there and suffered severe reduction of production of 40,000 vehicles, while Toyota suspended production in Thai factories from October 10 to November 12, leading to the reduction of production of 150,000 vehicles worldwide. The company said it is likely that the annual production will fall short of the 7m vehicle mark for the first time in two years.

Mazda and Mitsubishi, comparatively more dependent on Thai factories, reduced by 20% their overseas car production in October, while Honda suffered a profit loss of ¥120bn in the month due to flooded factories.

Since the middle of November, most Japanese automakers have gradually resumed operation in Thailand, but it is likely that their worldwide parts supply chain will continue to be disrupted for months to come.
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Despite fears of technology transfer, Japan’s appliance majors are shifting production elsewhere to remain competitive. Masanori Kikuchi reports

Japanese major electric appliance makers - already hit by weaker domestic demand and harsh competition from Korean and other Asian companies – have also been damaged by the strong yen and the floods in Thailand.

Sony has announced that it forecasts a net consolidated loss of ¥90bn for FY2011, compared with a profit of ¥60bn forecast last July, and has revised down its sales prediction by 9.7% to ¥6.5trn. Sony looks on course to post its fourth straight year of losses. Particularly harsh was its full-year forecast for its stronghold TV-set manufacturing, revised down to 22m from 27m sets predicted last May.

The company’s camera and semiconductor factories in Thailand were inundated with the flood, which it says brought about an operating loss of ¥2.5m, a further blow since the factories in the Tohoku district in northern Japan were heavily damaged by the March tsunami.

Sony has also announced that its sales declined by 9.6% to ¥3,070trn in the first half of FY2011 ending September, with a net loss of ¥42.4bn, down sharply from a profit of ¥56.8bn in the same period of 2010.

Panasonic reported a combined net loss of ¥136bn for the first half of FY2011, compared with a net profit of ¥74.7bn for the same period of 2010, on sales of some ¥4trn, down 8.3%. It predicts for the whole fiscal year a net loss of ¥420bn from a net profit of ¥74bn a year ago. Its sales are forecast to be ¥8.3trn, down 4.5% over a year ago.

As Sony did, Panasonic posted in the period a big profit fall in its core TV-set manufacturing, and there is no clear indication for a recovery.

Sharp suffered from a severe drop in its core TV-set business too, compelling it to bring down its target for full year sales. Toshiba, another major electric equipment giant, also reported that its TV-set business turned from black into red ink in the period.

In response to the hardships, Japanese makers are going all out to whittle down costs.

Sony, Toshiba, Hitachi and the Innovation Network Corporation of Japan (INCI), an organisation co-funded by the Japanese government and 16 leading private corporations, have agreed on setting up Japan Display by this spring.

The new company is designed to integrate the participant makers’ liquid crystal panel divisions, and to acquire a Panasonic factory for liquid crystal panels for TVs in Chiba Prefecture, near Tokyo.

Meanwhile, Panasonic, aiming at expansion of its overseas operation, has decided to invest ¥50bn in building in FY2012 a new factory in Malaysia, where solar power batteries - perceived to be one of the Japanese future key technologies - will be put out through an integrated manufacturing procedure for the first time abroad for the company.

As analysts warn the move will risk draining core technologies overseas, other major makers are accelerating setting up solar power battery production bases overseas.

Sharp has announced that it will launch shortly an integrated production of such batteries in Italy, while it will deliberately transfer production equipment from Japan to its local factory there and conceal the battery’s ingredients to protect confidential information and data.

Kyocera also has completed construction of its new factories in China and the Czech Republic, where it is to produce solar power panels with an annual power-generating capacity forecast to reach 700 megawatts.
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NYK targets Chinese automotives

For Japan’s shipping majors it has been a miserable 12 months. Indeed, it has been so harsh that speculation has grown that the liner divisions of the three biggest names – Mitsui OSK Lines (MOL), Nippon Yusen Kaisha (NYK) and Kawasaki Kisen Kaisha (K Line) may need to merge.

A rare bright spot has been in car carriers and specifically out of China.

In April last year NYK established NYK Automotive Logistics (China), (NALC), headquartered in Tianjin.

NYK began its finished-car logistics business in China in 2003 and has since developed diverse finished-car logistics services ranging from finished-car land-transport services throughout the country and car-carrier terminal operations at four major ports of Dalian, Tianjin, Shanghai, and Guangzhou to value-added services such as PDIs (Pre-Delivery Inspections) at VDCs (Vehicle Distribution Centres).

“By the establishment of NALC, the NYK Group will be able to centralise customer service desks and maximise the utilisation of the existing service network for the distribution of finished cars throughout China with the aim of providing effective solutions to meet customer needs,” the Tokyo-headquartered shipping giant said in a release.

NYK began the land transport of finished cars in 2005, and grew it as a part of NYK Logistics (China). By 2010, NYK was operating about 700 car trailers to provide land-transport services throughout the country and delivered around 850,000 finished-cars from ports and plants to dealer outlets.

In 2010, sales of new cars in China exceeded 18m units and are set to crack 20m soon.

“As imports, exports, and the need for inland transportation increase, the need for car logistics is expected to further expand,” NYK said.

Low temperatures, low energy use

Daikin Reefer has unveiled new container refrigeration technology that meets carrier and shipper demands for low energy consumption and greenhouse gas emissions while providing precise cooling performance for chilled and frozen cargoes.

The new LX10F container refrigeration unit, to be marketed under the brand name ZESTIATM, uses Daikin’s patented DC inverter scroll compressor technology to deliver major energy savings of approximately 45% compared with existing designs on the market today. The proven technology has been adapted from the global air conditioning sector, where Daikin has been manufacturing inverter compressors since the late 1980s.

Traditional single speed compressors can only deliver a fixed amount of cooling and heat and have to operate on a ‘stop-start’ principle to maintain a set temperature. By contrast, inverter compressors run at variable speeds, allowing cooling capacity to be adjusted according to cargo needs, ambient conditions and how the refrigeration unit is being used. This provides a more flexible, energy-efficient and accurate way of dealing with the extremes of perishable cargo transport.

A key component of Daikin’s DC inverter technology is the DAIKIN Reluctance DC motor, an innovative patented design that uses a strong neodymium permanent magnet for improved efficiency at all rotational speeds. Operating at high torque and efficiency without slip, the motor further reduces power consumption. Units are also fitted with an AC line-reactor to manage unstable and fluctuating electricity input in different parts of the world and transport conditions, such as in long-haul rail operations. The AC line-reactor additionally prevents negative phase currents, which can cause power cuts or over-heating of the supply generators.
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With the rise of nearby ports and airports on the mainland, Taiwan has lost ground to regional rivals. Now however the island is preparing to fight back. US$10bn is being spent upgrading the airport in Taipei while the ports have been freed of their government regulatory shackles to act in a more market-orientated way.

The government in Taipei has indicated that logistics is one of the most important industries to the economy and capital must be spent on infrastructure to remain competitive.

Meanwhile, the island’s airlines and shipping carriers are adding ever greater exposure to mainland markets. China Airlines, for instance, Taiwan’s biggest airline, announced November 3 it will add 18 flights to five Chinese cities by the end of 2011.

Elsewhere, important free trade agreements, such as the one recently inked with Singapore, promise to boost trade.

Jao Chih Ping, chief of the international logistics section at the Ministry of Transportation and Communications answers our questions on logistics development on the island.

It appears Taiwan is gearing up to be far more competitive on the regional logistics stage - the upgrading of Taipei airport, the change in harbour bureau mandates, etc. Would you agree that the government is now viewing logistics as an important industry that needs attention?

The Council for Economic Planning and Development has made a plan for International Logistics Service in October 2010. The aim of the plan is to promote the logistics development strategy in the next four years - 2010-2013 - and strengthen Taiwan’s competitiveness in the international logistics industry, through the combination of Customs at the Ministry of Finance, Ports at the Department of Transportation, Trade at the Ministry of Economic Affairs and specific measures like improving customs clearance efficiency and port infrastructure, strengthening logistics services and promoting cross-border cooperation and development.

In President Ma’s recently announced Golden Ten Years program, the Ministry of Transportation and Communications proposed to promote the transformation of Taiwan’s industry through the competitiveness of the international sea and air gateways, that is, by using sea transport and air transport gateways to make serious connections between the development and restructuring of the domestic industries, the use of a “front shop” strategy which sees the seaports and airports as the so-called stores, and science parks, export processing zones and tax free zones as factories.

What more can the government do to make sure Taiwan is not left behind by other regional logistics powerhouses such as Shanghai, Busan, Incheon and Hong Kong.

What we are doing now is improving the international logistics operating environment and customs clearance efficiency and we will also keep doing it in the future. In the air transport sector, we are building infrastructures like the third runway, third terminal and airport subway in Taoyuan International Airport. In the sea transport sector, port companies will be set up and co-operate with each other. Free Trade Zones in Keelung Port, Taipei Port, Taichung Port, Kaohsiung Port, Su-ao Port will be used to promote the development of Taiwan’s international logistics chain. We are making all these efforts to make sure Taiwan won’t be left behind by other Asian countries and regions.

What percentage of GDP is spent on logistics? Is this figure coming down?

Our estimation is approximately 11%. Currently there is a slight drop in the figure but it’s not obvious. We should be able to further reduce the percentage after the already mentioned efficiency and reform and development.

What incentives are on offer for supply chain firms to set up in Taiwan?

The operations in Taiwan’s Free Trade Zone industry include trade, warehousing, logistics, container distribution, re-export, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repair, assembly, processing, manufacturing, testing, technical services and exhibitions and so on.

Specific tax incentives are stipulated in section 21-34 of the Free Trade Port Management Regulations. For example, Article 21 states that goods and equipment for personal use are free from tariffs, excise taxes and sales tax; Article 29 states that foreign profit-seeking enterprises’ commissioned storage and simple processing are free from income tax, and the proportion of foreign employment of workers is up to 40%.
Wily Foxconn

Jason Jiang provides a global snapshot of how this electronics giant operates

Along with its largest base in Shenzhen, IT giant Foxconn has a total of 29 bases in mainland China now. What is very clear is that where Foxconn goes airfreight operators follow. Examples of this are myriad. On December 29, 2010, for instance, Jade Airlines launched a service from Shanghai to Yantai in north China and onto Anchorage and Chicago. The service, using a B747-400R, will go every Wednesday.

The first flight was loaded with 19.8 tons of Foxconn’s electronic products.

Foxconn used to transport the cargo by Air Bridge Service, shipping the cargo to Incheon port in Korea first and then transferring the cargo from Incheon airport to the US by plane. The whole process took more than 30 hours. Jade started a Yantai-Incheon-Los Angeles service last October, which reduced times to 20 hours. This direct Yantai – Chicago service cuts times to 12 hours.

Take another example, on July 25 last year UPS launched its first regular freighter service at Chengdu Airport. The flight is operated five times a week using MD-11 freighters and connects various destinations in Asia and Europe.

The first flight carried 15 tons of cargo from Chengdu, all of which were – you guessed correctly - IT products from Foxconn.

Statistics from the cargo terminal in Chengdu show IT products from Foxconn are the most handled and fastest growing export cargo, increasing from seven tons a day in March to 80 tons a day in June and now the number has reached 175 tons a day.

Like Chengdu cargo players are circling like flies at another nascent Chinese IT centre where the powerful Foxconn has set up shop. On July 30 last year Yangtze River Express launched a new cargo route calling Shanghai-Zhengzhou-Luxemburg-Prague.

In 2010, Foxconn set up a factory in Zhengzhou, which brought the city to the attention of Yangtze River Express.

In September last year DHL also came in big time to Zhengzhou announcing the creation of what it claims will be one of its five largest logistics bases in China. UPS, FedEx and TNT are also present there.

Elsewhere in Asia, Foxconn has two sites in India – in Jaipur and Chennai; two in Malaysia – in Penang and Kuala Lumpur, one in Singapore, one in South Korea and five in Japan in Chiba, Yokohama Kyoto, Nagano and Tokyo.

“With over 200,000 employees worldwide, Foxconn Technology Group has operations strategically situated across Americas, Europe and Asia,” says a spokesperson in Taipei.

“China is Foxconn’s most important strategic location. In Foxconn’s global strategy, the company sees the Grand China Region and the US Region as the two primary R&D centres and mainland China as the main manufacturing centre,” the source explains.

The strategy puts Mainland China in the core position of the group’s manufacturing business, and with at least another two manufacturing bases in Asia, the United States and Europe, the group will establish a complete network combined with product introduction, sample design, engineering services and “large-scale, high-efficiency, low-cost” manufacturing advantages.

“Worldwide assembly lines ensure the timely, quality products are delivered to any client’s designated location. We have been building global logistics and distribution channels to meet customers’ requirements,” concludes the Foxconn employee.

Acer

Computer giant Acer does not manufacture its own products. It leaves that to the likes of Compal, Wistron, Inventec and Foxconn.

Mainland China accounts for around 40% of Acer’s group revenue.

“This year we have set up a new operation centre in Chongqing, our second one in Mainland China, to expand the west China market,” says a spokesperson in Taipei.

“Also Chongqing is our export gateway to the Europe market. Our products can be shipped from Chongqing to Duisburg in Germany in just two weeks by the new Sino-Europe railway which starts from Chongqing and has greatly enhanced our supply chain.”
Green giant sees red
Taiwan’s top containerline is taking action to try and stay profitable, reports Sam Chambers

With the tide of red ink spreading inexorably its way, Taiwan’s top container shipping line is stepping up intra-Asia services and rare, previously unheralded partnerships to stay afloat.

Evergreen plunged into the red in the third-quarter but maintained a profit for the first nine months of this year, a credible achievement when compared to most of its peers.

The Taipei-listed company posted late October a third-quarter net loss of NT$1.12bn ($37.67m) as against a net profit of NT$7.64bn in the same period of last year. In the first nine months of this year, Evergreen accumulated net profit of NT$266.8m.

Evergreen, one of Asia’s largest boxlines, is to step up its cooperation with the alliance known as CKYH on Asia-Europe and Asia-Mediterranean trades. The Taiwanese company said in a statement that all parties aimed to enhance the frequency of service loops, the expedition of delivery terms and full-scale port coverage in their services. Cosco, K Line, Yang Ming and Hanjin are the CKYH members.

The move comes in response to the recent launch by market leader Maersk of its Daily Maersk service and subsequent realignment of the market sector: MSC joined with third-placed CMA CGM in a wide-ranging cooperation pact and six other lines formed the G6 Alliance.

As Evergreen comes to terms with its losses it is ramping up intra-Asia activities.

According to Evergreen, the free trade agreement between China and ASEAN has significantly boosted bilateral trade. Among ASEAN members, Indonesia and Vietnam gained higher trade growth with China than others. For the first nine months of last year, the statistics of China Customs show that the trade amount between Indonesia and China surged by 43.1% over the same period last year, while Vietnam’s increased by 38.6%.

Taoyuan aims high

The Civil Aeronautics Administration of Taiwan (CAA) announced in April last year that the government will invest a whopping total of US$10.4bn to expand Taiwan Taoyuan Airport, the largest airport in Taiwan. CAA deputy director Chen Tien-tsyh said the plan includes building a third runway by 2018 and a third terminal by 2021 to meet the burgeoning needs for both cargo and passengers. It was also revealed by CAA that the Free Trade Zone inside the airport will be expanded from 45 hectares to 200 hectares.

“Upon completion of the project, the airport will be able to accommodate 58.9m passengers and 4.48 mt of cargo volume per year, up from 25m and 1.8 mt respectively in 2010,” Chen said.

The Taoyuan Aerotropolis project, an ambitious project to transform the existing Taoyuan Airport to become one of the most important logistics hubs in East Asia, has been in the planning for close to a decade. The $10bn investment is the largest government outlay in aviation since the original Taiyuan airport, formerly known as Chiang Kai Shek Airport, was constructed 32 years ago.

“Taoyuan government established Taoyuan Aerotropolis Company in 2010 as a merchant window, and has been actively developing projects including a Logistics Industrial Park and a Free Trade Zone and so on,” says a spokesperson for the airport.

By September 2011, the occupation rate in the Free Trade Zone had reached 64%. In late September a further 22 hectares of industrial land has been announced for investment.

Weekly Euro consolidation service

Weiss Röhlig has launched a weekly consolidation service between Hamburg and Taiwan to meet growing demand for imported products from Germany, Poland and the Czech Republic.

“Many of our customers in Taiwan have growing business ties with Poland and the Czech Republic and this service will support this demand,” said Holger Stoelker, managing director, Taiwan, Weiss Röhlig.

Earlier this year, Weiss Röhlig also launched a consolidation service from Taiwan to the Czech Republic.

Weiss Röhlig has scheduled trucking and rail services from all major European ports into Eastern Europe supported on the ground through the company’s network of offices in Austria, Slovenia, Croatia, Hungary, Slovakia, Czech Republic, Romania, Bulgaria and Ukraine.
Exhibitors Highlight

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Tariff changes

Founder of International Trade Instrument and Supply Chain Asia magazine correspondent, Catherine Truel, answers your queries on customs regulations and processes

Why are some tariff codes changing on January 1 2012?
The Harmonised System is reviewed every five to six years and updated to reflect changes in international trade. For instance, to introduce new products or to remove obsolete products that are not traded anymore.

What are the major changes?
The HS2012 has two new purposes, it becomes the new standard for classifying goods of specific importance to food security under the United Nation Food Security Program. This affects greatly classification in the food industry where substantial changes are introduced in chapter 3 “fish and crustaceans” but also in chapters 1, 2, 8, 9, 12, 16 and 17; all undergoing numerous changes.

HS2012 will also identify separately chemicals and pesticides controlled under the Rotterdam Convention and ozone depleting substances controlled under the Montreal Protocol. This has an impact on the chemical sector where amendments include the deletion of subheadings 2903.4 to 2903.69 which are being replaced by new codes.

Can we update records of all our Asian and global locations simultaneously?
Yes and no. The Harmonised System (HS) is a six-digit coding system used by 137 countries to classify goods. So at this level, it is possible to be harmonised, even if Customs authorities in different countries can disagree on tariff positions. However, countries can, and usually do, add further digits to suit their national specificities and domestic requirements. For instance, in the EU, tariff codes have eight digits for export and 10 for import. The changes will therefore create a cascade of further changes at the sub-levels. This will require an element of the classification to be local.

What is the impact on the business?
There are several possible impacts:
- Classification: the larger the variety of products and their bills of material, the more challenging the changes will be.
- Duty rates: some products are likely to be reclassified under an HS code carrying a higher or lower duty rate than the initial tariff position.
- Implementation: there could be some differences in implementation timescale between countries. Traders need to be prepared to use both the new and old version to resolve disagreements.
- Trade agreements: In Asia many trade agreements use tariff change as the main criteria to determine origin. This could impact on the Specific Rules of Origin and affect the originating status of products.
- Supply chain: the entire supply chain can be affected by the changes. The food industry is particularly sensitive as the products involved are often both finished goods and intermediary products entering in the composition of other foodstuffs. The changes can therefore affect the entire food supply chain from commodities to finished goods.

Where can we find more information?
National Customs administrations will be implementing the changes and in many cases will have the details published on their websites. At an international level, the World Customs Organisation has posted all information relating to the changes on its internet site.
COLD CHAIN:

Supply Chain Asia run a 90 minute panel discussion on the Cold Chain sector in China. This definitive and objective feature will look at all aspects of Cold Chain development in the market including key market drivers; the current approach to the industry by national and local government, key private sector players and leaders in Cold Chain systems and technologies, and prospects for foreign and domestic investment in the sector.

CHINA DOMESTIC:

For supply chain and logistics players, 2011 has brought a greater focus on China as both a manufacturer and engine of economic growth. With policies to build domestic consumption and rebalance the economy away from reliance on exports and investment, brand-owners and logistics service providers are working to develop more efficient domestic China supply chain and distribution systems to serve new, potentially huge interior markets. Executives are also looking more closely at locating more supply chain operations away from coastal areas were labour and real estate costs continue to rise, while tax and other incentives to move inland expand and logistics infrastructure improves.

A joint collaboration between Asia’s leading supply chain publication, Supply Chain Asia Magazine, and Asia’s largest logistics conference and exhibition, Transport Logistic China, will host a China Domestic Logistics Panel at the Transport Logistic China 2012 conference in Shanghai.

With an expert panel of speakers, the discussion will cover continuing structural and administrative problems with goods distribution in the market; specific distribution challenges faced by retailers and brand-owners; recent and incoming measures from government aimed at improving supply chain and logistics operations, and the attraction and challenges of relocation of supply chain operations and facilities away from coastal areas.

For more information please contact frank.paul@supplychainasia.org
China’s leaders in Beijing will be pleased, and perhaps a little relieved, that the country apparently made it through 2011 without too much economic grief. And while Beijing has been accused of a little carping from the wings it seems the leadership is wise enough to know that pride comes before a fall.

China may not have suffered contagion from the economic viruses wafting in from America and Europe, but the country’s politicians and economists as well as the outside legion of "China Watchers" know that there may be internal bugs waiting to potentially infect the system.

2012 will see the greatest transfer of power in China since 1949 courtesy of mandated term limits and national and local government changes synching at the same time. Perhaps now then is a good time to draw up a China scorecard on the nation’s economy looking forward. Several recently published books at least offer some indicators.

China’s financial system is highly internalised meaning that capital allocation is weak and waste and stagnation festers in the system.

Among two of the best from some heavyweight authors are Red Capitalism: The Fragile Foundation of China’s Extraordinary Rise from the financial experts team of Carl Walter and Fraser Howie and Run of the Red Queen: Government, Innovation, Globalisation and Economic Growth in China from two professors at the Sam Nunn School of International Affairs at the Georgia
Institute of Technology, Dan Breznitz and Michael Murphree. Both are serious reads and require some dedication but both do shed crucial light on where exactly China is economically, how it got there and where it might be going in the future.

Few people, if any, have been examining China’s financial markets as long as Walter and Howie. Their focus is systemic; it’s about the institutions. You can study the reams of data Beijing emits till you are blue in the face but ultimately all you’ll learn is that official Chinese data is highly problematic at best and downright lies at worst. Better to look at the institutions China has built up over the last 30 years and see if they are, as people like to say in government these days, fit for purpose? Probably not, the authors seem to think, arguing that strong growth in recent years has meant that the Communist Party has been obsessed with social control and ‘harmony’ rather than continuing to reform and open up the financial system to cope better with China’s new found wealth.

Walter and Howie admit that the closed nature of China’s banks did mean they were hardly exposed to the western financial contagion. However, the downside is that China’s financial system is highly internalised meaning that capital allocation is weak and waste and stagnation festers in the system. All this may be building up big problems that a new administration in 2012 will find themselves having to face.

Stagnation and waste in terms of innovative capacity is one big problem for China. The party knows this and the amount of documents circulating dealing with China’s problems with innovation are growing. So can China innovate? Most think not, at least in terms of giving the world things like iPads or Airbus A380s.

Breznitz and Murphree, however, see things differently and attempt to debunk the myth that innovation is the key to strong economic growth. After all China has grown strongly economically but doesn’t innovate. Or perhaps it does? The authors think so - at least that China has innovated in manufacturing and logistics. The latter of these is contentious – many in the logistics industry would look at China and scratch their heads wondering what exactly has been innovated. But there’s a wider problem – innovating in manufacturing but not in the products you’re making means you are ultimately held hostage by the sourcers.

And here is a key problem for China’s next generation of leaders – growth, money and all those foreign earnings were off the back of manufacturing.

Admittedly China has worked hard to develop and mature its domestic consumption but it still needs to make things – China is a long way from being post-industrial. And now we have the double whammy of falling export orders as consumers shrink away from spending in the West and cheaper manufacturing locations opening up across Asia from Bangladesh to Vietnam with reverse engineered Chinese manufacturing technology innovations (that, I believe, is what is known as ‘poetic justice’).

Finding the orders and the markets that will utilise China’s manufacturing capacity and in turn create jobs, tax revenues, domestic consumption and, Beijing hopes, maintain stability remains top of the agenda for any Chinese administration. Having the right financial system to allow for proper allocation of capital and minimal waste, graft and losses in the system is also essential if the manufacturing abilities of China are to be realised fully. It’s quite a challenge, as both of these books point out, and rising to it, or not, will be the hallmark of the successors to Hu Jintao and Wen Jiabao in 2012.
Yangtze promise

While we are all very well versed in where much of China’s cargoes have come from – the two deltas – the Pearl in the south around Hong Kong and the Yangtze delta around Shanghai, there is now a new source of cargo growth that is dwarfing these traditional container bastions – inland along the Yangtze with arguably the most exciting developments now taking place on the middle and upper reaches of this vast river.

A glance at overall port trends in 2010 and 2011 shows two important facets: manufacturing moving inland and salaries rising across China. This is borne out by the fact that river traffic growth outstripped coastal growth.

Cargo throughput on China’s number one river, the Yangtze, exceeded 1.5bn tons in 2010. Container throughput grew by 26.2% in 2010 and in the three quarters of 2011 has grown by an almost identical number. Ports along the Yangtze will handle more than 10 million containers this year.

Average cargo growth rates across all China’s inland waterways for the past decade have stood at 23%.

The Yangtze, that giant strip of water that divides the world’s most populous nation in two, is the engine for this growth.

Just four years ago it cost more to ship a box from Chongqing to Shanghai than it did from Shanghai to Hamburg. Now thanks to dramatic infrastructure improvements, not least dredging, prices have dropped dramatically. Also four or five years back it used to take as long as 10 days to barge freight from Chongqing to Shanghai – that figure has dropped to less than a week now.

Dredging in the past decade, and the opening of the Three Gorges Dam, have changed shipping possibilities along the Yangtze – and it is set for further transformation.

China is pumping vast sums of cash to bolster its fast growing inland water transport systems. The Ministry of Transport announced in late March it would spend RMB200bn through to 2015 to ensure far smoother river journeys. There will be a total of 3,000km of high-grade inland channels by 2015. Moreover, a further 1.3bn tonnes of riverine port capacity will be added and thanks to vessel investment and further dredging the average size of ships plying China’s rivers will grow 67% to 800 tons bringing down freight costs by around 10%. Making ships a more uniform size like on other key trading rivers such as the Mississippi and the Rhine has been a focus of authorities in China. Another focus of the ministry’s work is to accelerate the elimination of old ships.

In July it was announced that a further CNY36bn (US$5.57bn) will be spent over the next five years on dredging and navigation upgrades on the Yangtze.

The Yangtze accounts for more than half of all the cargo coming into the world’s largest port, Shanghai.

This year the Maritime Safety Administration has allowed river vessels that conform to national standards to sail directly to Shanghai’s Yangshan deepwater port.

The fragmented, immature state of the logistics industry in China is such that 18% of China’s GDP is spent on logistics. By comparison the US spent 15% of its GDP on logistics back in 1960, but that is now down to 9%.

The lack of infrastructure, especially in western China, is a huge hurdle, but one where the development of the Yangtze will play an important role.

More blogs can be found at www.supplychainknowledge.asia
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