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Commission on Strategic Development
Committee on Economic Development and Economic Cooperation with the Mainland

High Value Added Logistics

Purpose

This paper outlines the development of "value-added logistics" industry in Hong Kong, how it increases its value added by extending both upstream and downstream along the supply chain, the challenges it faces and the measures to meet these challenges.

Background

WHAT IS VALUE-ADDED LOGISTICS

2. Logistics involves the planning, implementation and control of the spatial and temporal movement and storage of goods (including raw materials, goods in progress and finished goods), services and information from the point of origin to the point of consumption. Its ambit therefore cuts across a number of economic sectors.

3. Historically, logistics has featured most significantly in transportation and cargo forwarding activities. With the rapid expansion of global sourcing and increasing specialization in production over the past decade, the supply chain has been extended to cover more and more regions around the world. In parallel, demand has been increasing for integrated logistic services, especially to support transportation complemented by holding and/or processing of goods. This movement towards concurrent and convergent activities underlies value-added logistics (VAL). There is no consensus definition of VAL. Typical examples of VAL involve labeling and packaging, light assembling between pickup and delivery, cargo tracking and tracing, IT and inventory management support. Singapore, for example adopted a different definition. It has published a national classification on "value-added logistics provider", under which a "value-added logistics provider" must at least offer storage and warehousing service plus one

additional service like (i) managing supplies/materials flow, (ii) configuration, (iii) consultancy and design, and (iv) inventory tracking.

4. Generally speaking, VAL can best be understood as a profile which incorporates processes designed to efficiently support and facilitate different elements in the supply chain. In the same way that supply elements are 'chained', activities and services are inter-related and inter-dependent within the VAL profile. With changes in technology (e.g. in engineering and in information technology), economic-socio-political environment (e.g. globalization patterns and exchange rate regimes) and business organization (e.g. shifts in hierarchical structure), the VAL profile would shift along its entire length, covering different processes at different times. Take for example, the development of just-in-time delivery necessitates a more advance inventory management and control and a track-and-trace system for cargo. It follows that rational changes in emphasis on different logistic processes should not be pursued in isolation, but only as part of a dynamic equilibrium.

5. As VAL is integrated with transportation and storage functions in the supply chain, it is conceptually and operationally difficult to construct an independent and absolute measure of its economic contribution. Generally, only the scales of major industries are compared with reference to business receipts and value added in GDP (GDP VA). In this context, VAL should be distinguished from the concept of GDP VA measurement. The former is a business concept describing a bundle of integrated services in the supply chain, which aims to achieve efficiency and enhance cost-competitiveness, i.e., adding value to the supply chain. The latter is a macro-economic concept designed to measure the contribution of any given activity to the economy.

FROM CONVENTIONAL LOGISTICS TO VALUE ADDED LOGISTICS IN HONG KONG

6. In the past, trade meant coordinating exchange and logistics merely transportation. Globalization and the rise of China as a manufacturing base and then as a large market has led to a facelift of the trading and logistics services in Hong Kong. Technological improvements, notably in information technology, have also made it possible for firms to increase their competitiveness by reducing inventory cost and reaction time through improving the efficiency of their supply chain. Hong Kong companies, taking advantage of enormous growth of manufacturing in China, have

specialized more and more in supply chain management. They now source the raw materials, co-ordinate the production, consolidate and distribute the products, and manage inventory for large chain stores in Europe and America in a timely and efficient manner.

7. To meet the new demand in procurement, transportation, documentation and distribution of raw materials and finished product, the logistics industry has progressed from first party to third party logistics. The expansion in the size of the market and the increasing sophistication of the whole industry have made it possible for a third party to provide logistics support to users in a cost effective manner. In order to achieve a seamless supply chain from the sourcing of material to just-in-time delivery of the finished products, logistics service providers have to ensure against any disruption or delay in the whole process, especially if high-value, time-critical merchandise is at stake. Increasingly, speed, efficiency, reliability and transparency in logistics flow have become the drivers of profit margins for businesses all over the world. These depend on professional supply chain management, strong inter-modal connectivity with super efficiency. Hong Kong's strength in these areas makes Hong Kong a logistics hub in Asia.

8. VAL contributes to productivity by reducing the time and cost required to source inputs from suppliers and deliver finished products to customers. Logistics services are therefore vital to Hong Kong's competitive position as a regional hub. The presence of an efficient logistics cluster enhances the SAR's attractiveness as an operational base, especially to international sourcing and trading companies. Trading firms are particularly closely associated with logistics. In many instances, such firms are horizontally integrated with regard to logistic planning and monitoring. And as trading and VAL activities could be divorced geographically from the physical production and cargo-moving logistics, Hong Kong's offshore trade (i.e. trade managed or owned by companies in Hong Kong but the goods involved never reach Hong Kong) has also grown rapidly in the past decade[1].

[1] In terms of value added of import/export trades, 63% was related to conventional trading activities, 37% offshore and other activities.

ECONOMIC SIGNIFICANCE OF VAL

9. Trading and logistics services is a major industry in Hong Kong. In 2004, this sector generated HK$346.9 billion in value added, translating to 27.7% of GDP (Annex 1). The number of persons engaged in trading and logistics services was 804 600 or 24.3% of the workforce, of which 198 400 were in logistics (Annex 2). The value added of the logistics sector alone increased at an average annual rate of 5.9% in 1999-2004 to HK$67.2 billion. The percentage share of logistics in Hong Kong's GDP also increased from 4.2% in 1999 to 5.4% in 2004. It should also be noted that trading and logistics services create demand for other services such as banking, insurance and a wide range of professional services. Such indirect contributions are not included in the above-quoted numbers.

Annex 1

Annex 2

HIGH VALUE ADDED LOGISTICS IN HONG KONG

10. In Hong Kong, the Census and Statistics Department (C&SD) conducts surveys on the economic contribution, in terms of GDP VA, of six logistics sectors, namely land freight transport, water freight transport, air freight transport, supporting services, storage and postal and courier services. The figures for these sectors from 1999 to 2004 are shown in Annex 2. Component-wise, logistics services for water freight transport and air freight transport accounted for 80% of the total income generated. In particular, air freight transport displays the highest per capita income figures among the different modes of freight services, and the fastest growth.

11. In terms of per capita GDP VA, the maritime services, i.e., shipowners and operators of sea-going vessels and shipbrokers had the highest VA per person, especially in 2003 and 2004 (Annex 3) because maritime services provide high yield with a relatively small number of employees. Also due to the soaring freight rates and global demand for maritime transport services in recent years, this sector has recorded substantial growth. In terms of ratio of GDP VA to business receipts of major elements in the sub-sector, specialized services-oriented activities such as shipbroking, ship management and cargo inspection services, and infrastructure-based activities such as container terminals, airport and air cargo terminals services have produced relatively high margins (Annex 4).

Annex 3

Annex 4

12. Apart from the above measures, another crucial factor to consider in gauging the economic significance of individual activities in the logistics sub-sector is the ability to generate employment at different skill levels. The number of establishments and persons engaged in the various sub-sectors of logistics industry are at Annex 5. The total employment relating to sea cargo is higher than that of air cargo, though the latter has higher GDP VA margins. Most importantly, VAL services involve integrated solutions in the core transport functions of the supply chain. Integration, innovation, comprehensiveness and economic scale are all keys to sustaining the competitiveness of Hong Kong's trading and logistics services. Also noted above, individual VAL (high margins notwithstanding) may not be sustainable without the parallel development and support of other activities and services in the VAL cluster.

Annex 5

CHALLENGES AND OPPORTUNITIES

13. China's industrial production, consumer spending and trade with the outside world would continue growing rapidly for a long time to come. This provides a lot of opportunities for Hong Kong's trading and logistics industry for both exports from the Mainland and imports into the Mainland, even though there will also be more competition from other cities in the Mainland. Closer to Hong Kong, developments in infrastructure facilities in the Pearl River Delta region and the gradual evolution of the geographical distribution of various economic activities in southern China will also have implications on Hong Kong's future as a logistics hub.

14. Various sectors or industry groups within the logistics industry face different challenges and have different opportunities. To enhance and maintain Hong Kong's position as a regional logistics hub and an international maritime centre, the HKSARG, in consultation with the industry through the Hong Kong Logistics Development Council, the Hong Kong Maritime Industry Council and the Hong Kong Port Development Council, have put forward various initiatives and measures to facilitate development and business of the industry. The challenges and measures taken to facilitate three broad VAL industry groups, i.e. air, sea and maritime services will be explained in the ensuing paragraphs.

I. Air Cargo

15. Hong Kong is a major international air cargo hub. According to the Airport Council International, the Hong Kong International Airport (HKIA)

has been the busiest airport in terms of international air cargo throughput since 1996. In 2005, this reached a record high of over 3.4 million tonnes, representing an average growth of 8.8% per annum over the past 10 years. Air cargo is also a key contributor to our economy. In 2005, in value terms about 38% of our imports and 31% of our exports were handled by HKIA, with a total value of HK$1,568 billion. In 1995, these numbers were 22%, 18% and HK$574 billion respectively. According to the Hong Kong Airport Authority (AA)'s Master Plan 2020, HKIA's air cargo throughput is expected to grow at an average rate of 6% per year until 2020.

16. Despite robust growth in HKIA's air cargo throughput, challenges are abound. As the Mainland of China continues to liberalize its air services regime, more direct international flights are becoming available between the Mainland and the rest of the world, thus challenging Hong Kong's position as a major gateway to the Mainland.

17. Neighbouring airports in the Pearl River Delta, in particular the New Baiyun International Airport (NBIA) in Guangzhou, with a capacity of 1.2 million tonnes of cargo per year and expected to grow to 2 million tonnes per annum by 2010, has the potential to become a strong competitor to the HKIA for cargo traffic. For example, taking advantage of NBIA's good domestic network covering over 80 cities, FedEx has decided to relocate its Asia Pacific hub from Subic Bay to NBIA.

18. Nevertheless, HKIA continues to maintain a significant competitive edge over its regional rivals. None of our competitors can come close to the HKIA in terms of capacity (3 million tonnes per year) and international connectivity (connecting over 40 major cities in the Mainland with some 100 international destinations). A recent consultancy study by GHK also confirmed that HKIA continues to maintain a healthy cost advantage (22% and 12% lower respectively) over NBIA and Shenzhen Airport, in terms of overall transportation costs from origin to final destination, taking into account air freight cost, land transportation cost and airport charges.

(A) Measures to Enhance Competitiveness

19. Despite our competitive edge, Hong Kong cannot afford to be complacent. AA and its business partners are making significant investments to further upgrade HKIA's facilities. In anticipation of continuing growth in cargo traffic, AA is investing HK$300 million to construct ten additional cargo freighter parking stands at HKIA, which will bring the total number to 35 upon completion of construction works by end

2007. AA will invest another HK$496 million to construct additional taxiways to improve the efficiency of aircraft movement. Asia Airfreight Terminal, one of the two cargo terminal operators at HKIA, is investing HK$1.75 billion to add a new terminal by the end of 2006, which will triple its handling capacity to 1.5 million tonnes. DHL has also decided to invest HK$858 million to double the capacity of its express cargo terminal at HKIA by end 2007.

20. The HKSAR Government, through its continuous efforts to progressively liberalise our air services regime, provides a favourable environment for the further expansion of Hong Kong's aviation network. Most of the recently concluded air services arrangements with our aviation partners provide for unlimited capacity between the countries concerned and the HKSAR (e.g. Scandinavia, Iceland, the UK, Spain, Malaysia, Thailand, Luxembourg, Bahrain), or substantial increase in capacity (e.g. Australia, Russia), creating opportunities for both local and overseas airlines to expand services to Hong Kong. Recent examples of airlines taking advantage of these liberal arrangements to launch new services include: British Airways added all-cargo services on the Hong Kong-London route; Transmile Air (cargo carrier of Malaysia) entered the Hong Kong – Los Angeles route; and Cargolux (cargo carrier of Luxembourg) developed a new route linking Hong Kong with Barcelona in Spain.

II. Sea Freight

21. Hong Kong port (HKP) is one of the busiest container ports in the world. There are 9 container terminals with 24 berths at the Kwai Tsing Container Terminals with a total capacity of over 18 million TEUs per annum. In addition, the mid stream operators, the River Trade Terminals, and the Public Cargo Works Areas provide alternative modes of handling sea cargo. Our port handled 22.6 million TEUs in 2005, with 80 shipping lines operating 450 shipping calls per week to over 500 destinations globally. Some 232 000 ships comprising about 39 000 ocean vessels and about 193 000 river vessels visited our port in 2005. Our terminals boast a record of 40 lifts per crane per hour. Every minute we save in the turn-around time of a 6000-TEU container vessel (with a daily chartering rate at about HK$1.56 million) at our terminals through more efficient port operation means a cost saving of HK$1,083.

(A) Direct Cargo to and from South China

22. New port developments in Shenzhen, with operation and management largely modeled on Hong Kong terminals, pose keen competition for direct ocean cargo to and from South China. Over the period from 2000 to 2005, throughput at HKP grew at an average of 4.5% per annum, whereas Shenzhen, 32.5%. For a mature port with high base figures, the modest growth of HKP is understandable. Over the same period, while Hong Kong continued to handle a growing volume of South China cargo in absolute terms, the percentage share of South China direct cargo handled by Hong Kong dropped from 81% in 2000 to 48% in 2005. In fact, with the fast growth in South China's external trade, the total trade volume in South China has far exceeded the level of capacity of HKP. In 2005, the HKP and Shenzhen ports together handled 39 million TEUs. With the rapid expansion of Shenzhen ports, the competition to HKP on the share of South China cargo would likely intensify.

(B) Cost Competitiveness of HKP

23. To maintain Hong Kong's position as the leading trading and logistics hub and to map out the strategy for our port development in the light of the rapid growth of our neighbouring ports, the Government completed the "Study on Hong Kong Port – Master Plan 2020" (HKP2020) in late 2004. The HKP 2020 study identifies that in comparison to the Shenzhen ports, it costs about US$300(HK$2,340) more for a container from Dongguan to the US to be routed via Hong Kong. The cost comparison is set out in Table 1 below:

Table 1: Total Through Cost Comparisons

	Industry data as at mid 2004, US$ (From Dongguan to the US west coast)	**Via Hong Kong**		**Via Yantian**		**Via Shekou/Chiwan**	
		20ft*	**40**ft*	**20**ft*	**40**ft*	**20**ft*	**40**ft*
1	Ocean Freight Rate (Basic); +/- $50**	2,000	2,700	2,000	2,700	2,000	2,700
2	Fees#	599	1,014	579	994	579	994
3	**Truck to Port Terminal**	308	**333**	128	**154**	141	**167**
4	**Terminal Handling Charge (THC)**	274	**366**	141	**269**	141	**269**
	Total	3,181	4,413	2,848	4,117	2,861	4,130
	Differential: HK Relative to Shenzhen	**+$333**	**+$296**				

Remarks: * 20ft means a 20 Foot ISO container (1 TEU), and 40ft means a 40 Foot ISO container.
** *Average* based on consultation with shipping lines – agreed rates between a specific shipping line and a specific customer may diverge from this figure.
# Fees include Destination Delivery Charge (DDC), Fuel Adjustment Factor (FAF), Bunker Adjustment Factor (BAF) and Declaration Fee.
Source: Stakeholder consultations.

24. The key factors contributing to these cost differentials are the road haulage costs and the terminal handling charges.

(a) Road Haulage Charges

25. Cross boundary trucks previously were subject to the "four-up-four-down" and "one-truck-one-driver" rules which meant that the trailer, tractor, container and the registered driver for a truck were tied-in in operation. This reduced the flexibility in the deployment of the equipment and drivers in cross boundary trucking operations and thus raised costs. Also, every Hong Kong cross boundary truck has to pay a licence fee of HK$100,000 every three years. In addition, due to the long wait for customs clearance at busy inland customs points like Dongguan, the truck drivers have to suffer extended down-time, which prevents them from making two trips in a day despite the short distance to reduce costs.

(b) Competitive Edges in Transhipment and River Trade Cargo

26. In terms of transshipment, Hong Kong still maintains its advantage due to its location, free port status and high frequency of shipping calls and service levels (quick turnaround time). In 2005, HKP handled 4.2 million TEUs of laden international transshipment, accounting for 18.5% of our port throughput. However, in terms of economic contribution, direct sea cargo brings higher economic benefits than transshipment cargo. According to the HKP 2020 study, every tonne of direct cargo would bring economic benefits of HK$193 and of transshipment cargo HK$135. Hence, the increase in percentage share of transshipment cargo in HKP throughput may not fully compensate for the drop in direct sea cargo. That said, growth in transshipment would help maintain the frequency of shipping calls in Hong Kong, and in turn our position as a hub port.

27. The HKP 2020 study also points out that Hong Kong still enjoys a competitive edge in the handling of river trade cargo shipped by barges to Hong Kong. Although there is a substantial cost differential in using HKP as compared to Shenzhen ports, which is mainly due to high container trucking cost and THC (Table 1), the river trade feeder services could considerably help to narrow the cost gap between HKP and Shenzhen ports (Table 2). With the migration of the industries to and the development of the west Pearl River Delta Region which is well served by the tributaries of the Pearl River, the volume of river trade cargo to Hong Kong has increased. In 2005, the volume of river trade cargo between South China and Hong Kong grew by

9%. This offers a new area of growth for HKP. However, if manufacturing activities are to move inland to areas outside the PRD as reported in the media, there is a risk that such growth in river cargo could be affected in the longer term.

Table 2: Cost Saving in Using River Trade Feeder (in US$)

To transport a 40' container	From Zhongshan to Hong Kong	From Zhongshan to Yantian	From Zhongshan to Shekou / Chiwan
By truck	$622	$346	$346
By river trade feeder	$263	$404	$327

Source: Industry data obtained by the HKP2020 Study

(C) Measures to Enhance Competitiveness

28. To maintain Hong Kong's position as the leading trading and logistics hub in the light of the rapid development of our neighbouring ports, the Government has consulted the industry on the recommendations of the HKP2020 study and taken forward a number of measures to enhance Hong Kong's port competitiveness. Details and progress of these measures are summarised below.

(a) Trucking Cost

29. Following our discussion with the Guangdong Provincial authorities, the "four-up-four-down" rule and "one-truck-one-driver" rule were relaxed in 2005.

30. The validity period of licenses for operating cross-boundary trucking business was extended from three to six years while the annual fee level remains unchanged. This would reduce the administrative cost for licence renewal. The Guangdong Provincial authorities have also agreed to extend the operating hours at selected inland customs points according to the cargo volume and practical needs of different regions. We hope that the above relaxations will enhance the efficiency of the trucking industry and lower the transportation cost. We will continue discussions with the Guangdong Provincial authorities to further extend the operating hours of inland customs points at Dongguan.

(b) On-Board Trucker Information System (OBTIS)

31. We will jointly run a pilot project with the Hong Kong Productivity Council (HKPC) on an On-Board Trucker Information System (OBTIS) to further enhance trucking efficiency through advanced technologies. The study focuses on the application of electronic communication technologies including Global Positioning System (GPS), Radio Frequency Identification (RFID), on-board electronic panel and wireless communications in the operation of container trucks, with a view to enhancing interconnectivity among truckers, carriers, shippers, terminal operators and potentially other stakeholders, increasing flexibility and effectiveness in fleet management, as well as maximizing the load factor and utilization of the entire trucking fleet in Hong Kong.

(c) Terminal Handling Charges (THC)

32. We have been facilitating dialogue among shippers, shipping lines and terminal operators with the aim to increasing the transparency of the THC and improving the consultation mechanism in a progressive and constructive manner.

(d) Reduction in Port Fees and Charges

33. We reduced port facilities and light dues, and anchorage charges for ocean going vessels, and increased the mid-stream cargo handling capacity through establishing five more service anchorages. We will also streamline the entry procedures for river trade vessels by introducing multiple entry permits and lower the permit fees with a view to attracting more river and transshipment cargoes to Hong Kong. With these measures, a medium sized vessel calling Hong Kong for two days can save 25% of anchorage charge, whilst a river trade vessel using the multiple entry permits can save up to 50% of the cost on entry permit. The reduction in anchorage dues was implemented through legislation in February 2006. We would make the necessary legislative amendments to effect the other measures.

(e) More Back Up Land for Port and for River Trade Barges

34. After consulting the industry and with the support of the Hong Kong Port Development Council, suitable container terminal back-up land adjacent to the Kwai Tsing Container Terminals (KTCT) to enhance the capacity of container terminals will continue to be made available by open tender. Two seafront sites to the immediate north and south of Container Terminal 9 (CT9)

have been identified as suitable for barging purpose. This site can enable the direct barging of river trade vessels at area very close to KTCT and therefore facilitate the transport of river trade cargo to the terminals. The two barging facilities were put up for open tender in February 2006 and the tendering process has just been completed.

(f) Improvement in Transport Infrastructure

35. To facilitate the flow of goods across the boundary, a new bridge connecting Lok Ma Chau and Huanggang dedicated for goods vehicles has been in operation since January 2005, and the Hong Kong-Shenzhen Western Corridor is scheduled to open in the first half of 2007. The commissioning of the Hong Kong-Shenzhen Corridor will triple our capacity to about 80 000 cross-boundary vehicle trips per day. In addition, the Stonecutters Bridge connecting CT9 with other terminals in Kwai Chung will be completed by 2008.

(g) Overall Infrastructure Planning

36. To plan for expansion of the Hong Kong Port, we have followed the recommendations of the HKP2020 to conduct an ecology study on northwest Lantau to assess its environmental suitability for the development of Container Terminal 10 (CT10), and a port cargo forecasts study to determine the optimal timing for the construction of the terminal. Both studies commenced in late 2005. We will review the port expansion options when more data is available.

(h) Development of E-logistics and Strengthening Hong Kong as the Prime Logistics Information Centre

37. Information connectivity is as important as physical connectivity. The Digital Trade and Transportation Network (DTTN) services launched in December 2005 will provide an open, neutral and secure e-platform to facilitate information flow along the supply chain in an efficient and reliable manner. DTTN would reduce paperwork, minimize human errors in the process and save the need and time for data re-entry. DTTN would also help promote information technology adoption in particular by the SMEs, and encourage the logistics industry to compete on high quality, high reliability and more efficient services to enhance their competitiveness in the market. The Government has taken an equity share in the development of DTTN to ensure the neutrality and non-exclusivity of the system, its service standard and pricing.

(i) Training for Logistics Employees

38. To equip employees in the logistics sector, particularly those of SMEs, with the necessary skills in the use of various IT applications and automation techniques for logistics operation, we have enlisted the assistance of HKPC to organize a training programme comprising seminar, workshops and demonstration sessions. The series of workshops and demonstration sessions aim to enhance employees' readiness to adopt technologies through the provision of hands-on experience with applicable technologies and software applications, including e-documentation, Warehouse Management Systems, GPS and Fleet Management, etc.

(j) Lantau Logistics Park and More Sites for Logistics Uses

39. We have identified a site for developing Lantau Logistics Park (LLP) to enhance Hong Kong's capability in providing one-stop integrated logistics services. It will provide a purpose-built environment for the efficient delivery of individually customized and integrated services. It will embrace a full range of logistics services from conventional transportation and freight forwarding activities, to value-added services such as labeling, returns management, pick and pack operations, repacking, special packaging, system integration, quality control, etc. It is an important infrastructure to promote service integration, and enable logistics enterprises to enjoy economies of scale. In addition, the proposed site at Siu Ho Wan is strategically located in the vicinity of the HKIA and KTCT, thus ensuring the quick and efficient transit of cargo to destinations around the world as well as providing opportunities for VAL. We have commissioned a detailed feasibility study for the LLP for completion in 2006. We have also identified various sites which can be released shortly for medium/short term logistics use such as temporary storage, distribution and consolidation in Tsing Yi (close to CT9) and Tai Po (close to Industrial Estate) areas.

III. Maritime Services

40. As shown in Annex 3, maritime services have the highest per capita GPD VA among the various logistics service sectors. Indeed, Hong Kong is the 7th largest maritime centre in the world with our shipowners managing about 7.6% of the world's merchant fleet. The provision of high quality maritime services (including marine insurance, legal, arbitration, shipping finance, brokerage, management, ship registration and survey services) makes Hong Kong a major focal point for world maritime commerce.

(A) ***Hong Kong as an International Maritime Centre***

41. The "Study to Strengthen Hong Kong's Role as an International Maritime Centre" (IMC Study) estimated that in 2000 the maritime industry, which included part of port related industries, i.e. container terminals, freight forwarding and related port services, accounted for over 2% of GDP and contributed to about 22% of Hong Kong's exports of services in the Balance of Payment account. The GDP contribution of maritime industry in 2004 continued to hold stable at over 2%. However, this could be an underestimation because data on the contributions of marine insurance, ship finance, ship survey and maritime legal services are not available and have not been included in our statistics.

(B) Hong Kong Shipping Register (HKSR)

42. The HKSR has an excellent reputation as a register of high quality. In terms of Port State Control detention rates, Hong Kong registered vessels are amongst the best performers in the world[2].

43. In 2005, the HKSR continued its rising track with a double-digit growth. As at 30 April 2006, about 30.2 million gross tons (GT) (about 1 093 vessels) were registered with the HKSR, an increase of 8.7% over a year ago. The HKSR crossed the 30 million GT mark (over 1 090 vessels) on 8 January 2006 and is one of the top ten shipping registers in the world.

44. The steady increase in our registered tonnage has underpinned the growth of other maritime sectors and benefited the economy of Hong Kong. The loans and advances for use by the shipping sector in Hong Kong reached HK$26.2 billion in December 2005.

45. The gross premium generated in the ship underwriting business by Hong Kong insurers in 2005 amounted to over HK$1.04 billion, representing an expansion of 80% over the annual premium in 2000. In 2004, the revenue from ship brokerage grew by over 80% to HK$287 million. Hong Kong will continue to be a leading ship brokering centre for the rapidly expanding market in the Mainland and for new building contracts at Chinese shipyards.

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[2] In 2004, under the Tokyo MOU, Hong Kong registered vessels had a detention rate of 1.13% against a world average of 6.51%. Under the Paris MOU, our detention rate was 2.74% against a world average 5.84%. Both MOUs are international conventions on port state control.

46. With a long history of using the common law system, Hong Kong is a recognised centre for shipping law, commercial law and arbitration. Many of the world's leading law firms maintain a substantial presence in Hong Kong, and the Hong Kong Arbitration Ordinance is seen as one of the world's leading arbitration statutes. Hong Kong is a prime centre in Asia for solving disputes by arbitration. The New York Convention applies to Hong Kong and its arbitration awards are enforceable in all signatory states. The Government has also signed an agreement with the Mainland for the reciprocal enforcement of arbitration awards.

47. Taking advantage of our strong maritime background, some of the world's largest and oldest ship management companies based in Hong Kong provide professional services not only to Hong Kong registered ships, but also to ships calling at our port. Other international maritime service providers have also established a presence in Hong Kong, providing supplies and support services including ship maintenance and repair, bunkering, ship replenishment, waste disposal, IT and communication services, auditing and tax advisory as well as education and training services.

(C) The Impact of Mainland Development on Hong Kong Maritime Services

48. China's rapid economic growth has been a significant driver for change in the global maritime and shipping industry. In particular, it has fuelled a heavy demand for raw materials such as iron ore and coal, which has resulted in unprecedented high volumes of shipping to and from China's many ports. We aim to capitalise on these trends to sustain and improve our position as an international maritime centre.

49. 2005 saw the production of 12 million tonnes deadweight of new ships in China. With our high quality maritime services, proximity in location and affinity in culture and languages Hong Kong has a competitive edge in tapping this new pool of clients for maritime services.

(D) Measures to Enhance Our Maritime Services

50. To strengthen Hong Kong's position as an international maritime centre and to capitalize on the growth in the Mainland market, we have initiated the following measures. We have been promoting the use of maritime services available in Hong Kong. We have conducted seminars in Hong Kong and the Mainland of China for lawyers, shipowners, and shipping companies especially those in the Mainland of China on the services we offer.

We have also introduced an annual tonnage fee reduction for ships registered under the Hong Kong flag. Under the scheme, ships which have continuously registered in Hong Kong for two years and without any record of detention during such period would be entitled to a fee reduction of six months. This is to promote a stable and long term registration of quality ships in Hong Kong and to differentiate HKSR from other flags of convenience.

Conclusion

51. The logistics industry is a fast expanding sector involving many different services providers and cutting across various fields. With the rapid economic growth in the Mainland and given the dynamic nature of the industry, we will in the light of the changing environment, strive to facilitate the development of our logistics industry on all fronts and to maintain Hong Kong's position as a logistics hub and an international maritime centre.

Economic Development Branch
Economic Development and Labour Bureau
June 2006

Annex 1

Value Added of the Four Key Industries

Four Key Industries	Value Added at current prices in 2004 (HK$Mn)
1. Financial services	152,900 (12.2%)
a. Banking	100,500
b. Insurance and other financial services	52,400
2. Tourism (inbound & outbound)	36,900 (2.9%)
a. Inbound tourism	27,400
b. Outbound tourism	9,600
3. Trading and logistics	346,900 (27.7%)
a. Trading	279,700
b. Logistics	67,200
4. Professional services and other producer services	132,400 (10.6%)
a. Professional services	46,800
b. Other producer services*	85,700
Four Key Industries = 1+2+3+4	669,100 (53.3%)
GDP at factor cost #	1,254,500

Notes: Figures in brackets are the percentage contributions of the respective industries to GDP.

* Other producer services refer to producer services other than financial services, trading and logistics, tourism and professional services.

\# To facilitate comparison of the contribution of the four key industries to GDP, GDP at factor cost is used. This is slightly different from the GDP figures commonly used, which is compiled on market price basis.

Source: Census and Statistics Department

Annex 2

Value Added and Employment in Logistics

	1999	2000	2001	2002	2003	2004	AAGR*
Logistics							
Value added (HK$billion)	50.5	56.0	53.4	54.8	58.5	67.2	+5.9%
Employment ('000 persons)	187.0	195.8	195.6	186.8	188.9	198.4	+1.2%
VA per person (HK$'000)	270.1	286.0	273.0	293.4	309.7	338.7	+4.6%
- Land freight transport							
Value added (HK$billion)	6.1	6.5	5.8	5.6	5.7	6.3	+0.6%
Employment ('000 persons)	66.2	70.0	67.9	60.4	62.5	67.1	+0.3%
VA per person (HK$'000)	92.1	92.9	85.4	92.7	91.2	93.9	+0.4%
- Water freight transport							
Value added (HK$billion)	22.8	25.4	25.0	24.9	28.1	31.0	+6.3%
Employment ('000 persons)	73.9	74.5	77.6	75.2	75.9	79.2	+1.4%
VA per person (HK$'000)	308.5	340.9	322.2	331.1	370.2	391.4	+4.9%
- Air freight transport							
Value added (HK$billion)	14.5	16.9	16.4	18.2	18.4	22.7	+9.4%
Employment ('000 persons)	22.9	26.0	25.1	26.2	25.9	26.1	+2.7%
VA per person (HK$'000)	633.2	650.0	653.4	694.7	710.4	869.7	+6.6%
- Supporting services (e.g. cargo inspection)							
Value added (HK$billion)	0.3	0.4	0.3	0.4	0.5	0.6	+14.9%
Employment ('000 persons)	1.8	1.4	1.2	0.9	1.0	1.0	-11.1%
VA per person (HK$'000)	166.7	285.7	250.0	444.4	500.0	600.0	+29.2%
- Storage							
Value added (HK$billion)	1.2	1.3	1.1	1.0	1.0	1.1	-1.7%
Employment ('000 persons)	4.7	5.0	5.3	5.1	5.1	5.2	+2.0%
VA per person (HK$'000)	255.3	260.0	207.5	196.1	196.1	211.5	-3.7%
- Postal and courier services							
Value added (HK$billion)	5.5	5.4	4.8	4.7	4.7	5.4	-0.4%
Employment ('000 persons)	17.5	18.9	18.5	18.9	18.5	19.8	+2.5%
VA per person (HK$'000)	314.3	285.7	259.5	248.7	254.1	272.7	-2.8%
Percentage share to GDP	4.2	4.5	4.3	4.4	4.9	5.4	--
Percentage share to total employment	6.0	6.1	6.0	5.8	5.9	6.0	--

Note: * AAGR : Average annual growth rates in 1999-2004
Source: Census and Statistics Department

Annex 3

Value Added to Persons Engaged in Logistics

HK$ '000

Logistics sub-sector	1999	2000	2001	2002	2003	2004	AAGR*
Ship owners or operators of sea-going vessels	661	907	663	488	1,456	2,605	+31.6%
Shipbrokers	498	625	617	657	807	1,128	+17.8%
Supporting services to air transport	718	801	814	884	836	993	+6.7%
Airlines companies**	861	890	743	990	825	949	+2.0%
Supporting services to water transport	649	665	624	613	608	672	+0.7%
Cargo inspection, sampling and weighing services	350	372	342	473	605	642	+12.9%
Inland water freight transport	376	336	416	453	429	511	+6.3%
Sea cargo forwarding services	380	430	394	420	458	447	+3.3%
Ship agents and managers	329	374	336	337	373	426	+5.3%
Air cargo forwarding services	356	411	417	407	385	415	+3.1%
Packing and crating services	166	180	192	213	188	261	+9.4%
Storage	257	261	229	212	244	253	-0.3%
Miscellaneous communications services (e.g. courier services)	250	280	232	230	242	250	0.0%
Land freight transport	200	199	179	186	175	196	-0.4%

Notes: * AAGR: Average annual growth rates in 1999-2004
** Include passenger transport

Sources: Various annual economic surveys, Census and Statistics Department

Annex 4

Ratio of Value Added to Business Receipts in Logistics

Logistics sub-sector	1999	2000	2001	2002	2003	2004	AAGR*
Logistics	0.31	0.30	0.29	0.28	0.27	0.25	-3.9%
- Land freight transport	0.46	0.49	0.48	0.48	0.47	0.46	-0.0%
- Water freight transport	0.30	0.28	0.28	0.26	0.27	0.24	-4.6%
Shipbrokers	0.52	0.54	0.45	0.63	0.58	0.73	+7.1%
Ship agents and managers	0.67	0.68	0.64	0.62	0.67	0.69	+0.7%
Inland water freight transport	0.38	0.30	0.44	0.42	0.46	0.51	+6.0%
Ship owners or operators of sea-going vessels	0.08	0.09	0.07	0.05	0.13	0.13	+9.6%
Sea cargo forwarding services	0.16	0.16	0.16	0.17	0.15	0.12	-5.5%
Supporting services to water transport including container terminals, stevedoring, haulage of containers	0.56	0.54	0.57	0.56	0.55	0.55	-0.2%
- Air freight transport	0.28	0.27	0.27	0.28	0.25	0.24	-2.8%
Airlines companies**	0.37	0.33	0.33	0.36	0.30	0.30	-4.4%
Air cargo forwarding services	0.10	0.10	0.11	0.10	0.11	0.10	-0.3%
Supporting services to air transport including airport and air cargo terminals	0.63	0.68	0.69	0.70	0.68	0.73	+3.2%
- Supporting services (e.g. cargo inspection)	0.54	0.55	0.46	0.58	0.61	0.63	+3.2%
Cargo inspection, sampling and weighing services	0.56	0.56	0.45	0.59	0.67	0.69	+4.1%
Packing and crating services	0.40	0.48	0.61	0.54	0.39	0.45	+2.7%
- Storage	0.31	0.31	0.32	0.36	0.41	0.38	+4.5%
- Postal and courier services Miscellaneous communications services (e.g. courier services)	0.49	0.42	0.37	0.28	0.25	0.26	-11.7%

Notes: * AAGR: Average annual growth rates in 1999-2004
** Include passenger transport

Sources: Various annual economic surveys, Census and Statistics Department

Annex 5

Number of Establishments and Number of Persons Engaged in Logistics in 2004

Logistics sub-sector	Number of establishments	Number of persons engaged
Ship owners or operators of sea-going vessels	76	2 121
Shipbrokers	33	187
Supporting services to air transport	24	9 519
Airlines companies*	67	19 769
Supporting services to water transport	3 578	19 612
Cargo inspection, sampling and weighing services	32	513
Inland water freight transport	471	3 076
Sea cargo forwarding services	2 012	15 087
Ship agents and managers	245	7 135
Air cargo forwarding services	701	15 407
Packing and crating services	24	309
Storage	275	4 189
Miscellaneous communications services (e.g. courier services)	606	12 819
Land freight transport	9 078	31 172

Notes: The sum of the number of persons engaged **does not** equal the employment of the whole logistics sector. It is because the employment of whole logistics sector is based on a number of survey estimates, which can better reflect a comprehensive and accurate picture.

* Include passenger transport

Sources: Various annual economic surveys, Census and Statistics Department