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and Transport

Future of Hong Kong's Air Freight

Case 4: Do you see a bright future for Hong Kong's air freight? What are the challenges ahead?

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Background



Hong Kong Position as Logistics Hub



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- Ranked 1st in airport cargo throughput in 2014
- HKATL: 8.7% growth in goods throughput

Rank	Airport	Total Cargo (Tonnes)
1	Hong Kong (HKG)	4,066,738
2	Memphis TN (MEM)	4,015,997
3	Shanghai (PVG)	2,938,157
4	Anchorage AK (ANC)	2,463,696
5	Incheon (ICN)	2,456,724
6	Dubai (DXB)	2,279,624
7	Louisville KY (SDF)	2,168,365
8	Paris (CDG)	2,150,950
9	Frankfurt (FRA)	2,066,300
10	Tokyo (NRT)	2,006,173
11	Miami FL (MIA)	1,929,889
12	Singapore (SIN)	1,841,858

Background

Analysis

Challenges and
Opportunities

Conclusion

Hong Kong Position as Logistics Hub



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- Continuous growth in Hong Kong's trade
- Around 3.5% annually
- Drives growth in air freight industry

Merchandise Trade Performance						
(in nominal terms)	2012		2013		2014	
	US\$billion	Growth %	US\$billion	Growth %	US\$billion	Growth %
Total Exports	440.3	+2.9	456.4	+3.6	470.9	+3.2
Domestic Exports	7.5	-10.4	7.0	-7.6	7.1	+1.7
Re-exports	432.8	+3.2	449.4	+3.8	463.8	+3.2
Imports	501.6	+3.9	520.6	+3.8	540.9	+3.9
Total Trade	941.9	+3.4	977.0	+3.7	1,011.8	+3.6

Background

Analysis

Challenges and
Opportunities

Conclusion



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Analysis



1.Strengths

Reputation

- 1st in world airport efficiency ranking in 2013



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World Airport Efficiency Rankings

Rank	Airport	WLU/ ATM
1	Hong Kong (HKG)	264.5
2	Tokyo (NRT)	248.5
3	Dubai (DXB)	245.4
4	Incheon (ICN)	242.2
5	Taipei (TPE)	239.0
6	Davao (DVO)	222.2
7	Bangkok (BKK)	211.2
8	Kalibo Aklan(KLO)	211.0
9	Singapore (SIN)	209.3
10	Shanghai (PVG)	206.0
11	Sacramento CA (SMF)	199.0
12	Memphis TN (MEM)	197.9

Note: 1 WLU (workload unit) = 1 passenger or 100kg of cargo

Source: ACI annual report 2013, covering ~1,000 airports in the world with annual aircraft movements >10,000 ATMs in 2013

Background

Analysis

Challenges and
Opportunities

Conclusion

Strengths



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- Logistics Performance index
 - Measure efficiency and quality of logistics service
 - Ranked 3rd in Asia

Background

Analysis

Challenges and
Opportunities

Conclusion

Strengths



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2. China's trade barriers to countries

- China's protectionism policy
- Example: US auto and steel products
- Foreign goods re-export in Hong Kong
- By-pass China's trade barriers

Background

Analysis

Challenges and
Opportunities

Conclusion

Strengths



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3. Hong Kong tax and legal system

- No import tax for most goods
- Trusted legal system and free economy
- Favourable for doing business

Background

Analysis

Challenges and
Opportunities

Conclusion

Strengths



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4. Geographic location

- Short distance form major international and regional hubs

Figure 5: Flight hours between regional hubs

	Hong Kong	Shanghai	Guang-zhou	Singapore	Seoul	Taipei	Bangkok	Tokyo	Osaka	Dubai
Hong Kong	X	2h20m	45m	3h45m	3h20m	1h40m	2h40m	4h05m	3h45m	7h50m
Shanghai	2h20m	X	2h	5h15m	1h45m	X	5h30m	2h50m	3h20m	X
Guangzhou	45m	2h	X	3h55m	3h10m	X	3h	4h20m	3h20m	7h55m
Singapore	3h45m	5h15m	3h55m	X	7h20m	6h30m	2h25m	8h10m	7h30m	9h15m
Seoul	3h20m	1h45m	3h10m	7h20m	X	2h30m	6h20m	7h55m	1h40m	12h15m
Taipei	1h40m	X	X	6h30m	2h30m	X	4h10m	3h15m	7h03m	9h50m
Bangkok	2h40m	4h20m	3h	2h25m	6h20m	4h10m	X	6h10m	6h30m	6h50m
Tokyo	4h05m	2h50m	4h20m	8h10m	7h55m	3h15m	6h10m	X	1h05m	12h45m
Osaka	3h45m	2h05m	3h20m	7h30m	1h40m	2h35m	6h30m	1h05m	X	12h
Dubai	7h50m	X	7h55m	9h15m	12h15m	9h50m	6h50m	12h45m	12h	X
Total:	28h10m	30h5m	30h5m	54h05m	46h15m	33h35m	43h35m	50h35m	46h13m	90h

Source: Publisnea flight schedules of respective cities, summer 2006

(Note: In cases where no direct flights are available between hubs, the Hong Kong time is used to avoid distortion of comparison.)

Background

Analysis

Challenges and
Opportunities

Conclusion

Weakness



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1. Expensive air freight rate

- Higher rate in Hong Kong due to higher operating cost
- Such as higher rent and wage
- e.g. Rate from Hong Kong to Europe 4X Guangzhou to Europe

Background

Analysis

Challenges and
Opportunities

Conclusion

Weakness



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2. Re-export inconvenience

- Go through custom from Hong Kong to China or vice versa
- More convenient for airports in China

Background

Analysis

Challenges and
Opportunities

Conclusion

Weakness



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3. Airport service saturation and expansion difficulties

- Current capacity: 70 flights/hour in 2015
- Forecast saturate in 2017
- Limit growth of the air freight sector

Background

Analysis

Challenges and
Opportunities

Conclusion



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Challenges



Intensified Competition



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Rising APAC Competitors

- China: Guang Zhou, Shang Hai, Beijing
- Singapore: Changi
- Japan: Tokyo
- Korea: Seoul



- Improved facilities
- Increasing capabilities
- Enhanced regulation and management

Background

Analysis

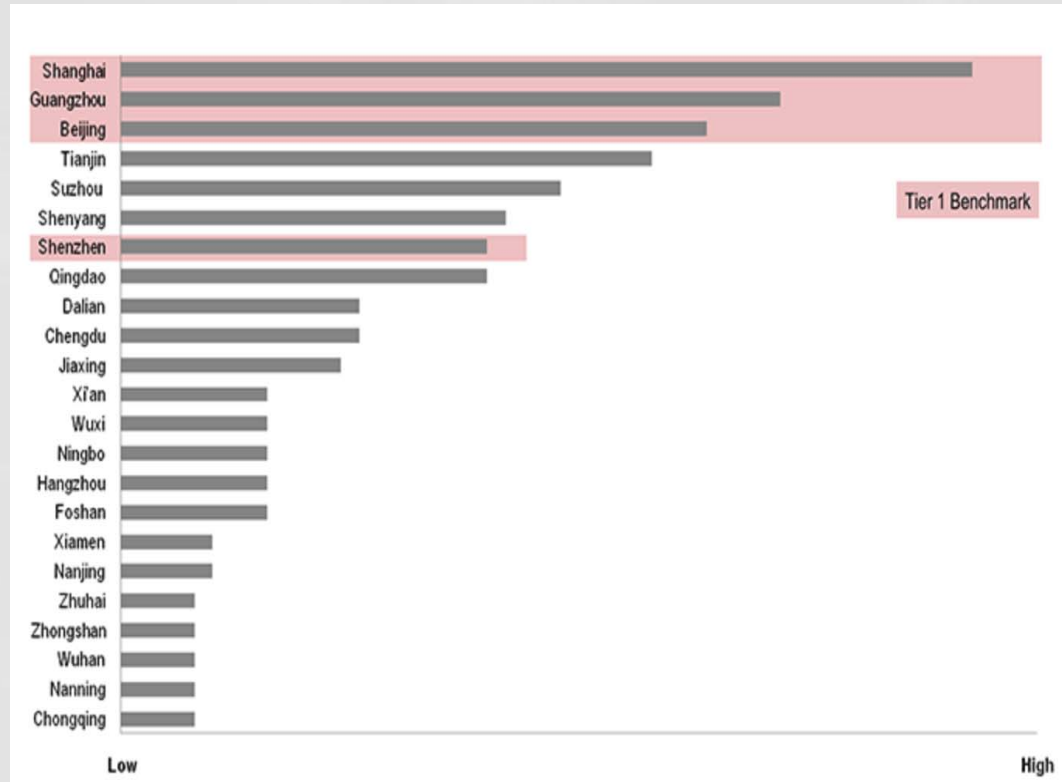
Challenges and
Opportunities

Conclusion

Intensified Competition



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Fast development of PRC logistics hubs

- Strong investment supported by government
- Opening market
- More transparent system
- Large capacity

Background

Analysis

Challenges and
Opportunities

Conclusion

Declined Investment in PRC Manufacturing



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Percentage Share of Air Cargo Value

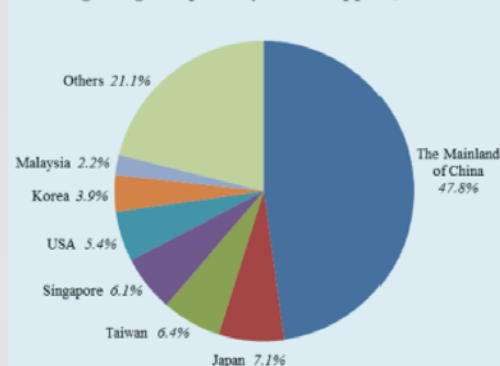
	2012	2013	2014*
Total exports	33.6%	35.2%	36.2%
Domestic exports	27.7%	27.4%	28.3%
Re-exports	33.7%	35.4%	36.4%
Imports	38.6%	39.4%	41.2%

Source: Hong Kong External Merchandise Trade, Census and Statistics Department

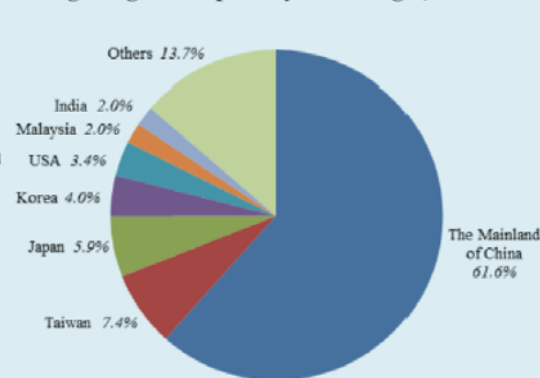
* January-October

- Main Business:
 - export
 - re-export
- Main supplier PRC

Hong Kong's Imports by Main Supplier, 2013



Hong Kong's Re-exports by Main Origin, 2013



Background

Analysis

Challenges and
Opportunities

Conclusion

Declined Investment in PRC Manufacturing



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Year	Domestic Exports		Re-exports	
	Value HK\$ Million	Annual change	Value HK\$ Million	Annual change
2004	125,982	3.5%	1,893,132	16.8%
2005	136,030	8.0%	2,114,143	11.7%
2006	134,527	-1.1%	2,326,500	10.0%
2007	109,122	-18.9%	2,578,392	10.8%
2008	90,757	-16.8%	2,733,394	6.0%
2009	57,742	-36.4%	2,411,347	-11.8%
2010	69,512	20.4%	2,961,507	22.8%
2011	65,662	-5.5%	3,271,592	10.5%
2012	58,830	-10.4%	3,375,516	3.2%
2013	54,364	-7.6%	3,505,322	3.8%

- Declined Manufacturing Investment
- Declined trades & logistics through HK

Background

Analysis

Challenges and
Opportunities

Conclusion

Removed Barriers between PRC & TW



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Previously

- PRC & TW: No direct trade due to political issue
- Transshipment through HK -> Large proportion of business

Now & Future

- Barriers in between removed
 - Weekly flights: 370 -> 616
 - PRC(41) & TW(9) airports opened
- Lost proportion of transshipment business

Background

Analysis

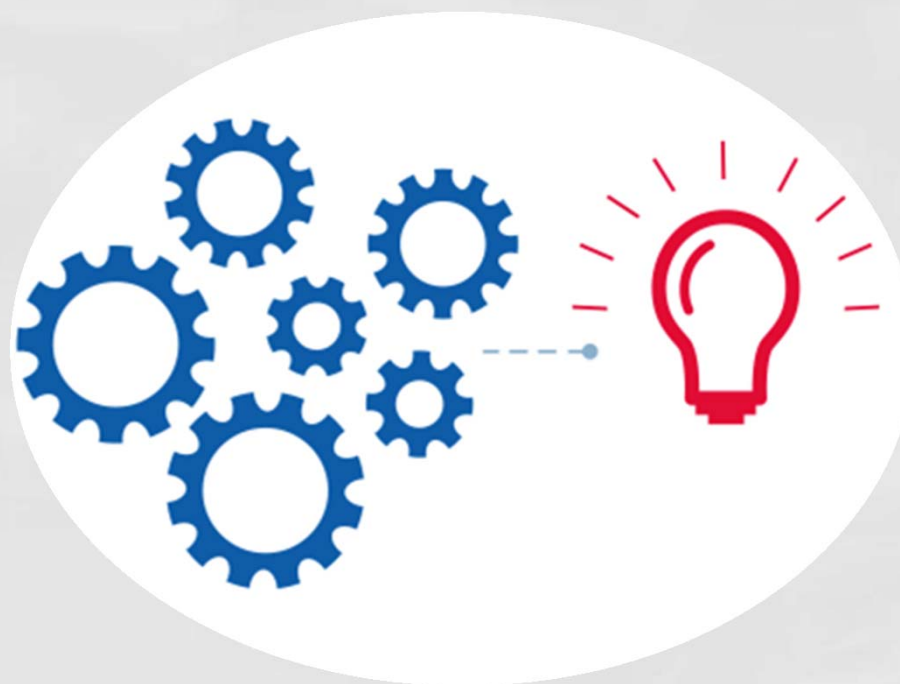
Challenges and
Opportunities

Conclusion



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Opportunities



Opportunity

Three Runway System



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Solve the
Saturation
Problem of the
Existing Two
Runways

Background

Analysis

Challenges and
Opportunities

Conclusion

Opportunity Inspection



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- Good Reputation
- Quality Audit Provider
- Service Provide:
 - Pick Up
 - Inspection
 - Customer Declaration

Background

Analysis

Challenges and
Opportunities

Conclusion

Opportunity

Huge Increase in Demand of Cargo Industry



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The Asia/Pacific freighter fleet will more than triple



At 6.4%p.a. growth Asia will require in 2023 more than three times more all-cargo aircraft than now



Background

Analysis

Challenges and
Opportunities

Conclusion

Opportunity

Airbridges Extention



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Background

Analysis

Challenges and
Opportunities

Conclusion

Opportunity

Airline Alliance



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Example:

- Hangzhou
- Date: 2005
- Goal:
 - enhance flow of people and goods
 - enhance trade cooperation and exchange
 - develop economy

Background

Analysis

Challenges and
Opportunities

Conclusion



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Conclusion



Conclusion



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Opportunities	Challenges
Airport expansion	China manufacturing decline
Good reputation in inspection	Competition between Nearby logistics hub
Airport strategic alliances	Barriers between PRC and Taiwan removed

Background

Analysis

Challenges and
Opportunities

Conclusion

Q&A



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