

**Speech by Mr. C.C.Tung at the
Logistics Hong Kong Conference and Exhibition on
May 18, 2004**

Thank you Mr. Chairman,

Ladies and Gentlemen,

This morning I have been asked to give some views on Hong Kong's intermodal capabilities. By the word "intermodal", I presume we all accept the general understanding that it refers to a combination of transportation modes, be they sea and truck, sea and rail or air and truck etc., in the delivery of goods on a door-to-door basis. Before I go into detail however, I would suggest that we bear in mind that Hong Kong's intermodal capabilities are to a large extent constrained by Hong Kong's geographical and political limitations. The constraints are that, from Hong Kong, we can only reach the factories scattered throughout the Pearl River Delta and the wider Guangdong province by truck through Shenzhen, and Shenzhen only or by barge sailing around the Pearl River estuary. Having to work within the bounds of these limitations, and with Hong Kong no longer enjoying the status of being the sole gateway port for Southern China, I would suggest that if Hong Kong relies upon her own resources in order to maintain her pre-eminent position as a gateway, then her intermodal capabilities are limited.

I will suggest during the next few minutes that we must explore and promote the development of both Hong Kong and Shenzhen intermodal facilities as a single and integrated intermodal logistics hub to serve not only the Delta itself, but also the Pan Pearl River Delta area which includes those other mainland provinces which

neighbour Guangdong. If we do this and if we are successful in such a development, the benefits will accrue not only to Hong Kong itself, but to the Pearl River Delta area and indeed to Southern China as a whole.

At present improvements in the connections between Shenzhen and many inland Southern China cities are proceeding at an unprecedented pace and not only by road. The rail connection between the Chengdu manufacturing region and Shenzhen has recently been improved and has reduced the transit time by half to just three or four days. Our efforts are also fast improving the physical connections of Hong Kong with Shenzhen. The outlook is promising. Even without the much debated bridge to connect Hong Kong, Zhuhai, Macao and probably Shenzhen, trucks, starting from Shenzhen, will in the very near future be able to reach many hinterland points in the far west and north of Guangdong province within just five hours, and much less to reach destinations in the east of the province. Not so long ago it could take a whole day just to transport a container from Shenzhen to either the Kwai Chung container terminals or the airport at Chek Lap Kok. The problems have stemmed from delays created at the boundary between Hong Kong and Shenzhen, but much effort has been and is being spent to cut down the time taken by cargo inspections and the other administrative procedures. Today, 97% of southbound and 86% of northbound containers are cleared within one hour. These efforts are most welcome but much still remains to be done. We have to do more in order to make the boundary as near to a virtual one as we can; at least as far as cargo movement is concerned.

Many of you may wonder how this goal may be accomplished. To abdicate responsibility and to leave the solution to government alone would not be the right thing to do and it would not produce the best result. The P-Logistics Project Group has already been set up under the Hong Kong Logistics Development Council and has had some success in the promotion of initiatives to further develop Hong Kong's

logistics services. But it remains up to industry itself to push for change and to suggest ways that the procedures might be improved and shortened. What has already taken place gives us some ideas as to what can be accomplished. Already some export airfreight cargoes bound for Chek Lap Kok are cleared at the boundary between Guangdong and the Shenzhen Special Economic Zone, not at the overstretched boundary crossing between Shenzhen and Hong Kong. Whilst this may just be a trial arrangement, the efforts are certainly in the right direction towards creating this virtual boundary which I have already suggested. It should always be remembered that there is no natural boundary between Hong Kong and Shenzhen; there is no major river, no mountain range. It is a boundary created by man and, as such and if we are determined, it can be dismantled by man.

I remain very positive on the subject of building yet closer ties between Hong Kong and Shenzhen and there are many examples around the world which we can use as models. Ports elsewhere, whilst serving the same hinterlands and located close to each other, have managed to collaborate for the benefit of all. There are three examples on the west coast of North America alone. In the north, Seattle and Tacoma; in the centre, Oakland and San Francisco and in the south, Los Angeles and Long Beach. On the east coast, New York and New Jersey have combined successfully to market their services as a single and efficient port operation. In Tokyo Bay in Japan, Tokyo and Yokohama support each other well, and in Europe, Bremen and Hamburg have forged a mutually beneficial relationship. The difference between these examples and that of Hong Kong and Shenzhen is that there are no borders between them and there are not the administrative and bureaucratic delays which such borders by their very nature create.

It should be remembered that the everyday scene here of long lines of trucks queued up at the Shenzhen border was, until comparatively recently, also an everyday sight at many European border crossing points. Today, the borders between Germany and

Austria or Austria and Italy are almost invisible, in fact virtual. Europe has achieved this under the auspices of the European Economic Community. Surely it is not too much to expect that we can achieve the same under the auspices of “One Country Two Systems”.

However, removing the problems of the boundary, but within the principles of “one country two systems”, is only one issue in the attempt to consolidate Hong Kong and Shenzhen into a single logistics hub. Another is to ensure that between them, Hong Kong and Shenzhen invest sufficiently in the infrastructure necessary to maintain such a hub.

In the business of containerised transportation, supply has to come before demand. A container ship has no cranes or other container handling equipment of its own. Cargo handling is carried out generally by land based gantry cranes operated by a container terminal. Therefore, the facilities have to be in place before the very first dedicated container ship can call at the port. Equally, once existing facilities at a port have reached full capacity no further containers can be handled and no additional vessels are able to call at the port. When such a saturation point has been reached the ramifications can be significant as a result of the congestion created. Many of you may still remember the U.S. West Coast port stoppage of two years ago. It resulted in a huge number of container ships anchored outside the port. Although the strike itself lasted for only a week or so, it took three months to clear the backlog of containers piled up at the terminals. The stoppage lasted only as short as it did due to the realisation by the US Federal Government that it had to intervene to prevent wide ranging industrial problems, potentially production stoppages in the absence of vital components and a shortage of consumer goods in many western states.

An inadequate supply of container terminal facilities can therefore create severe bottlenecks and serious problems for the hinterlands of both the load port and the discharge port. It also needs to be stressed that these issues apply not only to the container terminals themselves but also to the local infrastructure. Much of the congestion we see today, especially in Europe and North America, is caused by fully saturated land based transportation services and shortages of equipment, both container boxes and land based equipment such as trucks, chassis, railcars and the rail track itself.

I have digressed a little, but my point is that investment in container terminals has to come first, and by doing so it will attract business. The new airport at Chek Lap Kok is proof of this. It was built initially with excess capacity for both passengers and airfreight but since then, demand has grown and business has been attracted to the extent that it is now working at much closer to full capacity. It can be argued that Hong Kong in terms of seafreight, is a prime example of what can happen if the investment doesn't come first - demand builds up and finds an alternative source of supply. In our case, the substantial delays in the completion of Terminal 9 have contributed to the further development of the Shenzhen container terminals providing the much needed capacity to cope with the spectacular demand growth, but competing with Hong Kong.

However, this is the reality of today and we obviously must accept and indeed welcome the fact that the Shenzhen terminals are here to complement and to compete with Hong Kong. However, there is business for all. And the geography of the region is such that trade, both existing and potential splits itself naturally between the different facilities. The natural deep water port at Yantian has tremendous potential but, situated as it is to the east of Hong Kong, its natural hinterland and cargo catchment area is eastern Guangdong i.e. to the east of the

natural barrier of the Pearl River Estuary. The location of Hong Kong itself, and its existing terminal facilities, position it as the port for the Pearl River Delta and for western Guangdong i.e. to the west of the Pearl River Estuary, all the more so if the development of new terminal facilities on Lantau and the bridge to link Hong Kong, Macau and Zhuhai goes ahead, as seems likely.

There is also room for the other planned terminal facilities in the Pearl River Estuary and along its tributaries although it is likely that they will remain able to handle smaller vessels only due to draught restrictions. They have their own justifications, as they service China's coastal trade and its vibrant international trade with other South East Asian countries. This Intra-Asia trade has enjoyed one of the highest growth rates among all the major trade routes over the past five years and I am confident that it will continue to increase at a steady pace over the foreseeable future.

This strong growth in Intra-Asia volumes also provides the continuing and strengthening business for much of the mid-stream operations in Hong Kong. Although their handling fees are lower than those charged by the terminals, their efficiency levels are also lower. As this regional trade matures and grows further, certain carriers migrate to the terminals in their search for service quality improvements and greater efficiencies. This loss of business is more than replaced by the general strength of the trade as a whole while the migration provides additional demand for the existing terminal facilities in Hong Kong.

What is required therefore is a much closer co-ordination between Hong Kong, Shenzhen and Guangdong. Competition must remain in order to encourage cost efficiencies and service level improvements but we must work towards a reduction or elimination of the present cost differentials. The relatively higher Hong Kong trucking costs however, is one such subject to which attention should be paid.

Whilst the cost differentials of handling fees charged by the terminals in Hong Kong and Shenzhen have been narrowing over the past few years, the development of any new facilities must, on the other hand, observe the principle of "a level playing field" while, at the same time it should continue the momentum of further reducing the cost gap. We must find an equitable means of equalising these costs but these are issues to which the industry on its own cannot find solutions. It is also incumbent upon politicians and governments, both regional and national, to begin work to achieve this level playing field.

The integration of Hong Kong and Shenzhen into a single trade and logistics hub will create a solid economic entity of fourteen million people; itself a significant domestic market. This hub is ideally located on South China's major sea routes to the United States, Europe and the rest of the world and most especially to the rest of Asia. Hong Kong and Shenzhen are naturally gifted with deep-water ports, their hinterland of Guangdong and its neighbouring provinces is "the factory of the world" and communication and transportation links are growing and improving almost daily. As an area for investment, both foreign and domestic, it is difficult to conceive of any thing more attractive. However, it is not just the Pearl River Delta to be served by this hub but the much wider region of Guangdong and its neighbouring provinces, the Pan Pearl River Delta. This is an area with a population of 450 million, significantly bigger than North America and bigger even than the recently enlarged European Economic Community. It is developing fast and as it does so the trade flows will grow enormously as its people become more affluent and their demand for imported consumer goods grows proportionately. This is the future for the Hong Kong Shenzhen hub provided that the infrastructure is in place.

In Chinese, the term for "logistics" translates literally to "the flow of goods". From my long experience of the shipping industry it seems to me that the natural order of

things is that the flow of goods is what happens first. Afterwards come the significant flows of capital and people talent. Hong Kong itself is the prime example having its origins as just a trading post. From this has developed all that we have today as these flows have taken place over the last 160 year gradually developing world leading capabilities in port activities, such as chandling stevedoring, warehousing, distribution, trade documentation and finally banking, accounting and legal services. The maritime industry and the development of logistics, in all that the term means, are what created Hong Kong, and they continue to underpin its economy and prosperity. We must not forget this and allow ourselves to get left behind.

Ladies and Gentlemen, we all know and cannot dispute that the future of Hong Kong and its prosperity is inextricably tied to China. Part of this link, however, is the closer commercial and economic integration with Shenzhen and the Pearl River Delta. Certainly within the maritime sector, Hong Kong's intermodal capabilities and development are inextricably linked to Shenzhen and we must therefore, all work together in the creation of a single hub, both in the creation of a virtual boundary and physically in terms of more and better transportation links. It won't be easy and it will require much effort and dedication to achieve, but it will be to the benefit of all.