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Introduction

Logistics is one of the pillars of Hong Kong’s new economy

Logistics is the lifeblood of Hong Kong’s economy. In today’s IT-driven world, international trade is increasingly dependent on logistics providers, who create and maintain the supply chains that energize and enable the global movement of manufactured goods.

It is logistics skills that now give retail businesses their competitive edge. Importers demand the fastest possible turnaround times so that they can speed up the product-to-market cycle, reducing warehousing costs and creating a unprecedented ordering systems that can respond directly and swiftly to market demand.

The key to a successful logistics industry is using a vibrant hub that offers excellent international sea and air transport connections supported by an efficient infrastructure that offers a wide range of essential services including import/export trading, wholesale trading, transportation, forwarding and storage of freight, and courier and postal services.

Hong Kong not only has an abundance of these services, it also has the major advantage of being the natural gateway to the Mainland’s dynamic new factory belt in the Pearl River Delta (PRD) region, where today 31% of the Mainland’s export products are manufactured. Hong Kong also provides a free-market environment that is supported by a solid, internationally-recognized legal system, an impressive international financial services industry and a sophisticated business network.

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) enables Hong Kong logistics companies to have priority access to the booming market in the Mainland.

The Closer Economic Partnership Arrangement (CEPA) between the Mainland and Hong Kong has made the Hong Kong Special Administrative Region the ideal business base for entrepreneurs looking to do business in the Mainland. This has also given Hong Kong logistics companies priority access to the Mainland’s booming domestic market.

The logistics industry is one of the pillars of Hong Kong’s economy. As the development of the logistics industry is essential for maintaining the Hong Kong’s success and prosperity, there is an increasing number of initiatives to ensure that Hong Kong stays at the cutting edge of logistics. These include better links with the Mainland, enhancement of the physical infrastructure, creating new IT and e-commerce systems, developing a better labour force, and marketing Hong Kong’s advantages throughout the world. The Hong Kong Logistics Development Council (“LOGSCOUNCIL”), which was set up in 2001, provides a forum for the public and private sectors to discuss and coordinate matters concerning logistics development and is instrumental to advising the Government to take these initiatives forward.
Reasons for success

The “Fragrant Harbour” is a natural logistics hub

There are numerous reasons for Hong Kong’s success as a logistics hub.

Ideal location

Hong Kong is located at the heart of Asia. At the Southern doorstep of China, it is also within five hours flight from most Asian countries and half of the world’s population. Hong Kong’s ideal geographic location has made it the natural gateway for trade to and from Southern China. As the Mainland – in particular, the Pearl River Delta, where over 30% of the Mainland’s exports originate – has prospered and grown, the logistics sector in Hong Kong has become increasingly brisk and lucrative.

Large repository of knowledge and expertise

Hong Kong’s logistics industry professionals possess rich knowledge and experience in trading and providing logistics services for international customers. These skills, and the remarkable flexibility of local entrepreneurs, are especially important in today’s economy where just-in-time manufacturing and minimum-inventory supply chains are being forged around the world.

Efficient customs

The efficiency of the customs service is a vital factor in ensuring a dynamic and efficient logistics industry. In Hong Kong, the Customs and Excise Department works closely with relevant Government departments, its counterparts in other territories, and the private sector to provide an extremely efficient framework that minimizes border transit times for freight. This gives Hong Kong an important edge.

Strong legal system

Hong Kong is often the preferred logistics hub for many international traders because of its clear and transparent legal framework founded on the rule of law and an independent judiciary. A judicial system that operates independently from the executive and legislative branch of Government and makes its own judgments without fear or favour is a key element in the success and continuing attraction of Hong Kong as an ideal base for the administration of business development, investment and trade in the Mainland.

Excellent logistics facilities

Efficient, reliable and well-connected, Hong Kong’s state-of-the-art freight handling facilities have been a major factor in maintaining Hong Kong’s position as a major international logistics hub in the region. The container port, one of the busiest in the world,
handled 23.5 million TEUs in 2006, and the Hong Kong International Airport handled a record high of 3.58 million tonnes cargo in the same year, making it the busiest international air cargo hub in the world.

A free economy
The Heritage Foundation and the Cato Institute of the US, and the Fraser Institute of Canada have consistently rated Hong Kong as the world’s freest economy. With no barriers to trade, no tariffs, no quotas, no exceptions, no restrictions on inward or outward investments and no foreign exchange controls, Hong Kong is an ideal hub for international trade and logistics.

The Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA)
Fuelling further industry growth is the CEPA that provides Hong Kong’s logistics companies priority access to the Mainland’s booming markets. CEPA allows HK companies providing logistics, freight forwarding, storage, maritime transport and road freight services to set up wholly-owned enterprises in the Mainland. Since its inception, over 470 service providers from the transport and logistics sectors have obtained the Hong Kong Service Supplier Certificate necessary for reaping the benefits provided to them under CEPA.
Facing the changes

To succeed, the Hong Kong logistics industry must co-ordinate

The strength of the Hong Kong logistics industry comes from an overall excellence in six interlocking sectors — commonly referred to as the “building blocks” of the industry. These are —
• a robust, technically outstanding and consistently reliable physical infrastructure;
• an ubiquitous, secure and technologically advanced Internet infrastructure;
• a well-trained and innovative logistics workforce;
• an acute awareness of market requirements and marketing skills;
• an international business infrastructure that supports free trade; and
• the rule of law

Together, these “building blocks” create a world-class logistics environment that is dynamic, responsive and malleable to the changing demands of the industry.

However, maintaining the superior performance levels of Hong Kong’s logistics industry is a major challenge. The global trading community has recently turned to logistics solutions for enhancing their competitiveness, giving rise to an increasing demand for top-notch logistics services. There is a constant pressure for greater efficiency, faster turnaround times, lower rates, better IT solutions, enhanced physical infrastructure and top quality staff who can understand and fulfil a client’s every need. Further pressure comes from the fact that the whole logistics industry has gone through an upheaval as IT has enabled buyers and manufacturers to by-pass “middleman” companies; and to utilize “just-in-time” delivery to enhance profit margins in a wide range of industries.

Hong Kong logistics companies also face an additional threat from growing competition from neighboring ports and logistics hubs in the Mainland.

The service providers alone cannot meet these challenges.

The Government has identified logistics as one of the pillars of the Hong Kong economy. The continuing success of the industry is vital to Hong Kong’s economic prosperity. It was recognized that public investment in physical infrastructure, information technology, human resources and international marketing could create a conducive and sustainable environment for our business. However, in keeping with Hong Kong’s business philosophy, the Government also saw that the most effective guidance and decisions could only come from the industry’s entrepreneurs.

The then Vice-Chairman of LOGSCOUNCIL, Ms Eva Cheng (front row, 3rd left), with the winners of the Logistics Awards Hong Kong 2006 at the Prize Presentation Ceremony. Abundance of innovative professionals buttresses the success of the logistics industry.
The creation of Hong Kong Logistics Development Council

A vital forum and advisory body for the Hong Kong logistics industry

In the Chief Executive’s Policy Address in 2001, the idea to develop Hong Kong into a logistics hub to link up the Mainland with the rest of the world was first announced. Through the development of an inter-modal system and other supporting facilities to speed up the flow of goods and information, it was envisaged that the provision of integrated services will strengthen Hong Kong’s competitive advantage as a supply-chain base.

To fulfill this goal, the Hong Kong Logistics Development Council -- LOGSCOUNCIL -- was formed in December 2001.

LOGSCOUNCIL is an advisory body which provides a forum for the public and private sectors to discuss and coordinate matters concerning logistics development. Chaired by the Secretary for Transport and Housing of Hong Kong Special Administrative Region Government, its membership consists of 40 logistics industry leaders selected from both the public and private sectors and personally appointed by the Financial Secretary.

Under the LOGSCOUNCIL, there are five project groups to develop and implement work programmes for physical infrastructure, information connectivity, human resource development, support for small-and-medium sized enterprises (SMEs) and marketing and promotion. Each of the five project groups is led by an appointed “shepherd”. These groups study a multitude of issues, proposals and projects related to their specific areas, and their findings and suggestions are discussed at the full LOGSCOUNCIL meetings.

The five project groups

Ensuring all aspects of the industry get full attention

P-logistics Project Group (PLPG)
Shepherd: Mr. C. C. Tung, Chairman, Orient Overseas (International) Ltd.
The main focus of this group is the physical

The Tsing Ma Bridge, linking the Hong Kong International Airport with the container terminals in Kwai Tsing, is one of the key logistics infrastructures in Hong Kong.
infrastructure of logistics, that includes roads, the port, the airport, backup facilities and boundary control points. PLPG recommends ways in which these facilities can be improved, and advises relevant Government departments on ways to streamline the existing processes, and ways to improve the flow of cross-boundary traffic between Hong Kong and the Mainland. PLPG also advises the Government on major projects that will improve Hong Kong’s logistics infrastructure and the development of intermodal transportation services.

E-logistics Project Group (ELPG)
Shepherd: Mr. John Hammond, Director, Business Development, CLS Communication HK Ltd.

This group explores ways to enhance information connectivity in modern logistics and supply chain management. The group has steered and advised on the development of the Digital Trade and Transportation Network System (DTTN), a neutral, open and secure e-platform for logistics players to exchange information and data in an efficient, reliable and low-cost manner. The group is also studying the development of Radio Frequency Identification (RFID), and its potential for the Hong Kong logistics industry.

H-logistics Project Group (HLPG)
Shepherd: Mr. K K Yeung, Vice Chairman and CEO, Worldmart Jewelry & Gems Emporium (HK) Ltd.

The development of human resources is a vital component for success in the logistics industry, and is the key focus of this project group. The group studies ways to improve professional standards in the Hong Kong logistics industry, the adoption of professional accreditation schemes for local logistics practitioners, and the best ways to meet the growing demand for logistics experts in the various aspects of this increasingly complex industry. The HLPG also fosters exchanges of knowledge, skills and information within the industry, and monitors the skill sets that are demanded by the global logistics industry.

S-logistics Project Group (SLPG)
Shepherd: Ms. Miriam Lau Kin-yee, Legislative Councillor

The focus of this group is to ensure continuing development of the SMEs, which represent over 90% of the companies involved in logistics in Hong Kong, and employ a large proportion of the workforce in the industry. SLPG maintains an active dialogue and ongoing communication with the various representative bodies from all sectors of Hong Kong’s logistics industry, assesses their requirements, and recommends measures which can enhance the competitiveness and cost-effectiveness of the SMEs in a fast-changing industry.
M-logistics Project Group (MLPG)
Shepherd: Mr. Willy Lin, Chairman, Hong Kong Shippers’ Council

This group aims to showcase Hong Kong’s prowess in logistics and strengthen its network with other logistics centres around the world. The MLPG sends missions to the Mainland and overseas to exchange ideas, strengthen bonds and create new relationships. One of its roles is to actively promote the benefits of using Hong Kong as a logistics hub for any corporation or country wishing to trade throughout Asia.

Hong Kong Logistics Development Council in action

Projects that are making Hong Kong a global logistics leader

Since its establishment, LOGSCOUNCIL has been involved in many key projects in all sectors of the logistics industry. Those listed below give an indication of the scope, the achievements and the ongoing contribution of LOGSCOUNCIL to the Hong Kong logistics industry.

Improvements in transportation facilities and logistics land use

PLPG has discussed and advised the Government on various initiatives to expand our inter-modal connectivity with the Pearl River Delta (PRD), notably the changes that have improved cross-boundary traffic flow at Lok Ma Chau. The group has provided the Government with very useful insights throughout the consultation on the development of the Hong Kong-Shenzhen Western Corridor.

Since 2005, PLPG has also been actively engaged in locating potential sites for logistics facility use and port back-up facility development. Two barging sites to the north and south of the Container Terminal were tendered out in May 2006. Various sites have been identified for logistics use on long-term basis, as well as for long-term use in the future.

The Hong Kong-Shenzhen Western Corridor, commissioned in 2007, will enhance Hong Kong’s physical connectivity with our cargo hinterland in the Mainland.
The Digital Trade & Transportation Network (DTTN)
ELPG was actively involved in the development of the DTTN. Being a neutral and open e-platform for logistics players to exchange information and data in an efficient, reliable and low-cost manner, DTTN fosters system and service integration, as well as promoting information technology adoption in particular by the SMEs. The DTTN is looked upon as a precursor to a completely new way of doing business and providing new value-added services. One of the major advantages of the DTTN System is that it can link up stand-alone and vertical information systems in the supply chain, as well as an open platform for the common use by stakeholders along the supply chain – both local and international. Undoubtedly, it provides a comprehensive end-to-end coverage of electronic trade and logistics document transmissions across companies, sectors and geographical boundaries. Launched in December 2005, it is a major step towards ensuring that Hong Kong’s logistics industry will continue to compete on efficiency as well as price and location.

RFID and the supply chain revolution
ELPG is following closely the development of Radio Frequency Identification (RFID) in Hong Kong, an important technology that is forecast to spread rapidly through the logistics industry and bring unprecedented control and efficiency to supply chain management.

Currently, the development and introduction of RFID is being driven by large wholesale and retail corporations seeking better management over inventory, ordering and supply chains. Increasingly, these corporations are minimizing the inventory they hold at their retail or wholesale outlets, and rely on IT-generated sales communication, fast manufacturing turnarounds and swift deliveries to maintain their product ranges in their outlets. RFID enables massive improvements in speed and efficiency in every stage of this process, as well as allowing the introduction of new technology – such as automated checkouts in retail stores – that are impossible with current technology.

ELPG is acting as the interface between the LOGSCOUNCIL and the Hong Kong R&D Centre for Logistics and Supply Chain Management Enabling Technologies which is being set up by three Hong Kong universities with the Government funding.

Upgrading logistics skills
Hong Kong logistics professionals have built up world-class skill sets and levels of expertise. However, the growing emphasis and pressure being placed on logistics as part of the global commerce cycle requires the integration of all trading, supply chain, transportation and warehousing skills. HLPG is translating these market needs into human resource requirements, and communicating these requirements to relevant educational institutions.

HLPG was consulted on the implementation of a Qualifications Framework (QF), which aims to promote lifelong learning and...
improve the quality of the manpower for the logistics industry, by providing logistics practitioners with a clear articulation ladder.

To facilitate the development of human resources in the logistics industry, especially to promote the use of IT, HLPG joined hands with the Hong Kong Productivity Council to run a free-of-charge “Programme on the Use of IT and Automation Techniques in Logistics Services” to promote the adoption of information technology in logistics operation.

Launched in August 2006, the Programme focused on eight technology areas, including “Customs Clearance Enabling Technologies with e-Manifest”, “e-Documentation & DTTN”, “Fleet Management & GPS”, “Warehouse Management Systems for Manufacturing Technologies and Distribution”, “Freight Forwarding Management Technology Applications”, “Customer Relationship Management and Enterprise Resources Planning”, “Barcoding & RFID Applications”, and “OBTIS, Wireless Applications & Transport Security”. Through a series of workshops, demonstration sessions and a forum, the programme aimed to improve SMEs logistics practitioners’ technological skills and promote the development of value-added one-stop supply chain management services in Hong Kong.

By January 2007, 13 workshops and 9 demonstration sessions were held, attracting around 1,000 attendants.

**Industry communication**

SMEs make up a huge proportion of the total number of logistic companies in Hong Kong, and this makes the task of universal communication within the industry very challenging. However, to maintain high standards of performance throughout the industry, it is important to have constant communication that enables views and concerns to be expressed, heard and effectively met. On the advice of the SLPG, the Government has developed a logistics SMEs correspondence database to promote communication with logistics SMEs and to disseminate information of interest to them.

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

The application of electronic communication technologies in the operation of the trucking industry is the prevailing trend in the logistics industry. In 2006, the SLPG endorsed the development of a pilot project on the OBTIS to enhance inter-connectivity among truckers, carriers, shippers and terminal operators. OBTIS focuses on the application of electronic communication technologies, including Global Positioning System and RFID, to increase the flexibility in fleet management as well as maximizing the cost-effectiveness of trucking operation.

**Promoting Hong Kong as an international logistics partner**

MLPG has been instrumental in coordinating and leading the marketing initiatives of Hong Kong logistics industry in the Mainland and overseas. Two promotion trips have been organized to the USA and Europe to trumpet the advantages of Hong Kong as Asia’s logistics hub in 2005 and 2006. In 2006, MLPG also organized promotion trips to the Yunnan Province in the Mainland at the margin of the Pan-Pearl River Delta Regional Cooperation Conference. Seven memoranda of understanding with the Yunnan Authorities were signed to lay the foundation for future co-operation and deepen understanding between the logistics sectors in the two places.
Looking to the future

One of the vital roles of LOGSCOUNCIL is to look into the future of the logistics industry, not just in Hong Kong but also in the Pearl River Delta and Southern China. It is only by having a clear understanding and vision of the future that LOGSCOUNCIL is able to make appropriate recommendations to the Government regarding the development of the industry.

In order to meet the challenges of the future, the Hong Kong logistics industry is continually seeking to define its role and expand its reach in the light of the development trends in the logistics industry. To this end, the LOGSCOUNCIL has partnered with the Hong Kong Trade Development Council to review the current trend for logistics development through an industry survey, so as to come up with a set of principles for maintaining the competitiveness of the industry in the face of the opportunities and challenges ahead of us.

On the other hand, Hong Kong needs to stay on top of the key developments in the Pan-Pearl River Delta (PPRD) regional cooperation. The basic premise is that Hong Kong logistics network will reach deep into the nine provinces linked by the Pearl River, and together with Macau Special Administrative Region, Hong Kong will strengthen its position as the global trading gateway and logistics hub for this dynamic and densely populated area.

These provinces are at varying stages of economic development, but through close cooperation can complement each other to improve overall growth and prosperity. Guangdong and Fujian stand to benefit from the extensive natural resources in other provinces, and in turn offer them access to the “factory of the world” and the vast wealth that comes from international trade. In GDP terms, the nine provinces currently command 31.1% of China’s US$2.2 trillion total output. In 2005, the total value of their exports was US$291 billion, up 23.1% year-on-year. The amount represented 38.2% of the national total export.

Guangdong has already developed plans for key infrastructural projects that will provide better connections with other PPRD provinces. These plans, which will be implemented over the next five years, include the construction of an extensive network of highways, railways, freight handling facilities and storage facilities.

The massive investment in infrastructure by all member provinces will form the base for the logistics industry to expand and modernize. There will also be extensive investment in information technology to control the flow of goods and vehicles, improve the speed and efficiency of freight movements, and ensure highly competitive costs and speeding up processes.

With its prime location, excellent facilities, great human resource talent and international expertise, Hong Kong will play a crucial role in the PPRD’s development, and can look forward to expanding its role as one of the great logistics centres of the world. LOGSCOUNCIL will undoubtedly play a pivotal role in this development.
Appendices

### Hong Kong Port Container Throughput

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<td></td>
</tr>
<tr>
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</tr>
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</tr>
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<td>2005</td>
<td>22.6</td>
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</tr>
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<td>2006</td>
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### Hong Kong Air Cargo Throughput

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</tr>
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<td>2002</td>
<td>2.5</td>
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<tr>
<td>2003</td>
<td>2.6</td>
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<tr>
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### Hong Kong Cross-Boundary Road Cargo Throughput

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<tr>
<td>2005</td>
<td>38.7</td>
</tr>
<tr>
<td>2006</td>
<td>37.8</td>
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Value added per person employed in logistics

Economic contribution of logistics to Hong Kong economy (2005)

- Trading and logistics: 28.6%, of which logistics accounts for 5.2%
- Other sectors: 44.9%
- Financial services: 12.7%
- Tourism: 3.2%
- Professional services and other producer services: 10.6%