

China's inland waterways experience improvements

By Robert L. Wallack, AJOT

Not since the Ming dynasty in the 15th century has China opened up the way it has for hundreds of foreign trading partners. The planning, investment, and institutional reforms required to meet international trading needs of the 21st century, however, are formidable. Currently massive transport projects throughout China, such as those of the inland waterways, aim to improve transit times, lower costs, and, ultimately, bridge income disparities between coastal and inland regions.

China's central government, through various edicts, is making rapid adjustment of the water transport structure a top long term priority as foreign trade grew 15% compared with GDP growth of 7.5% in 2001. The shipping sector will see concrete changes in strategy, programs, policy, legislation, supervision, technology, management, safety, and training according to a recent Ministry of Communications (MOC) report which handles waterway and highway development. In fact, from 1996-2000, foreign trade cargo and container throughput of China's main inland ports increased from 22.4 million tons and .556 million teus to 43.97 million tons and 2.02 million teus for annual growth of 18.3% and 38.1%, respectively.

Some of the foreign trade cargoes include iron ore, grain, steel, coal and petroleum products. The MOC report states that domestic container port throughput increased at an annual growth rate of 244% from 1997-2000.

The urgency of improving the inland waterways and indeed all shipping sectors as outlined in China's Tenth Five-Year Plan (2001-2005) is emboldened by the goal to bring investment and better opportunities to the poorer western provinces. The World Bank is a prime mover in developing China's inland waterways and alleviating poverty with hundreds of millions of dollars funding projects along rivers, channels, and for container depots.

The World Bank has made extensive studies and three projects are in progress through mid- 2005 and the end of 2007, with a fourth waterway project in the planning stage.

Much of the work is concentrated in the two major waterways where commerce and income levels are expected to continue rising and bring prosperity further inland in the coming decades.

In a recent interview with the AMERICAN JOURNAL OF TRANSPORTATION, Robin Carruthers, Lead Transport Economist at the World

Bank states that, "Inland Waterways (IWW) II project of \$289 million total funding is more than halfway through and Inland Waterway III of \$220 million total funding just became effective," that means that it has been approved by the relevant Chinese authorities and the funds can now be dispersed. "We are just starting to prepare Inland Waterway IV for the southern province of Guangdong and Guangxi." The Inland Waterways I project had a total funding of \$556 million from 1995-2001 for improvements in provinces near the Yangtze in the east and the Pearl River Delta areas in the south.

The first of the two main river systems in China is the 6,300 kilometer long Yangtze (Changjiang) River with a network totaling 72, 813 kilometers whereby over 450 million people live on both sides of the river and over 70% of China's river transport is conducted on the lower reaches 400 miles from Nanjing river port to Shanghai. The other river system is the Pearl River Delta with a network totaling 13,000 kilometers and near over 40% of China's manufacturers, according to World Bank figures. There is also the Grand Canal which is 1,044 (WATERWAYS - continued on page 2A)

DHL announces expansion of US and Canada global service parts network

DHL Worldwide Express announced the kick-off of its global service parts logistics capability in the US and Canada with the opening of a key Express Logistics Center (ELC) in San Francisco, California.

"The opening of the San Francisco ELC marks the beginning of expansion plans for DHL's logistics offering in the US and Canada," noted DHL's Vice President Global Logistics, Charles Menkhorst. "DHL is the market leader in the provision of mission-critical service parts logistics solutions in regions around the world. Our

comprehensive roll-out into North America will secure a global offering for our customers."

In addition to the new San Francisco facility, DHL operates US-based ELCs in Cincinnati and Miami. DHL's ELCs operate in regions around the world including Brussels, Bahrain, Johannesburg, Hong Kong, Sydney and Singapore. An ELC will open in Tokyo this month.

DHL's ELCs serve multiple functions as both value-added regional logistics centers and buffer stock locations to replenish (EXPANSION - continued on page 3)

Globe Express Services enrolls in US Customs security program

US Customs has implemented a new Customs-Trade Partnership Against Terrorism (C-TPAT) program to increase supply chain and border security. Globe Express Services (GES) is pleased to announce its enrollment in this voluntary program as a way to play a more active role in the war against terrorism.

As part of the enrollment process, GES has completed a "Supply Chain Security Profile Questionnaire." Currently GES is conducting a detailed self-assessment of supply chain security including physical, procedural and personnel issues. In addition,

C-TPAT participants are required to develop, implement and maintain a program to increase supply chain security throughout their organization. Participants must comply with C-TPAT guidelines and those rules must be conveyed to all other companies in the supply chain.

The benefits for Globe Express Services and its customers include expedited processing of imports at US ports of entry, which could reduce overall customs clearance time. GES is committed to fulfilling all obligations of the C-TPAT program and considers supply chain security a top priority.

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kilometers long from Beijing to Hangzhou in the south and crosses the Yellow and Yangtze Rivers and several provinces. Containerized shipping through the 55 inland river ports is expected to reach five million teus by 2005 with 10 main China river shipping companies partnering with foreign shipping companies in logistics service agreements.

Gradually, with the impetus of China's recent admission to the World Trade Organization (WTO), the arcane waterways' physical and institutional structures are improving. The most needed changes over time are for dams, shiplocks, river widening and silt dredging, new vessel fleets and administration to name a few. Over the years waterway dams were built for hydropower and agriculture at the expense of transport which needs locks for efficient vessel traffic flow.

For example, in the World Bank's IWW I project, "two multipurpose dams were built, one in the upper reaches of the Pearl River in the southern province of Guangxi, and the other on a tributary of the Yangtze River in Hunan province. Together with deepening of canals in coastal Zhejiang province, these are aimed to the navigation of larger barges," according to Carruthers. Furthermore, IWW IV proposes another small dam that will allow 500 dead weight ton (dwt) vessels to navigate a further 300 kms, beyond Nanning, the capital of Guangxi province to the strategically located inland port of Baise, added Carruthers.

Currently, the service with transit time delays and lack of investment to allow the operation of large barges and barge trains undermines the long term potential for waterways to be the least expensive mode of transport for bulk and container traffic.

For dredging, the World Bank indicates that China, despite having more than 100,000 kms of waterways, has less than 5,000 kms with a year-round depth of 2.75 meters or more compared to 24,000 kms in the United States and 12, 800 kms in Western Europe. Moreover, while China's waterways carry

more freight traffic than those of the US or Europe, they have the lowest traffic density.

The World Bank's Inland Waterway II project concentrates on the southern province of Guangdong in the Pearl River Delta and the eastern province of Jiangsu in the Yangtze River and Grand Canal areas to ameliorate some of the river transit problems. Carruthers explains that in Jiangsu the World Bank is financing additional shiplocks on the Grand Canal to handle 90 million tons per year of mostly coal. There have been delays of several days for vessels to enter the southern part of the Canal from the Yangtze River.

When the project is finished, an additional lock on the southern entrance will eliminate delays for most of the year.

In addition, second and third parallel locks at locations on the northern section of the Canal section will have the same result while at the same time facilitating the navigation of vessels of up to 2,000 dwts. "Finally, much of the aged vessel fleet will be scrapped in favor of newer and larger vessels through a scheme along the European model of 10 years ago, this time with Chinese bank financing, but World Bank technical advice," said Carruthers.

The underutilization of the waterways is caused not only by insufficient funding, poor planning, and neglect, but by an administrative system that dates back to the period of a planned economy and lacks adequate coordination between institutions. To help resolve this problem, the World Bank loans help restructure and reform the waterways agencies. Any meaningful changes to the shipping structure requires professional outside experience from international organizations and corporations.

The World Bank is pleased with the progress made so far in reforming the agencies, particularly the amount of decentralization of responsibility from Beijing to the provinces, but much remains to be done now at the local and provincial level. At the national level, where responsibility for inland waterways is with the Min-

istry of Communications, there is lack of coordination on tariffs and investment with the Ministry of Railways. "So, there is still a cross subsidy for coal in the rail tariff structure so that much coal is still transported by rail even where there is a waterway that could be used at a much lower cost. This is true for the Grand Canal and the Pearl River Delta both of which have overloaded railways operating in parallel, and in the case of the Pearl River with massive spare capacity as far as Guangxi province, some 800 kilometers inland," according to Carruthers.

Carruthers remarks that the World Bank is working together with the Chinese government at the national and provincial level with some success. One long-term institutional restructuring under consideration is to re-organize the Ministry of Communications and

Ministry of Railways which are at odds for smooth coordination of development into a Ministry of Transport for all modes of transportation. He finds that there are also opportunities for making waterways bureaus more user oriented. Part of the problem comes from the internal organization of many of the bureaus that separates responsibility for waterways infrastructure from that for regulating the vessels that use them. One consequence of this is that although the shiplocks on the Grand Canal are designed for 2000 dwt vessels, the average size of those using them is less than 100 dwt. The vessel scrapping policy is designed to address this issue, and its successful implementation requires improved coordination between the two parts of the waterways agency.

Ultimately, Chinese government shipping sector mandates together with international banking and foreign assistance will develop intermodal container transport networks throughout China. "There are several container terminals operating along the Yangtze River now (i.e. the largest Nanjing, Nantong, Zhangjiayang, Changsu, and Chongqing).

"Other small ports are still using the breakbulk and general cargo wharf to handle the

containers," said William Chan, Director Operations/Networks, American President Lines (APL) Greater China.

New seeds for container transportation are planted with gradual growth sprouting in several areas. For example, the World Bank is working with the State Economic and Trade Commission and four provincial governments on a Container Transport Project through mid-2005 with total funding of \$159 million. The project aims to set up Inland Container Depots (ICD) so that containers can move smoothly from seaports to inland areas. Equipment purchases and construction is taking place on two pilot corridors. One extends from the northeast Tianjin Port to Inner Mongolia and the other from Shanghai Port to Zhejiang province. Total financing will build nine to 10 container terminals along the two corridors for intermodal traffic.

"The World Bank finds that there is a shortage of container trucks to make the container terminals function properly, so the Bank loan will finance just enough container trucks and gantry cranes to make sure the ICDs can get started. After that they are on their own as far as investment is concerned, although they continue to get technical help and training, both from the Bank loan and Canadian assistance," said Carruthers.

On site project lead, Supee Teravaninthorn of the World Bank told the *AMERICAN JOURNAL OF TRANSPORTATION* that, "...foreign companies are not making use of the new depots, yet, and that large size (6x4) container trucks are still in shortage as there are no domestic producers yet, and foreign import faces some restriction."

However, major international container carriers such as Orient Overseas Container Lines (OOCL) have pioneered transportation programs in rail, intermodal, and waterways for a large presence in China. OOCL operates weekly fixed day barge and other weekly-scheduled stops on no less than 22 ports along their Yangtze River Barge Service and Pearl River

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Barge Service. OOCL meets any obstacles in a spirit of cooperation and support of local operations for gradual changes.

"In the southern Pearl River Delta, river transportation is not effected by mother nature, except by typhoons. The eastern Yangtze River is effected by mother nature with a severe flooding season, so the river is very wide which presents a container problem," said M.K. Wong, Director of Marketing at OOCL. "There are ship berths at ports along the river with self-propelled cranes to unload containers. The operation is to pull the containers up the embankment by landside cranes which is time consuming," he said.

Foreign companies are making excellent use of OOCL's barge service for exporting finished goods and importing parts in China despite faster railway transit times. "There are a few inland foreign electronic manufacturing companies and major automotive and high-tech manufacturers, as well as some products which are heavy in their loads who may prefer the waterways for two reasons. Firstly, there is minimum vibration with water and barges for glass products and glass tubes for televisions and some computer products. Secondly, the barges can take the weight involved," said Wong.

"OOCL is actively working to do our part to bring our international experience to support China in enhancing their transportation system. We are encouraging a more open exchange in sharing experiences in the US by showing how systems work in pre-planning, job ordering, billing, electronic data interchange (EDI) and other infrastructure technologies. In fact, there is a pilot program for EDI with strong government approval at the confluence of terminals, customs, and barge operations and OOCL is actively involved," said Wong.

American President Lines is having a marked impact on river trade development in China. APL is able to issue bills of lading along the Yangtze River ports in Jiangsu, Anhui, Jiangxi, Hubei and Sichuan provinces with local inland barge

service agreements as well as providing connections to our global network," according to Chan.

APL enjoys a long tradition in China, since 1867, of building relationships to, "...provide delivery reliability and cost effective services for our customers," said Chan.

One such customer service enhancement is through the processing of documents in China. "Two years ago, APL began a Shanghai based Regional Administrative Center (RAC) to centralize our back office processes across the region. The employment of 175 people showed productivity increased by two-thirds and the cost of processing documents has reduced, significantly," Chan said.

Hong Kong international moving service company, Crown Worldwide, through its Logistics unit provides import and export freighting of commercial and industrial shipments from suppliers' floors to the final job site floor in the Pearl River Delta.

Clients include major multinational manufacturers and distributors in industries such as oil and gas, engineering, electronics, consumer products and power generation.

"Currently, we keep on using Pearl River for transporting the shipments for our customers. We use river ports in Xinhui and Zhuhai in Guangdong to move power plant equipment, spare parts, oil well drilling equipment, and boiler equipment. The value of cargo transported for generators and turbines was about \$5 billion from 1993-97 or 2000 teus plus 150,000 freight bulk cargoes," said Bobby Ng, Division Chief- Logistics, China, SAR, Crown Worldwide.

There is much room for optimism in the face of the numerous obstacles to river trade in China. "There are many difficulties when using the Pearl River Delta, such as poor jetty and terminal, lack of heavy lifting equipment, poor communications, old feeder and barges and poor safety concept," said Ng. However, he said, "Nowadays the Pearl River Delta improved a lot, because China has opened up the market and 'has learned' a lot of modern issues that can improve themselves."

Resolution urges Bush to secure free lumber trade between US and Canada

A bi-partisan resolution, introduced in the US Senate on March 13, by Senators Don Nickles (R-OK), Jim Bunning (R-KY), James Inhofe (R-OR), Chuck Hagel, (R-NB), Jon Kyl (R-AZ), Pat Roberts (R-KS), Jack Reed (D-RI), Evan Bayh (D-IN), Peter Fitzgerald (R-IL), Richard Lugar (R-IN), urges President Bush to continue pursuing discussions with the Canadian Government to "promote open trade between the United States and Canada on softwood lumber, free of trade restraints that harm consumers." The resolution number is S. Con. Res. 22.

The US Department of Commerce imposed 27% countervail and antidumping duties in May after the International Trade Commission (ITC) found that there was a potential for a "threat" to US lumber producers from Canadian lumber imports. The ITC also concluded, however, that there was no evidence that Canadian lumber imports had harmed the US industry at that time. The duties have been opposed by the American Consumers for Affordable Homes (ACAHA), a broad-based alliance of consumer groups, trade organizations, and companies, that represents more than 95 percent of US softwood lumber consumption.

The resolution also asks that the Commerce Department and US Trade Representative

include all affected parties in any discussions, not just lumber interests. "It's time for our trade policy to reflect fairness to all of the stakeholders, including consumers, in discussions about trade in lumber," said Sen. Nickles, lead Senate sponsor of the resolution.

The duties are harming US consumers, according to ACAHA spokesperson Susan Petniunas. "Tariffs imposed last May on finished lumber for framing homes and remodeling, may increase the average cost of a new home by as much as \$1,000," she said. "Based on information from the US Census Bureau, that additional \$1,000 prevents as many as 300,000 families from qualifying for home mortgages."

"These duties amount to a federally imposed 27% sales tax on first-time homebuyers," Petniunas added. "Consumers' interests should be a major factor considered by the Administration, and we appreciate the Senators urging President Bush to do so. These duties hurt our ability to provide affordable housing, and jobs within lumber consuming industries."

Because there are not enough trees available to produce framing lumber for home building in the US, Canadian lumber imports are absolutely vital for the construction of

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ish the company's high-density network of Strategic Parts Centers (SPC). The SPCs are strategically located to ensure two to four hour deliveries to customers' mission-critical operations. DHL plans to operate 55 SPCs in the US and 330 globally by the end of 2002.

DHL's logistics offering targets the service parts logistics industry. Over the last five years

DHL has developed integrated solutions for companies with time and mission-critical parts and high-value, high-impact goods. A leader in the service parts logistics field in Europe, Asia Pacific and Latin America, the company's expansion into North America secures its truly global offering. DHL provides a single-company solution for customers with global service parts logistics needs.