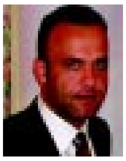
The Yin and Yang of Chemical Logistics

Logistics Challenges of Sino-European Chemicals Trade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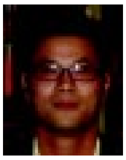
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China's third-largest industry, behind textiles and machinery, chemicals account for more than 10 percent of the country's GDP and nearly 40 percent of the growth in global demand. While the country has been dramatically increasing its production of chemicals, it remains in a net deficit position in the world market and is expected to be heavily dependent on imported materials for at least the next decade. As a result, many European chemical companies are building plants in China to be closer to their customers, while maintaining their European operations to meet local demand. This situation poses special transportation and logistics challenges for both China and its Western trading partners.

Any European chemical company intending to trade with Chinese companies or move production facilities to China should first have a thorough knowledge of the country's governmental and trade regulations. This is essential to avoiding delays in the construction of production plants, warehouses, and logistic terminals and in exporting project-related goods to China.

Sea and air shipments of chemicals and hazardous materials are subject to numerous restrictions, and should be handled only by an experienced specialist. In the absence of definitive national standards, however, most Chinese trucking companies and warehouse operators are naïve regarding the special handling requirements for hazardous materials, or rely on their own internal or local standards.

Capacity Challenges

This situation is further complicated by shortages of transport capacity and warehouse space. European chemical companies like British Petroleum and logistics service providers that specialise in hazmat handling are helping to educate China's chemical industry regarding the importance of standards, regulatory compliance, and avoiding dangerous, costly incidents. Notwithstanding these challenges, China is making steady improvement in its business environment. Twenty years ago, the central government was so obsessed with attracting foreign investment, it did virtually no planning. However, 10 years ago it started centralising the manufacture of certain products in industry-specific zones; the government is now addressing environmental issues, including reduction of chemical wastes.

Another challenge to European chemical companies doing business in China is infrastructure, both in terms of transportation and logistics support. The chemical industry, like others in China, is subject to infrastructure inadequacies and transport weaknesses that impact the production and delivery of both supplies and finished products. Moving goods over the country's many toll roads can make getting them to market a costly proposition. Trucking a 40-foot container from Beijing to Shanghai, for example, can cost as much as USD 400. The alternative is to battle endless congestion on non-toll roads.

What is needed is a comprehensive transportation infrastructure, as well as a superstructure of motorways and direct links to major ports. Until these become realities, European chemical companies will need logistics service providers who know this market intimately and have their own 'infrastructure' of branch offices in China. Nor should the cultural aspects and language barriers to doing business in China be underestimated.

Container Traffic

Turning to Europe, surging imports of consumer goods from China and other Asian nations have boosted container traffic by as much as 15 percent. Industry analysts say congestion will remain an issue without major investments in new terminals. While ocean container traffic will likely grow by an average of 9 percent a year between 2006 and 2010, planned terminal capacity will increase by only 5 percent.

The ports of Antwerp, Hamburg, Rotterdam, and others will add millions of TEUs of capacity over the next decade. However, increasing congestion, a rail system in decline, and resistance to modernisation initiatives by labour unions and politicians will continue to adversely affect Europe's ability to accommodate its growing flood of Chinese imports.

In the meantime, the port of Hamburg is well positioned to serve northern Germany, Scandinavia, Poland, and the Baltic states. Countries like France, the Benelux countries, and parts of Spain should be served through the port of Antwerp/Rotterdam. The ports of La Spezia and Genoa are the key hubs for southern France, southern Germany, Switzerland, Italy, and the former Yugoslavian Republic.

Companies that use chemicals in the production of end-products for export to the EU should transport high-value goods via cross-docking operations to reduce lead times to the final consignee. The entire logistics process should be coordinated through a state-of-the-art information system which offers pre-alerts, tracking and tracing, as well as reporting functions. Moreover, logistics service providers should have their own network of branch offices in Europe with opportunities for pre-carriage to final consignees. Only 3PLs and 4PLs with extensive chemical industry experience can offer truly unbiased selection of the optimal carrier mix, e.g. rail/road, combined traffic or block trains.

Dominated until recently by a handful of large state-owned enterprises, the Chinese logistics industry has undergone a rapid transition. The past decade has seen the emergence of both domestic and foreign 3PLs, and logistics has become a national priority as evidenced by dramatic infrastructure improvements in recent years. Today China is the world's largest manufacturing base and rapidly becoming the world's largest market. The logistics industry is critical to China's long-term economic growth and social stability. Logistics costs as a percent of GDP are roughly double what they are in the US, and to keep pace with its economy, logistics services must grow nearly three percent for every percentage point increase in GDP. The Chinese logistics industry, which tends to run high on cost and low on service quality, is still evolving. Therefore, European and Chinese shippers alike would be well served to pick their logistics partners with an eye toward firms whose service portfolios are international in scope. However, it is important that they select only those firms with strong local expertise, supported by global command and control of information. ■

PROFILE

BDP International is a privately owned, US based global logistics and transportation management company that derives more than 60 percent of its revenue serving the chemical industry. The company has been operating in China for more than 11 years. Through offices in Beijing, Dalian, Guangzhou, Hong Kong, Ningbo, Qingdao, Shanghai and Tianjin, BDP China provides supply chain analysis and consulting, single-buyer consolidation and expertise in local documentation and regulations, in addition to ocean and air export, import/export customs clearance, bonded and non-bonded warehousing, distribution and inventory control. A Class A international freight forwarding agent, the company is also a licensed non-vessel operating common carrier (NVOCC). As the demand for logistics services from both its Chinese and European customers increases, BDP is planning to expand its presence in China in the first quarter of 2007, opening offices in the emerging cities of Chongqing, Nanjing and Zhangjiagang.

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