



The Logistics Bulletin

Issue 2: Building bridges across key markets around the world

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Prepared by the PricewaterhouseCoopers Corporate Finance Logistics team, Singapore, this brief bulletin seeks to provide a unique perspective of the logistics industry. In this edition, we discuss how the recently concluded US Singapore Free Trade Agreement (USSFTA)

will impact the logistics and transportation industry in Singapore and the region. We also take a brief look at other FTAs that Singapore has concluded with key trading partners. If the North-Atlantic Free Trade Agreement (NAFTA) experience is a comparable model to go by, the reduction in trade barriers & tariffs will stimulate trade flows to and from Singapore, benefiting our logistics and transportation industry. We also highlight a new GST scheme that will bring about significant cost savings for Third Party Logistics (3PLs) in Singapore, especially those operating bonded warehouses. Finally, as part of our benchmarking survey, we have included a table on the market performance and financial highlights of logistics companies around the world. If you would like to have more information on the impact of FTAs on the logistics & transportation industry in Singapore, please do not hesitate to contact us. We look forward to hearing from you.

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The US Singapore FTA

On 6 May 2003, Singapore Prime Minister Mr Goh Chok Tong and the US President signed the US Singapore Free Trade Agreement (USSFTA) in Washington. Subsequently, the USSFTA was approved by the House of Representatives on 24 July 2003 and by the Senate on 31 July 2003. With this congressional passage, the USSFTA is expected to come into force by January 2004. The USSFTA once implemented, will remove tariffs and trade barriers imposed on annual bi-lateral trade between the two countries of almost US\$33b per annum.

Hailed as the first FTA between the US and Asia, the USSFTA will not only liberalise trade between US and Asia but also work to better integrate the US and the ASEAN economies.

According to Mr Raymond Lim, Minister of State for Foreign Affairs and Trade and Industry, the USSFTA is expected to contribute to Singapore's GDP growth by 0.5%. This is achieved through the resultant higher contribution from the manufacturing and service sectors. Industries which stand to benefit include the electronics, chemicals and petrochemicals, instrumentation equipment, processed foods and mineral products.

Key Highlights of the USSFTA

- Singapore commitment: Zero tariffs on all imports of goods from the US into Singapore.
- US commitment: Elimination of 92% of current tariffs on export of goods from Singapore to the US, with the remaining tariffs to be eliminated within 8 years.
- Service suppliers from both sides to get fair and non-discriminatory treatment and market access. For example, US states will have to give Singapore service suppliers the same treatment it gives to suppliers from that state or another US state. Singapore to set up a "General Competition" regime by 2005. This provides continual assurance that Government Linked Companies (GLCs) are commercially run and that US companies are not being discriminated against.
- Better access for US banks to Singapore's retail banking sector as quotas on Qualifying Full Bank and Wholesale Bank licences are removed over time.
- Better market access for US professional firms providing legal, architectural, engineering and land surveying services.
- Increased intellectual property rights protection for trademarks, copyrights, patents and trade secrets. Singapore to cooperate in strengthening border controls over the movement of pirated and counterfeited goods to the US.
- Under the Integrated Sourcing Initiative, goods manufactured in the region will also qualify for duty-free access into the US.

Beneficial Impact of FTAs

As a result of the tariff cuts, Singapore-based exporters to the US expect to enjoy cost savings estimated at US\$200 – 300m. In the longer run, the USSFTA will significantly boost trade volume and investment flows as well as increase employment opportunities between the two countries. As evidence of case in point, the Canadian Department for Foreign Affairs & International Trade reported significant gains in trade, foreign direct investments (FDI) and jobs created for Canada under the NAFTA¹ (established among the US, Mexico & Canada). More specifically:

- Canada's merchandise trade with the US increased 80% in the first 5 years of the NAFTA.
- Canada's merchandise trade with Mexico doubled over the same period.
- Total Canadian exports to the US and Mexico increased by 80% and 65% respectively, in the first 5 years of the NAFTA.
- The US' investments in Canada reached US\$147.3b in 1998, up 63% from 1993.
- Mexico's investments in Canada reached US\$464m in 1998, tripling from 1993.
- More than 1m new jobs have been created in Canada since 1994.

Similar to NAFTA, MERCOSUR formed in 1991, is the third largest trading pact in the world after NAFTA and the EU. Trade amongst the four MERCOSUR countries (namely, Brazil, Argentina, Uruguay and Paraguay) increased by more than 400% from 1990 to 1997, when it reached total trade exceeding US\$20b.

Besides the USSFTA, Singapore has also signed FTAs with various other countries. These countries are as follows:

- New Zealand
- Japan
- European Free Trade Association (namely, Switzerland, Iceland, Liechtenstein and Norway)
- Australia

In addition, Singapore is also negotiating FTAs with the following parties:

- Mexico
- Canada
- ASEAN
- The People's Republic of China
- South Korea
- India
- Hashemite Kingdom of Jordan

Rules of Origin

Only goods originating from the signatory countries of a FTA can enjoy preferential treatment from the FTA. When determining the “origin” of a good, the good must either be wholly obtained from, or have undergone substantial transformation in the country of presumed origin. The basic principle under the Rules of Origin for manufactured goods is that the country of origin is the *last country* where a *substantial transformation* has taken place.

The USSFTA is unique as certain categories of manufactured goods such as information technology, telecommunications and medical instruments can also enjoy preferential treatment under the FTA. Though it is not specifically stipulated in the USSFTA, observers believe that the goods manufactured in the nearby Indonesian islands of Batam and Bintan will also be covered under the USSFTA and as such, benefit from preferential treatment.

Impact on the Logistics sector

Clearly, with the implementation of the USSFTA in 2004, the logistics & transportation sector serving the US-Singapore trade lanes will benefit from the increased trade flows.

The favourable investment climate made possible by the USSFTA will help attract more MNCs to base their operations here and use Singapore as the location for their regional headquarters and gateway into the region. At the same time, there is added incentive for manufacturers from the region and Asia to operate in and use Singapore as a gateway to the US market as by doing so, they will stand to enjoy the tariff concessions. The strategic combination of low land cost and inexpensive labour in Batam and Bintan, together with Singapore’s advanced sea and air transportation infrastructure, makes Singapore a very attractive investment hub. This places Singapore in an advantageous position against our neighbouring countries for FDI.

The information technology, electronics, telecommunications, medical instruments, garments, chemicals & petrochemical sectors will enjoy preferential treatment under the USSFTA. This translates into a business boom for the logistics and transportation industry (in particular air freight forwarders, express integrators and 3PLs) as many of the products of these sectors are time-sensitive, high-tech, high-value and require speedy and reliable delivery.

Given that Batam and Bintan are likely to be covered under the USSFTA, logistics companies with the ability to provide logistics services between Batam, Bintan and Singapore, such as the logistics supply base joint venture (70% owned by Singapore Offshore Petroleum Services) based in Batam to support the petrochemical industry operating in Indonesian offshore waters, will benefit under the USSFTA. (Singapore Offshore Petroleum Services is a subsidiary of Sembcorp Logistics.)

Notwithstanding, some Singapore logistics companies, in particular the Government Linked Companies (GLCs), may face new challenges with the implementation of the USSFTA. The Agreement specifically stipulates that GLCs should be run on purely commercial grounds. With the enforcement of a Competition Law by 2005, all service providers, whether GLC, private or US-based, will compete on equal footing for Government projects. This suggests that companies such as Sembcorp Logistics, which derives 42% of its revenue from the Public Sector² and enjoys close relationship with the Singapore Armed Forces, may be up against increasing competition.

A second point to note is that some of the local logistics service providers in Singapore may not have the capabilities to take full advantage of the FTA. Customers will obviously prefer to work with logistics service providers who are able to meet their requirements both in Singapore and the US at reasonable cost. However, few Singapore logistics service providers have the geographical presence and operational ability to adequately service their clients in both countries, unlike the larger global logistics and express companies who are better positioned to take advantage of the USSFTA.

Conclusion

Clearly, the USSFTA is a positive development for Singapore and the logistics & transportation industry. While some local logistics service providers may have to restructure existing business operations before they can capitalize on the USSFTA, on the whole, logistics service providers in Singapore will stand to gain from the USSFTA. It is imperative that logistics service providers in Singapore and other parts of Asia take full advantage of the various FTAs that their respective countries are a party to. The inability to do so would mean the risk of being marginalized by the larger, global foreign logistics service providers.

Sources:
 US Singapore Free Trade Agreement
 The Business Times
 Dow Jones International News
 Ministry of Trade and Industry

² Source: Annual Report 2002.

FINANCIAL HIGHLIGHTS OF LOGISTICS COMPANIES

JULY 2003

US\$m	Country	Market Cap	Turnover	Net Income	PS	PE	P/Book	Prof Margin
Asia								
YAMATO TRANSPORT CO LTD	JAPAN	5,972.67	7,095.65	370.46	0.83	16.03	1.99	5.2%
NIPPON EXPRESS CO LTD	JAPAN	4,178.38	10,600.46	140.26	0.39	29.40	1.65	1.3%
TOLL HOLDINGS LIMITED	AUSTRALIA	1,442.69	1,336.52	48.63	0.96	25.54	4.89	3.6%
SINOTRANS LIMITED-H	CHINA	1,320.94	1,737.14	73.36	0.50	11.70	3.61	4.2%
NISHI-NIPPON RAILROAD CO LTD	JAPAN	1,100.92	1,168.30	28.59	0.94	38.49	1.91	2.5%
MITSUBISHI LOGISTICS CORP	JAPAN	1,025.90	1,056.70	49.73	0.97	20.62	0.95	4.7%
SEINO TRANSPORTATION CO LTD	JAPAN	996.13	2,212.73	29.61	0.45	33.41	0.57	1.3%
SEMBCORP LOGISTICS LTD	SINGAPORE	925.94	254.49	23.84	3.64	38.98	5.40	9.4%
HITACHI TRANSPORT SYSTEM LTD	JAPAN	705.34	1,634.25	10.79	0.43	67.14	0.85	0.7%
KINTETSU WORLD EXPRESS INC	JAPAN	402.64	697.27	11.93	0.58	35.38	1.96	1.7%
SANKYU INC	JAPAN	256.00	2,216.57	6.35	0.12	40.21	1.22	0.3%
YUSEN AIR & SEA SERVICE CO	JAPAN	255.95	500.96	18.19	0.51	14.12	1.66	3.6%
HANJIN HEAVY INDUSTRIES	SOUTH KOREA	247.21	1,483.77	20.16	0.14	10.71	0.25	1.4%
SENKO CO LTD	JAPAN	244.82	1,243.75	13.42	0.20	18.17	0.69	1.1%
TONAMI TRANSPORTATION CO LTD	JAPAN	243.57	822.57	37.28	0.29	6.49	0.59	4.5%
MARUZEN SHOWA UNYU CO LTD	JAPAN	221.83	581.55	10.88	0.38	20.37	0.66	1.9%
HANJIN TRANSPORTATION CO	SOUTH KOREA	130.61	495.74	16.90	0.22	15.14	0.43	3.4%
BALTRANS HOLDINGS LTD	HONG KONG	102.43	168.56	7.16	0.49	11.37	1.90	4.3%
HANSOL CSN	SOUTH KOREA	77.65	333.17	0.64	0.23	117.50	1.40	0.2%
KONSORTIUM LOGISTIK BHD	MALAYSIA	68.31	62.32	1.61	1.09	49.82	0.77	2.6%
K & S CORPORATION LIMITED	AUSTRALIA	62.94	175.30	(3.46)	0.36	-	1.91	(2.0%)
YAMATANE CORPORATION	JAPAN	62.62	484.14	(38.49)	0.13	-	0.39	(8.0%)
AIROCEAN GROUP LTD	SINGAPORE	61.10	190.73	3.54	0.33	18.14	2.32	1.9%
MAINFREIGHT LIMITED	NEW ZEALAND	59.86	243.78	5.26	0.24	11.16	1.88	2.2%
I-LOGISTICS CORP	JAPAN	56.13	359.38	4.63	0.16	12.20	0.62	1.3%
CWT DISTRIBUTION LTD	SINGAPORE	50.35	111.65	2.62	0.45	13.29	0.97	2.4%
E-LIFE INTERNATIONAL LIMITED	HONG KONG	49.10	10.66	(2.29)	4.22	-	2.16	(21.4%)
DAIWA LOGISTICS CO LTD	JAPAN	42.02	195.21	4.48	0.22	9.36	0.37	2.3%
NIPPON STEEL LOGISTICS CO	JAPAN	38.39	526.15	0.64	0.07	85.39	0.51	0.1%
JAPAN LOGISTIC SYSTEMS CORP	JAPAN	34.28	192.67	0.49	0.18	68.94	0.37	0.3%
SENKON LOGISTICS CO LTD	JAPAN	32.60	51.77	0.19	0.61	164.34	0.70	0.4%
UNIPULSE CORPORATION	JAPAN	32.48	27.06	(1.43)	1.12	-	0.74	(5.3%)
TIONG NAM TRANSPORT HOLDINGS	MALAYSIA	30.34	42.55	1.41	0.71	21.33	0.83	3.3%
INTEGRATED LOGISTICS BHD	MALAYSIA	30.09	41.34	0.19	0.73	126.81	0.48	0.5%
DAE YOUNG PACKAGING CO LTD	SOUTH KOREA	29.23	71.14	0.57	0.41	10.36	0.56	0.8%
FREIGHT LINKS EXPRESS HLDGS	SINGAPORE	23.15	40.14	(41.59)	0.58	-	2.55	(103.6%)
SEMBAWANG KIMTRANS LTD	SINGAPORE	21.83	24.82	0.32	0.88	59.65	0.82	1.3%
TAKASE CORPORATION	JAPAN	20.69	98.05	(1.02)	0.21	-	0.37	(1.0%)
POH TIONG CHOON LOGISTICS	SINGAPORE	20.07	26.49	1.28	0.76	16.52	1.18	4.9%
NANSO TRANSPORT CO LTD	JAPAN	19.88	83.28	4.33	0.25	5.78	0.31	5.2%
SUZUYO SHINWART CORPORATION	JAPAN	17.93	65.99	0.45	0.26	13.25	4.93	0.7%
CENTURY LOGISTICS HOLDINGS B	MALAYSIA	14.97	25.86	0.27	0.61	69.19	0.81	1.0%
DONGBANG TRANSPORT LOGISTICS	SOUTH KOREA	13.31	336.39	2.82	0.04	4.47	0.21	0.8%
KCTC	SOUTH KOREA	11.85	100.39	1.03	0.11	11.14	0.15	1.0%
SAMIL CO LTD	SOUTH KOREA	10.48	57.68	2.49	0.16	3.77	0.48	4.3%
TAMADAM BONDED WAREHOUSE BHD	MALAYSIA	9.16	5.11	(0.45)	1.74	-	0.93	(8.8%)
GATI LTD	INDIA	7.93	54.56	0.93	0.15	8.53	0.89	1.7%
TRANSOCEAN HOLDINGS BHD	MALAYSIA	6.10	11.63	(0.44)	0.54	-	0.84	(3.8%)
HAN EXPRESS CO LTD	SOUTH KOREA	3.27	90.26	0.17	0.04	19.22	3.11	0.2%
Europe								
DEUTSCHE POST AG-REG	GERMANY	15,561.17	44,126.55	740.78	0.35	9.64	2.56	1.7%
TPG NV	NETHERLANDS	8,233.90	13,109.25	673.34	0.63	12.29	2.48	5.1%
EXEL PLC	BRITAIN	3,151.19	7,361.11	186.49	0.43	16.82	2.20	2.5%
TIBBETT & BRITTEN GROUP PLC	BRITAIN	397.93	2,351.62	4.15	0.17	94.91	7.44	0.2%
SALVESEN (CHRISTIAN) PLC	BRITAIN	232.98	1,258.20	(13.09)	0.19	18.97	3.30	(1.0%)
BREMER LAGERHAUS-GESELL AG	GERMANY	133.99	595.36	14.64	0.34	8.45	0.72	2.5%
D. LOGISTICS AG	GERMANY	62.45	385.09	(103.05)	0.16	-	0.59	(26.8%)
SWISSLOG HOLDING AG-REG	SWITZERLAND	48.56	640.03	(34.95)	0.08	-	0.69	(5.5%)
North America								
UNITED PARCEL SERVICE-CL B	UNITED STATES	71,961.90	31,272.00	3,182.00	2.26	29.33	5.59	10.2%
FEDEX CORP	UNITED STATES	19,140.03	22,487.00	830.00	0.85	23.40	2.67	3.7%
CSX CORP	UNITED STATES	6,629.55	8,152.00	424.00	0.81	15.21	1.05	5.2%
EXPEDITORS INTL WASH INC	UNITED STATES	3,723.06	2,296.90	112.53	1.55	33.62	6.74	4.9%
C.H. ROBINSON WORLDWIDE INC	UNITED STATES	3,156.50	3,294.47	96.33	0.94	30.92	7.08	2.9%
JD EDWARDS & CO	UNITED STATES	1,785.32	904.46	46.19	2.02	50.69	3.75	5.1%
RYDER SYSTEM INC	UNITED STATES	1,628.98	4,776.27	93.67	0.34	13.59	1.44	2.0%
CNF INC	UNITED STATES	1,351.00	4,762.12	101.81	0.28	19.32	1.99	2.1%
AIRBORNE INC	UNITED STATES	1,021.35	3,343.74	14.84	0.30	124.00	1.23	0.4%
BRINK'S CO/THE	UNITED STATES	832.25	3,776.70	26.10	0.22	13.00	2.19	0.7%
USF CORP	UNITED STATES	785.62	2,250.53	(66.97)	0.34	17.84	1.27	(3.0%)
EGL INC	UNITED STATES	761.48	1,869.33	9.43	0.38	53.83	2.00	0.5%

Source: Bloomberg, 18 July 2003

GOODS AND SERVICES TAX (GST) HIGHLIGHT

Approved Third Party Logistics Company Scheme

The Goods Removed From Bonded Warehouse Scheme (Waiver Scheme) - introduced in 1999 - provides for the waiver of GST on goods removed by a trader with the Major Exporter Scheme (MES) status from a bonded warehouse which is operated by an approved logistics company. The scheme was put in place to encourage logistics companies to use Singapore as a base for their logistics operations.

As a further boost to the logistics industry and in an effort to develop Singapore into a leading global integrated logistics hub, the Inland Revenue Authority of Singapore has just released details of the new Approved Third Party Logistics (3PL) Company Scheme, which was first announced in the 2003 Budget.

Under the scheme, qualifying 3PL companies:

- would be able to import goods belonging to them or to foreign principals without having to pay GST; and
- can move goods to their customers with the MES status, and other qualifying 3PL companies under the same scheme, without charging GST.

The new scheme which comes into effect from 1 January 2004, removes the need for the goods to be imported into a bonded warehouse. This translates into cost savings for logistics companies.

If you require more details or assistance on the Approved 3PL Company Scheme or any other GST matters, please contact any of our GST team.

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As the world's largest professional services firm, PricewaterhouseCoopers is able to assist companies make sense and take advantage of the changes occurring in the logistics industry. Our team of dedicated professionals in the Logistics practice of our Corporate Finance Services in Singapore are well-qualified to provide strategic and financial advice to companies who wish to make a difference and progress to the next stage of their growth. With our international network of Corporate Finance Services professionals and client base, we are able to efficiently identify targets, undertake fund-raising activities and capitalize on opportunities across the globe to help you maximize the value of your local/cross-border transactions.

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