

# REPORT OF THE WORKING GROUP ON LOGISTICS

## ***DEVELOPING SINGAPORE INTO A GLOBAL INTEGRATED LOGISTICS HUB***

### **OBJECTIVE**

1 This paper presents the key strategies and recommendations of the Working Group on Logistics (WGL) to enhance Singapore's competitiveness as a logistics hub.

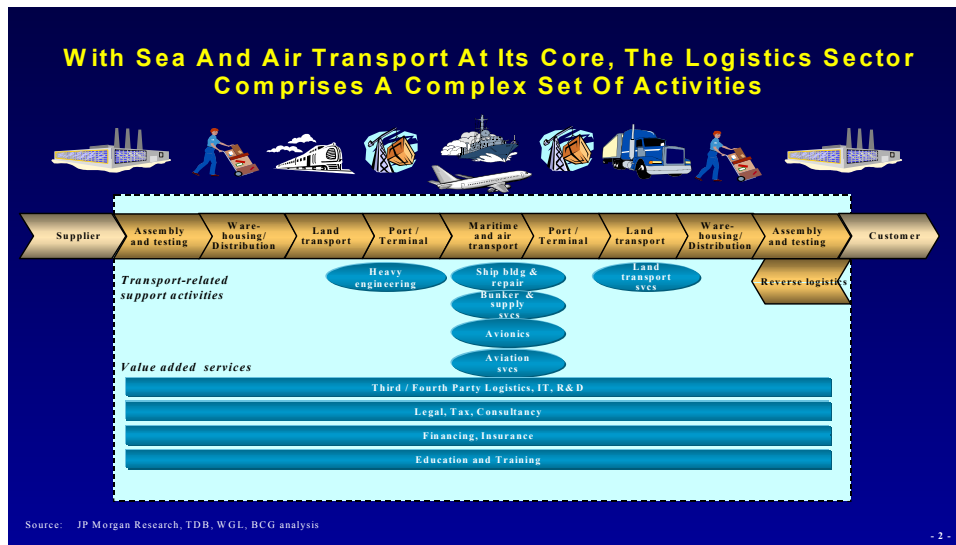
### **THE GLOBAL LOGISTICS INDUSTRY**

2 Logistics (comprising air, sea and land transport) is a sizeable growth market worldwide. Valued at around US\$320 billion per year, the industry is growing at an annual rate of 3-10%. Over the years, the industry has evolved in sophistication, with service offerings ranging from individual transport and storage solutions to customised, integrated supply chain management services. As the pace of outsourcing gathers momentum, this industry is likely to enjoy continued growth, especially by supply chain management and other value-added or specialist services.

### **Supply Chain Management (SCM)**

3 The global SCM market is estimated to grow to US\$173.7 billion by 2005, representing a compound annual growth rate (CAGR) of 10%. SCM integrates the individual activities within the logistics value chain (from suppliers to end customers) to offer customers a complete "end-to-end" service. Please refer to Diagram 1 below. Worldwide trends indicate an increasing preference by companies to opt for integrative SCM outsourcing models, encompassing the co-ordination of 3 flows – goods, information and funds. Demand for SCM services will likely grow against the backdrop of greater outsourcing, globalisation, advents of new products / increasing sophistication in product designs, and shortening product life cycles.

**Diagram 1: Activities Making Up the Supply Chain**



**SCM –Asia Pacific**

4 The Asian SCM market is poised for robust growth. Annual SCM growth rates are projected at 7% in Europe, 10% in North America, and 15% in Asia. The high growth rates for Asia are confirmed by a JP Morgan Research survey which showed that Asian shippers have outsourced only about 2.5% of their logistics functions as compared to between 20%-25% by their US and European counterparts. There is thus propensity for growth. The survey also revealed that Asian companies are showing strong interest in revamping their supply chains and integrating them with operations worldwide.

5 Within Asia, China is touted to be a major growth locomotive. The Chinese government has recognised that transport and logistics is an important pillar of the country’s economic growth, and is taking steps to accelerate the liberalisation of the transport and logistics sector to support its growing manufacturing activities and external trade. China’s logistics industry is estimated to be worth about US\$12 billion.

**SWOT ANALYSIS – SINGAPORE’S COMPETITIVE ADVANTAGES AND CHALLENGES AHEAD**

6 Singapore’s key strengths are its world class infrastructure and connectivity. These make us one of the world’s leading hub ports. However, there are constraints, key of which are:

- (a) Small domestic market and relatively high costs of operation.

(b) A highly fragmented industry with limited scale. The majority of businesses are small to medium-sized companies<sup>1</sup>. Without losing sight of the niche operators, this suggests the need to continue attracting leading transport / logistics players to base their operations in Singapore and encourage greater collaboration / alliances within the industry.

(c) Increasing regional competition. This takes 2 forms:

- Alternatives to Singapore and the region as locations for foreign direct investments (FDIs). For example the structural shift of manufacturing activities to China and surrounding region may affect the potential volume of cargo flowing through Singapore.
- Strong rising aspirations of regional countries such as Hong Kong, Taiwan and Malaysia which are also positioning themselves to become the preferred regional logistics hubs.

7 Table 1 provides a summary of the SWOT analysis of Singapore’s transport and logistics industry.

**Table 1: SWOT Analysis of Singapore’s Transport & Logistics Industry**

<b>STRENGTHS</b>	<b>WEAKNESSES</b>
<ul style="list-style-type: none"> <li>▪ Strong physical infrastructure.</li> <li>▪ Good connectivity to major trading hubs and manufacturing bases (by both air and sea).</li> <li>▪ Major shippers and logistics service providers have their regional headquarters and offices in Singapore.</li> <li>▪ Stable political, economic and social conditions</li> <li>▪ An educated workforce.</li> <li>▪ A strong legal system and business-friendly tax structure.</li> <li>▪ Government is pro-active in opening doors for businesses through bilateral and multilateral initiatives e.g. FTAs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Relatively high costs of operation (especially land rental and wages)</li> <li>▪ Small geographic space and domestic market.</li> <li>▪ Industry is fragmented and lacks scale, with very few global players with global aspirations.</li> <li>▪ Instances of lack of a logistics cluster / ecosystem.</li> <li>▪ Lack of responsiveness to customers’ needs.</li> <li>▪ Shortage of skilled, experienced and entrepreneurial logistics professionals.</li> <li>▪ Inadequate technological capabilities to carry out a wide range of SCM</li> </ul>

<sup>1</sup> 65% of companies had turnover of less than S\$1m. Those with turnover of more than S\$5m make up only 8% of the total number of establishments in the industry but contributed more than 75% of the industry’s value-added.

	<p>activities.</p> <ul style="list-style-type: none"> <li>▪ Weak marketing of Singapore as a logistics / supply chain hub.</li> <li>▪ Lack of collaboration between different players of the supply chain.</li> </ul>
<b>OPPORTUNITIES</b>	<b>THREATS</b>
<ul style="list-style-type: none"> <li>▪ Strong growth potential for logistics outsourcing in Asia (US\$80b<sup>2</sup> by 2012).</li> <li>▪ Specialised capabilities, dovetailing with other sector expansion plans (e.g. biomedics and chemicals).</li> <li>▪ Leverage on Singapore's good connectivity to the Asia Pacific region to provide total supply chain management services to shippers i.e. expand hinterland, especially to China (expected to have annual growth rate of 7.4%).</li> <li>▪ Tap on offshore trade conducted by Singapore-based trading companies, which is estimated at US\$120b.</li> <li>▪ Establish a reputation as a secure logistics hub.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Relocation of manufacturing and distribution bases to other regional hubs (e.g. China).</li> <li>▪ Other governments are aggressively improving their logistics infrastructure and marketing themselves as logistics hubs, giving rise to intense competition.</li> <li>▪ Technological advances such as the increase in size of ocean liners and jetliners may result in vessel / aircraft operators bypassing Singapore if the trade route becomes too 'thin'.</li> </ul>

**Rising Competition**

8 Many countries harbour ambitions to become regional / global logistics hubs. In this regard, the traditional view of logistics being a key enabler / infrastructure for manufacturing and trade has broadened to include the recognition that logistics is also an industry to be developed in its own right.

9 Many countries, such as Hong Kong (HK), Taiwan, Malaysia, Thailand, and the Philippines are positioning themselves to be logistics hubs.

- Traditionally a transport hub, HK has more recently placed greater emphasis on developing its logistics sector. To this end, it has created new institutional set-ups such as the Steering Committee on Logistics Development to promote the logistics industry. According to the Economic Services Bureau, HK will be placing emphasis on

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<sup>2</sup> US\$20bn in 2000 (JP Morgan) 2012 estimate is based on an annual growth of Asia Pacific at 5% CAGR (consistent with World Bank's GDP forecast) and growth in level of outsourcing from 2.5% in 2000 to 8% in 2012 (consistent with levels in the US today).

strengthening transport connectivity and collaboration amongst the players in the logistics chain.

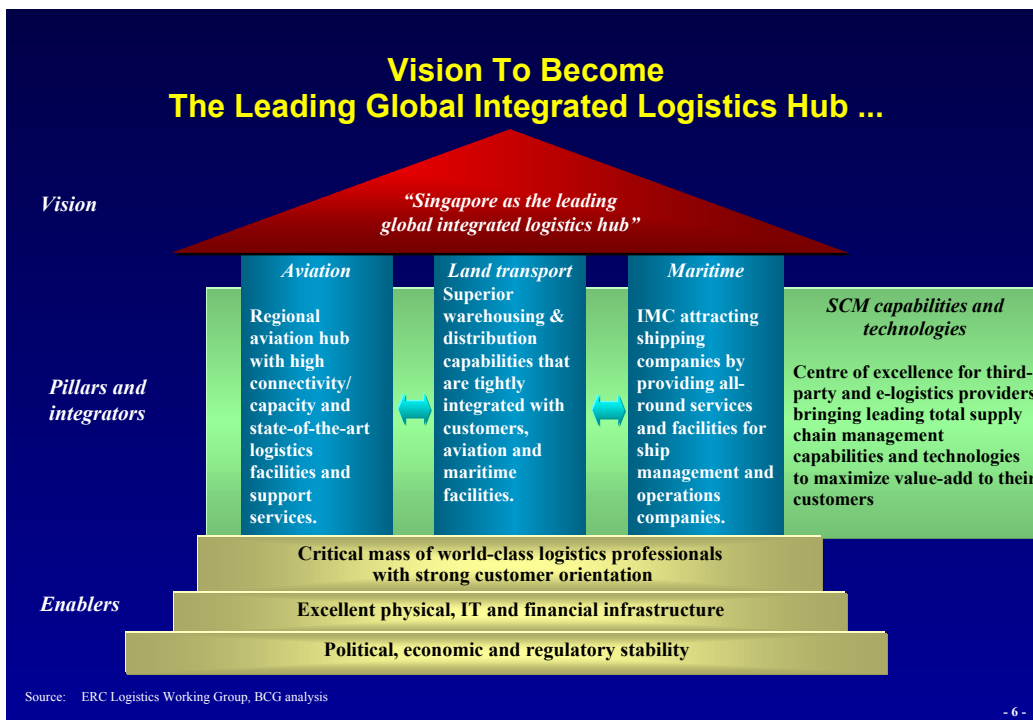
- Taiwan has drawn up a blueprint to develop itself into a global logistics centre. Taiwan’s efforts appear to be centered on e-commerce development, customs reforms and infrastructural enhancements.
- Malaysia, Thailand and the Philippines are allocating more resources to upgrade their logistics infrastructure, develop competencies, and attract international integrated logistics service providers.

10 With so many alternatives coming on stream, the impact of competition cannot be underestimated. Singapore has to find ways to leapfrog the competition.

## VISION – LEADING GLOBAL INTEGRATED LOGISTICS HUB

11 Taking into account Singapore’s unique strengths and challenges, our proposed vision is:

**To develop Singapore into a leading global integrated logistics hub, with robust maritime, aviation, and land transport capabilities supporting the global economy.**



## Singapore – Leading Global Integrated Logistics Hub

- (a) Global integrated logistics hub: Nerve / brain centre controlling and managing activities and assets of global supply chains across an expanded hinterland. SCM capabilities and technologies are the integrators linking the 3 pillars of maritime, aviation, and land transport.
- (b) Maritime: An international maritime centre attracting shipping companies by providing all-round services and facilities for ship management and operations.
- (c) Aviation: A regional aviation hub with high connectivity and capacity, and state-of-the-art logistics and support facilities.
- (d) Land Transport: Superior warehousing and distribution capabilities that are tightly integrated with customers, aviation and maritime facilities.

12 The vision rides on 3 key enablers:

- (a) Political, economic and regulatory stability/predictability;
- (b) Excellent physical, IT, and financial infrastructure; and
- (c) Critical mass of logistics professionals with strong customer orientation.

## **PHYSICAL & VIRTUAL HUB**

13 Encapsulated in the vision statement is the need to leverage on Singapore's strong physical hub capabilities and integrate these with knowledge-intensive SCM skills and technologies to build a strong physical cum virtual hub. The presence of leading logistics companies together with related / supporting activities forming a tightly interlinked network / cluster, are essential in making Singapore a robust and integrated logistics hub.

### **Physical Hub**

14 Singapore has always been a flourishing entrepot centre and a strong contender in the global logistics scene. Our air and sea ports are highly efficient, reliable, and possess extensive linkages to all parts of the world. This infrastructural excellence enables us to move goods of a wide variety at a high speed to all corners of the globe. Singapore's track record in physical goods handling is indisputable. The ports and supporting industry make a significant contribution to Singapore's GDP and employment. It is therefore vital to maintain our leading hub port position.

15 With the rise of competition from neighbouring ports, we must continue to build on our strengths and drive out unnecessary impediments that reduce Singapore’s attractiveness as a hub port and compromise expeditious cargo flow. To this end, the WGL proposes that the government:

- (a) Review and manage costs, especially when these are not matched by productivity increases. The WGL proposes a review of, inter alia, trade declaration charges, extension of seaport dues concessions to all vessels, and review of land premiums and tenure for logistics operations.
- (b) Review policies that unnecessarily hinder the operations of logistics businesses. The government should, for instance, extend the Free Trade Zone concept from designated locations to in-company premises. Greater flexibility to employ foreign workers should be given to logistics service providers. For example, with logistics companies undertaking more upstream manufacturing activities (e.g. light assembly), it is increasingly anomalous to subject it to a lower foreign worker quota than manufacturing.

A summary of these recommendations is outlined in Table 2a & 2b.

**Table 2a: Reviewing & Managing Fees and Charges**

Recommendations	Description
Reduce seaport dues to remain competitive.	Singapore’s port dues are high compared to other regional ports. While MPA extends concessions on port dues (for a limited period) to certain types of vessels, others do not enjoy such benefits. It is therefore recommended that port dues be reduced to remain competitive, regardless of vessel type.
Reduce airport landing/parking charges to remain competitive.	Singapore’s airport landing and parking charges are also relatively high compared to neighbouring hubs. In order to remain competitive and maintain its high flight connectivity, Singapore should lower the landing and parking charges.
Remove land premiums and quit rentals for companies leasing land in the airport premises.	Companies which are required to maintain facilities in the airport premises (e.g. terminal operators, aircraft engineering companies) have feedback that the cost of maintaining an airport facility is very high, due to franchise fees, land premium and quit rental. These charges create tremendous cost pressures for the companies and may render us less competitive vis-à-vis other aviation hubs, which typically do not levy land premiums and quit rentals.
Reduce land costs near the sea and airport areas, and extend the land tenure without additional premiums.	Land costs (especially those near the sea and air ports) are very high, resulting in sizeable property taxes. This is compounded by the fact that companies are usually allocated land parcels with short tenures. As a result of the short tenure and high land cost, the land amortisation cost usually accounts for a substantial portion of the operating expenses. This

<b>Recommendations</b>	<b>Description</b>
	renders Singapore less cost competitive. It is therefore recommended that land costs at and near the port areas be reduced and the land tenure be increased without additional premiums. Property taxes and rental charges in port areas will consequently be reduced.
Review TradeNet charges.	The industry finds that TradeNet charges are too expensive. As this adds significantly to the cost of operations in Singapore, thereby affecting the cost competitiveness of the local logistics players, it is recommended that TradeNet charges be reviewed.
Review union fees for Singapore flagged ships.	Compared to other countries, the union fees of Singapore-flagged ships are relatively high. This may reduce the attractiveness of the Singapore Ship Registry. The benefits granted to the crew and their families under the Singapore unions are not as comprehensive as the benefits rendered in foreign unions. It is recommended that the union fees be lowered and /or more benefits be given to the crew.
Remove foreign worker levy for skilled labour.	Both logistics and transport companies are required to pay a levy of S\$30 per month for every skilled foreign worker employed. This can add up to a substantial amount annually. Given the difficulty in employing Singaporeans, companies usually have to recruit skilled foreign workers. The levy therefore raises the operating costs. It is recommended that the levy on foreign skilled labour be removed.

**Table 2b: Reviewing Government Regulations**

<b>Recommendations</b>	<b>Description</b>
Allow trusted logistics companies to consolidate / deconsolidate cargo in their own premises outside the FTZ.	<p>Logistics companies can only break bulk (i.e. deconsolidate a container comprising both local and transshipment cargoes) at designated free trade zones (FTZs). Logistics companies can either choose to operate a separate facility in the FTZ or outsource their breakbulk operations to third parties in the FTZ. The former is preferred as it offers the logistics companies greater operational control. However, most of these logistics companies have logistics centres outside FTZ and having to maintain a separate facility in the FTZ translates to additional costs.</p> <p>As such the FTZ concept should be extended to in-company premises. This will allow companies to breakbulk at their own premises and hence eliminate the inconvenience and cost of maintaining an additional facility in the FTZ.</p>
Review bonded warehouse regulations to ensure maximum utilisation of warehouse space.	Bonded warehouse operators have to store bonded goods only in physically demarcated areas within their warehouses. This requirement is inflexible and hinders optimisation of warehouse space. Given the developments in track and trace technology, bonded goods can easily be tracked, regardless where they are stored within the warehouse. As such, the requirement to

Recommendations	Description
	have bonded goods stored in physically demarcated areas within the warehouse should be removed.
Allow pre-clearance of cargo.	Many countries like Hong Kong and the US have implemented cargo pre-clearance to expedite cargo shipments. Singapore also allows for cargo pre-clearance; however, this benefit is only extended to air express companies. The government should consider extending cargo pre-clearance to “trusted” logistics companies that fulfil certain criteria. This will enhance the efficiency of the logistics sector as a whole.
Review regulations governing the handling of dangerous goods.	<p>While Singapore aims to become a significant player in the chemicals sector, the regulations governing the handling of Dangerous Goods (DG) and chemicals are cumbersome:</p> <ul style="list-style-type: none"> <li>▪ Product-specific, rather than category-specific licenses, are issued to logistics companies when they handle DG or chemicals. This is cumbersome, especially considering that logistics companies have to approach up to 6 government agencies for approval for various licenses and permits. It is therefore recommended <i>one agency</i> issue licenses for <i>chemical categories</i> rather than specific chemical products.</li> <li>▪ The DG/chemical classification used in Singapore is not in line with the international practice, as prescribed by the International Maritime Organisation (IMO)<sup>3</sup>. The difference in classification means that logistics companies have to convert the product classification from the IMO’s to MPA’s standards. To avoid this, Singapore should adopt the IMO classification for DG, which is in line with international practice.</li> <li>▪ Shippers are not allowed to store DG in the port terminals, but in off dock container yards, due to safety regulations. The process of transporting DG on the road not only imposes danger to the road users but also increases the cost of business. The government should consider allowing the storage of DG in specially designed and secured areas within the terminal, which is the practice in many other countries.</li> </ul>
Review quota and sources of foreign labour.	Under MOM’s regulation, logistics companies, which are classified under the service sector, can only employ a maximum of 30% of its workforce from foreign countries from traditional sources. This contrasts with the manufacturing sector where companies can employ up to 50% of their workforce from foreign countries, with no restriction on the source of labour. With logistics companies taking on more upstream manufacturing activities, the foreign labour quota should increase to that of the manufacturing sector (i.e. 50%)

<sup>3</sup> The International Maritime Organisation (IMO) classifies DG into 9 classes. Singapore, on the other hand, classifies DG into 3 categories i.e. Group I, II and III.

Recommendations	Description
	to provide logistics companies with greater flexibility to supplement their workforce. The restriction to employ foreign workers only from traditional sources should also be removed.
Review immigration procedures.	Post September-11, the Singapore Immigration has stepped up immigration procedures for ships calling on Singapore. While the shipping community recognises the need for additional security (especially for ships with sensitive crew), they are concerned that for ships carrying non-sensitive crew, the additional immigration procedures will raise the costs of calling at Singapore and increase turnaround time. It is therefore recommended that the government review these new immigration procedures.
Streamline checks on tankers calling on Singapore ports.	Checks are performed on tanker vessels that call on any of Singapore's terminals. The MPA requires all tanker vessels, regardless of whether they have been checked by a prior terminal operator in Singapore, to be vetted by the terminal operator that the vessels are calling (within Singapore). This not only increases inefficiency but also the costs associated with such repeated checks. There should be standardisation of vetting procedures in Singapore. For example, one check could be done on the vessel at the first terminal of call for which a certificate issued can be used at all other terminals in Singapore by the vessel for a specific period of time.
Remove manning restrictions for port limit harbour tankers and other craft.	Shipping companies face difficulties in recruiting Singaporeans to work onboard vessels. While shipping companies would like to engage foreign labour to fulfil their manpower needs, they are constrained by MPA's manning requirements which require a ratio of 4 Singaporeans to 1 foreign officer on board harbour crafts operating within Singapore's port limits. It is therefore recommended that the manning restrictions for port limit harbour tankers and other craft be removed.

## **Virtual Hub**

16 The emerging competition from countries in the region has demonstrated that, with advances in technology, physical excellence may be achieved within a compressed period of time. In other words, physical excellence has been relegated to a necessary but insufficient condition for countries to become a logistics hub. Hence, for the next lap of development, Singapore will have to find additional sources of growth. We see this coming from specialised value-added SCM and supporting services catering to the needs of a broader hinterland beyond Singapore. The transport and logistics business is rapidly evolving such that the highest value is no longer found in moving the cargo, but in controlling and optimising the flow of the cargo via information management.

17 The industry also needs to explore opportunities beyond Singapore; to create a hinterland. As a start, Singapore transport and logistics companies can tap on opportunities in countries within a 7-hour flight radius. This would cover the 2 largest emerging markets, China and India, as well as developing and developed markets such as Vietnam, Thailand, Australia and Japan. While each market requires a different strategy, ultimately, if successful, Singapore-based transport and logistics companies will be able to extend their reach to diversified markets, thereby leveraging on the individual strengths and potentials of these countries.

18 With a broader hinterland offering more opportunities and a bigger market, we propose that Singapore positions itself as a virtual logistics hub possessing the knowledge and skills to manage and control the information, process and payment flows across supply chains which cut across the region, or even the world. Hence, beyond actual handling of goods, Singapore can be the brain controlling the logistics limbs (planning & control functions) extending beyond Singapore. To this end, we propose the following:

***(a) London-plus Development Framework***

19 London is a pre-eminent international maritime centre, by virtue of the strong, interlocking maritime services cluster that it has built up over the years. With this, London has managed to remain a key maritime node in the world despite the decline of its port.

20 In the London-plus development framework, “London” refers to building a vibrant and influential transport and logistics services sector with highly skilled and experienced Singaporean transport and logistics professionals; while “Plus” refers to maintaining and leveraging on those aspects like the port and ship registry that we currently have an edge in. Together, the “London” and “Plus” components aim to maintain and leverage on Singapore’s excellence in our port handling facilities, ship registry, ship repairs, logistics and IT, while developing the “softer” aspects of the transport and logistics services and human resource sectors. This would enable Singapore to become the natural draw and attraction for transport and logistics companies to set up operations or conduct their transactions in Singapore. This would also enable Singapore to leapfrog our competition and achieve sustainable competitive advantage in the new competitive economic landscape and be a key influence on international transport and logistics policies.

21 While Singapore commands a lead in the “Plus” aspects, its main weakness is in the “London” aspect. This area is important to Singapore’s move towards services and to achieve differentiation from various low cost physical alternatives. Table 3 sets out the key recommendations for developing the ‘London’ aspects.

**Table 3: Summary of Recommendations to Build Up ‘London’ Aspects**

<b>Objective</b>	<b>Key Recommendations</b>
Attract transport & logistics companies so that Singapore will be the place for the mind & management of key international transport and logistics companies.	<ul style="list-style-type: none"> <li>▪ Attract the movers and shakers of the transport and logistics cluster to Singapore.</li> <li>▪ Ensure an efficient tax environment for the operations of key international transport and logistics companies.</li> </ul>
Attract finance / insurance and P&I Clubs to promote Singapore as the region’s centre of excellence for transport and logistics financing and insurance.	<ul style="list-style-type: none"> <li>▪ Create an environment that will be attractive to the growth, development and operations of the transport and logistics financing and insurance, including P&amp;I, sectors.</li> </ul>
Attract maritime legal and arbitration services to promote Singapore as the preferred place for maritime legal services and arbitration.	<ul style="list-style-type: none"> <li>▪ Promote the use of Singapore law and arbitration for the international maritime sector.</li> </ul>
Attract International Organisations to promote Singapore as the congregation place for international organisations in the East.	<ul style="list-style-type: none"> <li>▪ Encourage the activities of international organisations to be held in Singapore.</li> </ul>
Develop Singapore as the regional centre of excellence for transport, logistics & supply chain management research and education.	<ul style="list-style-type: none"> <li>▪ Accelerate the development of a pool of highly trained and experienced local transport and logistics professionals.</li> <li>▪ Develop and provide leading-edge transport, logistics and supply chain management courses.</li> </ul> <p>Create and strengthen Singapore’s transport, logistics and supply chain management research capabilities.</p>

22 The “Plus” aspect is also crucial as it is part of Singapore’s over-arching objective of staying ahead of competition. The key recommendations of maintaining a competitive “Plus” are listed in Table 4.

**Table 4: Summary of Recommendations to build up ‘Plus’ aspects**

<b>Sub-sector</b>	<b>Key Recommendations</b>
Internationally Competitive Ports	<ul style="list-style-type: none"> <li>▪ Review port infrastructure, cost and pricing structures and regulatory requirements so that we are responsive to emerging customers’ demands and needs.</li> </ul>
Strong fleet under a respected Singapore Registry	<ul style="list-style-type: none"> <li>▪ Streamline regulatory requirements and cost structure of Singapore Registry.</li> <li>▪ Improve quality and reputation of the Singapore</li> </ul>

Sub-sector	Key Recommendations
	fleet.
Bunkering, Ship Repair and Logistics	<ul style="list-style-type: none"> <li>Review Singapore's lead in terms of operations, price and expertise on these sub-sectors.</li> </ul>
Transport & Logistics IT - Singapore should be the place for the global IT nerve centres of transport and logistics companies and also the place where game changing transport, logistics and supply chain management IT applications and solutions originate	<ul style="list-style-type: none"> <li>Pursue end-to-end integration.</li> <li>Develop companies' IT expertise and capabilities.</li> <li>Accelerate the building up of transport, logistics and SCM IT capabilities and expertise.</li> </ul>

### **(b) IT for Logistics Nerve Centre**

23 IT is central to SCM. The key to achieving operational excellence in global supply chains is to ensure that efficient physical flow of goods is complemented by adept information flows. Beyond efficiency gains, IT or rather the ability to develop, adopt, harness and deploy technology will also serve to attract and root the global IT HQs / RHQs of MNCs in Singapore. We propose positioning Singapore as the preferred regional / global IT for Logistics Nerve Centre. The main strategy is to develop an end-to-end service model as an integrating framework and would address both the 'hard' and 'soft' aspects. Details of these recommendations are provided in Table 5.

**Table 5: Recommendations to develop Singapore as an IT Nerve Centre**

Recommendations	Description
Common backroom infrastructure for transport & logistics companies	<p>There is an increasing need for logistics companies to enhance their information processing capacity. To this end, companies are investing heavily to develop and maintain their IT infrastructures.</p> <p>It is proposed that logistics companies outsource their IT applications (e.g. IT hosting and operation, and communications network) to Facility Management service providers that will operate a Common Backroom Infrastructure. The benefits are: reduced IT infrastructure set-up costs and recurrent operating costs through the shared facilities and services offered.</p>
Develop specialised transport and logistics solutions	Singapore faces a lack of Singapore-based software developers creating ASP and / or off-the-shelf applications targeted at the transports and logistics industry.

Recommendations	Description
	<p>To attract and to build up critical mass of such specialized transports and logistics software developers, it is proposed that the Investment Allowance (IA) scheme should be extended to or Double Tax Deduction (DTD) should be granted for</p> <ul style="list-style-type: none"> <li>▪ the purchase / development of software applications, and software development for strategic and operational processes for the transport and logistics industry; and</li> <li>▪ IT licence fees, subscription fees or royalties.</li> </ul>
<p>Integrated IT Community Platform</p>	<p>Singapore enjoys first mover advantage in IT platforms such as TradeNet, Portnet, Spectrum, EPIC, ACES – which are full-fledged working models connecting almost all players in the local logistics community.</p> <p>However, these can be further enhanced by</p> <ul style="list-style-type: none"> <li>▪ Incorporating further functionality (e.g. ePayment, eProcurement, Financial systems) and services (e.g. freight insurance, financing) to enhance the value to shippers; and</li> <li>▪ Integrating the current stand-alone systems into a one-point single sign-in platform, which would provide one common interface to the transport and logistics industry.</li> </ul>
<p>Develop knowledge capital and competencies</p>	<p>Singapore should build core competence and knowledge capital within the IT value chain with specific focus on the transport and logistics industry. Elements within such core competence could include:</p> <ul style="list-style-type: none"> <li>▪ New concepts and techniques within supply chain management;</li> <li>▪ Design, analysis and development of niche software modules;</li> <li>▪ E-Logistics intellectual capital and property base enlargement;</li> <li>▪ Specific transportation domain expertise e.g. aviation and maritime; and</li> <li>▪ Business process re-engineering and change management.</li> </ul>

**(c) SCM Nerve Centre**

24 To be the nerve centre for SCM innovation, Singapore must possess strong expertise and capabilities in SCM design and application to be the hotbed for SCM innovation. Specifically, the development of knowledge-intensive, high value added activities such as sourcing and procurement,

supply chain optimisation, data hosting and reverse logistics should be targeted. To this end, it is recommended that the Singapore government support and development of R&D centres of competence in SCM. Continuing education and training will be a key focus to develop knowledge management. Strong collaboration amongst the key drivers of SCM innovation viz. R&D institutes, transport & logistics think tanks, and the industry is also vital. Details of these recommendations are provided in Table 6.

**Table 6: Recommendations to develop Singapore as an SCM Nerve Centre**

Recommendations	Description
Attract global / regional distribution centres.	<p>To further strengthen Singapore’s position as an integrated logistics hub, we would need to promote and attract Global / Regional Distribution Centres of major manufacturers, traders, retailers to be based in Singapore.</p> <p>It is proposed that a logistics ecosystem, comprising knowledge-intensive and high value-added activities feeding into and supporting the SCM industry be cultivated. These include</p> <ul style="list-style-type: none"> <li>▪ sourcing and procurement;</li> <li>▪ assembly and testing;</li> <li>▪ design of logistics processes;</li> <li>▪ supply chain configuration and systems;</li> <li>▪ product configuration;</li> <li>▪ data hosting;</li> <li>▪ reverse logistics; and</li> <li>▪ financial and treasury functions.</li> </ul>
Develop thought leadership in supply chain solutions	<p>It is imperative for Singapore to be a thought leadership in supply chain solutions rather than a follower or mere adopter.</p> <p>To this end, it is proposed that Singapore</p> <ul style="list-style-type: none"> <li>▪ Establish research and centres of competence in SCM.</li> <li>▪ Attract and anchor high profile global networking and conference events in Singapore on a regular / yearly basis.</li> <li>▪ Serve as a platform for leading logistics solutions providers to develop and commercialise new innovative logistics solutions.</li> </ul>
Develop SCM talent and capability	<p>Singapore must build up its own pool of logistics planners and analysts who possess in-depth knowledge of the industry verticals.</p> <p>To achieve this, Singapore must</p> <ul style="list-style-type: none"> <li>▪ Develop comprehensive manpower education training roadmaps; and</li> <li>▪ Introduce postgraduate programmes where these are lacking e.g. MBA in shipping.</li> </ul>

#### ***(d) Secured Hub***

25 Following the terrorist attacks in New York and Washington on 11 September, and the threats of impending attacks, worldwide focus is now on secured cargo shipments. In order to reinforce Singapore's position as a hub port, we must be able to respond to such global requirements. The WGL recommends that Singapore, with its advanced technological capabilities and reputation for having strict security measures, should position itself as a secure transport and logistics hub.

26 Conducting physical inspection on all cargo containers may adversely affect the efficiency of our business operations. As such, a critical element in the success of the cargo security is the availability of advanced information to effectively flag out high-risk containers for inspection. The ability to exchange import / export data, then analyse that data through the various methods of electronic risk assessment prior to containers being transported, will help ensure the earliest possible detection of high-risk containers and allow countries to take appropriate measures on such shipments.

27 If Singapore is able to put in place the necessary security measures and by securing preferential access / clearance to the major trading nations for shipments going through our ports, Singapore will remain attractive for shippers to base their operations in Singapore and capture more transshipment cargo. This will in turn generate more opportunities for Singapore-based transport and logistics companies. In addition, a new market segment may be opened to non-logistics companies such as technology solution providers and certification bodies.

#### ***(e) Multimodal Connectivity***

28 With extensive air and sea connectivity, Singapore is well poised to be a multimodal hub. A multimodal hub requires the integration of both physical and IT infrastructure to ensure a seamless flow of goods from one mode of transportation to another. To attract multimodal transport and logistics operators and maximise the potential of our air and sea links to entice more goods to flow through Singapore, we should enhance our multimodal connectivity, even whilst we continue to improve our air and sea connectivity.

29 Such a concept may warrant a change in the existing physical structure such as allowing logistics operators to break-bulk and consolidate within their own facilities to reduce cost and improve turnaround time. In terms of IT infrastructure, the level of integration between the IT systems of the air and sea ports (e.g. Portnet, Spectrum) is still rather limited and an integrated multimodal IT platform would facilitate cross-modal shipments. Details of these recommendations are provided in Table 7.

**Table 7: Recommendations to enhance Singapore’s multimodal connectivity**

<b>Recommendations</b>	<b>Description</b>
Review Free Trade Zone (FTZ) concept	<p>The concept of the virtual FTZ will enhance Singapore’s multimodal connectivity by eliminating double handling and shortening the sea to air (or vice versa) turnaround time.</p> <p>To maximise the benefits of the virtual FTZ, the WGL also recommends that the government also address the “restrictions” on the transportation of air pallets on public roads.</p>
Integrated multimodal IT platform	<p>Singapore has made a headstart in terms of developing community IT platforms such as TradeNet and Portnet. While there are some existing linkages between the individual systems, notably Portnet-TradeNet and Spectrum-TradeNet, the degree of integration is still relatively limited. In particular, there is no cross-modal integration, say, Spectrum-Portnet. Hence, data submitted to Portnet has to be re-keyed into the Spectrum system for a cross-modal shipment.</p> <p>The government can therefore play a key role to initiate an integrated, multimodal IT platform to create a seamless paperless environment for transport, logistics and trading.</p>

30 Few, if any, country can boast of possessing strong capabilities to be both a physical and virtual hub for transport and logistics. Combining the strengths of a physical hub port and a “brain centre” for transport and logistics services will allow Singapore to build an unassailable competitive advantage as a globally integrated transport and logistics hub.

## **FISCAL RECOMMENDATIONS**

31 Apart from the above measures, Singapore must offer a competitive tax regime to attract the mind and management here and to encourage businesses to upgrade their capabilities to compete in global knowledge supply chains. We must recognise the nature of the industry when evolving tax incentives and put in place measures that would nurture and stimulate the growth of the industry rather than devising incentives that merely place us on par with competing countries. We should aim to leapfrog or surpass rather than be contented with incremental growth taking into cognisance that the competition today is different from yesteryears.

32 To support Singapore’s development into a leading logistics hub with physical and virtual excellence, the WGL has come up with a list of fiscal

recommendations. A summary of these fiscal recommendations is outlined in Table 8.

**Table 8: Summary of Fiscal Recommendations**

Categories	Key Recommendations
Attract leading companies by creating an internationally competitive, flexible and level-playing field.	<ul style="list-style-type: none"> <li>▪ Extend / enhance existing double tax agreements.</li> <li>▪ Review Singapore’s withholding tax policy.</li> <li>▪ Allow tax-exemption for dividends remitted from overseas affiliated companies and allow unrestricted flow-through of exempt dividends.</li> <li>▪ Allow companies to consolidate and / or transfer losses between a group of associated companies in Singapore.</li> <li>▪ Provide advance tax ruling to ensure certainty to the business community.</li> </ul>
Capability Building	<ul style="list-style-type: none"> <li>▪ Allow Double Tax Deduction for IT and Manpower Capability Development.</li> </ul>
Creating an internationally competitive environment for shipping and related services	<ul style="list-style-type: none"> <li>▪ Enhance incentives for the transport and logistics industry.</li> <li>▪ Allow asset trade income to be tax-exempt.</li> <li>▪ Allow tax-based leases.</li> </ul>

## CHAMPION AGENCY

33 Currently, at least 9 government agencies are involved in the Singapore transport and logistics supply chain viz. MPA, CAAS, LTA, JTC, CED, MAS, IDA, EDB, and IE Singapore. The lack of a clear “Champion Agency” for logistics has resulted in duplicative assistance schemes administered by different agencies, unclear division of work amongst some of the agencies, and lack of clear accountability for industry development.

34 There is a need to establish a Champion Agency to co-ordinate the government’s efforts and act as a one-stop for logistics promotion. To be effective, the Champion Agency must possess the following attributes:

- (a) Mandate. The Champion agency must be given a strong mandate or be empowered by its Ministry to promote / develop the transport and logistics industry in Singapore. Without this, it will be difficult for the Champion Agency to get other government agencies to work together for the overall interest of Singapore.
- (b) Clout. As the Champion Agency is also a bridge between the private and public sector, it is important that it understands the needs and characteristics of the industry. Preferably, it should be headed by a

CEO who has some industry knowledge / experience to command the regard of the industry.

- (c) Resources. The Champion Agency must be given the relevant resources in order to do a good promotion / development job. The resources to be given will depend on the nature of work to be done by the Champion Agency. As the supply chain analogy shows, no one entity can hope to accomplish everything by itself. We recommend that the Champion Agency focus on promotional work, simply because (i) regulatory / developmental functions are well-taken care of by MPA, CAAS, LTA, JTC, CED etc.; and (ii) this is more in sync with the mandate of a Champion Agency. In this regard, the Champion Agency should be given the incentive tools to promote desirable activities. These should include the incentives for the transport and logistics industry which are currently administered by the various agencies.
- (d) Deliverables. The Champion Agency and its officers should be measured by the industry's performance in terms of the value-added targets set. This is to ensure that the Champion Agency channels its best efforts to promote / develop the industry.

35 The Champion Agency will have the primary responsibility for promoting and developing the transport and logistics industry in Singapore. In pursuing this vision, it should:

- (a) Work with the various governmental agencies and industry to implement the relevant recommendations of this Working Group.
- (b) Identify and work on the relevant government agencies to remove all unnecessary regulatory impediments hindering Singapore's development into a leading SCM hub;
- (c) Identify the developmental needs of the industry and work with the various governmental agencies and / or industry to address those needs;
- (d) Market Singapore as a hub for SCM, transport and logistics activities; and
- (e) Support Singapore-based players to expand overseas.

29 In short, the Champion Agency will play four roles – strategic / tactical, marketing / promotional, developmental and operational. It should allow and promote a collaborative, consensus-based policy making system and will spearhead and co-ordinate an integrated multi-organisational effort involving

the private sector to promote and develop Singapore into a leading global integrated logistics hub.

**GROWTH TARGETS**

36 Currently, the transport and logistics industry contributes about 8% to Singapore’s GDP or S\$12.7 billion. In terms of employment, it absorbs 93,000 workers. With our vision, we aim to grow the sector to between 9-13% of GDP, employing 120,000 to 170,000 workers. Please refer to Table 9 below.

**Table 9: Existing & Targeted Economic Contribution of the Transport & Logistics Industry**

Indicator	2000	2012 (status quo)	2012 (with vision)
<b>Sector VA (S\$)</b>	<b>12.7b</b>	<b>15b - 21b</b>	<b>30b – 42b</b>
Sector VA growth (real)	‘90-‘95: 7.6% ‘95-‘00: 4.4%	‘00-‘12: 2-4%	‘00-‘12: 8-11%
<b>Contribution to Singapore economy<sup>4</sup></b>	<b>7.8%</b>	<b>5-7%</b>	<b>9-13%</b>
<b>Workforce</b>	<b>93K</b>	<b>85-113K</b>	<b>120-170K</b>

**CONCLUSION**

37 Governments all over the world have or are recognising the strategic and economic benefits that can accrue from a thriving transport and logistics cluster. The aggressive development of infrastructure such as ports, road and rail infrastructure, and the engagement of professional consultants to map out the development of their transport and logistics cluster are examples of the various efforts that different governments have made to promote and develop their transport and logistics cluster.

38 Singapore has enjoyed competitive advantage by virtue of its excellent physical infrastructure; however, these are no longer sufficient to ensure that we stay ahead of our competitors. While it is important to address the business impediments which hinder our advancement as a physical hub, it is vital that we now also focus on developing high value added services. The ERC Working Group on Logistics has concluded that pursuing this holistic approach encapsulated in “Global Integrated Logistics Hub” concept could increase the economic contribution of this cluster from the existing S\$12 billion to S\$30-42 billion in 10 years’ time. This target *is* achievable if the industry and the government is committed to pursue all the strategies and recommendations as outlined.

39 The pursuit of a global integrated logistics hub will require an immense amount of co-ordination, effort and work from the various sub-sectors of the

<sup>4</sup> Singapore’s average annual real GDP growth (2000-2012) is assumed at 6% (World Bank estimate).

