



Pre-Feasibility Study Proposed Cargo Distribution Center and Related Urban Infrastructure Development Thungsong Municipality, Nakhon Si Thammarat Province, South Thailand

June 2011
Executive Summary



A. Executive Summary

1. Nakhon Si Thammarat Province in southern Thailand has with support from the Ministry of Interior applied for assistance from the Cities Development Initiative for Asia. CDIA agreed to appoint a consultancy team to analyse the project idea of constructing a Cargo Distribution Centre in Thungsong Municipality, including possible linkages to other urban infrastructure.
2. This report presents the findings and recommendations of the consultants. Executive readers are recommended to share the report's text boxes with blue background plus chapter 12 with conclusions and recommendations.
3. The analysis confirms the project's compliance with the national and regional development strategy and priorities, to strengthen transport infrastructure and develop logistics services in south Thailand. Export industry currently has a cost disadvantage compared to competitors in other countries, due to the lack of cost-effective logistics and deep seaports. Implementation of the national strategy to rehabilitate and modernise the railway system and develop one or two deep seaports in the south will strengthen the role of the proposed CDC.
4. The project proposal is a regional initiative and strong support from local and regional stakeholders has been noted. Contacts with potential customers confirm interest in logistics services reducing time and cost from factory to port, streamlining administrative procedures and customer-oriented solutions. Services including loading and storage of containers, facilitating transfer of transports from roads to railway, are therefore of interest to the industry.
5. The study has identified an additional market for CDC in receiving containers from domestic wholesale, retail or distribution companies and unpacking and storing goods in the warehouse for later distribution by truck to customers in the region.
6. The rubber industry accounts for the major part of transports from the area around the proposed CDC. The team has interviewed companies representing about 50% of rubber and rubber wood industry in the four provinces of the target area. The interviewed companies transport annually 7,500 containers by train and about 10,600 by truck. The team estimates that approximately 30,000 to 40,000 containers with rubber related products are transported from the region. CDC should be able to capture approximately 20,000 containers per year after some start-up period.
7. The investment cost of the first phase is estimated at 486 million BHT (about 16 million USD). A significant part is due to the costly construction of a 2 km double track to the site, estimated at 150 million BHT (5 million USD). Another heavy item is the road (loading and unloading space) along the track, estimated at 100 million BHT (3.3 million USD).
8. The State Railway is an important stakeholder for the project. Agreements regarding financing of the new track, prioritisation in relation to other investments, rental of land, available capacity of locomotives and carriages, transport service level and charges during the future CDC operation are all key factors for feasibility and viability.
9. The team recommends separation of ownership and commercial activities. Thungsong Municipality can together with other public and non-commercial stakeholders act as founders and partners of the owner company. This model means that the public sector can focus on its role of providing infrastructure and stimulate economic and social

development, rather than being engaged with commercial activities in competition or partnership with private companies.

10. The suggested business model means a separate owner company, which will contract one or more commercial service providing companies and charge them for use of CDC infrastructure. The estimated revenues and the financial analysis of this study refer to the owner company, not the private service providers.

11. The financial analysis indicates that revenues from charging service providers for use of CDC infrastructure will cover operating and maintenance costs plus a minor part of the capital costs. This means that the CDC as a stand-alone project does not seem to be suitable for financing with bank loans at market terms. Investments in the CDC infrastructure and allocation of financial resources must be rather based on economic and strategic development grounds than strictly commercial.

12. The green house emission effects (GHE) of transferring transports of goods from roads to railway are hampered by the fact that the railway system is not electrified. All trains operate on diesel, while trucks normally are driven by vehicle gas (or a combination of gas and diesel) at a subsidised price.

13. The report recommends Thungsong to broaden the scope in the form of developing a Cluster on Logistics and Communication, where CDC would be one component. Creation of creative clusters with specific features is an important part of NESDB's recommendations and national strategy. Such a concept would be able to stimulate the local and regional economy and facilitate integration with urban planning and environmental infrastructure. It would also justify substantial investments and facilitate mobilisation of financial and other resources.

14. The study has not identified any direct linkages between the CDC project and urban environment infrastructure. However, the underlying goal of the CDC project is to develop a sustainable economy. Preparation of a long term development strategy is strongly recommended. Efficient and modern urban environmental infrastructure is a prerequisite for meeting goals regarding growth and sustainability, which justifies initiatives in urban planning, solid waste management and wastewater management.

15. Thungsong is recommended to take the initiative to inter-municipal cooperation in the waste management sector, to develop more economic solutions in the form of regional sanitary landfills but also collection, transportation, recycling, hazardous waste and procurement issues.

16. Thungsong is also recommended to carry out a review of the ongoing construction of the wastewater system, addressing not only technical design but also cost-effectiveness, financial viability and introduction of a tariff system that can generate sufficient revenues to cover the annual budget for operation and maintenance.

17. Thungsong is recommended to proceed with additional analysis and preparations of the CDC project. A stepwise approach is recommended, with particular focus on mobilisation of financial sources for the investment, detailed analysis of the market for services identified, definition of preferred business model and financial viability analysis. A task force should also be appointed to prepare establishment of a future umbrella organisation, probably in the form of an economic association, cooperative or foundation, suitable both for the CDC and the suggested cluster.