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“Australia's vital role in the urbanisation of
China in 2008 –
the challenges and opportunities ahead in the
changing landscape of trade and logistics”



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The Maritime Law Association of Australia
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Shipping and Logistics



**Australia's Vital Role in the
Urbanisation of China in 2008**
the challenges and opportunities ahead in the
changing landscape of trade and logistics
(and the world financial crisis)

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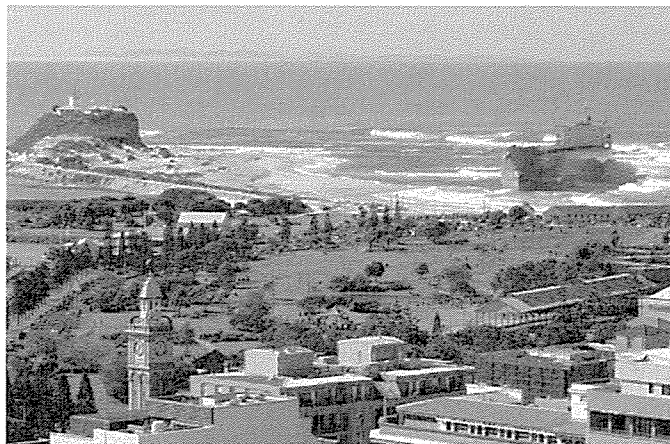
**From where I sit in Shanghai
(for the past 15 years).....**

- China has 20% of the world's population
- Much of that population along the coasts
- Including China's 3rd coast – the Yangtze - with Shanghai the head of the dragon
- China ALREADY consumes of world production:
 - Cement – 50%
 - Steel – 37%
 - Aluminum – 25%



- In 2002 – 3,500 steel producers in China
- Today (yesterday) – doubled to 7,000
- Coal – China imports coal for first time only in first half of 2007
- The result.....

The “Pasha Bulker” calling at Newcastle



China's Commodity Demands



Result in:

- Stresses on importing supply chain logistics
- Freight rates never seen before BUT capesize just dropped from US\$230,000 to US\$4,900 per day
- Still a pressing need by Chinese importers to reshape the supply chain

It should not be forgotten in the context of Australia



- In 2007 China took over from Japan as Australia's top two-way trade partner
- Still China only represents 14% by value of Australia's exports
- And in 2006 China only 17th in ranking of foreign investors in Australia

In the Local Context



- Pilbara Region / North West Shelf
- WA State Budget surplus A\$ 9 million 2001
- Skyrocketed to A\$ 2 billion in 2007



- There is one word to describe what is going on in China
- Urbanization
- At the rate of 22 million people per year
- About the size of Shanghai (or New York x 2)



- Will it continue, following the footsteps of Japan and Korea after WW2?
- The most compelling rationale that supports the view it will continue...
- Professor Ross Garnaut of the ANU
- The period of greatest growth for any country
- And so demand for natural resources
- Is when the income per capita passes US\$2,000 and until it reaches US\$20,000 per annum
- China passed the US\$2,000 mark only in 2006
- There are many indicators that China's development has only just begun.....

The Three Biggest Challenges in China are:



- Logistics
 - The environment
 - &
 - The rule of law
- (in no particular order)

Logistics



- Logistics costs currently running at 21% of GDP
- Logistics – the average Chinese port compared to Newcastle or Port Hedland

The Environment



- The Environment – air and water pollution currently running at 5.8% of GDP
- One of China's richest man made his money in solar panels (and a graduate of UNSW)
- China is a world leader in solar, wind, biomass, hydro & nuclear energy

The Law



- The law – another major import
- Chinese law is based on German law
- China is not shy to learn from and adopt legal innovations in other jurisdictions
- Unprecedented number of new laws and regulations – labour law and anti-monopoly law two of the latest
- Critical to have not only good laws but the rule of law – hand in hand with economic growth – PM Wen’s warning

Shanghai Maritime Court



Recent News Headlines



- Sale and shipping terms
- Long term vs. spot sales
- Freight premium
- Renegotiating shipment quantities

The Changing Structure and Pattern of Trade to (and from) China



- Changing patterns and partners
- Energy and steel producers one day and shipowners the next
- Turning contract terms and risk allocation on their heads
- Major implications for the international commodity, shipping and insurance communities

The Rise of the New Breed of Shipowners



- Bolt-on shipowners – if you can't beat them, join them
- JV or going solo
- Financing and long term acquisition – VLOCs
- Rizhao Steel and the “Arethousa”

(The rise of the new breed of shipowners)



- The recent drop in vessel prices makes the concept even more attractive
- With Western ship finance tight, PRC banks have the opportunity
- Any ship financed after 2005 is at risk of not being able to service the loan
- Market so volatile that Clarksons have pulled out of providing a ship valuation index

(The rise of the new breed of shipowners)



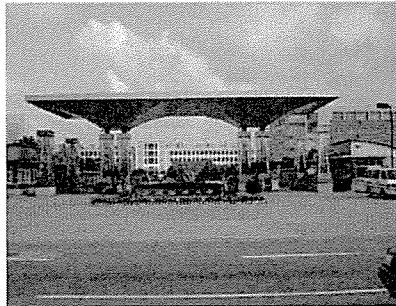
- Insurance and the changing pattern of risk allocation
- Carriage terms – no right to sue owners
- Are bolt-on shipowners around for the long-term
- A cyclical business may not be a comfortable fit – already seen a big downturn
- Is shipping still a cyclical business – the commodity supercycle

**15 years on,
no more than a prediction**



- Continued urbanisation still main driver of bulk imports
- Both energy and other producers will have rationalised their transportation needs
- Risk allocation also rationalised – PRC producers will assume all risks from the mine to the mill
- The Chinese legal system, with the rule of law respected, will underpin the economy

Shanghai Maritime University



So if Professor Garnaut has it half right



- All we have seen so far is “ribbon” development
- The challenge for China is to improve logistics, control pollution and fully implement the rule of law
- If all this is achieved (and all the signs are positive)
- The main brake on the development of China will be
- Constrained logistics in other countries

But innovation can play a vital role



- Freight premium vs. processing premium
- Chinese capital used on a selective basis to improve logistics
- Ownership vs. joint ventures
- But it's not just rocks and crops

Thank you



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