

Opportunities in the Chinese shipping market

Opportunities in the Chinese shipping market are abound. As we all know, the recent success in China's rapid economic development has made it one of the most attractive shipping markets in the world. The maritime market in China is being flooded by foreign investment from several different sectors and industries. The following considers China's current shipping activities regarding iron ore and steel movements.

• Current Movements and Future Prospects

The current movements and future prospects regarding China's imported iron ore can be complicated to those who are interested in trading there, yet lack the experience. Currently China maintains an annual steel production capacity of 500,000,000 tons. In order to produce that much steel, there is an 800,000,000 tons per year consumption of iron ore. Since China's production requires such a huge quantity of iron ore, imports are used to relieve the deficiency of its domestic supply. The importation of iron ore depends on the production capacity in conjunction with the domestic supply. Most imported iron ore comes from Australia, Brazil, India, South Africa, Peru and Indonesia. In 2005 it is believed that about 260,000,000 tons of iron ore were imported into China. In the first half of this year, China's iron ore imports have risen 22.9%, to 161,360,000 tons in the first six months of this year. June 2006 saw 28,730,000 tons of iron ore imported; a 31% increase on the previous year. At the current pace iron ore imports by China will be in excess of 300,000,000 tons in quantity by the end of this year. Of the total amount of iron ore consumed in 2005, 33% is estimated to be imported. The percentage in 2006 could be as high as 38%. This year China has decided to reduce its annual steel production capacity from 500,000,000 tons to 400,000,000 tons. If this decrease actually occurs, then 640,000,000 tons of iron ore will still be needed to meet production, and 180,000,000 tons will be imported.

• Current Performance

Currently shipments of China's imported iron ore move in different manners. The iron ore that is imported from Australia, Brazil, and South Africa is usually moved with Cape-Size vessels. The iron ore from India is mainly carried with Handy, Handymax, and Panamax sized vessels. When iron ore is imported from Peru it is normally shipped using Panamax or Cape-Sized vessels and iron ore from Indonesia is moved using Panamax, Handymax and Handy vessels. However, for cargo imported from Banjarmasin the carriers are usually geared Handymax or Handy vessels, and are occasionally required to be Grab-Fitted. For Cape-Sized shipments generally destined for the Chinese ports of Xingang or Qinhuangdao, cargo quantity for each shipment is quoted at 130,000 metric tons ten percent more or less due to the port draft restrictions of 15.30 meters SW in Qinhuangdao, and 16.30 meters SW in summer or 15.80 meters SW in winter at Xingang. Regarding Cape-Sized shipments destined for other Chinese ports, cargo quantity for each shipment is commonly sized at 160,000 metric tons ten percent more or less.

• Obtaining a Share of the Cape Market

Culture, Knowledge, Relations, and Cooperation are all key when competing for a share of the Chinese Cape market. Competitive freight rates are not the only route to success when competing and bidding on the Chinese Cape market.

- **Culture**

Understanding the character of the Chinese charterers is vital to developing a solid relationship. Being aware of, and reacting to, the fine nuances of the Chinese charterers will enable one to gain long-term business. Usually a Chinese charterer will conduct their chartering business by means of C.O.A. or tenders. The owner/operator will have to be agreeable with the work style of the Chinese charterers, which is exemplified by the popular Chinese proverb, long live understanding.

- **Knowledge**

Knowledge is equally important to understanding the culture when business is desired. An excellent knowledge of the port conditions regarding the Chinese ports to be called is essential to smooth operation. The knowledge should not only cover information on port access, facility, and operational efficiency, but also include the real-time vessel's line-up, the availability of storeyard space, prevailing weather conditions and any possible hindrance to discharging operations. A strong knowledge of the port disbursements charged at the Chinese port is necessary, and of particular importance are the additional charges at some specific Chinese ports. There should also be an assessment of risk concerning C.Q.D. when discharging Cape vessels at Chinese ports. Apart from the ports of Beilun, Qingdao, and Xingang, heavy congestion should not be encountered in Chinese ports while discharging iron ore of Cape-Sized quantities. Normal waiting time is around zero to two days. The actual discharge rate can be at least 30,000 metric tons daily. In these circumstances, ship owners/operators should be happy with C.Q.D. discharge terms. Otherwise they would pay dispatch money to the charterers since the discharge rate is usually contracted at 15,000 tons PWWD for those not calling Beilun, Qingdao, or Xingang. In Xingang, even with a very long wait, perhaps up to six days plus two days in completion of discharging a Caper carrying 130,000+- 10% metric tons of iron ore, what inherent risk to ship owners / operators discharging C.Q.D. terms compared to discharge termed at 15,000MT/WWD would normally be optimal in Xingang? In Beilun and Qingdao, actual discharge operation on a Caper with 160,000+- 10% metric tons of iron ore takes 3-4 days. However, the waiting time is uncertain and on many occasions it can last 3-4 days, but sometimes for as long as over ten days. In such circumstances, information must be well collected from previous shipments if work is to be on C.Q.D. terms, otherwise the discharge rate is preferably suggested in fixtures at ports often hampered by high congestion.

- **Relations**

A strong, close, and credible relationship with Chinese charterers is most desirable. Chinese charterers often do not circulate their enquiries on the open market. The fixtures are always concluded in a very selected circle under strict and confidential conditions. Ship owners and operators need to have respected and close relations with the port authorities, ship agents, stevedores, and other parties related in the discharge port/s. These relationships will ease the discharge process while saving time and money. The better the relationships, the better the opportunities.

- **Cooperation**

Friendly cooperation with the Chinese charterers in the whole business proceedings will allow one to gain respect and acceptance. It will also result in strengthening and maintaining a long and close

relationship.

- **Cao Fei Dian**

The feasibility on the Cao Fei Dian project is one of the hot topics regarding the Chinese shipping market. Shou Gang steels, one of the largest Chinese steel producers, is now moving its steel plant from the Capital City to a new site called Cao Fei Dian, which is about 125 miles Southeast of Beijing. Cao Fei Dian is located on the West Coast of Bohai Sea where the obtainable draft is 25M SW, and a max of 36M. The channel leading from the port to the outer sea has a natural depth of 27 meters. The government has invested over 5 billion Chinese Yuan (625 million U.S. Dollars) in Cao Fei Dian. In 2006, the investment is anticipated to be upwards of 15 billion Chinese Yuan (1.88 billion U.S. Dollars). The government has committed to invest over 100 billion Yuan (12.5 billion U.S. Dollars) in the next 5 years to build Cao Fei Dian into the key hub in North China for the importation of iron ore, crude oil, coal, and natural gas. Shou Gang Steels is building the new steel production plant in Cao Fei Dian jointly with Tang Gang Steels, the sixth largest steel maker in China. After completion of construction in 2008, the new steel-making entity will be endowed with a capacity of producing 15,000,000 metric tons of high-quality steel products annually. To cater for the production, 24,000,000 metric tons of iron ore fines would be imported annually. The new steel-making enterprise will have its own private berths for discharging operations of iron ore. Currently there are two berths capable of accommodating fully laden Cape ships of 250,000DWT, which have been completed and have come into service. Feasibility on dedicating large Cape ships to iron ore movements for the new steel production center under long-period contracting can be discussed on several bases. The first is that the new steel-making entity will be ranked as one of the largest state-owned enterprises in China, regardless of industry. Secondly, the availability of a private special workable berth. Also there is a win-win achievement to both parties concerned with this enterprise. The steel mill will benefit from a low, fixed freight in which the price will be free of market fluctuation and will have committed cargo shipments. The ship owner would benefit from a risk free investment, guaranteed investment pay-off, simplification of operation and management, cheaper prices for ship repairs, dry-docking, spare parts, etc. in China, and a lower costs on crew employment, manning and changing. A Japanese ship owner has set up the example in contracting with Bao Steels Shanghai to dedicate a Cape ship of 300,000DWT to iron ore movements for 20 years.

- **Coastal Activities**

The Chinese coastal dry bulk market is busy and flourishing with cargo movements of steels, chemical fertilizer, coal, iron ore, mineral, sand, tapioca, chip, and others. Most coastal work is made up of movements between the mainland of China and Japan, South Korea, Taiwan, and Southeast Asia. The cargo quantity of each individual shipment will range from 1,500 metric tons to about 20,000 metric tons. Presently the market is in great want of vessels. Over half of vessels in service in this area are aged older than 15 years. Vessels over 29 years of age are not uncommon. It appears as though the current situation will last for an extended period since the market is backed by prosperity and the development of China's economy, a great demand for raw materials, and a great volume of steel export by China. The suggested ship investments on China's coastal dry bulk markets are ships sized from 1,000DWT to Panamax or ships valued close to demolition. Of course they must always be seaworthy and at an age preferably less than 25 years.

- **Ship Agency Collaboration**

The collaboration of shipping agency in Chinese ports between American and Chinese agents can create many opportunities for both parties. In addition to the 74 ports already in existence in China, several new ports are being built to handle the increasing cargo movements. Yangshan will be the largest port for container ships, while Cao Fei Dian will be one of the largest for Cape ships. A combination of strengths will bring success since the advantages of American ship agents are with business channels and relations with ship owners, operators, and charterers. The Chinese agents bring professional agency operations, as well as close, personal relations with the port authorities to the table. American agents will extend their area of agency to include all of the Chinese ports and not just one. It will be an increase in ship attendance volume and it will lay the strategic groundwork in building maritime business in China. Since there is a lack of an initial financial investment coupled with the Chinese agent's well-qualified service, there is minimal risk.

The continuous growth of China's economy is anticipated in the following years. It can be concluded that the size of the Chinese shipping market will not be shortened but further expanded in the near future. Please forward questions or comments to marketing@sino-global.net