

Sector Report

MARINE CHINA

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OVERVIEW

China is the world's third largest shipbuilder and aims to overtake both Japan and Korea to become the world's largest. Massive new yards are being constructed together with further consolidation of the industry to make China even more competitive. Further R & D and innovation is also taking place within the Chinese shipbuilding industry, which is leading to larger and higher-value ships being built.

The main objectives for the shipbuilding sector in the 10th Five Year Plan (2001-2005) were: the foundation of an industrial structure that meets both China's civilian and defence requirements, centred on big shipbuilding groups, with well co-ordinated with medium and small companies; improvement in the quality, productivity, efficiency of the shipbuilding sector; and, an increase of China's share of the international market by 2010.

2005 saw further rapid development of the Chinese shipbuilding industry. Output throughout the whole industry totalled 12.5 million dwt in 2005, an increase from 3.5 million dwt in 2000, which represents an average annual growth rate of almost 30%.

Since 2003, China's shipbuilding industry has surpassed European countries in terms of annual total production volumes, number of new orders and number of orders under construction, and has narrowed the gap with South Korea and Japan. China's major customer base has also shifted from small and medium sized ship-owners to world famous shipping giants. At the same time, China's shipbuilding industry has moved into building higher technology and more complex vessels and marine facilities, such as large LNG vessels, FPSOs and large jack-up drilling platforms.

In the first quarter of 2006 (up to the end of March 2006), CSSC completed 1,450,000 dwt of ship construction. This was the same level as in the same period in 2005. All ships were delivered ahead of contract schedule and a number of key marine products were built in China for the first time: an LNG tanker, a 300,000 dwt FPSO, an 8530 TEU container ship and a 13,500m² dredger. New construction orders in the first quarter of 2006 totalled 45 new ships, up 252% Orders in CSSC's main shipyards (like Hudong-Zhonghua Shipbuilding, Shanghai Waigaoqiao Shipbuilding, Guangzhou Shipyard and Shanghai & Chengxi Shipyard) will last into 2009.

CSIC is achieving similar levels of activity and growth. In the first quarter of 2006 (up to the end of March 2006), CSIC completed the construction of 11 new ships totalling **220,000** dwt. These new ships had a construction value of RMB4.7 billion, up 21% from 2005. CSIC's total sales revenue in Q1 2006 increased by 28% from the same period in 2005. New construction orders in the first quarter of 2006 totalled 19 new ships at a value of RMB8.8 billion with a combined weight of 2,000,000 dwt.

It is clear that the majority of China's shipyards are now able to offer competitive pricing and quality vessels. New capacity and productivity improvement means that the quantity of Chinese-built vessels entering the market will continue to grow for the foreseeable future.

Top 10 shipbuilding companies by sales revenue in 2005

No.	Enterprises	Revenue (RMB100m)
1	Dalian Shipbuilding Industry Co., Ltd.	82.2
2	Jiangnan Shipyard (Group) Co., Ltd.	66.5
3	Hudong-Zhonghua Shipbuilding Group Co., Ltd.	65.6
4	Bohai Heavy Industry Co., Ltd.	60.7
5	Shanghai Waigaoqiao Shipbuilding Co., Ltd.	52.3
6	Shanghai Shipyard & Chengxi Shipyard Co., Ltd	37.3
7	Guangzhou Shipyard International Company	24.6
8	Wenchong Shipyard Co., Ltd.	23.6
9	Jinling Shipyard	23.3
10	New Century Shipbuilding Co., Ltd.	20.2

Top 10 shipbuilding companies by gross output value in 2005

No.	Enterprises	Revenue (RMB100m)
1	Dalian Shipbuilding Industry Co., Ltd.	100.5
2	Hudong-Zhonghua Shipbuilding Group	59.9
3	Jiangnan Shipyard (Group)	54.3
4	Bohai Heavy Industry Co., Ltd.	41.3
5	Shanghai Waigaoqiao Shipbuilding Co., Ltd.	40.3
6	Shanghai Chengxi Shipyard Co., Ltd.	35.4
7	Wuchang Shipyard Co., Ltd.	30.1
8	Guangzhou Shipyard International Company	25.0
9	New Century Shipbuilding Co., Ltd.	21.5
10	Wenchong Shipyard Co., Ltd.	21.5

Top 10 shipbuilding companies by completed construction in 2005

No.	Enterprises	DWT (DWT 1m)
1	Dalian Shipbuilding Industry Co., Ltd	2.328
2	Shanghai Waigaoqiao Shipbuilding Co., Ltd	2.170
3	Hudong-Zhonghua Shipbuilding Group	1.170
4	New Century Shipbuilding Co., Ltd	0.760
5	Jiangnan Shipyard Group	0.594
6	Bohai Heavy Industry Co., Ltd	0.467
7	Nantong COSCO KHI Ship Engineering Co., Ltd	0.418
8	Guangzhou Shipyard International Company	0.401
9	Shanghai-Chengxi Shipyard Co., Ltd	0.393
10	Nanjing Jinling Shipyard	0.251

Top 10 Shipbuilding companies by new orders awarded in 2005

No.	Enterprises	DWT (DWT 1m)
1	Shanghai Waigaoqiao Shipbuilding Co., Ltd	4.879
2	Dalian Shipbuilding Industry Co., Ltd	2.171
3	Jiangnan Shipyard Group	1.317
4	Bohai Heavy Industry Co., Ltd	1.094
5	Hudong-Zhonghua Shipbuilding Group	0.954
6	New Century Shipubilding Co., Ltd	0.881
7	Guangzhou Shipyard International Company	0.712
8	Jiangsu Yangzijiang Shipyard	0.639
9	Nantong COSCO KHI Ship Engineering Co., Ltd	0.495
10	Shanghai-Chengxi Shipyard Co., Ltd	0.429

The main shipyards of CSSC and CSIC continue to dominate the shipbuilding market in China. By total ship construction they account for approximately 62% of the market, while by new orders they account for approximately 69% of the market.

CHARACTERISTICS OF MARKET

During the period covered by the 9th Five Year Plan (1996-2000), there was a radical restructuring of the shipbuilding sector. In a bid to enhance its competitiveness in the world market, on 1 July 1999, the original China State Shipbuilding Corporation (CSSC), the quasi-ministerial entity who had controlled China's shipyards and institutes since 1982, split into two separate companies: China State Shipbuilding Corporation (CSSC) and China Shipbuilding Industry Corporation (CSIC). CSSC is predominantly a southern China-based company and is headquartered in Shanghai while CSIC is a northern China-based company and is based in Beijing.

China State Shipbuilding Corporation (CSSC)

CSSC, established on 1 July 1999, is a large state-authorized investment institution directly administered by the central government of China. There control a total of 60 sole proprietorship enterprises and shareholding institutions (subsidiaries), including a number of large and well-renowned shipbuilding and ship-repairing yards, research & design institutes, marine-related equipment manufacturers and trading firms. CSSC's business covers both naval and civil vessels ranging from conventional oil tankers and bulk carriers to sophisticated vessels, like LNG carriers, VLCCs, chemical carriers, Ro/Ro passenger freight ships, large container ships, large LPG carriers, self-unloading ships, high speed ships, other civil ships and offshore engineering facilities.

Main projects for CSSC at the moment are:

- *Changxing Shipbuilding Base.* Situated along the southern shore of Changxing Island, Shanghai, in the mouth of Yangtze River. With a

shoreline of 8 km and water depth of 12-16 metres. It is expected that 7 building docks will be built with a capacity of 8 million dwt and capable of building various high-tech ships, such as LNG vessels, offshore engineering facilities and cruise ships. By its completion in 2015, Shanghai's shipbuilding capability will have been increased from 3 million dwt to 12 million dwt. This will enable Shanghai to rank itself as the largest shipbuilding base in the world.

- *Longxue Shipbuilding Base.* Longxue Shipbuilding base on Nansha, Guangzhou started construction in September 2004. CSSC will invest RMB4.5 billion on the first phase of this project. The annual yard capacity will be 2-3million tons after completion. Guangchuan, Wenchong and Huangpu shipyards will be moved onto Longxue shipyard. It will be put into use in the second half of 2007, and hopefully able to deliver its first ship in 2008.

The major shipyards and companies under CSSC are as follows:

Jiangnan Shipyard (Group) Co. Ltd
Hudong Zhonghua Shipbuilding (Group) Co. Ltd.
Waigaoqiao Shipbuilding Co. Ltd
Shanghai-Chengxi Shipbuilding Co. Ltd
Guangzhou Shipyard International Co. Ltd
Guangzhou Wenchong Shipyard
Guangzhou Huangpu Shipyard
Hudong Heavy Machinery Co. Ltd
Jiangnan Heavy Industry Co. Ltd
Marine Design Research Institute of China (MARIC)
The Ninth Design and Research Institute
Shanghai Merchant Ship Design and Research Institute
China Shipbuilding Trading Co. Ltd
China Offshore Co. Ltd

China Shipbuilding Industry Corporation (CSIC)

CSIC boasts 140,000 employees and 77 enterprises and institutions, including 10 shipyards and repair yards around the Bohai Sea rim and in areas of the middle and lower reaches of the Yangtze River. Large ship construction capability of this group is mostly concentrated in Dalian New Shipyard, Dalian Shipyard and Bohai Shipyard.

During the 10th five-year plan, several key projects were planned within CSIC. The Dalian and Qingdao Haixiwan shipyard projects were started. The construction of a 1 million dwt shipyard and 300,000 dwt dock at the Bohai Shipbuilding Heavy Industry Company and the relocation of the Tianjin Xinggang Shipyard are also under way.

With the beginning of the 11th five-year plan, the shipbuilding industry in the Bohai Rim area will develop further. According to the CSIC

development programme, the Bohai Rim Shipbuilding Belt will combine both naval and civilian products, including ship construction and repair, marine equipment, marine engineering, non-ship-related products, and a base for R&D and education. Five shipbuilding and repairing bases will be constructed in the Bohai Rim Shipbuilding Belt: Dalian; Huludao; Qingdao Haixiwan; Tianjin Xingang; and Shanhaiguan, creating a combined shipbuilding capacity of 10 million dwt.

The main project for CSIC at the moment is at Dalian. is preparing a similar project in the north. It will be located in the Bohai Bay area. Dalian Shipbuilding Heavy Industry and Dalian New Shipbuilding Heavy Industry were integrated into Dalian Shipbuilding Industry Group Company through a reorganisation in December 2005. The new company will invest heavily in technical renovation and production capacity expansion. It will have a gross economic output of RMB20 billion and a shipbuilding capacity of over 6 million dwt by the end of 2010. It will become the largest naval ship base in China, and a world-leading facility for the construction of large ships and marine equipment.

The major shipyards and companies under CSIC are as follows:

Dalian Shipyard Co. Ltd
Dalian New Shipbuilding Heavy Industries Co. Ltd
Bohai Shipbuilding Heavy Industry Co. Ltd
Wuchang Shipyard
Shanhaiguan Shipyard
Qingdao Beihai Shipbuilding Heavy Industry Co. Ltd
Tianjin Xingang Shipyard
Chuangong Shipyard
China Ship Research & Development Academy
China Ship Design & Research Centre
China Shipbuilding & Offshore International Co. Ltd

Other Shipyards and Shipbuilding Companies

In addition to the shipyards of the two major shipbuilding groups, there are 200 or so shipyards owned by local governments, other large companies, JVs between Chinese and foreign companies and private entrepreneurs. These shipyards are located across 20 provinces and autonomous regions and in a few major cities. Most of them are located in China's coastal provinces, Jiangsu, Zhejiang and Fujian Provinces.

The Zhejiang Provincial Government has already formulated a long-term plan for supporting the shipbuilding industry in its province. In the plan for locating shipbuilding enterprises in Zhejiang Province, which was implemented at the beginning of 2005, the province will set up 10 shipbuilding bases with a gross investment exceeding RMB10 billion. Private owned enterprises are the main players in Zhejiang, rather than State-Owned Enterprises (SOEs).

Leisure Boats

Both CSSC and CSIC have shipyards producing boats. However, the main players in the market are private, foreign-invested manufacturers (Taiwanese and US). In total, there are more than 260 boat manufacturers in China, with annual sales volume of RMB2.7 billion. It is expected that the annual sales volume for the boat industry in China will rise to RMB8 billion by 2010.

The annual boat shows in Shanghai and Qingdao are currently the major platforms for the leisure boat industry to raise their profile with potential customers.

OPPORTUNITIES

There are three major shipyard projects underway in China at present, which might provide opportunities for business. Further details about these projects have been given in this report earlier under the CSSC and CSIC headings.

There are always opportunities for equipment sales (eg, consumables, transport equipment, welding equipment, power generating machines, etc.) Advanced shipyard logistics and production planning solutions are also areas that Chinese yards are looking at. Under the 11th five-year plan, some new areas for development have also been identified: marine detectors, oceanic engineering equipment, wind-driven equipment, and energy saving equipment.

At present, China has an extensive capability to manufacture mainstream marine equipment, such as marine diesel engines, auxiliary machinery, and electronic equipment. However, China wants to further develop its marine equipment industry and close the gap in the overall capability between China and traditional maritime/shipbuilding countries such as Germany, Japan and Korea. As a consequence there are likely to be opportunities.

China has reduced the import duty for marine equipment from 15% to 8%, and implemented preferential policies towards shipbuilding projects. Foreign companies are permitted to take the majority shareholding in companies working in the marine industry or set up wholly foreign-owned enterprises (WFOEs).

KEY METHODS OF DOING BUSINESS

China's shipbuilding industry is placing great emphasis on keeping costs low, yet improving the technological capability of equipment. Localisation through licensing, technology transfer or joint venture manufacture may be the way ahead for some companies who wish to develop their presence in the market.

Like many of other sectors, the key to success in the Chinese shipbuilding industry is to familiarise the local yards – through regular visits, seminars, etc - with your key products or services, your operations, completed projects (particularly if done in China), your international reputation, etc. Being able to customise products and/or technology for specific project demands and meeting individual customer requirements are also very important.

For vessels built in China for export, foreign owners play a major role in specifying equipment requirements. Companies should therefore establish contact with the overseas or domestic ship owners, as well as with the Chinese shipbuilders and design institutes. Local manufacturers in China have the capability to supply most of the low-tech equipment for shipyards. Products made under license in China are competitive mainly because of their low prices.

Exchange of information and frequent communication are both very important in attempting to do business in China. It is strongly recommended to work closely with a local Chinese partner, and to have Chinese-language technical and marketing materials available.

PUBLICATIONS

World Ships & Boats - This magazine is sponsored by China Association of the National Shipbuilding Industry, and CSSC's Technology Research & Economy Development Institute. Bimonthly magazine. The contents are mainly in Chinese, but with translation for some articles. Tel: 008610-6218 0737. Fax: 008610-6218 2171. Web: www.gjct.com.cn. Email: gjct@mail.csscinfo.com.cn

China Ship News - Industrial newspaper, supported by CSSC, CSIC and China Shipbuilding Industry Association. Web: www.chinashipnews.com.cn

Useful Websites

- www.shipbuilding.com.cn - Information on shipyards, industry & business opportunities
- www.zgship.net - Second-hand ship exchange
- www.csscinfo.com.cn - Ship information and ship owner's information
- www.cnboat.com - Boat and component sales
- www.shipping.com.cn - Shipping information
- www.chinaship.cn - China Shipbuilding Industry Trade Association
- www.csi.com.cn
- www.shipol.com.cn
- www.chship.com
- www.shippingchina.com

EVENTS

Asia Shipbuilding 2006

Date: 26-28 July 2006

Venue: White Swan Hotel, Guangzhou, China

Web: www.ibc-asia.com/asiashipbuilding.htm

This is the third Asia Shipbuilding 2006 after having successfully visited Dalian and Beijing in the last two years. Attendees will receive updates on key Asian shipbuilders and focus on Chinese developments that shape the industry future.

Shiport China 2006

Date: 25-28 October 2006

Venue: Dalian Xinhai Convention Centre

Web: www.shiport.cn

The 2nd Zhejiang International Shipbuilding Industry Expo

Date: 13-15 September 2006

Venue: Hangzhou

Email: zjshipbuilding@163.com

China Int'l Shipbuilding, Marine Equipment, Maintenance Technique Expo

Date: 30 August-1 September 2006

Venue: Shanghai Everbright Exhibition Centre

Web: www.shiptechchina.com

The 12th China Int'l Boat Show 2007

Date: April 2007

Venue: tbc, Shanghai

Web: www.cmpsinoexpo.com

It was awarded as the best boat show in 2005. It takes place in Shanghai annually.

Marintec China 2007

Date: 27-30 November 2007

Venue: Shanghai New International Exhibition Centre

Web: www.marintecchina.com

It is one of the major marine exhibitions in China.

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