

Transportation & Logistics Under China's 12th Five-Year Plan

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Members of Benesch's China Group and Transportation & Logistics Practice Group regularly work together to provide solutions to our clients' China-related transportation and logistics needs and help clients take advantage of opportunities in this rapidly expanding sector of China's economy. This joint report of the two groups gives you a macro glimpse of what China expects will happen inside and outside of its borders in this sector during the next five years.

China's 12th Five-Year Plan, which was issued in March, 2011 (the "Plan"), is the blueprint for the economic objectives and goals that China intends to reach by 2015. There are three general themes in the Plan: economic restructuring, social equality, and environmental protection. China plans to restructure its economy by encouraging domestic consumption, developing the service sector, shifting to higher value-added manufacturing, conserving energy and cleaning up the environment.

At first glance, it may appear that the Plan did not focus on the transportation and logistics industry, but this would be an incorrect impression. Although not specifically identified as a strategic emerging industry, the Plan allocates significant resources to expanding China's transportation infrastructure. For example, in order to support intraregional trade and facilitate the growth of China's western region, the Plan calls for improving the percentage of higher standard national highways, increasing the amount of available mileage on China's National Expressway Network and adding 42 national integrated traffic hubs.

Another example of the Plan's commitment to expanding China's transportation infrastructure is its goal of expanding the capacities of its current ports as well as developing new deep water shipping berths with the goal of reaching a deep water berth capacity of more than 44,000,000 tons. In addition, as part of the focus on transportation, and especially targeting China's western regions for growth (as well as to realize greater energy efficiency), the Plan calls for enhancing intraregional transportation of goods by increasingly utilizing the Yangtze River.

It is important to note that focusing on growth in the transportation and logistics industry is not something new in China. During the last five years, transportation and logistics has been one of the industries in China which has enjoyed rapid growth.

For example, in 2009, the State Council of China announced the goal of establishing Shanghai as an international shipping center by 2020. Recognizing that achieving that goal would require significant support, the State Council also announced preferential policies affecting tax and customs for the shipping industry and related industries. To attract the requisite industry players and support the establishment and growth of new players in the field, the State Council announced business tax

breaks, allowing offshore bank accounts and customs reforms to encourage utilization of the ports of Shanghai.

Enterprises registered in the Shanghai Yangshan Free Trade Port enjoy: (1) business tax exemptions on income derived from their international shipping business; and (2) business exemptions on income earned from transportation, warehousing, loading and unloading businesses. The business tax exemption extends to revenues generated by insurance companies registered in Shanghai from their international shipping insurance business. Another incentive included permission to set up offshore bank accounts to facilitate overseas business needs. The State Council agreed to implement tax refund policies at the port of departure and to explore innovative regulatory infrastructure for oversight of special customs supervision and administration zones to improve the efficiency of the port.

Shortly after the State Council announced the above preferential policies, the Shanghai Pudong New District ("Pudong") published detailed policies to support the initiative to establish Shanghai as an international shipping center, including developing tax refund policies at the port of departure, researching optimal shipping business plans, and providing subsidies to set up support systems for modern logistics and professional services. Finally, the Pudong government plans to establish preferential policies to finance leasing companies for international shipping vessels, and promote a pilot program to establish this finance system. The goal of establishing Shanghai as an international shipping center was a fitting precursor to China's 12th Five-Year Plan.

With China encouraging the development of Shanghai as a financial and shipping center and China's 12th Five-Year Plan's continued focus on growth and higher-quality value-added manufacturing in China's western region, multinational companies, including international shipping and logistic companies, may wish to take advantage of the preferential policies when they design and implement their China strategy.

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