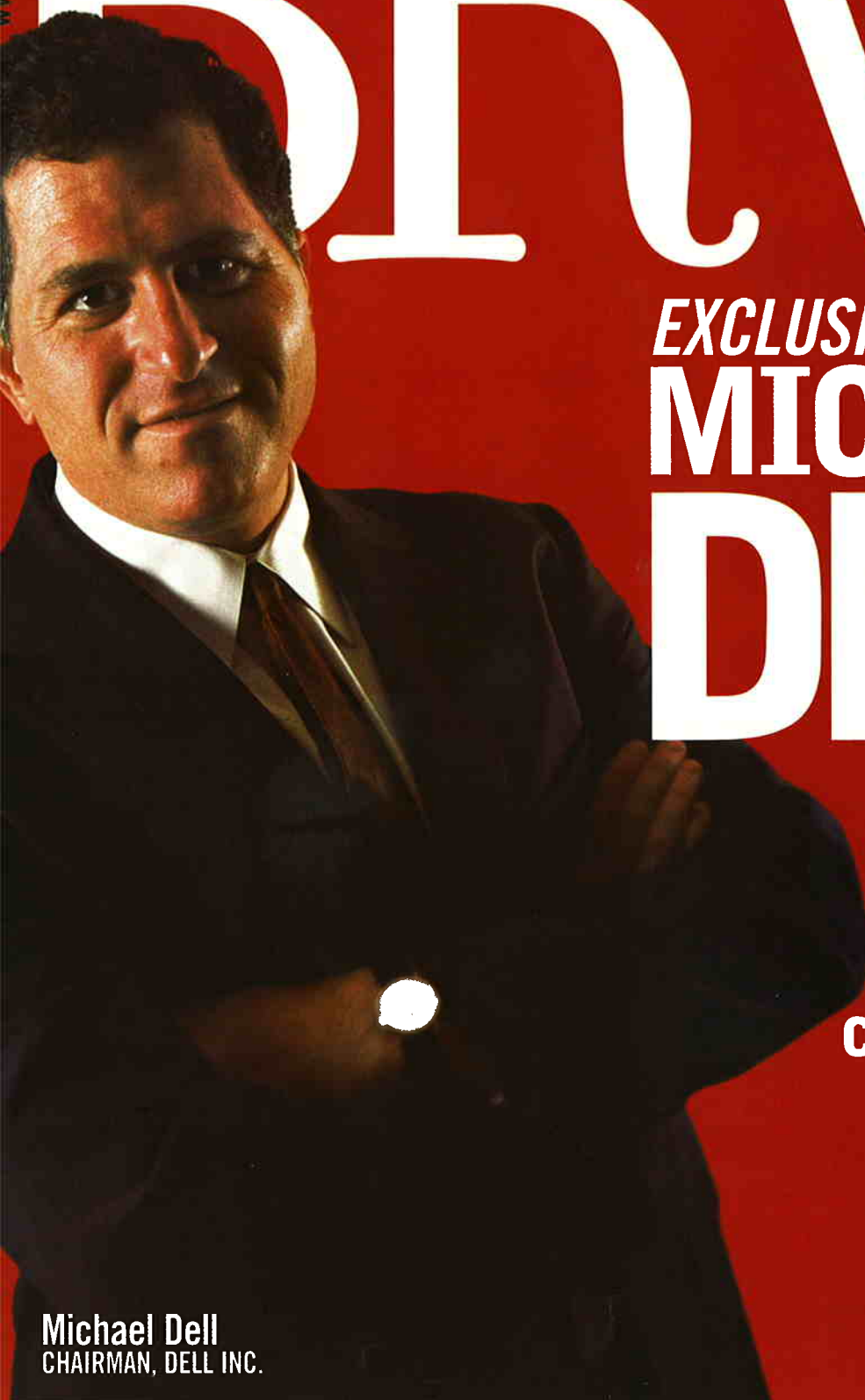


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COMMENT

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The issues: Robin Chambers helped to negotiate the recent deal between BHP Billiton and four Chinese steel mills. It is one of the biggest deals in Australian corporate history and he explains the process and the lessons learnt. Greg Cutbush analyses the reasons for disagreement among economists about the effect of the free-trade agreement with the United States.

Plenty to learn in China

The process was complex, time-consuming and taxing, but it proved the value of building early relationships. **By Robin Chambers**

The BHP Billiton joint venture with four of the largest Chinese steel mills is being rightly acknowledged as one of the most important deals of its kind since 1987, when Hamersley's Channar iron ore agreement became the first Australia-China joint-venture mining project. China's steel mills have a need for iron ore that cannot be met at home, and they imported 150 million tonnes in 2003. This is expected to increase to 300 million tonnes a year over the next five years, and Australia is seen as a leading supplier.

BHP Billiton's deal, signed on March 1, creates Australia's largest iron ore joint venture, with export contracts of \$11.6 billion involving 12 million tonnes a year over the next 25 years. What was it like to negotiate on behalf of the Chinese with one of the world's largest mining houses?

Initial contact came through the close relationship we had with the Chinese steel industry since 1984 and the Channar project. We were introduced to contacts in Wuhan Steel through central government officials. About the same time, we had contact with Tangshang Steel through a chemical project we were working on for an American client in Tangshang. We speculatively provided some free advice to senior officials at Tangshang Steel on Australian joint-venture law. Subsequently, we were appointed to act for both steel mills. The other two mills joined when they saw a lot of synergies in using a single law firm. This was

helped by BHP Billiton's endorsement of the Chinese use of a single law firm. The Chinese negotiating team provided an excellent mixture of skills and perspectives from engineers, in-house counsel, accountants, financial analysts, and shipping and trading people. Most, or all, had been educated, lived, worked and travelled in other countries, including Australia, Italy, Britain, the United States and Germany. BHP Billiton was negotiating with a highly skilled and capable team, mostly fluent in English and well versed in business and Western culture.

Our legal team had to be at least as good, to add the value that was expected. This meant incorporating lawyers fluent not just in the language but also in Chinese culture. The crucial element was that we understood the bottom line for the Chinese and they trusted us to deliver on it.

The negotiations took place over six months, in many time zones and in places thousands of kilometres apart — from Shanghai to Melbourne and Perth. It was a complex, time-consuming and taxing process and, as in all joint ventures, not the least of the issues was trying to align the clearly differing interests of the Chinese mills and BHP Billiton. It was hard-nosed and tough, but there was a common foundation in that every member of the negotiating teams wanted to solve the underlying problems and the attitude was, "We want to make this happen".

The business relationship between Australia and China has matured, particularly during the past 10 years. The Chinese see Australia as friendly and non-threatening. It can never be assumed that friendship will override commercial reality, but in this instance it has been a convenient source of mutual confidence. It suits us, and it suits them.

The lessons to be learnt? The most important element in successfully doing business in China is to build relationships. These talks built on confidence and communication, because our negotiating team was relied on to understand what its Chinese clients wanted and how best to communicate that to BHP Billiton. That required a great deal of trust on the part of our Chinese partners.

Also, no amount of investment in relationships is sufficient in itself; it must also be well managed. There were many times when a stalemate was reached. The temptation was to close the books at the end of such days and to say, "See you tomorrow". But there was an unflagging commitment by both parties to maintain a cordial and hospitable atmosphere with plenty of relationship-building dinners. These occasions provided a great platform to clear the air, share some cross-cultural stories and rebuild confidence and trust for the following day — and for the life of the 25-year venture.

No one should underestimate Chinese sophistication and business acumen. Some people may talk about stereotypes of bureaucrats and party officials but the fact is that the emerging modern Chinese business representative has international exposure, a high level of education and an acute sense of business pragmatism.

What of the future? The investment potential between Australia and China is huge. Although it is hard to see many further specific opportunities in iron ore, Australia remains a natural source for China's minerals and energy requirements. The next investment opportunity will probably be coking coal, and China has been looking for large copper projects for as long as I can remember. Manganese and nickel are also possibilities.

In the meantime, BHP Billiton now has long-term relationships with the four biggest steel mills in China. That's not a bad catch-up with Rio Tinto. ●

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