

The China Trader – Part I of III: Know Your Shipping Rates!

ANNE KUSCHERT IS FIDUCIA'S NEWLY APPOINTED SUPPLY CHAIN EXECUTIVE FOCUSING ON TRADE SERVICES. HAVING WORKED FOR A GERMAN FREIGHT FORWARDING COMPANY FOR 2.5 YEARS IN SHANGHAI AND SHENZHEN, ANNE KNOWS THE LOGISTICS FIELD WELL. SHE IS USED TO BUILDING THE BRIDGE BETWEEN EUROPE AND CHINA AS SHE SPEAKS ENGLISH AND MANDARIN FLUENTLY, WHILE HER MOTHER TONGUE IS GERMAN.



ANNE WILL SHARE HER EXPERTISE IN THIS MINI-SERIES ON TRADING WITH CHINA. HERE SHE INTRODUCES THE FUNDAMENTALS OF SHIPPING RATES AND EXPLAINS WHAT THE BREAKDOWN AND HIDDEN COSTS ARE TO HELP BUYERS NEGOTIATE FOR CHEAPER PRICES MORE EFFICIENTLY.

Have you ever wondered about what your freight forwarder is charging you? In the shipping world there are many nice acronyms that you have to factor into your costs when transporting goods. The first discussion on freight rates started with the establishment of the Far East Freight Conference (FEFC) in 1879. The need for such a price-fixing arrangement resulted from an excess in shipping tonnage on Far East trade as a result of opening the Suez Canal in 1869, and freight rates previously only charged on a boat-by-boat basis. In 2008, the European Union abolished the FEFC so that shipping lines could individually determine freight rates, thus making prices more competitive, as price fixing did not allow for free market economics.

Exporters shipping goods from China to Europe need to choose between a Full Container Load (FCL) of 20 or 40 feet standard container or 40 feet high cube. If their shipment is not large enough to fill a whole container, then they can opt for the Less Container Load (LCL). Shipments with two or more consignees with the same destination often choose LCL and the shipping line will apply the LCL freight rate on each shipment.



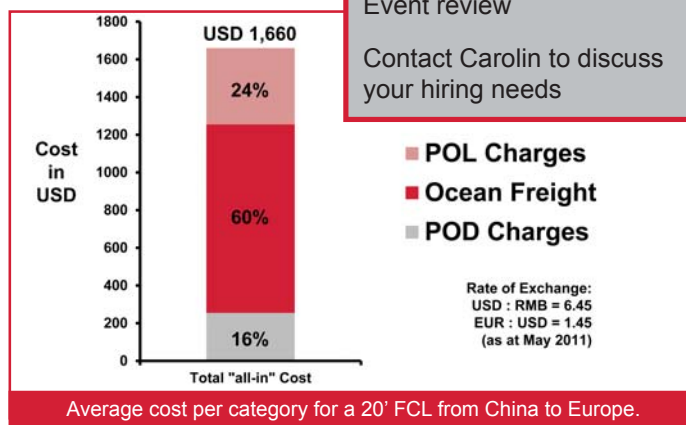
To FCL or not to FCL?

Exporters must evaluate whether cargo should go on FCL or LCL basis. Even if the cargo does not fill up a full container, it can be sometimes cheaper to send the goods via FCL anyhow. LCL costs can be higher depending on the volume and nature of the goods, and the cargo will be exposed to a higher risk of damage or loss, as it will be exposed when the shipping line consolidates it with other cargo. Furthermore, LCL shipments will take longer to process as FCL business has priority. This is because shipping lines can load FCL containers without any fuss, whereas cargo for LCL containers need to be consolidated first. Hence, we advise clients to go with FCL during busy times, for instance before Chinese New Year, to ensure delivery of goods.

There are different rate categories according to the location of where the costs occur:

- ▶ Port of Loading in China (POL)
- ▶ Ocean Freight
- ▶ Port of Destination in Europe (POD)

It is helpful to know what impact each category has on the "all-in" rate quoted by the freight forwarder:



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Ocean Freight makes up the biggest share of the costs – it starts with the base rate and this is fixed by the shipping lines. Then there are numerous surcharges; depending on the shipment load, the nature of the freight and the creativity of the shipping lines, there can be up to 100 different surcharges. Shipping lines are very creative and each one likes to use their own abbreviations, leaving it to the exporter to discover what they actually mean. The important and most costly ones to know are:

Acronym	Full Name	Surcharge
BAF	Bunker Adjustment Factor	In times of unstable oil prices, the shipping line applies this charge to cover any oil price hike.
CAF	Currency Adjustment Factor	In times of unstable currency, this charge covers any additional costs from currency appreciation. Most shipping lines use the U.S. dollar to quote charges.
ERS / ARS	Emergency Risk Surcharge / Gulf of Aden Risk Surcharge	This surcharge contributes to additional costs for security in the Gulf of Aden, spawned by the ongoing Somalian pirate hijackings.
PSS	Peak Season Surcharge	A charge for costs due to increased volume.

If the exporter chooses the LCL option, they have to consider the weight/measurement ratio or “w/m”, as the base rate uses the comparative relation between weight and volume of cargo. The base rate is quoted per metric tonne or per cubic metre, and shipping lines charge whichever is greater.

Avoiding hidden costs

For LCL, Chinese transportation companies introduced a “China Import Service Fee” (CISF) in October 2005 to further finance their operations. LCL business is not in high demand because exporters favour FCL as China is a mass quantity market. Therefore, the deconsolidation agents in the European destination ports will charge the CISF through the foreign consignee and not through the exporter. This fee is then fed back to the consolidator in China. There are on-going disputes about whether this charge is legally valid. It is a flexible fee, so the importer and exporter have to

negotiate on who shall bear the payment and the decision is usually indicated in the contract. The crux of the matter is that a buyer of goods needs to set out and agree with his supplier the precise terms under which the goods are sold before placing an order to avoid unexpected charges on arrival of the goods at the port of destination.

Transportation costs are one of the main cost factors you should try to influence. After knowing what is hidden behind an “all-in” quote from a freight forwarder, you can now demand a detailed breakdown of the costs. Therefore you can achieve a more price conscious decision on your shipping costs which will influence your selling price to the customer.

For a detailed list of FCL surcharges and LCL charges, please refer to the full article online at www.fiducia-china.com. If you have any trade related questions, email contact@fiducia-china.com.

Power shortage in China – What is the big deal?

CHINA FOCUS CONDUCTS INTERVIEWS WITH COMPANIES OPERATING ON THE MAINLAND TO SEE HOW BUSINESSES COPE WITH POWER SHORTAGES, ESPECIALLY SINCE CHINA IS REPORTEDLY GOING TO FACE ITS WORST SHORTFALL OF POWER SUPPLY THIS SUMMER.

The words “crisis”, “severe” and “unprecedented” are grabbing the headlines when it comes to the current problem China is facing with the nationwide shortfall of power. However, anyone living in China for a while will know that power shortage is not a new phenomenon. 2004 was one of the worst cases, when China suffered an annual shortfall of about 30 gigwatts, with power cuts and limits imposed on 27 out of 31 regions. 2008 also experienced a huge shortage at the beginning of the year but most regions reported a surplus towards the end of the year.

The real deal

Experienced businesses therefore should have implementation measures to cope with power cuts. Woelco AG is a company that manufactures self-adhesive labels and their facility has been located in an industrial park in Changzhou for over 5 years. General Manager Mr. Jochen Schleiss went through a phase of power cuts in 2010: “The park controls the main power and they split it out to residents. By knowing how much power each company consumes, they worked out a schedule for us: Work 9 days and power off for 4 days. Luckily, they gave us 4 weeks’ notice in advance so we could adjust to the new work hours by adjusting shifts.” The industrial park banned the use of generators so no work could be done on power-off days, but by changing the shift times of workers, the facility was essentially putting in the same amount of work as usual. Mr. Schleiss was able to negotiate with the park on securing constant power for essential functions.

Close by in Wenzhou is Web Dynamics, a UK company with a factory that produces protective laminate fabrics. Company Representative Lynda



Bond comments on the situation: “Blackouts over the last years have been very common, they occur normally once every 2 to 3 months and more frequently during summers and winters. Sometimes there are warnings and sometimes there aren’t, so the power cuts off suddenly. We recently received a notice from the electricity grid to switch off power for 2 days a week. If we don’t comply on the required day they advised that they will shut off our power for the 3 consecutive days.” Fortunately, the authorities soon after rescinded the notice and power supply resumed as normal. In terms of business operations, Web dynamics has a similar approach to Woelco, Lynda Bond adds, “When we do receive prior warning we can substitute a rest day for a work day. If we anticipate and plan carefully, our production and storage capacity can cope with these spikes although enforced stoppages are not ideal.”

In Shenzhen, Mr. Mike Bellamy runs an assembly centre called PassageMaker. He offers his views for both office and factory situations: “Announced power outages occur about 4 times per year at our front office because of all the construction in the area. So it is not a lack of power, but rather maintenance, repair and rework. Announced power outages occur about 10 times per year at our factory, but it is announced a week in advance and we can easily work around it by doing hand assembly rather than power intensive operations. In addition, the outage is for about 8 hours not 24, so we can change around the shifts. The effect on business is minimal when there is advanced notice, but it can be a headache when there isn’t.” Also in Shenzhen, Mr. David Dayton of procurement agency Silk Road International remarks from a buyer’s perspective: “We always have a back-up factory when we place any order, but a power shortage wouldn’t really allow us to make a change with a supplier. It’s inconvenient, but we can usually both schedule around it or extend delivery times before we confirm purchase orders.”

The drive for solutions

Power shortage is certainly not the end of the world for doing business in China, according to the quotes above. In fact, there is new light on initiatives to manage the problem. Dr. Martin Wilderer, head of engine maker MAN Diesel & Turbo’s new plant in Changzhou, is leading the initiative for companies to cooperate with China’s State Grid to reduce power consumption and in return to be exempted from future power cuts. Dr. Wilderer affirms: “In principle, the government has a priority list, for example residential areas

and hospitals will probably not be subject to power cuts, while industry ranks rather low. Nevertheless, considerations are given to companies who are active in energy saving and can prove their efforts.”

This initiative has gained much attention – Dr. Wilderer recently took part in the joint meeting of the Chinese and German government cabinets in Berlin, and talks led to an agreement for the German Government Organisation for International Cooperation (GIZ) to share technological know-how with China’s State Grid.

This is a shortened version, the full article is available on www.fiducia-china.com.

New social security law for foreign workers in China

AS OF JULY 1ST, 2011, FOREIGN WORKERS (INCLUDING HONG KONG CITIZENS) IN CHINA ARE SUBJECT TO THE LOCAL SOCIAL SECURITY SYSTEM AND HAVE TO MAKE THE CORRESPONDING CONTRIBUTIONS.

Since the decision to include foreign workers was made in October 2010, foreign companies in China have been waiting eagerly for detailed implementation instructions. From June 10th, draft measures were issued and open for comments to the general public for one week. However, there are currently still many details that require confirmation and it is not clear when the measures will come into effect in practice. At the moment, it is certain that foreign workers must contribute to the following, although amounts to be contributed are still yet to be confirmed:

- ▶ Basic pension fund
- ▶ Basic medical insurance
- ▶ Maternity insurance
- ▶ Unemployment insurance
- ▶ Work-related injury insurance

In the most likely scenario (take the case of Shanghai), where foreigners make the same contributions (apart from the housing fund), this could lead to additional monthly costs of RMB 1,286 for the employee and RMB 4,324 for the employer, provided the employee is earning more than three times the monthly average income. This will certainly be true for most foreign employees (the reference figure, which works as cap for calculation, stands at RMB 11,688 in Shanghai in 2011). The obligation to contribute of course means the employee can enjoy its benefits, but for most foreigners the standard of the services are neither attractive nor practical. For instance, foreigners may not be able to use “basic” local medical facilities because of communication barriers. It is also doubtful that many foreigners will receive benefits from the money paid into the pension fund, as this requires a minimum 15 years of contribution to the system. However, it appears that pension fund payments can be reimbursed upon leaving China.

Another problem is concerning foreign employees in China who still remain in the social security systems of their home countries. They face having to make double contributions, unless there is a Totalisation Agreement in place. Currently, China only has such agreements with Germany and Korea, whereby the one with Germany covers pension and unemployment insurance and the one with Korea only pension. The agreement only extends to employees who are seconded to China for up to 4 years and 8 years respectively with an exemption treatment. Employees who

have a Chinese Working Contract only, and who do not make payments into their home countries’ system on a compulsory basis (such as the self-employed), will not be covered.

What does this mean for you?

If your company employs foreigners in China, you should be prepared to include this worst-case additional cost into your budget for existing and future hires. Also, close attention should be paid to the detailed implementation rules coming up, to ensure full compliance. If you have any questions regarding this matter, please write to

contact@fiducia-china.com.

New individual income tax regulations

THE NATIONAL PEOPLE’S CONGRESS PASSED NEW REGULATIONS ON INDIVIDUAL INCOME TAX FOR CHINESE EMPLOYEES, WHICH WILL COME INTO EFFECT ON SEPTEMBER 1ST 2011. THIS WILL REDUCE THE NUMBER OF TAX RATE LEVELS AND ALSO INCREASE THE EXEMPTION THRESHOLD.

Deductible income for Chinese nationals will be RMB 3,500, up from the previous RMB 2,000 while the level for foreigners remains for the time being unchanged at RMB 4,800. As such, employees earning below these thresholds will not pay any IIT, and those who earn more can deduct this amount from their taxable income. Meanwhile, the filing period for IIT will be extended to 15 days in the following month, up from 7 days.

In addition, IIT progressive tax rate levels will be reduced from currently nine to seven, and the lowest tax rate will be set at 3%. For monthly taxable income after employee social security payments and IIT-exemption deduction, the existing and new rates differ as follows:

Old Regulations			New Regulations		
	Taxable Income Bracket (RMB)	Tax Rate (%)		Taxable Income Bracket (RMB)	Tax Rate (%)
1	Income of 500 or less	5	1	Income of 1,500 or less	3
2	500 – 2,000	10	2	1,500 – 4,500	10
3	2,000 – 5,000	15	3	4,500 – 9,000	20
4	5,000 – 20,000	20	4	9,000 – 35,000	25
5	20,000 – 40,000	25	5	35,000 – 50,000	30
6	40,000 – 60,000	30	6	50,000 – 80,000	35
7	60,000 – 80,000	35	7	Income in excess of 80,000	45
8	80,000 – 100,000	40	8		
9	Income in excess of 100,000	45	9		

What does this mean for you?

Companies should still negotiate salary amounts based on the gross income level and book the gross amount. For employees, while the new regulations will have the effect of a tax reduction for low and middle income earners, individuals with higher income levels may face increased payments. If you have detailed questions on how the new IIT regulations affect you, please write to contact@fiducia-china.com.



AGN 2011 Asia Pacific Conference – Thaddaeus Mueller appointed as New Regional Chairman

At the annual regional meeting held last June, members of AGN International, a worldwide association of accounting and consulting firms, met in Jakarta for three days of colourful activities. Representatives from 10 different countries had the chance to enjoy each other's company over traditional Indonesian food and drinks, while some took to the stage and gave memorable song and dance performances.

An important part of the event was to decide on strategies to bring AGN Asia Pacific forward. In addition to regional members being appointed to sit on several international committees, Fiducia's Business Development Manager Thaddaeus Mueller will become the new Chairman of the Asia Pacific Board.

Technical sessions were conducted including presentations on local taxation policies and fair value accounting. The audience was also treated to a guest presentation by Mr. Miguel Rocha de Moura, a modern day treasure hunter whose publicly listed company Arqueonautas recovers cargo from endangered historical shipwrecks. They have discovered 300 shipwrecks to date and retrieved over 100,000 coins and 10,000 artefacts. The conference concluded with a local tour of Jakarta's famous monuments.



July 7th Compliance Seminar in Hong Kong

This luncheon organised by the German Chamber of Commerce in Hong Kong was a very successful event, with a fully packed venue of nearly 40 attendees. Managing Director Juergen Kracht presented to the audience past and present examples of corruption, together with need-to-know advice on how companies can prevent corruption through thorough implementation of corporate governance measures.

To give a case study of how large corporations manage compliance, we invited Ms. Julia Kahlenberg, an experienced Compliance Officer with Siemens for over 10 years, to present the story of how Siemens turned itself around – from being drowned in corruption scandals in 2006, Siemens now acts as a global benchmark for compliance and transparency. The audience of senior management engaged with the speakers in a lively discussion and shared their own experiences of dealing with corruption when managing operations in China.

Contact Carolin to discuss your hiring needs

MS. CAROLIN FREY JOINS FIDUCIA'S PERSONNEL MANAGEMENT TEAM AS WE LOOK TO ENHANCE OUR SERVICE AND DELIVERY FOR EXECUTIVE SEARCH MANDATES.



Carolin's extensive people skills are a major asset for executive search.

As Fiducia's new Recruitment Consultant, Carolin's responsibilities include managing the recruitment process, devising a search strategy for job assignments, and executing the strategy to identify, assess and recruit first-rate candidates. Before joining Fiducia, Carolin was with an engineering consultancy for over five years, leading their sales and marketing team in both Germany and China and mentoring staff throughout their international offices

in the US, Germany and China. Her vast experience in cultivating relationships all over the world, together with her ability to speak German, English, French and Italian, will certainly further enhance Fiducia's service excellence. If you would like to discuss any recruitment related matters, please email contact@fiducia-china.com.

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 Publisher: Fiducia Management Consultants
 Editor & contact for press and article reprints: contact@fiducia-china.com

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