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Market Access

Experience and Insights on Trading with China

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Abstract

Welcome to our survey on market access and trading with China.

The government has set a goal of attaining annual trade between New Zealand and China of NZ$ 20 billion by 2015. A significant portion of this will be in exports.

Over 100 New Zealand producers and exporters attended our China Market Access workshops that were held in Auckland and Christchurch and participated in completing this survey. The feedback from these attendees on their business models, challenges, and strategies when trading with China are now published in this short report.

You can use this information and data as a roadmap for benchmarking your own position and future plans.

In summary the following trends were apparent:

Sales Revenue Targets

Ambition Aplenty
Over 75% of companies aspire to increase their export sales to China to NZ$ 20 million per annum within the next 3-5 years

Customs & CIQ Intervention

Planning and Positioning
Exporters can partner with Importers in China who are qualified to benefit from the latest trade facilitation reform measures therefore reducing the 'hidden costs' of accessing the China market

Partner Identification

Establishing Distribution Channels
This exercise remains very industry and product specific and may in some cases be combined with a geographic dimension as well. Fragmentation remains a common feature in the landscape so robust partner due diligence and patience are vital ingredients to success.

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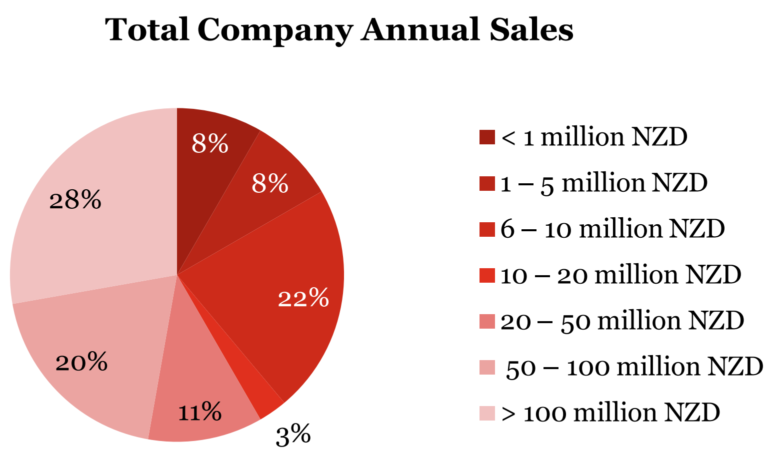
Objectives

This survey aimed to derive statistical information from a representative set of New Zealand producers and exporters regarding their trading experiences with China. This report can provide you with an overall picture that can help you benchmark your business model, develop strategies, and prosper abroad in the Chinese market.

Participants

Participants in the survey were represented from the following industry sectors:

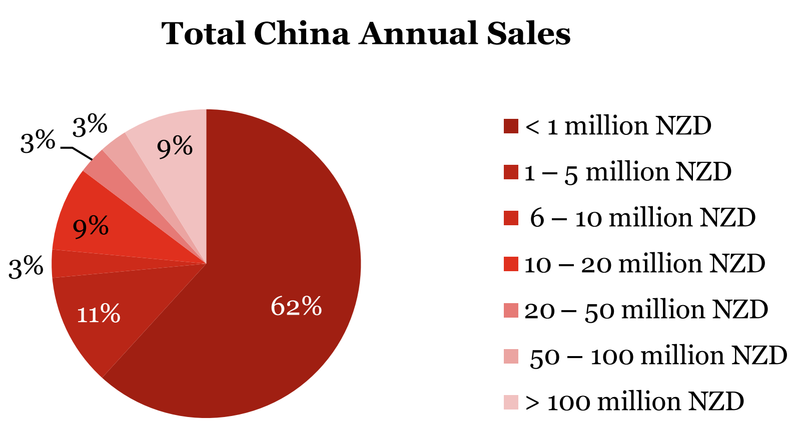
- 25% Diary
- 18% Agriculture
- 15% Food (non-diary)
- 10% Fisheries
- 9% Beverages
- 9% Other
- 7% Honey
- 6% Meat



Sales Composition

Almost 50% of companies had total company sales of NZD 50 million or more.

Notwithstanding the rapid growth in exports to China since the Free Trade Agreement came into effect in 2008 approximately 75% of participants reported that their annual export sales to China were still less than NZD 10 million with the majority generating export sales of less than NZD 1 million per annum.



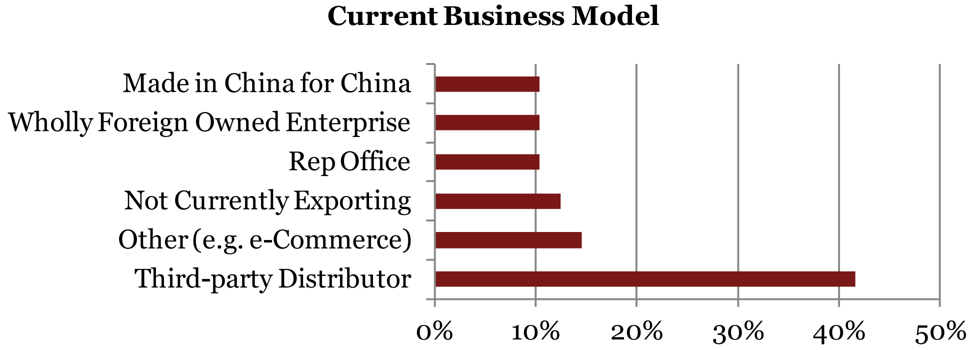
Business Models

Overview

Various business models can be adopted when trading with China. One business model is not necessarily better than another. What is most important is flexibility in the business model such that it can evolve over time to support the commercial needs of the business.

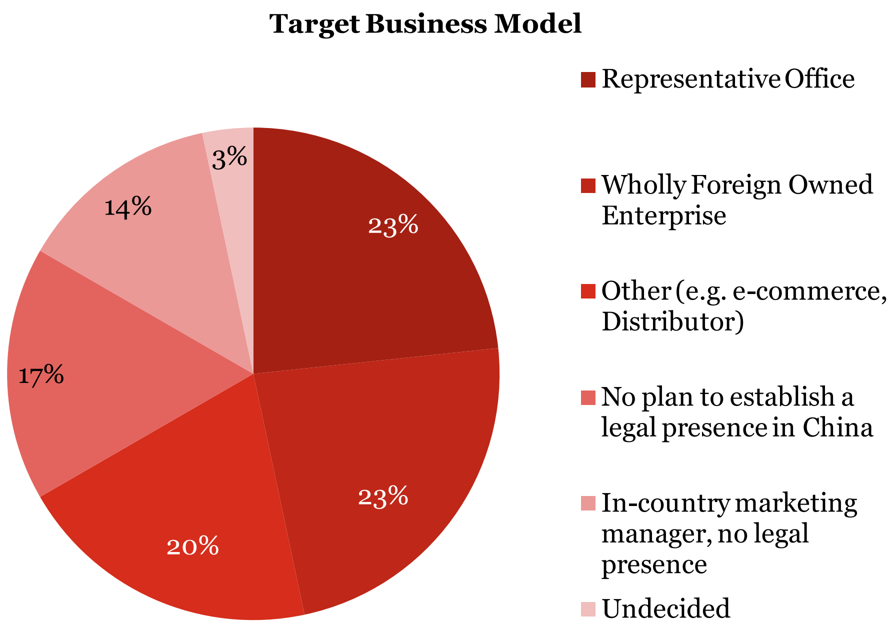
Distribution Channels

Engaging with a local third-party distributor in China is still the default business model for the majority of New Zealand producers and exporters. This is particularly so in the fragmented Food and Beverage (F&B) sector.



Cash Repatriation

Not surprisingly, due to the use of local third-party distributors approximately 70% of New Zealand exporters were concerned about getting paid in full and on time for export sales. That said, recently relaxed foreign exchange controls in China should make this element of the equation a lesser barrier.



Future Developments

Going forward more New Zealand companies are expected to create a trading/distribution operating subsidiary in China and/or an on-shore e-commerce platform.

A Representative Office can also show commitment to the market and support certain business goals, but it also comes with specific operational restrictions.

Business Models

Reform and Emerging Trends

China remains a land of economic and regulatory reform as highlighted most recently with the creation of the new China (Shanghai) Pilot Free Trade Zone. This reform is coupled with rising household disposable income and a propensity for the new and young middleclass to purchase premium imported product across a range of industry sectors.

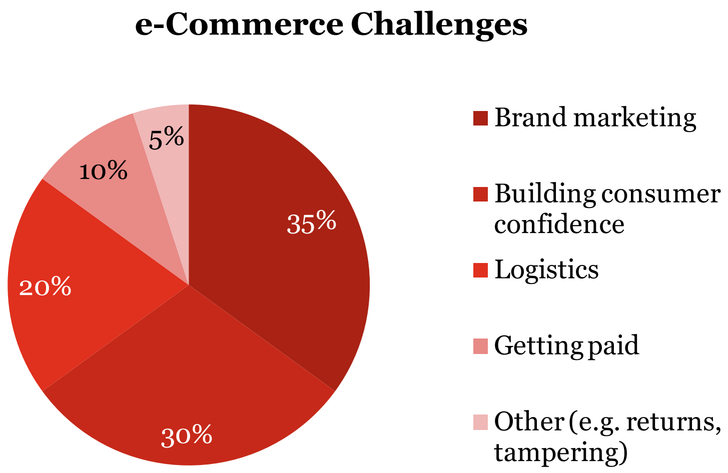
RMB Settlement

Approximately 19% of exporters are being asked by their local distributors for RMB settlement. This figure is only set to increase as the RMB gains status, supply, and convertibility in the international currency markets. Offering RMB settlement to Distributors will be important to sales growth.

e-Commerce

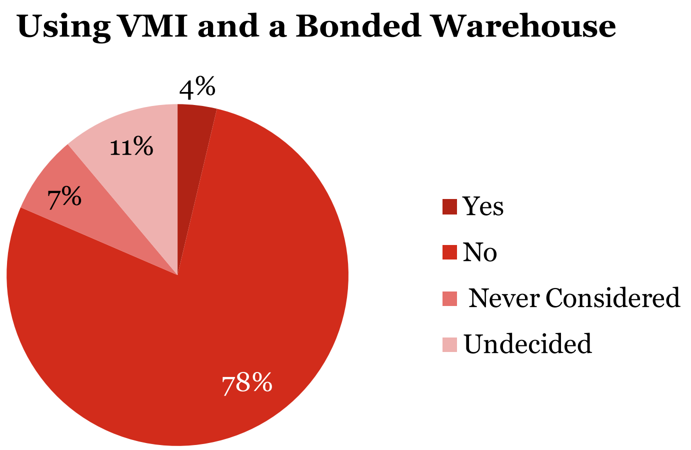
Uptake on e-Commerce in China is amongst the highest in the world. This is opening up new channels to market for New Zealand exporters but attaining success if far from easy:

- 50% of companies are operating their own website and on-line payment facility
- 40% of companies are using a local Distributor account
- 10% are using a third-party platform such as Taobao or T-Mall



Vendor Managed Inventory (VMI) to reduce fulfillment time

Order fulfillment lead time can be a barrier to maximising sales in China, particularly around seasonal consumption patterns. The new Free Trade Zone in Shanghai reduces the complexity of this solution and can create new value for Customers. New Zealand exporters may wish to evaluate this option further.



The Supply Chain

Overview

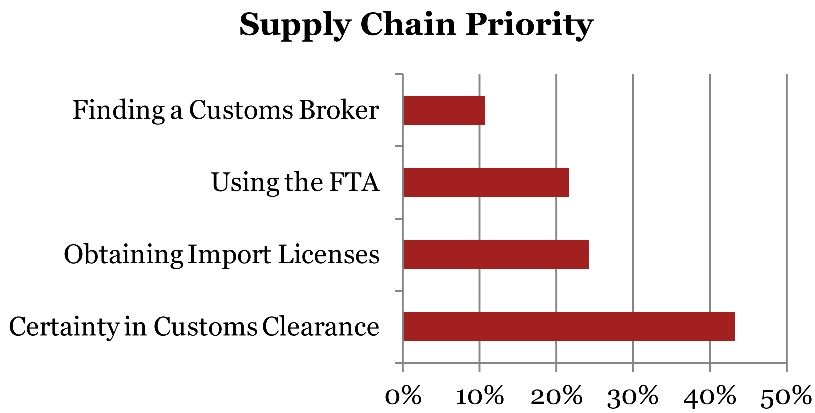
At the China border, various tariff and non-tariff measures still feature in a typical supply-chain. Whilst the Free Trade Agreement (FTA) has drastically reduced the tariff barriers it is important to note that certain products may still be subject to restrictions or outright prohibition. Intervention in the supply chain by Customs and Commodity, Inspection and Quarantine (CIQ) and other related agencies is still common.

Legal Liability

The importer-of-record in China is legally liable for making a complete, accurate and truthful declaration to Customs, CIQ and other related agencies. The survey found the importer-of-record is:

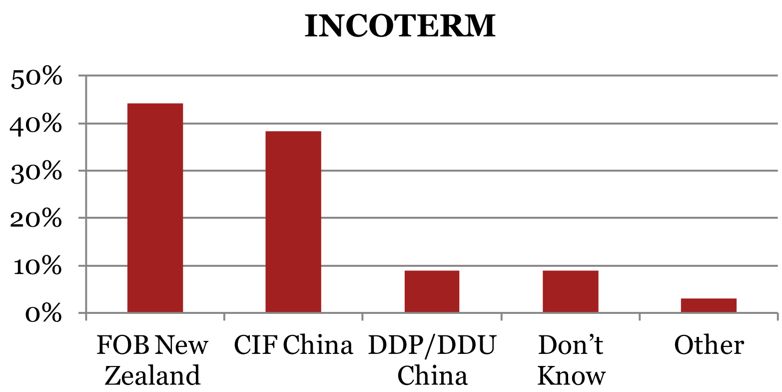
- 63% Third-party distributor
- 20% Import/Export Agent
- 11% Wholly Foreign Owned Enterprise
- 6% Don't Know

Certainty in Customs clearance process, time, and documentation requirements remains the main priority. Despite language barriers and distance New Zealand exporters can still reach out and obtain transparency of the process.



Direct Shipment

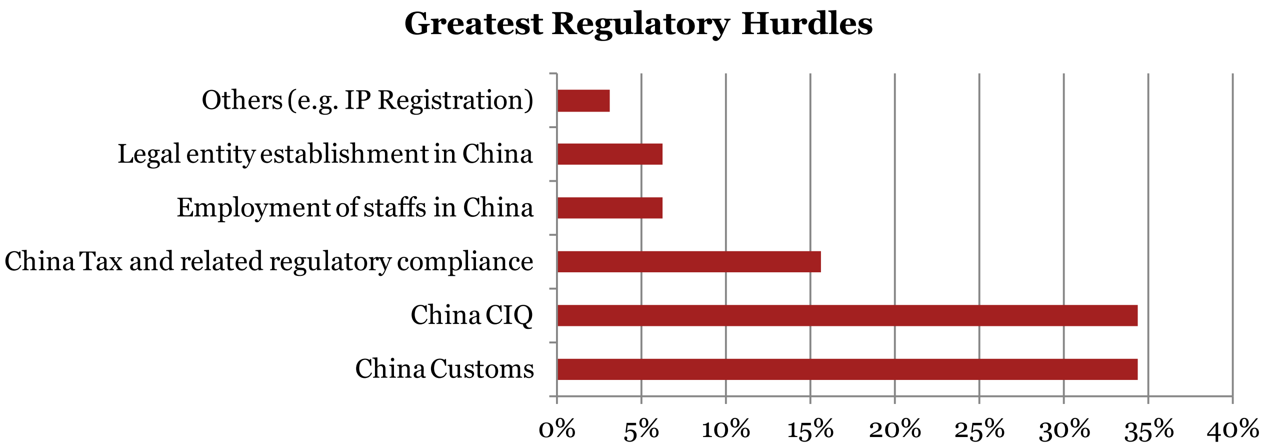
The FTA retains a 'direct shipment rule' and this survey found that 74% of exporters ship direct to China. For those adopting an indirect shipment due to freight rate costs or other logistic constraints only 8% had the Certificate of Origin rejected by China Customs.



The Supply Chain

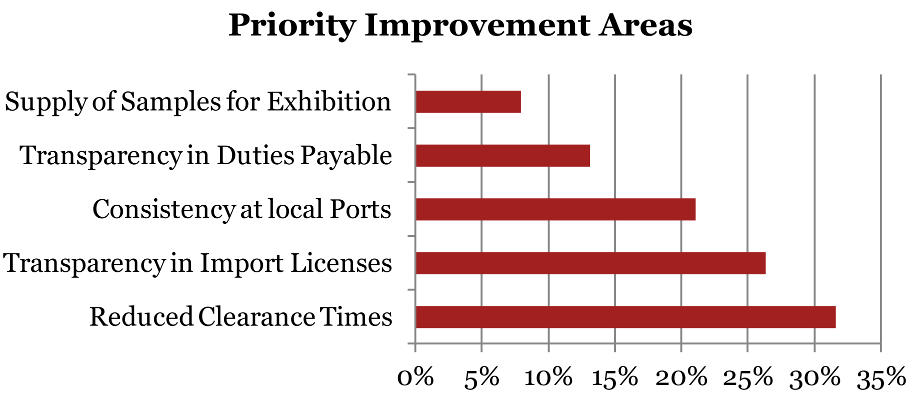
The Cold Facts

Customs and CIQ combined retain over 100,000 officials and operate at over 300 ports of entry. Autonomy exists at a local level which means that rule interpretation and enforcement can vary from port to port. Customs are under great pressure to ensure that revenue collection targets are met and CIQ have a vital role to play to ensure that consumer health and safety is protected. Rule changes particularly in the area of consumer health and safety are frequent.



Planning and Partnering

New Zealand exporters can influence their destiny by ensuring accuracy and completeness in all shipping documentation. This includes online registration with AQSIQ by the New Zealand exporter as may be appropriate. Exporters can be partnering with Importers that can benefit from the latest trade facilitation measures in China such as advance declaration, e-clearance, and Customs Brokers that are familiar with their industry in terms of product testing, labeling, and certification requirements. Exporters can also implement processes to ensure that the latest changes in consumer health and safety rules are known and planned for in advance.



Business Development Priorities

Multiple Distribution Channels

Approximately 56% of companies are targeting sales in Tier 1 cities whilst a further 26% are focused on e-Commerce sales and the remaining 18% are eyeing sales in Tier 2/3 cities.

Aspirations and Priorities

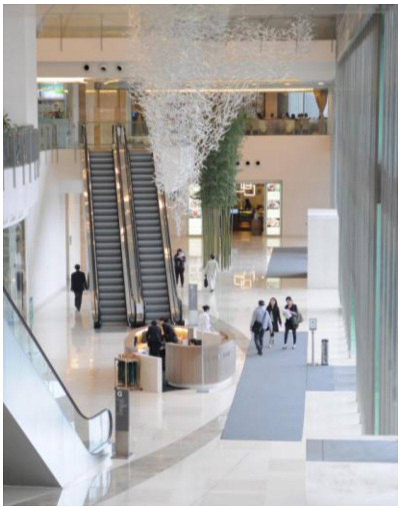
Notwithstanding all of the supply-chain and related doing business challenges over 75% of companies aspire to increase their export sales to NZD 20 million per annum within the next 3-5 years.

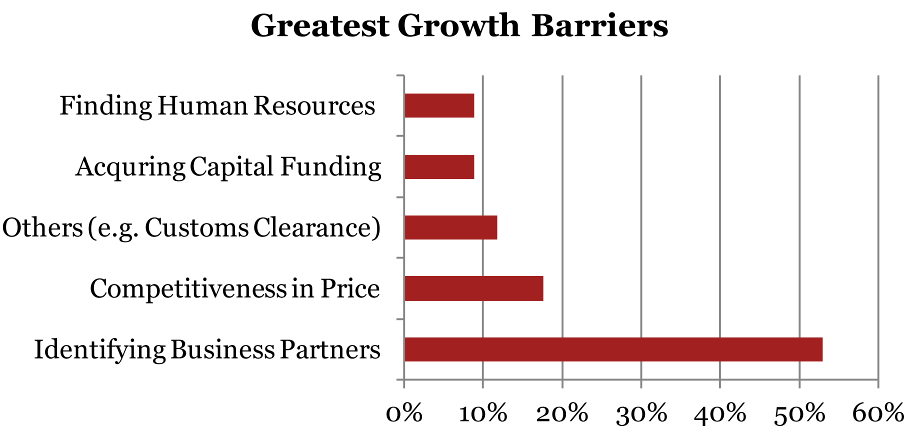
The top priorities of exporters were as follows:

- 22% market entry
- 18% partner identification
- 16% market development
- 14% strategy development
- 14% market positioning

Identifying Business Partners

This exercise remains very industry and product specific and may in some cases be combined with a geographic dimension as well. Where multiple distribution channels are being formed then it follows that multiple business partners may also be required. Fragmentation remains a common feature in the landscape so robust partner due diligence and patience are vital ingredients to success.





Business Development Priorities

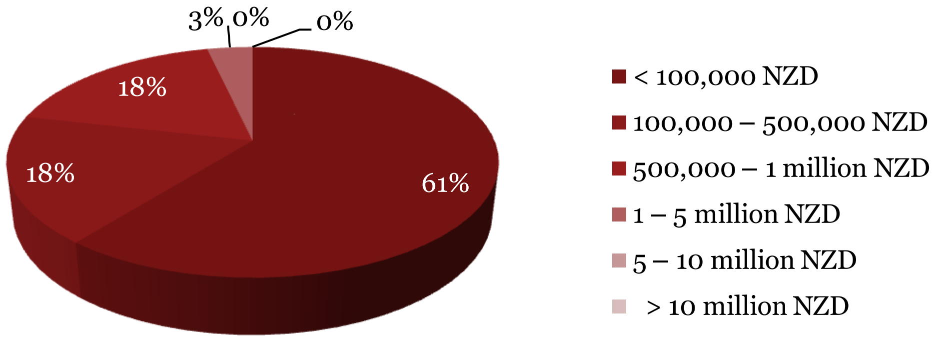
Investment Decisions

To support sales revenue growth investment decisions are being made in various areas including establishment of a legal presence, building brand, developing people, and opening up distribution channels. Debate is also taking place as to what can be achieved from the New Zealand home office versus on-the-ground in China.

Marketing Expenses

Nothing ventured nothing gained. And there is nothing cheap about doing business in China today. The majority of companies reported that they are spending less than NZD 100,000 annually on the market for items such as channel search, travel, diligence, marketing , etc. This amount is only set to grow as exporters ramp up marketing and sales efforts.

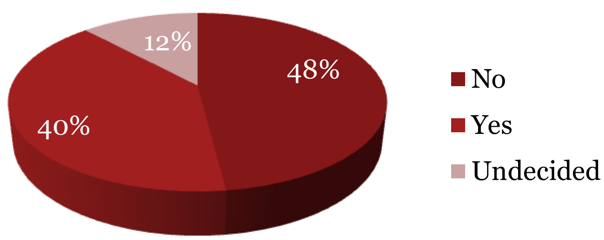
Estimated Annual Expense on China



Shared Services Platform

New Zealand exporters need not individually "go it alone" in China. They can leverage resources to solve a common problems at various points in the value- chain. For example, 40% of companies would consider resourcing a fulltime market manager in China to be housed in a shared service centre alongside other companies. This approach can reduce the cost to serve and also create a more dynamic foundation from which to grow business in China.

Resourcing an in-China Marketing Manager



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