Export to China
Challenges and Opportunities
Ljubljana, February 2, 2012

A project funded by the European Union
A rapidly growing economy: an annual GDP growth rate of around 10% over the last five years

Key drivers:
- a strong trade balance
- increasing FDI: $105.7 billion in 2010 (+17.4%)
- urbanisation of China’s population: 49.7% now live in cities, compared with just a ~20% in 1982. From 2010 to 2025, 300 million Chinese now living in rural areas will move into cities (Ministry of Housing and Urban-Rural Development)
Numerous critical challenges
Challenges

- **Environmental**
  - Heavy pollution
  - Lack of water

- **Energy**
  - Reliance on coal
  - Massive electricity shortages

- **Social**
  - Aging
  - Disparity of revenues
"Overall urban air quality is good with relatively heavy pollution in some cities. The acid rain distribution region remains stable with some relatively heavy acid rain pollution…

Among 471 cities, 3.6 percent met grade 1 air quality standard, 79.2 percent met grade 2, 15.5 percent met grade 3 and 1.7 percent failed to met grade 3."

Interpretation: Almost one in five cities still fails to meet the low passing grade set by the government on an annual basis. Far more would fail if the standard was raised to the level recommended by the World Health Organisation (J. Watt).
Mainland China has only a per-capita share of 2700 cubic meters per annum, \( \frac{1}{4} \) of the world's average. \( \frac{2}{3} \) of China's 660 largest cities face water deficits. Beijing is among the cities most affected.

"Surface water pollution across the country is still relatively grave... 59.9% of rivers were grade 3 or better, 23.7% of rivers were grade 4 or 5 and 16.4% failed to meet any grade standard. (China State of the Environment 2010)

Grade 3: minimum standard for drinking water
China's coal consumption in 2010 was 3.2 billion metric tonnes

- Mainly for production of electricity (73%)
- Also by some industries (Steel…)
Massive power shortage

- Power shortages yearly since 2004: insufficient generating capacity, fuel shortages, blackout ordered to meet a year-end energy-efficiency target...

- Deficit of 30 million kilowatt hours last summer

- Deficit also forecasted for this winter
Aging: By 2020, over 17 percent of China’s citizenry is expected to be over age 65 (People aged 65 and older currently constitute 8.87% of the population)

Disparity of revenues: per-capita annual income in urban areas was about $2,500 in 2010, more than three times the $750 in rural areas
Challenges = market opportunities
Challenges = market opportunities

- Emissions control and measurement systems
- Equipment for green building

- Medical equipment
- Pharmaceuticals

- Energy efficient products
- Electric equipment

- Home decoration
- Consumer goods (not only luxury)
- Travel
Verify the reality of the market for your product:
- Right to sell your product
- Need to conform to standards
- Pricing

Do market research:
- China is not a market, but many markets
- Visit a professional exhibition

Be cautious
- Due diligence of the prospective partners
- Do not sign any contract after just one meeting
- Do not give any exclusivity
- Scams

Assess these market opportunities
Due diligence

- Assessing the legal existence and reliability of the Chinese business partner:
  - Simple check by requesting a copy of the business license containing the following information in Chinese language: the company name and the address, the legal representative, the registered capital and the paid-up capital, the business scope; and the operating period.
  - Online search on basic company registration information on the homepage of the Chinese authorities Administration of Industry and Commerce (AIC)
  - Thorough due diligence on your potential business partners, e.g. financial standing, ability to pay, professionalism, experience of working with foreign companies etc., should be done by a specialized company.

- Avoiding scams:
  - Notarization clause
  - Visa invitation
  - Commission, cash payment or gift
Make sure you have the means to tackle the challenges

Select a limited geographical area and/or a specific sector

Take all the help you can get: EU SME Centre, Embassy, IPR Helpdesk, consultants, law firms…
Standards
Some Basics

Why are Chinese standards important to European exporters?

- Chinese standards identify the legal requirements for products entering China
- Most products entering China are covered by mandatory certification
- Conformity assessment is mandatory and can only be carried out in China
- Very few international certificates are accepted in China

Many companies assume that Chinese standards are identical to European standards – this is not the case.
4 levels of standards

Voluntary GB Stand.
22.931

Mandatory GB Stand.
3.111
National Standards

- Sold by SAC through the Standards online China
- Compulsory Standards are free (in Chinese)
- Generally only Chinese version exists
- Easy to search, using SAC web portal

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<tr>
<th>Code</th>
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<tbody>
<tr>
<td>GB</td>
<td>Mandatory national standards</td>
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<tr>
<td>GB/T</td>
<td>Voluntary national standards</td>
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<tr>
<td>GB/Z</td>
<td>National guiding technical document</td>
</tr>
</tbody>
</table>
Professional Standards

- Industry Standards or Sectorial Standards.
- Apply when no National GB Standard exists.
- Covers all industry sectors - responsibility ministries and administrations.
- Difficult to search – need to know what to look for.
- Mostly sold in hardcopy from the publisher.

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<td>BB</td>
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<td>JB</td>
<td>Machinery</td>
</tr>
<tr>
<td>CB</td>
<td>Ship</td>
<td>JC</td>
<td>Building materials</td>
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✓ **Local standards** are usually applied across provinces or a geographical area

  *ex.: Building standards and construction materials*

✓ **Enterprise standards** are company specific and often created by State Owned Enterprises (SOEs)

*Natural monopoly – important for suppliers wanting to enter the Chinese public procurement market*
How do I identify what standards apply to my product?

Own research:

✔ SAC national enquiry service – free text search in English
✔ Google search for English translations – Baidu for Chinese version

Service providers:

✔ Industry Associations
✔ Slovenian Institute for standardization (SIST)
✔ Translation companies
✔ Certification companies
✔ EU SME Centre
If your product is covered by a European standard there is a good chance there will be a Chinese equivalent.

If the applying Chinese standard is mandatory, it is a good indication that compulsory conformity assessment is required.
Conformity Assessment
Snap shot on Conformity Assessment

- Standards outlines the legal requirements for products on the Chinese market
- Conformity assessment is carried out by a laboratory testing the product
- Most products entering China are covered by mandatory certification
- Compliance testing is required before the product is allowed to enter China
- Testing can only be carried out at designated laboratories
- Opposite approach from EU’s ”Presumption of Compliance”
Market Access Schemes

- Most common is the China Compulsory Certification (CCC)
  - 23 Broad Categories
  - 172 types of Products

- A number of other Market Access Schemes exists
  - Radio Type Approval (SRRC): mobile phones, broadcasting equipment, RFID, etc
  - Network Access License (NAL): Phones, fax, modems, routers, etc
  - Information Security Certificate (CC-IS)
  - Special Equipment License: Boilers, pressure vessels, elevators, etc
  - Phytosanitary Certificate

- Dual certification is not uncommon but improving
Labelling Requirements are identified in GB standards

RoHS Labelling – on self declaration basis (but mandatory)

Energy Label – on self declaration basis (but mandatory)

Labelling for F&B products – applying stickers on product offering information about exact content, levels, expiration date, etc.

Textiles

And many others
Intellectual Property
Increasing importance of Intellectual Property Rights for Chinese firms
Statistics of Application for Patent in China 2002-2010

Data sources: State Intellectual Property Office of The P.R.C
Statistics of Trade Mark Application for Registration in China

Data sources: Trademark office of the State Administration For Industry & Commerce of China & WIPO Statistics Database
Recommendations

- Register rights – if you don’t own it you can’t protect it
- You need to be the first to file IPR in China
- Use contracts & good business practices
- Prevention better than cure
- Be proactive
The China IPR SME Helpdesk provides free, confidential, business-focused advice relating to China IPR to European Small and Medium Enterprises (SMEs).

question@china-iprhelpdesk.eu

www.china-iprhelpdesk.eu
Overview of the EU SME Centre
Purpose and expertise

- Support EU SMEs to establish, develop and maintain commercial activities in the Chinese market
- Free, confidential information and advice, and practical support services
- An office in Beijing with an experienced multi-cultural team of 15 persons
Four main areas of expertise

**Business Development**
- Practical information & advice on:
  - Market (challenges, opportunities,...)
  - Strategy
  - Business plan
  - Marketing

**Legal**
- Practical legal information & advice (initial consultation)
- All legal topics except IPR (cooperation with the China IPR SME Helpdesk)

**Standards**
- Practical information & advice on:
  - Chinese standards and marks
  - Conformity assessment procedures
  - Labelling

**Human Resources**
- Practical information & advice on:
  - Recruitment
  - Retainment
  - Labour costs
  - Intercultural management issues
Other services

- Access to contacts and information databases, including:
  - Documentation
  - Service providers
  - Exhibitions

- Hot-desks: free, temporary office space in the EU SME Centre to explore local business opportunities
The website aims to be a valuable source of practical information for professionals, companies and trade promotion agencies developing commercial activities in China.

- Registration is free and allows users to access the
  - Knowledge Centre
  - Ask-the-expert service
  - Hot-desking service
<table>
<thead>
<tr>
<th>Examples of publications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Radio Type Approval Guideline</td>
</tr>
<tr>
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</tr>
<tr>
<td>CC-IS Guideline</td>
</tr>
<tr>
<td>Medical Devices Sector Guideline</td>
</tr>
<tr>
<td>China Compulsory Certification Guideline</td>
</tr>
<tr>
<td>Industrial Products Manufacturing Licence</td>
</tr>
<tr>
<td>Special Equipment Licence</td>
</tr>
<tr>
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