



Survey 2007 - Socially Responsible Procurement (SRP)

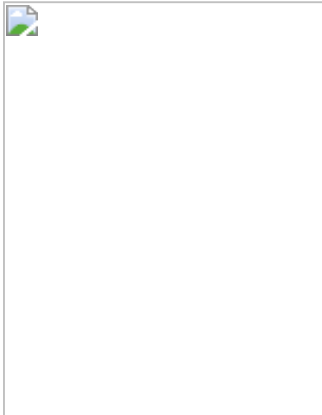
Every year Dragon Sourcing carries out a survey on a procurement topic of interest. In 2007, the survey covered the theme of Social Responsibility in Procurement.

Please click [here](#) to download the survey report free of charge.

中文
版

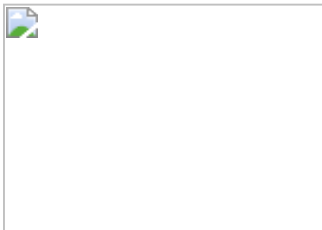
www.dragonsourcing.com

NEWS AND TRENDS



- Shenzhen promotes International Buying Network project
- IN-SHP to establish international procurement base in Chongqing, China
- US comes to China for government procurement
- Cisco to double spending in China
- China – Ikea's largest purchasing market
- Carrefour Opens 1st Direct Procurement Base in China
- Sulzer to set up global purchasing center in China
- Airbus final assembly line in Tianjin to increase local parts procurement
- AstraZeneca to launch China sourcing centre
- European Steel Makers Urge Tariffs on Chinese Imports
- Companies in U.S. Increase Testing of Chinese Goods
- Opposite headings? - Why both Boeing and Airbus are grumbling about their supply chains

INTERVIEW

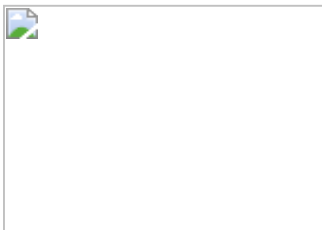


Introduction to Mars Incorporated

Founded in 1911, Mars incorporated is one of the world's largest family owned companies that manufactures and markets a range of most recognizable trademarks and global brands including M&Ms, MARS, SNICKERS, DOVE, SKITTLES, PEDIGREE and WHISKAS. It is the world's leading confectionary, food and petcare products and also has a growing beverage and health & nutrition businesses.

[MORE>>](#)

ARTICLE



The Evolving World of Customs and Trade in China

A greater understanding is emerging between companies and China Customs about how to manage an increasingly complex customs environment, says Robert Smith.

[MORE>>](#)

January 1 2008 1

NEWS AND TRENDS

Shenzhen promotes International Buying Network project

One of the world's largest B2B websites ECVV will help the Shenzhen Council for Promotion of International Trade (SCPIT) to promote "Shenzhen International Buying Network" project to the world. This will be the first time that traditional business networks and e-commerce have merged. This large market network aims to adopt its business concepts toward the Internet in order to build a large international procurement platform.

SCPIT began to build the "Network for International Procurement" in 2007 by optimizing Shenzhen's business resources to make a "one-stop" international procurement and trading platform. As a major promoter of import and export business in the Greater China Region, ECVV can provide all kinds of companies with services ranging from online marketing to corporate information portals. Their cooperation will make the "Network for International Procurement" a global influence.

[Go To Top](#)

IN-SHP to establish international procurement base in Chongqing, China

International Network on Small Hydropower IN-SHP is going to establish an international procurement base for industrial products. The base is co-sponsored by the United Nations Industry Development Organization, International Energy Agency and The Group of 77. It is currently the only industrial products procurement base for IN-SHP and its members.

Except for small hydropower equipment, the procurement list for this base includes various equipments for renewable and sustainable power generating, basic equipments, automobile and motorcycle products, etc. In virtue of this base, Chongqing is expected to become an important market for world industrial products.

[Go To Top](#)

US comes to China for government procurement

State, county and city governments from the United States will participate in the 2008 American Enterprises Sourcing Fair, organized by American International Trade Center Corp, on October 8 to procure their products in China.

The move aims to bypass intermediary agencies and reduce the procurement prices to the lowest to cut down government budget cost. American enterprises joining this year's delegation must secure products worth over US\$10 million a year from their Chinese suppliers. In order to facilitate a business match, over 100 sourcing enterprises from the US will attend the fair. Chinese suppliers are limited to 200.

[Go To Top](#)

Cisco to double spending in China

Cisco Systems plans to spend US\$16 billion in China over the next five years, nearly double the US\$8.5 billion it spent between 2002 and 2007. The company, which is the world's largest manufacturer of internet switches and routers, didn't give precise details as to how the funds would be allocated.

Procurement was likely to account for 70-80% of expenditure, which tallies with the US\$7 billion spent on China-sourced components and services over the last five years. The substantial increase highlights China's growing importance as a base for electronic goods manufacturing and assembly.

[Go To Top](#)

China – Ikea's largest purchasing market

Ikea's second distribution center in Shanghai is under construction. The US\$150 million facility, with a warehousing capacity of 300,000 cubic meters, will be Ikea's largest in the Asia-Pacific region.

The distribution center is located in Shanghai's suburban Fengxian District, close to the deep-sea Yangshan port. It will also be the biggest foreign-owned warehousing facility in China. Ikea plans to have 10 stores in China by 2010. China has become the largest purchasing market and the most important area for business development for the Swedish furniture retailer.

[Go To Top](#)

Carrefour Opens 1st Direct Procurement Base in China

Carrefour, the world's second largest supermarket chain, opened its first direct procurement center in Shanghai. The new base will mainly purchase agricultural products.

This direct procurement enables Carrefour to bypass wholesales, reducing costs and benefiting farmers who supply the supermarket. Carrefour plans to do the same throughout China and build another direct procurement center in Beijing before long.

[Go To Top](#)

Sulzer to set up global purchasing center in China

Sulzer will set the global purchasing center in Dalian, China. It also plans to transfer more high-end technologies to its plant in Dalian - Sulzer (Dalian) Pumps & Compressors Ltd.

Sulzer is a Switzerland- based multinational industry group, active in over 120 locations worldwide. It mainly produces pump, compressor, textile machinery and thermo turbo machinery, etc.

[Go To Top](#)

Airbus final assembly line in Tianjin to increase local parts procurement

The construction on the Airbus A320 Family Final Assembly Line (FAL) in Tianjin was officially kicked off in May this year and the operations will commence in 2009. The ramp up production will reach four aircrafts per month by 2011. Airbus FAL in Tianjin plans to conduct local parts procurement as much as possible.

According to the production process of Airbus, all kinds of parts will be shipped to Tianjin and the aircraft will be assembled and delivered to Chinese customers. Some of the parts have already been manufactured in China. Currently, Xian, Shenyang, and Chengdu aircraft companies are all producing parts for Airbus. In order to save cost, Airbus hopes to further enhance its cooperation with the Chinese aviation industry in order for FAL in Tianjin to purchase more parts in the Chinese market.

[Go To Top](#)

AstraZeneca to launch China sourcing centre

Pharmaceutical giant AstraZeneca is to open a sourcing centre in Shanghai China, with the facility also providing research and development services. The company hopes that it will help to achieve cost savings of 10 % within the next three years.

AstraZeneca currently purchases \$25 million of its annual goods in China. It makes 85% of its own APIs (active pharmaceutical ingredients), outsourcing the remainder. The company aims to source \$100 million of API from China by 2010, and eventually expects 90 % of its APIs to come from the country.

[Go To Top](#)

European Steel Makers Urge Tariffs on Chinese Imports

European steel makers fired the opening shot in a looming trade war with China, asking the European Commission to impose tariffs on soaring Chinese imports, which they say are being dumped on the market at prices hugely below cost. Steel imports from China from January to September 2007 grew 137 percent, to 8.9 million metric tons, compared with the period last year. The European trade gap with China, meanwhile, widened by nearly 25 percent in the first seven months of this year

[Go To Top](#)

Companies in U.S. Increase Testing of Chinese Goods

General Mills, Kellogg, Toys "R" Us and other big American companies are increasing their scrutiny of thousands of everyday products they receive from Chinese suppliers, as widening recalls of items like toys and toothpaste force them to focus on potential hazards that were overlooked in the past. These corporations are stepping up their analysis of imported goods that they sell, making more unannounced visits to Chinese factories for inspections and, in one case, pulling merchandise from American shelves at the first hint of a problem.

[Go To Top](#)

Opposite headings? - Why both Boeing and Airbus are grumbling about their supply chains

DESPITE bulging order books, the mood at Airbus and Boeing is far from celebratory. Both aviation giants

are moaning loudly that their production systems and supply chains are flawed, albeit for ostensibly different reasons. It is too early to conclude that the two rivals are heading in opposite directions—Boeing renouncing the global supply chain just as Airbus adopts it. Each company has its own axe to grind. Airbus needs greater flexibility, and the weak dollar provides helpful cover as it takes on its grumbling unions. Boeing, for its part, wants to shift the blame for delays to the 787 on to its partners. The logic of global outsourcing in the aerospace industry remains powerful. Whatever they may be saying now, Airbus and Boeing are more likely to converge than to diverge.

[Go To Top](#)

January 1 2008 2

INTERVIEW

Founded in 1911, Mars incorporated is one of the world's largest family owned companies that manufactures and markets a range of most recognizable trademarks and global brands including M&Ms, MARS, SNICKERS, DOVE, SKITTLES, PEDIGREE and WHISKAS. It is the world's leading confectionary, food and petcare products and also has a growing beverage and health & nutrition businesses.

Headquartered in McLean, Virginia, Mars Incorporated operates in more than 65 countries and employs more than 40,000 associates worldwide and has global sales of over US\$21 billion annually. Mars has over 215 sites worldwide, including 100 manufacturing facilities. Approximately, 50% of the company's sales are in Europe; 40% USA and 10% Australia and Asia. Petcare and Snackfood combined account for approximately 90% of total sales.

Mars China

Mars China is one of the key businesses that will play a major role in the growth of the Mars business in Asia. Mars China operates 3 factories in Beijing and Shanghai which manufacture Snackfood and Petcare products. They have a Commercial division that is responsible for negotiating commercial contracts, procurement operations and supply chain management for local domestic production as well as for export of China/Asia sourced materials to the other global Mars units.

We were given the opportunity to talk on the phone to the Senior Manager of Mars China Commercial – Global Buying to understand more about the international purchasing/buying function out of China and Asia.

Mars Global Commercial Team – Purchasing and Supply Chain Management

At Mars, the Purchasing function is known as the Commercial division, as it covers a broader perspective and understanding of consumer's perspective, material functionality and specifications, supply chain visibility / traceability for the materials we buy, managing our relationship with suppliers, monitoring of industry trends and building close relationship with regulatory agencies.

We take a long term view on the goods and services we use and the businesses who provide them. We work to ensure our sourcing practices reflect our mutuality principle in every respect including long term sustainability of all the materials we use e.g. cocoa. We are free to invest in the long term development of materials, technologies, origin countries and suppliers to advance our sustainability and other objectives

The Mars Commercial team globally includes the following areas of buying:

- Raw materials buying
- Packaging buying
- Packaging development
- Services buying
- Capital buying
- Logistics buying
- Logistics execution

Mars China Commercial Team - Local and Global buying

Mars China has a team of associates that are responsible for inbound purchasing of materials for the local China factories and a separate global buying team that manages sourcing of Asia-origin materials (China and South East Asian countries) for export to other Global Units. Where there is common materials used in the China factories and other global units, the 2 teams work together to leverage economies of scale and

strategic pricing benefits.

Where there is comparative advantage - available supply at the right quality - the materials are procured within China. However, some commodities that are not China-origin still need be imported.

Over the long term, we believe that China can be a global source for some raw materials due to their agricultural base, availability of land and local expertise. Also in the area of packaging products due to the abundance of labour, wealth of experience in managing large scale operations and quality mass production capabilities. For this reason, the global buying team aims to identify such industries that can provide that cost competitiveness to our global units. In particular for some units who have a strategic Low Cost Country (LCC) initiative, the global buying team acts as their extended buying arm in Asia that value-adds in terms of providing alternate sourcing opportunities from Asia.

The Mars Five Principles - a philosophy of values on how we do business

The Five Principles of Mars: quality, responsibility, mutuality, efficiency and freedom, have guided the company since its very beginning over 90 years ago. More than a statement of values, they are a set of fundamental beliefs that have been put into daily practice by the global commercial team, especially mutuality, quality and responsibility.

The Mars Commercial team aims to get the right materials, right quality for the right price. Example of quality principle in practice is a strong vendor assurance program and strong QA and QC teams in the factories help to maintain the quality standards of the materials Mars buy wherever from the world. Ensuring food safety for our consumers reflects great responsibility. The team works to ensure its sourcing practices reflect the mutuality principle for our business as well as the suppliers in every respect.

Mars University – Supply Chain Academy

The Supply Chain Academy in the Mars University is a global online resource for all commercial associates to access for training. The courses provide the subjects in regards to procurement, buying, supply chain management, supplier development and cost minimization ranging from basic to advance levels.

Commercial associates typically have at least 3 to 5 years of previous buying or supply chain experience. For their professional growth, Mars believes in 70% of the learning comes from the on-the-job training; 20% from line managers; and the rest 10% from books, training courses, including the courses from the Mars University. This learning ratio is proved to be the most effective, and the personal development plan for the commercial team is also build upon this framework.

Competitiveness of Chinese suppliers

While the Global buying team recognizes the cost advantage of buying from China, there is also a need to monitor this market over the medium to long term whether such advantage still exists compared to other low cost countries e.g. Vietnam, India and Sri Lanka. New China government regulations (reduction of export rebates), increased domestic consumption that will compete with supply availability for export (peanut oil) are just some recent examples of factors that caused annual price increases in China. Also the international demand for higher food safety standards will have cost implications on the price of China exports with increase testing requirements. All of which will erode overall competitiveness of Chinese suppliers.

Traceability and legal action on suppliers as key challenge

The key challenge that we face in implementing world class procurement practices in China, according to the senior manager's personal experience, is the traceability. When we purchase from China, we need to know the whole supply chain of the materials and each part of the products we buy. The visibility of the supply chain, including the clear understanding of the sub-contractors and the factories, is an increasing challenge for international buyers.

Another challenge is the legal enforcement in case of the breach of contract. Ensuring compliance with our contracts, can at certain times take up more management energy than would be the case in a developed market with established legal systems and operations. However, aiming for longer term contracts and partnerships is one of the ways to prevent such situations from happening too often. Hence the mutuality principle!

[Go To Top](#)

ARTICLE

The Evolving World of Customs and Trade in China

By Robert Smith, Director of Ernst & Young's Customs and International Trade Practice

A greater understanding is emerging between companies and China Customs about how to manage an increasingly complex customs environment, says Robert Smith.

It is no secret that China's economy has been growing at a blistering pace and businesses are flocking from around the world to take advantage of the opportunities. To feed this growth, companies must import, export and trade all types of goods in ever greater volumes. Five consecutive years of greater than 30 per cent growth in foreign trade illustrates the sheer size of this global shift. The following graph illustrates the explosion in trade over the last 25 years, with significant leaps being made since China joined the World Trade Organisation in 2001. How are China Customs and companies adapting to such a dynamically changing environment? This is what Ernst & Young's Customs and International Trade Practice (EY) sought to find out by conducting a survey of customs professionals from companies, importers and exporters across China. EY sponsors an annual China Customs Conference where senior customs officials and industry gather. Over the two-day event, delegates listened to presentations from senior China customs officials on recent regulatory developments and from industry representatives on their dealings with Customs. During the conference, attendees were surveyed to gather empirical data on the trading community's viewpoint towards the customs and trade environment in China. The survey sought to obtain feedback on four main questions:

1. How are enterprises managing the customs function?
2. What are the most common issues enterprises are currently experiencing with Customs?
3. What future issues do enterprises believe they will face?
4. How do enterprises feel about cooperating proactively with Customs?

Managing the Customs Function

The customs function encompasses not only the area of customs clearance for imported and exported goods (for which it is usually best known), but it also includes strategic management of indirect taxes, focusing on the compliance of trade operations, planning for the legitimate minimisation of supply chain costs, etc.

Managing Customs is a challenging role in any organisation. This is further complicated because many companies do not have a dedicated resource in China to oversee the function. Unlike the finance, legal or tax functions in an organisation, the customs function typically does not have a true 'home.' This is surprising given that the amount of customs duties and indirect taxes paid by many companies can surpass the total amount paid in direct taxes. Many company executives do not know the total amount of indirect taxes paid as these are 'hidden' above the line.

The departmental location of the customs function tends to vary greatly from company to company as does their areas of responsibility. The survey respondents were not much different:

Based on experience, a customs function that directly reports into the tax or finance department seems more suited to managing the delicate balance between the payment of taxes, trade compliance, strategic planning, and stressing the importance of the function. But this, again, will depend on the internal structure of an organisation.

The customs function also plays a key role in many supply chain decisions. The staff managing the function must weigh numerous objectives when arriving at an appropriate solution. When respondents were asked what their key drivers in decision-making were, they rated their responses as follows:

Most striking is the increasing importance the respondents placed on compliance as a key decision factor. This response ranked even slightly higher than reducing costs, a favourite driver in the low-cost world of doing business in China. This shift towards compliance reflects changing corporate attitude towards risk. Legislation, such as the United States' Sarbanes-Oxley Act, has also raised management's focus on compliance in large risk areas such as customs and trade.

This is good news for the customs and trade environment in China. Only when companies consider compliance with the laws and regulations as a priority will they begin to build a level of trust with China Customs. Mutual trust will then spur Customs to create more opportunities for preferential treatment to enterprises with proven track records.

Issues Currently Faced with Customs

China Customs is charged by the State Council with collecting the correct amount of taxes on goods crossing their borders. Enterprises must comply with the complex web of regulations, but are also in business to earn a profit. Oftentimes Customs and Enterprises disagree with the other's approach and the details declared at the time of importation.

China Customs has been introducing new means of efficiency to get the most out of its existing resources. Most customs authorities experience a similar metamorphosis. They transform from strictly an 'enforced compliance' agency to one of 'informed compliance.' Enforced compliance requires a large staff of resources to complete upfront verification on every single transaction before they are cleared through Customs.

Enforced compliance requires a large staff of resources to complete upfront verification on every single transaction before they are cleared through Customs.

Informed compliance places more emphasis on Customs' utilisation of IT systems and processes to manage risk, providing training to enterprises on regulatory requirements and post-importation review of transactions. This requires far less resources than enforced compliance and can actually increase compliance rates in the long-run.

China Customs has stepped up the type of post-importation audit activity that is seen under an organisation of informed compliance. Over 40 per cent of respondents had been the subject of an audit or investigation in the last two years. The focus of the audits (respondents may have had more than one audit in certain areas and thus the responses are greater than the total number of 89 respondents) varied but can be categorised as follows:

It is clear from the above responses that Customs' post-importation activities are expanding. We expect this to increase, as it has in other countries, at an even faster pace as the transition to informed compliance continues. The main focus to date has been on recouping revenue that was not correctly paid. But in the future these audits will likely extend to cover pure compliance areas.

Future Issues

To this end, we asked respondents what they foresee to be the biggest challenges they will face from Customs in the future. There was an even distribution among four main areas:

Supply Chain Integration is currently gaining popularity in China. With the relaxing of domestic trading restrictions (e.g. FICE trading company) and the creation of special zones (e.g. Logistics Park, Bonded Port Zone, etc.), new supply chain options can be considered. Many companies are scrambling to ascertain the quickest, most tax efficient and operationally feasible supply chain structures under which to conduct business in China. No wonder it rates as #1.

Staying Abreast of Regulatory Change was tied as the top concern. Almost a day doesn't go by without the announcement of a new rule or regulation governing trade and customs in China. These are not captured in any single body of law or regulations but scattered among Decrees, Notices, Announcements, etc. which are all issued at different times. Finding a source of reliable and timely information can make all the difference in satisfying compliance responsibilities.

Free Trade is still relatively new in China and currently only a few agreements exist. But as China's traditional cost advantage of cheap labour and land slowly disappears, companies will look for other alternatives to reduce costs. Free trade is an area where many companies have discovered significant savings opportunities. But "free trade" is a misnomer and should more accurately be referred to as "conditional trade". This is because the framework and requirements of FTAs are complex. Companies must satisfy the criteria or risk the possibility of not only losing their benefits but also being slapped with huge penalties.

Transfer Pricing (TP) and Customs Valuation (TP is a term used by the OECD and tax authorities for determining the prices of goods traded between related parties and how to determine if they are arm's length prices) are inextricably intertwined. Related parties seek to establish prices that are arm's length for tax and customs purposes. But these two methodologies have differing objectives and can be in direct conflict. The tax authority may assert that a price is too high, while Customs asserts that same price is too low. Defending the arm's length nature of prices to both Customs and the tax authority can result in a long and drawn out process. For tax purposes it is not uncommon to book what is commonly referred to as 'transfer pricing adjustments.' These TP adjustments may affect the customs value of imported goods. Of the respondents who made TP adjustments, 89 per cent said they would report these to Customs, even if it resulted in additional tax owed, in order to be in compliance. However, the respondents did not know how to report such adjustments as there currently is not a mechanism in place to do so.

The four areas above are likely to increase in complexity rather than decrease. As this is the case, Enterprises should focus on implementing internal controls, policies and procedures to address these areas before they result in a compliance issue. By formalising procedures, understanding newly released regulations and taking control of the customs broker's agents activity, enterprises can increase their compliance rates in China and properly address the types of issues outlined above. By strategically 'managing' the customs function, one can prepare today to prevent tomorrow's problems.

Cooperating with Customs

Historically, the relationship between China Customs and enterprises was not very open. Since joining the WTO, China Customs has made significant progress in opening up to the public. Closer interaction between industry and Customs has fostered a greater understanding of each other.

We asked the respondents to rate their perceived relationship status with Customs as follows:

A majority (64 per cent) of respondents felt they had a good relationship with Customs, although more than one-third also rate the relationship as fair and below. Irrespective of their perceived relationship, it is clear that respondents desire to improve their standing with Customs. They just aren't sure how to go about this.

In answer to the question: "Would you be interested in working closer with Customs?," a resounding 92 per cent said "Yes." This overwhelming response reflects industry's desire to know as much as possible from Customs in order to comply with their legal obligations. To make this happen, it is critical the two interact more frequently to hold open exchanges of views, answer questions and address areas of conflict and concern. This is not easy and takes dedication to actually make it work.

Working Together

It is clear that Customs and Enterprises working together play a vital role in managing the increasing volume of trade cleared through China's borders. There are complex rules and regulations Enterprises must comply with and Customs is charged with enforcing. Both Customs and Enterprises are trying to adapt to handle this increasing complexity in their operations.

Enterprises are starting to respond by managing the customs function and are placing greater importance on compliance as an important driver in their trading transactions. Customs is streamlining processes to be more transparent through the release of rules and regulations, while at the same time stepping up enforcement. Enterprises are increasingly responsible for the compliance consequences of their actions and must familiarise themselves with the rules or risk getting hit with stiff fines and penalties.

In order to meet future goals, both Customs and Enterprises need to better understand each other and must work together to create a more transparent, safer and less-costly supply chain. This works best when both parties have built a relationship of trust.

It will be interesting to watch as the future of customs and trade in China unfolds before our very eyes.

Robert Smith is Director of Ernst & Young's Customs and International Trade Practice. For a copy of EY's full report, email: robert.smith@cn.ey.com .

[Go To Top](#)

January 1 2008 4

©2008 Dragon Sourcing. All rights reserved.