Consolidation Complications – CHINA

To the novice, consolidated shipments (multiple suppliers in the one shipment) can be extremely daunting. Not only do the laws in China make this process difficult to understand but we are also working in a very low trust environment and this will always increase the issues involved when dealing with multiple suppliers.

All exports out of China must be accompanied by an Export Permit/Licence. This is the certification for export issued by the Chinese Authority (in that province) in accordance with their export commodities laws and regulations in that region. The exporter (supplier/manufacturer) pays a fee for such permit/licence year round.

Larger factories in China have these already organised and often ask for FOB terms so they can handle their own documents and export customs procedures. If all the suppliers in a consolidation were prepared like this, then the consolidation goes very smoothly. All goods from each supplier are transported by the factory to an agreed consolidation warehouse and the goods are consolidated and shipped. All costs associated with the consolidation (local warehouse) are billed back to the factory.

Smaller factories however do not see the worth of paying for such licences and are required to "outsource" this process to an Import-Export company (3rd Party Trading Company) licenced to export any (non-restricted) products per shipment. In this case the supplier/manufacturer would typically ask for ExWorks terms and the freight forwarder will need to help locate a tradingcompany that could process the documents on behalf of that supplier at an additional cost to the buyer. The freight forwarder then organises for the transport of the goods from the factory to the warehouse, buying of the export licence/permit, customs procedures and consolidating the shipment for export. All of these costs are billed back to the buyer. This scenario is a little more complicated due to customs procedures associated with certain commodities and/or the different needs of the suppliers.

There can be, however, one more circumstance whereby you areoffered FOB but the factory has still been "outsourcing" there export documents. In this case once consolidation has begun and your freight forwarder gives your supplier their costs for consolidation and local charges (which are paid by the factory under FOB terms), we often get complaints about how expensive the local freight forwarders charges are and the factory out rightly refuses to pay these so called additional charges. THEY ARE NOT, NORE HAVE THEY EVER BEEN, ADDITIONAL OR EXTRA CHARGES!!!

In this instance two things can happen; firstly they can still use their own freight forwarder and 3rd party Trading company and your freight forwarder simply either books the container for a full container or loads the cartons at a warehouse for shipments not filling a full container; or you can agree to pay the additional charges which are generally the export documentation at a cost of around USD 150-350 (per set or per supplier) depending on the commodity.

It needs to be clearly understood that a lot of "Under the table deals" are done in China and suppliers can often get their own documents very cheaply, so when your chosen freight forwarder gives legitimate costs, they are not taken to with much enthusiasm. As the importer of the goods you need to be aware of the niggle that will happen in most of these cases, the supplier can out rightly lie to you regarding licences or even other information to make you distrust your freight forwarder to lean towards their own. At all times it is better that these issues be discussed directly with your local freight forwarder than believing everything a supplier tells you.

The practice of buying documents is common in China for smaller factories and most of the time it does work out without issue. However it also needs to be made clear that not all licences for commodities can be purchased with 3rd party trade companies. This is due to certain commodities being inspected at the Chinese border by CCIB (Chinese Customs). When you buy export licences(Paperwork?) the company who owns the licence is shown on the bill of lading, for those commodities requiring inspection however all of the paperwork needs to match (i.e. with the same factory details on them) if the goods are inspected and the paperwork does not match the other shipping documents it can be a very big issue, resulting in either the goods not being able to leave the country, delays or additional costs in customs.

Initial discussion with your supplier will help you and your freight forwarder understand the implications and or any challenges that may arise, early. You need to determine with your supplier what terms of trade you will be shipping under and if they agree to consolidate under those particular terms, and are they able to provide their own set of export documents for export out of China. The answer to these questions is very revealing as it indicates what level of responsibility you will have for the consolidation and possible issues ahead.

Most of the time issues are not always detected early; they arise during the consolidation process, either due to misunderstandings between the buyer and the selling and/ or misleading or incorrect information being given from the outset. Most issues including payment disagreements can be worked out with patience and some trust with your local freight forwarder. Some solutions will mean additional monies being paid and some issues are simply fixed with communication and a change in shipping arrangements.

Don't be deterred from consolidation as it can save you a lot of money. Above all keep an open mind and open dialog going with your freight forwarder so issues are worked out together.