

# Transferring the responsibility onto the exporter - CHINA

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Over the years, Stockwell's have dealt with numerous complaints where vulnerable new importers have been at risk regarding importing from China. When sourcing in China, importers often ignore/ have no clue that there are ways to reduce their risks and transfer the responsibility onto the exporter.

New importers sourcing from China have had problems where their supplier often widens their profit margins through a reduction in the quality of materials (this is called "Quality Fade"), hides the identity of the manufacturer and have poor manufacturing standards of production, testing procedures and instruments. These scams are the most common risks regarding the behaviour of the exporter.

These cases can cause an importer to lose a lot of money and/or put unsafe products on his market. Who is to blame? Essentially the buying company bears the entire responsibility ... unless it takes specific steps to reduce these risks.

## **Importers should use the tools at their disposal to keep responsibility on the supplier's side**

An importer, that's you, has several tools you can use to keep the responsibility on the suppliers side. These include: background/credit checks, letters of credit, contracts, factory audits, product inspections, and visits during production and lab tests... Each one is an addition to a project's costs, but reduces risks. Serious importers know that the risks are too high if at least two or three of these tools are not used.

## **Understanding "other cultural" business ethics**

Chinese people work in a low-trust environment. Different cultures expect different things, and this is the root of the misunderstandings. Western importers expect Chinese suppliers to ship safe and commercially acceptable products, because that's what they are expected to deliver to their own customer. Many Chinese suppliers follow the same logic, but in reverse: it is not their responsibility. In some cases Chinese think "if a buyer doesn't control the goods before shipment, whatever happens after that is his problem".

## **How to keep the responsibility on the supplier's side**

We suggest that buyers should take the lead, take control and keep the responsibility on the supplier's side. We also find that small and medium size importers take unnecessary risks, and they transfer these risks to consumers. Unsafe products are regularly recalled but many more dangerous goods probably end up in stores, until accidents are reported.

## How to avoid these risks

### Production Inspections

Why pay the supplier and let him ship your goods without getting any information? Apart from checking the quantity and quality of the goods, inspectors can pick production samples and send them to a laboratory to ensure the goods are safe. It is estimated that about 80% of shipments out of China are not checked professionally. When it comes to small buyers, this proportion is more likely 90%. Why not spend \$400-500 and have the reinsurance your goods are safe and to your standards? To Find out more about Quality Control, Factory audits and Inspections ([see here](#))

If defective products are found before your shipment leaves the factory, the whole responsibility is on the supplier's shoulders. If he does not find a solution, he might face an order cancellation.

### Contracts that bound exporter's legal responsibilities

A specialized lawyer can draft a contract in Chinese that can be enforced in local courts (Manufacturing Contracts). Although getting a good draft is expensive, you can use it to get compensation for unacceptable quality. This drafted contract can also prevent a manufacturer from subcontracting, from keeping the buyer's moulds, or from making counterfeit products.

Contracts, like QC inspections, have a strong dissuasive effect on the supplier (risk reduction), AND help the importer if something goes wrong (transfer of responsibility).

In Summary, when sourcing from China every importer should find a solution on how to avoid the risks. Here are a few examples based on the buyer's budget that can be adapted to your needs:

Low or no budget, Low Commercial Value

- Factory audit + letter of credit + final random inspection + FOB Shipping Terms

Medium budget – Medium Commercial Value

- Lab tests on materials + in-process inspection + final random inspection + FOB Shipping Terms

Large budget – High Commercial Value

- Credit check + OEM contract + final random inspection + FOB Shipping Terms