



## **China reduces some export rebates, affects sourcing situation**

*Cutting Tool Engineering*

September Issue

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Sourcing some metal products and machine tools from China became more expensive July 1, when the Chinese government reduced or canceled its export tax rebates on various goods.

The Chinese government has encouraged the export of thousands of goods through rebates on its value added tax (VAT). These rebates are as high as 17 percent on some products.

On July 1, though, China reduced or canceled its VAT rebates on 2,831 products for suppliers in its country, which will likely increase prices for products manufactured in China. MFG.com Inc., Atlanta, which hosts a Web site where companies offer their manufacturing services, obtained the lists of products affected by the rebate changes. One of these documents provided an overview of the types of affected products, including three types relevant to the metalworking industry. The other documents containing the lists were written in Chinese but have been translated into English by MFG.com and are available at [www.mfgquote.com/chinasourcing](http://www.mfgquote.com/chinasourcing).

According to the overview document, among the goods with canceled rebates are metal carbides and activated carbon products and "simple products" processed from nonferrous metals, such as non-alloyed aluminum bars.

Among those with reduced rebates are other base metals and their products (rebate lowered to 5 percent) and "planers, slotting machines, cutting machines and broaching machines, etc." (reduced to 11 percent). The 2,831 products affected by the changes appear to be a significant amount of the total number of products that receive rebates. James Jin, vice president and general manager of MFG.com China, Shanghai, estimated that 8,000-plus products receive rebates.

MFG.com said the Chinese government changed various rebates to reduce its trade surplus and trade friction with other countries and eliminate high energy-consuming and resource-intensive exports.

The Web-based company added that the rebate changes would increase export prices on lower value-added products, like fasteners and extrusions; increase opportunities for companies to export to China; and exert financial pressure on

small and medium-size businesses with low margins and those using trading agents.

Besides obtaining the lists, MFG.com hosted a July 13 conference call, "Surviving China's Rapidly Changing Sourcing Tides," for manufacturers who source or plan to source materials or products from China and for suppliers in industries where prices of Chinese products are rising. Lisa Reisman, managing director of sourcing consultancy Aptium Global Inc., Chicago, said companies that import raw materials or near-raw materials would likely be affected by the rebate changes, but that the situation would be different for companies importing high value-added products from China. "You will be less affected," she said.

In her presentation, Reisman recommended that companies determine how price increases affect the total landed cost of their Chinese imports. According to Reisman, a company wouldn't need to act if it saved more than 20 percent in total landed costs via its Chinese imports. A company that save 10 to 20 percent should identify alternative suppliers in other countries, and a company that saved less than 10 percent should develop a changeover plan for its identified alternative supplier.

A product's total landed cost was defined as including the cost for the raw material, value-added operations, currency exchange rate, export tariffs, VAT and VAT rebates, packaging and inland freight charges.

On July 6, after the rebate changes took effect, MFG.com surveyed 25 Chinese suppliers via telephone about the changes, asking them how much of a price increase buyers could expect to result from the changes. Twelve percent of suppliers answered that their increase could be 2 to 5 percent, 18 percent replied it could be more than 5 percent and another 18 percent said they weren't sure how much price might increase. However, 52 percent said there would be no price increase.