

Review of E-commerce Options

Conducted for the Bunbury-Jiaxing Business Office



DRAFT

Context

Exporters don't need to set up their own stand-alone websites to sell online to consumers in China. Roughly 90% of online transactions in China occur on open, third-party e-commerce marketplaces such as online malls, hypermarkets and specialty sites, and stand-alone websites. Prominent amongst these are *Tmall* and *JD.com* with a combined share of around 80% of Business-to-Consumer (B2C) transactions in Q2 2014.

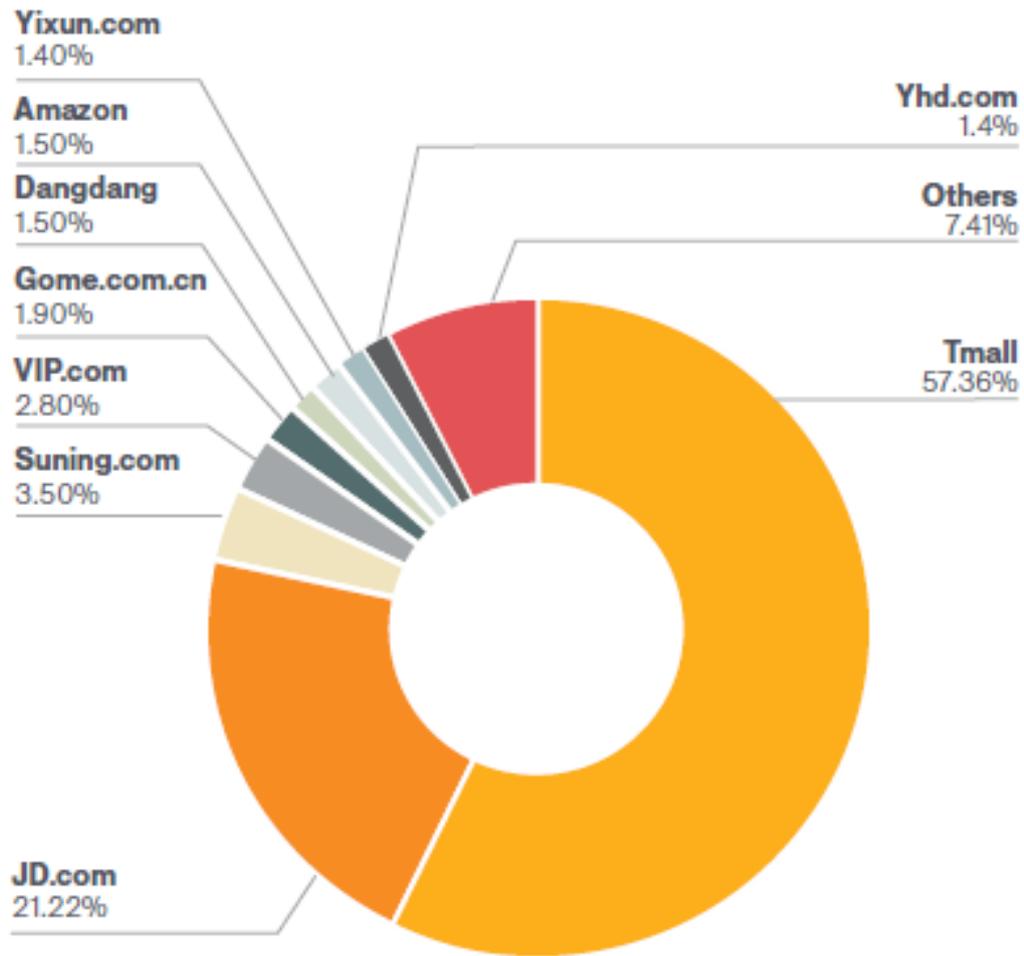
Skincare products, food and wine, and milk powder were the Australian products most sought after by online shoppers in China, according to a 2014 study.

E-commerce Platforms

There are five main types of e-commerce marketplace models in China:

- Online malls
Independently managed shopfronts operating under the banner of a larger marketplace, eg *Tmall Global*
- Hypermarkets & specialty sites
Independent merchants list products or operate shopfronts on marketplaces, eg *JD.com*, *Yihaodian*, *Amazon*, to sell specialty or low turnover items
- Flash sale sites
Specialise in selling new-to-market, discontinued or surplus branded stock at discounted prices
- C2C online platforms
Similar business model to eBay. Alibaba's *Taobao* has 90% share of C2C market
- Stand-alone websites
Considered difficult and costly compared with alternative options

Figure 1 – China's top B2C websites, market share by total transactions, Q2 2014



Source: iResearch, China Internet Watch July 2014

Table 1 – Comparison between selected e-commerce platforms

Marketplace name	Alibaba Group		JD 京东		1号店		唯品会
	淘宝网 Taobao.com	天猫 Tmall.com					vip.com
Business model	Taobao Marketplace (C2C)	Tmall.com (B2C)	Hypermarket	Online mall	Hypermarket	Online mall	Flash sales
Estimated number of users	350 million		105.2 million		90 million		100 million
Focus	General merchandise		General merchandise		Food and beverage		Products for women
Number of shopfronts	N/A	50,000+	1	100,000	1	N/A	1
Estimated number of products	More than 1 billion product and service listings		40.2 million		8 million		Rotational
Shopfront deposit	N/A	A\$3,000 – \$33,000 (depending on store type)	Not required	A\$2,000 – \$19,500	Not required	A\$2,000 – \$20,000	Nil
Annual marketplace fee (approx.)	N/A	A\$6,000 – \$12,000 (depending on categories)	Not required	A\$1,300	Not required	A\$1,130	Nil
Commission	N/A	2-5%	1-10%		1-10%		20-35%
China ID / business registration required	Yes	Yes (Tmall.com) No (Tmall Global)	No	Yes (JD worldwide) No	No	Yes	No
In-house delivery and logistics	No	No	Yes	Yes	Yes	No	Yes
Australian-based procurement?	By individual shopfronts	By individual shopfronts	No	By individual shopfronts	No	By individual shopfronts	Yes
Direct import	No	No	Yes	By individual shopfronts	Yes	By individual shopfronts	Yes
Cross-border capable	Yes (Taobao International)	Yes (Tmall Global)	Yes (JD Worldwide)	Yes (by approved shopfronts)	Yes	Yes (by approved shopfronts)	Yes
Ownership	Alibaba	Alibaba	Publicly listed		51% share by Walmart		Publicly listed
Payment methods	Alipay	Alipay	Tenpay, JD pay		Alipay		Alipay, Tenpay

Source: Austrade in-house research, 2015

Window of Opportunity – Cross Border E-Commerce

Cross border e-commerce (CBEC) allows products to be sold directly online to consumers (B2C). CBEC has temporary exemptions to tariffs and other regulatory requirements which apply to conventional international trade (B2B, Business-to-Business). CBEC was established in 2014 and extended in April 2016 until at least **12 May 2017**.

China's major established e-commerce marketplaces—such as Tmall, JD.com, VIP.com, Kaola.com and Suning.com—operate dedicated portals selling popular CBEC merchandise, such as fashion, health food, skincare and cosmetics and baby and maternity products.

Chinese online shoppers use CBEC to access a wider choice of international products at lower prices compared to traditional retail. CBEC transactions were estimated to be worth A\$50 billion in 2015, and Australia is thought to be the fourth most popular source of products behind the US, Japan and Korea.

CBEC – Bonded Warehouse Mode

Products on two lists of Harmonised Commodity Description and Coding System (HS codes), can be imported into one of 25 approved CBEC bonded warehouse zones across China, or shipped from an overseas distribution centre that is linked to Chinese customs. These 'positive lists' includes packaged foods, UHT milk, infant formula and wine. Goods can be imported in bulk through this channel and picked and packed locally for final delivery.

- CBEC positive list one (released April 8, 2016):

http://www.s-ge.com/sites/default/files/censhare_files/list-imported-commodities-retail-cross-border-e-commerce.pdf

- CBEC positive list two (released April 15, 2016):

http://www.s-ge.com/sites/default/files/censhare_files/list-imported-commodities-retail-cross-border-e-commerce-nd-batch_4.pdf

A flat tax of 11.9 per cent is applied to the final online retail price at the time of purchase (calculated as a 30 per cent discount on VAT). A discounted rate of consumption tax also applies to:

- luxury goods (14 per cent)
- cosmetics (14 per cent)
- wine (21 per cent)

Individual consumers are permitted to buy up to 2,000 RMB worth of such goods per order, up to a limit of 20,000 RMB per year.

Until the end of a grace period on 12 May 2017, products on these lists will generally not be required to comply with China's product standards and import regulations. However, products must be legally sold in Australia.

CBEC – Postal & Courier Mode

Products can also be shipped directly from overseas merchants (B2C) and individuals (C2C) to China via the postal and courier system. This includes products not on the bonded warehouse positive lists.

Similar to the bonded warehouse model, these products are generally exempt from the requirement to be pre-registered with Chinese authorities. No announcement has been made by Chinese authorities on how long this exemption will apply.

Products entering China via this method are subject to the following personal postal tax rates, which were announced on 8 April 2016:

- Food, beverage, healthcare, toys, furniture: **15 per cent**
- Sporting equipment (except for golf and accessories), fishing equipment, shoes, clothing: **30 per cent**
- Wine, jewellery, golf equipment and accessories, watches and cosmetics: **60 per cent**

Austrade Advice on CBEC

While cross-border e-commerce remains an attractive channel to promote, market and sell products to Chinese buyers, Austrade recommends Australian exporters register their products with Chinese authorities as early as possible before the end of the regulatory grace period on 12 May 2017.

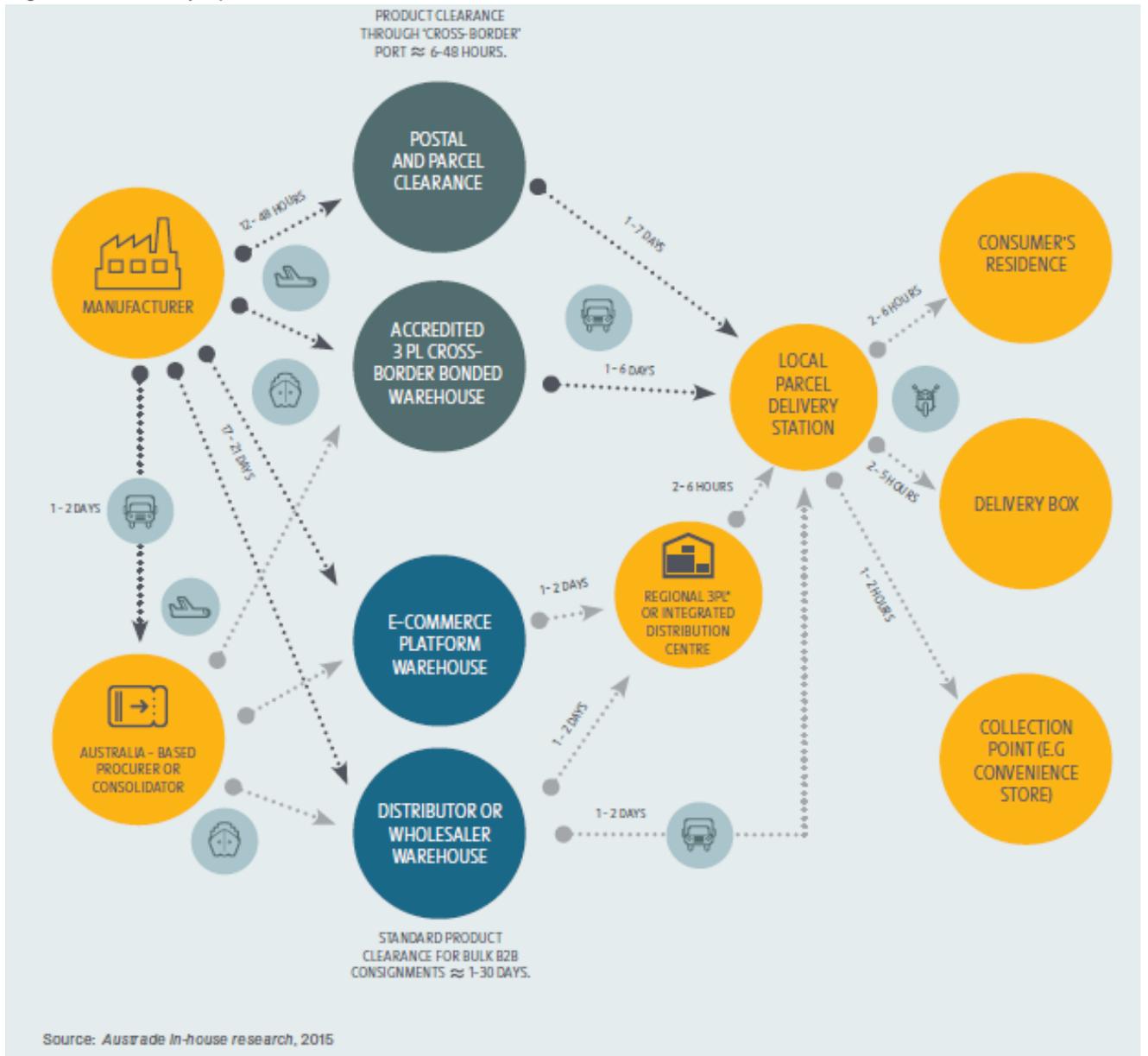
Export Logistics

Table 2 – Export pathways

Pathway to market	Shipping method	Consignment size	Consignee	Marketplace	Customs and product clearance	Suitable for
Direct to consumer	International postal and courier	Individual	End user	Approved cross-border marketplace	Cross-border	<ul style="list-style-type: none"> • New to market products • Small items • Low turnover, high value items
Bonded warehouse + drip-shipping	Sea or air freight	Consolidated or small	Local agent or partner	Consolidator managed shopfront Approved cross-border marketplace	Cross-border	<ul style="list-style-type: none"> • New to market products • Large items • Medium turnover, medium value items
Conventional distribution	Sea or air freight	Bulk	Distributors Online hypermarkets	Online hypermarkets Cold-chain equipped specialty sites	All duties, VAT and quarantine	<ul style="list-style-type: none"> • Established brands • High turnover, low to high value items • Fresh and frozen food
Sales via third parties	Domestic	Consolidated or bulk	Australia-based agents of marketplace or distributor	Any	All duties, VAT and quarantine	Any

Source: Austrade In-house research, 2015

Figure 2 – Delivery options and times from Australia to China



Australia Post China e-commerce initiatives

In December 2015, Australia Post launched the “Australian Pavilion” on Alibaba’s B2B 1688.com marketplace (auspost.1688.com), in collaboration with the Margaret River Wine Association and wineries including Flametree Wines and Happs Wines.

This complemented an existing Australia Post storefront on the B2C marketplace, Tmall Global (auspost.tmall.hk).

Liz Mence, Export Manager with Flametree Wines, commented in November 2016 that “it’s too early to tell” the success or otherwise of the initiative with Australia Post.

Australia Post Business Sales Manager, Greg Baxter explained there have been delays in getting bulk quantities of goods (shipping containers & pallets) into China (via the 1688.com marketplace). Mr Baxter says Happs have had success with smaller volumes (B2C) on Tmall Global, eg for Singles Day.

According to Mr Baxter, new businesses seeking to use the Australia Post storefront on Tmall Global can do so within a month.

Australia Post’s Express Courier International parcel service handles merchandise up to 20kg with 2-4 business days delivery to China, assuming the freight is between metropolitan areas of major cities.

Australia Post is currently quoting \$102.18 for a box weighing up to 5kg for delivery to China via International Express - <https://auspost.com.au/parcels-mail/sending-overseas/international-delivery-options/international-express>. Express boxes are only available at selected major CBD Post Offices.

Figure 3 – Australia Post storefront on Tmall Global



Figure 4 – Australia Post Australian Pavilion on 1688.com



Protecting Intellectual Property

Austrade recommends the first step for any company considering selling Australian merchandise in China is to register their trade mark.

Common IP violations in China are infringements of copyrights, trademarks, patents and design.

It is essential to register trademarks and logos with the State Administration for Industry and Commerce (SAIC) and seek the advice of a lawyer or trademark agent to guarantee adequate protection under relevant