



# World Trader

*A quarterly publication of the Midwest Global Trade Association*

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## Understanding China

*By Bryan Chapman*

Over the past six months, I've made three trips to China. I had not visited China since 2001 and was astounded at the changes taking place. There is construction everywhere, and even though the entire country has only 13 million automobiles, traffic seems very heavy.

China is all over the news and impacts many areas of the US economy. Crude Oil prices have hovered around \$50/barrel due to strong demand from China, which recently surpassed Japan as the #2 importer of oil in the world. Copper prices are over \$3,000/tonne on the London Metal Exchange due to strong demand in China. Last year, the port of Shanghai shipped out over 18 million containers, much of that bound for the United States. Factory closings and downsizings are blamed on China.

China is a country of paradoxes. It's the largest cell phone market in the world with over 300 million cell phone users. They have built or upgraded 23 international airports over the past decade, have earmarked over \$20 billion US to upgrade their highway system over the next 20 years, and are pouring billions more into upgrading seaports. Yet the country is struggling to break free from an agrarian based society into a modern industrial nation.

What nation has lost the most manufacturing jobs in the past decade? It's not the United States; it's China, caused by the change from a centrally-planned economy to a semi-capitalist one.

So what are the rules for doing business in China?

- Study Chinese culture and learn their history. China is a proud nation with a long and colorful history. They have a deep fear of foreigners, yet treat them with respect and appreciate others taking an interest in their country. In their history, they have been invaded over 3,000 times.
- Things happen in China on their timetable, not ours. There is no such thing as a "quick" lunch. Meals often take two hours. They will be served at a round table and the dishes will be placed on a rotating platform on the table. There will be many dishes of fish, meat and vegetables. Look for the plate of fruit—that's dessert. Yes, they eat many things we do not. China has always been a nation of too many people and not enough resources. Nothing is wasted. The Koreans say that the Chinese eat everything that moves in the sky but airplanes, everything that crawls on the earth but tanks, and everything that moves in the ocean but submarines. Do not feel that you have to sample everything on the table. There is always plenty of food; to run out would cause a loss of face.
- Don't think that you are a slick businessperson and will utilize time-tested strategies such as good cop/bad cop to get a real good deal. The Chinese have been merchants for over 5,000 years. They

know what a fair price is. Don't insult them. Don't think you have mastered them because you got a good deal on the fake Rolex at the market.

- Your success in China is based on two things: face and *Guanxi*. Face is the image and/or credibility of a Chinese individual. Face can be gained or lost. It is very important never to yell at and/or hurl insults when working with the Chinese; it will cause a lose of face. *Guanxi* literally translates as *connections*. EVERYTHING in China hinges on face and *Guanxi*—remember that. On a recent visit to China, I visited the Hong Kong branch of our freight forwarder. The branch manager of Ningbo called me repeatedly and wanted to see me when I visited the city, as we were beginning to make shipments through the port of Ningbo. I made a point to see him. Why? Because he would have lost face with his boss had I not visited him, and that would have meant future trouble if I needed a favor, such as an expedite, from the Ningbo office. Think of the relationships as tree planting. It will take time to grow, but the deep roots will provide stability.
- Do not judge what you see or hear in China by our value system. They eat what we may consider to be offensive animal parts (we just call them hot dogs), they have issues with human rights, belching at the table is acceptable, people spit on the sidewalks, and they are a Communist nation. Accept it for what it is.
- When examining costs, be sure to take a Total Cost of Ownership approach. Transit times from China to the west coast of the US run around three weeks. However, once the freight arrives, you are at the mercy of the railroads. Although most products are cheaper to source in China, keep in mind that you may need to maintain higher warehouse inventories to make up for the uncertainties and length of the supply chain. Also be sure to factor in container costs, drayage, and harbor maintenance fees in the equation. Fortunately, payment terms with Chinese firms are generally net 60 days, and net 90-day payment terms are becoming the norm.

Enjoy your travels to the Middle Kingdom!

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## The President's Corner

As we enter our third year as MGTA, I would like to thank the service of our outgoing board members: Susan Senger, President; Andy Karl, Treasurer; and John Novak, Secretary. Thank you all for your hard work and support these past two years in helping create a solid foundation for MGTA to grow and thrive. I would also like to extend a warm welcome to our newly elected board members: Christine Gates, Beth Hammoud, Laura Bottenfield, and our returning board member, John Novak.

I regret to have been out of town during the annual meeting, but I hear it was well attended and very enjoyable. And surprisingly, for a change, the temperature wasn't below zero! Seriously, it's wonderful to see such support by our membership. On behalf of the board, I would also like to once again extend our appreciation to those who reached out to sponsor and/or donate gifts for the event.

I'm looking forward to serving out my last year on the board as MGTA's President. There are great things which are happening within our organization. Our continued commitment to offer such products as networking events, well-rounded educational seminars, and an emphasis on additional services to the membership including a new, updated, comprehensive website.

As spring approaches (thank goodness!), plan to stay tuned as we have several seminars coming up before the summer break, as well as information soon to be released regarding the annual golf outing, which will be held at Willinger's Golf Club in Northfield.

Regards,



Darcy Pouti  
MGTA President

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## Annual Meeting and Reception

About 300 members and guests attended the Midwest Global Trade Association's Annual Meeting & Reception on January 20, 2005, at the Doubletree Hotel in St. Louis Park, Minnesota. We would like to thank all of our sponsors for their support. A special thanks to those who donated prizes to the event.



Mari McClafferty, Sandy Taylor,  
and Jason Ickert

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## Statement from the Burlington Northern Santa Fe Railroad

To help maintain fluidity and improve the throughput of shipments at BNSF Railway Company's St. Paul Intermodal Facility, changes to BNSF's intermodal storage policy were implemented effective September 1, 2004. Free time is day of notification plus 48 hours for private equipment, and a new daily rate of \$100 is being charged once free time expires. Details of the changes are on BNSF's Web site at <http://domino.bnsf.com/website/updates.nsf/0/5eabd47b1df682b086256ee40057ab01?OpenDocument>. The changes have achieved the desired effect: inbound unit dwell was reduced from 67 hours in August 2004 to 49 hours in October 2004, which translates into 36 percent increased inbound parking capacity or 3,150 additional parking slots per month.

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## International Business Review Setting up in the UK – avoiding technical and regulatory pitfalls

A Blick Rothenberg publication

The UK is a premiere destination for international inward investment. Have you maximised your advantages and avoided all the potential pitfalls?

If you are contemplating establishing a business in the UK you will probably already have researched the market and discovered the many opportunities that exist. It is these which have made the UK a premiere destination for international inward investment, with the largest share of overseas direct investment stock in the EU (at 22.5%).

The UK enjoys a relatively favourable tax regime. There are, however, a number of tax and regulatory issues which you should consider. To ensure that you take maximum advantage of opportunities you must avoid the potential pitfalls, which may impact on your business.

In the following we set out a checklist of some of the issues that we suggest any business looking to operate in the UK should consider as early as possible:

*Do you, or will you, have a UK permanent establishment with UK taxation liabilities?*

This can often happen in circumstances which have not been planned or foreseen. Any substantive activity, even if it is quite limited, can result in a taxable presence.

*Should you operate in the UK as a branch, place of business, limited partnership or limited company?*

Each form of entity has corresponding obligations, advantages and disadvantages.

*Have you considered your business model?*

The UK tax position will be affected by whether the parent continues to act as principal.

*Have any transactions between related parties been considered and documented by means of a transfer pricing study?*

Such a transfer pricing study is required for the majority of companies setting up in the UK. This can rarely be approved in advance but must be prepared and retained, to be available as and when the Inland Revenue may require it.

*Are you obliged to operate a PAYE (Pay As You Earn) payroll deduction system?*

An obligation to operate a PAYE system can arise when you employ even only one employee. This may be the case even if the employee is paid outside the UK and/or many of the activities are overseas. PAYE may also apply if you do not have a UK place of business but send someone to work for a UK employer. Sometimes an employee may have to apply these rules himself. Selfemployed status claimed by a representative in the UK will often be challenged by the Inland Revenue and requires careful consideration.

*Are you sending any employees to the UK for less than two years?*

There are special opportunities for tax-free benefits for employees from overseas seconded to the UK. This must however be carefully planned.

*Are expatriate employees bound to pay UK National Insurance Contributions?*

Unless the employee has a "Certificate of Coverage" or form "E101" in place, or where special treaty rules apply, UK National Insurance should be paid on earnings in connection with the UK employment. Often this will require contributions from both the employer and the employee to be made.

*Are employment benefits taxable and subject to employer's National Insurance Contributions?*

The UK definition of taxable benefits is very widely drawn. This can include accommodation costs, expense allowances, medical insurance, cost of living adjustments and tax equalisation payments. Some of these may be subject to PAYE. Others, including reimbursed expenses, may require to be reported on a form "P11D" each year. It is often the case that certain of these benefits and expenses are taxable and/or subject to employer's National Insurance contributions when they would not be in your home country. A form P11D needs to be completed each year to report these expenses whether or not they are taxable.

*Can liability to UK Income Tax be reduced by use of overseas employment contracts for employees sent to the UK?*

Where there are separate contracts with two group companies, "dual contracts" can sometimes help in reducing personal tax liabilities. The rules and practice in this area are however complex, and specialist advice should always be sought.

*Share Schemes*

If you are going to grant options to employees, careful planning is necessary to reduce the tax cost for both the individual and the employer

*Is the company undertaking any research and development in the UK?*

If so, the company may be able to claim tax credits against this expenditure and potentially receive refunds from the Inland Revenue.

*Have you suffered VAT in the UK or elsewhere in the EU, where you are not and have no requirement to be registered?*

In such circumstances it may be possible for the VAT to be reclaimed. This can reduce the effective cost of VATable expenditure by up to 15% in the UK and 20% elsewhere in the EU.

*Is the business expecting to have an annual UK turnover of over £60,000?*

Where this happens the business is liable to register for VAT and must submit returns, which can be on a monthly or annual basis, but are typically prepared quarterly.

The above issues are intended to highlight some of the matters which you should consider in the area of UK taxation and corporate regulation. If you would like further specific advice regarding any of the above please contact one of our Inward Investment team below.

\* Source: UK Trade & Investment, Key Facts July 2004

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## New Members

The following are members who have joined MGTA between December 1, 2005 and April 5, 2005. Please take the opportunity to welcome them to our association!

<p><b>Ben Abram</b> <i>Business Development Manager</i> UPS</p>	<p><b>Jane Hay</b> <i>Vice President - Global Trade Services</i> U.S. Bank</p>	<p><b>Bobbie Polzin</b> <i>Customer Care Supervisor</i> Dia Sorin, Inc.</p>
<p><b>Joan Altman</b> <i>Production Manager</i> Farleys &amp; Sathers Candy Co.</p>	<p><b>Jess P. Hoffman</b></p>	<p><b>Juan Ramirez</b> <i>President</i> Grupo Avance, LLC</p>
<p><b>Beth Anderson</b> <i>Export and Import Logistics Manager</i> Bobcat Company</p>	<p><b>Mark J Hottinger</b> <i>Treasurer</i> National Checking Company</p>	<p><b>Colleen Schmolke</b> Target Corporation</p>
<p><b>Mike Bailey</b> <i>Sales Manager</i> Yang Ming America</p>	<p><b>Stephanie Ihbe</b> <i>Senior Vice President</i> Bremer Bank, NA</p>	<p><b>Lisa Schulte</b> Target Corporation</p>
<p><b>Nancy Berg</b> <i>International Banking</i> Bremer Bank, NA</p>	<p><b>Helen Jansma</b> <i>Controller</i> National Checking Company</p>	<p><b>Scott Smith</b> <i>Dispatcher</i> BarOle Trucking</p>
<p><b>Raechael Beyer/Proost</b> BarOle Trucking, Inc.</p>	<p><b>Kevin Johnson</b> IR Climate Control</p>	<p><b>Rob Sobiech</b> <i>Logistics Manager, Team Leader</i> Dia Sorin Inc</p>
<p><b>Trish Blenkush</b> <i>Inventory Planner</i> Department 56. Inc.</p>	<p><b>Paul Johnson</b> Best Buy</p>	<p><b>Lynn Steuck</b> <i>Business Development Acct. Rep</i> Maersk Sealand</p>
<p><b>Robert Clark</b> <i>Branch Manager</i> Schenker</p>	<p><b>Bruce Klein, LCB</b> <i>Senior Administrator</i> Target Corporation</p>	<p><b>Sue Super</b> <i>Senior Purchasing Manager</i> DecoPac</p>
<p><b>Mark Cole</b> <i>Managing Director</i> M.S. Cole &amp; Associates</p>	<p><b>Richard Lee</b> <i>Director of Manufacturing</i> National Checking Company</p>	<p><b>Andrew Svedarsky</b></p>
<p><b>Betsy Collins</b> <i>Director of Sales</i> UPS</p>	<p><b>Roland Lee</b> <i>Terminal Manager</i> Farley's and Sathers Candy Co.</p>	<p><b>Christy Tomann</b> <i>Import Entry Specialist</i> North Star World Trade Service, Inc.</p>
<p><b>Kathy Collins, LCB</b> <i>Global Trade Brokerage Supervisor</i> Target Corporation</p>	<p><b>Jason Lunde</b> <i>Int'l Logistic coordinator</i> Creative Memories</p>	<p><b>Cathy Vanderberg</b> <i>Import Manager</i> Warner MFG Co.</p>
	<p><b>Tim Malzahn</b> <i>Executive Vice President</i> Fox Creek Trading LLC</p>	<p><b>Dustin Veenendall</b> <i>Scheduling/Purchasing</i></p>

<p><b>Bettina Csekme</b> Global Trade Brokerage Supervisor Target Corporation</p> <p><b>Kevin Day</b> BarOle Trucking, Inc.</p> <p><b>Jeff DeYoung</b> Managing Partner Virchow, Krause &amp; Co., LLP</p> <p><b>Cheryl Dockter</b> Logistics Manager Minco Products, Inc.</p> <p><b>Mike Dumer</b> Manager Target Corporation</p> <p><b>Nancy Eppenberger</b> Customer Service BarOle Trucking</p> <p><b>David G. Forgue</b> Barnes, Richardson &amp; Colburn</p> <p><b>Chris Gagnon</b> Sales Representative Canmar/ANZDL/Contship/Tmm Lines</p> <p><b>Paul Gerou</b> General Manager BarOle Trucking, Inc./ E-logistics</p> <p><b>Eric Gustafson</b> Owner Chester Creek Technologies</p> <p><b>Bob Haffarnan</b> Business Development Manager UPS</p> <p><b>Jordan Hansen</b> International Account Executive UPS</p>	<p><b>Tom Martinson</b> Distribution Supervisor Dia Sorin, Inc.</p> <p><b>Shirley Mattson</b> Customs Documentation Administrator IR Climate Control</p> <p><b>Janis A. Mayer</b> Imports Specialist Department 56</p> <p><b>Ann McKnight</b> Senior Sales Manager Griffin International Companies</p> <p><b>Micheal Minea</b> Director of International Sales National Checking Company</p> <p><b>Terri Miniutti</b> Practice Director, Logistics Spherion Corporation</p> <p><b>Wanda Nelson</b> Sr. Material Coordinator Farley's &amp; Sather's Candy</p> <p><b>Diana Novotny</b> International Account Executive UPS</p> <p><b>Benedict A. Olk III</b> Human Resources Director National Checking Company</p> <p><b>Erin Olson</b> Account Executive UTI</p> <p><b>J. Duncan Otis</b> Principial, Certified Management Consultant Otis Associates, Inc./International Business Advisors</p>	<p>Dia Sorin, Inc.</p> <p><b>John Walter</b> Operations Manager Dia Sorin, Inc.</p> <p><b>Craig Warner</b> Logistics Manager Warner MFG</p> <p><b>Pat Warnke</b> Director of Logistics Sterilmed</p> <p><b>Sherman S. Wehlander</b> Import Compliance/International Bobcat Company</p> <p><b>Wells Wescott</b> Branch Manager UTI</p> <p><b>Walt Wilms</b> International Sales Manager Acatris Inc.</p> <p><b>Megan Wolle</b> International Banking Specialist U.S. Bank</p> <p><b>Amy Yeske</b> Accounting Manager Farley's &amp; Sathers Candy Co.</p> <p><b>Lisa York, LCB</b> Supervisor, Global Trade Services Target Custom Brokers Inc.</p> <p><b>Paul Zaccheo</b> Sales Manager CP Ships - Lykes/Cast</p>
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## MGTA Calendar of Events

### April

Tuesday, April 12, 2005 – Seminar  
**Country of Origin & Marking**  
 7:30am Registration  
 8:00-11:30am  
 Doubletree Park Place Hotel

### May

Tuesday, May 10, 2005 – Seminar  
**Back to the Basics of Importing**  
 7:30am Registration  
 8:00-11:00am  
 Doubletree Park Place Hotel

Please visit [www.mgta.org](http://www.mgta.org) for details.

Tuesday, April 12, 2005 – Seminar  
**Export Administration Regulations**  
12:00pm Registration  
12:30-4:00pm  
Doubletree Park Place Hotel  
Please visit [www.mgta.org](http://www.mgta.org) for details.

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Please visit [www.mgta.org](http://www.mgta.org) for details.

## August

Monday, August 15, 2005 – Mark your calendars for the **Annual MGTA Golf Outing** at Willenger's Golf Club, 6900 Canby Trail, Northfield. Details to follow.

### About the *World Trader*

The *World Trader* is a quarterly publication of the Midwest Global Trade Association. Content is gathered via our membership and volunteers through news and media sources. While we make every attempt to insure the accuracy of materials, we provide no warranty or guarantee of accuracy. Specific information relating to trade and trade regulations offered is for informational purposes only and is not intended to replace the professional advice of an attorney, Licensed Customs Broker or other trade professional.

Articles submitted by our membership do not express the views of MGTA or the Board of Directors.

If you would like to submit an article for publication in the *World Trader*, please contact the MGTA office at [office@mgta.org](mailto:office@mgta.org). Articles should not be of the nature of a commercial solicitation of products or services; rather, they should be informative on topics of interest to MGTA membership at large.

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