



press clip

A steady move from the US dollar to the yuan will benefit Chinese goods importers who are paying high transaction fees.

Jessica Gardner

Businesses importing goods from China could be wasting up to \$246 million a year by trading in US dollars instead of the Chinese yuan, Western Union research suggests.

The foreign exchange company found that one in five Chinese exporters add on average 3 per cent to invoices paid in US dollars, to account for currency fluctuations.

Given \$41 billion of merchandise was imported from China in 2010-11, Western Union has calculated a 3 per cent buffer on a fifth of that value to come up with its headline figure of \$246 million in exposure to unnecessary fees. Chinese exporters are battling against an appreciating yuan. Traditionally the currency was pegged to the US dollar, but it now trades in a narrow band against a basket of world currencies.

If the yuan is liberalised further, Western Union Business Solutions regional managing director Kerry Agiasotis expects exporters to push for invoices to be paid in it. "We are on the cusp of a pretty significant shift in terms of how businesses will be trading with China," Agiasotis says.

To trade in yuan, a Chinese exporter must be nominated by the government

"Once that starts happening, the liquidity of the yuan needs to increase and that means the Chinese government is going to be more comfortable releasing reserves to foreign institutions for that to happen."

This will lead to further currency volatility. Agiasotis says importers "might have their arm twisted a little bit" and be forced to trade in yuan, as their suppliers try to guard against currency fluctuations. Instead of waiting for that to happen, there's an

We are on the cusp of a significant shift in how businesses will be trading with China.

Western Union's Kerry Agiasotis

opportunity to have a proactive dialogue and say, 'the current environment is inefficient for both of us and times are tough, so would we be able to enjoy some extra discount if we could actually give you more certainty in your pricing?'

Despite the growth in MDEs allowed to receive payments in yuan, only 10 per cent of the country's total trade is transacted in the currency. Western Union's survey found 91 per cent of the responding MBEs have experienced no increase in yuan payments since being able to receive them.

The founder of online furniture retailer Milan Direct Dean Ramler says he always pays in US dollars. "It's the way it's always been and it's a way for us to control costs," he says. "The Australian dollar to the US dollar is doing fantastic, so there's no incentive for us to change."

Ramler spends between \$3 million and \$5 million a year in China. The company, which had revenue of

\$5.8 million in 2009-10, is set to turn over \$12 million this financial year.

"For all our suppliers we're their largest customer, so they're going to accept our trading terms," Ramler says. "If we were a smaller player we'd probably get pushed around more."

As well as selling household brand names, online electronics retailer Ohki sells its own branded goods, which are manufactured in China. Managing director Lucas McEntee says the company, set up in late 2010, spends in the range of "hundreds of thousands" of dollars with Chinese manufacturers.

But most of the suppliers have Hong Kong-based business units to which McEntee settles invoices, almost always in US dollars. "The Chinese don't want to leave the money in China. We always pay into Hong Kong," McEntee says. "We've never been asked to pay in RMB."

Queensland-based Lockeroom Sports designs physiotherapy products manufactured in China. The business is run by former Wallabies prop Cameron Lillicrap and his wife, Michelle, who say none of their Chinese suppliers have approached them about paying in yuan, instead of US dollars. Michelle Lillicrap says she places quarterly orders of about \$30,000 and her suppliers are not charging currency conversion fees.

"We're negotiating with new suppliers at the moment and it's certainly something that we would investigate," she says. "Obviously in this economic environment we'll do whatever we can to minimise costs and establish a better relationship with our suppliers. [If they prefer yuan] and it works for both of us, we will do it, but this is the first I've heard of it."

Lillicrap's final thought echoes a Western Union finding that 42 per cent of the businesses who have a clear preference for the yuan have never asked to be paid in it.

Australian Financial Review

Saturday 3/03/2012

Page: 33
Section: Smart Money
Region: Australia, AU
Circulation: 72282
Type: National
Size: 366.28 sq.cms.



slice
CUT STRAIGHT TO YOUR NEWS

press clip



Only 10pc of China's total trade is transacted in the yuan.

Photo Bloomberg