

LEASING IN CHINA

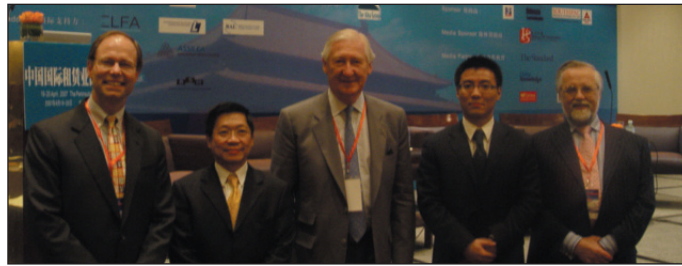
Conference highlights market's potential

Derek Soper

Timing is everything and clearly the time was right to hold the first Alta Group-sponsored leasing conference in Asia in conjunction with BSM (Business Solutions for Management Group). Supported by *Leasing Life* as a media partner, the sponsor list was impressive. Amongst those showing great foresight included the Australian Equipment Leasing Association, the Italian Leasing Association, BDL the German Leasing Association and the Bulgarian Leasing Association.

On April 19th and 20th 130 delegates from over 70 companies assembled in the Peninsular Hotel in Beijing. The two day session was divided into two main topics – the first day was primarily devoted to the changing rules and regulations environment, with the second day devoted to the practical issues faced by those who are about to start and those who have already started leasing ventures in the country. Everyone concerned was also there for the considerable opportunities for “getting to know” their counterparts in other companies – networking was the name of the game.

The large numbers of attendees were primarily from three lessor groups, those who are thinking of starting a leasing company in China; those who have already started, although most of these had only been in business for two or three years; and some local Chinese leasing companies, dispersed among a small group of service providers. A significant group were manufacturers, some of whom are already operating “captives” in the market and some who aspire to do so. All were seeking information and willing to learn from both fellow attendees and the distinguished list of speakers. It is clear that the market is still suffering from the lack of an established infrastructure, the lack of trained staff and the sparse



■ China conference

amount of information available in order to make quality credit decisions. It is also difficult to see when all these issues might be solved. Having said all that, it is a market which new players are lining up to enter.

Leasing hitting its stride

Tackling the three main issues, the outcome was fairly satisfactory and each was debated at length. The parts of the infrastructure which are giving the main concerns are: taxation including VAT, customs treatment of imported equipment and the laws surrounding the industry. Essentially, tax is charged on the “margin” generated by the lease after the deduction of costs. However, in the West this concept is open to considerable interpretation and varies from finance leasing to operating leasing. In China there is only “leasing” which is a type of financing – although some operating leasing is done. Local practice is developing and settling down to a pattern that everyone is starting to accept. It is fair to say that it is not all smooth running as yet, but it is getting there. VAT is charged on new equipment and usually that is quite clear – however, there is less clarity in the case of sale and lease back transactions. The authorities argue that in circumstances where equipment is not being replaced or scrapped, then it is treated as new and attracts VAT. Battles still rage, but again things are settling down to a pattern and excellent local legal advice is available.

Imported equipment is still giving some headaches. The

“importer” is not due to pay VAT; however that is not normally the lessor. The sale of the equipment to the lessor by an importer is subject to VAT and the resulting additional cost is prohibitive – here again, the issues are becoming clearer and settling down to a pattern.

“The industry is relying on leasing references in existing contract law.”

The presentation, by the Ministry of Commerce leader of the team writing the Chinese Finance Leasing Law, spelled out the process that has been taking place for the last four or so years. The law is almost ready and will shortly be passed to the National People’s Congress for ratification. Here there is a problem; the quantity of new laws being passed for ratification is immense and the forecast is that the law will not be passed until 2008 /2009. In the meantime the industry is relying on leasing references in existing contract law. Lawyers speaking at the conference are confident that the agreements currently being written are enforceable, but the new law will give additional comfort.

The third main issue for the industry is the lack of quality credit information available for making lending decisions. A credit information infrastructure has been established but it will take a number of years before it holds enough information to be useful to the industry. At present it is a long process to gather enough information, meet the customer, analyse the accounts of

the customer and understand the significance of the equipment to the lessees’ business in order to make the credit decision.

Candid officials

Very encouraging was the response to questions by the government department speakers. Unlike their counterparts in the West everyone was willing to answer even the most searching questions, though many of the answers were personal opinions of what might happen, or should happen, rather than what will happen in the finalised rules when published.

A significant step for the industry is that Chinese banks will now be allowed to enter the leasing market. One set of statistics leads me to believe that there is an interesting opportunity for Western lessors to benefit from this move. Chinese banks have, thus far, only been interested in the larger transactions and have not developed products for the SME market. SMEs represent about 55 per cent of the GDP, but only represent about 16 per cent of banks’ loan balances. Consequently the opportunity exists for a merger of expertise and knowledge from the Western leasing industry with the delivery potential of the Chinese banks. One additional benefit is that Chinese companies take their commercial obligations to the banks much more seriously than to a foreign lessor.

The message delegates will have taken away is that they need to expect everything to take longer, credit to need a different approach outside the normal rule book and experienced staff to be in great demand and prone to frequently moving on to the highest bidder. At the same time they will have also seen that there is enormous potential and that the infrastructure is slowly being put in place.

The author is chairman and principal of The Alta Group