Evergreen Building Products Association

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China Project Profile: Cedar Villas

In February 2003, construction started at Cedar Villas, a luxury wood-frame project in Shanghai. Developed by the Donghu Group, the company behind China's first wood frame homes 15 years ago, the project aims to attract affluent renters in Shanghai.

Located only 20 minutes from downtown Shanghai, the project consists of seven single-family homes and two duplexes. A change from many of the larger master-plan villa communities around the city, the complex plans to offer a smaller, community-oriented style of living.

The homes at Cedar Villas, will command between US$ 8,000-$10,000 in monthly rent.

Dreamhouse Co., a subsidiary of China Enterprises Corporation (CEC), is the builder. China Enterprises Corporation, a state-owned-enterprise, was founded in 1954

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US-China Build Program

The US-China Build Program (USCB) was developed by Evergreen Building Products Association and the American Forest & Paper Association, with federal support from the US Dept. of Commerce Market Development Cooperator Program and USDA Foreign Agricultural Service to promote the use of US building products in China's residential and light commercial construction market. Products and services range from structural materials and prefabricated home packages to products as diverse as paint and interior finishes, HVAC systems, appliances, or wood treating. USCB offices in the Pacific Northwest and Shanghai are available to assist firms. For more information about how your company can participate in USCB and opportunities available to US exporters in China's housing market, contact Rose Braden at (206) 543-0700 or rbraden@uschinabuild.org.

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New Regulations Even Bidding Process for Construction Firms

By Karen Shen, Washington State Department of Community, Trade and Economic Development Office, Shanghai, China

As part of the stipulations governing China's entry into the World Trade Organization (WTO), its government is relaxing regulations on construction bidding processes to allow foreign firms to establish ownerships that will enable them to compete for the same projects as Chinese firms. Under China's old regulations, foreign construction, architecture, and engineering firms were required to apply for building licenses and permits on an individual project basis. While foreign companies still face restrictions that Chinese firms do not, the new regulations will arguably increase the number and type of projects they can bid on.

The Regulation on Administration of Foreign Investment Construction Enterprises and The Regulation on Administration of Foreign Investment Design Enterprises were put into effect December 1, 2002, permitting foreign firms to establish Wholly Foreign Owned Enterprises (WFOE). The regulations also stipulated the framework for equity joint ventures (EJV) and cooperative joint ventures (CJV). By developing these ownership options, foreign and domestic companies are to be treated equally in the permitting process. When bidding on projects, foreign firms designated as WFOE, EJV or CJV will be categorized with domestic firms by classes and grades in order to qualify for projects as opposed to domestic versus foreign ownership (ex. a "super-class" construction enterprise can work on more complex projects than a "class A" certified company). The individual project registration system will be repealed on October 1, 2003.

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Advice for Exporters: China Introduces New Import Regulations

China's has introduced a new safety license system requiring manufacturers of electrical product in 132 categories to obtain the China Compulsory Certification (CCC) mark before exporting to or selling in China . The new system, adopted on May 1, 2002 and effective on August 1, 2003, will impact exporters in the construction industries, including suppliers of electric construction tools, wires and cables, switches, welding machines, household appliances, lighting, audio video equipment, telephones, fire detectors, electronic security systems, and other related goods. Products that do not meet CCC requirements may be held at the border by Chinese Customs and will be subject to other penalties.

The China Compulsory Certification Mark

requirements for safety and quality certification are not new. Since 1989, China has had a safety licensing system, which included the CCIB Safety Mark, required for products in 47 categories, and the CCEE "Great Wall" Mark, for electrical goods in seven categories. As the certification system changed through the 1990s, many companies exporting to China raised concerns about the dual certification systems, redundant testing, and differential treatment of domestic products and imported products.

When China negotiated the terms of its World Trade Organization (WTO) membership, it acknowledged some problems inherent in its system, and agreed to merge its two-certification regimes into a single unified system, with equal treatment for domestic products and imports.

The CCC Mark is administered by the Chinese government agency Certification and Accreditation Administration (CNCA). The China Quality Certification Center (CQC) is designated by CNCA to process CCC mark applications.

The application process for the CCC mark:

- can take sixty to ninety days or longer;
- requires testing at accredited laboratories in China;
- generally does not permit self certification or third-party testing results;
- requires submission of technical documents;
- requires submission of a product sample to a Chinese testing laboratory;
- requires a factory inspection by Chinese officials at the applicant's expense;
- requires follow-up inspections every 12-18 months;
- can cost several thousand dollars.

Step One: Determine if Your Products Require a CCC Mark

The CNCA has published a product catalogue listing products and component parts that require a CCC mark. The catalogue, which is divided into 132 product categories, is at www.cqc.com.cn/ccc/catalogureeng.pdf.

If the short descriptions in the product catalogue are not specific enough to determine whether the CCC mark applies to your product, you can review the "scope" section of CNCA's "Implementation Rules" booklet (listed below) for more detailed product descriptions, or review CNCA's "Announcement 60," a table of HS codes for products that require the CCC mark. www.cnca.gov.cn/board/bianmabiao.htm. "Announcement 60" is only available in Chinese, but you may be able to locate the HS codes of your company's products. If your products appear in the document, you may want to hire a translator to translate that section. If you don't know your product's HS code check with your distributor, export agent, or contact the US Census Bureau Foreign Trade Division (durable goods: (301) 763-3259, non-durable goods: (301) 763-3484).

Component parts of a manufacturer's finished products may require CCC certification; in those cases, the component manufacturer is generally required to apply for the CCC mark. Spare parts and replacement parts shipments may in some cases require CCC certification or application for exemption.

Step Two: Get the Implementing Regulations

CNCA has published 47 "Implementation Rules for Compulsory Certification", which include detailed technical application requirements for each of the 132 product categories. The booklets are posted at www.cnca.gov.cn/download/english.html. CNCA's Implementation Rules cite numerous "GB Standards," which are mandatory standards. Information about the GB Standards can be obtained by emailing: TBT@AQSIQ.GOV.CN

Step Three: Consider Options for Applying

Some companies use agents or consultants to manage their CCC mark applications. Other companies apply on their own, or rely on their importers or distributors. Check with your Chinese partners, distributors, or your export managers. They may have experience with the CCC mark and can direct you to other resources.

If you use a consultant, several US firms can help you apply for CCC certification. A list of firms that have informed the DOC that they provide these services is located at www.mac.doc.gov/China/Docs/BusinessGuides/cccguide.htm. These companies are not endorsed by the Department of Commerce or US-China Build.

Step Four: Apply

There are five major steps in the CCC mark application process. If your company handles the application itself,

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visit the China Quality Certification Center website (www.cqc.com.cn/index-e.htm). Here, select "CCC Application Online Guide," which details instructions for applying for the CCC mark. The process includes:

Application. Submission of an application and supporting materials.
Type Testing. A CNCA-designated test laboratory in China will test product samples.
Factory Inspection. CQC will send representatives to inspect the manufacturing facilities for your product. They will inspect each factory producing your product. Note: Chinese inspectors will need U.S. visas to visit U.S.-based facilities. The U.S. State Department is subjecting visa applications to greater scrutiny than in the past, and visa applicants should expect delays.
Evaluation of certification results, and approval (or failure or retesting).
Follow-up Factory Inspection. Manufacturing facilities for the product will be re-inspected by Chinese officials every 12-18 months.

Step Five: Note Other Chinese Licensing Requirements
Like many countries, China has multiple certification programs. Though the CCC mark is the widest-ranging certification requirement, your product may have to meet other requirements as well.

This information was supplied by the U.S. Department of Commerce. Contact the Commerce Department's China Desk with any questions about the CCC mark and other Chinese standards and certification requirements (Timothy Wineland can be reached at 202-482-5316 or Timothy_Wineland@ita.doc.gov) or refer to the Department of Commerce website http://www.mac.doc.gov/China/Docs/BusinessGuides/cccguide.htm

New US-China Build Trade Specialist in China

Ellen Xin joined the US-China Build Program on April 21, replacing George Good. Before joining USCB, Ellen was the China Senior Manager of Jebsen & Co. which included serving as the Manager in charge of the Oregon Trade Project for China and Hong Kong. She worked closely with Chinese industry associations, government agencies, and private companies to develop marketing strategies for Oregon companies working in China. She previously worked with the Australian Trade Commission.

Ellen will work to promote US building materials and wood products and services in China. This position is funded by the USDA Foreign Agriculture Service and AF&PA and is shared with the US-China Build Program.

(Construction Regulations continued from page 1)

While foreign firms can establish operations under the two new regulations, they must meet a number of criteria. In addition to meeting basic requirements to establish foreign invested enterprises, WFOE's must obtain a construction qualification certificate from the national or provincial construction authority after becoming legally incorporated.

Financial requirements must also be met to qualify for the various classes of firms. To qualify as a "Super Class" firm, companies must register a minimum of RMB300 million (US$36 million) and have more than RMB360 million (US$43 million) in net assets. To qualify as a "Class A" construction firm, companies must register RMB50 million (US$6 million) and have net assets of at least RMB60 million (US$7 million). Design firms have a separate set of qualifications. "Class-A" design firms must register a minimum of RMB 1 million (US$ 0.12 million). Criteria for Super-Class design WFOE have not yet been announced.

While WFOEs will not be required to obtain approval for each project they bid on, there are restrictions on the types of projects they can bid. WFOE's are limited to projects that are: 1) built entirely with foreign funds; 2) assisted by international financial organizations and awarded through international bidding; 3) joint ventures with foreign investment equal to or greater than 50%, and; 4) wholly funded by PRC companies that lack experienced PRC construction companies.

There are no such restrictions for EJV and CJV, yet the new regulations for a construction EJV or CJV require that the Chinese partner own at least 25% of the firm's registered capital.

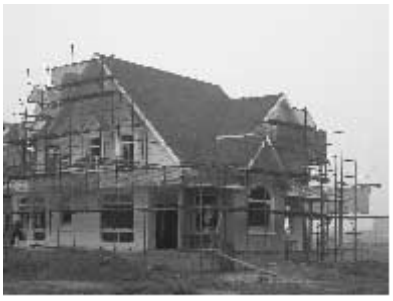
Architecture firms also have regulations governing the ratio of Chinese to foreign staff. WFOE's are required to retain four Chinese-nationals holding architect or engineering licenses for every foreign architect or engineer. EJVs and CJV are required to maintain a 1:8 ratio for their foreign and Chinese architects and engineers. Foreign and Chinese staff are all required to hold PRC architect/engineer licenses. In addition, all foreign architects or engineering staff and core technicians employed on a project must reside in China at the same time for at least six months of cumulative time each year.

Some analysts see the new regulations as a positive sign that China is complying with WTO policies. Conversely, WFOEs view the requirements for firms to maintain such large domestic capital reserves as a ploy to energize China's ailing construction state-owned enterprises. It is unclear how representative offices for foreign construction and design representative offices in China will be affected, if at all. They may be forced to register as a JV or WOFE, or they may continue to operate as they do now.

Success Stories:
Premier Building Systems Signs contract with Chinese Developer

Stories about China's seemingly boundless demand for housing and imported goods are commonplace in US newspapers and trade publications. While the potential to increase sales is attractive to many US companies, these same companies are often apprehensive about entering a market that has been characterized as risky and confusing.

One export success story is that of Premier Building Systems, a Tacoma, Washington based manufacturer of structural insulated panels (SIPs). SIPs are insulated panels, consisting of an extruded polystyrene (EPS) core laminated between two sheets of engineered wood. They are used in floors, walls and roofs from high end residential (log homes, timber frames and custom homes) to affordable housing and commercial construction (schools, hospitals, retirement centers) as well as multi-family units.



Wall systems by Premier Panels were installed in this model home duplex in the resort development of Kunshan.

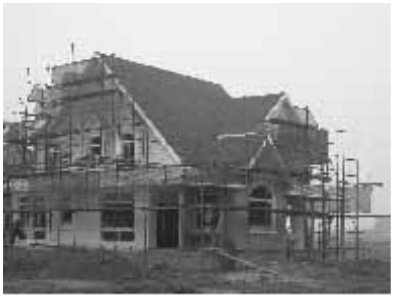
Premier Building Systems recently supplied the SIPs walls systems used in a two-story, 6,000 square foot wood frame duplex located in Kunshan, a lakefront resort area located two hours north of Shanghai. Premier's Chinese customer and newly appointed representative in China, Yongye Group, one of Shanghai's largest real estate developers and a Chinese manufacturer of EPS, was already aware of the energy efficiency and time savings that could be realized by using SIPs before meeting Premier. Therefore, when faced with the opportunity to start building with SIPs, Yongye incorporated them into their duplex project and plans to include them in upcoming residential home projects. According to Todd Drumm, International Sales Manager for Premier "Yongye installed the walls in the duplex in four days versus the usual three months it takes to put up concrete walls."

Yongye and Premier are using the duplex to test the Chinese market for complete SIP homes. Yongye included this SIP model home and three 2x4 wood frame model homes in the 30-home luxury development in Kunshan. If Chinese consumers respond favorably to the SIPs home, more will be added.

Yongye Group will also use Premier SIPS for the walls and roofs of its planned 400 single-family home development located near the Shanghai's domestic airport. SIPs roof systems are particularly well suited to China's hot and humid climate due to the insulation and waterproof properties associated with the panels and EPS in general. In addition to being lightweight and easy to install, SIPS insulate against hot weather, making the home more comfortable and energy efficient. According to Mr. Drumm, "There is phenomenal potential for SIPs because the demand for energy in China is huge and growing." When electricity rates are deregulated and no longer subsidized, rates will rise even higher. The demand for air conditioning is rising, and with declining domestic fossil fuel resources are available, energy efficient construction will become a necessity to the Chinese government and the economy. Mr. Drumm said he expects SIPs will become a more cost effective construction material as the wage level increases. Furthermore, income increases will trigger a greater demand for air conditioning and consequently drive up energy prices.

EPS can be used in a variety of ways to improve energy efficiency. In addition to being used in low-rise SIPs structures, EPS is also used as the primary material in External Insulated Foam Systems (EIFS) to improve energy efficiency in both wood and non-wood structures. The EIFS are applied externally over wood frame or concrete structures to improve insulation values. Yongye has already used EIFS in a 40 story concrete condominium it constructed in downtown Shanghai.

In addition to being energy efficient, EPS and SIPS are considered a green building material, a feature that is drawing more attention in China after the government of China vowed to hold a "green Olympics". Produced from the byproducts of the gasoline production process, EPS burns as clean as paper, contains no formaldehyde, does not use ozone depleting chlorofluorocarbons (CFH's), is non-toxic, and produces no offgassing. EPS is also waterproof and therefore, cannot mold.



The use of SIPs in this duplex reduced installation time by almost three months compared to concrete.

Mr. Drumm's advice to exporters is to do business face to face and to not expect a relationship to develop overnight. It took Premier over a year and a half to establish the initial relationship with Yongye. This included many trips back and forth to visit each other, including forming a direct relationship between the two presidents of the companies. Premier's story provides

(Cedar Villas continued from page 1)

and was one of the earliest real estate developers in Shanghai. Dreamhouse is a newly created subsidiary of CEC. Despite being a new company, Dreamhouse has attracted experienced wood frame carpenters from existing builders throughout China.

Cedar Villas employs a crew of approximately 80, ranging from architects and management to experienced carpenters and newly hired workers with little or no carpentry experience. Dreamhouse's training enables inexperienced carpenters to learn from the company's more highly trained builders. The Dreamhouse staff is also entirely Chinese, a departure from the common method of employing 1-2 experienced foreign foremen to train local carpenters. Instead, Dreamhouse relies entirely on Chinese carpenters who have gained experience working other domestic wood frame construction projects.

Engineered wood products and a range of materials from North America are used in the Dreamhouse project.

The houses at Cedar Villas consist of three different two-story designs, each of which ranges from 3,300-4,300 square feet (300-400 m^2). A Canadian firm is the originator of the designs. Each entails the use of engineered wood products, including I-Joists and LVL. Many of the interior fittings, as well as appliances are imported from North America. Unlike most projects in China, the roof trusses being used are assembled on site, using locally produced machinery. Hardy Board is being used on the exteriors of all the homes.

The construction costs of Cedar Villas are approximately US$35-50 per square foot (excludes the cost of the foundation and land). Construction was scheduled to completed by the end of April. The homes are being built for rental only, with rents projected to be approximately US$8,000-$10,000 per month.

Like many of the luxury villa projects appearing around Shanghai, whether constructed of cement, wood, or steel, the companies behind Cedar Villas are banking on the fact that there are countless Shanghainese with the means and the inclination to move out of the city to more comfortable homes. The waiting lists on some of these projects appear to bear this out. The projects abandoned for lack of funds would not. However, given its relatively central location and the quality of its components and workmanship, there seems to be little doubt that Cedar Villas will have full occupancy soon after the homes are completed.

Update on Chinese Building and Wood Product Codes

By Matt Brady, General Manager, AF&PA China

After a several month delay in the revision process for China's Timber Structure Design Code (GBJ5), the final draft was sent to China's Ministry of Construction (MOC) in mid-April for ratification and approval. With most of the contentious issues in the drafting and negotiation process resolved, US industry representatives in China are optimistic that the final document will be approved quickly and published by this summer.

At the same time, in line with China's efforts to modernize and update its product standards, work is proceeding to develop standards for a number of manufactured wood products. These include Laminated Veneer Lumber (LVL), glue laminated lumber (glulam) and treated wood.

LVL: According to US industry representatives in China, the draft LVL standard has been distributed among domestic wood experts for review. The current version provides product requirements for structural and non-structural LVL. Non-structural LVL requirements are based on the Japan Agricultural Standard (JAS) Standard for LVL, Ministry of Agriculture, Forestry and Fisheries of Japan (MAFF) Notification. No. 988 – 2000, with APA-The Engineered Wood Association's PRL-501 listed as one of the references for structural LVL. The preservative treatment for LVL is based on requirements from (Australian Standards/New Zealand Standards Institute (AS/NZSI) 1604.4:2002.

Glulam: Several Chinese entities are working to create a glulam standard for China, and a final decision on who will take the lead on this project will be made this summer. The proposed standard will provide definition, inspection and grade requirements for glulam. Two major standards, JAS 992 and ANSI A190.1-92 have already been identified for incorporation into the draft standard.

Treated Lumber: A product standard code revision committee has been formed to draft the treated lumber product standards, which will focus on standards for Preservatives and Hazardous Classifications. The first draft of this code is expected in June, followed by a commentary period through July, with final release in October 2003.

It must be noted that with SARs disrupting travel and work plans all over China, if the health situation in Beijing continues for an extended period of time, the drafting and release dates for all of these codes could be delayed.

SARS Information

On June 24, the World Health Organization lifted its recommendation to avoid travel to Beijing after lifting pervious bans on travel to Guangzhou and Hong Kong on May 23. Current information about travel guidelines is available at the following sites:

Center for Disease Control - www.cdc.gov
World Health Organization - www.who.int/en/

US-China Build Upcoming Activities

International Building & Construction Trade Fair US Pavilion **Date:** TBA: Postponed due to SARS Tentative: November **Location:** Shanghai, China	One of the leading construction industry trade shows in China, the IBCTF hosted 34,000 visitors in 2002 and featured 1,124 exhibitors. The Shanghai International Building & Construction Trade Fair has postponed in an effort to contain the spread of SARS. Registered companies will be notified when the fair is rescheduled.	**Booth Space:** Sold-Out **Catalog Space:** EBPA Members: $500 Non-Members: $600
2003 Summer Gateway Housing Business Program **Seattle Mini-Trade Show & Reception:** August 4, 2003 **Portland Mini-Trade Show & Reception:** August 5, 2003 To register contact Larry Kvidera at: lkvidera@uschinabuild.org	*Join the Evergreen Building Products Association and 2003 Summer Gateway Program*. Developers, builders, architects, and building materials importers from Asia will be in Seattle, WA on August 4 and Portland, OR on August 5 for this two-day seminar and site visit program about residential construction. The group will tour Street of Dreams events in Seattle and Portland and visit area building materials manufacturers. Display your company's products and meet with potential buyers at mini-trade shows and receptions to be held in Seattle, WA and Portland, OR.	**EBPA MEMBERS ONLY** Mini-Trade Show Display & Reception: $80 Reception Only: $30 Bilingual Interpreter: $30 *Prices are for each reception
2003 US-China Build China Sales Mission **Date:** September 22-26, 2003 **Location:** Beijing, Shanghai, Shenzhen	Promote your company's products during a five day mission to China's leading housing markets with US-China Build. The mission group will travel to Beijing, Shanghai, and Shenzhen to participate in promotional seminars and product displays. Time will also be included for one-on-one meetings between US and Chinese firms. See the mission insert in this issue.	EBPA Members: $650 Non-Members: $750 Price does not include airfare, hotels, meals, or domestic transportation.
Doing Business in China Internet-Broadcast Seminar Number 3 **Date:** September 9, 2003 View on your own computer	Learn about doing business in China from experienced exporters while participating in this seminar from your own computer. This seminar will present information about construction opportunities in Beijing's Olympics, government financial aid for exporters, and navigating China's distribution system. Live question and answer sessions will be included in the seminar.	EBPA Members: $20 Non-Members: $25

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Primary Interests:

- ☐ Legal Issues in China
- ☐ Regulatory Change in China
- ☐ Trade Data
- ☐ Market Segment Profiles
- ☐ Information about specific product markets (please specify): _____
- ☐ Other (please specify): _____

Your company's stage of exporting to China:

☐ Gathering information to begin exporting ☐ Have exported for 2-3 years ☐ Just started exporting

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USCB Organisers:

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- ***American Forest & Paper Association***

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- ***Center for International Trade in Forest Products, University of Washington***
- ***USDA Foreign Agricultural Service***
- ***Softwood Export Council***
- ***US Department of Commerce (Market Development Cooperator Program)***
- ***Washington State Department of Community, Trade and Economic Development***

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The bilingual website is continuously updated to bring you the latest information about China's residential construction market including:

View New Content:

- Information About Upcoming Events
- Information About Chinese Import Regulations
- USCB Chinese-language Housing Newspaper
- Links to other China-related websites