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# China News Alert Issue 85

## Headlines

### Non-tradable Shares to be transferred to the Shanghai and Shenzhen Stock Exchanges and the China Securities Depository and Clearing Corporation

The Shanghai Stock Exchange (SSE), the Shenzhen Stock Exchange (SZSE) and the China Securities Depository and Clearing Corporation (CSDCC), have jointly promulgated Regulations on the transfer of non-tradable shares of listed companies, which will come with effect on 1 January 2005.

From 1 January 2005, all trading of non-tradable shares of listed companies is to be conducted through the SSE and the SZSE, and illegal trading of shares outside the stock exchanges is prohibited.

The regulations provide that the SSE and SZSE are responsible for checking compliance in relation to applications for share transfers, reviewing disclosure contents relating to share transfers, and providing services such as making share transfer information public. The CSDCC is responsible for handling matters such as queries relating to share transfers, temporary custody and share registration. Shares with the CSDCC under temporary custody arrangements cannot be transferred.

Parties involved in a share transfer can enter into an agreement to transfer non-tradable shares such that either the information can be publicly available or private. Share transfer procedures have to comply with relevant regulations, which provide that if the parties involved in a share transfer entrust a securities company to handle the share transfer procedures, the securities company must present a power of attorney and other documents to the relevant stock exchange and CSDCC. Before transferring non-tradable shares, holders must first submit an application to the CSDCC regarding the non-tradable shares intended to be transferred.

If non-tradable shares to be transferred are promoters' shares, the holder must submit a copy of the relevant listed company's business license affixed with the common seal of the listed company. If the non-tradable shares to be transferred are state-owned shares, the holder must submit approval documents issued by the state-owned assets supervisory and administration authorities. Where non-tradable shares are to be transferred to foreign investor(s), the parties must provide documents of approval issued by the Ministry of Commerce and certificates evidencing payment by foreign investor(s). If a change of shareholding of a company in the banking industry reaches or exceeds 10%, the company must submit approval documents issued by the China Banking Regulatory Commission. Where a change of shareholding of a listed company engaged in the insurance industry reaches or exceeds 10%, approval documents issued by the China Insurance Regulatory Commission must be submitted. If a share transfer involves an acquisition by a listed company, the parties must submit demurer documents issued by the CSRC. If a share transfer triggers obligations to make a tender offer, the parties must submit documents of exemption from tender offer or demurer documents issued by the CSRC.

The Regulations specify that shares proposed to be transferred must not be less than 1% of the total equity of a listed company. A shareholder applying to transfer less than 1% of equity is permitted to transfer all the relevant shares to a single transferee only. Where the total equity of a listed company exceeds RMB1 billion, this ratio can be reduced with Stock Exchange approval.

Applications for share transfers that do not conform with the provisions of the regulations are not to be affirmed by the stock exchanges, and the CSDCC has the right not to proceed with the registration procedures.

### MBOs Subject to Restrictions

Mr Li Rongrong, the Director of the State-owned Assets Supervision and Administration Committee ("SASAC"), speaking during an interview at a conference of leaders of State-owned enterprises under the control of the Central government held in mid December 2004, confirmed that the SASAC will encourage the listing abroad of more State-owned enterprises directly under the control of the Central government ("SOEs") as soon as possible. Mr Li Yizhong, Party Secretary and Vice Director of the SASAC, emphasized that management buy-outs (MBOs) of large SOEs are prohibited. MBOs of small and medium - sized state enterprises must be carried out in accordance with the relevant regulations including the Opinions regulating restructuring of state-owned enterprises, and the Provisional Measures for the transfer of state-owned property rights in enterprises. Mr Li Yizhong outlined five areas of restrictions on MBOs introduced by the SASAC.

* Managers leaving their positions will be audited and managers who have presided over declining corporate performance cannot buy stakes in their companies.
* Restructuring schemes are to be implemented by appointed agencies, managers cannot themselves make major decisions regarding property right transfers and are prohibited from purchasing any state-owned property rights which they are selling.
* The sale or transfer price is to be determined by competitive bidding with managers having no preferential treatment over other purchasers.
* Managers shall not borrow from state-owned or state-controlled enterprises (including enterprises they work for), or raise mortgages secured on an enterprise's property rights or physical assets.
* Expenses are not deductible from the acquisition price unless otherwise provided by State regulations and it is improper for managers to acquire a large stake in a state-owned enterprise.

Mr Li Rongrong referred to relatively large divergences of opinion on the subject of the listing of SOEs. Some are of the view that capital is not in short supply in the market, and hope that some SOEs with high-quality assets carry out IPOs on the domestic market. Others are concerned that domestic listings of SOEs may place considerable pressure on the ability of other smaller listed companies to attract shareholder capital. The SASAC is therefore encouraging more enterprises to list abroad and when the domestic market has sufficient liquidity, SOEs can return and list on the domestic market. - if they have performed well when listed abroad, domestic investors will have increased confidence in them when they list in China.

Mr Li Rongrong also emphasised that all transactions relating to property rights in SOEs are to be effected on a transparent basis through the property title transaction organizations of Beijing, Shanghai and Tianjin. The SASAC is inviting some international accounting firms to audit major enterprises under the central government. The accounting firms will then be appointed when the relevant enterprises list overseas in the future. Currently, transfer agreements are the main methods of transferring State-owned shares of listed companies. Although state-owned shares cannot be listed, the SASAC hopes that their transfer can be effected transparently and is formulating transfer methods in relation to state-owned shares of listed companies.

### NDRC and MOC Jointly Promulgate Guidance List on Foreign Invested Industries and permit investment in the Broadcasting, Film and TV Markets for the first time

On 10 December, 2004, the National Development and Reform Commission (NDRC) and the MOC issued the 2004 edition of the Catalogue for the Guidance of Foreign Invested Industries, which will come into force on 1 January, 2005. On 4 March, 2002, the State Council approved the abolition of the Catalogue for the Guidance of Foreign Invested Industries issued on 11 March, 2002. The new list includes for the first time, broadcasting and TV program production, and film making in the permitted category. The new catalogue also changed hot spot industries or products that have become targets for "blind investment" from the 'encouraged' category to the 'permitted' category (please see below).

The new catalogue includes an amended version of the old catalogue as well as some new additions:

* Areas designed to encourage the further opening up of China's economy to international markets and introduce advanced technologies. High priority domestic industries and products are included in the encouraged category or additional incentives provided through amendments to the original encouraged list - for example, included in the encouraged foreign investment class, are wide-screen multicolour projected display made with all key components, ethylene glycol production, automobile electronic device production, 300,000-kw large CFB boiler production, and CDROM reproduction.
* Broadening foreign investment accession scope and accelerating the globalization of the service industry. For example, for the first time designating production and broadcasting TV programs and film production as areas permitting foreign investment.
* Meeting the perceived need for macro-control on a national scale and preventing investment in certain industries. "Hot spot" industries or products which have already attracted "blind investment", have been transferred from the encouraged category to the permitted category for foreign investment. Introducing advanced technology, raising standards and preventing inferior quality, redundant projects in certain industries or products where there is an overheated investment trend. This would include, for example, no longer encouraging dry-quenching coking and rammed coal coking. The refining and processing of steel and non-ferrous metals such as wide and heavy plate production, galvanized plate production and scrap steel processing have also been removed from the encouraged class. Deleted items include alumina production, urethane elastic fiber production and polyester production. Large theme park construction has also been categorised as restricted.

## Corporate & Commercial

### China to Abolish Import Licenses on General Goods from 2005

China will abolish import licences on automobiles and key automobile parts, and manufacturing equipment relating to compact discs. To date, China has abolished all import licences on general goods, and only retains import licences on three sub-categories of special goods.

In accordance with the Foreign Trade Law of the PRC and Cargo Imports And Exports Statute of the PRC, the Ministry of Commerce and Customs General Administration of the PRC has released the Directory of goods subject to import licenses in 2005. From 2005, China will impose import licenses only on three sub-categories of special goods-controlled chemicals, precursor chemicals and ozone depleting substances, a total of 83 8-digit HS codes.

This is the fourth time China has abolished import licenses on goods since China 's entry to the WTO at the end of 2001. Since 1 January, 2002, China has abolished import licences on 14 categories of goods including polyester fibre, tobacco and tobacco products, colour TV sets and their display tubes and colour sensitive materials as well as import licenses on automobiles and their key components and automobile tyres. The number of categories of goods subject to import licenses has been reduced from 26 to two. China is to abolish import licenses in respect of all general goods from 2005.

### NDRC Publishes First Allocation of Coal Export Quotas for 2005

Pursuant to the Methods for regulating coal export quotas, the National Development and Reform Commission (NDRC) has published the first batch of coal export quotas for 2005. The first quotas amount to 64 million tons, accounting for 80% of total coal export quotas for 2005. Last month, the NDRC declared that total coal export quotas for 2005 stood at 80 million tons.

Under the "Methods" which came into effect from 1 July, 2004, the NDRC and the Ministry of Commerce are jointly responsible for determining the total amount of national coal export quotas and their allocation. Coal exports are subject to national trade supervision and administration. Exporters who are entitled to export coal can apply for coal export quotas. Every year, the NDRC will release the total amount of coal export quotas and application procedures for the following year before 31 October. The NDRC will accept applications for the following year's coal export quotas from 1 November to 15 November, and will allocate 80% of the coal export quotas for the following year prior to 15 December. The balance is allocated no later than 30 June.

## Bonds

### PBOC Releases Rules on Bond Trading

To implement the PRC Law on Administrative Licensing, the People's Bank of China ("PBOC") has released the Rules for Examination of Bond Trading in the Inter-bank Market, which took effect from 15 December, 2004.

The Rules, which comprise 23 articles, regulate the examination of trading of corporate bonds and standardise qualifications, procedures of application and review, and disclosure contents relating to the trading of bonds in the inter-bank bond market. The examination procedures relating to bond trading in the inter-bank bond market should become more transparent and standardised following implementation of the Rules. The Rules facilitate the entry of bonds, especially corporate bonds, to the inter-bank bond market and may be significant in broadening sources of investment funds for corporate bonds and expanding volumes in the corporate bond market as well as developing and improving the corporate bond market.

## Foreign Investment

### Foreign Investment in China First Time to Reach US$60 billion in 2004

According to the MOC's latest statistics, during the first 11 months of this year, China used foreign investment of US$ 57.5 billion with the monthly average exceeding US$5.2 billion and on this basis expects the figure for 2004 to exceed US$60 billion.

Official statistics for January to November 2004 show China approving 39,291 foreign-invested enterprises, a year on year increase of 7.31%, with contracted foreign investment amounting to US$135.038 billion, a 34.36% year on year increase whilst; utilized foreign investment increasing 22.05% year on year.

As at the end of November 2004, China had approved 504,568 foreign-invested enterprises with a total contracted investment value of US$1078.168 billion, of which US$559.023 billion had been actual foreign capital used.

### MII: 18 Foreign Investors Apply to invest in the telecommunications sector

As at November 2004, 18 applications had been submitted to establish foreign-invested telecommunications operations in China.

A Ministry of Information Industry official recently confirmed that the 18 have all applied for value-added telecommunication business and some of the applications apparently do not meet the required standards. Of the applicants, four have received MII's Opinion on Reviewing Foreign Investment in Telecommunication Business and two have received the MII's Telecommunications Business Operation Licenses. The two applicants successfully granted a licence are reportedly Unicom-SK, jointly invested by Korea SK Corp. and Unicom, and Honglian95, Citic 21CN Company Limited. In the non-value added telecommunications area, in 2002 UK Vodafone reportedly purchased shares of the Hong Kong listed China Mobile entity and stated that Vodafone would try to increase its stake to 20%. British Telecom has reportedly cooperated with China Netcom and France Telecom with China Mobile to jointly invest in projects such as a research and development centre.

Chen Jinqiao, Chief of the Communication Policy Study Department of the Telecommunications Study Institute of MII, expressed the view that over the next 3 years, foreign investors will focus on value-added business and the mobile and internet area.

## Capital Markets

### Exchanges introduce new fees for seats

The Shanghai Stock Exchange (SSE) and the Shenzhen Stock Exchange (SZSE) have issued a circular introducing new charging structures for fees for stock exchange seats from 2005. The current fixed annual fee will be replaced by a fee linked to trading volume, so that fees will be collected according to the trading volume reported by institutions who are members, special members and non-members with special purpose seats.

The new charging structure has two principles. First, annual seat fees will be linked to the annually reported trading volume relating to all seats owned by the particular institution, replacing the current fixed fees with with flexible fees. Secondly, a reporting form will distinguish between trading and non-trading types, and basic trading volume and excess trading volume. Trading-types comprise the purchase, sale and withdrawal of bonds, funds, A shares and B shares. Non-trading types refer to those reports that are outside the scope of trading-type reports, including reports relating to placings, subscriptions for new shares, rights issues, custody, conversion of convertible bonds to shares and resale. All types of reports can be divided into basic trading volume and excess trading volume categories. Every seat (whether or not it is suspended) is entitled to 20,000 reports relating to basic trading volume of trading and non-trading categories, respectively, for free. Trading volume which exceeds basic trading volume is categorized as excess trading volume. The excess trading volume of each trading type report is subject to a charge of RMB0.15, and a non-trading type report is subject to a charge of RMB0.01.

RMB20,000 is the minimum amount of annual seat fees for excess trading volume in relation to trading and non-trading types payable in respect of all seats on the two stock exchanges. Members or non-member institutions are entitled to a free annual reported trading volume quota of RMB20,000 for each seat. The circular specifies that the annual seat fees for 2004 will be collected according to whichever method produces the lower fee calculated (i.e., the original method or the new method). From 2005, all annual seat fees will be collected under the new method.

According to the new charging plan, members or institutions that have not submitted declarations to stock exchanges within the period of fee calculation can be exempted from seat fees within the period. Members or non-member institutions are not allowed to charge investors fees other than commissions.

The circular prescribes the period of fee calculation as being from 1 December to the following 30 November. Fees will be collected in December every year. If members or institutions do not submit reports to stock exchanges due to cessation on trading, merger or transfer, the time for collecting the seat administration fees is prior to the expiry of the last seat. Where a seat is transferred, the amount declared prior to transfer will be added to the declaration amount of the transferors, and the amount declared after the transfer will be added to the amount declared by the transferees.

### Launch of Online Voting System for Shareholders' Meetings

An online voting system for shareholders' meetings of listed companies, developed by the China Securities Depository and Clearing Corporation (CSDCC), has been officially launched. On 22 December 2004, Beijing Capital Tourism Co., Ltd became the first listed company to hold a shareholders' meeting using the system. Investors wishing to exercise their voting rights online could carry out identification verification from 18 December 2004.

The CSDCC has explained that the system has two functions: direct online voting and entrusting authorised proxies to vote. Investors can directly vote on a shareholders' meeting resolution by online voting. Authorised proxies can openly solicit proxies from shareholders on some proposals. In addition, the system also provides a proposal overview, registration of meeting participation, printing of votes, statistical data, querying and other functions.

Under the operating procedures, investors first log onto the website of the CSDCC to register, and then go through identification verification. Identification verification involves investors following the procedures of "first registration and then enabling". Identification verification and online voting are free for investors.

The CSDCC has stated that the China Settlement Company has detailed registration information on all investors in securities listed on the Shanghai and Shenzhen Stock Exchanges, as well as detailed information about portfolios held by investors. The system is capable of pre-vetting the qualifications of investors, and afterwards investors can find out the voting results. The system introduces an onsite mechanism for printing votes and is aimed at preventing duplicated voting and malpractice.

On 16 December 2004, the CSDCC also issued: Operating procedures for investors to vote online, Operating procedures for identification verification of investors involving online, and FAQs for online voting at shareholders' meetings of listed companies.

### CBRC Releases Guidelines Regulating Operations of Finance Companies of Conglomerates

The China Banking Regulatory Commission (CBRC) has released Guidelines Regulating the Operations of finance companies of conglomerates, to implement the Administrative Measures regulating finance companies of business conglomerates which outline procedures for application, examination and approval of finance companies within conglomerates and cover the procedures from preparation to operation. The guidelines which supplement and deal with detailed issues involved in implementing the Administrative Measures regulating finance companies of business conglomerates, cover the establishment and commencement of operations, the content and form of application materials, and procedures for acceptance, examination and approval of applications.

The guidelines stipulate requirements for the conglomerate's parent compay, subsidiaries, and qualified institutional investors, and the evidentiary materials required, as well as the qualifications for directors, senior managers and personnel in key positions of finance companies. The guidelines have also increased the evidentiary requirements placed on law firms and accounting firms, giving the role of intermediary agencies greater importance.

### BOC to Launch Individual Gold Trading

With approval from the China Banking Regulatory Commission, the Bank of China (BOC) has announced the introduction of gold trading for individuals, including trading of certificated gold and physical gold. BOC is China's first commercial bank approved to do this business.

Mr Wang Zhaowen, a BOC spokesman, explained that certificated gold (which does not involve the sale and purchase of physical gold) is a gold investment instrument for individuals, which investors can purchase if they have a current account with BOC. The price of certificated gold fluctuates according to prices on the international gold market, with profits made by buying low and selling high.

Mr Zhou Xiao Chuan, the President of the People's Bank of China, has stated that Chinese nationals have deposits of RMB12 trillion and gold trading by individuals will allow currency assets to be converted into gold assets. From a macro perspective, this broadens the available channels for turning savings into investments and readjusts money supply and demand.

## WTO

### China's Commitments Four Years after WTO Entry

Industry

Commitments to WTO entry

Actual opening process

Banking

1 Unbound except for the following:

* Provision and transfer of financial information, and financial data processing and related software by suppliers of other financial services;
* Advisory, intermediation and other auxiliary financial services on all activities listed in subparagraphs (a) through (k), including credit reference and analysis, investment and portfolio research and advice, advice on acquisitions and on corporate restructuring and strategy.

2 None 3 A Geographic coverage For foreign currency business, there will be no geographic restriction upon accession. For local currency business, the geographic restriction will be phased out as follows: Upon accession, Shanghai, Shenzhen, Tianjin and Dalian; Within one year after accession, Guangzhou, Zhuhai, Qingdao, Nanjing and Wuhan; within two years after accession, Jinan, Fuzhou, Chengdu and Chongqing; within three years after accession, Kunming, Beijing and Xiamen; Within four years after accession, Shantou, Ningbo, Shenyang and Xi'an. Within five years after accession, all geographic restrictions will be removed.

In 2001, China had completely opened up foreign exchange services. In December 2003, foreign-invested banks were permitted to expand their renminbi customers to include domestic enterprises. Currently, 13 cities in China have permitted foreign-invested banks to conduct renminbi operations. Volkswagen, General Motors, Ford and Toyota were approved to engage in automobile financing operations in Mainland China. The openings exceeding the scope of the commitments include: expanding single foreign-invested bank's percentage of shareholding in China's banks from 15% to 20%; lowering the quality and quantity requirements of foreign-invested bank branches' working capital; permitting foreign-invested banks to engage in derivatives and insurance foreign exchange fund off-China depository trust business. Six Chinese commercial banks have been approved to offer shares to foreign investors. From the end of 2003, China Construction Bank and Bank of China started comprehensive reforms.

Insurance

Upon WTO accession,foreign life insurers will be permitted to providere insurance. Sino-foreign direct insurance companies shall, however, split the insurance cover with China's reinsurance companies in the following proportions: thefirst year, 20%; the second year, 15%; the third year,5%; the fourth year, none. The scope of non-life insurance opened to foreign investment shall be wider than that of life insurance. But health insurance, group insurance and pension/annuity will permit foreign investment at a later stage. China's commitment is to open up these areas to foreign investment within 3years. Upon accession to WTO, foreign non-life insurance companies shall be permitted to own 51% shares in joint ventures and provide comprehensive large-scale commercial insurance policies. Within two years, wholly foreign-owned companies are permitted to be established in China and are permitted to provide life insurance policies. Foreign life insurance companies will be permitted to establish joint ventures in which the foreign companies have a 50% shareholding. The companies shall also be permitted to provide services in Shanghai,Guangzhou, Dalian, Shenzhen and Foshan. The regions to be opened will include Beijing, Chengdu, Chongqing, Fuzhou, Suzhou, Xiamen, Ningbo, Shenyang, Wuhan and Tianjin. Within three years, all geographical restrictions will be removed.

On January 15 2002, General China Life Insurance Co., Ltd, the first Sino-foreign joint venture insurance company to be approved after WTO entry, was established in Guangzhou. Other similar companies include Sino-French Life Insurance Company and MetLife. Collaboration between Air China and Samsung Life Insurance, China Eastern Airlines Co., Ltd and Cathay Life is currently under negotiation. As at the end of 2003, 39 foreign insurance companies had established 70 business branches in China and 124 such foreign organizations had established their offices in China. The establishment of supervision-based principles based on repayment capability and the restructuring and listing of several domestic large insurers have strengthened the repayment capability of companies. Currently, the three insurers listed overseas have over half of the market. In the first six months of this year, the CIRC has approved the establishment of 18 different domestic insurance companies.

Securities

Upon accession, foreign service suppliers will be permitted to establish joint ventures with foreign investment up to 33 per cent to conduct domestic securities investment fund management business. Within three years after China's accession, foreign investment shall be increased to 49 per cent. Within three years after accession, foreign securities institutions will be permitted to establish joint ventures, with foreign minority ownership not exceeding 1/3, to engage (without a Chinese intermediary) in underwriting A shares and in underwriting and trading of B and H shares as well as government and corporate debts, launching of funds.

Currently, 11 overseas organizations have been granted qualification as foreign institutional investors (QFII). In the most recent 18 months, the CIRC has approved 13 Sino-foreign fund management joint ventures. Currently, the securities joint ventures include China Euro Securities Limited and Yangtze River-BNP Paribas Peregrine Securities Company. Foreign investors respectively hold shares of 33%.

Agriculture

Reduction of tariffs. China has promised to continue reducing the average tariff on agricultural products from 19% of 2001 to 17% of 2004. Except for bulk agricultural products, the quantity restrictions on the import of most agricultural products shall be removed and a single-tariff regime shall be implemented. Import quota: China shall implement restrictions of import quotas mainly on grain, cotton, oil, sugar and wool. After WTO accession, agricultural products will no longer be subsidised. Pest quarantine and quality inspection of imported agricultural products shall comply with international norms.

In the last three years, the agricultural products quota has been reduced year by year according to the time schedule. But on the whole the agricultural industry has not been significantly affected. There are two reasons: first, the agricultural industry has been relying less on foreign trade. The import of agricultural products accounts for less than 5% of the total agricultural production. The second reason is the "large country effect". As China increases its imports, the prices of the world's agricultural products increases, which then limits the continual increase of imports Over the last three years, China's agricultural exports have experienced a relatively fast rate of growth. In 2002, the export of agricultural products increased by 13%. In 2003, it increased by 18%. The growth forecast for this year is estimated to be 10%.

Retail

After WTO entry, China will permit foreign investors to establish joint ventures engaging in commission agency, wholesale and retail; import, the wholesale and retail of commodities other than tobacco, tobacco products, salt, books, newspapers, magazines, drugs, agriculture chemicals, agricultural film, chemical fertilizer, crude oil and oil products. Within three years, China will phase out all restrictions placed upon co-operative enterprises in relation to quantity, geography, equity and method of enterprise establishment. In five years, China shall phase out operational restrictions on commodities other than the wholesale and retail of tobacco and wholesale of salt.

On June 1, 2004, the Rules on the Administration of Commercial Industries Invested by Foreign Investors came into force. As of the same day, foreign-invested retail enterprises were permitted to establish shops in all cities and provinces within China, while a number of foreign-invested retailing small to medium-size enterprises are required to be directly examined and approved by the local Commerce supervisory departments. The Rules particularly clarify that from 11 December, 2004, geographical restrictions placed on the commercial industry shall be completely removed.

Automobiles

On January 1, 2005, China shall remove the automobile quota and licence administration requirements. The automobile tariff shall be reduced to 30% and average automobile parts and accessories tariffs shall be decreased to 13%. On 1 July, 2006, the automobile tariff shall be further reduced to 25%, and the average automobile parts and accessories tariff shall be reduced to 10%.

The reduction of tariff and non-tariff barriers will be implemented according to the WTO accession time schedule. The automobile import quota will be removed next year. The quota license on automobile engines was cancelled on 1 January, 2003. The quota license on trucks was cancelled on 1 January, 2004. The cancellation date for licenses of the main motor vehicles and passenger vehicles will be 1 January, 2005.

Telecommunications

With respect to the personal telecommunication service industry, , foreign service providers have been permitted to establish joint ventures in Shanghai, Guangzhou and Beijing since WTO accession and provide services in and amongst these cities. In these joint ventures, foreign investment is not permitted to exceed 25%. Within one year after accession, the number of regions open to foreign investment was increased to 17 cities and foreign investment was not permitted to exceed 35%. Three years after the accession, foreign investment shall not exceed 49%. In 2007, China shall remove all geographical restrictions on basic telecommunications and foreign investment of up to 49% will be permitted.

SK Corp (Korea) and China Unicom jointly established Unicom-SK. Currently, more than 10 enterprises are awaiting processing of their applications. In 2002, Vodafone acquired a portion of the shares of Hong Kong listed branch of China Mobile. From 2002, China's four major telecommunication operators have all been listed overseas. In 2001, the State Council promulgated the Rules on Administrating Foreign-invested Telecommunications Enterprises (No. 333 Ordinance). In July 2004, the third edition of the Telecommunications Law was submitted to the State Council for review and is expected to come into effect next year.

Petrochemicals

Upon WTO accession, China shall adjust its import tariffs for crude oil from 16 yuan/ton to zero; gasoline from 9% to 5%; lubricating oil from 9% to 6%; fuel oil from 8% to 6%; liquefied petroleum gas from 6% to 5%. Three years after accession, oil products retailing shall be opened to foreign investment. Five years after the accession, oil products wholesaling shall be opened to foreign investment.

The steps in the opening process basically commenced in 2004. On January 1, the quota imposed upon importing oil products by the three leading state-owned companies was removed. In April 10, crude oil import trade organizations, including five independent traders, were approved. At the end of August 15, non-state-owned enterprises obtained the qualifications to import crude and oil products. But according to the relevant regulations, imported crude oil shall be processed by the refineries of Sinopec Corp or China National Petroleum Corporation (CNPC), and imported in accordance with specified quota. In October, Total Fina Elf executed an agreement to erect gas stations in collaboration with Sinopec Corp. In November, BP cooperated with Sinopec Corp. and CNPC respectively to establish joint ventures and erect gas stations.

Railway and highway transportation

China's commitment to highway transportation is that one year after the WTO accession the foreign party may hold majority equity stakes in joint ventures; three years after the WTO accession foreign investors shall be permitted to establish wholly foreign-funded subsidiaries in China. China's commitment to railway transportation is that three years after its accession a foreign party may hold a majority equity stake in a joint venture; six years after accession, foreign investors shall be permitted to establish their wholly foreign-funded subsidiaries in China.

According to documents issued by the Ministry of Transportation, from December 1, 2002, foreign investors may, through the establishment of Sino-foreign joint ventures, cooperate with Chinese companies, enterprises or other economic organizations to operate Sino-foreign highway transportation joint ventures with foreign investment of up to 75%. In comparison with the highway transportation industry, the railway transportation industry has opened at a relatively slower pace. So far, there has been no foreign investment in railway lines or in the railway transportation market. The main reasons for this phenomenon are foreign investors' concerns over the combined political and corporate roles of the Ministry of Rail. In addition, the strictly controlled pricing and scheduling system in the Ministry of Rail also encumbered foreign investment access.

Tourism

Foreign investors are permitted to build, reconstruct and operate restaurants and hotels through a majority shareholding in joint ventures. The relevant limitations shall be cancelled latest by end of 2003. Foreign investors may establish Sino-foreign travel agency joint ventures in government-designated tourist regions as well as Beijing, Shanghai, Guangxi and Xi'an. By no later than the end of 2005, foreign investors shall be permitted to establish wholly foreign-funded travel agencies and the limitations imposed upon the establishment of branches of joint- venture travel agencies will be cancelled. Joint venture agencies shall not provide overseas travel services for Chinese citizens.

The Chinese hotel industry has been fully opened to foreign investment and the leading global hotel groups have all entered the China market. In July 2003, China National Tourism Administration Bureau fulfilled its WTO commitments 4 years in advance by approving the establishment of the first foreign-invested travel agency in China. Currently, China has 5 foreign-invested travel agencies and 13 Sino-foreign travel agencies. As at the end of this year, Chinese citizens can travel in groups to a total of 63 countries and regions.

Film and TV

Foreign service providers shall be permitted to construct and/or reconstruct cinemas in joint venture with Chinese companies. Foreign investment in such joint ventures shall not exceed 49%. Every year the cinema may bring in 20 blockbusters and the resulting income shall be distributed in a pro rata manner. China has promised to provide access to its market of film and television programs, not involving production.

On October 10, 2004, foreign investors were permitted to enter the film-making industry with the upper limit on foreign investment capped at 49%. Several foreign-invested companies have since entered into cooperation with domestic film and television groups. From November 28, 2004, foreign media companies may acquire shares in domestic broadcasting and TV program production and operating enterprises. in such cases, the Chinese investors are to hold shares of not less than 51%.

#### 1. Commitments to Trading of Goods

##### 1.1 Designated operations

The goods originally designated for trading include natural rubber, wood, plywood, wool, acrylics and steel and such products shall no longer be designated for trading. The recently promulgated Foreign Trade Law of the People's Republic of China does not include any provisions for "designated" operations.

##### 1.2 National Trade

Among the nationally traded commodities, the proportion of imported crude oil and imported oil products by non-state-owned trading companies will increase by 15% from that of 2004. In 2005, non-state-owned trading companies will be permitted to import 12,600,000tons of crude oil and 7,000,000 tons of oil products (including gas, aviation kerosene, diesel oil, petroleum naphtha, fuel oil and wax oil).

##### 1.3 Import tariffs

The staging matrix for agricultural and industrial tariffs in the Protocol on the Accession of the People's Republic of China provides that the tariff level shall be decreased from 10.6% of 2004 to about 10.1% of 2005, and the import tariff for industrial products decreasing from 9.8% to about 9.3% with the import tariff for agricultural products decreasing from 15.8% to about 15.5%. Import tariffs on thousands of commodities will be reduced on different scales in accordance with the varying commitments. Tariffs on certain imports such as IT products will be reduced to zero. The import tariff on entire motor vehicles will be reduced to 30% or less (except for small passenger buses which seat less than 10, all types of large and medium-size buses and trucks whose import tariffs will be reduced to 25% or below). The average import tariffs on automobile parts and accessories will be reduced to 13%.

##### 1.4 Quotas, license administration and imported tendered goods

1. The original restrictions including import quotas, licenses and commodity bidding-invitations shall be removed .By the appointed time, China will, in accordance with its WTO commitments, remove the non-tariff measures on more than 400 duty paragraphs (covering mechanical and electrical products, petroleum products, rubber products, automobile and automobile parts and accessories, motorcycle and motorcycle parts and accessories, color sensitive materials, etc.). In addition, restrictive measures such as import quotas, import licenses and the tendering of special imports will be completely eliminated.
2. Adjustments of customs, quotas, and proportion of non-state-controlled trading for goods subject to customs quota
   1. Reduce the duty rate for above-quote customs duty on goods subject to customs quotas such as wheat, corn, rice, cotton, sugar, bean oil, palm oil and colza oil.
   2. Increase the import tariff quotas on rice, vegetable oil, palm oil, colza oil, sugar, cotton, wool and fertilizer.
   3. Decrease the proportion of state-controlled trading for products such as rice, bean oil, palm oil, colza oil and fertilizers, which are controlled through a combination of state-controlled trading and tariff quota administration, and increase the non-state-controlled trading proportion. In 2005, the total volume of tariff quotas on fertilizers are, respectively: urea 2,800,000 tons, diammonium phosphate 6,560,000 tons, compound fertilizers 3,290,000 tons, of which the tariff quota quantities of state trades respectively are: urea 2,520,000 tons; diammonium phosphate 4,590,000 tons; compound fertilizers 2,300,000 tons; the tariff quota quantities of non-state-controlled trades are respectively: urea 280,000 tons; diammonium phosphate 1,970,000 tons; compound fertilizers 990,000 tons.

#### 2. Commitments with regards to Service Trade Industry

##### 2.1 Business services

1. Wholly foreign-owned enterprises are permitted to be established in China to provide urban planning services (except overall urban planning services).
2. Wholly foreign-owned subsidiaries are permitted to be established in China to provide advertising services.
3. Wholly foreign-owned subsidiaries are permitted to be established in China to provide technical testing and analysis services, including goods inspection services, with the exception of statutory inspection as part of the goods inspection service.

##### 2.2 Communications services

Wholly foreign-owned subsidiaries of foreign service providers are permitted to be established in China to provide courier services.

##### 2.3 Distribution services

1. Commission agencies and wholesale services (except for tobacco and salt): China shall permit foreign investors to engage in the distribution of books, newspaper, magazines, drugs, agricultural chemicals and agricultural film. The restrictions on quantity and geography shall be eliminated.
2. Retailing services (except for tobacco): China has permitted foreign investors to engage in retailing drugs, agricultural chemicals, agricultural films and oil products.

##### 2.4 Financial services

1. Banking

* Renminbi service: Apart from the 15 cities (including Shanghai) which China has promised to open to foreign investment, Shantou, Ningbo, Shenyang and Xi'an shall be also be opened to foreign investment. Foreign financial organizations shall be permitted to provide their own domestic currency services to Chinese enterprises.

1. Insurance

* Insurance: the minimum concession is that at the end of this year, the total asset requirement shall be decreased to US$0.2 billion and foreign-invested subsidiaries shall be permitted to be established in China.

Reinsurance and statutory insurance: compulsory reinsurance shall be cancelled.

##### 2.5 Travel and its related services

Restrictions on hotels (including service apartments) and restaurants shall be eliminated and foreign investors are permitted to hold majority equity stakes.

##### 2.6 Transportation services

Goods transportation agency services (excluding goods inspection services): foreign investors shall be permitted to establish wholly foreign-owned subsidiaries and be given national treatment.

### Other Members' Commitments to China Four Years after China's WTO Entry

From 2005, global quotas on textiles and clothing will be cancelled. The EU has promised to cancel quotas on certain industrial (non-textile) imports from China from 2005, namely shoes, boots, porcelain dinnerware, kitchen utensils or earthen dinnerware.

Poland has promised the following eliminations from the end of 2004: rubber-made shoes and boots or other boots with outsoles and shoe covers made of rubber, outsoles made of rubber, plastic, leather or recycled leather, boots with leather covers, boots and shoes with textile covers, other kinds of boots, electric steam irons and other kinds of electric irons. Slovakia has promised to remove the restrictions on shoes and boots imported from China from 2005. Turkey has promised to cancel the quantity limitations on the following imports from China as of 1 January, 2005: shoes, boots, porcelain dinnerware, kitchen utensils and earthen dinnerware.

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