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# China News Alert Issue 224

## Capital Markets

### Gold futures contracts reach daily limit on debut

China's trading in gold futures made a strong debut in Shanghai on 9 January, raising the city's prospects of becoming another key player in the world gold market.

China's gold futures contracts surged to the daily 10 per cent limit on 9 January, minutes after trading started at 9 a.m. on the Shanghai Futures Exchange (SFE).

Seven contracts were traded, with the benchmark price set at 209.99 yuan (US$28.8) per gram by the SFE a day earlier, lower than world prices.

The key contract for June delivery was the first to climb by 9.98 per cent to 230.95 yuan per gram. This was followed by the daily limit rise of other contracts for July-till-December delivery.

The contract size was set at 1,000 grams, larger than the originally expected 300 grams, to discourage individual investors who lack the ability to absorb risk.

Trading has been set at 9 a.m. to 11:30 a.m. and 1:30 p.m. to 3 p.m., Beijing time each weekday.

Analysts believe investors will need at least 24,000 yuan to secure a futures contract, as most futures brokers ask for a 12 per cent cash deposit for each contract.

The most active June contract closed the morning session at 224.63 yuan per gram, up 14.67 per cent, with a turnover of 16.5 billion yuan, according to the SFE website. The total turnover of the seven contracts was registered at almost 20 billion yuan in morning trade.

China's gold futures trading was launched at a time when international gold prices have repeatedly hit new highs. Global prices jumped more than 30 per cent in 2007, representing the biggest increase since 1979.

Gold prices climbed more than two per cent on 8 January against strong oil prices and a weakening U.S. currency. A troy ounce of gold for February delivery increased by US$18.30 to settle at US$880.30 on the New York Mercantile Exchange (NYMEX).

Shang Fulin, China Securities Regulatory Commission (CSRC) chairman, stressed the financial nature of the precious metal and called for "joint efforts for the stable operation" of the new futures product at the launch ceremony in Shanghai.

He said the gold futures would improve the country's domestic gold market and pricing mechanism, and gave options for financial institutions, gold producers and consumers to ward off market risk. He said gold futures would help increase the relatively underdeveloped futures services.

Zhang Yingying, a Galaxy Futures Broker gold researcher, said that most newcomers in futures investment would be institutional, using it as a hedging tool. She said the enlarged contract size could adversely affect individual investors, but, in the long run, both would play an equal role.

Zhao Yuanlin, a Guotai Jun'an Futures analyst, said the brokerage had received a growing number of enquiries about gold futures from individual stock investors. The China Securities Journal reported people lining up outside futures brokers to open new accounts in eastern Zhejiang Province.

However, Zhao said he planned to first offer risk education to individual stock investors as they lack the relevant experience of such risky investment.

Chinese stock investors, who saw the key stock index nearly double last year, have demonstrated strong enthusiasm for the new investment product. However, the regulatory body was trying to discourage such investment as Chinese authorities feared it would leave inexperienced investors exposed to greater risks.

The SFE said earlier that it would impose strict risk controls on gold futures. It would also set a minimum margin requirement of seven per cent of the contract value.

The elevation of contract size from 300 grams to 1,000 grams was another attempt to restrict participation and limit risk exposure.

In the meantime, the CSRC said individual investors were barred from the physical delivery of gold in futures trading and could buy gold only via banks or the spot market.

Last month, the CSRC approved the launch of gold futures trading. It was the fifth new futures product approved last year after zinc, rapeseed oil, polyethylene and palm oil.

The SFE, one of China's major futures trading venues, previously traded copper, aluminum, zinc, natural rubber and fuel futures.

[Source: CRI](http://english.cri.cn/3130/2008/01/09/262@312149.htm) ([see archive](Gold_Futures_Contract_Hikes_by_Daily_Cap_on_Debut.pdf))

### China unveils strategy for economic revisions

China plans to improve the coordination of fiscal and monetary policies in 2008 to help reduce its trade surplus and mop up excessive liquidity, Vice Finance Minister Li Yong said on 13 January.

The nation's money supply grew at its slowest pace for seven months in December, the central bank said recently, after it took measures to slow inflation and prevent the economy from overheating.

China may face pressure from Europe and the United States to allow faster gains by its currency after the trade surplus surged 48 per cent to a record US$262.2 billion last year, Bloomberg News reported.

"This year's fiscal policy will focus on structural adjustments and help solve the problem of excess liquidity," Li said at a conference in Beijing. "Monetary policies should focus on quantitative controls to allow more time for structural reforms." China needs to use administrative measures to tackle these issues, he said.

The government will adjust resource prices this year to rectify its energy-pricing system and boost domestic spending, Li said. Weakness in the US dollar will limit China's ability to raise interest rates and reserve ratios, he added.

"Fiscal policy can play a bigger role," said San Feng, an economist at the State Information Center in Beijing. "The government this year needs to cut its fiscal deficit and debt issuance for long-term construction projects, and it should lower taxes on sectors affected most by price controls."

China will cut the budget deficit "modestly" this year, the finance ministry said last month.

This year the ministry began to tax exports of grain at a rate of up to 20 per cent to boost domestic supply.

China's total tax revenue jumped 31.4 per cent to 4.94 trillion yuan (US$680.2 billion) last year, according to the taxation administration.

The People's Bank of China has pledged a "tight" monetary policy this year, after six interest-rate increases in 2007, to curb lending and prevent escalating asset prices.

"We will fight against inflation and implement tight monetary policies," said Yi Gang, vice governor of the central bank, at the Beijing conference. "But we will do it prudently to ensure economic stability."

Consumer prices jumped by 6.9 per cent to an 11-year high in November, prompting the State Council to announce a freeze on energy and utility prices.

"The government needs to avoid high inflation," said Xu Lin, head of the fiscal and financial department of the National Development and Reform Commission.

"If price increases slow down, temporary measures introduced to curb prices can be eased," he told the conference.

China has set a preliminary target for the full-year inflation rate of 4.6 per cent in 2008 and that for annual economic growth at eight per cent, Xu said.

Both targets need to be officially set by the National People's Congress at sessions that are scheduled to be convened in March.

The yuan rose for a fifth week, reaching its strongest level since China scrapped a fixed exchange rate to the US dollar in 2005.

However, the US and Europe say the yuan, even after recent advances, is still at a level that gives local companies an "unfair advantage" in overseas markets.

The December trade surplus shrank to US$22.7 billion from US$26.2 billion in November, as exports grew at the slowest pace in two years, indicating that recent yuan gains, the cooling global expansion and cuts to export-tax rebates on polluting industries are beginning to take effect.

China's economy expanded 11.5 per cent in 2007, the fastest pace in 13 years, according to government forecasts.

[Source: Shanghai Daily](http://www.shanghaidaily.com/news/20080114/345162) ([see archive](China_unveils_strategy_for_economic_revisions.pdf))

### China's securities regulators plan risk education for investors

Securities regulators will try to raise investors' risk awareness through a new department, said Huang Xiangping, chairman of the Securities Association of China (SAC).

The new department will develop plans for risk education as well as organise and supervise education initiatives, he said.

The move reflects concern by the China Securities Regulatory Commission (CSRC) that many first-time small investors could sustain huge losses due to ignorance of the risks involved. This concern has been magnified by the expectation that markets will be volatile this year.

There were about 138 million stock trading accounts at the Shanghai and Shenzhen bourses at the end of 2007, up from 78.1 million a year earlier. The bull market, in which the key Shanghai Composite Index nearly doubled in 2007, persuaded many low- and middle-income households to move money out of bank deposits and into equities. Those with a relatively low monthly income of 2,000 yuan (US$276) to 5,000 yuan accounted for 70 per cent of all investors.

Huang also suggested that the CSRC follow the practice of developed markets, such as Britain and Japan, and set up a fund for risk education then gradually introduce it into the national education system.

[Source: China.com](http://english.china.com/zh_cn/education/news/11020786/20080111/14608961.html) ([see archive](China_securities_regulators_plan_risk_education_for_stock_investors.pdf))

## Corporate & Commercial

### China revises decree to punish illegal price manipulation

On 13 January, the Chinese government promulgated a revised decree to prevent the driving up of prices through hoarding or cheating.

The revision was made to regulations passed in 1999 and amended in February 2006 by the State Council.

The new decree, effective as of 13 January, raises the maximum fine to one million yuan (US$137,000), almost tripling the sum stated in the old regulations, for those who manipulate market prices and ignore prices set by the government in emergencies.

Commercial associations that deliberately spread rumors about price information can be fined a maximum of 500,000 yuan. Those who severely violate the decree may have their legal certificates revoked.

The State Council and local governments can set profit ratios or price ceilings for key items of goods and services when prices rise too sharply, according to the decree.

[Source: People.com](http://english.people.com.cn/90001/90776/90785/6337220.html) ([see archive](China_revises_decree_to_punish_illegal_price_manipulation.pdf))

### First industry standards for live pig futures publicised

A panel composed of academics and officials reviewed and passed China's first industry standards for live pig futures, the Dalian Commodity Exchange (DCE), one of the country's three futures exchanges, said on 7 January.

The move laid the legal foundations for the debut of live pig futures on the country's commodity futures market.

The DCE organised a group of experts to carry out market research and draft the standards as early as 2005, said Guo Xiaoli, vice general manager of the DCE at an industry conference held in Hubei Province.

The introduction of live pig futures will help stabilise pork production and ease the pressure on pork prices, he said.

The domestic pork price in China has surged sharply since the second half of 2006 due to inadequate live pig supplies, and has helped push up the country's consumer price index by 4.6 per cent in the first 11 months of 2007.

Previously, the incomplete information flow between pig breeders and market demands often led to a reaction delay and sharp fluctuation in prices.

"Establishing the live pig futures industry standards will improve the pig breeding industry and its global competitiveness," said Xiong Yuanzhu, an expert from the Chinese Academy of Engineering.

Located in Liaoning Province, the DCE is a major agricultural futures product trading center in China, in addition to the Zhenzhou Commodity Exchange in central China's Henan province and the Shanghai Futures Exchange, where the long-awaited gold futures products debuted on 9 January.

Products traded at the DCE include cotton, soybean products, palm oil and polyethylene.

[Source: China.com](http://english.china.com/zh_cn/business/news/11021613/20080108/14600799.html) ([see archive](First_Industry_Standards_for_Live_Pig_Futures_Publicized.pdf))

### Trade surplus increases by 47% in 2007

China's trade surplus increased by more than 47 per cent year-on-year in 2007, but experts expect growth to slow down this year.

The surplus hit US$262.2 billion last year, up 47.7 per cent from the previous year, according to statistics released on 11 January by the General Administration of Customs.

"Year-on-year growth in monthly imports has exceeded 25 per cent for three months in a row, which contributed to the slowdown in surplus growth," the customs department said. "And the country's soaring trade surplus eased slightly in the fourth quarter last year, with imports catching up and exports slowing down."

The government has taken various measures to curb the growing surplus, such as scrapping tax rebates on high-polluting exports and imposing export tariffs. As such measures continue to have an effect this year, experts believe the gap between exports and imports will gradually narrow.

"As a result of policy adjustment, exports in such sectors as steel and textiles are expected to drop significantly," said Zhang Yansheng, director of the International Economic Research Institute affiliated to the National Development and Reform Commission.

He predicted that China's net export of crude steel would decline to 36 million tons this year from 53.1 million tons in 2007. Pursuing a "soft landing" in terms of trade will be a government priority this year, Zhang said.

However, Citigroup economist Huang Yiping argued that China's exports should continue to grow strongly so long as the United States avoids a recession.

"We are not expecting the surplus to decline substantially," Huang said. "We are still expecting the overall trade surplus to rise a bit further".

Exports reached US$1.22 trillion last year, up 25.7 per cent from a year earlier, while imports hit US$955.8 billion, up 20.8 per cent.

According to the customs department, since China joined the World Trade Organisation in 2001, its foreign trade volume has achieved more than a 20-per cent growth for six successive years.

The EU topped China's trade partners in 2007, followed by the United States and Japan.

[Source: Mofcom](http://english.mofcom.gov.cn/aarticle/newsrelease/commonnews/200705/20070504641014.html) ([see archive](Trade_surplus_large_but_slowing.pdf))

### China to steady fuel and electricity prices

China will hold prices of fuel and electricity steady and tighten pricing rules, said the State Council in a statement on 9 January, the latest in a series of moves that underscore its concerns over inflation.

The decisions were made at a State Council meeting chaired by Premier Wen Jiabao, to stop any price increases that would hurt consumers before Chinese New Year celebrations in early February.

The statement said that pressure on domestic prices is strong as global crude oil and grain prices continue to rise, and it reiterated its intention to prevent widespread inflation.

China's consumer price index soared 6.9% in November from the same time a year earlier, the fastest gain in 11 years.

The government controlled domestic prices for oil products, and raised diesel and gasoline prices on 1 November, amid severe shortages. The latest statement appears to signal that another increase is not planned for the near future, despite international oil prices rising close to US$100 a barrel. The government will also regulate prices for grains, edible oil and meat, and work to guarantee the supply of basic necessities.

The State Council said it will increase its monitoring of prices for basic necessities and prevent illegal pricing, such as collusion among firms and price-fixing.

[Source: CRI](http://english.cri.cn/3130/2008/01/10/262@312694.htm) ([see archive](China_to_Steady_Fuel_and_Electricity_Prices.pdf))

## Real Estate

### Measures to improve land use efficiency

The State Council issued a circular on land conservation and improving the efficiency of land use, on 7 January, in a bid to protect arable land.

"With the quick pace of industrialisation and urbanisation, China is facing a sharp conflict between land supply and demand, so it is crucial to improve land use efficiency and protect arable land," the circular said.

Official statistics revealed that the country's area of arable land, which had shrunk by 4.6 million mu (306,700 hectares) in 2006 to 1.827 billion mu, was only slightly above the minimum of the 1.8-billion mu warning line set by the government.

The circular called for relevant government agencies to plan large-scale "scientific infrastructure" programs, tighten land use approval in both rural and urban areas and step up land market monitoring.

If land approved for development remains unused for more than two years, it should be recovered by the government according to laws and regulations. If the land remains idle for between one and two years, land developers should pay a 20 per cent non-usage fee, the circular said.

"More than 70 per cent of the land used for the construction of urban housing should be designated for low-rent units, inexpensive commercial homes and smaller units of under 90 square meters," the circular stated, a move to provide adequate housing for low-income families, in a time of surging housing prices.

In a similar development, the country released the low-rent housing guarantee policy last November, which took effect on 1 December 2007, to help the country's ten million low-income urban families, whose living space is less than ten square meters per person and accounts for 5.5 per cent of the country's households.

China also began to quintuple tax on the use of arable land for non-farming purposes and to charge foreign invested companies as much as their domestic peers as from 1 December 2007.

[Source: CRI](http://english.cri.cn/3130/2008/01/08/262@311782.htm) ([see archive](Measures_to_Improve_Land_Use_Efficiency.pdf))

## Taxation

### China to announce revised resource tax system

Details of a new resource taxation system will be announced this year, an official with the State Administration of Taxation (SAT) said on 10 January.

The system is still being finalised, but sources have said that it may include a shift to taxation by price instead of volume and an expansion of the category of taxable resources. The goal is to end a situation where resources are lightly taxed to support economic development, which has in turn led to waste and pollution.

Yang Suizhou, vice director of the SAT's local tax department, told reporters that the agency was refining the plan to meet the requirements of the State Council.

China wants to cut energy intensity by 20 per cent, and emissions by 10 per cent, between 2006 and 2010. Taxation is an important mechanism to achieve these goals.

Yang said that there is still no timetable for the introduction of a fuel tax. First proposed in 1994, the introduction of a fuel tax has been delayed amid concerns that it may impose too great a burden on those who use more oil, such as bus and taxi drivers.

A tax would help to maximise fuel efficiency and minimise pollution, but its timing needed to be carefully studied, said Han Wenke, director of the energy research institute of the National Development and Reform Commission (NDRC). Surging world oil prices and government concerns about inflation have also delayed the introduction of the proposed tax.

Yang also told reporters that a "green" tax targeting heavy polluters was under research.

"The specific taxation plan hasn't been fixed yet, but the primary goal is to protect the environment," said Xu Yiding, an analyst at China Minzu Securities. Xu added that companies discharging pollutants or making products that could hurt the environment could face the "green" tax.

China raised taxes on lead-zinc, copper and tungsten ores in 2007, the first raise since 1994, as well as on coking coal.

[Source: China.com](http://english.china.com/zh_cn/business/economy/11021617/20080110/14607485.html) ([see archive](China_to_announce_revised_resource_tax_system_in_2008.pdf))

## Other

### Shops cease to provide free plastic bags

A nationwide campaign against plastic bags has been launched, with the government banning production of ultra-thin bags and forbidding supermarkets and shops from handing out free plastic bags from 1 June.

People use too many of the bags and fail to dispose of them properly, wasting valuable oil used in their production, and littering the country, the State Council said in a notice posted on the central government website.

Starting from June, shops, supermarkets and sales outlets will be forbidden from offering free plastic bags and all plastic bags must be clearly marked with prices.

"We should encourage people to return to carrying cloth bags and using baskets for their vegetables," the notice said.

In addition, the manufacture, sale and use of bags less than 0.025 mm thick are banned from the same date, with firms that flout the rules facing fines or confiscation of goods and profits.

The State Council also:

1. told finance authorities to consider tax measures to discourage the production and sale of plastic bags and encourage the recycling industry.
2. told quality inspection authorities to revise State standards for plastic bags and set up a monitoring mechanism.
3. urged rubbish collectors to separate plastic for reprocessing and reduce the amount burnt or buried.

China uses up to 3 billion plastic bags a day and has to refine 5 million tons (37 million barrels) of crude oil every year to produce plastics used for packaging.

[Source: Chinataiwan.org](http://www.chinataiwan.org/sy/yw/200801/t20080109_568485.htm) ([see archive](Free_plastic_bags.pdf))

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