Charltons - China News Alerts Newsletter - 19 November 2008

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# China News Alert Issue 266

## Capital Markets

### New measures unveiled to spur growth

The government recently unveiled a slew of infrastructure projects and increased export rebates for the third time in recent months - in a wide-ranging initiative to stimulate growth and offset the effects of the global downturn.

The latest announcement by the State Council, or Cabinet, adds to efforts to spur economic growth following the release of a 4-trillion yuan ($586-billion) stimulus plan.

An executive meeting, presided over by Premier Wen Jiabao, approved projects with a combined investment of more than 200 billion yuan ($29 billion) designed to help boost domestic demand (see infographic for breakup).

They include a gas pipeline from the Ningxia Hui autonomous region to Guangzhou, Guangdong province, and Hong Kong; expansion projects for two nuclear power plants in Guangdong and Zhejiang provinces; water conservancy projects in the Xinjiang Uygur autonomous region, and Guizhou and Jiangxi provinces; and new airports in Anhui province and the Inner Mongolia autonomous region.

The meeting also decided to raise export rebates, effective Dec 1, on 3,770 export products, or about 28 percent of the total. They are mainly in the labor-intensive, and mechanical and electrical product sectors.

It did not release details of the size of the rebates or which products would be affected but was the third such move in the second half.

The measures add to a series of urgent steps taken by Beijing to reverse a sharp downturn in economic growth.

Growth fell to 9 percent in the latest quarter - still strong for a major economy, but well below last year's 11.9 percent.

A drop in global demand for Chinese goods has hit exporters hard, prompting layoffs and factory closures.

The steps are meant to "expand domestic consumption and promote economic stability", the State Council said in a statement on its website.

Other measures agreed upon at the meeting include:

The 300-billion-yuan reconstruction fund dedicated to 51 hard-hit areas in Sichuan, Gansu and Shaanxi provinces will provide the main financing for the May 12 quake zone.

The forestry industry, ravaged by snowstorms at the start of the year and the earthquake, will receive support for restoration by 2010. "Proper subsidies" will be given to forestry workers to help rebuild damaged homes.

The State will use "protective prices" in purchase of damaged bamboo and lumber, and urged financial institutions to give greater support or write off bad loans due to disasters in the sector.

The $586-billion stimulus package calls for high spending on government construction projects, aid to the poor and farmers and tax cuts for exporters over the next two years.

It covers 10 major areas, including affordable housing, rural infrastructure, water, electricity, transport, the environment, technological innovation and rebuilding after disasters, especially the Sichuan quake.

The plan calls for speeding up projects that were already planned; and depends on domestic companies for a big share of the spending.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-11/13/content_7200003.htm) ([see archive](New_measures_unveiled_to_spur_growth.pdf))

### Govt stimulus plan boosts chances for multinationals

The Chinese government's 4-trillion-yuan stimulus package has come as a breather for many multinational companies who are trying to weather the current economic storm.

The government's announcement of the huge investment plan is expected to provide additional opportunities for foreign investors in China.

"This plan is important, not only for stimulating the domestic economy, but also for rebuilding people's confidence in the economy," said Cyrille Ragoucy, CEO of Lafarge Shui On Cement, a joint venture between Lafarge and Shui On Group.

China has presented itself as "a role model for its stronger Western counterparts to follow", said Noel Girard, strategic marketing director of Schneider Electric China.

The State Council plans to invest heavily on a wide array of infrastructure and social welfare projects, including construction of new railway lines, roads, airports and the rebuilding communities devastated by the earthquake in Sichuan in May.

The package may also spur demand for machinery and construction materials. The government is slated to spend 600 billion yuan on railway infrastructure next year involving 20 million tons of steel and 120 million tons of cement, Yang Zhongmin, an official from the Ministry of Railways, said.

Companies like Lafarge have already commenced steps to increase their cement output. In the last two months it has started working on new production lines in Guizhou and Sichuan, with two more underway.

Lafarge expects the new production lines to increase its annual cement output capacity to 34 million tons by 2010, from the present 24 million tons.

"Lafarge wants to keep its focus on emerging markets, like China. They will become main contributors of our global business," said Ragoucy.

Caterpillar, the world's leading construction and mining equipment manufacturer, also sees significant opportunities for it from the stimulus plan.

"China represents a significant portion of the global sales opportunity for many of Caterpillar's key products. The stimulus plan creates more opportunities for us," said Thomas J. Bluth, vice-president of Caterpillar.

A major highlight of the package is the government's commitments to railway construction. The government plans to build 10,000 km of railways in 2009 and 2010, involving an expenditure of about 2 trillion yuan.

"The 2 trillion yuan investment in the railways represents big opportunities for us to supply railway equipment, including high-speed trains, locomotives, propulsion and signaling systems," said Zhang Jianwei, president and chief country representative of Bombardier China.

Bombardier is a Canadian rail transportation equipment maker.

The railway expansion plan has also come as welcome news to Swiss engineering group ABB, which launched a joint venture in Nanjing in April.

The firm, ABB Traction Converters Ltd, specializes in the design, manufacture, sales and service of traction converters and auxiliary converters for the rail sector.

"We are very lucky (to have the joint venture in place) ... and hope to make the new infrastructure constructions more efficient and reliable," said Brice Koch, president of ABB China.

Marianne Friese, secretary general of the European Union Chamber of Commerce in China, is of the view that the fiscal package, "in combination with policies of increased regulatory transparency and greater openness toward foreign investors" will help China sustain growth.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-11/14/content_7205200.htm) ([see archive](Govt_stimulus_plan_boosts_chances_for_multinationals.pdf))

### SAFE Tightens Control over Foreign Exchange Balances

Domestic and offshore institutions must report nature of the capital in line with law prior to processing their foreign exchange balance businesses.

Under the Circular on Issues Concerning the Foreign Exchange Businesses via Foreign Exchange Accounts (Circular) released by China's State Administration of Foreign Exchange on November 7, 2008, such foreign exchange balance businesses as cross-national foreign exchange collection and payment by individual trade settlement accounts and domestic transfer.

The Circular also outlined that banks must establish foreign exchange accounts for domestic and offshore institutions when processing such foreign exchange balance businesses as cross-national foreign exchange collection and settlement and domestic transfer of foreign exchanges.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4990) ([see archive](SAFE_Tightens_Control_over_Foreign_Exchange_Balances.pdf))

## Taxation

### China lifts tax rebates to boost export

China's Ministry of Finance announced recently a list of 3,770 items involved in the third export tax rebate increase this year.

The items include labor-intensive, mechanical and electrical products. New export tax rebate rates on these items were also announced. The changes take effect December 1.

The announcement came four days after the State Council, or cabinet, said it would raise export tax rebates for the third time this year as part of the government's 4-trillion-yuan ($571.4 billion) economic stimulus package.

Rises in tax rebate rates varied among different items. For example, the rate on tires was raised from 5 to 9 percent while glassware was up 5 to 11 percent. Rates on labor-intensive products such as luggage, shoes and umbrellas were elevated from 11 to 13 percent.

The 3,770 items accounted for 27.9 percent of the country's total exports, according to a statement posted on the government's website.

The statement said the government would also eliminate export duties on certain types of steel, chemical and grain products and reduce export duties on some fertilizer products, also effective December 1.

China raised export tax rebates in August and at the beginning of this month on a range of goods to shore up flagging exports. Official data showed that October export growth slowed to 19.2 percent from 21.5 percent in September

China levies value-added tax on most products, but refunds varying amounts of that tax on goods that are exported. The government usually adjusts the size of export tax rebates for different types of goods when it is trying to encourage or discourage growth in particular industries.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2008-11/17/content_7214057.htm) ([see archive](China_lifts_tax_rebates_to_boost_export.pdf))

### Fuel tax 'to be levied soon as timing is right'

The government is likely to levy fuel tax soon while rolling back road tolls and maintenance taxes, a senior researcher close to energy policy makers said recently.

"The government has repeatedly said that it is looking for an appropriate time to start levying fuel tax, and now, with the global oil prices going down so much over the past few months, I think this is a great time to impose the tax," Han Wenke, director-general of the Energy Research Institute of the National Development and Reform Commission, told.

The timing of the introduction of such a tax has long been a hot topic. Many believe the present low crude oil prices present a perfect opportunity for the government to levy the tax as a key step toward letting the market eventually set prices, as consumers will be more amenable when oil prices are low.

Crude oil dropped below $55 a barrel on Monday, down nearly 63 percent from a record high of $147. 27 on July 11.

China, the world's No 2 energy consumer, first proposed a tax on retail fuel sales more than 10 years ago as part of an effort to reform the system of road tolls and maintenance charges.

Han said he believes the fuel tax will contribute to a reasonable pricing mechanism. "It's fair that the more you use a car, the more you have to pay for fuel."

The current pricing system does not fully reflect price fluctuations on the world market. When global oil prices were at their peak, the government had to dole out huge subsidies to oil refiners to keep prices at a fixed level.

Jiang Kejun, a researcher at the Energy Research Institute who is a member of the team formulating the fuel tax scheme, told that January, or even earlier, would be a good time to start the tax.

"I think the tax will be a little more than 1 yuan per liter, and the government might cut the retail price to allow the domestic fuel price to move closer to the market level," Jiang said.

Beijing motorists pay about 30 percent more at the pump for gasoline than their US counterparts.

Some experts are concerned that the auto industry will suffer if the fuel tax is imposed, but Jiang said he believes it will send a strong message encouraging manufacturers to produce fuel-efficient cars.

"The tax will encourage people to buy energy-efficient cars, and manufacturers will not suffer losses if they respond to that trend," Jiang said.

Zheng Jun, a Beijing-based auto industry analyst with China Securities Co Ltd, also believes the fuel tax will not have a big negative impact either on the industry or the national economy.

Zheng said the government, while likely charging 30 percent as fuel tax, will lower retail gasoline prices by 20 percent and abolish road tolls.

"I firmly believe the government will lower the retail oil price before charging the tax."

[Source: China Daily](http://www.chinadaily.com.cn/cndy/2008-11/19/content_7217452.htm) ([see archive](Fuel_tax_to_be_levied_soon_as_timing_is_right.pdf))

## Corporate & Commercial

### HK and Macao Performance Brokerage Institutions Eligible to Establish Branches in Mainland China

Performance brokerage institutions of Hong Kong Special Administrative Region and Macao Special Administrative Region are eligible to establish branches in Mainland China upon approval. But such branches shall not be entitled to corporate legal-person qualifications.

China's Ministry of Culture released on November 13, 2008 the Rules for Implementing the Administrative Provisions for Commercial Performances (Draft for Comment) for public comments. The Rules stipulated that commercial performances must not cheat the audiences via lip-synching or fraudulent performance.

Besides, such documents as the feasibility reports, contracts and articles of association must be provided for applying for establishing Sino-foreign equity joint venture and Sino-foreign cooperative joint venture performance brokerage institutions. Representatives of the Chinese party must act as the board chairman of the aforementioned institutions, and the China party must hold a majority in the boards of directors.

The public-input process is scheduled to conclude on November 30, 2008.

[Source: Lexis Nexis](http://hk.lexiscn.com/latest_message.php?id=4992) ([see archive](HK_and_Macao_Performance_Brokerage_Institutions_Eligible_to_Establish_Branches_in_Mainland_China.pdf))

### Shanghai Adopted 8 Measures to implement “10 Measures on Domestic Demand”

Recently, Shanghai municipal government issued eight measures to fully implement the deployment and decision of central government on further expanding the domestic demand and promoting stable and rapid economic development, which will ensure stable and rapid economic development in Shanghai and the continuous improvement of people's livelihood.

Eight measures include: first, to accelerate the integrated infrastructure construction in urban and rural areas; second, to speed up the construction of major industrial projects, supporting and promoting the healthy development of enterprises; third, to speed up scientific innovation and high-tech industrialized construction, improving independent innovation capacity; four, to boost energy-saving and emission reduction projects and the ecological environment establishment; five, to deal with the practical issues that the public are looking forward to, strengthening the social construction about people's livelihood; six, to boost the housing construction, promoting the stable and healthy development in real estate market; seven, to strengthen the organization of the World Expo, speeding up the upgrading of hardware facilities and integrated management; eight, to strengthen preventive management against financial risks, actively expanding the financing channels.

In the recently held work conference of Shanghai municipal government, Han Zheng, the Mayor and deputy secretary of the Shanghai Municipal Committee, pointed out that all the work should focus on achieving “two guarantees”, and all the effective measures and means should be adopted to ensure the achievement of “two guarantees”.

[Source: Invest in China](http://www.fdi.gov.cn/1800000121_37_715_0_7.html) ([see archive](Shanghai_Adopted_8_Measures_to_implement_10_Measures_on_Domestic_Demand.pdf))

### EU, China sign revised MOU on product safety

The European Commission and China recently signed a renewed and extended

Memorandum of Understanding (MoU) to strengthen cooperation on product safety controls.

The document was signed here by EU Consumer Affairs Commissioner Meglena Kuneva, Health Commissioner Androulla Vassiliou, and Wei Chuanzhong, vice minister of Chinese General Administration of Quality Supervision, Inspection and Quarantine (AQSIQ).

The document, first inked in 2006, upgrades the existing RAPEX-China system (Rapid Alert System for dangerous goods) including clear obligations for quarterly reporting on enforcement actions to track down dangerous goods.

The upgraded MoU will provide China for the first time with immediate access to the EU's Rapid Alert System for Feed and Food, and in particular, to the system's notifications that concern China.

[Source: China.com](http://english.china.com/zh_cn/news/china/11020307/20081118/15191799.html) ([see archive](EU_China_sign_revised_MoU_on_product_safety.pdf))

## Other

### Shandong, Hubei rule no layoffs without approval

Companies based in Shandong and Hubei provinces are now required to apply for approval from their local human resources and social security authorities before a layoff of 40 or more workers.

The regulation amends on the national labor contract law implemented last January. According to the national labor contract law, companies that want to lay off more than 20 employees must first apply for approval from labor unions and report their plan to labor authorities.

Wang Kexing, head of the unemployment and social insurance section of the Shandong human resources and social security department, told that provincial authorities have decided to launch the order in response to the global financial crisis, and in the wake of several cases of company bosses from Shandong, Guangdong and Zhejiang, fleeing their responsibilities and leaving workers stranded.

Last October, the government of Dongguan in Guangdong Province paid for the salaries of more than 7,000 workers amounting to RMB24 million after its company owner fled.

China's Ministry of Human Resources and Social Security has advised local government to ensure stable employment levels and monitoring labor-intensive factories that are susceptible to layoffs.

Liu Junsheng from the labor-wage institute of the Ministry of Human Resources and Social Security told: “These measures can help protect social stability, which is now more important than economic development.”

For the first nine months of the year, more than 680,000 people were unemployed in Shandong despite the province being one of the country's exports hubs.

The Hubei provincial human resource and social security department said that companies must inform local governments 30 days prior to lay off 50 or more employees, or 10 percent of their total workforce.

China's state-owned companies have been instructed to reduce salaries, rather than layoff workers.

[Source: China Briefing](http://www.china-briefing.com/news/2008/11/18/shandong-hubei-rule-no-layoffs-without-approval.html) ([see archive](Shandong_Hubei_Rule_No_Layoffs_Without_Approval.pdf))

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