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# China News Alert Issue 297

## Capital Markets

### Yuan trade pilot scheme kicked off

Three Shanghai companies became the first to complete cross-border yuan trade settlement deals recently, marking the launch of the nation's long-anticipated pilot renminbi trade settlement scheme.

The first international transaction of a US$2-million power plant equipment contract was made between an affiliate under Shanghai Electric Group and Indonesia's PT Central Daya Energi, which paid the money via Bank of China (Hong Kong), to Bank of China's Shanghai Branch.

On the same day, Shanghai Silk Group and Shanghai Huanyu Import & Export Company signed contracts with Hong Kong's China Products Trading (HK) Limited and Ever Keen International Limited respectively, with the Shanghai branch of the Bank of Communications offering the transaction services.

The three deals in total were valued at 14.38 million yuan (US$2.10 million).

At a time when the exchange rates of major settlement currencies are volatile, the settlement program in the more-stable yuan would "help mainland companies avoid exchange rate risks, and boost trade with Hong Kong and ASEAN (Association of Southeast Asian Nations)", according to Su Ning, vice-governor of the People's Bank of China.

On 2 July, the central bank issued detailed measures on how to settle trade in yuan with trading partners in Hong Kong, Macao and ASEAN. Shanghai and four cities in Guangdong province made up the first batch to execute the trial program.

In December 2008, the central government announced the pilot scheme to promote the use of yuan to settle bilateral trade payments with neighbouring trading regions and countries. "The launch of the yuan settlement program meets companies' increasing need to use yuan as a currency for international payment and reduce the procedures for cross-border trade," said Li Lihui, president of Bank of China (BOC).

The move will pave the way for Hong Kong to become the nation's key yuan settlement center in the long run. "The scheme will be a positive boost for Hong Kong's drive to become an overseas yuan hub," Daniel Chan, a senior investment strategist at DBS Bank said. However, how far the city would travel along that road depended on the pace of the opening up of China's capital, he said.

So far, 100 Shanghai-based companies, including Baoshan Iron & Steel Company and Shanghai Zhenhua Port Machinery Company have filed applications to join the trial scheme, but were still waiting for the central bank's official approval, according to Gu Jiahe, secretary-general of the Shanghai Municipal Commission of Commerce.

"We have agreed with a Hong Kong-based firm to import products worth 11.65 million yuan," Liu Shoupei, president of Shanghai Metals & Minerals Import & Export Corporation, said recently, adding that the transaction will soon be completed through the Shanghai branch of the BOC.

On the same day, BOC's Shanghai branch signed clearing agreements for yuan settlement in Shanghai with 11 foreign banks, including Standard Chartered, Bank of East Asia, and OCBC.

"Many of our clients from Singapore, Indonesia, and Malaysia, who are in conversation with Chinese firms for trading business, have expressed great interest in yuan settlement," said Leong Wai Leng, China chairman of OCBC, Singapore's third-largest lender.

OCBC has submitted applications to join the trial program, but still has to settle two operational details with the regulator.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/07/content_8385824.htm) ([see archive](Yuan_trade_pilot_scheme_kicked_off.pdf))

### China tightens regulations on state-owned shareholders

China's state assets regulator announced that it would impose stricter controls over the actions of state-owned shareholders, in a move to protect investors' profits and maintain a stable market.

State-owned shareholders of listed companies should apply for approval from regulators if they wish to sell over a certain number of shares. However, this amount was not specified in the document published on the website of China's State-owned Assets Supervision and Administration Commission (SASAC).

The application should include a timeframe for the sale of the shares, the minimum price of the shares and the number of shares in the planned sale. This would ensure that state-owned shareholders do not sell shares at too low a price, said the SASAC.

Shareholders of state-owned assets also need pre-approval from regulators before moving assets, said SASAC.

Previously, the exchange of assets must meet approval from the board of directors before being approved by the regulators. The exchange could then be offered for approval by the shareholders.

State-owned listed companies should disclose restructuring information with their shareholders, said the SASAC documents. If restructuring is halted by shareholders due to price fluctuations, it said, state-owned shareholders should wait three months before taking action.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/04/content_11649526.htm) ([see archive](China_tightens_regulations_on_state-owned_shareholders.pdf))

## Corporate & Commercial

### China approves expansion of Sinopec-BASF joint venture

China Petrochemical Corporation (Sinopec Group), the country's largest oil refinery, announced recently that the Chinese government has approved the feasibility study report on the expansion of the joint venture between its listed subsidiary China Petroleum and Chemical Corporation (Sinopec) and Ludwigshafen-headquartered BASF, in east China's Nanjing.

Sinopec and BASF will jointly invest approximately US$1.4 billion to expand the BASF-YPC Company Limited, (BYC) to produce downstream specialty chemicals for the Chinese market, serving multiple industries such as construction, electronics, pharmaceutical, automotive and chemical manufacturing.

The investment includes the expansion of the existing steam cracker and three existing plants as well as construction of ten new chemical plants.

The expansion will become operational by 2011, according to the Sinopec Group.

The expansion project conforms with China's revitalisation plan for the petrochemical industry, fosters the integration of BYC, broadens the portfolio of downstream products in Nanjing and meets the increasing demand in China's eastern region, said Wang Tianpu, President of Sinopec.

Yangzi-BASF Styrenics Company Limited (YBS), another joint venture between the two partners in Nanjing, is being merged with BYC to further streamline Nanjing operations. YBS produces styrene monomer, polystyrene and expandable polystyrene.

Founded in 2000, BYC is a 50-50 joint venture between BASF and Sinopec, with a total investment of US$2.9 billion in the first phase. The joint venture started commercial production in 2005.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/07/content_11666244.htm) ([see archive](China_approves_expansion_of_Sinopec-BASF_joint_venture_in_E_China.pdf))

### Trade arbitrator gives strength to economy

Powerful trade arbitration organisations can indirectly aid the inflow of foreign investment into a nation.

"Trade arbitration indirectly represents the strength of a nation's economy. The stronger the trade arbitration team a nation has, the more confident overseas investors will be, and the more investment it will probably absorb," Yu Jianlong, secretary-general of China's trade arbitration organisation, told China Business Weekly.

Established in 1956, the China International Economic and Trade Arbitration Commission (CIETAC) dealt with over 1,230 cases in 2008, the highest number worldwide.

Typically, arbitration associations in the United States, France, Sweden and Singapore deal with 100 to 600 trade-related cases each year.

"We are as capable as our international counterparts," said Yu, who three years ago was transferred to CIETAC from the China Council for the Promotion of International Trade.

Increase in cases

China's foreign direct investment and trade has grown rapidly since the nation started liberalising its economy in 1978. So too have trade conflicts; but arbitration has solved these problems in an efficient way. Compared to a court appeal, "arbitration enjoys incomparable advantages and flexibility," Yu said.

Under the CIETAC trade arbitration framework, aggrieved parties can select judges, and specific rules and regulations on which resolutions will be based.

Yu said dispute resolution under CIETAC was significantly cheaper, costing about one-fifth the rate charged by its international counterparts.

During the past three decades, the arbitrator has seen a continuous rise in cases. Between 1978 and 1988 it dealt with 410 cases but in the following decade the number of cases soared to 5,917.

Since CIETAC expanded in 2000 to arbitrate all types of trade conflicts, the number of cases has on average increased between 30 and 40 per cent annually. Last year, despite the financial crisis, the number touched a record high of 1,230 cases.

"Conflicts concerning real estate, securities, franchise agreements and IPR have been on the rise in the past few years," said Yu.

In 2002, the huge increase in FDI saw China replace the United States as the most favourable destination for overseas investment. "The trade arbitration mechanism was one of the key drivers behind this FDI growth", said Yu.

With 970 arbitration practitioners, CIETAC employs the largest and most professional judging team nationally.

Planned improvements

CIETAC aims to become an international trade arbitration organisation, but "it can never be realised until the payment system is brought in line with international standards," said Yu.

According to Yu, CIETAC is losing its professional arbitrators as a result of unattractive salaries. "The budget is quite low, so are the salaries. As a result, the judges have no motivation to work here," he said. "This is my biggest concern; shortage of quality talent will cripple our aim of becoming the world's leading trade arbitration organisation," Yu said.

Until now, the Chinese government has designed the fee structure for CIETAC. Each year, the organisation receives only one-third of its earnings, around 30 million yuan, to cover wages and other expenses. The rest is repatriated to the government.

CIETAC has requested that the government loosen these restrictions. More leeway in financial decisions, income management and distribution of salaries will motivate its staff and assist in the arbitrator's future plans, Yu said.

"A new policy is expected this year," said Yu.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/06/content_8380700.htm) ([see archive](Trade_arbitrator_gives_strength_to_economy.pdf))

### Financial leasing companies report 94.8 billion yuan in assets

The total assets of the 12 financial leasing companies supervised by the China Banking Regulatory Commission (CBRC) topped 94.8 billion yuan (US$13.88 billion) at the end of May, a CBRC official said recently.

Chen Qiong, deputy director of the CBRC's non-banking regulatory department, made the statement at the opening ceremony of the financial leasing committee under the China Banking Association (CBA) in Beijing.

In the first half of 2009 China has approved the establishment of ten, its annual quota, financial leasing companies and would continue to gradually approve the establishment of companies in the future, Chen said.

It is international practice for commercial banks to transact financial leasing and a demand of commercial banks to diversify their businesses, said CBA executive vice president, Yang Zaiping.

However, the financial leasing companies in China have not fully utilised their potential to help small and medium-sized companies tackle difficulties in fund-raising or maximise resource allocation, Yang said.

China revised its regulations on financial leasing companies in 2007, allowing financial institutions to participate in or set up financial leasing companies.

China's financial leasing companies now mainly focus on businesses in machinery equipment, airplanes, power equipment and shipping.

The CBA financial leasing committee was set up by the 12 financial leasing companies supervised by the CBRC to improve the industry's performance, Chen said.

Li Xiaopeng, chairman of the ICBC Financial Leasing Company Limited, was elected as director of the CBA financial leasing committee.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-07/07/content_8387165.htm) ([see archive](Financial_leasing_companies_report_948b_yuan_in_assets.pdf))

### China to adjust tariff policy to curb rare metal export

China will revise its tariff policy to curb the export of rare metal products, according to a circular issued by the Ministry of Industry and Information Technology.

According to the circular outlining the management of the raw material industry, the government will consider revising its tariff policy to encourage the export of processed products with high added-value, while strictly controlling products which cause heavy pollution and energy costs, as well as rare metal products that are used in national strategic safety.

No timetable was given in the statement.

The move was aimed at encouraging industrial innovation and reducing pollution, the circular said.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-07/03/content_11649222.htm) ([see archive](China_to_adjust_tariff_policy_to_curb_rare_metal_export.pdf))

## Other

### Courts urged to keep things calm in crisis

Courts across China should help address disputes between the government and the people to prevent mass incidents and maintain social order amid the global financial crisis, the Supreme People's Court (SPC) said recently.

According to a circular issued by the SPC, a large number of disputes between the people and the government have emerged as China is affected by the global financial crisis. "To tackle the financial crisis, the government has carried out a series of effective measures to ensure economic growth through administrative means, which, inevitably, affected the interests of some people or organisations... causing a sharp increase in disputes in some industries," the circular said.

Most of these such disputes centered on labour security issues caused by the poor management of businesses, and land disputes in both urban and rural areas caused by the return of migrant workers and public investment projects from the government's economic stimulus plan, it said.

"These disputes would lead to unexpected and extreme mass incidents if not properly addressed, and would exert a bad influence on social harmony and people's well-being," the circular said.

The document promised timely action to protect the legitimate interests of the people.

"Attempts to form local protectionism and the monopoly of industries made in the name of tackling the financial crisis, and which have affected the legitimate interests of other citizens and organisations, must be corrected according to the law," it said.

However, it also demanded the courts support the government's crisis-tackling measures should they be in line with the country's laws and regulations. Courts must take into account their necessity in the current situation while hearing administrative dispute cases.

Courts at all levels should focus on "providing judiciary guarantee" for economic growth, people's well-being and the country's stability, as a priority, it said.

[Source: China.org](http://www.china.org.cn/government/central_government/2009-07/06/content_18075849.htm) ([see archive](Courts_urged_to_keep_things_calm_in_crisis_SPC.pdf))

### Taobao.com sentenced for pirated Internet sales in China

Beijing Dongcheng District People's Court has sentenced Chinese online auction website Taobao.com and a Chinese seller surnamed Yang to pay 2,000 yuan in compensation to China Friendship Publishing Company for the sale of a pirated book on Taobao.

In its petition, CFPC claimed that it was the exclusive owner of the copyright of the book "Daomu Biji IV", but it found in November 2008 that Yang was selling the book on Taobao.com for an unreasonably low price.

CFPC said Yang was obviously infringing copyright by doing so. CFPC also claimed that Taobao.com had violated their rights by not fulfilling its obligations by inspecting the books sold on its website and the qualifications of the book sellers.

CFPC asked the two parties to stop the infringement immediately and pay 200,000 yuan to cover its economic loss and other expenses.

However, Taobao.com refuted that it should not be held responsible for the sale of the infringed goods as it merely served as a platform for buyers and sellers.

The website's representative stated that the company removed information about the book from its website immediately after receiving a letter of complaint from CFPC and provided the latter with the registration data of Yang.

The judge felt that though Taobao.com, as a platform provider, did not participate in the transaction, it must still be obligated to inspect the goods sold on its websites as it benefits from the increase of online traffic brought by the book sales.

Therefore, the court passed sentence on Taobao.com and Yang jointly.

[Source: China Tech News](http://www.chinatechnews.com/2009/07/07/10090-taobaocom-sentenced-for-pirated-internet-sales-in-china/) ([see archive](Taobaocom_Sentenced_For_Pirated_Internet_Sales_In_China.pdf))

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