Charltons - China News Alerts Newsletter - 01 February 2010

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# China News Alert Issue 324

## Capital Markets

### China's banking regulator urges lenders to keep even pace of credit growth

China's banking regulator asked lenders to keep credit growth at a reasonable pace in 2010 and vowed to tighten supervision on property loans amid increasing risk of asset bubbles.

"Banks should reasonably control new loans, better manage their pace and try to achieve a balanced issuance and a steady growth of credit, quarter by quarter," said Liu Mingkang, chairman of the China Banking Regulatory Commission (CBRC).

Despite regulator's repeated warnings about the hidden risks from the record 9.6 trillion yuan of new loans issued last year, banks rushed to lend more than 1 trillion yuan in the first month of this year in fear of an expected tightening of loan policies in 2010 after the media reported a credit binge last year.

An official with the Industrial and Commercial Bank of China told Xinhua the credit growth in the first ten days of January was a little bit fast, and became smoother in the last days of the month.

According to the statement posted on CBRC's Website, Liu said the regulator will pay special attention to the changes in the property market, strictly enforce relevant policies, and beef up the "window guidance" over credit to the real estate sector. But he restated that banks should continue to support first-time home buyers.

Liu also told banks to continue lending to fund rural development, small business, consumer spending and environmental protection. He said banks should keep adequate capital and avoid a resurgence of bad loans.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90859/6880857.html) ([see archive](Chinas_banking_regulator_urges_lenders_to_keep_even_pace_of_credit_growth.pdf))

## Corporate & Commercial

### Geely may complete Volvo purchase by May

Zhejiang Geely Holdings, the parent company of carmaker Geely Automobile, aims to sign an agreement to buy Ford's Volvo unit by 8th February and complete the transaction in May, according to media reports.

The two sides are in final discussions over relevant legal documents, Yuan Xiaolin, Geely's spokesman for the Volvo deal, told Shanghai Securities News.

The report also quoted Yin Daqing, vice-president and chief financial officer of Geely, as saying the deal is likely to be signed before the Lunar New Year, which falls on 14th February.

The Economic Observer newspaper said Geely and Ford have decided to sign the deal on 8th February, and the deal value is likely to be lower than US$1.8 billion.

Under the deal, Geely will set up an international investment company in Beijing with registered capital of 8 to 9 billion yuan (US$1.2 to 1.3 billion) to obtain Volvo's assets. It will also establish a branch in Sweden, Volvo's headquarters, the report said.

Geely would hold an 80 percent stake in the investment company, while private funds and banking sources may hold the balance.

The Chinese company has promised to retain Volvo's brand and operations in Sweden after the transaction, including the headquarters, production facility and research center.

Geely will start producing Volvo cars at a new factory in Beijing, with an annual capacity of 300,000 units, the report said. It also plans to enhance its global annual output to 900,000 units within five years and make the Volvo brand profitable by 2011.

However, Geely refused to comment on the reports.

"The deal provides Geely both opportunities and challenges," said Zhang Xin, an auto analyst with Guotai Junan Securities. "Geely will benefit from the acquisition on a long-term basis. Volvo's assets and technologies will help Geely improve its competitive edge and lead in the world's biggest automobile market."

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/27/content_9382299.htm) ([see archive](Geely_may_complete_Volvo_purchase_by_May.pdf))

### CNNC unit buying uranium mine stake

CNNC International Limited, the listed unit of China's largest nuclear power plants operator China National Nuclear Corporation (CNNC), has said it would buy a stake in a uranium mine in Niger from its parent for HK$414 million (US$53.3 million), and fund the deal by issuing convertible notes.

The company will acquire Ideal Mining Limited from its parent CNNC. Ideal Mining holds a 37.2 percent stake in the Azelik uranium mine in Niger, it said in a statement to the Hong Kong bourse.

The Azelik mine comprises three uranium deposits and has an estimated mine life of 17 years. It is estimated that the mine contains resources of around 11,227 tons of uranium, according to the statement.

Production is expected to start in the second half of this year with an estimated annual production capacity of around 700 tons when complete, it said.

Philip Li, an executive with CNNC International, told Dow Jones that the company would look at acquisition opportunities for uranium resources in Kazakhstan to support the rapid development of China's nuclear power industry.

The firm aims to be the largest uranium supplier in China. It would consider more acquisitions in the future, Li said.

Analysts said the company's efforts to boost uranium resources are in line with China's move to build more nuclear power plants to meet the rising domestic demand for electricity. "As China has accelerated the development of the nuclear power industry, more feedstock is required to fuel these projects," said Han Xiaoping, chief information officer of China5e.com, a leading energy website in the country.

According to the National Energy Administration (NEA), the country's energy regulator, China has 20 nuclear reactors under construction now, with total capacity of 21.92 gW.

CNNC is now developing uranium resources in countries like Niger, Kazakhstan, Mongolia and Namibia.

CNNC made profit of 5.2 billion yuan last year, up 13.5 percent from a year earlier.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/26/content_9376084.htm) ([see archive](CNNC_unit_buying_uranium_mine_stake.pdf))

### XAIC extends contract with Boeing

Xi'an Aircraft International Corporation (XAIC) has delivered the 1,500th vertical fin for Boeing's best-selling B737 aircraft and signed an extended contract to supply another 1,500 units to the US aircraft manufacturer.

The new order is the largest subcontracting agreement in terms of volume the Chinese aviation manufacturing industry has ever received.

"The extension of the contract showed that XAIC is capable of producing large-size aircraft components in large volume for leading international aviation manufacturers. It is a milestone in XAIC's efforts to become a strategic partner for Boeing and Airbus," said Meng Xiangkai, president of XAIC.

Vertical fins are typically found on the aft end of the fuselage and are intended to reduce aerodynamic sideslip.

XAIC, a subsidiary of Aviation Industry Corporation of China (AVIC), signed the first contract for producing 1,500 units of B737 vertical fins in 1996 and is currently able to produce 21 to 24 units of vertical fins per month.

Boeing manufactures 31 B737 planes per month. Nearly two-thirds of the B737 worldwide fleet are equipped with vertical fins produced by XAIC.

Boeing and XAIC did not reveal the total value of the contract.

"Since the 1980s, Boeing has purchased parts and components worth more than US$1.5 billion from China. That [the purchasing volume] will more than double in the coming years," said George Maffeo, vice-president for supplier management, airplane programs, Boeing Commercial Airplanes.

Boeing's archrival Airbus is also expanding industrial cooperation in China. The total annual value of Airbus' procurement in China reached over US$100 million in 2008 and is expected to touch US$200 million this year and US$450 million in 2015.

XAIC also produces wings for Airbus A320 airplanes. The A320 wing is the largest and most complicated aircraft component a Chinese company has ever made. China is Airbus' only wing manufacturer outside Europe.

XAIC is a major supplier to China's homegrown regional jet ARJ21 and large commercial passenger aircraft C919 by manufacturing fuselage and wings.

AVIC is using XAIC as a platform to consolidate its commercial aircraft manufacturing businesses by injecting assets worth 8 billion yuan into the Shenzhen-listed company.

[Source: People's Daily](http://english.people.com.cn/90001/90778/90861/6880146.html) ([see archive](XAIC_extends_contract_with_Boeing.pdf))

### Picking up the pieces

More than 10 percent of Beijing's courier companies are likely to be involved in mergers and acquisitions this year because of fierce competition in the sector, say experts.

The prediction follows the closure of Shenzhen-based cut-price courier company DDS, which employed 6,000 people before it shut up shop.

"There are probably more than 200 courier firms in Beijing, employing in excess of 30,000 people," Xu Yong, chief consultant with China Express Consulting Website, told METRO. The website is a leading civil research institute.

Xu said big fish will likely gobble up the small fry during the coming months. "Some companies consist of only a few dozen people and cater to a small number of clients or companies. Because of the global financial crisis, and with an unfavourable policy ahead, they are very likely to be bought by bigger firms," Xu said.

Cui Zhongfu, deputy director of China Federation of Logistics & Purchasing, said the courier industry is seeing shrinking demand and companies are cutting their prices in order to compete while many are simultaneously facing higher costs.

Chen Hua, a white-collar worker in Beijing's Central Business District, has noticed the ongoing price war. "One courier firm charged me only three yuan to send my document last time," the 26-year-old said. "It's really cheap.”It's all due to the global economic downturn because individuals and companies have been cutting mail deliveries."

Another reason why the pace of mergers is likely to pick up is an anticipated new regulation that, according to its draft, is likely to mean deliveries of less than 50 grams within the city and of less than 100 grams to other cities must be handled exclusively by the State-owned postal service.

Chen Dejun, president of Shentong Express, said such a move would devastate delivery companies. "If the regulation takes effect exactly like that, Shentong will lose 30 percent of its present market, accounting for 100 million packages per year," Chen said. Shentong Express has 3,000 branches and employs more than 50,000 people nationwide.

In 2009, the company delivered 400 million packages out of China's total of 2.1 billion.

" Relatively small companies that rely largely on business mail will be lucky to survive," Xu said. "However, they will not just accept bankruptcy. They may search for asset purchasers and ask for a good price."

But many companies are still dreaming big. "Beijing is such a big market for Shentong. We aim not only to hold up, but also to expand," said Chen.

Han Li, a 21-year-old working for Beijing's Changyu Courier Company, said he has felt the intense competition since last year. "I have been with Changyu for more than two years," he said. "In the beginning, I could pick up almost 100 packages a day. Now, I see no more than 60 packs." The deliveryman usually rides his e-bike around Beijing's Chaoyang district. He had regular clients and buildings but he now finds rival companies are trying to steal his customers. "They arrive earlier and wait longer," he said. "They sometimes offer a cheaper price just to attract my old clients.” I am getting tired fighting with powerful competitors every day.

"Which companies will survive? I do not know," Han said

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2010-01/28/content_9390570.htm) ([see archive](Picking_up_the_pieces.pdf))

## Others

### Shanghai mayor vows more transparency

Mayor Han Zheng pledged to build a more transparent and credible administration after admitting that malpractices in combating unlicensed taxis had severely dampened the public's trust in the government.

"We must face public concerns and media inquiries over our inadequacies, and take the initiative to improve through effective and practical measures in order to build a just and corruption-free government," he said in his government report to the annual municipal people's congress that opened recently.

Han said the government would publicise information directly related to the interests of the people and standardise administrative enforcement by defining enforcement bodies, improving accountability systems and disclosing administrative penalties. "We'll make public administrative fines and confiscations and manage them on a centralised platform, and prevent them from being used for the interests of related government departments," he said.

In a crackdown of unlicensed taxis that started around the year 2000, the Shanghai traffic law enforcement bureau has seized approximately 50,000 illegal taxi drivers every year. Each was fined 2,000 yuan to 50,000 yuan (US$300-US$7,400). But there had been no information available on how the money had been utilised, which critics said was a show of power abuse among local traffic law enforcement authorities.

District governments also offered public rewards of up to 600 yuan for tip-offs about illegal cabs. They even went further by employing civilians to act as bait to entrap innocent drivers.

On 8th September, Zhang Hui, 32, picked up a man who said he was suffering from a stomachache and begged for a ride. Zhang was later cornered by a group of law enforcement officers, who fined him 10,000 yuan.

On 14th October, 19-year-old Sun Zhongjie cut off his finger to demonstrate his innocence after being entrapped in a similar way. He cleared his name on 26th October, when the district government apologised to him and admitted to the unethical practice.

Mayor Han said in order to prevent such scandals from repeating, the government would step up training for administrative enforcement officers, so that only the qualified get credentials to fulfill their responsibilities.

Xu Xiaoqing, vice president of Shanghai Lawyers' Association and deputy to the ongoing congress, said institutional improvement is the key to controlling power abuse.

" By decoupling revenue and expenditure of government departments through information disclosure, people can expect to see a cleaner and more transparent government," he said.

[Source: People's Daily](http://english.people.com.cn/90001/90776/90785/6880075.html) ([see archive](Shanghai_mayor_vows_more_transparency.pdf))

### Wen heads 'super ministry' for energy

An overarching government agency has been set up to take charge of the country's energy policy for better coordination in formulating strategy and planning development.

Premier Wen Jiabao will head the agency, called the National Energy Commission (NEC), and Vice-Premier Li Keqiang will be the deputy, the State Council has announced.

The commission will be responsible for drafting national energy development plans, reviewing energy security and coordinating international cooperation, it said.

The NEC has 21 members, including ministers from various organisations such as the National Development and Reform Commission (NDRC), and the Ministry of Finance, as well as a representative from the central bank.

Industry insiders said the move means energy has been identified as key to the future development of the country, which is now the world's second-largest energy consumer. "The establishment of the NEC shows the government has raised energy issues to an unprecedented level," said Lin Boqiang, director of the China Center for Energy Economics Research at Xiamen University. "Such a super ministry, which centralises the powers of different ministries, can help China make better use of its energy resources."

Energy has become a complex issue and cannot be managed by one single ministry, said Lin, citing domestic energy companies' overseas development as an example.

Chinese oil companies have stepped up their overseas profile in recent years but the issue has to be dealt with by different ministries such as the NDRC and foreign affairs. "We need to pool all our efforts to achieve sustainable development in the energy sector," he said.

Lin' views were echoed by Zhang Jianyu, China program manager of the US Environmental Defense Fund, who said energy will be the top priority in China's future strategies.

"The establishment of the NEC will provide a better mechanism for China's energy sector, optimising the country's energy portfolio as well as coordinating supply and demand," said Zhang.

The government last year set a hefty target of reducing the intensity of carbon dioxide emissions per unit of GDP by 2020 by 40 to 45 percent from the 2005 levels; and Zhang said the NEC could coordinate with different ministries to exchange ideas and expertise to achieve the target.

"Some analysts say the 45 percent plan is ambitious, and some even think it could be a constraint on economic development. But I believe with the NEC, we can turn the target into a new opportunity for the economy," he said.

The setting up of the NEC is part of continuous efforts in administrative reform, which are aimed at orienting various functions of different departments toward higher efficiency, said analysts.

A Ministry of Energy was established in 1988 but it was disbanded five years later because its administrative functions overlapped with other departments.

Facing increasing energy shortages, the government set up an Energy Bureau under the NDRC during administrative reforms in 2003.

The National Energy Administration (NEA) was set up in 2008 but it lacks the power to carry out many of its assigned tasks as responsibility for the energy sector is currently spread among a number of departments. For instance, prices of petroleum products and electricity are still decided by the NDRC.

[Source: CS](http://www.cs.com.cn/english/ei/201001/t20100128_2330813.html) ([see archive](Wen_heads_super_ministry_for_energy.pdf))

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