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# China News Alert Issue 354

## Tax

### New tax looms for coal miners

Market jitters over inflationary pressures are making it highly unlikely that a new resource tax will be levied on coal mining companies before the year's end, analysts have said.

When the new tax does kick in, coal producers will pay between 3 and 5 percent on the actual selling price of coal, the Chinese-language Economic Information newspaper reported, citing unnamed sources.

The tax is similar to one imposed on crude oil and natural gas by the Xinjiang Uygur Autonomous Region, which start back in June.

Current coal resource taxes are based on volume rather than price, and are charged at 8 yuan (US$1.2) per ton for coking coal, which is primarily used for iron and steel making. Per ton prices for other types of coal are forecast to increase by 3 yuan (US$0.45).

"The volume-based tax is equal to approximately a 1 percent tax on the selling price, (which will mean) the new tax calculation method will increase costs for coal miners," Song Zhichen, an energy-sector analyst with Shenzhen-based CIC Industry Research Center, told the Global Times.

Even though the highly profitable coal sector should be able to absorb rising costs, they will likely pass the increase on to downstream industries, Song said.

If the new tax plan is adopted, power producers will suffer the most, as they are unable to pass the costs on to end users as the government sets electricity prices.

To date, power producers in 10 provinces have incurred losses this year, according to the China Electricity Council's report.

Despite the government's efforts to push for renewable resources including nuclear, wind and solar power, coal currently still remains the nation's main source of power and heat.

Coal prices have already reached a new high in the third quarter, up 15 percent year-on-year. Meanwhile, the consumer price index (CPI), an indicator of inflation, increased by 3.6 percent in September, and CPI growth could rise higher in October, economists have predicted.

In view of inflationary pressures and losses at power producers, the new tax plan might not be enacted soon, CIC Industry Research Center's Song noted.

Another market watcher had a slightly different take on the new tax plan, stating that it will most likely be implemented early next year, said Yu Hongjie, an energy consultant with Adfaith Management Consulting.

[Source: Invest in China](http://www.fdi.gov.cn/1800000121_37_22715_0_7.html) ([see archive](New_tax_looms_for_coal_miners.pdf))

## Securities

### Chinese Regulator Grants QFII Status to Two Taiwanese Fund Managers

Fubon Investment Trust and Capital Investment Trust have become the first two Taiwanese financial institutions to gain the quota for direct investment in the Chinese securities market as qualified foreign institutional investors (QFII), according to the website of the China Securities Journal.

It took only eight months for the two companies to obtain the quota, half the time it takes under the normal conditions, thanks to the special treatment granted by the Chinese government in the cross-Taiwan Strait Economic Cooperation Framework Agreement (ECFA). Foreign institutional investors must first apply with the China Securities Regulatory Commission (CSRC) for QFII status before requesting the securities investment quota from the State Administration of Foreign Exchange (SAFE).

Lin Hung-li, president of Fubon Investment Trust, noted that the company will plan the issuance of A stock-based exchange traded fund (ETF) after the Taiwanese regulator raises the investment ceiling in China's A stocks, now set at 10% of their fund value.

A number of other domestic financial institutions are still awaiting the approval of their applications for QFII status by the Chinese regulator, including Yuanta, Polaris, and Cathay.

Officials of Fubon Investment Trust and Capital Investment Trust, however, reported that they have yet to receive a definite reply from the Chinese regulator to their applications for investment quota in the Chinese market, set at US$200 million and US$100 million, respectively.

The Chinese regulator approved US$1.05 billion of investment quota for QFIIs in total in the first half this year, boosting the accumulated investment quota for QFIIs to US$17.72 billion. Over 50 foreign investors are still waiting for the approval of their applications for the QFII status.

Four of China's qualified domestic institutional investors (QDII) have been approved by the Taiwanese regulator to invest in Taiwanese stocks but one has had its qualification revoked, after failing to remit investment funds into the island over one month after the deadline.

[Source: CENS](http://news.cens.com/cens/html/en/news/news_inner_34233.html) ([see archive](Chinese_Regulator_Grants_QFII_Status_to_Two_Taiwanese_Fund_Managers.pdf))

## Investment

### Chinese firms' overseas investments up 10.4% in first 9 months

Chinese companies' overseas investment rose 10.4 percent year on year in the first nine months even as global investment as a whole dropped sharply over the period, a senior Chinese official has said.

Chinese companies invested US$36.3 billion overseas in the first three quarters of the year, excluding investments in financial sectors, as other other companies, hit by the global downturn, reduced overseas investment. Zhang Xiaoqiang, vice chairman of the National Development and Reform Commission, China's top economic planning agency, made the statement at the opening of the 2nd China Overseas Investment Fair in Beijing.

China has emerged as a major source of foreign direct investment (FDI) outflow.

Although global FDI outflows dropped 40 percent year on year in 2009, China's overseas investments rose 14.2 percent year on year to US$47.8 billion, said Zhang.

By the end of 2009, more than 12,000 Chinese firms had set up 13,000 overseas enterprises in 170 countries and regions, he said.

The National Development and Reform Commission approved the two-day Second China Overseas Investment Fair, which the China Industrial Overseas Development and Planning Association (CIODPA) and China Development Bank are co-hosting.

Representatives of government, multinational companies, international organisations and financial institutions from more than 120 countries gathered at the trade fair to persuade Chinese investors to invest overseas.

[Source: Xinhua](http://news.xinhuanet.com/english2010/china/2010-11/02/c_13586875.htm) ([see archive](Chinese_firms_overseas_investments_up_104_in_first_9_months.pdf))

### Hebei Province plan five large groups in steel sector

It is reported that the local government of Hebei Province plans to foster five large scale groups in the steel industry.

After forming HBIS, the world's second largest crude steel producer, the integration of hundreds of private mills became another hot issue for local government. It was said that HBIS will integrate Hebei province's private mills in a special way which is not a merger or acquisition.

After acquiring Shijiazhuang Iron & Steel for CNY 1.9 billion, HBIS has completed the integration of state owned steel mills in Hebei province. This has become a good model for other local state owned steel enterprises.

HBIS has had the idea of merging private steel mills for a long time. In the NPC meeting and Political Consultative Conference, Wang Yifang famously said: "The integration of state owned enterprises is a kind of power adjustment, while that of private mills is a kind of interest adjustment."

Analysts have said that, compared with private enterprises, state owned steel enterprises have no advantages in product positioning or marketing and management, so the integration of HBIS is more likely to be for technological and management corporation, therefore it is hard to know its real meaning.

It is the central government's decision to lift the concentration of the iron and steel industries by mergers and acquisitions. MIIT has urged local governments to report restructuring plans. Hebei provincial government plans to foster 3 to 4 steel groups, taking up an estimated 75% of the provincial production in 2015, from 48% in 2009.

Besides HBIS, the other groups in the planned top five are Tangshan Bohai Iron and Steel Group, Tangshan Great Wall Iron and Steel Group, Hebei New Wuan Iron and Steel Group and Handan Zhishan Special Steel Group.

An industry source in Tangshan said that although local government is willing to lead the merger of private steel mills, these entrepreneurs will not accept it without sufficient interest. There are conflicts between cutting steel makers amounts and increasing industry concentration despite the industrial development trend. In the fourth quarter of 2008 after the financial crisis, Tangshan integrated 39 private steel mills into 2 steel groups, Great Wall and Bohai, which haven't receied permission from the relevant departments.

An expert in Hebei steel industry told reporters that entrepreneurs in private steel mills will accept the gradual strategy for the integration of private steel mills.

[Source: Steel Guru](http://www.steelguru.com/chinese_news/Hebei_Province_plan_5_large_groups_in_steel_sector/171161.html) ([see archive](Hebei_Province_plan_5_large_groups_in_steel_sector.pdf))

### First phase of China's biggest bonded area completed

The first phase of the project in China's largest bonded area in the southwestern city of Chongqing has finished, local authorities said.

The Xiyong Comprehensive Bonded Area, which received State Council approval in February, was designed to make Chongqing the largest processing trade center in central and western China.

Located in Shapingba District, the free trade zone covers an area of 10.3 square km, with the first phase occupying 5.67 square km.

The area seeks to become a base for electronics and information technology companies, with a production capacity of 80 million laptop computers by the end of 2015, said vice Chongqing mayor Ling Yueming.

The area will have an output value of about US$75 billion and an imports and exports value of US$100 billion, Ling said.

Chongqing has opened faster sea, rail, and air transport services to facilitate business operations in the bonded area, said Ma Zhongyuan, head of Chongqing Customs.

Sea transport is now shortened to 27 days from the earlier 40 days, air transport to only over 10 hours and railroad transport to 13 days, down from 39 days, Ma said.

[Source: Xinhua](http://news.xinhuanet.com/english2010/china/2010-11/02/c_13587926.htm) ([see archive](First_phase_of_Chinas_biggest_bonded_area_completed.pdf))

## Real Estate

### China cuts discount to mortgage rates

Beijing has taken a fresh step to discourage property buying by ordering banks to charge higher mortgage interest rates for first home buyers, local media reported.

Lenders were told by China's banking regulator that they can offer at most 15 percent, versus the previous 30 percent, discount to the benchmark interest rates to new mortgage loan applicants, the Beijing News reported.

The newspaper quoted banking executives as saying that the China Banking Regulatory Commission has notified banks of the new rule by telephone, and the new rule will come into effect on 1st November.

China has already taken a flurry of policies to cool its red-hot property sector this year, including increasing downpayment requirements and raising interest rates.

China allowed banks to offer discounts of up to 30 percent of the interest rate to home buyers in late 2008 as part of Beijing's policy package to bolster economic growth. The end of that 30 percent discount will mean China's bank loan policies are unprecedentedly harsh to mortgage lenders.

At present, banks are told to charge second home buyers at least 110 percent of benchmark interest rates; and to stop lending to buyers of a third homes.

[Source: China Daily](http://www.chinadaily.com.cn/business/2010-11/01/content_11483225.htm) ([see archive](China_cuts_discount_to_mortgage_rates_-_media.pdf))

## Others

### 80% of 31 foods see price hike in October

The National Development and Reform Commission (NDRC) published a monitoring list on domestic food prices for October, showing that 80% of 31 food items saw prices increase, the Chongqing Evening News reported.

The NDRC price monitoring list focuses on 36 major Chinese cities, including first-tier cities such as Beijing, Shanghai, Chongqing and some second-tier ones.

Statistics show the price of cucumbers and watermelons saw the biggest increases from September. Cabbage and pork prices remained stable, while the price of soybean oil, carp and chicken dropped slightly.

[Source: China Daily](http://www.chinadaily.com.cn/china/2010-11/03/content_11498235.htm) ([see archive](80_of_31_foods_see_price_hike_in_October.pdf))

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