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# China News Alert Issue 226

## Capital Markets

### Securities may open to insurers

Insurance and securities regulators plan to open investment channels between the two industries, officials announced recently.

"Banks and insurers are already investing across the two industries on a trial basis. Cooperation between insurance firms and fund management companies is not far off," Yuan Li, spokesman for the China Insurance Regulatory Commission (CIRC), said at an annual industry conference in Beijing.

On 22 January, the China Banking Regulatory Commission (CBRC) and the CIRC signed a memorandum of understanding on investment in insurance firms by banks and vice versa. Detailed guidelines are expected soon.

Wu Dingfu, chairman of the CIRC, said cooperation between the insurance, banking and securities sectors will be strengthened this year.

"We are still considering how large a share financial institutions can take in insurance firms," said Yuan Li, adding that banks will be able to invest in insurers "in line with existing regulations". Non-financial companies can currently hold up to a 20 per cent share in an insurer, Yuan said.

The China Securities Journal cited sources as saying that the Bank of Communications Company Limited and Bank of Beijing Company Limited have filed applications to invest in insurers.

"Fund management firms run by banks have done very well over the past two years. Insurers can also expect the fund management investment market to open up to them soon," said Wang Xiaogang, an analyst with Orient Securities. "A number of securities firms are preparing for IPOs this year, pre-IPO investment in securities firms could be quite profitable for insurers."

China's largest life insurers have been keen to expand into the fund management business. Ping An Securities, the securities arm of Ping An (Group) Company, is planning a fund management joint venture with Singapore-based UOB Asset Management, according to a company source. In November, Ping An acquired a 9 per cent share in the Hong Kong-based asset management firm Value Partners, becoming its strategic investor.

China Life, the country's largest life insurer, is also preparing to set up a fund management company. Yang Chao, chairman of China Life, said in Nanjing in November that it had applied to the regulator to open a fund management firm.

The nation's insurers earned a record 279.2 billion yuan from investment returns last year, with the help of the bullish stock market.

[Source: CRI](http://english.cri.cn/2946/2008/01/26/48@317730.htm) ([see archive](Securities_May_Open_to_Insurers.pdf))

### Stock exchange seeks advice on new listing rules

The Shanghai Stock Exchange is seeking advice from experts about reforming China's exchange listing rules.

Some insiders have said that the draft plans for the listing rules need revision.

In a statement issued late on 21 January, the exchange asked for opinions from industry insiders about the reform of China's listing and transaction rules, a sign that the securities regulator could issue the reforms next month, ahead of the launch of a NASDAQ-type growth board.

China's listing rules have been in the spotlight after several companies, PetroChina in particular, suffered from bleak performances after a promising debut. Shares of PetroChina opened at 48.6 yuan (US$6.65) in November last year and have slid nearly 50 per cent since then.

The root of the problem, some insiders say, lies in the initial public offering system, which favours institutional investors over individuals in share pricing and allotment.

The current system offers three ways of subscribing to share issues: private placement to strategic investors; private special subscription for institutional investors; and open online subscription.

However, even via the online subscription, which distributes IPO issues by the size of funds, individual investors have little chance of competing with rich institutional investors. This means that the majority of individuals can only buy shares after trading begins. In a bullish market, a large number of retail buyers can push a share price to an unreasonable height, after which the price can fall drastically when institutional investors start to sell.

"The biggest flaw in the current system is its leaning towards institutional investors. It creates loopholes for speculation in IPO trading and threatens the stability of the market," said Wang Cheng, an analyst with Guotai Jun'an Securities Co.

At the end of last year, the China Securities Regulatory Commission and Shanghai Stock Exchange invited a group of brokers and insurance companies to discuss the phenomenon of PetroChina's performance, paving the way for reform.

Currently there are a number of draft reforms, including a plan to establish a monitoring system for pricing and the adoption of a market value or stock accounts-based allotment system for shares. However, some analysts feel that these measures will not protect the interests of smaller investors.

[Source: China Finance Net](http://eng.zgjrw.com/News/2008123/ChinaFinaceNet/472226683700.html) (Link no longer active)

### China announces the continuation of measures to ease inflation

China's National Development and Reform Commission (NDRC), the country's economic planner, said recently that the government would continue with a series of measures to curb price rises in 2008.

Prices began to climb noticeably last year, with the monthly CPI figure hitting an 11-year-high of 6.9 per cent in November, driving up the annual CPI level to 4.8 per cent, well above the government's three per cent target. Correspondingly, public concern over inflation intensified.

"The country will give further support to the agricultural sector this year, increase the supply of agricultural products and give a full access to both the domestic and international market to stabilise prices," said the NDRC in a statement on its website.

"The price of gasoline, natural gas, electricity, water, heating, urban public transport fees, scenic spot ticket charges, and school tuition will remain frozen in the near future," said the statement. The country is also making efforts to control fertiliser prices.

On 16 January the NDRC announced temporary price control measures for a package of products, including grain, edible oil, meat, milk, eggs and liquefied petroleum gas. These are tough measures taken to tackle inflation.

Meanwhile, the NDRC released the names of Chinese enterprises and wholesalers required to apply for official approval if they wish to raise prices. The recent clampdown on illegal pricing has helped to bring down liquefied gas retail prices by 19 per cent in major Chinese cities.

Price caps have only been imposed twice in the past 12 years: in 1996, when the CPI hit a record 8.3 per cent and in 2003, during the SARS (Severe Acute Respiratory Syndrome) outbreak.

The NDRC called on its local branches to increase price checks and law enforcement against commodity hoarding, price rigging and other practices that may disturb the market's balance.

China's leaders made it clear at the annual central economic conference last month that preventing economic overheating and inflation was their highest economic priority in 2008.

[Source: Ministry of Commerce](http://english.mofcom.gov.cn/article/zt_ms/lanmua/200802/20080205367105.shtml) ([see archive](China_announces_continuation_of_measures_to_ease_inflation.pdf))

## Corporate & Commercial

### China to bring in green loan benchmark

The nation's environmental watchdog will work with the financial sector to introduce an international benchmark for ‘green' credit.

The State Environmental Protection Administration (SEPA) signed a deal with the International Finance Corporation (IFC) in Beijing recently to introduce the Equator Principles in China.

The Equator Principles are a voluntary set of guidelines based on IFC policies to incorporate social and environmental issues into project financing. Finance is provided only to those projects that will be conducted in a socially and environmentally responsible way.

China introduced the green loan concept in July 2007 as part of its enforcement of eco-friendly economic policies. Communications between environmental monitors and banks saw some industrial plants prevented from receiving loans because of their pollution record.

"It was proved to be an effective instrument to curb pollution and lower financial risk," said Yang Chaofei, director of the SEPA's policy department.

But increasing demand for green credit meant environmental groups and banks needed a set of international standards, Yang said.

Lian Gong, deputy head of credit management at the Industrial and Commercial Bank of China (ICBC), agreed.

The ICBC surveyed its 59,000 corporate clients last year to assess environmental performance. About 78 per cent were approved for green loans of more than 200 million yuan.

"As we pushed forward with the green loan concept, the biggest problem we faced was how to assess the pollution risk for different industries," Lian said.

The Equator Principles cover 63 sectors that cause environmental problems, such as manufacturing, petrochemicals, energy and infrastructure construction.

Initial collaboration between the SEPA and IFC produced environmental, and health and safety guidelines for pulp and paper mills and the mining sector.

Li Xiaowen, from the China Banking Regulatory Commission, said the benchmark's introduction indicated a shift in the banking industry's focus towards environmental and social issues as a business risk.

She urged the financial sector to join with the environmental agency to meet the nation's energy conservation and environmental protection targets.

[Source: People's Daily](http://english.peopledaily.com.cn/90001/90776/90884/6344993.html) ([see archive](China_to_bring_in_green_loan_benchmark.pdf))

### Jiangsu's foreign trade brisk in 2007

Import and export volume in East China's Jiangsu province has maintained a strong momentum over the past five years, ranking among the top three in the country, said a spokesman from the provincial Department of Foreign Trade and Economic Co-operation.

The province ranked first in actual overseas capital investment for five successive years, with US$21.89 billion in 2007, and a total import and export volume of US$349.5 billion for the past five years.

"This achievement can be attributed to the upgrading and restructuring of industrial sectors and the building of specialised production bases," said Da Jiaxiang, deputy director of the provincial department of Foreign Trade and Economic Co-operation.

Policies have been made and measures taken to promote the development of the service industry, which has become a new economic growth point.

Service outsourcing bases have been constructed in Nanjing, Suzhou, Wuxi, Changzhou, Nantong and Zhenjiang to cater for the fast development of the industry.

As a result, the service outsourcing industry, including information technology outsourcing and business process outsourcing, yielded revenues of US$260 million in 2007, an increase of 117 per cent over 2006.

"The fast development is also attributed to the contribution made by private enterprises," said Da. The province boasts a large number of private enterprises of all sizes and in most of the industrial sectors, including IT, real estate, manufacturing and food production.

In recent years, private enterprises have been active in international co-operation and have established many joint ventures with overseas companies, contributing enormously to the province's total export volume―14 per cent in 2007.

Their export volume is remarkable, increasing from US$100 million in 2002 to US$26 billion in 2007, with an annual increase rate of 90 per cent.

"We will continue our support to private enterprises, especially to small and medium-sized enterprises as they are the largest in number and most in need of government support," said Da.

In 2008, more efforts will be made to speed up the development of the service outsourcing industry while attention will also be given to encouraging investment in environmentally friendly projects, such as garbage disposal facilities and air pollution control.

[Source: cs.com.cn](http://www.cs.com.cn/english/ei/200801/t20080125_1355824.html) ([see archive](Jiangsus_foreign_trade_brisk_in_2007.pdf))

### Transport ministry orders ban on coal export

China's Transport Ministry yesterday ordered ports to temporarily stop loading coal for export as the country struggles to meet domestic needs amid mounting power shortages.

The coldest winter and the most snow for decades has left millions of Chinese residents without heating and running water, and is causing mounting losses due to power shortages and other damage.

The Transport Ministry's emergency notice, posted on its Website, ordered railways and other transport networks to make transporting coal and food a priority over the coming weeks. Ocean-going ship owners must stop loading coal for export and divert shipments, if needed, "for domestic heating coal requirements," it said. It warned of "severe" consequences for failing to comply with the order, which will remain in effect throughout the Lunar New Year holiday in February.

The amount of coal shipments that would be affected by the order was unclear. On 23 January, the economic planning agency ordered the country's utility companies and coal suppliers to cooperate in combating power shortages that have forced more than a dozen provinces to ration electricity.

Chronic winter-time shortfalls of coal, used to fuel three quarters of China's electricity supply, have been aggravated by disruptions to transport networks due to unusually heavy snow.

In some areas, snow has damaged power grids: storms felled three power transmission towers on 23 January along a major line across the Three Gorges Dam, disrupting a link in central China's transmission system.

Coal shortages have worsened due to friction over prices for coal and electricity. Coal suppliers are pushing for higher prices, while utility companies are upset at caps on electricity rates that prevent them from passing the higher costs for coal on to customers.

[Source: China Economic Net](http://en.ce.cn/Industries/Energy&Mining/200801/26/t20080126_14370910.shtml) ([see archive](Transport_ministry_orders_ban_on_coal_export_loading_Energy_Mining.pdf))

### Technology will boost mine safety

The nation's top work safety agency will this year "actively promote" the use of tracking and locating systems for miners working underground, in response to rising concerns about safety, an official said.

The introduction of real-time monitoring systems for underground mining operations―the dominant form of China's coal exploitation―is in line with the objectives laid out in the 11th Five-Year-Plan (October 2006), Peng Yujing, an official with the State Administration of Work Safety (SAWS), told a forum in Beijing recently.

When accidents occur, the monitoring systems will be capable of identifying the exact location of trapped miners, helping rescue teams analyse the underground environment and saving precious time needed to ensure that lives are saved, Peng said. Recent work safety campaigns have led to a reduction in the number of coal mining deaths. Last year's total of 3,786 was down 20 per cent from 2006.

Manufactured by American conglomerate Honeywell, the KJ297, or "Miner Management and Locating System", was introduced at the forum as the first of its kind developed by a multinational firm to meet the work safety administration's latest standards for mining. Six domestic developers have released similar products and have received relevant approval.

The KJ297 system "helps detect potential risks and avoid possible accidents," Shane Tedjarati, Honeywell's Global vice-president and China CEO, said.

"We believe with such efforts by Honeywell and like-minded companies, the national standard of mining safety, which has already seen great progress, will improve even further," Peng said.

[Source: Ministry of Commerce](http://english.mofcom.gov.cn/article/zt_ccs/lanmua/200802/20080205397221.shtml) ([see archive](Official_technology_will_boost_mine_safety.pdf))

## Other

### Government revokes 92 outdated statutes

The Chinese government has recently published a list of 92 government statutes that have been revoked in accordance with a State Council decree signed by Premier Wen Jiabao on 15 January.

The State Council recently examined all 655 statutes that were currently in force and found that 92 of them were no longer effective, according to an official from the Office of the Rule of Law.

The official stated that the out-dated statutes had expired or that new laws and statutes had been introduced to replace them. In the near future, he said, the office will publish the Collection of Existing Statutes of the People's Republic of China, with amendments to contents that are no longer in line with the requirements of economic and social development.

[Source: Xinhua](http://news.xinhuanet.com/english/2008-01/24/content_7482984.htm) ([see archive](Chinese_govt_revokes_92_outdated_statutes.pdf))

### Law revision helps the disabled

China's State Council recently approved, in principle, a draft law revision that would mean better education, better rehabilitation, a higher standard of living and an increase in the number jobs for the country's disabled.

The proposed changes were supported during an executive meeting of the State Council, presided over by Premier Wen Jiabao, also a Standing Committee member of the Political Bureau of the Communist Party of China (CPC) Central Committee.

The State Council agreed that the Law for the Protection of the Disabled has "played an important role in ensuring the legal rights and interests of the disabled since its implementation in 1991". "But with economic and social advances, new circumstances and problems have occurred concerning the protection of their rights and interests," said the State Council, adding that revising the law was imperative.

The revised draft supported the principle of putting people first and focuses on improving or adding stipulations guaranteeing the rights and interests of the handicapped.

Proposed improvements include:

* Establishing and improving the rehabilitation service for the disabled by encouraging and supporting the establishment of such institutions.
* Setting up educational institutions for the disabled and providing financial support for disabled students and children with disabled parents.
* Setting up more public welfare jobs for the disabled, providing free employment services, and encouraging employers to provide jobs for the disabled.
* Adopting necessary aid measures for disabled families who still fall below the poverty line despite receiving subsistence allowances for urban residents.

The draft also added stipulations for the improvement of disabled access to facilities and buildings to ensure that the handicapped are able to make use of public services and participate equally in social activities, the State Council said, adding that the revision made clear the legal repercussions for the infringement of disabled people's rights and interests.

The State Council decided that the draft revision would be submitted to the Standing Committee of the National People's Congress, China's top legislature, for further deliberation.

The State Council meeting also deliberated and approved the draft of a nurses' regulation.

"Nurses are an important part of the medical force and their work is closely tied to medical security and people's health," the State Council pointed out. It is necessary to draft the regulation so as to safeguard nurses' legal rights and regulate their work.

The proposed regulation establishes a nurses' registration system, nurses' rights, interests and responsibilities, excellence awards, and the responsibilities of medical institutions to safeguard nurses' rights and interests. It was agreed that the regulation will be promulgated by the State Council after further refinement.

[Source: China.org](http://www.china.org.cn/english/government/240502.htm) ([see archive](Law_revision_helps_the_disabled.pdf))

### 183 people punished over 5 major accidents

On 22 January a senior supervision official announced that China has punished 183 people, including government officials, responsible for five major accidents that killed 189 people

Among the total, 78 have been handed over to prosecutors and 105 have received disciplinary punishments, including dismissals and demotions, Vice Supervision Minister Wang Wei told a press conference in Beijing.

The State Council has concluded investigations into five fatal accidents, three of which occurred in 2007, the other two in 2006 and 2005.

The most severe punishment was a life imprisonment sentence given to Zhang Xiaodong, deputy general manager of the Pudeng Coal Mine in Linfen, in the northern province of Shanxi, where a gas explosion killed 28 people and injured another 23, on 5 May 2007.

A bridge collapse in Fenghuang, in the central province of Hunan, killed 64 people and injured 22 on 13 August 2007. A molten steel spill in Tieling, in the northeastern province of Liaoning, killed 32 people and injured six on 18 April 2007.

34 miners were killed in a colliery fire in Jinzhong, Shanxi, on 12 November 2006 and 32 were killed in an explosion caused when a bus collided with a powder-loaded truck in the eastern province of Jianxi on 17 March 2005.

The official blamed, in some cases, illegal production, a lack of effective safety management and supervision, and government corruption for the fatal accidents. Wang cited as an example, the fact that investigations had shown that some officials in the transport authority in Xiangxi, Hunan, took bribes from the bridge construction contractors.

Various levels of government will impose severe punishments for those who cover up accidents or refuse to cooperate with investigations, he said.

"We are working with justice authorities to seek severe punishments for those responsible, and to undercover any corruption between government and business."

"We have made corruption probes compulsory in our investigations and also welcome the exposure of accidents by the public and media," Li Yizhong, head of the State Administration of Work Safety, told reporters.

Li noted that the work safety situation in the country was still severe, although the death toll from accidents fell to 101,480 last year, 27.2 per cent lower than the record high of 2002.

"The death toll is still too high, and the occurrence of major accidents has not been effectively curbed."

"There is still uncertainty with the work safety situation in some regions and industries, and we still have many weaknesses and loopholes," Li acknowledged.

When asked about recent foreign media reports that China covered up the deaths of workers building the main stadium for the Beijing Olympics, Li said it was the first time he had ever heard of that. He said he welcomed public scrutiny and would order the Beijing work safety authorities to launch an investigation.

"If there were such accidents, serious punishment would be given to those responsible, according to the law."

[Source: China.org](http://www.china.org.cn/english/government/240405.htm) ([see archive](183_people_punished_in_5_major_accidents.pdf))

### China drafts code to regulate salaries

The Ministry of Labour and Social Security is working on a draft regulation to encourage employers to implement salary rises, a move that is being seen as a way to lessen the effects of rising inflation.

The regulation is designed to help develop a mechanism to facilitate a healthy and rational increase in employees' salaries, an official said.

The draft will be submitted to the State Council for review soon but specific details were not available.

Qiu Xiaoping, a senior official with the ministry, said the consumer price index shall be taken into account when salary levels are set.

"The government cannot force companies to increase salaries. We hope to find a decision-making system that involves all parties in this issue," he was quoted as saying by the Beijing-based financial weekly, China Times.

Around 12 provinces in China have announced their own rules on the salary issue, and labour departments in 27 provinces have begun to ask employers to deposit a certain amount of money as security to ensure they do not delay payment.

These efforts have effectively reduced the number of cases in which salaries have been paid in arrears, the ministry said.

But many employers have not increased salaries for years and employees, especially blue-collar workers, still earn less than they should, Qiu said.

China, whose economy is driven by low-cost labour, has made efforts to protect the rights of employees. A new labour contract law took effect on 1 January imposing tighter controls over employers' rights to hire and fire staff.

[Source: China Finance Net](http://eng.zgjrw.com/News/2008123/ChinaFinaceNet/484471227100.html) (Link no longer active)

### Consumers to be armed with quality codes

Chinese consumers will be able to check the authenticity of products with new quality codes to come into effect before the end of June.

The measure, beginning with 69 major commodities, will allow the identification of fake and substandard items through a free phone number, the Internet or special enquiry terminals in shops and supermarkets, said the country's quality watchdog. The commodities include food products, home appliances, power/cable lines, agricultural tools, gas burners, work safety equipment, electric blankets and cosmetics, said the General Administration for Quality Supervision, Inspection and Quarantine.

Consumers will be able to acquire information, including the name of producers and production and expiry dates by inputting a series of digits.

Once unqualified products are detected, information will be transmitted to a supervisory network, which will inform other distributors of the same batch of products and stop sales.

Chen Xiaoying, an official in charge of the promotion of the supervisory network, said 30,299 producers were registered with the network and 700 million products had been labeled with codes by 16 January. She said large supermarkets in Beijing such as the Wu-Mart were testing the network.

Chinese authorities have been frustrated by substandard Chinese-made products available both in domestic and overseas markets.

The quality watchdog said it had arrested more than 1,480 people in a four-month nationwide crackdown on substandard goods, part of ongoing efforts to calm international worries over the quality of the country's products.

It said the arrests were the result of 1,187 criminal investigations nationwide into the manufacture and sale of fake or substandard food, medicine or agricultural products that started in August 2007.

64 people were arrested in 13 major cases, including a fake drug albumin made from human plasma and substandard vaccines for blue ear pig disease.

During the campaign, the authorities closed more than 300 drug manufacturers, and destroyed or returned 168 batches of illegally imported or substandard pork, fruit and materials. It also set up quality files covering 33,000 consumer goods producers and put more than 10,000 enterprises into the country's quality-monitoring network.

[Source: Ministry of Commerce](http://vienna2.mofcom.gov.cn/article/chinanews/200801/20080105349089.shtml) ([see archive](Consumers_to_be_armed_with_quality_codes.pdf))

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