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# China News Alert Issue 311

## Capital Markets

### China's Nasdaq-style GEM to start trading

The Shenzhen Stock Exchange (SSE) has said that the first batch of firms is scheduled to be listed on China's Nasdaq-style Growth Enterprises Market (GEM) on 30th October.

Shang Fulin, chairman of the Chinese Securities Regulatory Commission, the country's top industry watchdog, said that the GEM would be launched on 23rd October.

After the GEM launching ceremony on 23rd October, applications from the first batch of 28 companies to be listed would be reviewed. A trading launch ceremony for these companies would be held on 30th October, according to the SSE.

Though beneficial to both economic development and employment creation, the GEM companies are more likely to be exposed to market manipulation, Shang warned, adding that these companies are more vulnerable to market risks as they are relatively small compared with the main board companies.

"Investors should acquaint themselves with the GEM features and their own risk acceptability to decide whether or not to participate share trading," warned the SSE

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-10/18/content_8808089.htm) ([see archive](Chinas_Nasdaq-style_GEM_to_start_trading_Oct_30.pdf))

### China to scrutinise state-owned firms' hedging deals

China's state-owned firms looking to hedge their losses from rising crude oil prices will be supervised more stringently, China Daily recently reported.

The State-owned Assets Supervision and Administration Commission (SASAC) has required companies under its control to scrutinise hedging deals more closely while signing financial derivatives contracts.

The move follows rising book losses from hedging contracts suffered by such state-owned firms as China Eastern Airlines and Air China, who have only recently begun to reduce their losses-on-paper from former hedging deals.

SASAC tightened the rules during a recent budget meeting convened by state-owned enterprises. The futures trading volume should not exceed 90 per cent of the spot volume. The percentage for those who are inexperienced in such trades or those who have reported significant losses previously will be no higher than 50 per cent, the newspaper said, citing Shen Ying, director-general of the SASAC Statistics Evaluation Bureau.

SASAC also clarified that it would defend the legal interests of hedging firms through negotiations with investment institutions in case there are misleading clauses in previously signed deals.

[Source: Xinhua](http://news.xinhuanet.com/english/2009-10/21/content_12286302.htm) ([see archive](China_to_scrutinize_state-owned_firms_hedging_deals.pdf))

### China-ASEAN Fund to launch soon

The long-planned China-ASEAN Fund on Investment Cooperation will soon open as the establishment of the China-ASEAN Free Trade Area (CAFTA) draws near, a senior financial official said in Nanning.

The operation of the first-stage US$1 billion fund will start before the end of this year, said Li Ruogu, chairman of the Export-Import Bank of China (Eximbank) at a conference in Nanjing during the 6th China-ASEAN Expo.

The launch of the fund is well timed as the upcoming CAFTA will need advanced financial ties to keep up with increasing trade exchanges, he said.

As the first China-ASEAN fund under government direction and operating in accordance with market rules, the Fund will eventually reach US$10 billion and is expected to help push China-ASEAN cooperation to a new level.

The establishment of the Fund was first announced by Chinese Premier Wen Jiabao last April during the annual Boao Forum, aimed at supporting infrastructure development in the China-ASEAN region and enhancing trade and economic ties.

According to Li, the first-stage fund-raising will be completed in Hong Kong by the end of the year and investment will then begin, which will involve China-ASEAN cooperation projects in transportation facilities, public utilities, information-communication, energy and resources.

As the host sponsor of the fund, the Eximbank will contribute US$300 million to the first-stage fund, which has so far accomplished 70-80 per cent of the fund-raising. Many Chinese and international financial and investment institutions including the Asian Development Bank and the World Bank have shown intention to invest in the fund, according to Li.

"The first-stage fund will focus on infrastructure development, but investments will not be limited to the above fields," he said, noting that targets of following funding will be adjusted according to the actual situation concerning China-ASEAN cooperation and may enter fields like manufacturing and the modern service industry.

The China-ASEAN cooperation in infrastructure construction is currently booming with a rapidly increasing number of projects, including the construction of harbours and channels in the Lancang-Mekong River sub-region, railways and highways that connect Vietnam and Southwestern China.

"Deepening China-ASEAN economic ties gravely needs direct investment, especially in infrastructure," Li said.

The Fund will help countries in the region recover from the financial crisis and achieve a sustained development of the regional economy, he said.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-10/21/content_8827618.htm) ([see archive](China-ASEAN_Fund_to_kick_off_soon.pdf))

## Corporate & Commercial

### China to impose deposit on imported nylon 6

The Chinese government has charged chemical firms from the United States and Europe of dumping polycaprolactam, or nylon 6, into the domestic market.

In its preliminary ruling, the government said the companies involved in the case, including BASF Corporation and Honeywell Resins & Chemical LLC, will have to pay a security deposit from now until a final decision is taken in this regard.

This is the second such ruling announced by China against imports from the US and Europe, following a growing trend in trade remedy investigations and measures being resorted to by developed nations against China.

On 12th October, the Ministry of Commerce decided to impose anti-dumping duties as high as 37.5 per cent on imports of nylon from the US and some European nations including Italy and France, and said the measures would last for five years.

China had decided to start investigations against the import of nylon fibers in late April 2009. Besides the US and Europe, chemical companies from Russia and China's Taiwan region were identified as having sold nylon fibers at an unreasonably low price in the mainland. Nylon fibers are widely used in textiles, chemicals, medicines and food packaging.

"The ruling involves business worth more than US$1 billion," said a MOFCOM official on condition of anonymity. However, he refused to disclose when the final ruling on the case would be issued.

The three American companies are required to pay a deposit ratio of 34.2 per cent, while the figure is 11.6 per cent for the five European companies.

In a statement, BASF Corporation said it regrets the high duties on its polycaprolactam imports into China. "We have been working closely for several months with the Chinese authorities on the investigation. However, we will not speculate on any potential future impact since the findings are still provisional," the company said.

Taiwan-based Formosa Chemicals & Fibre denied the dumping charges and said it would cooperate in the investigations, according to a Bloomberg report. Hong Fuyuan, president of Formosa Chemicals, said there would be little impact as exports accounted for less than 1 per cent of the company's total sales.

The two rulings made by China come after the US and Europe imposed duties on Chinese imports like tires, screws and bolts, steel pipes and shoes in the past few months.

"Trade protectionist measures are being used more frequently by foreign nations amid the financial crisis. China is now responding to the measures and resorting to the WTO rules to protect its own industry, in an active way," said He Weiwen, WTO expert.

A few days after US President Barack Obama decided to impose high duties on the import of tires from China, the government said it had started anti-dumping and anti-subsidy investigations into broiled meat from the US.

Last Tuesday, China also asked the WTO to set up a dispute settlement panel to judge on the legality of the EU's decision to impose anti-dumping duties on screws and bolts.

[Source: CS](http://www.cs.com.cn/english/trade/200910/t20091020_2238364.html) ([see archive](China_to_impose_deposit_on_imported_nylon_6.pdf))

### China's banking regulator urges reasonable pace of lending

China's banking regulator urged a "scientific and reasonable" pace of lending by big banks in the country while warning them to improve risk management, a notice posted on the agency's Website said.

The country's five major banks, the Industrial and Commercial Bank of China, Bank of China, China Construction Bank, Agricultural Bank of China, and Bank of Communications, took a 47 per cent share of the total bank loans in the country during the first three quarters this year, China Banking Regulatory Commission (CBRC) said in the notice.

The five banks have also maintained a steady credit line of less than 200 billion yuan (US$29 billion) in monthly new lending during the third quarter, according to CBRC.

Jiang Dingzhi, CBRC vice chairman, called on those banks to improve risk management over lending so as to ensure the stability of the banking sector.

The agency requires those banks to raise their provision coverage ratio to at least 150 per cent within the year. It also puts tighter restrictions on bank lending to businesses in industries with overcapacity problems.

China's new yuan-denominated loans in the first eight months reached 8.15 trillion yuan, 5.04 trillion yuan more than the same period of last year.

[Source: CS](http://www.cs.com.cn/english/finance/200910/t20091019_2237040.html) ([see archive](Chinas_banking_regulator_urges_reasonable_pace_of_lending.pdf))

### China seeks full financial service coverage for all townships in three years

China aims to have all of its townships covered by basic financial services in three years' time as banking-related networks are still unavailable to nearly 3,000 townships, the chairman of the country's banking regulator said.

Liu Mingkang, the China Banking Regulatory Commission (CBRC) chairman, announced this plan at a national financial services promotion meeting held in southwestern Guizhou Province. He said the CBRC would coordinate efforts with ministries and local governments to speed up the construction of financial networks.

"Due to unbalanced economic development, the problem of insufficient financial service coverage in less developed regions and rural areas is outstanding," said Liu.

The country still had 2,945 townships not covered by banking-related services as of the end of June 2009. About 2,400 such townships are concentrated in the country's less developed western region.

[Source: CS](http://www.cs.com.cn/english/finance/200910/t20091019_2237014.html) ([see archive](China_seeks_full_financial_service_coverage_to_all_townships_in_3_years.pdf))

### China promises to help exporters overcome economic woes

A senior Chinese trade official has said the government must do more to help exporters overcome the economic downturn as recovery is still uncertain.

Vice Commerce Minister Yi Xiaozhun said at the ongoing Canton Fair, China's largest trade fair, that exporters were reporting a rise in foreign purchases compared with the last session in April 2009.

"But we need more efforts as the trend of the world economy is still uncertain," said Yi at the fair in the southern Guangzhou City. "We will stick to the foreign trade policy which is crucial to the development of the industry," he said.

More buyers were attending and more orders were being placed at the fair, said Yao Wenping, vice president of the China Chamber of Commerce for Import and Export of Machinery and Electronic Products.

The recovery could be attributed to China's foreign trade policy, which encouraged exporters to create their own brands in overseas markets and develop high-tech products, she said.

Early this year, the government adopted measures that included higher export tax rebates for high-technology and high-value-added products, improved financing services and a greater range of export credit insurance.

Wang Yongli, deputy general manager of Guangdong Provincial Silk-Textile Group Company Limited, said the government provided 24-hour customs, and inspection and quarantine services, and lower inspection fees for textile exports.

"These measures help us offset losses," he said. "We can provide low-price, good-quality products to consumers abroad who have less to spend."

Chinese manufacturers are introducing more products for the European market, said Anita Chan, an Asia purchasing agent for French retailing group PPR.

"PPR's purchase of home appliances in China grew by 80 per cent this year. The demand will increase in the future," she said.

More than 380 enterprises from 35 countries and regions are represented at the 15,000-square-meter import zone at the fair. Their products range from electronics, food and bags to home appliances and real estate. Some have just begun to explore the Chinese market this year.

Silver line, a Turkish built-in appliance company attending the fair for the third time, is looking for Chinese partners to distribute its products.

"We sell products to 45 countries such as the U.S and Europe. Now we come to the fair looking for opportunities to enter the Chinese market," said Celalettin Yildiz, export development executive of the Istanbul-based company. "We are confident of the market, both its potential and trade policy."

[Source: CS](http://www.cs.com.cn/english/trade/200910/t20091021_2239600.html) ([see archive](China_promises_to_help_exporters_overcome_economic_woes.pdf))

## Other

### China car group set to sue Fiat

Great Wall Motors, a Hong Kong-listed Chinese car company, is suing Fiat in China for industrial espionage in an apparent response to an Italian court ruling that Great Wall copied a Fiat car model.

Great Wall alleges Fiat secretly photographed the former's production facilities when the Italian carmaker was gathering evidence to prove the Chinese company had copied one of its models.

Great Wall's primary evidence in the latest case, which was filed in the company's home jurisdiction of Shijiazhuang, comes from the evidence Fiat itself provided to a Chinese court, according to Liu Hongkai, the lawyer representing Great Wall.

“We don't have the exact photos, but in Fiat's evidence they said they had sent people to photograph Great Wall so in their material they acknowledged that they carried out this secret photography,” Mr Liu told the Financial Times.

Great Wall is demanding an apology from Fiat and compensation for infringement of Great Wall's commercial secrets.

Last year an Italian court ruled that Great Wall's Peri compact car was a copy of Fiat's Panda model and banned sales of the Peri in Europe. Great Wall is still fighting the case and expects a final verdict in March next year, according to Mr Liu.

Fiat has lost two related cases that it tried to bring in Chinese courts.

Fiat said no court documents had been served relating to the Great Wall case and “therefore we do not know exactly the grounds on which this lawsuit has been brought”.

The company added: “We wish to state that Fiat in its 110 years of history has never copied or imitated the design or the styling of any other car manufacturer in the world.”

Counterfeit products and intellectual property infringement are still rife in most industries in China, but Chinese companies are becoming more aggressive both in protecting their own patents and counter-suing when they are accused of infringement.

“Chinese companies that infringe intellectual property rights are increasingly adopting a strategy of claiming that investigations to gather evidence of their infringement actually constitute acts of industrial espionage,” said Elliot Papageorgiou, a partner at Rouse Legal, a law firm specialising in intellectual property cases.

Chinese carmakers have been repeatedly accused of copying popular models from international competitors. Great Wall is one of China's largest non-state motor producers and has been aggressively marketing its products overseas. Its biggest markets are in countries such as Russia, South Africa and Iraq.

[Source: FT](http://www.ftchinese.com/story/001029294/en) ([see archive](China_car_group_set_to_sue_Fiat.pdf))

### Republic of Korea, Japan and China to launch regional credit rating system

A South Korean corporate credit appraisal agency said it has sealed an agreement to build a regional credit rating system with two credit raters from China and Japan, hoping for better appraisals of Asian companies and bonds.

According to Nice Investors Services Company, it has reached a resolution in a forum with Japanese credit rater Ratings and Investment Information Incorporated and Chinese firm Dagong Global Credit Ratings Company.

The move is a joint effort to better reflect regional conditions specific to the Northeast Asian nations in the current rating system, the local credit rating company said.

A shared standard among the three countries is essential to independently evaluate and compare bonds denominated in the local currencies of the three countries, it added.

"A trustworthy credit rating system is a prerequisite for the development of the Asian bond market," an official of Nice Investors Services was quoted as saying at the forum.

[Source: China Daily](http://www.chinadaily.com.cn/bizchina/2009-10/21/content_8827800.htm) ([see archive](ROK_Japan_China_to_launch_regional_credit_rating_system.pdf))

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