



北京华通人商用信息有限公司

ALL CHINA MARKETING RESEARCH CO., LTD.

ACMR Newsletter

China Industry and Economic Review

August 2010



Economic Spotlight:

Environmental Tax on a Trial Basis: China Chooses Cleaner GDP

According to information released by Chinese Academy for Environmental Planning on August 4, 2010, the Ministry of Finance (MOF), the State Administration of Tax (SAT), and State Environmental Protection Administration (EPA) will soon jointly submit a plan to State Council for an environmental tax on a trial basis, and Hubei, Hunan, Jiangxi, and Gansu are expected to be the first four pilot areas. Earlier, the Property and Behavior Tax Division under SAT held a conference on environmental tax in Yinchuan city, Ningxia province with local tax executives from four pilot regions. The conference was held to collect advice and suggestions from experts and local tax officials and inform local tax authorities of the progress of environmental tax collection and pilot schemes.

Proposal on Environmental Tax for a Long Period of Time

Environmental tax was first formally proposed by CPPCC members in 2007 as a move to raise awareness of environmental degradation but was not adopted. In the same year, the three government agencies began researching on environmental tax to evaluate the necessity and feasibility of levying this tax. In 2009, the official Xinhua News Agency published a story saying that conditions for environmental tax legislation were “basically ripe”, but the plan was further delayed by global financial crisis.

Three Progressive Stages

Due to complexity of environmental problem in reality, some experts said that details in the plan such as tax rate, scope of taxation, coordination between tax and environmental authorities, and tax reductions and exemptions, need further discussion. Regarding the timetable for the implementation of environmental tax, China Council for International Cooperation on Environment and Development (CCICED) has proposed detailed timetable to establish environmental taxation system in China on three stages.

Stage I: It will take three to five years to further improve taxation system of environment-related taxes, such as resource tax, consumption tax, and transport tax. Sulfur dioxide, nitrogen oxide, carbon dioxide, and waste water discharge are possible taxable items for environmental tax.

Stage II: It will take two to four years to further complete taxation system on other environment-related taxes. Scope of environmental taxes will be expanded, those environmental taxes not levied on Stage I will be levied on Stage II.

Stage III: It will take three to four years to further expand the scope of environmental taxes. Along with reforms and optimization on environmental tax system, a more mature and comprehensive environmental tax system will be established.



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Impact on Major Industries

There were experts revealing that environmental tax would be levied for specific pollutants which are mainly determined technical feasibility. Since the discharge fees of COD (chemical oxygen demand) and sulfides have been charged for many years and monitoring measures are relatively efficient and precise, thus it is very likely one of these two will be chosen as the target pollutant.

If environmental tax is levied on sulfides, it will have greatest impact on thermal power plants, followed by steel, building materials, and chemical industries. If environmental tax is levied on COD, it will have a major impact on urban sewage treatment plants, followed by chemical and papermaking industries.

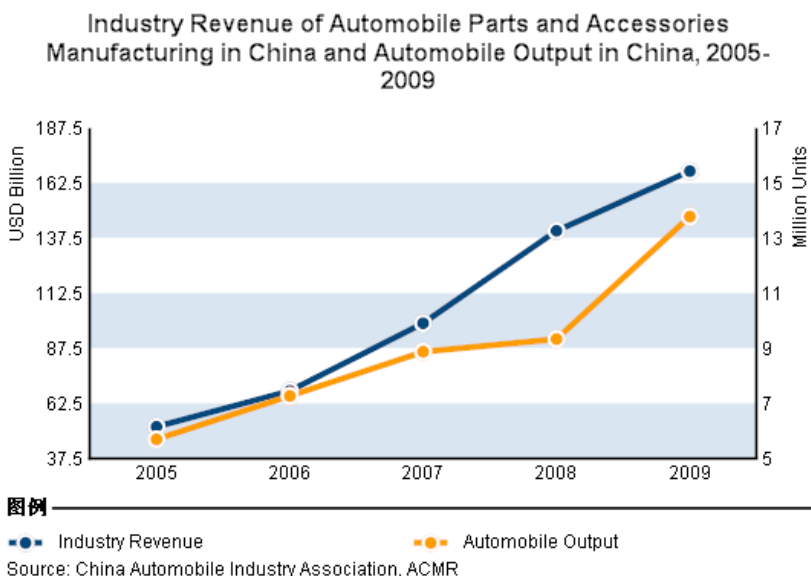
With the introduction of environmental taxes, energy saving and environment protection awareness of enterprises are expected to increase strongly, which will boost social demand for environmental services. If environmental tax is levied on sulfides, it will bring great business opportunities to desulfurization enterprises.

Automobile Parts and Accessories Manufacturing in China: Benefiting from Strong Automobile Market

The Automobile Parts and Accessories Manufacturing Industry in China experienced rapid development with the booming automobile market in the country in recent years. However, the Automobile Manufacturing Industry was negatively impacted by global financial crisis in late 2008, which in turn resulted in decreases in demand for automobile parts and accessories.

In 2009, the central government issued a series of favorable policies to stimulate the development of Automobile Manufacturing Industry in China, including reductions in the automobile purchase tax, direct subsidies to automobiles purchased by rural households, and subsidies to automobile owners replacing old autos with new autos.

Both production and sales volume of automobiles in China underwent significant increases due to the implementation of these policies. In 2009, automobile output in China totaled 13.79 million units, up 48% from 2008. Sales volume of automobiles in 2009 amounted to 13.64 million units, up 46% from 2008. Rapid growth in automobile output increased demand for automobile parts and accessories. In 2009, over 4,000 enterprises operated in the industry and reported industry revenue of \$168 billion, up 19.2% from 2008.



In the first half of 2010, automobile output continued increasing due to lasting effects of favorable policies to amount to 8.47 million units, up 44.4% from same period in 2009. In 2010, the automobile output in China is expected to reach 15.2 million units, showing slower growth than in the previous years. Demand

for automobile parts and accessories will also continue growing in 2010. Industry revenue is expected to amount to \$195.3 billion, up 16.3% from 2009.

More foreign automobile manufacturers started to purchase parts and accessories in China in recent years due to the rising prices of raw materials in foreign countries and the improving quality of China-made products. In the first half of 2010, exports of automobile parts and accessories amounted to \$18.27 billion, up 54.5% from the same period of 2009. Meanwhile, imports in the industry totaled \$12.72 billion, up 90.7% from the same period of 2009 due to the rising domestic demand.

Key Statistics of the Automobile Parts and Accessories Manufacturing Industry in China, 2009

Indicator	Value	Year-on-year Growth (%)
Industry Revenue (USD Billion)	168.0	19.2
Industry Profit (USD Billion)	11.9	26.6
Exports (USD Billion)	11.2	-23.4
Imports (USD Billion)	11.9	7.7

Source: National Bureau of Statistics, China Customs, ACMR

Major Industry Participants List

Company Name
Wanxiang Group
Beijing Hyundai Mobis Auto Part Co., Ltd.
Shanghai Huizhong Automotive Manufacturing Co., Ltd.
United Automotive Electric Systems Co., Ltd.
Changchun FAWAY Automobile Components Co., Ltd.

Source: National Bureau of Statistics, ACMR

Mobile Communications and Terminal Equipment Manufacturing: 3G Mobile Market Develops Steadily

From 2005 to 2009, the handset output in China increased from 323.1 million units to 617.9 million units, representing an annualized growth rate of 17.6%. In the first five months of 2010, total handset output of China amounted to 297.4 million units, up by 36.7% from the same period in 2009.



In January 2009, China's Ministry of Industry and Information Technology issued three third generation (3G) wireless licenses. From then on, 3G network began to spread out gradually. Mobile phone manufacturers shifted focus to the development and production of 3G mobile phones and network operators actively promoted the sales of 3G mobile phones. By the end of 2009, the number of China's 3G subscribers had amounted to 13.25 million.

In 2010, China's wireless operators plan to provide subsidies to 3G mobile phones and gradually adjust preferential packages of 3G mobile phone tariffs in order to reduce the prices of 3G mobile services. Meanwhile, in order to stimulate the development of 3G mobile phone market, China Mobile enhances the terminal layout of the medium- and low-end 3G mobile phone market; China Unicom repeatedly lowers 3G tariffs; China Telecom conducts the full layout of the terminal, marketing channels, business and charging standards. In addition, China's three major telecom operators continue to develop the mobile value-added services to attract consumers.

By the end of June 2010, total number of China's 3G subscribers had reached 25.2 million, including 10.46 million China Mobile subscribers, 7.56 million China Unicom subscribers and 7.18 million China Telecom subscribers. The 3G mobile phone market in China begins to show strong momentum and the

sale volume of 3G mobile phones is expected to maintain rapid growth.

Key Statistics of the Mobile Communications and Terminal Equipment Manufacturing Industry in China, 2009

Indicator	Value	Year-on-year Growth (%)
Industry Revenue (USD Million)	58562.5	-11.9
Industry Profit (USD Million)	1912.6	-8.4
Exports (USD Million)	40801.8	-2.3
Imports (USD Million)	1893.3	1.2

Source: National Bureau of Statistics, China Customs, ACMR

Major Industry Participants List

Company Name
Nokia China
Samsung Electronics
Motorola China
Ericsson China
Foxconn Technology Group

Source: National Bureau of Statistics, ACMR

Explosive Growth in Sales of Air Conditioners Driven by Heat Waves

Air conditioner (AC) market in China experienced roller coaster ride this summer. May and June are supposed to be sales season for AC, yet market performance was far from satisfactory. Although there emerged several sales highlights during this period due to promotion events and expectation on rising prices, overall performance was repressed by mild temperature. In June 2010, AC output and sales amounted to 8.9 million and 4.4 million units, respectively, down by 12.1% and 17.3% from May 2010, respectively.

However, this decreasing trend was completely reversed in July when lasting heat waves swept across the country. AC Sales in electronic markets, online stores and manufacturers hit record high in July with increase by 240% on average from the same period in 2009. This number was even as high as 300% in some cities in northern China. The heat is expected to continue in August in a large part of China, which will help maintain strong sales of AC and other refrigerating appliances.

Due to rising demand, most AC producers have ceased price reduction for sales promotion in domestic market, and the price has increased by around 10%. Meanwhile, hot weather in Europe and North America boosted foreign demand, and AC exports increased sharply by 88.9% in July 2010 from July 2009.

Inverter AC is gaining increasing popularity in the market. AC manufactures have invested dramatically in inverter products, partly driven by favorable government policy on energy-saving electrical products. Led by green technology trends and the "Replacement of Household Electrical Appliance Program", inverter AC is well received by customers in spite of higher price. In Midea and Gree, sales of inverter AC have weighted 50% of total sales, and this number is even higher at 80% in Hisense. Panasonic, a representative of Japanese companies with well developed technologies on inverter, has launched 30 models of inverter AC in China market to catch up with the growing demands. Energy Effectiveness Policy has stimulated investments on R&D in inverter AC. This leads to rising competitiveness of Chinese manufactures in oversea market.

Since 2008, AC industry has been gradually entering mature stage of its life cycle. There are currently 20 enterprises operating in the industry, down from more than 400 in previous years. From market fluctuations in the past few years, it's obviously that weather conditions and demands from domestic and oversea markets are the essential key factors in AC industry. ACMR expects that this industry will continue to be affected by government policies, and domestic demand will be the key demand determinant. Leading domestic brands will concentrate their efforts on branding, distribution channel building, and R&D to expand their presence in domestic market.



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What's New?

We currently have 177 China industry reports available across 18 economy sectors, and the number of reports is expected to reach 182 by the end of August 2010.

Recent reports and reports to be released include:

Published in July 2009:

- 0330 Poultry Farming in China
- 3421 Metal Cutting Tools Manufacturing in China
- 3761 Aircraft Manufacturing and Repairing in China
- 5110 Inter-urban Railway Transportation of Passengers in China
- 5531 Airports in China
- 7220 Realty Management in China

To be released in August/September 2010:

- 0916 Aluminum Ore Mining in China
- 1320 Pet Food and Animal Feed Manufacturing in China
- 1451 Canned Food Manufacturing in China
- 4062 Bare Printed Circuit Board Manufacturing in China
- 7230 Real Estate Intermediation (Brokers and Agents) in China

Updated in July 2010

- 0790 Support Activities for Oil and Gas Mining in China
- 3684 Medical, Surgical and Veterinarian Instruments Manufacturing in China
- 3721 Automobile Manufacturing in China
- 2720 Pharmaceutical and Medicine Manufacturing in China
- 7660 Environmental Monitoring Services in China
- 6820 Commercial Banks in China
- 8511 General Hospitals in China
- 5220 Road Transportation of Freight in China
- 6551 Pharmacies and Drug Retailers in China
- 3681 Medical Diagnosis, Monitoring and Treatment Equipment Manufacturing in China
- 4014 Mobile Communications and Terminal Equipment Manufacturing in China
- 3121 Cement Products Manufacturing in China
- 6920 Securities Brokerage and Transaction Services in China
- 2674 Fragrance and Essence Manufacturing in China
- 3613 Building Construction Equipment Manufacturing in China
- 1923 Jewelry Retailers in China
- 3952 Air-conditioner Manufacturing in China



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4071 Television, DVD and Video Equipment Manufacturing in China

3070 Plastic Parts Manufacturing in China

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