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A. Taxation and Fee Reduction Measures will be strengthened

Whether there will be a large-scale stimulus in the policy trend of Chinese government has become the spotlight of the outside world. The series of actions taken by Chinese government recently, however, have shown that, the leaders would prefer to stimulate market vitality by market-oriented such as tax reduction and structural reform rather than by large-scale stimulus, which is more likely to be the future policy orientation of China's economy.

Studies show that, with the gradual implementations of various policies, the effects of tax and fee reduction policy performed in the first half year are starting to show.

Correspondingly, the leaders have been taking a series of actions to urge the local governments to implement the tax and fee reduction policy as required. On the 24th day of this month, Premier Li Keqiang presided over the executive meeting of the State Council, on which the measure to further govern the illegal fees and charges being levied on businesses is decided to lighten the burden on enterprises. Premier Li proposed to safeguard the legitimate interests of enterprises and invigorate all market entities.

The tax affairs authorities also assigned 36 inspection groups to local provincial (municipal) tax departments to perform special inspection on tax and fee reduction. Meanwhile, General Secretary Xi Jinping recently convened the meeting of Central Comprehensively Deepening Reforms Commission and proposed to promote the reform and improve the weak links again. He said that, Chinese reform has gone deep, and it is necessary to conquer the disadvantages in system and mechanism that hampered the development. And he emphasized the reform of intellectual property protection, and gave off the signal to accelerate marketization and improve the business environment.

B. Bulletin of the Meeting of Politburo of the Communist Party of China on July 30

The meeting made a detailed arrangement on investment orientation. Compared with the meeting in April, this time it highlighted two main directions for the investment of

capital construction more clearly. First of all, “to strengthen areas of weakness”, for example, sprucing up of aging residential areas and the construction of urban parking lots and facilities for urban and rural cold-chain logistics. The second is “the construction of new type of infrastructure” such as information network.

The third is to continue to deepen the reform of system and mechanism while maintaining the stable growth.

Fourthly, on entity level, this meeting put more emphasis on private enterprises. The bulletin has mentioned the private enterprises twice, the first time is “take targeted measures to support the development of private enterprises”, and the other time is that “financial institutions should be encouraged to increase medium- and long-term financing to the manufacturing industry and private enterprises.”

There are two key points. The first one is that “work has been done to effectively support the private sector and medium-sized and small enterprises” mentioned on the meeting in April has upgraded to “take targeted measures to support the development of private enterprises”, and it clearly put forward to “establish a long-term mechanism to solve the default of credits”. Moreover, the second one is that the expression “financial institutions should be encouraged to increase medium- and long-term financing to the manufacturing industry and private enterprises” has become more specific.

The fifth is to accelerate the clearing of “zombie enterprises” and take solid action in the critical battle to forestall and defuse the major risks. The bulletin points out to accelerate the clearing of “zombie enterprises”, which means that the orientation of structural deleveraging remains unchanged.

The sixth is that there is still high uncertainty in the trade negotiations between China and the USA.

The seventh is to expand the opening-up and to cope with the challenges from inside and outside with opening-up. The expression “further” in the bulletin shows that the measures of opening-up will be upgraded to the level of practical operation from documental expression in the second half year.

The eighth is to mention the financial supply-side structural reform again and pay more attention to the rhythm when dealing with risks. From the specific statement, it can be inferred that there may be two key points. The first one is to add new contents to the financial supply-side structural reform. And the second is to emphasize “to get the pace and intensity right in working on risk treatment and fully implement the responsibilities of financial institutions, local governments and financial supervision departments” in a kindly manner. And it is expected that the following implementation of this middle- and long-term policy will take more the negative effects of short-term impact into consideration.

The ninth is to not use the real estate as a short-term means of stimulating the economy.

Note also that, this meeting does not express the attitude to “firmly curb the excessive rapid rise of housing prices” in the meeting in last July. It may, therefore, not represent the continuous one-way crackdown on real estate.

Tenthly, the employment is the key point of economy. The bulletin has mentioned the employment twice. The first time is in the review of first half year (the second paragraph): “employment was relatively full”. In its fifth paragraph, the bulletin mentioned the problem of employment again with “solid implementation of pro-employment policies”, which places the employment at “prior” level to show its emphasis on employment.

The eleventh is that the bulletin has mentioned, “efforts should also be made to stabilize market supply and prices”, which is not a new concern. The mainstream opinion indicates that, the measure to stabilize the market supply and prices, particularly the price of pork, shall be made from finance, administration and other aspects. In case that the price of pork may lead to the increase of prices by indirect effect, relevant adjustment shall be made to the monetary policy.

Last but not the least; it is a tribute to the 70th anniversary of new China. In its fourth paragraph the bulletin has pointed out that “The meeting also called for holistic efforts to maintain stable growth, advance reform, make structural adjustment, improve living standards, guard risks, and ensure stability”. As it were, the government can made “expected progress” and deliver “a good report” with these work done well. To be more

specific, the economy is performed within a reasonable range, the reform and opening-up is push forward steadily, the industrial structure continues to upgrade, social risk is under control, the people's livelihood is improved, and people live and work in peace and contentment.

C. Updates about Social Credit System

The General Office of the State Council has recently issued the Guiding Opinions on Accelerating the Construction of a Social Credit System and Constructing a New Credit-based Supervision Mechanism. Reporters interviewed Chen Hongwan, the Director General of Department of Fiscal and Financial Affairs of NDRC.

Director General Chen: Compared with traditional supervision, the new credit-based supervision mechanism mainly represents four “new” characteristics.

The first one is new concept of supervision, requiring the mechanism to penetrate into the whole life cycle of market participants. Different from the traditional interrupted supervision model, credit supervision is a new supervision mechanism that penetrates into the whole life cycle (ex-ante, interim and ex-post) of market participants. In ex-ante credit supervision link, the credit supervision requires that the market participants shall improve their awareness of conducting business with good faith by “making promises, focusing on education and delivering report”. In interim credit supervision link, the credit supervision requires comprehensively establishing credit records of market participants and vigorously promoting hierarchical and classified credit supervision. In ex-post supervision link, the credit supervision emphasizes on using the “sword” of joint punitive action against bad faith.

The second one is new supervision methods, which requires implementing hierarchical and classified credit supervision based on different credit status. The traditional supervision model lays equal emphasis on all supervision subjects, leading to a high cost, high pressure on market participants and many disturbances. The new credit-based supervision mechanism, however, takes differentiated supervision measures on the basis of credit rating

of market participants. The interference on the participants with sound credit and low risk may be reasonably reduced, and strict administration and punishment shall be imposed on those who don't. In this way, the efficiency of supervision is improved, and the power of supervision can be used at the key point.

The third one is new supervision measure, which requires taking accurate supervision based on big data and on the basis of credit rating. Compared with traditional supervision measure, the credit supervision pays more attention on effective integration of all kinds of credit information and establishment of risk anticipating and early warning mechanism by "Internet +" and big data so as to discover and prevent emerging multisectoral risks as soon as possible, and lay solid foundation for supervision departments to carry out accurate supervision. Meanwhile, credit supervision also lays emphasis on the role of different credit evaluations such as comprehensive public credit evaluation and industrial credit evaluation, and requires accurately depicting the credit status of market participants and providing basis for supervision departments to carry out differentiated supervision.

The last one is the new supervision mechanism, which requires the collaboration of different regions, departments and the whole society. Different from the traditional supervision that "each fights its own battle", the credit supervision intensifies the collaboration among regions and departments, including the collaboration of credit supervision mechanism, service and information system. Meanwhile, it also supports the social forces to actively participate, and encourages giving full play to the roles of industrial organization and third-party credit service agencies, to form a powerful force of whole society to participate in the credit supervision.

D. Summary of the Speech of Fu Xiangsheng in First Half Year

The most prominent problem in the operation in the first half year is the benefit reduction. The total profit of the entire industry in the first half year has declined by 18.3% on year-on-year basis, and the most rigorous is oil refining, which declines by 62.4%.

Meanwhile, the chemical industry has a deduction of 13.1%, while oil gas has an increase of 19.6%.

We should not be overly optimistic about the safety situation. Major accidents have occurred frequently to chemical enterprises since last year, especially the two explosions - the one in Zhang Jiakou on November 28 and the one in Xiangshui on March 21, causing great loss of lives and property and adverse social impact. It is not only a painful lesson, but also has an extremely profound adverse impact on petrochemical industry. And the explosion took place in Yima on July 19, that is, ten days ago, caused 15 deaths and 16 serious injuries, which also causes great losses.

The second round of inspection on environmental protection has begun. Every petrochemical enterprise and industrial park is the priority of inspection. Even the State Council and relevant departments have given repeated orders on rectification of one-size-fits-all approach, and Premier Li Keqiang in the report of Two Sessions in this year proposed to provide enterprises with a reasonable transitional period so that they can rectify positively to meet the standards, the first problem discovered in the practical implementation of “Inspection while Rectifying” is rectification after stop, as some problems of petrochemical devices can not be rectified while producing. It is inevitable, therefore, to have certain impact on enterprises with long-standing arrears in safety and environmental protection as well as hidden dangers.

The point is the production suspension of some enterprises will strike at the industrial chain. For example, many enterprises in areas such as pesticide, dye and medicines have suffered from upstream stock out and even supply shortage of raw materials. And the healthy and sustainable development of petrochemical industry may be hindered. Even many transnational corporations conduct deep analysis on the challenge and solution of supply chain of companies in China. In the discussion with transnational corporations, they showed great concerns about “Whether the chemical industrial park where they located in will be shut down? When will the XX industrial park resume production?” Their most concern is that, as the local government fails to carry out scientific supervision and

implements “one-size-fits-all approach”, the original chain of supply and support will break off and that will severely influence the normal production and operation of enterprises. For a long time, many decision-making departments have been worried about the influence of Sino-US trade war. The voice of shutting down petrochemical parks and enterprises rises as another falls in recent years. Some local government even wrongly regarded the number of shut-down chemical enterprises as its achievements, which makes the transnational corporations become more worried!

E Information Sharing

1. Guiding Opinions of the General Office of the State Council on Accelerating the Construction of a Social Credit System and Constructing a New Credit-based Supervision Mechanism ([2019] No. 35 of the General Office of the State Council)

Under the guidance of the Xi Jinping Thought on Socialism with Chinese Characteristics in a New Era, the spirit of the 19th CPC National Congress and the Second and the Third Plenary Sessions of the 19th CPC Central Committee shall be implemented in an in-depth manner, the basic principles of compliance with laws and regulations, reform and innovation, and coordinated and joint governance shall be followed, strengthening of credit supervision shall be regarded as the focus, the concept of supervision, supervision system and supervision methods shall be innovated on, a new supervision mechanism that penetrates into the whole life cycle of market participants, and connects the ex-ante, interim, and ex-post supervision links shall be established and improved, and the supervision capacity and level, shall be continuously enhanced, and the market order shall be further regulated, and the business environment shall be optimized, and high-quality development shall be advanced.

Please refer to

http://www.gov.cn/zhengce/content/2019-07/16/content_5410120.htm

2. In order to enhance AICM members' capacity in Government relations and have a better understanding and planning for crisis management and communication, AICM held government relations training in the afternoon of July 25th by training vendor China Advocate.

PPT from China Advocate is as attached for internal use only

3. Highlights of the GIAC meeting Chemical Industry Association of Jiangsu Province on Aug, 13th.

Jiangsu Chemical industry entered a difficult period. Both profits and main business income fell since last year, which were below RMB 2 trillion yuan for the first time among past several years, with which local governments face high pressure on economic growth. However, a series of regulatory measures will become more stringent because of the "3.21 Explosion".

The resumption of production for those production-suspend enterprises and parks after the "3.21 Explosion" has attracted media attention, but there is no official information on the exact time so far. The conclusion of the "3.21 Explosion" investigation has not been released yet.

<Chemical Industry Safety and Environmental Protection Improvement Plan of Jiangsu Province> issued on April 8 considers the influence of the previous scheme and implementation progress. It's still in the exploration stage. At present, there are 4,280 chemical enterprises and about 50 chemical parks in Jiangsu Province. During this round of renovation and upgrading, 1,200 companies with the small-scale and those rated below 68 with a comprehensive evaluation scoring will face challenges.

One-Kilometer within the Yangtze River (i.e. the chemical industry projects are prohibited within one kilometer of the Yangtze River and its major tributaries) is a document issued by the Central Government, which is not negotiable in provincial level.

Jiangsu is still a popular land for investment in the chemical industry because of its sound industrial value chains, infrastructure and large market. But the entire chemical industry needs to implement transformation and upgrading from low-end section.

The newly-built and expanded projects of enterprises shall actively communicate with local governments on issues such as production capacity and environment protection.

Jiangsu Chemical Industry Association will change the chairman around the end of August when the new leadership will be announced to the public.

AICM recommends that government law enforcement agencies shall have differentiated management between high-quality compliant enterprises and poor-compliant enterprises.

****AICM would like to express its sincere thanks to all GIAC members who have lent us hands in the course of writing this report.***