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business

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ONE U$D EQUALS
SOURCE: REUTERS, 9PM TUESDAY

RMB	HKD	JPY	EUR	GBP	AUD	INR	CAD	KRW	THB	BRL
▲ 6.3610	▲ 7.7533	▲ 78.25	▲ 0.8143	▼ 0.6374	▲ 0.9495	▼ 55.54	▲ 1.0007	▲ 1130.27	▲ 31.45	▼ 2.0410

Steelmakers' profits plummet

Expert: Govt is pondering tax rebates to help steel industry

By DU JUAN
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INDUSTRY

The profits of China's large and medium-sized steel companies plunged 95.8 percent year-on-year in the first half of the year, as a slowing economy curbed demand and prices were slashed, a senior industry official said on Tuesday.

The total profit of the steel industry was 2.39 billion yuan ($376 million), while the companies that were in the red reported a total loss of 14.25 billion yuan, according to the China Iron and Steel Association.

"The profitability of the industry is on the verge of becoming a deficit," said Zhang Changfu, association vice-chairman. "Production capacities are increasing in the current oversupply market while investment is growing, which will make the glut worse."

Li Xinchuang, head of the China Metallurgical Industry Planning and Research Institute, said at a news conference on Tuesday that the central government is considering restoring a value-added tax rebate on high-end steel products that are purchased from domestic steelmakers.

He said China imported about 15 million metric tons of high-end steel products annually, and half those products are purchased overseas for domestic processing companies that have duty-free imports.

"It will help increase domestic supplies and reduce imports if the new policy can be carried out," Li said. "Chinese companies can provide 7 million to 8 million tons of steel products at the most to replace imports if the plan goes well."

Since the fourth quarter of 2011, the steel industry has been battered by falling prices and rising raw material costs, which led to high domestic inventories.

In February, China had a record-high steel inventory consisting of 12.46 million tons of the metal.

In the first half, the central government continued to impose strict control policies on the real estate industry, and railway and road infrastructure construction has decreased.

"Crude steel's apparent consumption in the first six months had no increase compared with last year," Zhang said.

According to the association, China exported 21.40 million tons of crude steel in the first half, 4.36 million tons more than last year, showing an annual growth rate of 25.6 percent.

"The exports have helped ease the pressure of the supply glut in the country," Zhang said. "However, the average unit price of exported steel products is $960 a ton, while that of imported steel products is an average of $1,326 a ton."

"Chinese companies cannot continue to buy iron ore at high prices from abroad and export steel products at low prices. The export structure has to be changed."

Chinese companies should reduce their consumption of raw materials and gradually export fewer low value-added steel products. Meanwhile, they need to continue to expand overseas and try to gain more iron ore resources to diversify the country's iron ore import channels, Zhang said.

He said Chinese steel companies should control production capacities, reduce costs and make a greater effort to produce high-end steel products.

Currently, the European debt crisis has dampened overseas demand for Chinese steel products.

In 2011, China exported 5.17 million tons of steel products to 27 EU countries, showing a 33 percent growth year-on-year. But China's steel products exported to the EU in the first half this year dropped 27 percent year-on-year.

The export increase in the first half came mainly from markets in areas in the Middle East, South Africa and Africa and the United States, according to the association.

Zhang estimated the weak global market will make exports even more difficult for Chinese machinery manufacturers and steel producers in the second half of the year.

Han Weidong, senior analyst at Lange Steel Information Research Center, predicted that many steelmakers might soon go bankrupt, "which will lead to a new balance".

"However, the process will take time," Han said.

He predicted that some large steelmakers will soon reduce their output, which could benefit the domestic market.

"It is still possible to get better in August or September because supportive policies will continue," he said.

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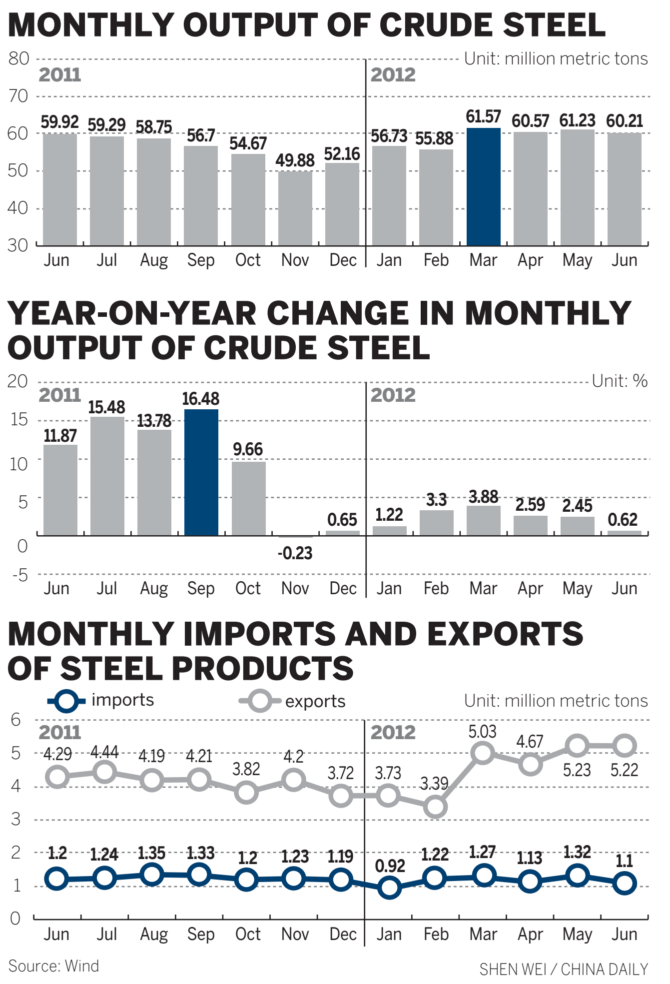
Coated and galvanized steel plates at a Baoshan Iron and Steel Co Ltd plant in Huangshi, Hubei province. The profits of large steelmakers plunged 95.8 percent in the first half of the year amid the economic slowdown.



Mainland credit rating agency opens HK arm

By CHEN JIA
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SERVICES

A mainland credit rating agency is moving overseas for the first time by expanding into the Hong Kong market.

The decision, analysts said, aims to give mainland agencies a bigger say in the global financial system as mainland companies gain a greater presence overseas.

China Chengxin (Asia Pacific) Credit Ratings Co Ltd, a subsidiary of the credit rating agency China Chengxin Credit Management Co Ltd, started its Hong Kong business on Tuesday.

That made it the first rating company from the mainland to obtain an operating license from the Hong Kong Securities and Futures Commission.

"This is a milestone in the internationalization of mainland rating institutions," said Mao Zhenhua, the founder and chairman of China Chengxin Credit Management.

"China Chengxin (Asia Pacific) is taking a gradual approach to developing its business in the international market," said Philip Li, managing director of the Hong Kong subsidiary.

The company's Hong Kong business will concentrate on providing services for corporate debts issued in Hong Kong.

"Over time, the Hong Kong business will expand into more complicated products, such as ratings on the credit of structural debts and other financial products," Li said.

One product of interest will be yuan-denominated bonds. The market for those financial instruments has grown very quickly, he said.

About 40 billion yuan ($6.3 billion) in renminbi bonds were issued in Hong Kong in the first five months of 2012, up 40 percent year-on-year.

Last year, Hong Kong issued 107.9 billion yuan worth of the bonds, doubling the amount of the previous year, data showed.

Charles Li, chief executive of Hong Kong Exchanges and Clearing Ltd, said on Tuesday that the mainland's credit rating industry has developed quickly in the past 20 years.

"This is the first time that a company from the mainland has expanded its business in the global market," Li said. "It will have great potential, as well as the fast development of the offshore market for the renminbi."

As more mainland capital goes overseas, an increasing number of companies are eager to obtain the services of qualified local rating agencies, specialists said.

Gu Shengzu, a deputy to the National People's Congress Standing Committee, said authorities should ensure that domestic credit rating agencies' development plans accord with national financial strategies.

"Currently, the global rating business is monopolized by the three biggest rating companies — Fitch Ratings, Moody's and Standard & Poor's," Gu, from the top legislature, said. "The internationalization of mainland rating companies must occur at a faster pace to maintain financial security."

China Chengxin also released a sovereign credit rating report for 30 countries on Tuesday.

Credit is becoming more difficult to obtain globally as the eurozone's debt troubles worsen and the world's economic recovery slows, according to the report.

"Emerging countries will suffer from weak demand in the long term, putting pressure on their attempts to boost domestic demand and adjust their economic structure," the report said.

Adidas suppliers seek redress from factory-closing decision

By XIE YU in Shanghai
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TEXTILES

Chinese suppliers are calling on the clothes manufacturer Adidas AG to compensate them for the consequences of its decision to close the last factory it wholly owns on the mainland, saying that they might otherwise turn to the courts for assistance.

Adidas announced its plan to close the factory last week, saying it will shut down an apparel operation in Suzhou, Jiangsu province, in an attempt to become more efficient by restructuring its business in China and the world. It also said it will terminate its contracts with five suppliers in the country.

Those companies have been working with Adidas for several years. In 2011, they delivered about 8 million garment pieces to Adidas, said Sun Yingli, general manager of Shanghai Manlang Textile Co Ltd, one of the suppliers.

Sun said Adidas informed her and her colleagues in April that it wanted to end the contract it has with Shanghai Manlang Textile.

"The original document said Adidas can terminate it whenever they want," Sun said. "They just have to tell us about that decision six months in advance."

Sun said she has consulted a lawyer and said the contract appears to be a one-sided agreement.

About 30 percent of what Shanghai Manlang Textile produces is intended for Adidas. Other suppliers are in worse positions, having no other clients apart from Adidas.

"Some machines and software systems are tailor-made for Adidas," Sun said. "They will be useless if we stop working with that company. What's worse, I'll have to lay off workers. Other companies may even go bankrupt."

On Tuesday, Sabrina Cheung, corporate communication director for Adidas Greater China, said China will remain an important source of supplies for the company.

Cheung said the company's decision to close its last wholly owned factory in China will not lead to a decrease in production in the country. She said the company works with more than 300 suppliers in China.

Cheung said Adidas gave its suppliers fair legal notice of its intent to terminate the business contracts it has with them. She said the company has fulfilled all of its contractual obligations but will nonetheless offer its partners advice pertaining to their communication and transition plans.

4.62
billion dollars
Adidas' revenue in China in the first quarter of the year, up by 14 percent year-on-year

Sun said Manlang Textile and the other operations affected have not received assistance from Adidas.

"I hope we can sit down and negotiate a resolution as early as possible," she said.

If none is forthcoming, she and the other suppliers will turn to the courts, she added.

Labor costs in China are now more than twice as high as those in Bangladesh and Vietnam, Xinhua News Agency has reported.

Sun acknowledged that labor costs are low in Southeast and South Asia. Still, she said, China has clear advantages.

"The industrial chain is very advanced in China," she said. "You can find any kind of materials you need very quickly here."

Moreover, manufacturers that want to sell in the Chinese market will pay lower shipping costs when they also make their products in the country. Even so, she said her company has had trouble drumming up business from new clients this year.

"The global economic situation is not good," she said. "What's more, the US economy is reviving and taking away some of our clients."

Xue Shengwen, a senior researcher with ChinaVenture Group, a research and consulting company, said the largest obstacle that China's manufacturing industry must contend with is the increasing cost of labor.

China, when compared with some Southeast Asian countries where labor costs are low, is rich in the raw materials needed by many manufacturers. The country has also made progress in recent years in research and development and in importing foreign technologies.

And, although overseas demand has been becoming weaker, domestic demand is a powerful force.

Adidas' decision to close its last wholly owned factory in China suggests that foreign textile companies may be looking to do business in other countries, said Ma Gang, an industry observer.

"When China starts to lose its advantages, it will have to find a new way out," he said. "Manufacturing original products will be the most practical option."

In recent years, many US and European multinational corporations have moved their factories to Southeast and South Asian countries, particularly Vietnam and Bangladesh. Those places' main attraction remains labor costs that are lower than those in China.

Since entering China in 1997, Adidas has opened more than 6,000 stores in that market.

The company's revenues in China, boosted by strong sales, increased by 14 percent in the first quarter of the year to reach $4.62 billion. Its net profits increased in the same period by 38 percent to $351 million.

Li Woke in Beijing contributed to this story.