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CHINA UPDATE

QUOTE OF THE WEEK

“Emerging powers like China, Brazil, and India have a bigger hand in shaping world events, which is helping to reshape the global order, changing how countries engage with each other, and how companies do business...as well as how foundations and universities think about forging partnerships worldwide. Now in the face of all this change, those who care about having an impact on the world have to do to important things at once. We must think and act innovatively and be willing to change ourselves to keep pace with the change around us, and at the same time, we must stay true to our values. Otherwise, we will lose our way.” – Secretary of State Hillary Rodham Clinton in remarks to the Clinton Global Initiative on September 24

TRADE

U.S. Announces Plea in Trade Secret Theft Case

On September 19 the Department of Justice (DOJ) announced that Chunlai Yang had pleaded guilty to theft of trade secrets. Chunlai admitted to stealing source code information to support future trading activities on the Zhangjiagang China chemical electronic exchange. DOJ prosecutors said that potential losses could have totaled as much as \$100 million, while Chunlai's attorneys said in court that the potential loss was below \$55.7 million.

U.S. & China Reach Agreement on Observation of Auditing Firm Inspections

On September 21, the Public Company Accounting Oversight Board, a private-sector, non-profit corporation created by the 2002 *Sarbanes-Oxley Act*, announced that it has reached an agreement with China to allow the observation of Chinese regulators inspecting auditing firms in China – and to

provide reciprocal rights to Chinese regulators in the U.S. The PCAOB has already been engaged in similar reciprocal activities with countries in North America, Europe, Asia, the Middle East, and with Australia.

USITC To Investigate Rare Earth Magnets

On September 18 the U.S. International Trade Commission (USITC) last week voted to institute an investigation of certain sintered rare earth magnets. The products at issue in the investigation are rare earth magnets and products incorporating rare earth magnets, such as motors, audio speakers, headphones, cordless tools, computer hard drives, and golf ball markers. The investigation is based on a complaint brought by Hitachi Metals, Ltd. of Japan, and Hitachi Metals North Carolina, Ltd. The USITC has identified 29 respondents to the investigation – 4 of which are in China.

USITC Continues Antidumping Order on Chinese Polyester Staple Fiber

On September 19 the USITC determined that revoking the existing antidumping duty order on polyester staple fiber from China would likely lead to a continuation or recurrence of material injury within a reasonably foreseeable time. As a result of the affirmative determination, the existing order on imports of this product from China will remain in place. The action comes under the five-year sunset review process required by the *Uruguay Round Agreements Act*.

ENERGY

China to Require Industry Reports on Emissions

According to Xie Zhenhua, Deputy Director of China's National Development and Reform Commission, the Chinese government will require certain industries to report their carbon dioxide emissions in order to participate in China's carbon trading program. Affected industries include aviation, cement, chemical, electricity, iron, plate glass, steel, and nonferrous metals. The carbon trading program is in the pilot stage currently, with five cities and two provinces participating.

China Participating in Solar Decathlon Europe

Running September 14 - 30 in Madrid, the Solar Decathlon Europe 2012 is underway with entries from China, Brazil, Denmark, Egypt, France, Germany, Hungary, Italy, Japan, Netherlands, Norway, Romania, Spain, and the United Kingdom. More on the Solar Decathlon Europe can be found [here](#).

Canadian Court Approves Chinese Acquisition of Oil Company

On September 21 a Canadian court approved the acquisition of Canadian energy company Nexen, Inc. by the China National Offshore Oil Company (CNOOC). The Chinese, Canadian, and U.S. governments must still give regulatory approval to the deal. The acquisition will give CNOOC access to oil and gas reserves in the Gulf of Mexico, the North Sea, western Canada, and offshore Nigeria.

Shanghai Official Comments on Carbon Dioxide Trading Pilot

On September 19 Wu Delin, vice secretary of the municipal government in Shenzhen – one of five cities and two provinces that are launching China's pilot carbon dioxide trading platform – said that "Carbon trading should not obstruct Shenzhen's economic growth, or harm the city's industrial chain, or increase costs for businesses here." The city will release a second draft of regulations on "Strengthening Management of Carbon Emissions," but there is no word yet on when the final

regulations will be issued. The pilot project in Shenzhen will involve 800 companies with annual emissions of carbon of more than 20,000 metric tons, and is expected to commence before mid-2013.

Proposed Changes to China's Environmental Protection Law

China's National People's Congress (NPC) has issued proposed revisions to the country's Environmental Protection Law, saying that the law "does not meet with the requirements of the times." The proposal was issued on August 31 and is open for public comment until September 30. The Environmental Protection Law was first implemented in 1989 but has seen no changes since then. The proposed amendments are said to be mainly procedural, with the codification of existing environmental regulations into the law.

China and European Union to Cooperate on GHG Emissions

On September 20 the European Commission announced that it will cooperate with China on GHG emissions trading. As a part of the agreement, Europe will, over a period of four years, provide China with input on the design and implementation of pilot programs. The cooperative effort will also involve urban energy and resource efficiency, waste management, water pollution reduction, and minimizing heavy metal discharges.

DEFENSE

U.S. Defense Secretary Meets with Chinese Vice President

As reported in last week's China Update from ML Strategies – found [here](#) – U.S. Secretary of Defense Leon Panetta was in China last week in a trip that also included stops in Japan and New Zealand. On September 19, Secretary Panetta met with Chinese Vice President Xi Jinping, who is expected to rise to the Chinese presidency next month. Xi had not been seen in public for the past several weeks, cancelling meetings with several world leaders including Secretary of State Clinton, leading to rumors about his health or political future. Secretary Panetta described his meetings with Xi and other Chinese leaders as "substantive" and "productive" and called for the two nations to create a "new model relationship." Issues covered included territorial disputes, ballistic missile defense and North Korea, and cyber attacks.

The two leaders discussed the ongoing tensions over the Diaoyu islands, which are claimed by both China and Japan (which refers to the islands as Senkaku) with Secretary Panetta saying that he wants the U.S. to play a "positive role" in ensuring that tensions do not escalate. At a Senate hearing last week, Assistant Secretary of Defense for East Asia said that the islands fall under a U.S. defense treaty with Japan that obligates the U.S. to defend Japan if it is attacked.

A Department Defense press release on the China visit can be found [here](#).

UNITED NATIONS GENERAL ASSEMBLY

Today, President Obama addressed the United Nations General Assembly (UNGA). While his speech did not include any references to China, you can find a copy of the prepared remarks [here](#).

This morning, as part of the U.S. delegation traveling with the president to the UNGA, Michael Posner, Assistant Secretary of State for Democracy, Human Rights, and Labor, met with Chen Xu, Director General of China's Ministry of Foreign Affairs.

CONGRESS

The House of Representatives and Senate are both in recess until after the November 6 elections.

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