



NEWS RELEASE

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CHINA'S TAX REFORMS WORRY NA CHEMICAL DISTRIBUTORS

Brampton, ON, & Beijing, China, June 15, 2007 –

For North American chemical distributors already concerned about rumors China may cut or eliminate tax rebates on its exported chemicals, this week's announcement by Premier Wen Jiabao did nothing to alleviate those fears.

Amidst escalating pressure from Washington to decelerate China's exports and trade surplus, Wen confirmed Beijing will adjust export VAT rebates on some products, as part of efforts to "appropriately tighten" its monetary policy.

Wen did not give details on what products will be affected or at what percentage. An announcement is expected on June 30 or July 1. Chinese chemical manufacturers are braced for the worst, however, with many declining to quote chemical prices to their overseas customers until after the announcement is made.

"By not making a formal announcement about when and how much, the Chinese government is only perpetuating panic," said Isabel Alexander, Phancorp President and chair of the Canadian Association of Importers and Exporters (I.E.Canada). "There is a fear that announced cuts won't be phased in and that they will be the full amount of eight percent on organics and 13 percent on inorganics."

EFFECTS OF VAT REBATE CUTS ON NA DISTRIBUTORS

The vague announcement has fueled concerns by North American chemical distributors that prices for chemicals from China may rise by up to 13 percent by July 1 or that there will be shipping delays in June and July.

"Price increases may depend on the percent the VAT rebate is cut for chemicals and on market influences, such as expected cuts in Chinese corporate taxes, increases in export taxes and competition both within China and from other countries," said Alexander. "Chinese producers may choose to pass on all of the loss of profits or share the burden with customers."

According to industry sources, shipping delays are already a problem. There are very few available containers and "under-the-table" allocations are often determining which companies are receiving their shipments.



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“When we first learned of possible cuts to export tax rebates, Phancorp immediately approached its Chinese suppliers to ensure that product scheduled for June delivery would be on time,” said Alexander.

Tao Lu, Director, Phancorp Asia has been talking daily with our Chinese suppliers, even making personal visits. “Phancorp is leveraging our Chinese relationships to make sure our shipments are getting out,” he said.

WHAT IS VAT?

Adding to North American chemical distributors’ confusion is the complexity of China’s tax system. Value added tax (VAT) is a sales tax levied on the sale of goods and services. In some countries, including Canada, this tax is known as "goods and services tax" or GST. In China, VAT is called: 增值税 (pinyin:zēng zhí shuì).

VAT is an indirect tax, in that the tax is collected from someone other than the person who actually bears the cost of the tax.

In China, companies are required to pay input VAT on goods purchased locally in China. If those goods are subsequently exported, or used in production of an export, the exporter could apply for a refund of the input VAT paid. The export VAT refund rates are varied depending on the types of goods exported, in which VAT could be refunded fully, partially or even with no refund at all.

While there is a 0 percent VAT charged the customers on the exported goods, Chinese exporters have been able to claim back up to 17 percent of the 17 percent input VAT taxes they paid out for materials purchased for their own production operations.

TAX POLICY TRENDS IN CHINA

While still a relatively young tax system, the dynamic nature of the Chinese economy means that the indirect tax regime has already undergone a lot of change to reflect developments in economic behavior and growing prosperity in China.

The announcement this week about changes to Chinese tax policy follow a series of such changes affecting various products over the years.

In September 2006, ignoring strong protests from domestic companies and traders, China reduced the export VAT refund rates for certain items, which led to increases in the absolute costs for exporters in China. It focused on exports of high energy-consuming, resource-intensive and environmentally-harmful products.

In April this year, Wen announced China would abandon policies that give exports inappropriate preferences and expand its imports of advanced technology and equipment. On April 15, China removed export rebates on most types of steel products, while reducing the rebate on more value-added products to 5 percent.

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Also in April, China raised export taxes by 5 to 10 percent on a range of products, including steel, aimed at slowing the country's export boom and easing the country's trade surplus, according to government sources.

GLOBAL INFLUENCES

While China's new policies are not welcome news to everyone, including North American importers, from a global economic and environmental standpoint the policies, and the transparency with which they are being announced, show willingness from China to be part of the global community.

Both Washington and Brussels have been pressuring China to take measures towards cutting the trade surplus gap, which reached \$177.47 billion last year. Much of that pressure has focused on urging China to let the Yuan strengthen more quickly.

However, while in addition to changes to its system of value-added tax rebates for exports, Wen announced changes to export taxes and further measures to encourage imports, he made no mention of revaluing the currency.

The Yuan, meanwhile, has become more flexible as it fluctuated this week. The Renminbi's central parity rate was 7.6282 against the US dollar on Wednesday, up 0.25 percent from Tuesday's 7.6475 and the second-largest single-day rise after Tuesday's 0.4 percent rise.

"We have to continue to enhance and improve macroeconomic controls in order to effectively prevent the current relatively fast economic growth from changing to overheating," Wen said. In spite of a series of policy moves in the past months, the Chinese trade surplus rose over 80 percent in the first five months of 2007 over the same months in 2006 and its economy continued to grow.

ENVIRONMENTAL BENEFITS OF POLICY

New tax policies have had the added benefit of being good for the environment, in that they have focused on exports of high energy-consuming, resource-intensive and environmentally-harmful products.

The Chinese government has expressed a commitment to reducing energy and water consumption for every 10,000 Yuan of GDP by five percent each this year, in the run-up to the Olympic Games scheduled for August 2008. It has also vowed to cut chemical oxygen demand (COD) by three percent and sulfur dioxide emissions by 10 percent.

About Phancorp Inc.

Phancorp Inc. is a global chemical wholesaler serving distributors across the North American chemical industry. In the intensely competitive business of chemical distribution, Phancorp provides strategic advantages and award winning service to chemical distributors. ISO 9001:2000 certified and emergency-response enabled, Phancorp is truly The Distributors' Partner™. For more information about Phancorp visit www.phancorp.com.

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