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Why, in Shanghai, A License Plate Is A Precious Metal

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Alarmed by Smog and Traffic,

Officials Auction Tags;

Mr. Li Ponders His Bid

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Question: Use a supply and demand graph for license plates (consider a market for license plates for cars) and explain how, with a fixed supply of license plates produced by the government, the Chinese officials are trying to keep the car ownership and the driving of private cars under control. [Consider an increase in the demand for cars to result in an increase in demand for license plates].

SHANGHAI -- Li Zhongji waded into the crowd at a Shanghai auction house and stopped in front of a bank of computers to make his bid on a license plate. He had sold his motorcycle to help finance the purchase.

Chinese officials worry that there are too many people like Mr. Li, a 51-year-old real-estate broker who has wanted a car for as long as he can remember and now can afford one. So they have come up with an unusual speed bump to slow down Shanghai's surging consumer class: a monthly license-plate auction.

Last month, nearly 20,000 people bid for 6,233 available car plates. The number of plates available varies according to a formula that counts the number of scrapped cars removed from the roads and monthly car sales in the city.

"Can you imagine if everybody who wanted a car could buy one?" asks Sun Jian, deputy director of the Shanghai Environmental Protection Bureau. "By tomorrow, we'd be one big parking garage."

To participate in Shanghai's auction, residents must pay a \$250 deposit, show two pieces of identification and pass a phalanx of security guards at an auction house an hour outside the city. Shanghai residents only half-jokingly describe the aluminum plate as the city's most precious metal. In May, the average bid price surged to \$4,133, more than four times the country's annual per capita income.

China's flourishing car culture has been great news for auto makers and economic growth. But it is creating big headaches for bureaucrats alarmed by the snarled traffic, heavy smog and rocketing oil imports. In the first five months of this year, China added an average of 14,195 vehicles to the road each day. Within two decades, the country should surpass the U.S. as the world's biggest auto market.

Changchun, in the Northeast, is levying a \$72-a-year fee on every vehicle purchased -- for "increasing the auto population." Away from China's wealthy coast, Shaoyang city collects 1% of the purchase price from car buyers to distribute to laid-off workers.

Such measures have met resistance, and not just from car buyers. Central government authorities, keen to develop China's auto industry, oppose local efforts to curb individual car ownership. In 2000, they ordered cities across China to cancel 238 different types of auto-related fees. Assistant Commerce Minister Huang Hai recently berated Shanghai over its auction, saying it violates the rules and hurts car sales. "The car is a commodity that a modern society can't be short of," Mr. Huang said.

Mr. Li has wanted to own -- and drive -- a car all his life. As a child, he listened to his father's tales of driving supply trucks for the U.S. Army on the island of Saipan after World War II. Later, his father taught Chinese soldiers to drive jeeps so they could fight the Americans in the Korean War. Even Mr. Li's wife drives, as a chauffeur for China's military brass. Mr. Li is itching to buy a car. "It's a matter of individual freedom," he says.

So on a drizzly Saturday morning, he put on his black Nike baseball cap and pulled down the metal shutter on his street-side office. A friend, a Buick sales agent, had earlier predicted that 16,000 yuan, or \$1,932, would be enough to buy a plate at auction. Mr. Li mulled the tip as he crossed puddles along the auction grounds parking lot. "Sounds about right," he said.

Shanghai implemented its auction system in 1986, after a group of traffic policemen visited Singapore and liked what they saw. Singapore's system is complicated, but it effectively keeps down the car population. Drivers must bid for a 10-year permit to put a car on the road, with different classifications based on engine size. One type applies to cars driven only on weekends or in off-hours.

Shanghai's system, in theory, is simpler: The highest bidders get a license plate. The system requires participants to enter the amount they are willing to pay without knowing what anyone else is bidding.

Currently, 1.8 million people in Shanghai have driver's licenses, or one in 10 residents. But only a fraction of licensed drivers can drive their own cars, because they lack the requisite license plate. Last year, there were three times as many driver's licenses issued as car plates.

While the government accepts bids via telephone and Internet, many bidders, like Mr. Li, trek to the auction grounds so they can gauge crowd size and demand, and gather helpful data like the number of registered bidders. Waiting to bid with her husband, construction-company executive Lisa Fang recalled when she first got the driving bug, during a 1991 visit to Los Angeles. "Toyotas everywhere," she said. "Young and old, driving their own cars." In Shanghai, by contrast, "people can afford a car and want a car, but the system just cuts them off," she said.

A Chinese steel-company employee perspired nervously near a bank of computers, where he planned to bid a fifth time for a car plate. He said he had bid too low in three previous auctions. The fourth time, his bid was high enough, \$4,700, but he gave up his right to the plate after deciding it was too costly. The temporary license on his Hyundai Sonata expired long ago, he says, so he spends a lot of time trying to avoid Shanghai traffic police. "I drive in the countryside, mainly," said the man, who asked to be identified only by his surname, Ma.

Many find ways to get around the auction process. Lin Ming, an auto mechanic, bought a 15-year-old Nissan Cedric and initially planned to scrap all but the license plate. Instead, Mr. Lin opted to save money by driving the rusted jalopy for a couple of extra years and bribing vehicle inspectors to pass emissions tests. Now, Mr. Lin boasts, he can afford something really nice, "with leather seats and a sun roof" -- and the Nissan's plates.

Standing in front of one of the auction's 50 computers that accept bids, Mr. Li wiped his hand on his blue slacks, then carefully punched in his bid: 17,000 yuan, or \$2,050 dollars. That was a little more money than his friend had advised, but, Mr. Li said, "I want to be on the safe side." After the machine spit out a receipt, he examined his bid and stuffed it into a shirt pocket.

Riding back into town in an acquaintance's car, he watched hundreds of four- and two-wheel vehicles converging and weaving as they tried to squeeze through an intersection. "They say Shanghai is the most difficult place in the world to drive," Mr. Li said. "I don't care. I am sick of the bus."

In the afternoon, he dialed in to learn the results of the auction. The winning bids were also broadcast on the evening news: His bid was \$90 too low. Mr. Li called his auto-agent friend to vent. "So close," he said, crushed.

A week later, he registered for the July auction. And this time, he is not taking anyone's advice. This time, Mr. Li says, he is bidding high.