



A low carbon economy for China, implications for foreign investors

19 September 2009

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Outline

- What is a low carbon economy?
- Shift in Chinese policy
- Impacts on emissions reductions, energy efficiency and the deployment of renewables
- Impacts on buildings and infrastructure
- Impacts on technology
- Impacts on trade
- Domestic carbon trading
- Further developments

What is a low carbon economy?

- “... the core of developing a low carbon economy is to establish a development pathway that has high efficiency, low energy consumption and low emissions.”
 - *Chinese Academy of Sciences “China Sustainable Development Strategy Report 2009 – China’s Approach Towards a Low Carbon Future”, March 2009*
- Key elements of a low carbon economy:
 - ⇒ decoupling of economic growth from carbon emissions
 - ⇒ low carbon energy
 - ⇒ high energy efficiency and low emissions
 - ⇒ reduced production and consumption of fossil fuels
 - ⇒ low carbon intensity good and services
 - ⇒ low carbon technology
 - ⇒ carbon trading, financial and tax measures
 - ⇒ sustainability

Shift in Chinese policy

- Largest GHG emitter
- Sustainable development already embedded in policy and law:
 - ⇒ Agenda 21
 - ⇒ Cleaner Production Promotion Law
 - ⇒ Energy Conservation Law
 - ⇒ Renewable Energy Law
 - ⇒ Circular Economy Law
 - ⇒ Draft Energy Law
 - ⇒ [Climate Change Law?]
 - ⇒ [Low Carbon Economy Law?]

Impacts on emissions reductions, energy efficiency and the deployment of renewables

- China has no CO₂ or greenhouse gas emissions reduction targets
- The 11th Five Year Plan (2006-2010) outlines the objective of reducing energy consumption by 20% per unit of GDP by 2010
- Specific energy reduction targets were set for each province from 12% to 30%
- The Medium and Long Term Development Plan for Renewable Energy:
 - ⇒ renewable energy 10% and 15% of share of total primary energy by 2010 and 2020 respectively
 - ⇒ hydropower 190 GW by 2010, 300 GW by 2020
 - ⇒ biomass power 5.5 GW by 2010, 30 GW by 2020
 - ⇒ solar 300 MW by 2010, 1.8 GW by 2020
 - ⇒ wind 5 GW by 2010, 30 GW by 2020
- [The 12th Five Year Plan (2011-2015)]

Impacts on emissions reductions, energy efficiency and the deployment of renewables (continued)

- Feed in tariffs (government fixed pricing), note latest development in wind, dividing China into 4 regions (effective 1 August 2009)
- Grid power companies required to connect renewable energy projects
- Carbon financing: CDM and voluntary market carbon credits
- Tax incentives, eg relief from Enterprise Income Tax for CDM projects

Impacts on buildings and infrastructure

- LEED certifications for buildings, including GHG performance
- New building codes with GHG performance
- Sustainable building design
- Low carbon materials and construction process
- Carbon auditing of buildings
- Emissions reductions projects (CDM or voluntary market)

Impacts on technology

- Encourage low carbon investment and establishment of research and development in China
- Low carbon development zones
- Emphasis on technology transfer in new international climate change agreement (COP 15, Copenhagen, December 2009)

Impacts on trade

- Encourage Chinese industries to move away from energy intensive and emissions intensive manufacturing and products
- The inevitable shift towards low carbon products and services
- Border tariff adjustments on goods of high carbon intensity – a trade war may be looming
- The position in international trade law is less than clear, are such border tariff adjustments discriminatory?

Domestic carbon trading

- There are seven environmental/carbon exchanges in China
- Not true carbon exchanges like CCX or ECX at present
- Tianjin exchange is a joint venture with CCX
- Beijing Environmental Exchange claimed the first domestic carbon trade in July 2008. It was really a bilateral trade, not a real exchange transaction with a central clearing mechanism
- 2050 China Energy and CO2 Emissions Report recommends domestic carbon trading and the setting up of carbon exchanges
- Domestic demand for carbon credits opens up significant opportunities

Further developments

- Reform foreign investment policies and laws, remove restrictions on ownership (note the harmonisation of the EIT regime)
- Press ahead with low carbon policies and laws
- Create low carbon development zones (creating further incentives)
- Strengthen IPR laws and enforcement

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