



DEZAN SHIRA & ASSOCIATES

Your Partner for Growth in Asia

China's Green Industry: - *Emerging Opportunities for Foreign Investors 2022*

Dezan Shira & Associates | Ines Liu | June 22nd, 2022, | Wednesday



Webinar Partner



European Chamber
中国欧盟商会



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Section 1

Overview on China's Green and Low-Carbon Plan



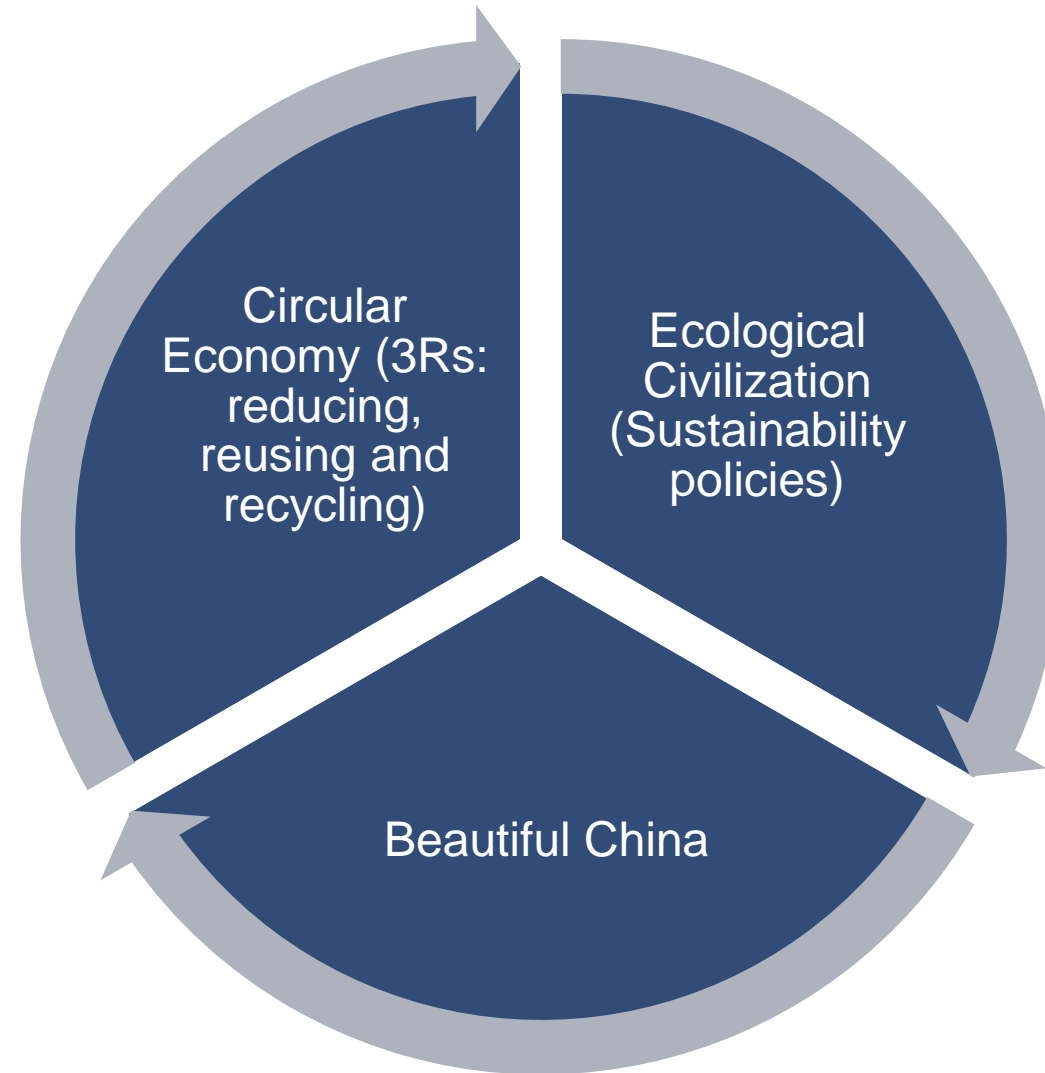
Climate Pledge

September 2020 Chinese President Xi Jinping announced to United Nations General Assembly, China would expedite its voluntary carbon emissions reduction targets ahead of its pre-existing commitments, pledging to:

*Peak Carbon Emissions
by 2030*

**Become Carbon Neutral
by 2060**

Key Concepts of China's Green Drive



14th FYP (2021 to 2025) Focus on Sustainability

The Plan is divided into 19 sections and 65 chapters. In terms of climate and environmental-related strategies and guidelines presented in the Plan: *energy mix, energy distribution, improving efficiency in resource utilization, greening of all sectors, enhancing a green legal and policy environment, promoting the circular economy, as well as participating in and leading international cooperation on the climate change agenda.*



Transition to Low-Carbon Energy

Adjusting and upgrading energy mix
Enterprises with high pollution, high energy consumption, and whose manufacturing procedures do not comply with environmental standards will be excluded from the market



Development of Green & Circular Economy

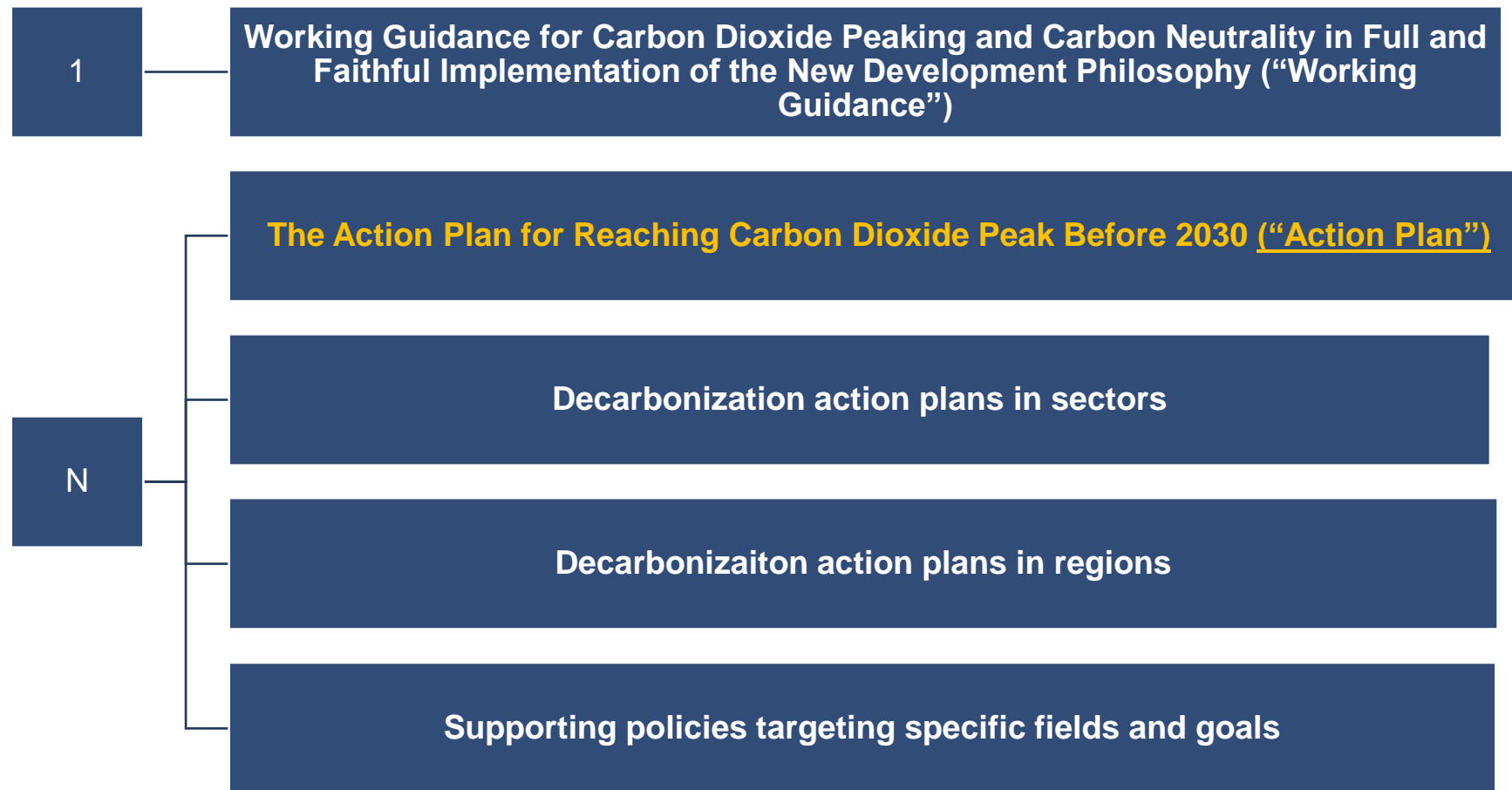
Full-scale resource conservation and recycling are encouraged to help adjust companies' cost structure
Green products and service supplies will increase, while non-compliant ones will be screened out



Rational Use of Natural Resources

Promoting the utilization of multiple energy sources is key to improving energy efficiency and reducing carbon emission and energy consumption cost

“1+N” Climate Policy System (*in place*)



‘1’ - Working Guidance which acts as the country’s guiding principle for reaching its climate goals.

‘N’ - auxiliary policy documents targeting specific industries, regions, fields, and goals.

Key Tasks: Transition Goals

China's Transition to Green, Low-Carbon, and Circular Economy:
China breaks down its green and low-carbon transition goals into below tasks:



Improving
the
production
system



Improving
the
circulation
system



Improving
the
consumption
system



Accelerating
the green
upgrading of
infrastructure



Building a
market-
oriented
green
technology
innovation
system



Improving
the system of
laws,
regulations
and policies

China's Current Progress on Green Transition

- ❑ China's installed renewable energy capacity reached 1063 gigawatts (GW) in 2021, accounting for 44.8% of China's total power generation capacity. This figure can be useful to gauge the energy generation potential of the country but does **NOT** show the actual amount of energy that has been generated from renewables.

Note: "capacity" refers to the maximum level of electrical power that can be produced in the country, not the total amount of electrical power that has been generated.

- ❑ The majority of China's power supply still comes from fossil fuel sources.

Current/Short-term Goal	Long-Run Goal
<ul style="list-style-type: none"> ➤ Current increase in coal production and consumption: <i>green light to coal-fired power plants; 4.6% yoy; 56% of total energy consumption</i> ➤ New domestic coal-fired power plants have been given the green light in Feb 2022 [<i>according to weekly State Council meeting held on April 20, 2022</i>] 	<ul style="list-style-type: none"> ➤ Once the current situation stabilized, other energy sources catchup ➤ Improving the carbon emission measurement method, ➤ Further developing carbon trading market, ➤ Putting more emphasis on green compliance, and ➤ Further encouraging the development of <u>green technologies (especially energy conservation and emission reduction technologies)</u>

Contradictory to China's pledges? ⇒ to be a response to ST-issues of energy supply/energy security:

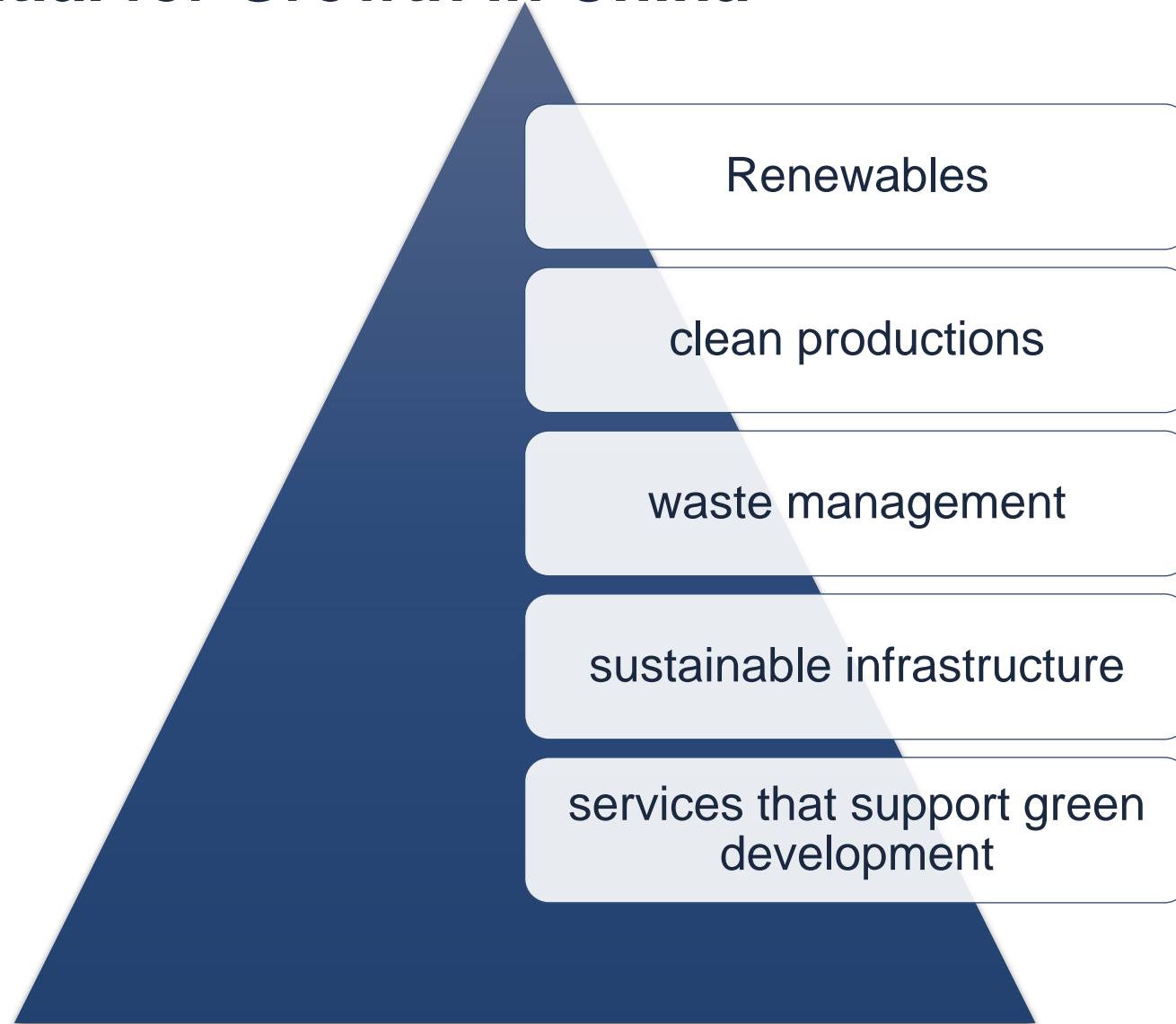
- The event in fall of 2021 – worst power shortage
- Strict lockdowns due to 2022 COVID-19 outbreaks
- External factors: Ukraine crisis
- Domestic political factors

Section 2

Implications for Foreign Investors



Great Potential for Growth in China

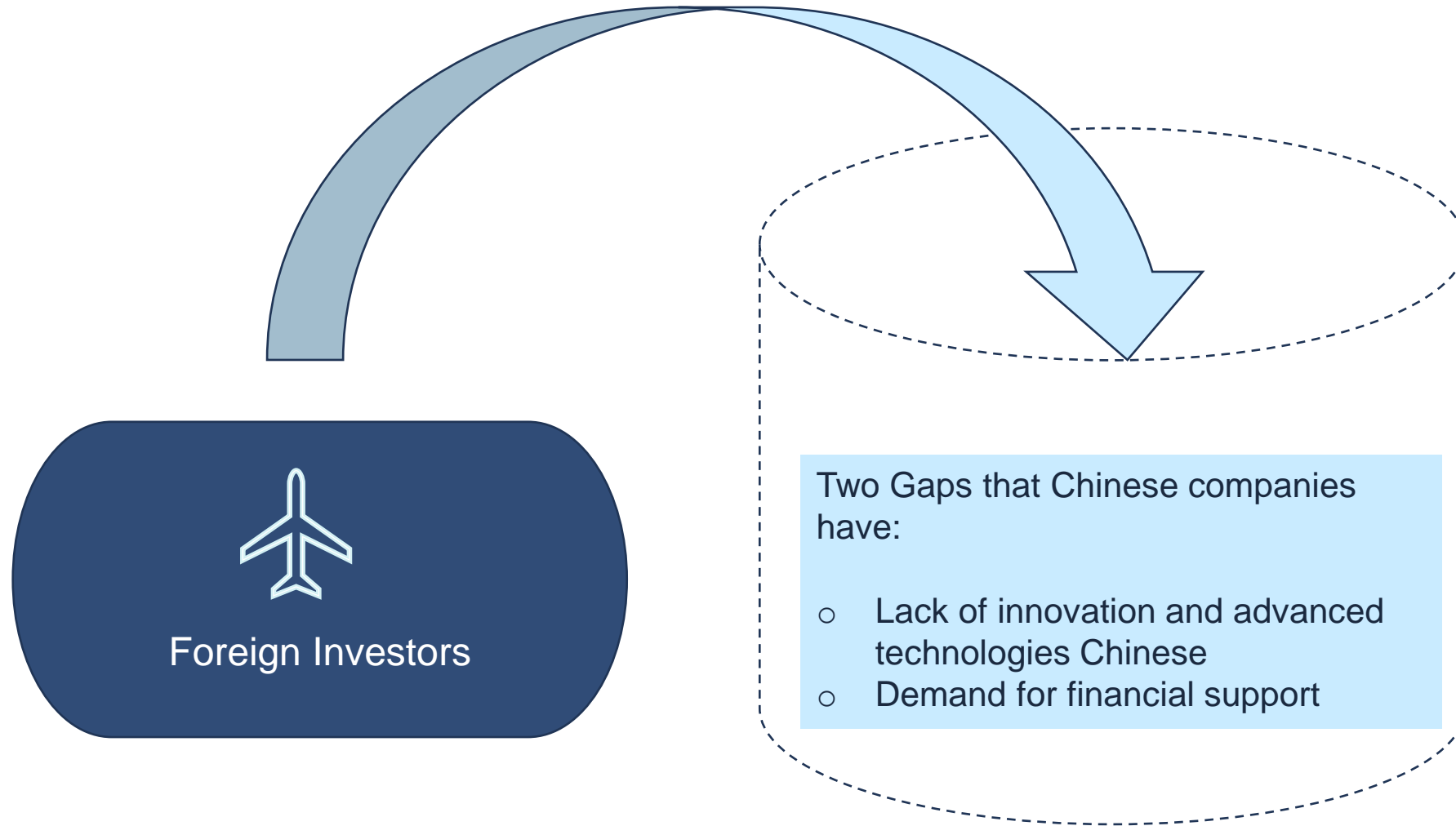


Catalogue of Encouraged Industries for Foreign Investment



- What are the favorable policies to facilitate FDI in encouraged industries?
 - Tariff exemptions on imported equipment
 - Access to preferential land prices and looser regulation of land uses
 - Lowered corporate income tax (CIT)

Challenges → Opportunities for Foreign Investors



1. Renewable Energy: Current Facts & Trend

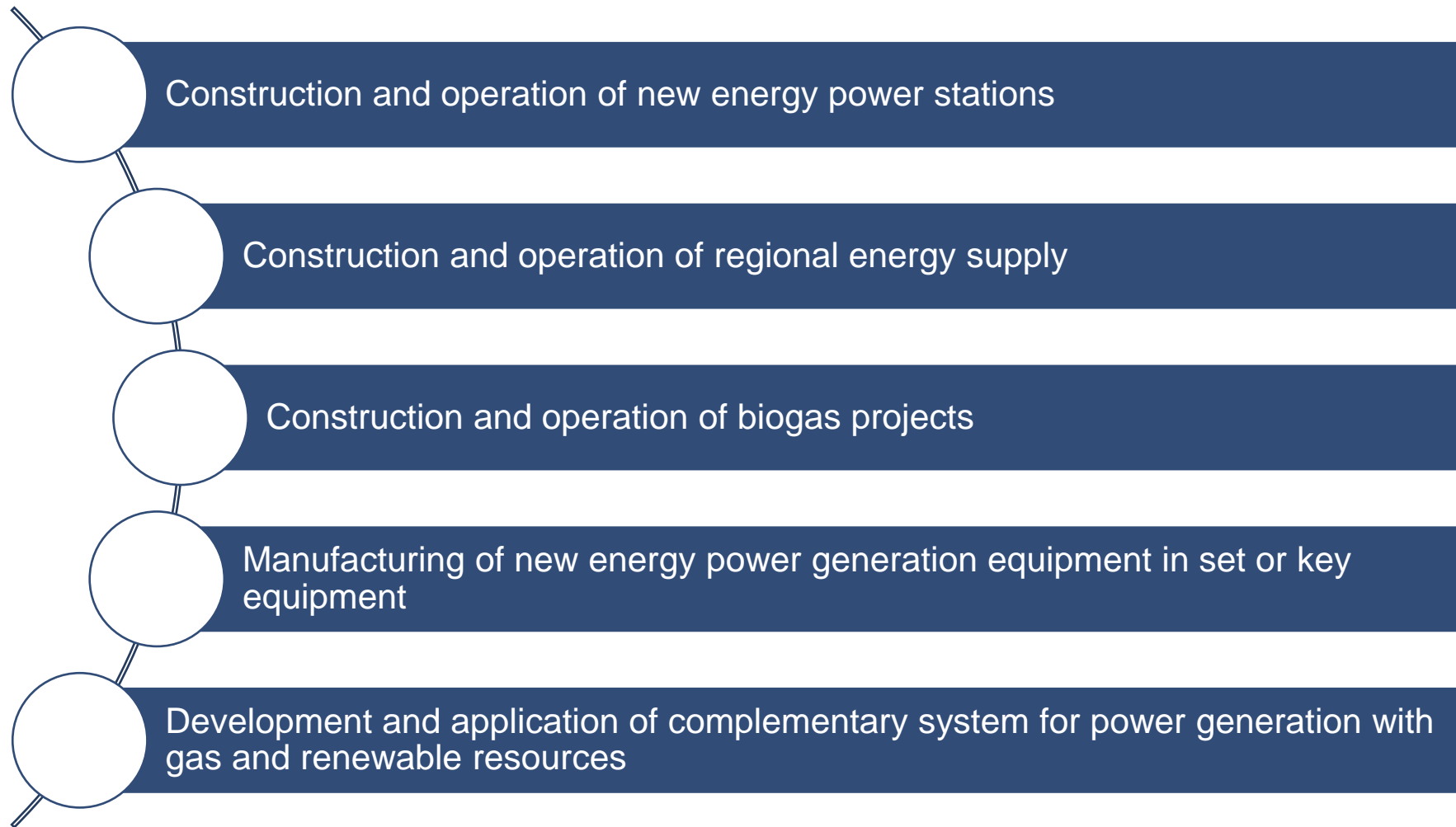
➤ Main Drivers for foreign investors:

- Cost efficiency requires the advanced technology and innovation
- The importance of producing industry-leading technology with scalable applications will only grow bigger
- The global trend is to adopt renewables
- China's market needs foreign investment to participate

➤ China is making efforts to attract foreign investors to participate in the renewables and upstream and downstream sector:

- ✓ **No special limitations** for foreign investors to invest in new energy projects.
- ✓ Foreign enterprises with technological and quality advantages shall **gain** new development **opportunities**, especially in the commercial and industrial application of renewables.

Renewables Sectors Encouraged for Foreign Investment



2. Hydrogen Industry: Current Facts & Trend

→ The Chinese government has identified hydrogen energy as one of six industries

➤ Current Facts:

- ❑ Most hydrogen today is produced using fossil fuels due to cost considerations (China produces about 60% of its hydrogen from coal (brown hydrogen) and about 25% from natural gas (gray hydrogen))
- ❑ Difficulty in storing and transport hydrogen
- ❑ Shell signed a strategic cooperation agreement with Jiaxing city in Zhejiang province, under which the two sides will cooperate in hydrogen energy and other new energy fields.
- ❑ Toyota set up a joint venture with the Chinese hydrogen fuel cell maker Beijing SinoHytec to manufacture fuel cells for the Chinese market.

➤ Trend:

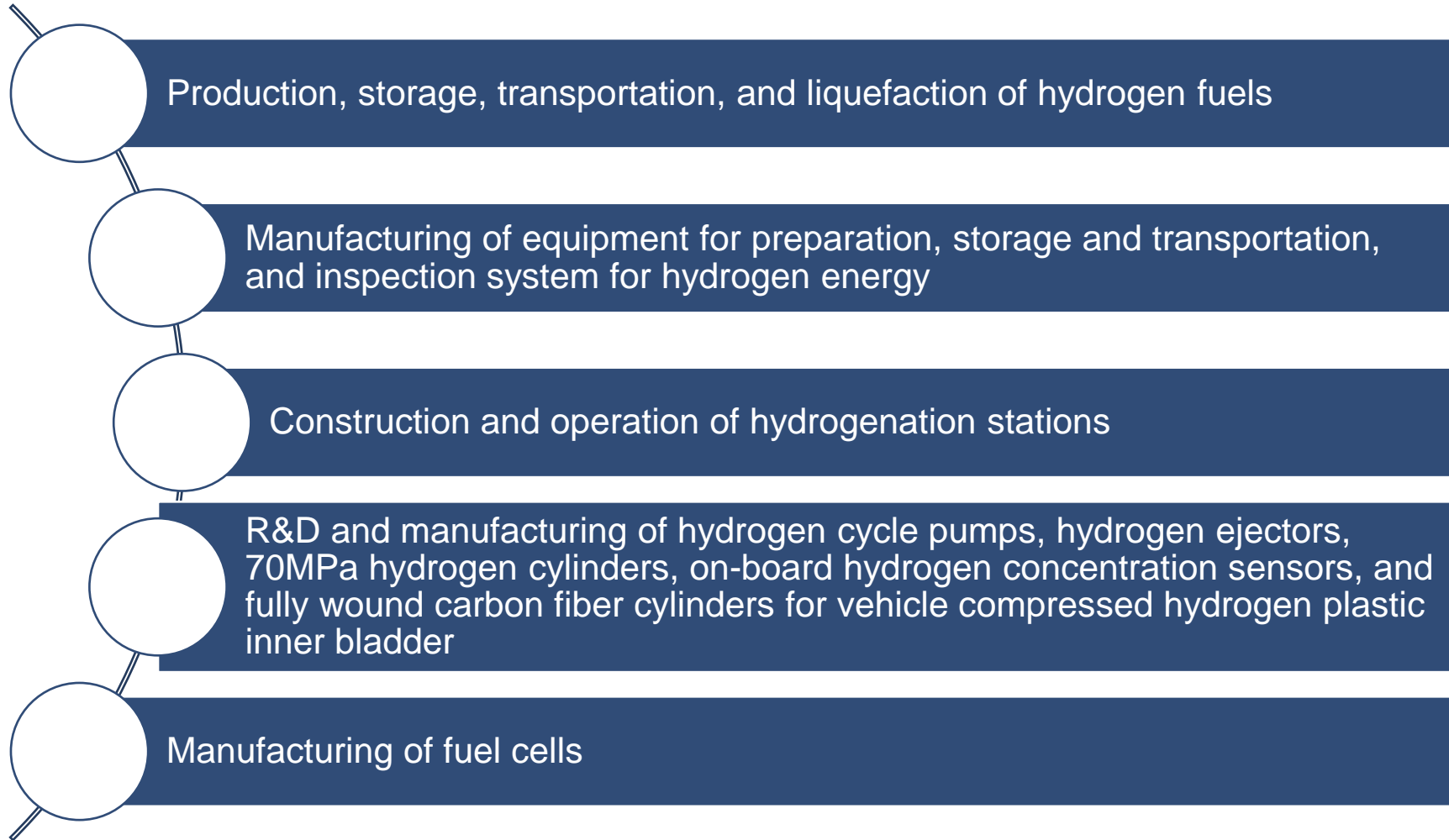
- ❑ Hydrogen energy and the upstream and downstream industries as “**encouraged sectors**”.
- ❑ The application of Hydrogen energy production, storage, and transport: *Limited*

Conclusion: the growth potential for green hydrogen is huge

Fossil fuels are of the following types:

- Coal
- Petroleum
- Natural gas

Hydrogen Sectors Encouraged for Foreign Investment



3. New Energy Vehicle (NEV)

➤ **China's NEV industry has achieved complete openness to foreign investors:**

- For foreign investors, the cap on the share ratio of foreign investment in NEV manufacturing was **lifted** as early as 2018.
- As of January 1, 2022, the restriction that one foreign investor cannot establish more than two joint ventures in China to manufacture the same type of vehicles **has been removed**
- Foreign Investment is especially welcomed for the **R&D and manufacturing** of key parts and components of NEVs of and the manufacturing charging piles and charging piles for energy storage.
- To level the playground for domestic and foreign player, China government has been gradually removing subsidies.

Conclusion: foreign investment will have more chance to take a bigger bite of this giant market.

4. Carbon Capture, Utilization and Sequestration (CCUS)

- CCUS is a process that captures carbon dioxide emissions from sources like coal-fired power plants and either reuses or stores it so it will not enter the atmosphere.
- This technology is of high relevance for nations that are committing to reducing carbon emissions but are anticipated to remain dependent on fossil fuels in short term. [to meet China's carbon commitments]
- CCUS sectors that are well worth the attention of foreign investors

❖ **China's CCSU market size:**
US\$482 million in the year 2026 (forecasted)

Development of CCUS technology and services

Construction and operation of CCUS projects

Manufacturing of equipment for capture, use, storage and monitoring of carbon dioxide

5. Other Green Services

- Foreign investment is strongly encouraged – due to high innovation capabilities and technology advancement are required.
- Veolia Group of France has established an office in China to offer environmental services

Green services that are encouraged for Foreign Investment *(including but not limited to)*

R&D and application of technologies for energy conservation, environmental protection, and recycling economy

R&D and application of technologies for recycling and comprehensive utilization of resources and for recycling of emissions and discharges from enterprise production

R&D of environmental pollution treatment and monitoring technology

Development of clean production technology and services

R&D and application of disposal technology for radioactive waste

Construction and operation of hazardous waste utilization and disposal facilities and technical consultancy services

R&D of technologies for prevention and control of desertification and desert restoration

Section 3

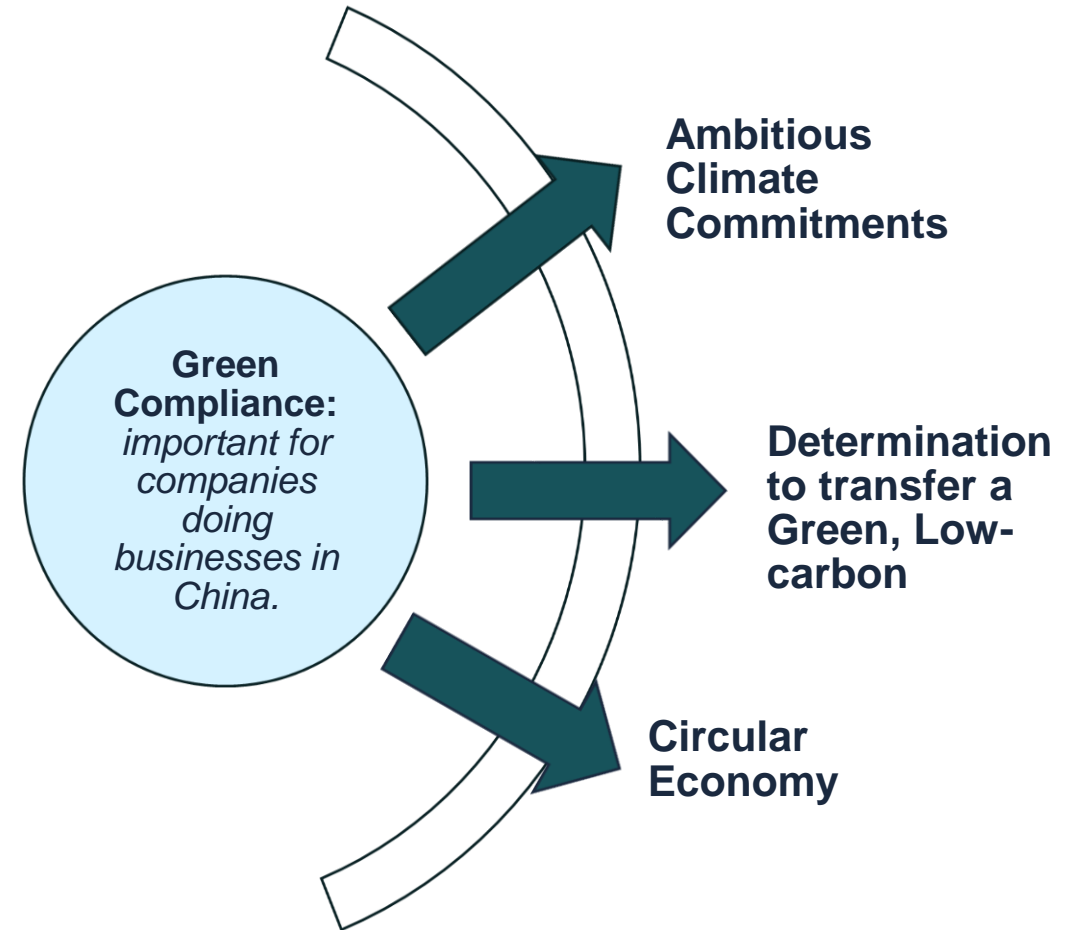
How to Prepare for Green Compliance in China



Green Compliance in China

➤ Bigger Push:

- China adding more environmental laws, regulations, standards, and other requirements to its green and low-carbon framework.
- Green compliance will become more important for businesses operating in China.
- Companies operating in the country under greater pressure to reduce their carbon footprints across value chains and be more efficient in environmental protection.



Green Compliance Obligations in China

Areas of Compliance	Targeted Areas	Violation Penalties
Carbon Trading x	Amount of CO2 emissions each year.	<ul style="list-style-type: none"> • Fine: RMB 20,000-30,000 (US\$2,960-4,450) • Name and Shame
ESG Reporting	Environmental information disclosure to evaluate company's sustainability	<ul style="list-style-type: none"> • Fine: RMB 10,000 (US\$1,580) to RMB 100,000 (US\$15,805). • Impact on corporate <u>credit record</u>
Clean Production Audit	The cause of high Energy consumption, high material consumption, and heavy pollution	<ul style="list-style-type: none"> • If refuses to make rectification by the competent environmental authority within a prescribed time period → Fine: RMB 50,000 (US\$7,400) to RMB 500,000 (US\$74,000).
Pollutant Discharge Permit /pollutant discharge registration	Permit for pollutant discharge	<ul style="list-style-type: none"> • Fine: RMB 1 million (US\$148,000) • Administrative Sanctions • The main responsible person may also be hold accountable for sever, continuous and intentional violations
Environmental Damage Repairment & Compensation	Ecological & environmental damage compensation system	<ul style="list-style-type: none"> • Damages that can be repaired should be repaired by the polluter or an entrusted third party • Compensation for damages • Bear the related expenses • Conduct alternative repair realize the equal restoration of the ecology and its service functions.

Get Prepared! 4 Tips

Audit your facility and supply chain

To Prepare

Conduct *regular green Audits* to know the distance towards achieving green compliance.

Invest in management tools, technology and services

To fulfil

Polluters need to monitor and measure pollutants discharged by them for which it is advised they invest resources in availing the best services.

Pay close attention to future developments

To improve

Create detailed plan for investments, changes to operational workflows and making supply chain more adept to new compliances.

Fit sustainability into your risk management strategy

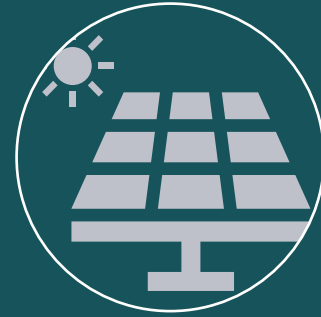
To keep

Sustainability a mainstream in risk management. Companies expected to adhere to sustainability practices by jurisdictions and stakeholders.

Key Take-Aways



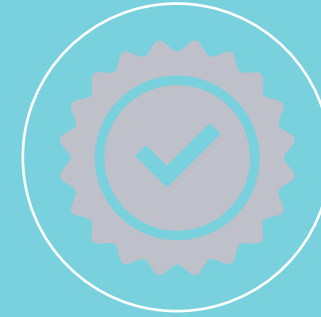
**China has
grand
ambitions for
greening**



**Technological
innovation is a
key pillar of
China's green
transformation**



**Green
Compliance:
ESG Reporting
Trends**



**Foreign
Investors
Upgrading in
green assets,
projects, and
technologies**



Investor Resource & Speaker's Contact

- The presentation slides
- “**Doing Business in China 2022**” guide
- “**Investing in Green and Low-Carbon China**” guide (May 2022)
- DSA Service Brochure



All publications are available at DSA's online bookstore at www.asiabriefing.com/store



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400+

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3,000+

Multinational clients that have already chosen us

80+

Countries served by our professional services

25

Offices in China, Hong Kong, India, Vietnam, Singapore, Indonesia and Mongolia; Liaison offices in Italy, the United States and Germany, and Asian Alliance offices in Malaysia, the Philippines, Thailand, Bangladesh, Japan, South Korea and Taiwan.





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