



Client Alert

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Accessing into China's Green Economy A Research Report on How can Foreign Investors access into China's Growing Renewable Energy Market

Shelly Xiong

A research report regarding the current development of renewable energy in China and how can foreign investors access into China's growing renewable energy market has been completed by HaoLiWen. The following is the executive summary of this report.

Section One: The development of China's Current Energy Market

- China is the world second largest consumer of energy, just after USA, representing 10.4% of total energy consumption of the world.
- China as a net importer of the energy, has a gap between energy consumption and production as of 2.5 billion tons of standard coal in 2008.
- China's reserve of renewable energy resources is abundant. Location and potential capacity of each type of renewable energy has been carefully investigated and have been published in *<Medium and Long term Development Plan for Renewable Energy in China>*.
- *<Medium and Long term Development Plan for Renewable Energy in China>* has set up a general goal for the renewable energy production as of 10% of the total energy production by 2010 and 15% by 2020, and detailed goals for each type of renewable energy.
- To reach the goal set in the Plan, China has closed down 32,100 MW of thermal power plant and cancelled export rebate for 553 products that is highly energy consuming and highly polluting.
- Chinese companies as well as foreign energy companies are already marching into this new growing market. By 2008, 28 Chinese public companies have announced their engagement in the renewable energy projects and 15 Chinese companies in the renewable energy

sector have been listed in overseas stock market.

Section Two: Governmental Support for Renewable Energy Development

- *Renewable Energy Law*, came into force on 1 January 2006, provides a framework and guidance on governmental support for developing renewable energy, which mainly includes three areas: fiscal subsidy for enterprises; tax preferences and fiscal subsidy for users.
- Special funds are available for wind energy, solar energy and biomass energy under different implementing rules.
- Discount-interest loan is also available for renewable energy project.
- Renewable energy projects can enjoy 3 years of exemption and subsequent 3 years of half-taxation on corporate tax.
- Many renewable energy companies may qualify as high tech companies and enjoy a life time of low corporate tax which is 15% at the moment.
- Various other types of tax privilege on corporate tax, VAT, property tax, stamp duty and consumption tax have been introduced through different legislation.
- On-grid renewable energy will be purchased by energy operating company based on Compulsory Purchase. Government also provides price subsidy to renewable energy companies currently do not make much profit.
- Users can also enjoy fiscal subsidy through purchasing renewable energy equipment.

Section Three: Business Models for Entering into Chinese market

- There are five business models for foreign companies entering into Chinese renewable

energy market: Green Land Investment, M&A, BOT, CDM and Technology Export.

- In the Green land Investment model, major procedures that investors have to go through are acquiring land use right and building permit, environmental impact assessment, project verification and approval.
- M&A of an existing energy company may only go through approval procedure. However, anti-trust examination is becoming a sensitive issue in M&A transaction.
- Government adopts open bidding for BOT model. Price is a decisive factor in winning a bid.
- China has the fastest growth in CDM projects which indicates positive and optimistic attitude from developed countries in China's emission reduction ability. More than 70% of CDM projects are renewable energy related.
- Chinese government allows 98% of benefit of transferring CERs goes to the company and keeps 2% as the revenue for energy R&D.
- Technology export maybe considered by many small and medium companies which don't have huge cash flow but has advanced and competitive technology which is lack at the moment in China.

Section Four Operation Barriers and Legal Risks

- Long, complicated and multi-layers of approval procedure for Green Land Investment somehow constitutes a barrier for foreign companies that wish to have a quick access into Chinese market.
- Risks in an M&A transaction is usually the legal risks that are not identified before signing the M&A agreement. Thorough Due Diligence is recommended.

- BOT in China by foreign companies at the moment is very poorly legislated. This gives a lot of power and discretion to the government in deciding how they choose the partners, particularly in the bidding process, and how they want the contract be executed. BOT investors shall try hard to sign a good contract to ensure their interest can be reflected and protected through the contract.
- Risks in CDM project is similar to that of a finance project. If the registration by CDM Executive Board cannot be done, or the CERs cannot be delivered, all the previous cost could prove to be a waste. Carefully design the structure of the CDM contract is a must.
- IP infringement is the biggest concern for exporting technology to China. Make sure IP protection strategy is in place when exporting technology to China.

Should you have any questions about this Client Alert, please contact:

如对本法律动态有任何疑问,请与下述合伙人或律师联系:

Shanghai: [Eleanor Hong](#)

Address: [37 F, No 500 Pudong South Avenue
Shanghai 200120 PR China](#)

Tel (电话): +86 21 5840 6188

Fax (传真): +86 21 5840 6288

Email (邮件) hongzhiqin@haoliwen.com

Dublin: [Shelly Xiong](#)

Address: [Ashleigh Center, Main Street Castleknock
Dublin 15 Ireland](#)

Tel (电话): (353) 1 640 4847

Fax (传真): (353) 1 640 4847

Email (邮件) shellyxiong@haoliwen.com

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PRC ATTORNEYS

昊理文律师事务所

上海浦东南路 500 号国家开发银行大厦 37 楼
37F, 500 Pudong South Road, Shanghai

200120, China
www.haoliwen.com

| Shanghai/上海 | Chicago/芝加哥 | Dublin/都柏林 |

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