

Shifting Priorities: Encouraged Industries for Foreign Investment and the 12th Five Year Plan

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Draft revisions to the Catalogue for Guiding Foreign Investment in Industry (the “Catalogue”) were issued by the National Development and Reform Commission (NDRC) and Ministry of Commerce (MOFCOM) on April 1.

Among the many proposed revisions to the Catalogue is a slightly “greener” slant on encouraged foreign investment and in the 12th Five Year Plan as a whole.

The Catalogue

Initially introduced in 1995, the Catalogue has been revised four times so far, with the most recent version updated in October 2007. Stipulating “encouraged,” “restricted” and “prohibited” categories that distinct foreign invested projects fall into, the Catalogue has long been a major guideline of China’s market openness strategies.

The Catalogue clearly divides foreign investments into “encouraged” “restricted” and “prohibited” with anything unmentioned considered merely “permitted.”

In 2010, the NDRC and the MOFCOM gave their local equivalents permission to approve foreign-invested projects falling into the “encouraged” or “permitted” category with a total investment amount of less than US\$300 million.

Major Related Additions to the Encouraged Category

The Draft Catalogue focuses on encouraging foreign investment in high-end manufacturing, high and new technologies, modern services, new energy, energy-saving and environmentally friendly industries.

A significant number of additions to the encouraged category are environmentally related, including:

- *Renewable energy production equipment manufacturing*
Including bearings of wind turbine generator set (mainshaft bearing of wind turbine generator set of 1.5 megawatts or above, speed increaser bearing, dynamo bearing, etc.) and gear transmission used for wind power, nuclear power or high speed rail

- *New energy key vehicle component manufacturing, battery charging station construction*

Including high energy batteries, anode battery materials, battery separators, battery management systems, motor management systems, and electronic control integration of electric vehicles (50 percent foreign shareholding limit)

- *Advanced energy efficient and emission reduction textile manufacturing*

More detailed description of qualified energy-saving and environmentally friendly projects than previously

- *Aquatic pollution recovery technology*

Including offshore oil pollution cleaning and ecology recovery technology and relevant product development, prevention and treatment technology of sea water eutrophication, prevention and treatment technology of marine life explosive growth disaster and coastal zone ecological environment recovery technology

- *Recycling*

Including construction waste recycling; waste plastics, electrical and electronic products, automobiles, electrical equipment, rubber, metal, battery recycling; recycling plant construction and operation

Besides the above additions, “environment-friendly” was inserted into several project descriptions where it was not before, regarding the production of specific types of chemicals and materials (including refrigerant and detergents, aviation and aerospace materials).

Continuing Related Industries in the Encouraged Category

Equipment Manufacturing

- Manufacturing of complete sets of equipment or key equipment for power generation with new energy

Catalogue Classifications

Encouraged

Investments classified as “encouraged” are assumed to be approved automatically and can benefit from preferential tax treatments. Due to the recent changes, approval of the projects up to US\$300 million will now be granted by the local government authorities.

Permitted

Foreign investments classified as “permitted” are projects that are not listed. These are automatically assumed to be approved, but do not benefit from any of the preferential tax treatments given to encouraged industries.

Restricted

The “restricted” industries should expect longer time for approval as they will be subject to scrutiny and approval from higher level authorities. These are generally projects requiring heavy energy consumption (i.e. low efficiency) causing high pollution.

Prohibited

Those classified as “prohibited” are not open to foreign enterprises. These are usually industries highly related to China’s current social issues and national interests.

resources (limited to Sino-foreign equity/cooperative joint venture operations): equipment for photovoltaic power generation, geothermal power generation, tidal power generation, wave power generation, garbage power generation, biogas power generation and wind power generation with the capacity of 3 megawatts or more [Note: previously 1.5 MW]

- Manufacturing of equipment for environment-friendly, energy-saving, on-site polyurethane spraying waterproof and thermal insulation systems
- Manufacturing of fertilizer-, pesticide- and water-saving, agricultural technology-based equipment
- Manufacturing of air pollution prevention and control equipment; water pollution prevention and control equipment; solid waste treatment and disposal equipment; equipment for comprehensive utilization of mine tailings; equipment for the recycling, disposal of and reutilization of used and waste plastics, electrical appliances, rubbers and batteries; equipment for waste textiles, remanufacturing equipment for waste mechanical and electrical products, devices for the comprehensive utilization of used and waste tires
- Manufacturing of environmental monitoring instruments
- Unconventional water treatment or recycling equipment and water quality monitoring instruments

Clean Energy Power Station Construction

- Construction and operation of new energy power stations (including, among other things, solar energy, wind energy, geothermal energy, tidal energy, wave energy and biomass energy)
- Construction and operation of hydroelectric power stations with the main purpose of power generation
- Construction and operation of power stations using the clean combustion technology of integrated gasification combined cycle (IGCC), 300,000-kilowatt or more circulating fluidized bed and 100,000-kilowatt or more pressurized fluidized bed combination (PFBC) technology

Material Production

- Development and production of building materials characterized by energy conservation, environmental protection, and waste recycling
- Production of energy-saving and high-efficiency chemical building materials using plastic for steel and wood
- Production of environment-friendly (non-chromizing) [Note: “environment-friendly” is a new word addition here] refractory materials used in furnaces, including cement, electronic glass, ceramics etc.
- Production of completely biodegradable materials

Technology Advancement

- Development of environmental pollution treatment and monitoring technology
- Development and utilization of clean coal technologies and products and manufacturing of clean coal equipment (coal gasification, liquefaction, coal water slurry and industrial coal)
- Development and application of technologies for recycling and comprehensive utilization of resources and for recycling emissions and discharges from enterprise productions; for utilization of nonmetal mine tailings
- Development and application of new technologies for comprehensive and ecological restoration of mines
- Development of energy saving technology and services
- Technologies for and manufacturing of equipment for environmental protection of aquatic ecosystems

Recycling and Waste/Pollution Treatment

- Recycling and treatment of waste plastics, electrical and electronic products, automobiles, mechanical and electrical equipment, rubbers, metals and batteries
- Construction and operation of sewage and garbage treatment plants, hazardous waste treatment and disposal plants (incineration plants and landfills), and environmental pollution treatment and control facilities

Chemicals and Chemical Products

- Development and production of

new varieties, new formulations, special-purpose intermediates, or auxiliary agents of efficient, safe and environment-friendly [Note: “environment-friendly is a new word addition here] agricultural chemicals and development and application of relevant clean production process

- Production of environment-friendly printing inks and aromatic oils
- Manufacturing of equipment for environment-friendly, energy-saving, on-site polyurethane spraying waterproof and thermal insulation systems

Water Supply and Recycling

- Development of technology, manufacturing of complete sets of equipment for seawater desalination and circulating cooling, with min. daily capacity of 100,000 cubic meters
- Industrial waste water treatment, recycling and utilization
- Construction and operation of renewable water plants

Central/Western Catalogue

The other major catalogue guiding for investment, the Catalogue of Priority Industries for Foreign Investment in the Central and Western Regions (last amended in 2008) is expected to be further amended in coming months. According to the document, “Several Opinions of the State Council on Further Utilizing Foreign Capital,” published in April 2010, these revisions will be based on the same principles as the revisions to the Draft Catalogue. These include “encourage foreign capital to high-end manufacturing, high and new technology industry, modern service industry, new energy and energy-saving and environmental protection industry and ‘high-polluting, high-energy-consuming and resource-dependent’ and low-level and overcapacity expansion projects strictly restricted.”

The 12th FYP¹

One third of the social and economic objective targets under China’s 12th Five-Year Plan for National Economic and Social Development (12th FYP) (2011–2015) relate to natural resources and environmental issues. Further, the document is filled with related buzzwords

¹ Chinese version is available at various online sources including http://news.xinhuanet.com/politics/2011-03/16/c_121193916.htm

- the word “environmental” appears 54 times, “green” 18 times and “renewable” 8 times – leading experts to dub it the “greenest in China’s history.” In fact, the 11th FYP was itself quite “green,” so much so that the World Wildlife Foundation noted that it was “probably the first major governmental planning document in the world that put the global resource constraints at the very centre of economic planning.” So what’s different?

Perhaps the most notable overall change from the 11th FYP is the even greater emphasis on balanced economic growth and development as well as climate change. The environmental targets written out under the 12th FYP are all in line with far-reaching environmental commitments that China has committed to during the United Nations climate conference in Copenhagen. China has agreed to reduce carbon dioxide emissions per unit of GDP by 40 to 45 percent of the 2005 level and increase the percentage of non-fossil fuels in primary energy consumption to 15 percent by 2020.

Related Targets Revisions:
11th FYP to 12th FYP

	11th FYP	12th FYP
Reduction goal for energy consumption (per unit of GDP)	20 %	16 %
Reduction in sulfur dioxide	10 %	8 %
Reduction in chemical oxygen demand	10 %	8 %
	11th FYP	12th FYP
Reduction goal for water consumption per unit of industrial added value	30 %	30 %
	11th FYP	12th FYP
Effective utilization coefficient of agricultural irrigation water	0.5	0.53
Urban sewage treatment rate	70 %	85 %
Domestic garbage decontamination treatment rate	60 %	80 %
Total forest coverage rate	20 %	21.7 %
Ammonia nitrogen reduction	-	10 %

Increase and reduction goals by indicator vary slightly between the 11th and 12th FYP: some more conservative, some constant, some more ambitious than before. In fact, the reduction goal for energy consumption per unit of GDP is more conservative than in the 11th FYP, 16 percent vs 20 percent. This is widely

interpreted as a reaction to government blackouts near the end of the 11th FYP as a measure to meet its ambitious energy consumption goal.

In addition, China plans a small-scale carbon trading pilot program during the 12th FYP, focusing on carbon intensive industries and state-owned enterprises. This plan is expected to be more cost-effective than the administrative method used during the 11th Five-Year Plan.

Related Strategic Emerging Industries

Pressured by the need for new economic development strategies in the post-financial crisis period, in early 2010 the Chinese government pinpointed seven strategic emerging industries (SEIs), the development of which it plans to especially promote.

Under the 12th FYP, the Chinese government announced an investment of US\$1.5 trillion value from both public and private sectors into the seven SEIs. The value-added output of these SEIs is aimed to account for 8 percent of GDP in the five-year period. Of these seven strategic industries, three indisputably fall under green tech – renewable energy, renewable energy vehicles and energy-saving and environmental protection – with the other industries – biotechnology, high-end equipment manufacturing, new materials, new generation information technology - possibly related.

Related Strategic and Emerging Industries (SEIs)

Renewable energy

New-generation nuclear energy, solar thermal utilization and photovoltaic solar power, wind power technology equipment, intelligent power grids, and biomass energy.

Renewable energy vehicles

Plug-in hybrid, pure electric vehicle, and fuel cell vehicle technologies.

Energy-saving and environmental protection

Key technologies, equipment, products, and services that are highly efficient, energy-saving, advanced, environmentally-friendly, and featuring recycling of resources.

Large Renewable Energy Project Plans

In 2010, the National Energy Administration (NEA) announced plans to include 10 large renewable energy projects in the 12th FYP. The specific 2010 NEA renewable energy targets included:

- A “key” hydropower base project to promote hydropower exploration in the Jinsha and Nujiang rivers
- Five wind power projects totaling 90 million KW
- Solar PV (photovoltaic) installed capacity of 5 GW
- Renewable energy pilot city project

While no clearly numbered list of these projects made the pages of the plan itself, various renewable energy projects were mentioned throughout the 12th FYP, especially on Chapter 11, “Pushing Forward the Transformation of Energy Production and Utilization” and these specific goals are still in the works in one form or another.

Additional Development Plans

To suggest that the 12th FYP is the be all and end all of national-level guidance for the green sector would be misleading. In addition to the 12th FYP, additional related Five Year Plans (such as the Energy Development Plan and Ecological Protection Plan) are issued by the NDRC and Ministry of Environmental Protection and medium and long term plans geared toward specific development goals are published by the NRDC and the State Council. Such medium and long term plans related to the green sector include those for science and technology development, energy development (renewable and otherwise), and energy conservation. These plans often contain more detailed national-level projects than those mentioned in the 12th FYP.

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