

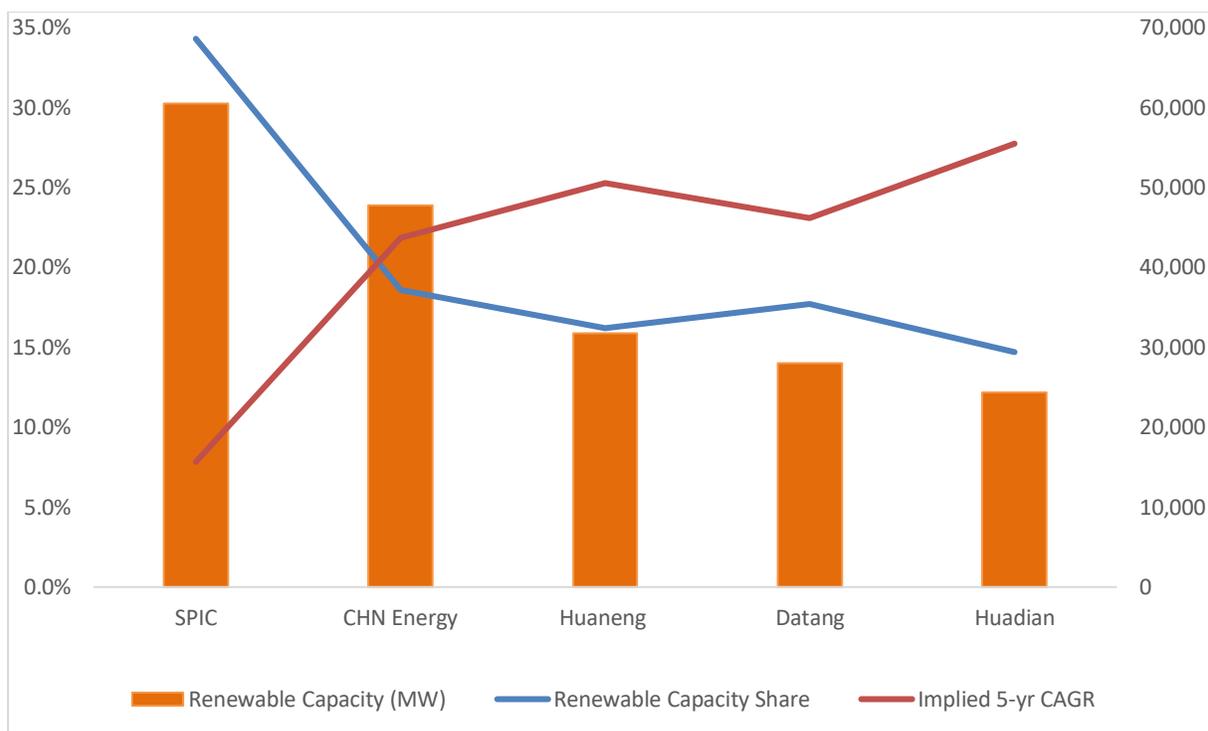
Week of 3 January 2022

China's Carbon Neutrality Planning: Policy updates

On the last few days of 2021, the Chinese government published several emission reduction-related policies, echoing the Carbon Neutrality [masterplan](#) released by the State Council earlier in September. In a November [newsletter](#), we expected many more emission reduction policies targeted key sectors and industries are yet to be released, as pieces of the country's Carbon Neutrality jigsaw puzzle.

On 30th December the State Council released another Carbon Neutrality guidance [policy](#) specifically targeting 97 [Central State-owned enterprises](#) (Central SOEs), which are under direct ownership control of the State-owned Assets Supervision and Administration Commission (SASAC) of the Chinese central government. Collectively accounting for 30% of China's GDP in 2020, these Central SOEs have been requested to reduce energy intensity by 15% and emission intensity by 18% in the next 4 years, a target in line with the country's emission reduction target during its 14th five-year plan ending in 2025.

More specifically for Central SOE power producers, a targeted renewable installation capacity of 50% has been highlighted in the document, which is a big step-up for the country's top five power generators as it implies double-digit compounded annual growth rates over the next four years. As of November, renewable energy accounted for 25.5% of the country's total generation capacity and produced 13.8% of the electricity consumption during the first 11 months of 2021, according to Caixin [statistics](#).



Source: As of December 2020, data compiled from company disclosure

The regulator also stipulated some other requirements, including asking petrochemical companies such as Sinopec and Sinochem to explore technologies enabling energy-efficient exploitation of oil and gas reserves, encouraging energy firms to set up renewable and power storage projects in abandoned mining areas, and calling for a wider use of hydrogen energy in transportation and other sectors.

More details regarding emission reduction requirements for the aluminium, steel and cement sector have also been highlighted in a [development plan](#) jointly released by the Ministry of Industry and Information (MIIT) and two other government agencies.

By 2025, the regulator vowed to reduce the emission intensity of aluminium products by 5% while cutting the energy intensity of steel and cement by 2% and 3.7%, respectively, adding some flesh to Beijing’s plans to cap greenhouse-gas emissions and to slash energy consumption in key raw materials sectors. To provide some context, steelmaking accounts for roughly 15% of China’s carbon emissions, while the contribution from cement and aluminium is 9% and 5%, respectively.

Although these relative reduction targets may seem unambitious, the absolute reduction that could be potentially achieved is enormous given these three sectors’ high energy consumption

and emission base. Since the largest steel, cement and aluminium producers in China all fall into the category of Central SOE, they would have to comply with the more stringent energy and emission requirements mentioned earlier and thus leads to greater reduction impact.

We also expect more detailed policies to be formulated soon concerning all high energy consumption and emission sectors, including the inclusion of these sectors in the world's largest carbon credit trading scheme. In addition, the fact that MIIT deliberately chose different indicators for these sectors also reflects Beijing's attempt to implement environmental measures in a more surgical way, as opposed to previous one-size-fits-all policies that have been heavily criticised.

Marching into 2022, we see no signs of slowing down in green development efforts from Beijing. In fact, the tightening grip on Central SOEs and raw materials which have long served as a foundation for China's economy has shown nothing other than its determination to fulfil its environmental commitment and build a more sustainable economy.

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