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# ENVIRONMENT NEWSLETTER | 5 APRIL 2012

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## ALTERNATIVE ENERGY

### U.S. imposes solar duties on China

The U.S. has imposed countervailing duties on Chinese solar panel manufacturers of between 2.9% and 4.73%. In 2011, imports of solar cells from China to the U.S. were valued at USD3.1 billion. The price of solar panels dropped more than 30% last year, mainly linked to cheaper panels made in China. China's Suntech, the world's largest producer of solar panels, will now face duties of 2.9% to offset what the U.S. said is its subsidy from the Chinese government. Another firm, Changzhou Trina Solar Energy, will receive duties of 4.73%. All others face duties of 3.61%. U.S. Customs will collect deposits equivalent to these amounts now and the Commerce Department will make a final ruling in June. The U.S. will also rule on whether China's solar panel output is violating its anti-dumping rules on 17 May. China has already said it will launch its own investigation into U.S. government support for renewable energy.

### China sets shale gas production target

China has set a goal of producing 6.5 billion cubic meters (BCM) of shale gas a year by the end of 2015 – about 6% of China's current total gas production – as part of a five-year plan to increase the country's capacity to tap the unconventional resource. Annual output is expected to increase to as much as 100 BCM by 2020, said Zhang Yuqing, Director of the National Energy Administration's Oil and Gas Department. In early March, the Ministry of Land and Resources estimated that China has 25 trillion cu m (TCM) of recoverable shale gas. Recoverable reserves of the gas are expected to reach 200 BCM by the end of 2015. If companies fail to meet the country's minimum work requirements and production targets, the government will revoke their rights to explore gas blocks and sell them to others at auction, the

National Energy Administration (NEA) said. The U.S. shale gas industry had an annual output of 170 BCM in 2011. Chinese companies have drilled several dozen wells and brought in firms such as Royal Dutch Shell, Chevron and Hess to conduct joint studies, but has not yet started commercial shale gas production even though it is widely believed to hold the world's largest shale gas resources. Exploration will focus on finding 600 BCM of proven geological shale gas reserves and 200 BCM of recoverable deposits by 2015. China is likely to tender its second batch of shale gas blocks in April or May after awarding two out of four blocks in its first ever auction in July last year. "Blocks on offer will be increased and the number of qualified bidders will increase too," Xiong Bingqi at the Ministry of Land and Resources said. The government would require rights holders for traditional oil and gas blocks to scour shale gas as well, and could take back the development rights if shale gas exploration inputs were below certain standards.

Royal Dutch Shell has done more exploration work in China than other foreign firms and has drilled an estimated five wells in Sichuan. The company has signed China's first shale gas production sharing contract (PSC) with the China National Petroleum Corp (CNPC), the state-owned parent of PetroChina. The companies will explore, develop and produce shale gas in the Fushun-Yongchuan block in the Sichuan basin, an area covering about 3,500 square kilometers. "We are delighted about this new milestone in our strategic cooperation with CNPC," Shell CEO Peter Voser said in a statement. "China has huge shale gas potential and we are committed to making a contribution in bringing that potential into reality." Shell said it invested more than USD400 million in shale gas projects with CNPC in China last year.

### Guanya to expand production of PV inverters

Nanjing Guanya Power Equipment, which manufactures inverters for alternative-energy power stations, plans to raise CNY1 billion through an initial public offering (IPO) in the second half of this year. The company is seeking a bigger slice of the lucrative CNY5 billion market for photovoltaic (PV) inverters, a key component of solar and wind-power stations. Sun Bangwu, Executive Director of Guanya, said that government curbs on investment in solar and wind power would have no impact on the inverter producer. PV inverters convert the direct current output of solar panels into alternating current that can be fed into commercial electrical grids. In his report to the National People's Congress (NPC) in March, Premier Wen Jiabao said the government would "prevent" excessive investment in solar PV and wind power. Since July, as prices of silicon wafer and polysilicon fell sharply, a number of small and medium-sized manufacturers have suspended production due to excess inventory. Qian Zhimin, Deputy Director of the National Energy Administration (NEA), said only low-level manufacturing would be curbed while the government still sees great potential in developing alternative energy sources. "The competition in the inverter market is getting fiercer as quite a few players are vying for a bigger share," said Xiangcai Securities Analyst Hou Wentao. "The annualized growth of the business is estimated at about 30% in the coming years." Guanya was established in 2001, one of the earliest makers of PV inverters in China. It now owns 18 national patents and produces 39 types of PV inverters. The company is backed by private-equity funds ZTE Capital and Milestone Capital.

### Wind power companies report profit growth

China Datang Corporation Renewable Power saw its net profit increase 60% year on year to CNY729.8 million in 2011 due to the expansion in its wind-power capacity. Huaneng Renewables, a direct competitor to Datang Renewable, meanwhile saw its net profit nearly double to CNY1.02 billion last year, on a 80% increase in sales. Datang Renewable said it was seeking to diversify into other energy projects such as solar and biomass. Chinese wind farm operators are facing challenges as they try to further increase scale in northern regions where high wind speeds favor their operations. Northern grids have not kept pace with wind farm expansion in the region, limiting the amount of electricity the farms can pump into the network. Datang Renewable President Hu Yongsheng said the National Energy Administration (NEA) planned to adopt a national quota for renewable energy, to encourage grids to expand the transmission network for wind power. Datang will focus on developing wind farms in low-wind-speed regions, and set up more projects in central and eastern areas as well as six provinces along the south coast. It is also pressing ahead with offshore wind farms in Binhai, Sheyang in Jiangsu and Hainan's Lingao Cape.

## Coal city Datong switching to solar energy

The city of Datong in Shanxi province, famous for its rich coal resources, is being transformed into a new center for solar energy. Datong's total coal output in 2011 was 103.48 million tons, about one-eighth of the total amount of Shanxi. "During the 12<sup>th</sup> Five Year Plan (2011-15) period, we have 432 [solar] projects with a total investment of CNY536.4 billion to help the city's transformation from a high-carbon city into a low-carbon one," said Mayor Geng Yanbo. He said the city's target is to raise the proportion of clean energy produced to 25% by the end of 2015. Construction of a polysilicon factory with an annual production capacity of 25,000 tons will start this month. Golden Concord Holdings, one of the world's largest polysilicon manufacturers, plans to invest CNY14.68 billion on five solar energy projects, including a polysilicon factory and a solar power station. The city is located on the northeast side of the Loess Plateau at an altitude of 1,000 to 1,500 meters and enjoys on average 2,800 hours of sunshine a year. Geng said Datong's solar resources could potentially provide 10 gigawatt (GW) of solar power. Construction on the first photovoltaic solar power station, with a 20 MW capacity, began late last year. Meanwhile, Golden Concord plans to build a PV solar power station of 500 MW, and another of 300 MW together with Foxconn Technology Group. Next August, Datong will hold the sixth Solar Decathlon, an international competition in which college teams design, build and run energy-efficient solar-powered houses. The competition is held every two years by the U.S. Department of Energy and the National Renewable Energy Laboratory in Colorado. It will be held for the first time in China, the Shanghai Daily reports. Jiuquan in Gansu city is famous for being the location of China's first oilfield. It is now vigorously developing wind energy, the Guardian adds.

## German subsidy cuts disappoint Chinese solar industry

Chinese solar industry insiders have expressed disappointment after Germany's parliament finalized a cut in subsidies, saying the move has "shaken the sector". From April 1, subsidies to the industry were cut by as much as 29%. The move is expected to slow the annual pace of installations by 50% in Germany, the industry's biggest market, and reduce solar panel exports from China, home of the world's biggest producers. The German government said that the use of subsidies has triggered rapid growth in the use of solar products and claimed that the subsidies have caused electricity prices to rise. The UK, Italy and France have also started to cut the subsidies they provide. "All these measures will bring a great transformation in the upper chain of solar panel production, which happens mainly in China," said Wang Lanfang, Solarprojekte's Representative in China. Because of the reduction in incentives and a slowdown in solar panel installation in Europe, demand for the panels will be greatly reduced this year. "This is bad news for panel makers in China, especially small and medium-sized factories," said Wang. She said the average price of solar panels dropped approximately 40% in 2011. She said that over the long term, the cut could result in a structural transformation in the sector and may even push some Chinese companies into bankruptcy. "The coming half year will see a huge transformation in the solar industry," said Wang. Germany, followed by Italy, has been Europe's leading solar energy market for 10 years and one of the most stable. The policy shift is the result of lobbying by Germany's biggest producers of electricity, who regard the solar sector as a major competitor. David Fouquet of the Brussels-based European Institute for Asian Studies, said that there is a contradiction in the actions of Germany and other countries that are planning to abandon nuclear power, but have taken decisions that will undermine their ability to do so, the China Daily reports.

- Xinzhou in Shanxi province will receive an investment of more than CNY100 billion to build the biggest wind farms in the province. New wind farms with a combined capacity of 3 GW are expected to be installed in the poorest city in Shanxi province by the end of 2015, together with manufacturing and service facilities.
- The Liaoning provincial capital, Shenyang, can now save 1.37 million tons of coal each year by using geothermal heat-pump technology for central heating and cooling systems. The municipal government has made obtaining energy from the source a priority.
- GCL-Poly Energy Holdings, China's largest producer of solar panel raw material polysilicon and wafers, posted a HKD4.27 billion net profit for last year, a 6.2% rise on the year before. Sales grew 38.1% to HKD25.5 billion.
- China's National Energy Administration has issued an urgent circular, demanding local governments stop approving construction of new wind farms in regions where more than 20% of total wind power generated cannot be transmitted due to power grid

capacity bottlenecks.

- Quality authorities said China lacks a standard on electromagnetic radiation released by energy-saving lights, Zhao Yufeng, Radiation Expert with the Ministry of Environmental Protection (MEP) said. He added that the best way to prevent getting irradiated by energy-saving lights is to stay away from them. He warned that such lights are not suitable for use as desk lamps or berth lamps.

## POLLUTION

### Delta leads nation on dirty-air data

The Pearl River Delta is a step ahead in releasing up-to-the-hour information on PM2.5 across the region. Hong Kong and Guangdong province published key particle readings from the country's largest network for air-quality detection, consisting of 31 stations, on March 8. Xiamen in Fujian province also released air-quality readings from its three monitoring stations. The release of data sets an example for the rest of the country, says Professor Chen Zunrong from Sun Yat-sen University in Guangzhou. Hourly and 24-hour average readings of the fine particles at 17 stations in the delta region and 14 stations in Hong Kong can now be viewed on the websites of the Guangdong Environment Protection Bureau and Hong Kong's Environmental Protection Department. Hong Kong already publishes online the levels of other pollutants, such as ozone and nitrogen dioxide. Shanghai plans to publish data on fine particles from June, while Tianjin has yet to unveil a timetable. "Information transparency will certainly help the government curb pollution, like what we have seen in Hong Kong," Prof. Chen said. The launch came just days after the central government released revised national standards on air quality, covering PM2.5, which had long been omitted from the country's pollution parameters. In January, Beijing became the first Chinese city to publish the fine particles readings. However, the data, based on a single monitoring station, was widely seen as incomplete and ineffective in gauging the capital's serious smog problems.

### Guangdong's estuaries remain heavily polluted

Nearly 12% of Guangdong's estuaries remain severely polluted and have not improved in the past year, Chen Guangrong, Deputy Director of Guangdong's Environmental Protection Administration said. "The estuaries of the Shenzhen and Lianjiang rivers are the two main culprits," Chen said. Pollutants were mainly domestic waste, measured by dissolved oxygen, ammonia nitrogen, total phosphorus and chemical oxygen demand (COD). The report said another 11.8% of estuaries were classified as class four or lightly polluted. Last year's results do not show any improvement from 2010. Apart from estuaries, water in the Shenzhen, Lianjiang, Longgang and Pingshan rivers and the Xiao Dongjiang river's Zhanjiang section was also classified as "heavily polluted". The Guangdong Provincial Environmental Protection Administration set the end of the year as a deadline for the city governments of Shenzhen, Dongguan and Huizhou to improve the water quality in the Danshui and Shima rivers to Grade V, the minimum standard of usable water quality. According to a Guangdong environmental report, the water quality of the Shenzhen river falls below Grade V, meaning it is heavily polluted, where it runs into the sea. "The water quality within Shenzhen and the quality of its drinking water sources both meet the standards," said Chen Guangrong. "Most of the polluted rivers running into the Shenzhen river are short and they have a lower volume of water. In consequence, their ability for self-purification is limited," said Huang Ping, Dean of Environmental Science at the School of Environmental Science and Engineering of Sun Yat-sen University. "At the same time, these rivers have to deal with a large amount of sewage." The upper reaches of the Danshui and Shima rivers are both highly industrialized, and industrial sewage poses special problems. Chen said Guangdong will increase its daily sewage treatment capacity by 1 million metric tons this year and build another 1,000 kilometers of sewerage networks. "Our goal is a daily sewage treatment capacity of 22 million metric tons and 12,000 kilometers of sewerage networks by 2015," Chen added. The water quality of rivers in eastern Guangdong is the worst, with 30% of it heavily polluted.

### Air pollution could become China's biggest health threat

Air pollution will become the biggest health threat in China unless the government takes greater steps to monitor and publicize the dangers of smog, Zhong Nanshan, President of the China Medical Association and the country's leading respiratory disease specialist, warned. Lung cancer and cardiovascular illnesses are already rising and could get worse in the future

because of factory emissions, vehicle exhausts and cigarette smoke, he told the Guardian. The outspoken doctor – who won nationwide respect for revealing the cover-up of the SARS epidemic in 2002 – said the authorities are starting to learn the lessons of past health crises by being more transparent about the risks posed by contaminated air. Unless there is more openness, he said, public trust will be eroded. “Air pollution is getting worse and worse in China, but the government data showed it was getting better and better. People don’t believe that. Now we know it’s because they didn’t measure some pollutants,” said Zhong. “If the government neglects this matter, it will be the biggest health problem facing China.” Beijing and other major cities have experienced dire levels of air pollution for more than a decade, but the government has been reluctant to investigate and publicly disclose the medical consequences. Zhong said he has been concerned about the problem for 10 years, but his efforts to press for official data have met with silence. Until recently, the government did not include ozone and PM2.5 in its air quality index, even though these two pollutants pose the greatest risk to human health. Insiders say some cities quietly and selectively measured these pollutants for many years, but never made the results public. Scientific studies of this crucial public health issue have been notable by their absence, the Guardian reports.

## Most lead-acid battery plants shut down

China closed most of its lead-acid battery plants last year, and it vows to continue fighting heavy-metal pollution. The Ministry of Environmental Protection (MEP) said it checked nearly 2,000 lead-acid battery enterprises in 2011 and 81% of them were shut down for not meeting environmental standards, leaving only 315 in operation. “Although less than 20% of companies remained, the total productivity has reached 190 million kilowatt-hours, exceeding that of 2010,” Minister Zhou Shengxian said. Nine cases of lead poisoning were reported from January to August last year. “Preventing and controlling heavy-metal pollution, and strengthening supervision of such enterprises will remain as the most important part of this year’s environmental protection campaign,” Zhou said. “Stricter measures must be taken this year.” In January and February, four incidents of lead poisoning were reported in Guangdong, Henan and Guangxi. All provinces are also required to make public a list of miners and processors of heavy non-ferrous metal ores, leather tanning companies and plating companies by June 30, Zhou said.

- Shanghai started to release real-time PM2.5 air-quality measurements from two of its monitoring spots – one in Putuo district and one in Zhangjiang in the Pudong New Area – on March 8.
- Nanjing's Environmental Monitoring Center has dismissed the online controversy that it placed three PM2.5 air quality monitoring devices in green areas in order to release better results. The three devices were placed in different surroundings, and thus reflect a more accurate picture of PM2.5, Engineer Lu Xiaobo at the Center said. PM2.5 readings are also collected from three stations in Suzhou and single stations in 11 other cities in Jiangsu province.
- The Huoshaogang Refuse Dump, the biggest of its kind in Panyu, Guangdong province, is accepting 1,800 tons of garbage a day and will reach capacity within two years. Built in the 1980s and expanded to 128,000 square meters in 2008, the dump is now a 38-m-tall pile of trash.
- The Athena, a South Korean cargo ship which sank off Shanwei in March, was carrying 7,000 tons of sulphuric acid and 140 tons of unspent fuel. A pollution test released by the State Oceanic Administration showed signs of leaking fuel and acid. Sulphuric acid can kill marine life and damage offshore infrastructure. It could also lead to the release of metal ions contained in mud or sediments, causing long-term environmental pollution.
- No fishing will be allowed on the Yangtze river this month, and the ban will be extended through June for the river section between the Gezhouba Dam and the mouth of the river. The river's ecosystem has suffered significant damage due to dam construction and water pollution. The fishing ban has been in place since 2002, but it has served only to slow the damage.
- Production at Zhenxing Fertilizer Co in Wenshui County, Shanxi province, was suspended after it illegally discharged sewage into the Wenyu river and caused crops in 26 nearby villages to fail. Environmental inspectors found that the company's pipes pumped waste into the river. There used to be plenty of fish and shrimp in the river but

now it is completely lifeless, a villager told CCTV. Zhenxing Fertilizer claimed it processed waste according to regulations and all the sewage met quality standards.

- Four people have died of 1,2-dichloroethane poisoning since September and 40 others were severely ill, Liu Yimin, Vice Director of the Guangzhou No 12 Hospital said. The Guangzhou Production Safety Administration found that some businesses were using glues containing large percentages of the poisonous 1,2-dichloroethane, some as much as 60%. The national limit is 0.5%. Acute 1,2-dichloroethane poisoning may cause loss of memory, coma, brain problems and even death.

## GREENHOUSE GAS EMISSIONS

### Boeing and Airbus allied with Chinese government against European Commission

Airbus is ratcheting up pressure on European Union policymakers to resolve rising international tensions over the controversial emissions trading scheme after claims that USD12 billion worth of contracts have been withheld by Beijing. Airbus and eight European airlines called on officials from countries including Britain and Spain to settle the issue that could cost the aircraft maker market share to rival Boeing, who is also opposed to the EU scheme. Charges on carbon emissions for entire flights into or from Europe have drawn strong criticism from nations including China, India, the United States and Brazil. They say the scheme goes beyond lawful boundaries by charging for emissions that occur outside Europe. Airlines are expected to start paying next year for the emissions they make this year. In China, approval for 45 wide-bodied aircraft had been suspended, Airbus said. But an official from the Civil Aviation Administration of China (CAAC) said the orders, which have been put on hold, were not firm and did not necessarily relate directly to the dispute between Beijing and Brussels. The Chinese government banned Chinese airlines from participating in the emissions scheme, but denied it had prohibited them from ordering Airbus planes. China's four largest carriers – Air China, China Eastern Airlines, China Southern Airlines and Hainan Airlines – have placed 631 firm orders with Airbus, accounting for 5% of its total orders of 11,570 aircraft as of the end of February. The International Air Transport Association (IATA), which represents more than 230 airlines, has called for a global solution through the UN agency. The European Union has hinted that it hopes to avoid levying the carbon-emissions tax on flights from China, if Beijing introduces its own carbon-trading scheme to cover aviation, but China said that it would take time to set up its own market for the trade in carbon emissions. Regional pilot projects did not cover aviation.

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