

# China

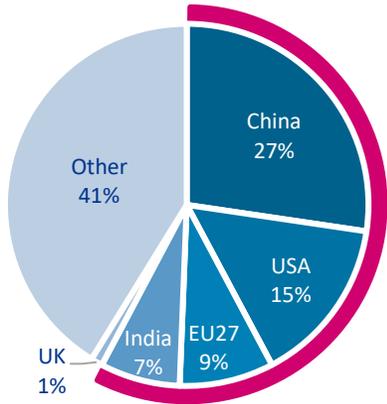
## Credibility & Durability Framework



# Climate Change & National Commitments

The road to COP 26 – National Commitments suffer from credibility and durability risk

2018 CO2 Emissions, % of Global Total



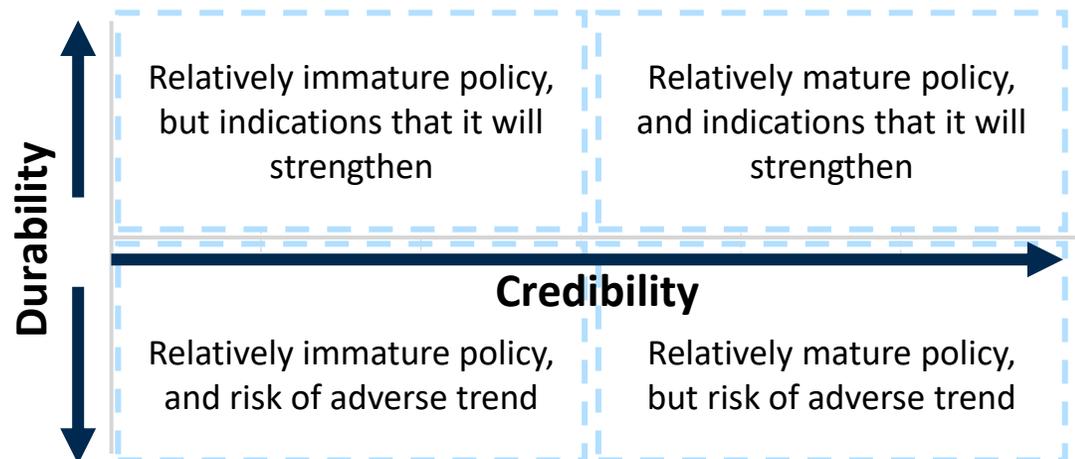
The top 4 global CO2 emitters produce 58% of global CO2 emissions. Their targets are disproportionately important to the global transition. However...

## Future action is uncertain due to national commitments suffering from credibility & durability risk

Baringa's Political, Economic & Policy Risk Team have developed a methodology to assess the credibility and durability of nations' commitments:

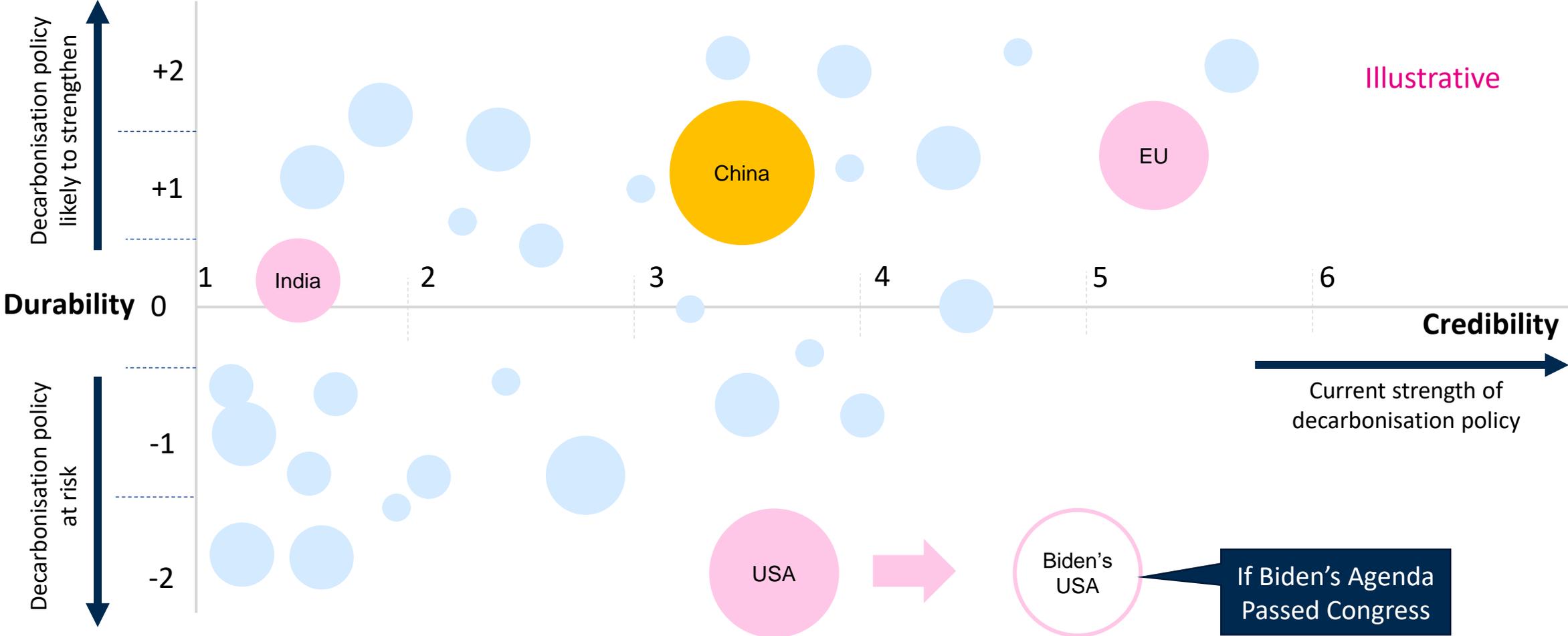
**Credibility:** A measure of policy maturity. How developed is domestic decarbonisation policy in relation to Net Zero.

**Durability:** A measure of the depth and breadth of political support. How vulnerable is the energy transition to political and economic shocks?



# China | PEP Credibility & Durability Index

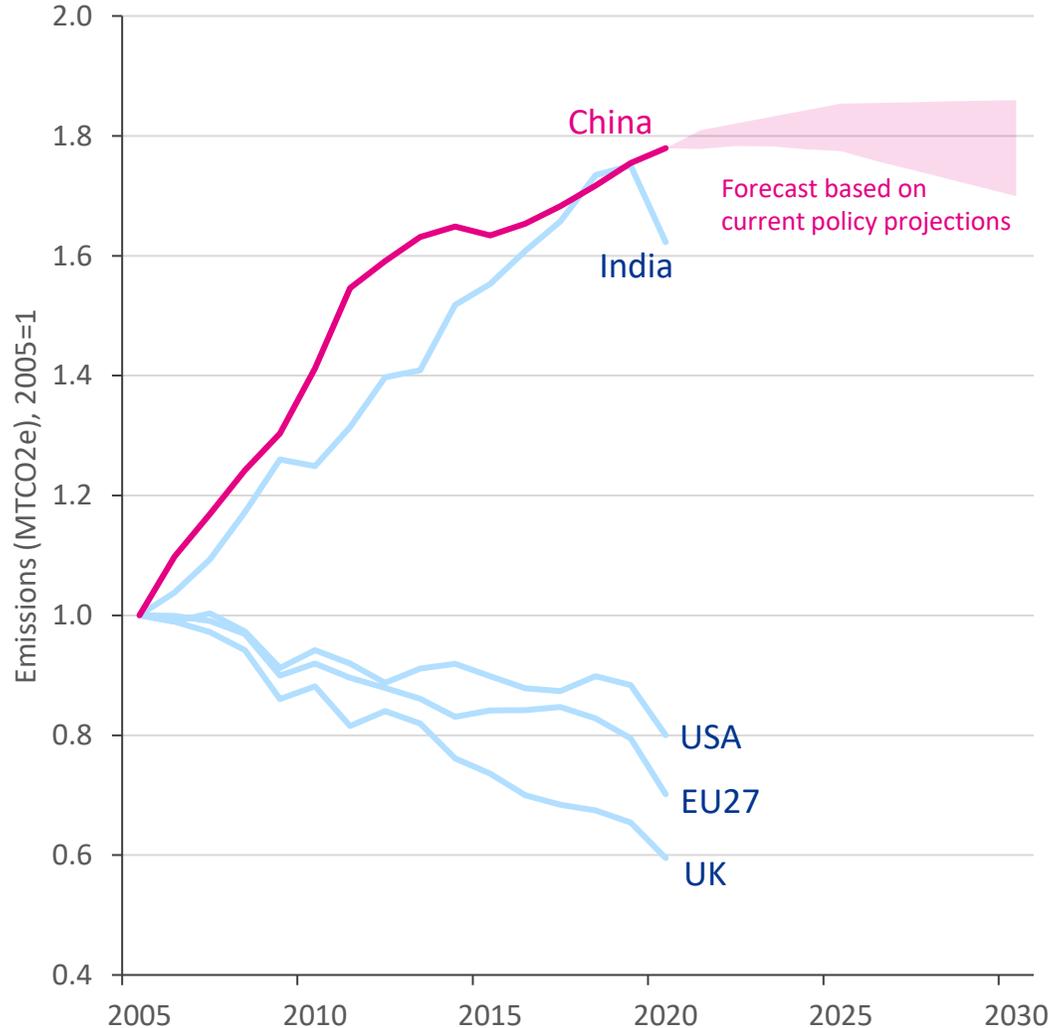
Credibility & Durability is a measure of confidence over whether governments will reach Net Zero



# China | Climate Commitments & Policies

## Emissions still rising under target to peak emissions by 2030

### Total Emissions (excl. LULUCF), Indexed to 2005



Source: Climate Action Tracker Forecasts, Baringa Analysis

Copyright © Baringa Partners LLP 2021. All rights reserved. This document is subject to contract and contains confidential and proprietary information.

### China Emissions Targets

- Net Zero by 2060 (verbal commitment by President Xi Jinping), with Peaking carbon dioxide emissions “before 2030”
- Lower carbon intensity by “over 65%” in 2030 compared to 2005

### Key Policies

#### Power Generation

- President Xi Jinping announced that China will “strictly control coal consumption” (2021-2025) and “phase down coal consumption” (2026-2030)
- Proposal to increase the share of non-fossil fuels in primary energy consumption to “around 25%” in 2030, and increase the installed capacity of wind and solar power to 1,200 GW by 2030

#### Transport

- By 2035, all new vehicles sold in China to be powered by 'new-energy' - Half electric, fuel cell, or plug-in hybrid – remaining 50%, hybrid vehicles
- Expansion of high-speed rail and local electric public transport systems
- New fuel economy standards

#### Industry

- Aluminum and steel sectors to target a peak in carbon emissions by 2025
- Kigali Amendment- phasedown of HCF production and consumption

#### Buildings

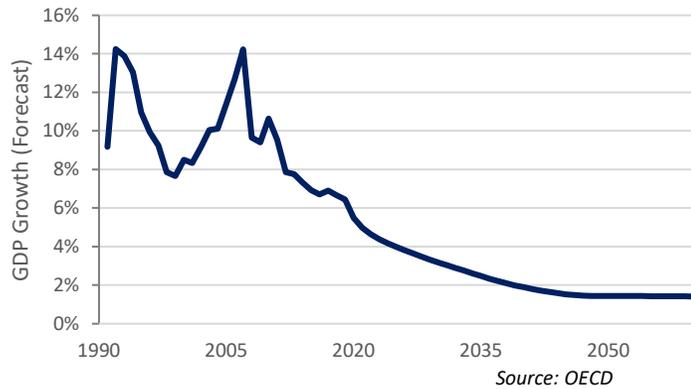
- 2016-2020 target of a 65% energy efficiency level in buildings compared to 1980 and retrofit 500 million m2 of existing residential floor space

# China | Contemporary Issues and Risks

Climate action faces competing domestic priorities creating uncertainty

## Priority of Growth

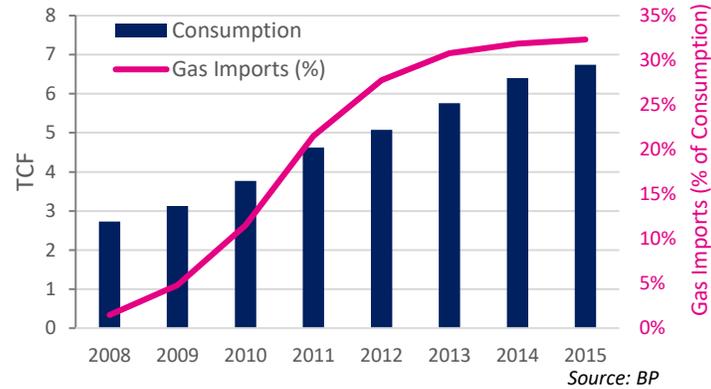
Chinese GDP Growth Forecast



- The Communist Party has a social contract with its citizenry predicated on material increases in economic activity and living standards.
- The Chinese economy is a command and control economy with defined growth targets. Economic management has traditionally focussed on stimulating production in high carbon emitting sectors such as steel and concrete by increasing government investment.
- Post Covid stimulus increased carbon emissions by 7%.
- A slow down in economic growth, as in predicted in long term growth forecasts, could lead to carbon emitting growth policies being prioritised over climate goals.

## Priority of Energy Security

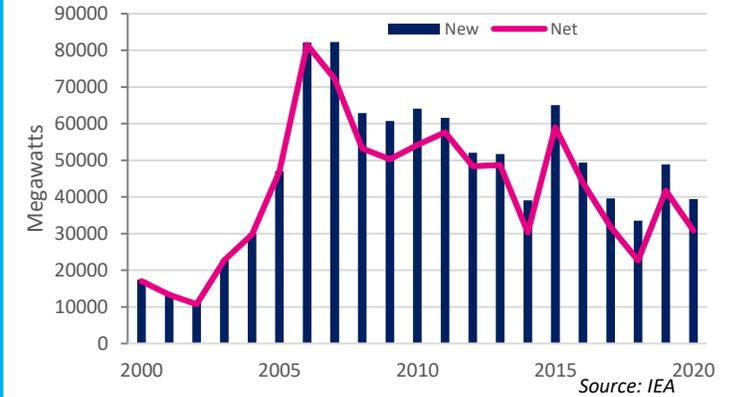
China Gas Security is Worsening



- Energy security is a priority for the Communist Party. Its military capability is heavily dependent on oil imports as well as for ICE vehicles and other urban staples.
- China has an abundant supply of coal deposits but not oil or gas reserves. China is a major fuel importer, with 80% of imports passing through the natural geographical choke point: The Strait of Malacca. This represents a major security risk.
- Increasing the share of renewables in the energy mix is an opportunity to drive towards energy independence for China; the nation is rich in the rare earth metals needed to manufacture renewable generation infrastructure.
- There is a danger, however, of reversion to coal in the medium term to limit energy dependence.

## Attractiveness of Coal

Coal Fired Capacity



- Despite being unpopular domestically due to air pollution complaints in major urban centres, coal remains responsible for over 50% of China's energy mix.
- It remains attractive as backstop to shore up energy security with China controlling 13% of global reserves
- The abundance of coal creates a huge cost advantage for the fuel which may prove attractive as economic conditions change. Whilst there has been discussion of coal phase-out, and evidence of coal to gas switching, new plants still being commissioned
- This creates a danger that coal is impeded into the energy mix far longer than compatible with Net Zero.

This document: (a) is proprietary to Baringa Partners LLP (“Baringa”) and should not be re-used for commercial purposes without Baringa's consent; (b) shall not form part of any contract nor constitute acceptance or an offer capable of acceptance; (c) excludes all conditions and warranties whether express or implied by statute, law or otherwise; (d) places no responsibility or liability on Baringa or its group companies for any inaccuracy, incompleteness or error herein; and (e) the reliance upon its' content shall be at user's own risk and responsibility. If any of these terms is invalid or unenforceable, the continuation in full force and effect of the remainder will not be prejudiced. Copyright © Baringa Partners LLP 2021. All rights reserved.