



## Premier Miton Global Renewables Trust PLC

### “Tiger in the tank” - the numbers behind China’s renewable transition



James Smith, manager of the Premier Miton Global Renewables Trust, discusses the extraordinary numbers behind China’s transition to renewables and the reasons for such levels of growth.

In 2022, the Chinese lunar New Year fell on 1st February. The cynic might say that the Chinese people have relatively little to celebrate this year, with the country still enduring Covid-induced lockdowns, an over-leveraged property market, and slowing economic growth.

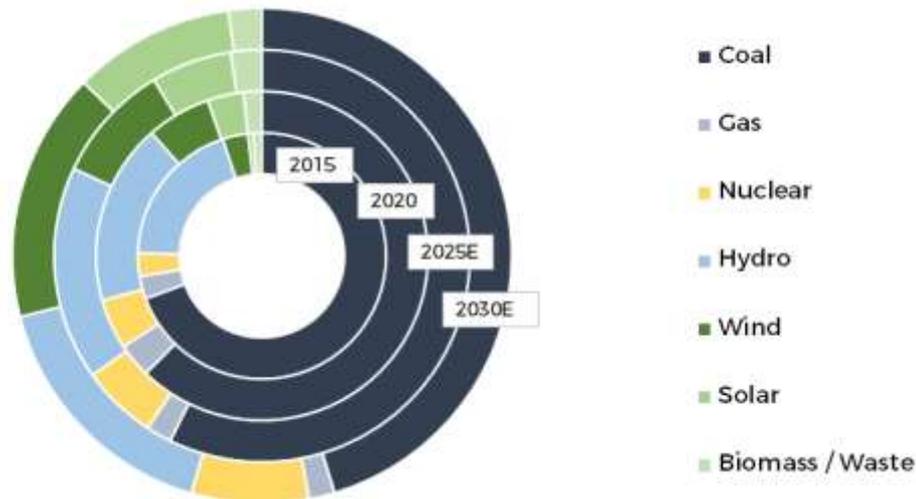
However, the New Year marks the beginning of the year of the Tiger, often referred to as the king of all the Chinese beasts. The Tiger is thought of as the symbol of strength and bravery, attributes which will be required to tackle not only the country’s health problems, but also its environmental ones.

China industrialised rapidly through the 1990s and 2000s and the energy required to achieve this came from fossil fuels, largely coal. China was blessed with abundant reserves, and utilised them to good effect. This has however left them in a difficult position as the world performs an abrupt turn away from carbon-based energy and towards renewables. As such, their target to reach peak carbon emissions in 2030, with a net zero carbon position by 2060, is somewhat behind the western world. However, even this will require an enormous effort on the part of the Chinese government, its energy companies, and its population. A substantial part of this effort will fall on the electricity sector.

Please see overleaf.



## China Electricity Generation, market share by technology



Source: Bloomberg New Energy Finance. 2015/2020 actual, 2025 / 2030 BNEF Economic Transition Scenario

Contrary to the impression often given in newspapers, China has already made large strides in decarbonising its electricity sector. For instance, over the 5 years from 2015 to 2020, the renewable energy sectors of wind, solar, and biomass increased their electricity production by 199% from 288 TWh to 861 TWh, in the process increasing market share from 5.1% in 2015 to 11.6% in 2020.

Bloomberg New Energy Finance expect this trend to continue, with wind / solar / biomass reaching a market share of 29.0% by 2030, with generation of 2,917 TWh, an increase of 239% on 2020, or 13% per year. By 2030, also taking into account hydro and nuclear, the majority of China's electricity generation is expected to be carbon free.

To put this into some context, by 2030 Bloomberg expect China's wind energy market to be three times the size of the US, being the next largest market.

What are the key reasons behind the growth?

1. *Renewable energy costs have fallen*, making them increasingly competitive. China, like most jurisdictions, has in the past, subsidised renewable energy offering fixed feed in tariffs. These are no longer required, and new projects now sell power at local grid tariffs and in the free market.
2. *Renewable energy is profitable*, with tariffs, and now free market pricing, offering attractive rates of return on investment.
3. *Policy has been supportive*. The central government has been clear in its targets for new renewable energy generation, offering incentives for local grid companies to take



renewable power, and imposing penalties for those regions with excessive curtailment (whereby the grid is unable to fully accept renewable power).

4. *Investors and banks have been willing providers of capital.* Steady and visible returns have proved attractive for investors, allowing companies to finance development at competitive rates.
5. *The sector has proved to be robust,* with utilisation hours, or asset productivity, increasing over time.

In summary, while cognisant of the macro risks, Chinese renewable investments find themselves well placed with government support, increasing efficiencies, and plenty of room to grow. We expect coal, stymied by high costs including the new Chinese carbon market, to continue to give up market share to renewables. While China was fortunate in its development to have large coal reserves, it now benefits from a sizable landmass on which to develop renewable energy assets.

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