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*Gentle Readers,*

*Lehman, Lee & Xu welcomes you all to its monthly China Green Report, a brief insight into the environmental Chinese investment and legal climate.*

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## Limits on products' packaging

Every year over RMB 280 worth of packaging material becomes junk. This waste overtakes cities' already critical solid waste facilities and constitutes a dramatic loss of resources. Packaging waste among urban garbage is increasing at almost 10% per year.

To address the problem, the General Administration of Quality Supervision Inspection and Quarantine (AQSIQ) and the National Development and Reform Commission (NDRC) jointly prepared a draft regulation aiming to limit the quantity of packaging materials. The draft has been submitted to the State Council for approval.

According to the new draft regulation applicable to both local and foreign products, the packaging shall not consist of more than three layers and its cost shall not exceed 15% of the product's total price. The product shall not occupy less than 45% of the packaging.

Offending producers and sellers would face a maximum RMB 5,000 fine. Additionally, manufacturers are required to maintain a record of their packaging to facilitate control by the authorities.

If the 15% packaging cost requirement passes, many believe there will be an increase in the price of many products, as for certain kinds of products (i.e. medicines) it is very unlikely that such a rule would be respected.

## Massive overseas Chinese investments: new environmental policy

The Chinese Academy for Environmental Planning (CAEP), in cooperation with the Global Environmental Institute (GEI) and the University of International Business and Economics is drafting an environmental regulation for Chinese companies investing overseas.

Increasing Chinese overseas investment calls for the creation of new policies to contain environmental risks. As of 2002, Chinese foreign direct investment is experiencing a growth rate of around 60% per year, with about 10,000 Chinese investment firms established in over 170 countries with a value of \$90.6 billion.

Chinese bank's credit businesses are booming, but very few environmental measures have been adopted. Only 4 Chinese banks have decided to address the negative environmental consequences of their investment projects, developing internal regulations aiming to introduce independent environmental standards. Additionally, the banks' participation in the United Nations Environment Programme Finance Initiative is weak.

A significant step forward in environmental risk prevention has been taken. The recent subscription to the Caring for Climate initiative (a voluntary action platform to combat climate change established amongst the UN Global Compact participants) by some major Chinese companies, namely Haier, China Mobile and China International Marine Containers, will serve as an example for many other businesses.

## Legal news

### New regulations to foster the development of alternative fuel vehicles

To address critical pollutions level affecting most Chinese urban areas, the Ministry of Industry and Information Technology, the National Development and Reform Commission (NDRC) and the Ministry of Science and Technology (MOST) are issuing a policy encouraging the development and manufacturing of new alternative energy vehicles. The new regulations, representing a new attempt to reduce emissions and contribute to a cleaner environment improving air quality standards in urban areas, are supposed to be issued by the end of this year and will bring a preferential tax regime for manufacturers of alternative energy vehicles and developers of new technologies.

"Alternative energy vehicles" are identified in article 6 of the Rules for Administration of Permission to Produce Alternative Energy Vehicles (issued on 2007 to implement the Development Policy for the Motor Vehicle Industry of 2004) as vehicles that apply advanced technical principles, have new technologies and configurations, are designed with a non-conventional motor vehicle fuel as its power source (or using conventional motor vehicle fuel with a new type of power device), and a comprehensive advanced vehicle power control and drive technology. Alternative energy vehicles include hybrid power vehicles, battery electric vehicles (BEV, including solar energy vehicles), fuel-cell electric vehicles (FCEV), hydrogen engine vehicles and other alternative energy vehicles (e.g. vehicles with high efficiency accumulators and dimethylether vehicles).

The MOST has recently announced its goal to increase the amount of alternative fuel vehicles (AFV) to 10% of the total number of urban traffic vehicles, and is planning to promote in the short term 1,000 AFV in 10 cities.

Various Chinese firms are already actively penetrating the market. SAIC's hybrid model, BYD Auto's iron cell electric car and Chery's cabinofuel car are among the new models presented this year. Projects are also being developed by other local firms such as Brilliance Auto, Changan Auto, Dongfeng Motor and FAW. It has been estimated that about 76 alternative fuel vehicles have currently been developed by 27 different companies. Due to their high selling price, however, AFV are still a rarity on Chinese streets.

China's commitment to fulfilling its objective of combating pollution and achieving sustainable development had been emphasized during the 2008 national teleconference on special environmental protection campaigns, jointly held in Beijing on July 10, 2008, by the National Development and Reform Commission (NDRC), the "brand new" Ministry of Environmental Protection (MEP), the Ministry of Justice, the Ministry of Supervision, the Ministry of Housing and Urban and Rural Construction, the State Administration of Industry and Commerce (SAIC), the State Administration of Work Safety, and the State Electricity Regulatory Commission (SERC).

Over 2,000 minor meetings had been simultaneously organized in every Chinese province, autonomous region and municipality, with the participation of about 65,000 representatives from the local branches of the relevant environmental authorities. During the meeting, the SAIC announced its "Decision on Commending Advanced Units and Individuals in Special Environmental Protection Campaigns on Streamlining Enterprises that Discharge Pollutants against the Law and Ensuring Public Health."

The conference assessed the progresses made in improving the enforcement of environmental laws that eliminate environmental hurdles, protect public health, and implement sustainable development policies. In the past 5 years, a task force of about 7 million officers has inspected some 3 million industries, located around 120,000 violators and shut down about 20,000 heavily polluting factories.

Stricter controls on environmental impact assessment requirements have been announced. The new Ministry of Environmental Protection has recently identified the heads of 21 local governments that have failed to match the water pollution prevention targets under the national five years plan (2006-2010), but penalties are still to be defined. Water pollution related cases have actually increased by 30% as of last year's baseline.

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### After the Sichuan earthquake: the reconstruction

The Sichuan earthquake does not appear to have severely damaged the local environment. The post-quake situation seems to be under control.

According to the Ministry of Environmental Protection, 388 drinkable water sources have passed the acute toxicity test, meeting the relevant drinkable requirements. All the nuclear facilities in the area are safe and no radioactive materials have been discharged in to the environment. Of the 50 currently discovered radioactive sources buried by the quake, all have been collected and stored by local departments of the MEP.

The Government is promoting significant investment in the region, fostering international cooperation for the reconstruction and restoration of the damaged area. The reconstruction is providing numerous investment opportunities for both domestic and foreign investors, primarily providing business to manufacturing, food, medical, energy supply, and engineering and electronic companies.

The plan provides for the rebuilding of some 4.5 million urban and rural homes, 11,000 schools and 9,000 medical facilities, in addition to more than 50,000 km of highway and 5,500 km of railway. The plan includes the restoration of more than 100,000 hectares of farmland and around 800 power stations, with the projected use of more than 200 billion bricks, 300 million tons of cement and 30 million tons of steel.

Some major companies have already expressed their interest in the reconstruction, including the global management consulting firm McKinsey and Co., Dell computer, the networking multinational Cisco Systems and the leading manufacturer and service provider Honeywell.

# Investment

### Tianjin eco-city

China and Singapore will collaborate to build an eco-city near the industrial city of Tianjin. The area will become an environmental-friendly model for sustainable development, serving as an example for other Chinese cities.

The project area will cover 30 km<sup>2</sup> and is to be completed within 10-15 years, representing one of the biggest investments in sustainability by the Chinese government and the second cooperative venture between China and Singapore, after the China-Suzhou Industrial Park was realized in the Jiangsu Province (east China).

The first phase of construction covering 4 km<sup>2</sup> will be developed within 3-5 years.

Singapore is notably experienced in the utilization of renewable energy sources such as wind and solar power, and as time has passed become more familiar with sea water desalinization and waste water and rainwater treatment and reutilization. One of the centerpieces of the eco-city will be energy efficient buildings.

A Sino-Singapore joint venture between a Chinese and a Singapore consortium will be in charge of the project. China Development Bank and some local investment companies are among the Chinese investors. The Singapore consortium is headed by the Keppel Corporation.