

China is making good RI progress, despite its contradictions



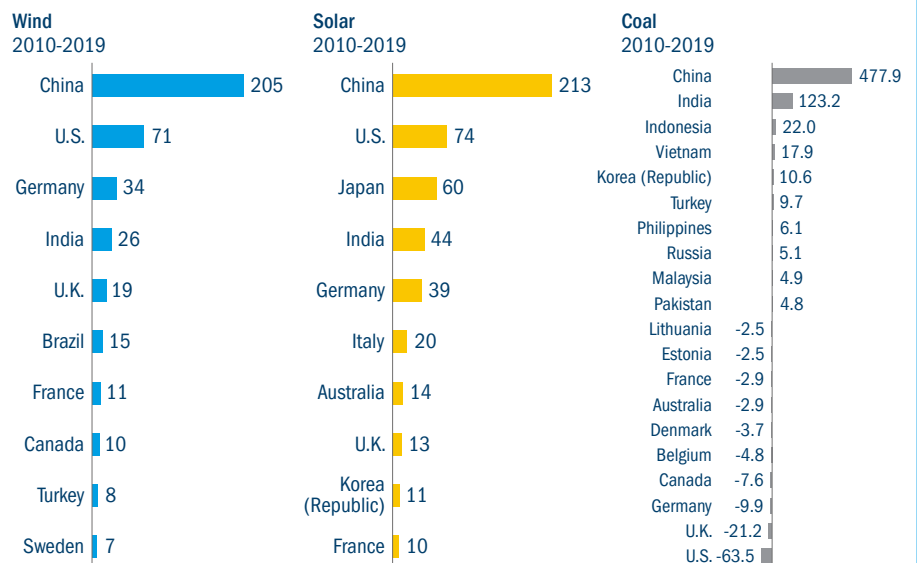
Jin Xu
Portfolio Manager



Jess Williams
Portfolio Analyst,
Responsible Investment

China is a double-edged sword: it is the world-leading renewables developer, installing more than double the gigawatt (GW) capacity of its nearest competitor over the past decade both in terms of wind and solar power (Figure 1), but at the same time it has seen the highest coal capacity additions over the same period – nearly quadruple that seen in India. The Chinese government announced it is aiming to reach peak coal emissions by the end of the current five-year plan ending in 2025, but new coal plants with 40-year life spans do not fit well with a 2060 net zero emissions target. China is a country of great progress and great opportunity, but also of contradictions.

Figure 1: China's renewable output



Source: Bloomberg New Energy Finance, 2020.

In absolute terms, China is the biggest contributor to global emissions – but this is mostly due to its size. When looking at emissions on a per person basis it is much lower than the US and roughly in line with the EU – the big difference, however, is that after more than a century of rising emissions, the EU is now on a downward trajectory while China's are not (Figure 2). Another point to consider with country level emissions is that these are production-based emissions figures. This means that the emissions generated from the production of Chinese-made goods which are consumed in the EU or the US is captured in China's footprint. If we looked at per capita consumption emissions, China would likely look much better than the EU, the US and the UK.

Fig 2: Comparing emissions

Per capita emissions (tonnes CO2e)	2017	2018	2019
United States	16.2	16.6	16.1
China	6.9	7.0	7.1
EU-27	7.0	6.9	6.6
United Kingdom	5.8	5.7	5.5

Source: Our world in data, 2020.

With China's new net zero targets and its existing leadership in the renewables space – the country produces 70% of the world's solar panels, half the electric vehicles and has a large share of a lot of the materials that underpin battery technology – it is unsurprising that investors have been taking a closer look at the Chinese renewables market. Increasing investor attention, especially from ESG-conscious investors, has driven a rise in corporate attention to sustainability disclosure. The use of forced labour in supply chains is a particular area of focus and risk currently.

Towards the end of 2021 it is expected that a more detailed decarbonisation roadmap will be published. This could solve some of the coal conundrums and is likely to focus on three key areas: carbon pricing, green finance and tech investment. These developments have the potential to accelerate the already bullish scenario.

The market size of the opportunity is huge. The International Renewable Energy Agency (IRENA) predict that by 2050 8,519 GW of solar would be required in a <2 °C degrees of warming scenario in line with the Paris agreement – this represents an 18x increase on 2018 levels. Asia, and mostly China, is predicted to account for more than 50% of total installed solar power compared to 20% in North America and 10% in Europe. Onshore wind predictions tell a similar story, with 5,044 GW required by 2050 – 9x what had been installed by 2018. IRENA predicts that more than 50% of this capacity would also be in Asia.

With the recent announcements indicating a step change in the focus on energy transition, the improving disclosure standards and the significant opportunity set, we believe the Chinese market could be one to watch. Although, importantly for international ESG investors, this will be conditional on ensuring that supply chains have no exposure to the Uyghur human rights abuses in Xinjiang.

To find out more visit
COLUMBIATHREADNEEDLE.COM



Important Information:

For use by professional clients and/or equivalent investor types in your jurisdiction (not to be used with or passed on to retail clients). This is an advertising document. This document is intended for informational purposes only and should not be considered representative of any particular investment. This should not be considered an offer or solicitation to buy or sell any securities or other financial instruments, or to provide investment advice or services.

Investing involves risk including the risk of loss of principal. Your capital is at risk. Market risk may affect a single issuer, sector of the economy, industry or the market as a whole. The value of investments is not guaranteed, and therefore an investor may not get back the amount invested. International investing involves certain risks and volatility due to potential political, economic or currency fluctuations and different financial and accounting standards. Risks are enhanced for emerging market issuers.

The securities included herein are for illustrative purposes only, subject to change and should not be construed as a recommendation to buy or sell. Securities discussed may or may not prove profitable. The views expressed are as of the date given, may change as market or other conditions change and may differ from views expressed by other Columbia Threadneedle Investments (Columbia Threadneedle) associates or affiliates. Actual investments or investment decisions made by Columbia Threadneedle and its affiliates, whether for its own account or on behalf of clients, may not necessarily reflect the views expressed. This information is not intended to provide investment advice and does not take into consideration individual investor circumstances. Investment decisions should always be made based on an investor's specific financial needs, objectives, goals, time horizon and risk tolerance. Asset classes described may not be appropriate for all investors. **Past performance does not guarantee future results, and no forecast should be considered a guarantee either.**

Information and opinions provided by third parties have been obtained from sources believed to be reliable, but accuracy and completeness cannot be guaranteed. This is an advertising document. This document and its contents have not been reviewed by any regulatory authority.

In Australia: Issued by Threadneedle Investments Singapore (Pte.) Limited ["TIS"], ARBN 600 027 414. TIS is exempt from the requirement to hold an Australian financial services licence under the Corporations Act and relies on Class Order 03/1102 in marketing and providing financial services to Australian wholesale clients as defined in Section 761G of the Corporations Act 2001. TIS is regulated in Singapore (Registration number: 201101559W) by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289), which differ from Australian laws."

In Singapore: Issued by Threadneedle Investments Singapore (Pte.) Limited, 3 Killiney Road, #07-07, Winsland House 1, Singapore 239519, which is regulated in Singapore by the Monetary Authority of Singapore under the Securities and Futures Act (Chapter 289). Registration number: 201101559W. This advertisement has not been reviewed by the Monetary Authority of Singapore.

In Hong Kong: Issued by Threadneedle Portfolio Services Hong Kong Limited 天利投資管理香港有限公司. Unit 3004, Two Exchange Square, 8 Connaught Place, Hong Kong, which is licensed by the Securities and Futures Commission ("SFC") to conduct Type 1 regulated activities (CE:AQA779). Registered in Hong Kong under the Companies Ordinance (Chapter 622), No. 1173058.

In the USA: Investment products offered through Columbia Management Investment Distributors, Inc., member FINRA. Advisory services provided by Columbia Management Investment Advisers, LLC. Collectively, these entities are known as Columbia Management.

In the UK: Issued by Threadneedle Asset Management Limited. Registered in England and Wales, Registered No. 573204, Cannon Place, 78 Cannon Street, London EC4N 6AG, United Kingdom. Authorised and regulated in the UK by the Financial Conduct Authority.

In the EEA: Issued by Threadneedle Management Luxembourg S.A. Registered with the Registre de Commerce et des Societes (Luxembourg), Registered No. B 110242, 44, rue de la Vallée, L-2661 Luxembourg, Grand Duchy of Luxembourg.

In Switzerland: Issued by Threadneedle Portfolio Services AG, Registered address: Claridenstrasse 41, 8002 Zurich, Switzerland.

In the Middle East: This document is distributed by Columbia Threadneedle Investments (ME) Limited, which is regulated by the Dubai Financial Services Authority (DFSA). For Distributors: This document is intended to provide distributors' with information about Group products and services and is not for further distribution. For Institutional Clients: The information in this document is not intended as financial advice and is only intended for persons with appropriate investment knowledge and who meet the regulatory criteria to be classified as a Professional Client or Market Counterparties and no other Person should act upon it.

Columbia Threadneedle Investments is the global brand name of the Columbia and Threadneedle group of companies.