

17 June 2005

Ric Wells
Head
China FTA Taskforce
RG Casey Building
BARTON ACT 0221

Dear Mr Wells

Re: Australia–China Free Trade Agreement Negotiations

Thank you for the opportunity to prepare a submission for the China Free Trade Agreement (FTA) negotiations, as part of the consultation process being managed by the China FTA Taskforce.

Hydro Tasmania has an active interest in the investment opportunities that have emerged as China progresses towards centre-stage in the world economy as result of its modernisation program and subsequent economic reforms.

Opportunities for Investments in the Energy Sector in China

China's ongoing industrialisation and urbanisation will require vast inputs of energy and other resources. China is currently one of the largest importers of energy resources and industrial materials while mining and energy exports from Australia form a significant part of trade between the two countries¹. China's growing demand for imports of energy and other resources and Australia's competitive advantage in being able to respond to China's needs are highly complementary facets of this trade relationship. Within this current climate of growth in China, Australia has good prospects of large-scale energy and energy service exports to China in the near future. The energy needs of China are now a major factor in the complex global

¹ Thirlwell, M., 2005: China and the International Economy, Lowy Institute Perspectives
<<http://www.lowyinstitute.org/>> (accessed 10 June 2005).

energy supply and demand equation, and Australia is in a strong position to benefit from it².

China's demand for energy shows one of the fastest growth rates in the world. It is estimated that by 2020 China's energy consumption will double to 1,940 MTOE (this term will not be generally understood), matching that of OECD Europe at that time. By 2020, the bigger challenge for China will be the supply of energy as its dependence on coal and imported oil is expected to increase³. Although officials have called for measures in saving energy, optimising energy structures and developing renewable energy, the problem of energy safety remains a serious issue for China⁴. It is expected that the current trend in energy consumption will bring about greater pressure as a result of environmental pollution and ecological damage. This trend will feature a further deteriorating energy and environmental situation, which could impede economic and social sustainability⁵.

China is now looking to alternative sources of energy to cater to its growing energy demands. According to official sources it is estimated that the country's hydroelectric capacity could be as high as 300GW, while less than a third of that is being currently exploited. Although levels of investment needed to realise that potential are enormous, China will prioritise hydroelectric projects as part of its sustainable development strategy to reduce pollution resulting from coal power plants⁶.

China's hydropower potential ranks first in the world and foreign investments and technologies are playing an increasingly large role in the further development of hydroelectric capacity, with a number of foreign power companies gaining access to major projects in the mainland market⁷.

China's Law on Renewable Energy, which was approved by the National People's Congress (NPC) Standing Committee in February 2005 and due to go into effect in January 2006, has significant implications for China's energy sector. Therefore, development and utilization of renewable energy in accordance with this law is expected to gain greater significance in the future in resolving China's energy and environmental issues⁸. As one of the least cost renewable resources, hydropower is

² Australian Government, Department of Foreign Affairs, Australia China Free Trade Agreement <<http://www.dfat.gov.au/geo/china/fta/index.html>> (accessed 10 June 2005)

³ Farrands, S. and Ellison, M., 2003: Dispute Resolution for Contracting with Chinese Companies, AMPLA 2003 Year Book <<http://www.ampla.org/>> (accessed 10 June 2005)

⁴ Dupont, A., 2004: The Political and Strategic Implications of a Free Trade Australian Government, Department of Foreign Affairs, Australia China Free Trade Agreement <<http://www.dfat.gov.au/geo/china/fta/index.html>> (accessed 10 June 2005)

⁵ Xinhuanet, 2004: Priority given to efficient hydropower, Beijing

⁶ Xinhuanet, 2004: Priority given to efficient hydropower, Beijing

⁷ Xinhuanet, 2004: Priority given to efficient hydropower, Beijing

⁸ Greenpeace International, 2005: China's new Energy Law could be turning point for sustainable development, Environmental Media Services <http://www.ems.org/news/2005/02/28/chinas_new_energ> (accessed June 10 2005)

expected to play a key role in promoting sustainable development and poverty alleviation in China. China is also seeking to develop other renewable energy resources such as solar, wind, tidal and biomass⁹.

This situation presents increasing opportunities for Australian companies such as Hydro Tasmania to invest in or supply to the China's growing energy and resources sectors. The renewable energy industry is especially favoured by the new legislation.

Hydro Tasmania's China Program

Hydro Tasmania has a committed interest in China due to a number of encouraging developments such as (a) present foreign investment arrangements; (b) discussions with the Chinese Renewable Energy Industry Association (CREIA); and (c) the interest of a number of Chinese energy companies in partnering with Hydro Tasmania.

Hydro Tasmania recognises that China is an increasingly important player in emerging regional economic structures, including regional trade agreements. China is likely to be an important market for Australian exports of energy, energy services and resources, in particular due the complimentary nature of the two economies¹⁰. As one of our fundamental strategies for expanding our services, Hydro Tasmania intends to proactively pursue opportunities in the Chinese energy market.

Hydro Tasmania has already signed cooperative agreements with Chinese companies to investigate opportunities to develop renewable energy projects in China. Being one of the leading Australian energy developers to enter the Chinese renewable energy market, Hydro Tasmania plans to position itself to achieve a key strategic role in furthering energy sector trade links with China.

As a leader in renewable energy Hydro Tasmania seeks to apply the world's best standards to renewable energy development and welcomes the potential of the FTA to provide a framework for exporting our services. Therefore, Hydro Tasmania is in favour of a China–Australia FTA as it could aim to provide a framework that would allow policymakers on both sides to pursue closer collaboration on a series

⁹ Xinhuanet, 2004: Priority given to efficient hydropower, Beijing
<http://www.chinaembassy.org.in/eng/zgbd/t168452.htm> (accessed 10 June 2005)

¹⁰ Thomson, G., 2004: Trade Policy Issues, Paper presented at Australia – China Free Trade Agreement Conference, 12 – 13 August 2004, Sydney.

economic and trade related issues that could lead to significant long-term benefits for the two economies.

To this end, it must be acknowledged that, to date, Hydro Tasmania continues to receive positive treatment in the form of active business promotion and facilitation by the Chinese Government and private industry.

Recommendations

Hydro Tasmania notes the FTA feasibility study, including the possibility for the FTA to expand bilateral trade between China and Australia. In a renewable energy context, Hydro Tasmania recommends the following matters be reflected through the FTA negotiation process:

- ensure acceptance of Australian companies participating in the 'Clean Development Mechanism' under the Kyoto Protocol and also other mechanisms;
- develop a common approach to standards in the areas such as occupational health and safety, air quality and electrical standards. Implementation of such standards will need to be undertaken through a phased approach; and
- reduce restrictions on capital flows for Australian companies operating in China.

Hydro Tasmania recognises the significant potential value of a Free Trade Agreement between Australia and China for the renewable energy industry, and is therefore keen to continue consultations with the Australia-China FTA Taskforce during this process.

Yours faithfully



Mark Kelleher
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Hydro Tasmania