# Warmer Ties Could Cool the Planet: Potential for Australia-China Green Energy Collaboration

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Xuyang Dong, China Energy Policy Analyst, Climate Energy Finance

From the first handshake between Chinese president Xi Jinping and Australian PM Anthony Albanese at G20 in Bali in November 2022, to Australian trade minister the Hon Don Farrell's visit to China in May 2023, the meeting with Xi in Beijing during Albanese's China trip in November 2023, Chinese Foreign Minister H.E Mr Wang Yi's visit to Canberra in March 2024, and including China's Premier Li Qiang's visit to Australia this month there's evidence that Australia and China's relationship is definitely warming up, after quite a lengthy cold spell. In fact, we have seen the highest number of ministerial-level people-to-people meetings between Australia and China than at any time in history.

So while the world sees China going into 'trade war 2.0' with the EU and the US, Australia has enjoyed increased trade with China peaking at A$219bn in 2023 - a record level.

In their latest meeting in Australia, Li and Albanese put climate change, energy, and the environment on the agenda, agreeing to resume bilateral climate change and energy dialogues, to hold the Eighth Australia-China Ministerial Dialogue on Climate Change in Australia in 2024, and initiating technical cooperation on soil carbon testing and climate-smart agricultural practices. All strong positives.

This improved relationship could play a key role in lifting global collaboration to accelerate the energy transition, as well as bringing Australia economic advantages, because when the Biden administration puts a 100% tariff on Chinese EVs and a 50% tariff on Chinese solar panels, and the EU enforces up to a 38% tariff on Chinese EVs, it won't stop China from producing these goods. Rather China will need to find new markets. This redirection of Chinese outbound investments presents huge economic opportunities for Australia's green economy, and for the developing world that is critically in need of developed world capital.

There is now an 'overcapacity' of solar panels, battery and EV production in China, resulting in a price slump in these products - now called 'the new three' by the Chinese government. But Chinese companies are still manufacturing these world leading technologies at an unprecedented speed and scale while eyeing a broader global market in non-US alliance countries. Chinese companies have been following the 'China Plus One' strategy since 2013, in which companies diversify their businesses to invest in China and at least one other country as their destination.

The reason is simple; it may be ‘over capacity’ for some markets, but a huge growing appetite remains in the rest of the world for the Chinese ‘new three’. They are low cost but incorporate the world’s most advanced technology, and with the deflation of the Chinese currency *renminbi*, it makes these ‘new three’ more price competitive and allows Chinese manufacturers to continue expanding manufacturing capacity around the world.

According to the FDI Intelligence, during the year to March at least 41 Chinese manufacturing and logistics projects were announced for Mexico and 39 for Vietnam. Thailand, Malaysia, Hungary and Egypt have also witnessed a record-level of Chinese outbound projects at the end of March.

Even as Chinese carmaker Great Wall Motor Co, Ltd plans to lay off 100 workers in its European headquarters in Munich, it also announced a US$2bn investment plan to build its new Brazilian factory, which started operation last month and aims to produce 100,000 vehicles annually and create 2,000 jobs. CATL of China has made the biggest foreign investment in Hungary’s history with its new battery factory.

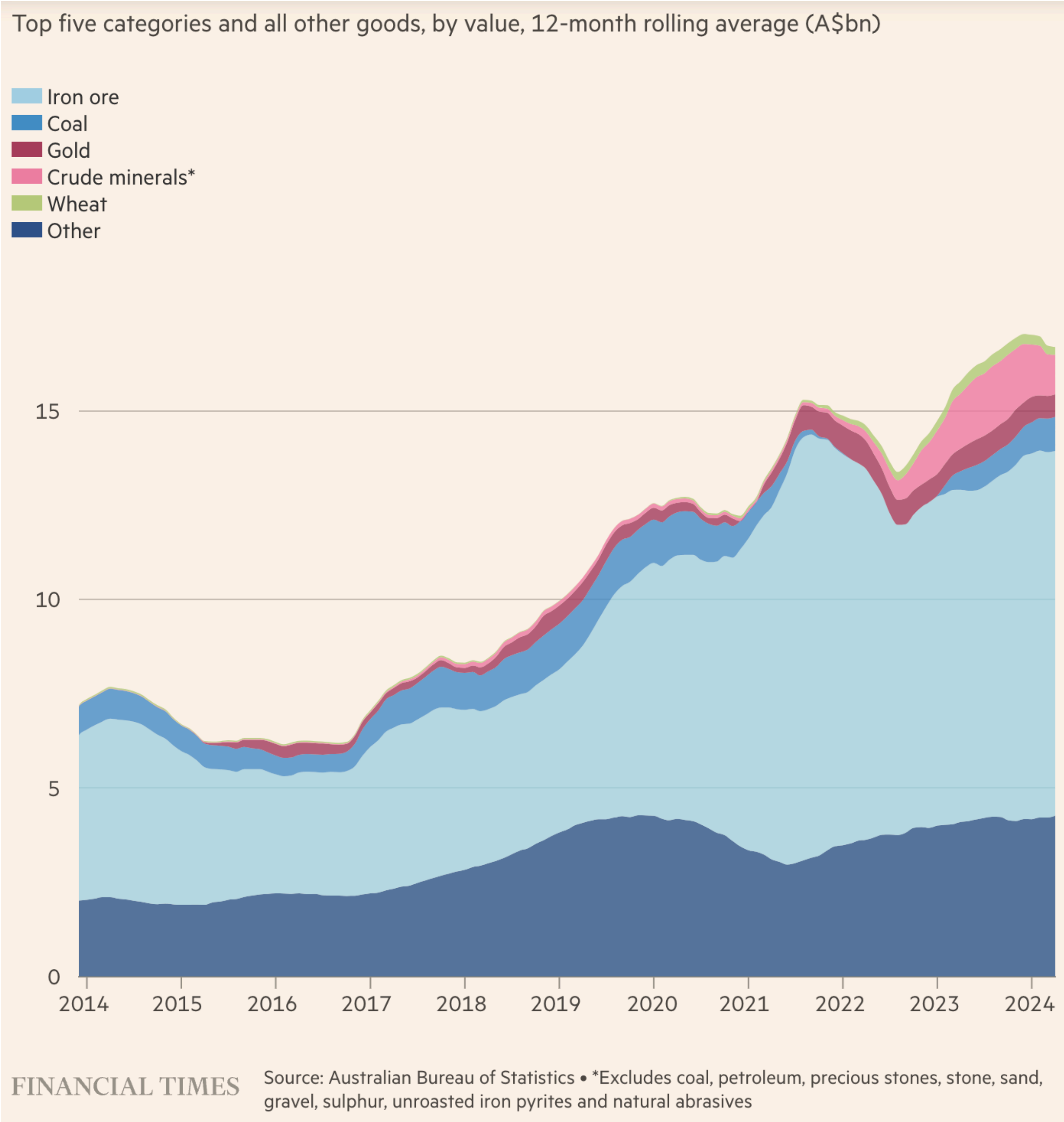
Even Chinese companies with factories in the US are not intimidated; Jinko Solar announced plans to expand its factory in Florida this year. And in Jinko Solar’s 1QCY2024 earnings presentation, the company's quarterly revenue remained at US$3bn, only down 1% y-o-y, and its gross margin remains at 12% even when the solar panel price has halved this year. This shows the strength of the Chinese solar manufacturers such as Jinko, and the company remains in good financial health.

So the ‘China Plus One’ strategy is taking shape for these world-leading cleantech firms.

According to the Rhodium Group, China’s EV-related outbound foreign direct investment has set a new record in 2023 reaching US$28bn.

What does this mean for Australia? Well, when there is manufacturing demand for batteries and EV, there is demand for critical minerals such as iron ore and lithium.

According to the Australian Bureau of Statistics, iron ore dominates the total Australian exports to China. In 2023, 85% of Australia’s total iron ore export was shipped to China.




However, this ‘situationship’ is not balanced equally. While Australia is the ‘big giver' in critical minerals to China, China is diversifying its supply chain by investing in regions including the South America ‘lithium triangle’ - Chile, Argentina and Bolivia.

What can Australia do now to make itself a more appealing supplier than the lithium triangle - which has much lower labour costs? It can offer a “green and clean” mineral processing industry on-shore and value-add our exports.

Instead of the traditional ‘dig and ship’, we should leverage Australia’s abundant solar and wind natural resources, use them to make green electricity to process and value-add our critical mineral exports.

The EU is proposing the Carbon Border Adjustment Mechanism (CBAM) to mitigate the risk of China's dominance in the clean technology sector. With Australia's recently refined relationship with China, it would be smart to act early to prepare Australia for the impacts of a potential future Asian CBAM which will surely come as a response to the EU.

In the meantime, China holds the most advanced clean technology, due to the significant amount of capital invested by these Chinese companies into research and development (R&D). A latest report from independent think tank Climate Energy Finance shows that, in 2023 Goldwind invested A$395m into R&D, representing 3.8% share of revenue. Longi invested A$478m in R&D in 2023, a 1.8% of Longi's total revenue. Contemporary Amperex Technology Ltd (CATL) invested A$3.8bn into R&D in 2023, representing 4.6% of total consolidated revenue of the year. Build Your Dreams (BYD) invested A$8.2bn in R&D in 2023, which was 6.6% of revenue of the year.

Partnering with Chinese cleantech leaders will allow Australia to access the world's top-tier clean technologies, improve energy efficiency, reduce procurement costs, and increase the speed and scale of Australia's economic pivot.

'De-risking' from China is vital for Australia's national interests and security, but it should not mean we have to completely de-couple from the benefits China continues to bring into the global supply chain, and as our largest trade partner.

Li and Albanese's meetings open many doors to enhancing bilateral trade and energy cooperation. And what serves regional security more than having two of the major powers in the Indo-Pacific region to work together to boost the energy transition?