Commercial Cooperation Working Group of the U.S.-China Forum on Environment and Development
April 9, 1999
Washington, D.C.

The Commercial Cooperation Working Group (CCWG) of the U.S.-China Forum on Environment and Development met on Friday April 9, 1999 at the U.S. Department of Commerce, from 2:00 to 5:30PM. Co-chairmen were Deputy Assistant Secretary of Commerce for Basic Industries Alan Bowser and Deputy Director General Dai Yunlou of the Department of America and Oceania Affairs of the Ministry of Foreign Trade and Economic Cooperation (MOFTEC) of the People's Republic of China.

The U.S. delegation was composed of representatives of the departments of Commerce, Energy, Housing and Urban Development, and Interior, as well as the Export-Import Bank of the United States. Representatives of several private U.S. companies were also part of the U.S. delegation at the CCWG, the only working group of the U.S.-China Forum with private-sector participation. Private-sector members of the U.S. delegation included representatives of the Coalition for Employment Through Exports, Enron, Ford Motor Company, Lemna International, the National Association of Home Builders (NAHB), the National Ocean Industry Association (NOIA), and Phillips Petroleum.

The Chinese delegation included representatives of MOFTEC, the Ministry of Science and Technology, the Ministry of Construction, China Petroleum Equipment Corp., China Petrochemical Group Corp., State Power Corporation, and the State Environmental Protection Agency. U.S. observers noted that the Chinese delegation was relatively younger than might have been expected, with most members apparently in their 30s or 40s. In addition to Mr. Dai (who was based at the Chinese Embassy in Washington for three years and speaks English well), a number of other members of the Chinese delegation made presentations during the course of the CCWG.

Given the extensive agenda and the fact that the CCWG was meeting in Washington, the U.S. delegation was large. U.S. delegates frequently rotated in and out of seats at the CCWG conference table, with major changes occurring at the two breaks. The smaller Chinese delegation remained constant throughout the CCWG.

This report is composed of 11 sections that correspond to the various items on the CCWG agenda. It is based on notes compiled by Rachel Halpern and Michael Beeman, both international trade specialists with the Energy Division of the U.S. Department of Commerce. Padraic Sweeney, also an international trade specialist with the Energy Division, edited the report and wrote the introduction. For more information regarding the CCWG and this report, contact Mr. Sweeney at (202) 482-0135.

Welcoming Remarks

DAS Bowser welcomed the Chinese delegation, and noted that both the U.S. and China agree on the importance of protecting the environment while developing economically.

Deputy Director General Dai of MOFTEC applauded the Commerce Department's years of cooperation with his Ministry. He emphasized that the protection of the environment is an important priority for the Chinese Government, and welcomed the increase over the past few years of U.S. investments in this field. Mr. Dai listed some of the recent achievements in this field, including the development of a network of data on earthquakes in the region, and the development of a computer-assisted weather forecasting system. He welcomed the signing during Secretary of Commerce William Daley's recent trip to China of several contracts and other agreements between U.S. and Chinese companies in the environmental and energy efficiency sectors, the total value of which he gave as more than $1 billion.

Oil and Gas Industry Forum

Counselor to the Department of Commerce Jan Kalicki thanked the Chinese Government for its help in putting on a successful Oil and Gas Industry Forum, which resulted in the two sides agreeing on a work program to develop regulations concerning oil and gas investment, identify measures to help China increase its use of natural gas, and address barriers to U.S. investment in China's hydrocarbon resources. Kalicki then expressed concern that last year the U.S.-China trade deficit was nearly twice the level of 1994, and that U.S. exports to China have remained a small percentage of U.S. global exports for more than a decade–1.8 percent in 1985 and 2.1 percent today. He urged the Chinese delegation not to allow this to let U.S.-China commercial relations deteriorate.

Department of Energy Senior Advisor Andy Vitali announced that the second Oil and Gas Forum will take place in Houston in July, and distributed a draft agenda. He welcomed China's efforts to increase gas use, and suggested that China could benefit from U.S. experience in moving from its current dependence on coal.

Dai Yunlou stressed China's need for U.S. financing, both public and private, and investment in the power sector. He asserted that there is currently about $7.3 billion of foreign direct investment in the power sector, a number that needs to be increased. He noted that foreign investment and financing is especially needed in central and western China, and in equipment and facilities to protect the environment. China has already introduced cleaner power facilities with U.S. cooperation, Mr. Dai went on, and would like to see more cooperation in this area. He said that China does not provide any guarantees on the investor's rate of return, so that investors are encouraged to control costs.

Another member of the Chinese delegation discussed China's petroleum industry. Recently, the Chinese Government restructured the petroleum industry, and now the China National Petroleum Company (CNPC) has integrated upstream and downstream operations. China has imported $360 million worth of oil and gas equipment from the United States (he did not specify during what time period). Recent agreements with Phillips Petroleum, ARCO, and other U.S. companies were important examples of cooperation between the U.S. and Chinese oil and gas industries. China welcomes investment in the oil and gas sector, and will continue making reforms to attract such investment.

DeAnn Craig of Phillips Petroleum presented a list of reforms that China should implement to attract more investment in the energy sector. 1) China must strengthen the rule of law, and increase transparency in its legal and regulatory system. 2) Investors must be assured that oil and gas regulations will not be changed arbitrarily; they must know which laws apply to them and which agencies to deal with, and they must know that these agencies are independent of politics. 3) China should increase foreign companies' access to oil and gas resources, and not reserve its most promising resources for domestic firms. 4) Companies need to have access to all geological and seismic data. 5) The power, refining, and petrochemical sectors must be opened up to foreigners as well. 6) Investors also must be able to profit from their investments; the Chinese Government should remember that it is competing with other countries for investment dollars. Currently, U.S. companies have invested $6-7 billion in China's energy sector, but will probably recoup only about half. One improvement would be increasing companies' ability to import equipment and fuel if it is more cost-effective.

Off-Shore Mock Lease Sale

Carolita Kallaur of the Department of the Interior's Minerals Management Service's (MMS) described her agency's role as manager of the outer continental shelf's hydrocarbon resources and as collector of revenue from federal and Indian lands. She noted that MMS is the "cradle to grave regulator" for companies working on the outer continental shelf, and emphasized that foreign companies bid for leases on an equal basis with U.S. companies.

Bob Stewart of the National Ocean Industry Association described the concept of a mock lease sale, a training exercise in which participants learn about the bidding process from both a regulator's and a company's perspective. He suggested that China may be interested in holding such an exercise with his organization.

The Chinese side expressed interest in the mock lease sale, and asked for written information.

Environmental Commercial Priorities

Carlos Montoulieu, Acting Deputy Assistant Secretary of Commerce for Environmental Technology Exports, described the activities of the Environment Subgroup of the bilateral Joint Commission on Commerce and Trade. The Subgroup has implemented 26 projects over the past 4 years, including an urban air quality monitoring project and several water resource projects.

Joe Hillings of Enron urged China to solve its environmental problems using proven, market-based approaches to attain environmental goals, rather than implementing increased regulation. He noted that by 1985, such programs saved US firms over $5 billion dollars and helped them achieve their intended environmental objectives. By 2000, these programs will have saved US industry more that $20 billion dollars. The benefits of these emissions trading programs go beyond cost savings. He encouraged China to adopt market-based environmental programs like emissions trading and water discharge trading not only to meet increasing demands for better air and water quality, but also to promote innovation in pollution control, easier permitting, and simpler, more-efficient systems to administer.

Viet Ngo of Lemna International recommended that China make a commitment to solving environmental problems now to avoid repeating other countries' mistakes. He encouraged China to prevent future problems by taking advantage of the environmental solutions available from U.S. companies. He described a $120 million joint venture to provide waste water collection services in Guangzhou which was established in 1997. The joint venture project will provide a Build-Operate-Transfer (BOT) wastewater collection and treatment service plant to the City of Guangzhou to help clean the Pearl River, an important drinking water source for southern China. The project faces many obstacles before construction can begin. By contrast, such projects in other developing countries like Turkey or Poland, take approximately two years or less to arrive at an equivalent point. To help such projects move forward quickly and encourage lively U.S. private sector involvement, the Chinese government should encourage local governments to streamline the permitting process. The central government should itself issue permits faster, cut taxes and import duties on environmental projects, establish bilateral agreements to expedite urgent projects, encourage early U.S. private sector participation by co-sponsoring design and planning studies for major environmental projects, and set up deadlines for local authorities to meet air and water quality standards.

The Chinese delegation applauded U.S.-China cooperation in the environmental sector. Air and water treatment are priorities, and China would like to increase cooperation in this area. Only 100 of China's cities have water treatment facilities. To aid U.S. companies seeking to enter the Chinese market, the Chinese urged the U.S. Government to expand its own support for U.S. companies, because they are lagging behind European companies. The signing of the Phase II Letter of Intent for the urban air quality monitoring agreement was warmly welcomed by the Chinese delegation.

Wang Tianxi of the Chinese Ministry of Construction reported that the Ministry is responsible for many urban environmental projects. Wastewater treatment is a priority for China, and there are 306 water support projects planned for next year. The Chinese government would like U.S. financing for urban projects.

Alternative Fuel Vehicles

Chen Chuanhong of the Chinese Ministry of Science and Technology (MOST) described the development of alternative fuel vehicles as a critical part of China's environmental protection strategy. MOST is promoting alternative fuel vehicles (AFVs) and electric vehicles. There are AFV programs in 22 Chinese cities, including Shanghai, and a total of approximately 6000 AFVs in China. The Chinese Government is interested in AFV development in other countries and what other governments are doing to promote them.

Jim Wilson, Director of the Commerce Department's Office of Energy, Infrastructure, and Machinery stressed that government incentives are the key to getting alternative fuel vehicles on the road. He recommended that China work with U.S. companies which have technology and equipment that China can use. The Commerce Department and China's State Administration for Machinery Industry will sponsor a seminar on alternative fuel vehicles in Beijing in June to discuss these issues.

Dennis Schuetzle of the Ford Motor Company described how Ford has been working with China on development of an AFV strategy that would allow China to reduce emissions in an economical way. Ford has sponsored workshops and conferences on the subject, and has also done a study of the potential for using coal as a transport fuel in China. Ford is now concentrating on compressed-natural gas and liquefied-petroleum gas (LPG) vehicles in China, and is working with Chinese organizations on new formulations of diesel fuel. Ford also has a visiting scientist program that enables Chinese scientists to come to work at Ford labs. Schuetzle recommended that China develop incentives, mandates, and infrastructure to support gas and LPG vehicles, and promote the development of renewable energy. Ford hopes to establish an environmental vehicle center in Beijing to support AFV development and the retrofitting of existing vehicles.

The Chinese side reported that the government will make major investments in alternative fuel vehicles. The national government will contribute the equivalent of $6 billion for this purpose, with the balance coming from the provinces. China's Minister of the Environment was to visit Ford the week after the meeting of the Forum on Environment and Development, to explore options for alternative fuel vehicles. The Chinese side asked that at the alternative fuel vehicle seminar, exhaust systems and catalytic converters be put on the agenda.

Housing Initiative

Elinor Bacon of the Department of Housing and Urban Development (HUD) announced that Commerce Department and HUD along with China's Ministry of Construction are developing workplans to implement the U.S.-China Housing Initiative. The initiative will be coordinated through the U.S.-China Residential Building Council, which will be co-chaired by the Secretaries of Commerce and Housing and Urban Development and the Minister of Construction. The Residential Building Council will draw on housing expertise from the U.S. private sector and government agencies involved in environmentally efficient housing materials and design. Also, during Secretary Daley's recently-completed mission, the departments of Commerce and HUD and Ministry of Construction initialed a memorandum of understanding to work on topics of mutual interest, including housing finance and low-income housing programs.

Chris Twarok of the Commerce Department's Forest Products and Building Materials Division noted that residential construction raises important environmental issues. Energy efficient materials should be introduced to Chinese builders and the Residential Building Council will be an effective forum to expose China to the wide-variety of energy-efficient and affordable materials and techniques the United States can offer. He mentioned that the National Institute of Standards and Technology will conduct a workshop on building codes and standards that will be targeted directly at Chinese officials instrumental in their housing reform. Also, the Environmental Protection Agency and China's State Environmental Protection Agency were about to sign a letter of intent on a cooperative project.

Katalin Vaughn of the National Association of Home Builders discussed her organization and its high level of interest in environmentally efficient housing development, building, and design.

Wang Tianxi of the Ministry of Construction and Zhang Shigang of the State Environmental Protection Agency noted that China's residential housing market is very large. The current five-year plan calls for construction of 1.2 billion square meters of housing. The Chinese Government would like China to upgrade the quality of its housing construction and has developed a new system to promote housing standards. The Chinese Government also wants to cooperate on projects to save energy, and in developing loans for residential housing.

Finance

David Bowie of the Commerce Department's Office of Finance stressed that the U.S. Government is committed to promoting investment by American firms in China, and is working to help improve the availability of both official and private financing. In pursuit of this goal, the Department of Commerce and the Department of Energy co-sponsored a seminar on project finance with China's SDPC last September in Beijing. Bowie emphasized that because lenders and investors must identify and mitigate risk before committing funds, the Chinese government should continue to improve the investment climate in China. Currently, companies find the investment environment less than hospitable, which increases the likelihood that they will invest their capital elsewhere. A more favorable investment climate in China will include fair and transparent regulatory practices, a streamlined and transparent project approval process with clear lines of responsibility among government entities, support for the sanctity of contracts and stronger application of the rule of law to commercial life. The Chinese Government should engage investors in discussions about proposed reforms.

Frank Wilson of the Export-Import Bank of the United States reported that Ex-Im Bank has financed $15 billion worth of U.S. exports to China since it opened there in 1982, and is dedicated to being a reliable partner with China in efforts to improve that country's economy. However, new business in China has leveled out at about $1-1.5 billion per year. Ex-Im Bank would like this to increase, and has signed a MOU that dedicates $100 million for new energy/environmental projects next year. Ex-Im Bank's current exposure in China is $5 billion, and it would like to increase this to $10 billion over the next 5 years.

Ed Rice of the Coalition for Employment Through Exports noted that the coalition's members are all interested in China. He noted that projects must be designed to meet private lender standards because even with Ex-Im Bank guarantees, a portion of each project must be financed privately.

Mr. Dai expressed admiration for Ex-Im Bank's work in China, and recommended that the U.S. side discuss systemic problems with the SDPC. The Chinese State Environmental Protection

Agency and the SDPC will sponsor a conference on related issues in the near future. The Chinese delegation promised to provide their U.S. counterparts with information about it.

Meteorological Satellites

The Chinese side expressed concern that the U.S. government quickly approve the export by IBM to China of a computer that will improve weather forecasting.

Commercial Projects

Jay Brandes, Deputy Director of the Commerce Department's Advocacy Center, noted that progress has been made recently on a number of commercial projects in the environmental sector. In particular:

- Enron has signed a MOU with the China National Petroleum Company (CNPC) to build a gas pipeline from the Sichuan Basin to the city of Wuhan in southern China. The pipeline is expected to be completed in 2000, and it will be first pipeline in China built with foreign equity participation.
- Dasibi Environmental Corporation signed an agreement for Phase 2 of its urban air quality monitoring project; Ex-Im Bank has approved a loan for Phase 1.
- The Ex-Im Bank has signed a memorandum of understanding to provide $100 million for financing clean energy projects in China.
- Dessen International has signed a contract with a Chinese company to build 100 homes in Shanghai using American designs and technology.
- Ellicott International of Baltimore Maryland signed a memorandum of understanding with the China Water Investment Corporation to sell the material to build 20-40 dredges in China to mitigate floods.

Brandes then urged that the service contracts for the Xi Lang wastewater treatment be executed promptly so that the project can proceed.

Year 2000 Problem

Assistant Secretary of Commerce for Trade Development Mike Copps advised the group that Y2K may cause major problems in the energy and environmental sectors because of their dependence on technology. He noted that Secretary Daley and the Chinese Minister of Information co-hosted a Y2K conference recently in Shanghai, and said that there may be another such event in Beijing in May.

Dai agreed that the Y2K problem is serious, and said that the government had 18 different agencies working on it.

Discussion

A Chinese official recommended that, because China is primarily an agricultural country, that agriculture, which was considered in another Forum working group, should be on the agenda of the next Commercial Cooperation Working Group.

The Chinese side stated that the Working Group should also address barriers to Chinese exports. The U.S. government should eliminate sanctions on China, such as the restriction on the U.S. Trade and Development Agency operating in China. In return, the Chinese government will encourage Chinese companies to import more U.S. goods and to work with U.S. companies.

DAS Bowser and Deputy Director Dai agreed that the CCWG had produced a useful discussion of a broad range of bilateral commercial issues. They recognized that these issues were the subject of ongoing consultation between U.S. and Chinese government agencies, companies, and other entities. They agreed to meet in Beijing in June to further explore how they might cooperate in advancing the United States' and China's mutual interests in these areas.