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China Business

Dec 21, 2007

Managing the DRAGON [CLICK HERE TO READ THE BLOG](#)



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China's auto industry cleans up its act
By Daniel Allen

BEIJING - China, once noted as country of cyclists, is now coming to terms with the horrors of a making a wholesale switch to motorized power. In the space of little more than a decade it has become the world's third-largest car manufacturer, and cars have become the biggest carbon monoxide and nitrous oxide emitters in its main cities of Beijing, Shanghai and Guangzhou.

Vehicles produce up to 79% of air pollution in some urban centers, the State Environmental Protection Administration recently estimated, contributing to the deaths of 50,000 newborn

babies and 400,000 cases of respiratory illness every year in China's 14 largest cities.

Beijing is being forced to weigh up new environmental policies against the long-term development of an economically vital auto industry. Vehicle sales rose 25% in the first eight months of this

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year, and are expected to hit nine million for the whole of 2007, up from 7.22 million in 2006.

"China's vehicle output is expected to grow an average of 10-15% annually

over the next 20 years," says Zhang Xiaoyu, chairman of the China Association of Automobile Manufacturers. That will help give the country 131 million cars by 2020. The growing automobile society also threatens to overwhelm the country's limited oil resources.

"Every year, China allocates 60% of its oil supply to transportation," says Deng Nan, vice minister of Science and Technology.

Adding to a sense of urgency in the government is the prospect of the world's leading athletes - and thousands of spectators - struggling to breathe in Beijing's polluted air when the Olympic Summer Games are held in the capital next August. In a worrying report in the China Daily recently, Shi Hanmin, director of the Beijing Environmental Protection Bureau, commented, "Beijing's air quality is still not within the requirements of the green Olympic Games. The city still has 300,000 highly polluting vehicles, each one with emissions equal to the exhaust produced by 14 cars that meet current European Union emission standards."

The United Nations Environment Program recently released a report commending Beijing for its work in cleaning up the environment in preparation for next year's Games, but noted that air quality remained a "stubborn" problem, as "levels of small particles in Beijing's atmosphere, which are hazardous to health, often greatly exceed World Health Organization Air Quality Guidelines".

The International Olympic Committee is currently studying recent air quality tests to assess the risks posed by pollution for athletes.

Strategic short cut

Drastic times call for drastic measures. In the latest sign of



The A5 ISG, Chery's new hybrid

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China's manufacturing ambitions and desire to go greener, a major Chinese company has teamed up with the government to purchase a high-tech car engine plant in Brazil from auto giants DaimlerChrysler and BMW. To date, China's failure to develop its own advanced engines has been the biggest technical obstacle facing its automakers as they attempt to modernize and enter the global export market.

Because the plant is so sophisticated, it is far more cost effective for the Chinese automaker, Lifan Group, to disassemble the plant, ship it the more than 13,000 kilometers from Brazil, and reassemble the parts in southwest China's Chongqing municipality, rather than develop its own technology. If operations start as scheduled in 2008, China will have leapfrogged competitors such as South Korea to catch up with Japan, Germany and the United States in producing and selling some of the most fuel-efficient cars on the market, such as the Honda Civic and Toyota Corolla.

Buying overseas technology will put China's auto industry in a solid position to produce large cars that can get more than 30 miles to the gallon. The US\$500 million engine plant was built in southern Brazil in the late 1990s by a 50-50 Chrysler/BMW joint venture and combines the latest American and German technology to produce the 1.6-liter, 16-valve Tritec engine.

Lifan founder and chief executive Yin Mingshan expects eventually to export to the EU and US markets. Recently quoted in the New York Times, Yin said, "Chairman Mao [Zedong] taught us that if you can win, fight the war. If you cannot win, run away. I want to train my army in these smaller markets, and when we are ready, we will move on to bigger markets."

Yin faces stiff competition on the home front. In 2006, Dongfeng Honda Automobile Co, a joint venture between Honda and China's Dongfeng Motor Group, completed a 2.8 billion yuan expansion of its factory in Wuhan, Hubei province. Annual production capacity was quadrupled from 30,000 to 120,000 units.

The plant will operate under the "Green Factory" principal, with consideration given to both the internal and external environments, including a water-based paint system that will limit the emission of hazardous substances, promote purification and

recycling of wastewater, and improve manufacturing efficiency.

Efficient Expectations

China has in place some of the world's strictest fuel-efficiency requirements. Energy efficient transportation is a key part of the country's 11th Five-Year Program (2006 - 2010), and a large part of the overall goal is making government logistical operations, mass transit systems and even Chinese families into energy efficient.

The market is evolving and evolving fast, according to He Dongquan, an authority on transportation with the Energy Foundation in Beijing. "There's controversy about 'Green GDP' and how China should grow ... China is in a transitional period where everyone's mind is changing," he said.

The government has already invested more than 1 billion yuan (US\$120 million) into "green vehicle" research, with 22 technical standards established for the production of electric passenger cars. More than 200,000 alternative fuel vehicles are on China's roads already, and more are on the way.

In January 2007, the government announced that it was working out measures to give tax breaks to energy-saving and environmentally friendly cars. Ownership of vehicles that meet current energy and emissions standards will be encouraged, and a more detailed "green car" index will be introduced. Punitive taxes will be imposed on cars that fail to meet fuel consumption standards.

Hybrids hit the market

Perhaps the most promising development with regard to cleaning

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China's urban atmosphere is the evolution of hybrid technology. Hybrid vehicles burn less fuel by adding one or more electric motors to a standard petrol or diesel engine and can cut pollution by up to 30%. Batteries help power the vehicle, regaining energy during braking and by stationary plug-in recharging.

According to Wan Gang, newly inaugurated Minister of Science and Technology, China's makers of cars, trucks and buses are

set to increasingly focus on hybrid technology. Those companies already involved are forging ahead. "A range of Chinese firms have formed China's first hybrid automobile production base," he said.

At the start of 2006, one automaker already in the hybrid game, Hangzhou-based Geely Automobile Holding Corp, began constructing a hybrid plant in Xiangtan, Hunan province. The company expects to roll its first car off the assembly line this year. Initial annual capacity is projected at 50,000, reaching 100,000 hybrid vehicles by the end of 2010.

Meanwhile, Sichuan FAW Toyota Motor Co, a joint-venture between Toyota and FAW, began assembling the popular Prius hybrid in Changchun in December 2005. Toyota announced in 2006 that worldwide cumulative sales of the Prius, the world's first

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mass-produced hybrid vehicle, had passed the half-million mark, although disappointing initial sales in China hint at overpricing (a Prius in China retails at nearly \$40,000) and an increasingly competitive market.

Other major players are either planning to get into the hybrid game or have production lines already in the works. Chang'an Motor Corp, the Chinese partner of Ford Motor and Suzuki Motor, announced last year that it will begin commercial production of hybrid cars in 2008. The company expects hybrid cars to make up 10% of its own-brand sales annually by 2010.

At the ninth Beijing International Automotive Exhibition in November 2006, Chery showcased the first hybrid car to be developed solely by a Chinese automaker. Chery's A5 ISG, a compact sedan powered by a 1.3 liter four-cylinder engine and an electric motor, is apparently ready to go into mass production this year. Chery has been selected by the Chinese government to export the first major line of Chinese automobiles to North America.

Volkswagen will also start making hybrid cars in China by 2008 with Shanghai Automotive and may kick off large-scale production of energy efficient vehicles by 2010. As a first step, the joint venture intends to make 500 Touran cars to be used as people carriers during next year's Olympics. General Motors (GM) has announced plans to start assembling hybrid cars in China by 2008 at its Shanghai GM plant, a joint venture with Chinese automaker Shanghai Automotive Industry Corp (SAIC). GM's hybrid system is under development with DaimlerChrysler and BMW.

Push for public transport

While the car market seems set to gather even more momentum in 2008, Beijing is sending out signals that the passionate Chinese love affair with the car needs to be distinctly less amorous. The government's long-term plans lean more to moving the nation's commuters into mass transit - cleaner mass transit.

"Fuel cell vehicles [FCVs] with zero emissions are one of the important technologies for the future development of the automobile industry in China," said Wan Gang in a speech last month. He was speaking at an event to launch a project, jointly sponsored by the Ministry of Science and Technology, the United

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Nations Development Program and the Global Environment Facility, as part of China's efforts to accelerate its technical innovation to reduce greenhouse gas emissions.

Greener public transport will be central to the government's efforts to clear the air. In advance of the Games, Beijing's city managers are replacing thousands of older buses in their municipal transit fleet with more eco-friendly vehicles, some of which will run on clean-burning compressed natural gas.

Beijing Vice Mayor Ji Lin recently told China Daily that there will be 5,000 of the natural gas buses on the city's street by 2008. Already on the streets of Wuhan, the capital city of Hubei province, is a trial fleet of 20 hybrid-electric buses, designed and manufactured by DFM. FAW Group Corporation is also producing hybrid buses.

In the coastal city of Yantai, Shandong province, a high-capacity electric bus plant is under construction. After a phase-1 capital outlay of 250 million yuan, the factory is expected soon to be fully operational. Annual production capacity is projected at 12,000 units, with gross revenue estimated at 15 billion yuan. Chairman of the China-Rising Motors Tech Zone Company, Xie Rongan, said recently in the China Daily that the new electric buses will be capable of recharging in less-than-30-second intervals at each passenger stop.

China's green-bus manufacturers are also starting to look beyond the domestic market. The Yantai Shuchi Group has recently signed a memorandum of understanding with Thailand's Siri Project Construction and PS Natural Gas to produce natural gas vehicles (NGV) in Thailand. The company will invest up to \$1 billion, and an initial \$53 million investment will fund the production of the first 300 NGVs.

Judging by the dense chemical haze still choking China's cities on an almost daily basis, the sooner fuel-efficient cars, cleaner buses and zero-emission vehicles hit the streets of China, the better. The task of cleaning the air is a daunting prospect, but government and industry seem to be moving in the right direction. As the world's supply of crude diminishes and oil-addicted nations become increasingly testy about grabbing their share, it may be market forces as much as Olympic pressure, health concerns and public awareness that start to see the smog in



China's skies begin to thin.

Daniel Allen is a freelance writer and photographer from London who has lived in China for the past three years.

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