Energy and infrastructure abroad: the Chinese influence

Over 40 Chinese insurance and asset management companies have collaborated to create an investment firm which will raise 40bn yuan (£4bn) in order to finance energy and infrastructure projects overseas.

The new firm is called China Insurance Investment Ltd and aims to direct part of its first funding project to finance Russia’s £18bn Yamal Liquefied Natural Gas project (LNG).

China Insurance Investment Ltd are headquartered in the Shanghai free trade zone and the firm was launched by 46 Chinese corporate shareholders, comprising 27 insurance companies, 15 asset management companies and 4 private companies.

According to a report from Shanghai Securities Journal, future funds will largely be raised from the insurance sector and will primarily be invested in transportation and infrastructure, including projects under the ‘One Belt, One Road’ initiative.

Overall, China Insurance Investment Ltd has signed 100bn yuan worth of investment agreements, with 60bn yuan of this going towards urban regeneration and infrastructure.

The case is a reminder to consultants that the nature and extent of their duty of care will depend on the precise terms of their appointment, and that obligations to comply with contractual specifications should be treated with particular care.

What is the fund aiming to achieve?

The Chinese insurance fund aims to lead China’s infrastructure development and to make use of long-term, stable capital to support China’s public services development.
As interest rates are declining and insurers’ premium collection are rising rapidly, the CIRC has spearheaded the formation of China Insurance Investment Ltd to invest in assets other than bonds, shares and deposits to provide extra diversification. Long term direct investments also meet insurers’ desire to have more exposure in investments with longer term investment horizon and return profile.

For the UK, projects such as the ‘One Belt, One Road’ initiative, the Chinese trading strategy connecting countries in Eurasia, dovetails with the government’s intention to develop the north of England. For example in September 2015, George Osborne announced £60m of investment into real estate projects in Manchester and Sheffield by the Hualing Group.

The end goal of China Insurance Investment Ltd is to contribute up to 200bn yuan towards government policy and national strategy projects and the country’s role as a major business, financial and trade hub for the Asia Pacific region will undoubtedly be enhanced.

Our experience so far

Beale & Company are involved in a few energy based projects which have contained some Chinese influence. One of the most effective ways that UK firms can continue to stay involved in Chinese invested works is to capitalise on the expanding Chinese presence in the industry in this country.

1. Hinkley Point

This UK nuclear power plant is partly owned by Chinese firm China General Nuclear (CGN), with CGN investing £6bn into the project and holding a 33.5% stake in the development. CGN chairman He Yu said ‘entering the UK’s nuclear market marks a new phase for CGN. At the same time this is also a triple-win for the existing nuclear energy partnership between China, France and the UK.’

2. Swansea Tidal Lagoon

The aim of this project is to pioneer a large-scale source of indigenous, low carbon electricity that is both affordable and sustainable long-term. If successful, it will create the world’s first, man-made, energy-generating lagoon. State-owned China Harbour Engineering Company (CHEC) has won the £300m deal to undertake marine works on the £1bn project.
Reflection

There is a clear shift in overseas investment from China within the industry. The above examples are evidence that the Chinese presence is constantly growing within the UK and for the first time, Chinese firms are becoming the main contractors in UK based projects.

This movement has been encouraged by government activity; in October 2013, a memorandum of understanding on nuclear cooperation by Britain and China was signed, confirming that Chinese companies could become majority stakeholders in new UK nuclear plants. Furthermore, David Cameron has expressed an avid belief in the potential of tidal power and enthusiasm at the overseas investment which such energy projects are garnering.

Nonetheless, this progression is at a relativity early stage and such projects are isolated. This might be a reflection of challenges which still face Chinese firms looking to work in the UK, largely associated with issues of employment rights, labour regulations and health & safety laws. It is here that law firms in the construction industry will continue to be involved; such firms will require work on advising and negotiating contracts, advising on UK labour regulations and on health & safety legislation and guidelines. Our work on Hinkley Point and continued relationship with BAM Nuttall displays our experience within this sector and a presence within such energy based projects which can continue to develop.

It is inevitable that with the implementation of initiatives embodied in the creation of China Insurance Investment Ltd, coupled with a growing UK presence, Chinese involvement in the UK will become more pronounced. This offers UK based contractors, and law firms in the industry, an array of new opportunities to develop and expand.

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For further information please contact:

Antony Smith
Partner
T: +44 (0)20 7469 0406
E: a.smith@beale-law.com

Kyle Sethi
Trainee Solicitor
T: +44 (0)20 7469 0462
E: k.sethi@beale-law.com