THE NATIONAL LAW REVIEW

Risks of China's Clean Tech Revolution

Saturday, July 30, 2011

China is emerging as a major clean technology center. But risks abound.

China is quickly emerging as one of the top centers for the clean technology industry, attracting both global venture capital as well as multinational businesses in search of a low-cost manufacturing base. **Venture capital investment in Asia increased sharply in 2010, up 18% to $771 million,** according to industry market research firm Cleantech Group LLC, a clean technology research firm. **China received the most clean tech venture capital investing in the region, the second highest amount globally behind only the United States.**

Article By
Risk Management Magazine
Risk and Insurance Management Society, Inc. (RIMS)

Biotech, Food, Drug
Insurance Reinsurance & Surety
China

Clean technology is a broad term that covers a wide range. It encompasses technologies, products and processes that are renewable, seek to minimize pollution, reduce energy use and conserve natural resources. Solar panels and wind turbines are the most familiar, but clean tech products and services are used in industries including power generation, energy storage, transportation, agriculture, wastewater treatment and manufacturing.

Clean tech demand has increased sharply around the world over the last decade, driven by a combination of regulatory mandates, government incentives and private financing. **The Chinese government, for instance, has committed around 10% of its stimulus funds to clean tech and has promoted the use of renewable energy through various laws and mandates, according to Cleantech. In the United States, the American Recovery and Reinvestment Act of 2009 included more than $100 billion for the clean tech industry to be spent over several years.**

These opportunities do not come without risks, however. Chief among these are construction and land use practices. Businesses need to understand that construction standards in China are generally far below the requirements in the United States.

Furthermore, manufacturing facilities for clean tech businesses also often have to meet higher standards than other general types of construction. These facilities may need clean rooms, sprinkler systems or other types of specialized protection systems that are atypical of construction in China. Buildings that meet local construction codes but not U.S. standards may be at increased risk of a loss and business interruption.

Another area of exposure is that manufacturers of clean tech products have to meet exacting quality assurance procedures to satisfy global specifications. It is critical, for instance, that solar cells and wind turbine blades meet requirements because any component part that fails could cause a system failure and result in a major loss.

To protect against such risks, businesses should maintain a portfolio of insurance policies. A local admitted policy, especially if purchased in concert with a controlled master policy, will generally provide thorough coverage.

For specific exposures, however, other coverages may make sense. Research and development business interruption, for instance, helps protect against the loss of a product that was still in the research and development phase and had not yet begun to generate any revenue.

Environmental insurance also may be appropriate for some clean tech businesses depending on the technologies and locations of the facilities. Lastly, clean tech businesses also may be contractually required to purchase errors and omissions insurance to protect against liability to their customers in the case that a product or service they provided is defective.

As with all the other requirements, be sure to thoroughly evaluate your exposures before diving head first into China's clean tech revolution.

Danny Fung *is the general manager for Chubb Insurance Company of China.*