

By **Jennifer Warren**
Portrait by **Bode Helm**

Winds of Change

Patrick Jenevein's Dallas wind-energy company is helping China clean up its act.

WHEN PATRICK JENEVEIN, THE CHIEF EXECUTIVE OF TANG ENERGY GROUP, found himself in Beijing a few years ago, he was asked to request a song to be performed by the band at a Commerce Ministry banquet for Asian Pacific CEOs, provincial governors, and municipal mayors.

Hearing Jenevein request “Dabancheng Girl,” those nearby first assumed he must be speaking English. When they realized he was actually requesting one of the most beloved classic Chinese folk songs, their puzzlement turned to surprise and delight.

Knowing about Chinese culture is a must for doing business there, Jenevein says—and he ought to know. Through a Beijing-area joint venture of Dallas-based Tang Energy called HT Blade, Jenevein operates the second-largest manufacturer of wind-turbine blades in the world. Tang is also investing in clean-coal facilities in China that help prevent pollution while generating much-needed electricity.

Here at home, a newly formed Tang subsidiary for U.S. wind-energy development, Soaring Wind Energy, is expected to grow from \$10 million a year in revenue to \$100 million a year over the next five years. A big reason: Wind power is predicted to comprise nearly 10 percent of the U.S. energy supply by 2030, up from just under 1 percent now, according to a Morgan Stanley analysis.

The story of how clean energy and a blade-manufacturing plant

became central to Tang’s business strategy has fascinating roots—roots that trace to the remote, westernmost regions of the People’s Republic of China, half a world away from North Texas.

THE TAKEAWAY

Doing business in China requires a respectful and understanding attitude.

When it comes to anti-pollution efforts, profitability equals sustainability.

Wind energy is a global business.

TANG TO THE RESCUE

E. Patrick Jenevein III took his first trip to China in 1995 to visit the western province of Xinjiang, which is bordered by Kazakhstan, Russia, and Mongolia. A predecessor firm to Tang called The Nolan Group—which ran, among other businesses, a natural-gas processing company—had been asked to help the state-owned China National Petroleum Co. operate more efficiently there. Dr. Yih-Min Jan, a U.S.-educated Chinese physicist formerly with the Atlantic Richfield oil company, made the introductions for Jenevein—and opened his eyes to China’s rich business opportunities.

At the time, China National was “flaring,” or burning, much of its natural gas into the air, because it lacked the technology or equipment needed to properly capture and use the gas. Jan knew that Nolan processed natural gas efficiently and reliably, which was exactly what the Chinese needed. As a result, Jenevein and Jan formed Tang Energy Group in 1996, initially to serve China’s western regions, which are rich in natural gas. In those days, China had fewer linear feet of natural-gas pipeline than Dallas County. >>

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“We became familiar with and knowledgeable about Xinjiang province, which comprises about one-sixth of China’s land mass,” Jenevein recalls. “We then worked on projects with China National Petroleum for a period of time in the late ’90s.”

Tang’s first natural-gas project was in Yakerla, a remote desert region near rugged mountains; a second one soon followed. “A quick succession of projects led to our entry into wind-energy development,” Jenevein remembers. “While our first projects were natural-gas processing, in the U.S. The Nolan Group had made more money using natural gas as fuel ... to generate electricity. So we began doing this in China, and it worked well.”

Tang’s capabilities caught the eye of a western Xinjiang wind-energy company, which asked Tang to build a natural-gas power plant adjacent to its wind farm. “For us as [an energy] developer, turning off your generator when the wind blew lowered profits, so this [wasn’t feasible],” Jenevein says. However, Tang’s familiarity with Xinjiang province gave the venture its start in the wind-energy market—as did another crucial factor for doing business in China, called guanxi.

THE ROLE OF GUANXI

In China, the word guanxi—simply translated, it means “connections”—refers to a sort of community or societal contract among people interacting in various types of relationships. Developing guanxi (pronounced GWAN-shee) is critical for those attempting to operate in China, and Tang’s guanxi is far-reaching. The relationship between Jenevein’s U.S. enterprises and its Chinese partners in the guanxi network, depicted in a confidential diagram shown to this writer, reveals an intricate web of trust. HT Blade’s Chinese lineage, for example, traces back to the state-owned China Aviation Industry Corp.

Tang’s guanxi evolved over the years, becoming an important factor in the company’s success. “Guanxi has played a significant role, but not in the way [many] Americans view it,” Jenevein says. “We make sure we’re valuable to the people of China, so they want to have guanxi with us. People all over the world seek to express long-term commitments, whether it be personal relationships, business, or with their government; long-term predictability is a good thing. So to express long-term commitments in the shadow of a totalitarian regime, which trumps all other contracts, is difficult. Therefore, a system like guanxi becomes useful to express those commitments.”

Adds Jan: “Jenevein respects the cultural differences between the Chinese and Americans, which has earned him great respect from the people with whom he works. In China, people look for long-term relationships, including business relationships. Patrick’s qualities of being highly entrepreneurial, with great integrity and patience, have helped him succeed in doing business in China.”

POLITICAL RISKS

Through guanxi and other methods, Tang has developed strong working relationships with a number of Chinese companies, local government agencies, and other parties involved in the Chinese energy community. Indeed, Tang is perceived in China as a Chinese firm, despite its ties to the plains of North Texas.

Jenevein had founded The Nolan Group here in 1986 to develop oil and gas reserves and to build natural-gas processing and gathering facilities. One of Nolan’s early projects was an 80-megawatt, gas-fired, co-generation plant in Wichita Falls. (One megawatt of electricity generally powers 1,000 homes.) Before founding Nolan, Jenevein specialized in commercial real estate development, a field that has proven invaluable in starting up Tang’s various energy projects.

One of Jenevein’s top recent priorities has been the joint-venture blade company, which was established in January 2001. (The venture’s No. 1 competitor, Danish firm LM Glasfiber, has been manufacturing blades since 1978.) Based in Baoding, Hebei Province (about 150 kilometers—or 93 miles—south of Beijing), HT Blade develops and manufactures wind-turbine blades with a work force of about 800. Jan, who serves as the venture’s general manager, lives in Beijing and oversees the plant, providing daily input into management decisions; Jenevein travels there once every two months or so.

Visiting his plant, however, isn’t a simple process. After Jenevein’s American Airlines flight lands in Tokyo or Shanghai, he catches another plane to Beijing. Traveling by car to Baoding then takes three to four hours most days (two hours on a good day), as “Beijing is a parking lot, adding 1,000 cars per day,” he says.

“Historically, we are a developer of power plants. However, we began financing wind farms in 1997-’98,” Jenevein explains. “We had put together project finance for the Dabancheng wind farm in western China. When NATO bombs hit the embassy of China in Belgrade, the financing was revoked, as potential ‘acts of war’ stipulate the end of such financing.

“We put the finance back together in April 2001 in Beijing, but when a U.S. naval reconnaissance plane and Chinese fighter plane bumped each other in the sky and the Chinese pilot was killed, it tore the project apart for a second time,” he says. “By the second time around, we had learned a great deal about the market. So to stay in China—and we were convinced it would be profitable to do so—we decided to build the blade company.”

Recently Kleiner Perkins, a top Silicon Valley venture-capital firm that invested in Google early on, has injected capital into HT Blade. So-called “greentech” is a primary venture-capital investment area for Kleiner, and China is a lynchpin of its global strategy. Jenevein and others plan to take HT Blade public, aiming to list it on the Chinese stock market sometime before the XXIX Olympiad begins in Beijing in August.

POLLUTION SOLUTIONS

China faces a great challenge meeting its energy needs while minimizing development's adverse impacts on the environment. When Deng Xiaoping outlined various market-based economic reforms in communist China in 1978, few would have predicted that, one day, the country would need to add electric-generating capacity equal to the entire United Kingdom grid every year. China is paying a high price for its growth, though, as pollution has become a serious public health hazard both in its cities and its rural areas. "Cancer villages" along major water resources and tributaries were brought to light by Elizabeth Economy in a book titled *The River Runs Black*, and respiratory disease rates are high because of air pollution. China estimates its economic losses related to environmental degradation and pollution at 10 percent of its gross domestic product of roughly \$2.8 trillion annually.

Last spring, Jenevein participated in a discussion called "China's Growing Energy Appetite: How Can It Meet Demand and Protect the Environment?" at a Milken Institute conference in Los Angeles. He said then that, in order to promote more environmentally

responsible resource use, pollution needs to have a "cost," adding that "profitability supports sustainability." Ironically, Jenevein pointed out that "the effluent from [Tang's] large co-generation power plant near the western part of the Great Wall is cleaner than the air in most [Chinese] cities on most days. You would rather breathe our exhaust than breathe the air there."

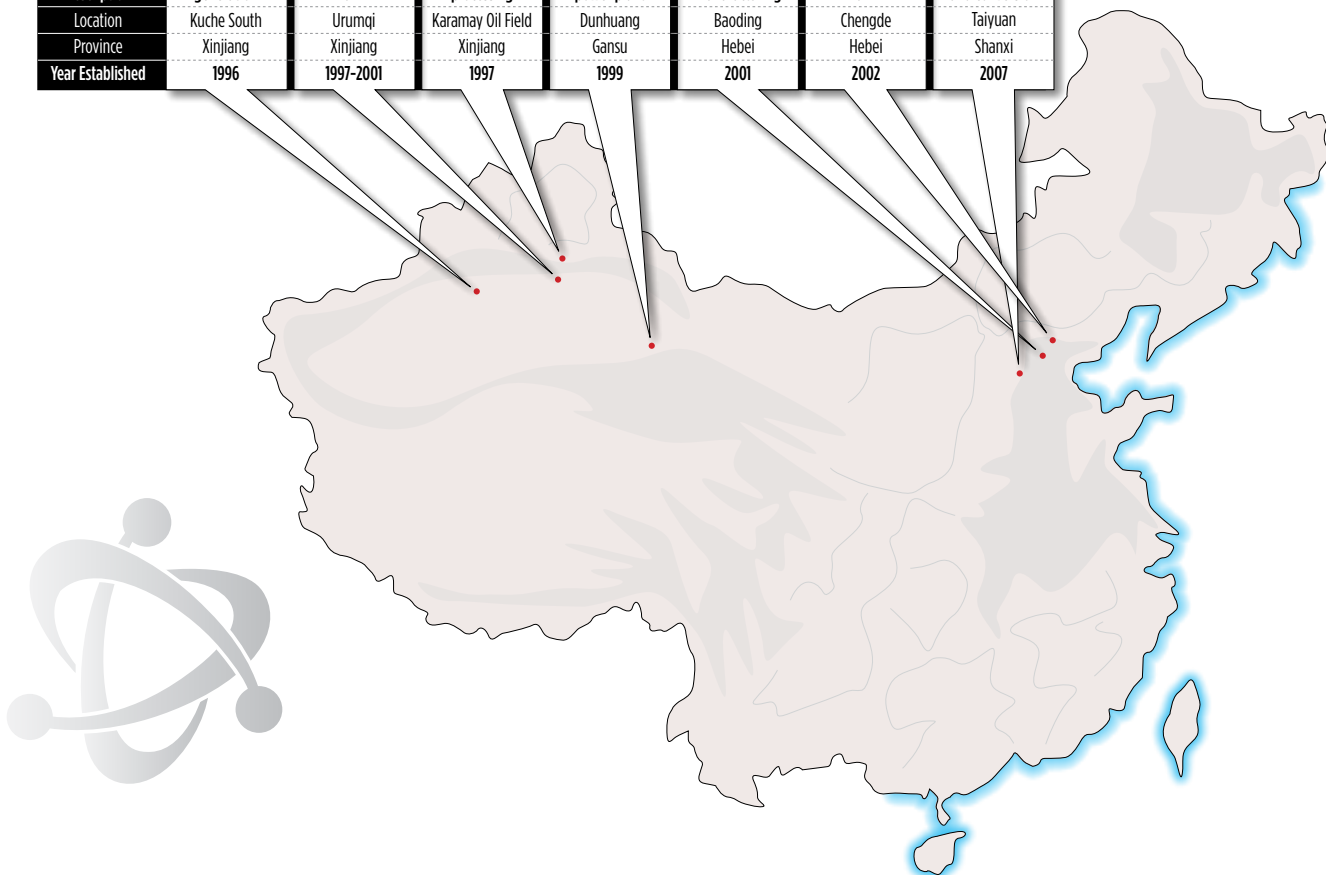
For Jenevein, being "green" has a practical aspect, as well. "We're a small-enough firm that we can choose what we do," he says. "Our blade business will produce a couple hundred million dollars of revenue [in 2007] and twice that in 2008, which is big for us, perhaps small for others." Tang also is introducing new technology to Chinese coal-fired facilities, aiming to curb pollution. "The first one is in Shanxi province, which is one of the dirtiest provinces in the world, outside the capital city of Taiyuan," Jenevein says. "We will be taking waste gases from a steel mill and putting them into a jet engine, which will produce electricity for the mill. It reduces their costs and pollution enormously, and we make money."

China currently meets almost 8 percent of its energy demand with renewable sources, including large-scale

THE CHINESE CONNECTION

Tang Energy has stayed active with projects in China.

Project Name	Yakerla	Dabancheng	Shixi	Dunhuang Catang	"Huiteng" HT Blade	Yudaokou	Tengjin
Project Description	Gas-fired power generation	Wind farm	Natural-gas processing	50mw power plant	Wind-blade manufacturing	Wind farm	Emission capture and conversion
Location	Kuche South	Urumqi	Karamay Oil Field	Dunhuang	Baoding	Chengde	Taiyuan
Province	Xinjiang	Xinjiang	Xinjiang	Gansu	Hebei	Hebei	Shanxi
Year Established	1996	1997-2001	1997	1999	2001	2002	2007



hydroelectric plants. By 2020, the Chinese government says that figure will rise to 15 percent of the country's energy-consumption portfolio—a target that's heating up demand for HT's blades at wind farms throughout the country.

Jenevein believes the Chinese will meet their renewables goal, though they'll struggle mightily to do so. "In the 1950s, China had the same generation capacity as India, but China has kept pace with demand while India is still plagued by power shortages," he says. "Granted, China is meeting a good deal of that capacity with Bronze Age technology, and the more remote the area [more to the west of the country], the less sophisticated. The east coast and urban areas are quite sophisticated in their power-generation infrastructure, which includes building nuclear facilities."

GLOBAL BUSINESS

Jenevein is also devoting time to the U.S. clean-energy market through Soaring Wind, the new Tang subsidiary. Recently, Tang made plans to export the first Chinese-manufactured wind turbines to windswept Lubbock; eventually, Dallas may see some of its energy supply coming from the winds of West Texas.

Texas, which overtook California in 2006 as the state with the most harvested wind resources, is predicted to house two-thirds of the future U.S. wind-energy supply. Jenevein says Texas wind farms generate twice as much power per megawatt as wind farms in Europe, thanks to U.S. government subsidies and wind-farm profits.

From his firsthand experience in global competition, Jenevein believes the United States needs to invest more in research, technology, and the sciences, as do other international players like China and India. HT Blade, in conjunction with Chinese research institutes, is working to create quieter blades, as noise potential has become a major complaint of those living near American wind farms. (Jenevein is quick to point out that HT Blade has never had a noise complaint.)

"Wind is a truly global business," Jenevein says. "What happens in India affects [people] in Lubbock." He found that out when Tang partnered with GE Wind to develop one of the world's largest wind farms in China. But because a U.S. tax incentive for wind-energy development was set to expire at the end of 2008, GE was selling equipment (that Tang's project needed) more profitably in the United States. This caused the major Tang wind-farm project in China to slow.

More recently, a wind-turbine shortage has created bottlenecks for wind power globally. But Tang's position in the supply chain from China should help it compete, whether in the U.S. or China, as a developer or parts supplier.

FINDING HARMONY

The challenges for his business are the same everywhere, Jenevein says. "Wherever you develop projects, you have to secure land, find a windy spot, have transmission capacity to get the electricity out, and work with government authorities. Figuring out how to work with different governmental bodies is always a challenge. If we had a wind-farm project to develop in Cape Cod, who would have thought Ted Kennedy would have opposed your wind farm?"

One of the biggest challenges in China is legal risk, Jenevein says—particularly with regard to property rights. "Competition is tough. You have professional competitors who are an honor to compete with, such as LM Glasfiber," he says. "But it's upsetting to sign an agreement six years back with a well-connected manager who then retires on a good pension. He is asked to start a new plant selling blades. These competitors often introduce inferior products, which hurts everyone in the market."

China is working hard to get things right in terms of legislation, whether for social needs or property rights, Jenevein believes. "We have to make sure as a firm that we share goals with joint-venture partners on projects—what we want to accomplish," he says. "The Chinese find this rather simplistic. Foremost, we want a certain return; they may have goals which are more political in nature. We have to make sure their politics don't affect our goals."

Having developed and built wealth with his Chinese partners, Jenevein has a more "cooperation-oriented" perspective toward U.S.-China relations than many in Washington, D.C., these days. "The U.S.-China relationship is vital to our children," he says. "Leaders in D.C. speak of punishing the Chinese for this or that. Not only is it counterproductive; it is fundamentally irresponsible.

"Right now our interest rates are low because of their support of our dollar," Jenevein says. "By bashing China, and pushing their exchange rates higher [via the yuan, China is] losing manufacturing jobs every year. It just means this production will go elsewhere such as India, Vietnam, etc. Ultimately, this will punish the U.S. and create bad will for us worldwide.

"When you've sweat next to your Chinese partner and have created this wealth between U.S.-Chinese firms, why would you want to then destroy it?" he continues. "When you partner with China, it adds another overtone toward peace and a peaceful future."

For Jenevein, meantime, maintaining *guanxi* in China continues to be all-important—a function of "making sure your value is known. Then *guanxi* will take care of itself," he counsels. And, he adds, "if anyone tells you they have *guanxi*, don't believe them." As in other realms, one's actions—such as requesting a classic Chinese folk song at a high-profile banquet in Beijing—will always speak louder than words. **D**

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