



The Information

Crypto's China Crackdown Intensifies

Hannah Miller

June 9, 2021

China's crypto crackdown is going into overdrive. China arrested more than a thousand people for using crypto in money-laundering today. Meanwhile, China's most popular internet services, such as Weibo and Baidu, reportedly censored crypto exchanges commonly used by Chinese traders.

Typing in the names of exchanges like Huobi, Binance and OKEx failed to yield results on websites Weibo, Zhihu and Baidu. It's not a blanket crackdown: common crypto terms like bitcoin and ethereum did not seem to be blocked. But China's squeeze on the crypto industry is now operating on multiple fronts.

- Last weekend, popular crypto accounts were suspended on Weibo's social media platform.
- A few weeks ago, China barred financial institutions from offering crypto-related products
- China's Inner Mongolia region has instituted tough punishments for anyone caught mining, the first domino in a series of provinces that have instituted bans.

It looks to me like China wants to stamp out interest in crypto among regular people, whether it's a budding trader or someone who's just crypto-curious.

China has argued that it wants to protect its citizens from losing money on crypto. But I think there's something else at play: bitcoin mining's environmental impact. Most bitcoin mining is concentrated in China and powered by dirty energy sources like coal. A recent study published in Nature found that the annual energy consumption of bitcoin mining in China will peak in 2024 by generating 130.5 million metric tons of carbon emissions.

This doesn't jive well with China's goal of going carbon neutral by 2060, which may explain why it's tightening up mining restrictions.

OUTSIDE OF CHINA

China's dominance of bitcoin mining also has implications for efforts by groups in the U.S. and elsewhere to make bitcoin greener. I'm thinking of North American-centric initiatives like the

Bitcoin Mining Council, which is trying to promote transparency in bitcoin mining practices. Yet its members account for only 10% of bitcoin's mining power.

Still, people are trying. Tesla recently decided to stop accepting bitcoin payments for its cars, a policy change which sent bitcoin's price reeling last month. Then there's the memo from Square and ARK Invest on how bitcoin is the key to an eco-friendly future, which is just baseless greenwashing. The white paper promotes the idea that bitcoin mining can incentivize the use of renewable energy, although it offers scant specifics on how to achieve that.

Getting miners to shift to renewable energy should focus on creating a system where people willing to pay a premium for low-carbon bitcoin can be connected with miners who can definitively prove they're using renewable energy, according to Joseph Pallant, founder and executive director of Blockchain for Climate Foundation.

"You just need to align the incentives," he said.

ECO ALTERNATIVE

Chia Network

Based in: San Francisco

Investors: Richmond Global Ventures, Andreessen Horowitz, Slow Ventures, Naval Ravikant, Galaxy Digital, Greylock, True Ventures, MetaStable, Stillmark, DCM and others.

Funds Raised: \$77.3 million

What Sets It Apart: Chia Network, a blockchain platform and digital currency, is aiming to be a green alternative to both bitcoin and ethereum.

Founded in 2017, Chia recently raised \$61 million from investors that include Richmond Global Ventures and Andreessen Horowitz, and is valued at about \$500 million.

The company is looking to change the way money is handled, including how cryptocurrency consumes energy, according to COO Gene Hoffman.

"Digital money should be easier to use than cash and it should be much more secure than the banking infrastructure we have," he said.

Chia relies on a proof of time and space model, rather than proof-of-stake or proof-of-work, according to Hoffman. This system is supposed to use less energy than traditional bitcoin mining and can be done on a personal computer, where unused storage space on a hard-disk drive can be allocated for "farming" chia currency.

The company's farming operations are even using discarded hard drives from Facebook, Box and Stripe that would have otherwise been landfilled, according to Hoffman. He said the company is aiming for an initial public offering.

Disclosure: Sam Lessin, who writes a column for The Information, is a partner at Slow Ventures.

EL SALVADOR UPDATE

El Salvador officially recognized bitcoin as legal tender after its congress voted to approve the “Bitcoin Law.” Under the new legislation, prices can be shown in bitcoin and taxes can also be paid with the digital currency. Exchanges in bitcoin will also not be subjected to a capital gains tax.

Still, there are many unknowns with exactly what El Salvador’s use of bitcoin as legal tender will look like, especially when it comes to banking. George Selgin, director of the Center for Monetary and Financial Alternatives at the Cato Institute, said there’s the question of whether banks will be compelled to allow bitcoin loans and deposits.

“It may require other legislation changes in the banking laws themselves,” he said.