

CHINA SUSTAINABLE FINANCE NEWSLETTER

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This is the quarterly newsletter following developments in sustainable banking in China. It offers updates on what Chinese banks, Chinese government regulatory departments, civil society and international stakeholders are doing to promote sustainable finance initiatives for China's financial sector. We invite these stakeholders to read the below updates and contribute their own information on relevant sustainable finance work in China

We hope you find this update useful to your work and encourage you to send any feedback to [Katherine Lu](#)

POLICY DEVELOPMENTS

1. MEP ranks green credit compliance of 50 Chinese banks
2. China's banking authorities to establish consumer protection bureaus
3. Updates about green credit policy implementation at local levels
4. HKEx concludes consultation on new ESG guide

SUSTAINABILITY IN CHINA'S FINANCIAL SECTOR

5. Chinese commercial banks report on green credit implementation interim results
6. New China Development Bank-financed projects at home and abroad
7. Shanghai Stock Exchange launches index for low carbon companies

CIVIL SOCIETY ACTIVITIES

8. Green Watershed holds green finance events at the WEF in Tianjin
9. Chinese NGOs publish environmental ranking of Chinese listed banks (2008-2011)
10. Chinese green groups target German bank over financing of waste incinerator
11. Greenpeace East Asia briefs investors on China's renewable energy sector

INTERNATIONAL COOPERATION AND DEVELOPMENTS IN SUSTAINABILITY

12. Draft of updated Equator Principles released for public comment
13. Asian Development Bank recommends a 'green tax' on resource extraction in China

POLICY DEVELOPMENTS

1. MEP ranks green credit compliance of 50 Chinese banks

The Policy Research Center for Environment and Economy of the Ministry of Environmental Protection (MEP) released the 2012 China Green Credit Annual Report in September 2012. China's Industrial Bank (CIB) was ranked first among the top 50 Chinese banks in terms of green credit performance. MEP reportedly used five indicators to complete the benchmarking, including green credit strategy, green credit management, green financial service, construction of organizational capability, and communication and cooperation. CIB was the only bank given a "Class A (above 80)" ranking.

2. China's banking authorities to establish consumer protection bureaus

The China Banking Regulatory Commission (CBRC) and the People's Bank of China, the country's central bank, each announced they created a bureau to educate investors and handle complaints in September. The bureaus are part of a government effort to improve investor protection following the global financial crisis. The China Securities Regulatory Commission, China's stock exchange regulator, and the China Insurance Regulatory Commission (CIRC), the country's insurance regulator, have already established consumer protection offices.

3. Updates about green credit policy implementation at local levels

Various Chinese provinces have reported on their efforts to implement the Green Credit Policy and other green finance initiatives.

- The Hunan Province environmental protection authority announced that a meeting to evaluate corporate compliance with green finance policies was held in Changsha on August 31st. The results of this year's assessment will be released next year.
- In August, the Hebei Province Banking Regulatory Bureau reported that the province invested RMB 25 billion in energy saving projects and cut RMB 766 million in loans to corporate polluters since 2010.
- China's Ministry of Environmental Protection (MEP) signed a strategic cooperation agreement with the municipal government of Chongqing on August 13th in order to jointly promote environmental protection in urban and rural Chongqing. As part of the agreement, Chongqing will actively explore the implementation of a series of green economic policies, including major pollutants emissions trading, green securities, green credit, and green insurance programs.
- In Shandong's Junan County, the government is developing environmental and economic policies for environmental protection that includes establishing a corporate environmental credit rating and green credit systems.
- The Wuxi city government in Jiangsu province reported that it arranged for a consortium of commercial banks including Bank of China to provide an emergency funding package worth RMB 200 million to Suntech Power Holdings Co Ltd, an ailing Chinese solar panel maker, at the end of September.

Local governments are financing a wave of stimulus projects to curb economic slowdown in their localities. In September, the National Development and Reform Commission (NDRC) approved 55 major infrastructure construction projects floated by local governments, some of which are focused on the environment and transportation. However, researchers with the State Council Development Research Center are concerned that in their haste to stimulate the economy, local governments are funding environmentally damaging projects.

4. HKEx concludes consultation on new ESG guide

The Hong Kong Stock Exchange (HKEx) is pushing forward the consultation process on its forthcoming Environmental, Social and Governance (ESG) Reporting Guide, which will be a recommended set of reporting practices for companies listed in Hong Kong. In August, the Exchange published a summary of conclusions from public comments it received on its draft guide during the first half of 2012. The Exchange received 106 submissions from institutional investors, listed companies, business associations, market practitioners and professional bodies, non-governmental/non-profit organizations, individuals and companies that are not listed. The Guide is divided into four areas: Workplace Quality, Environmental Protection, Operating Practices and Community Involvement. Each of the areas is divided into three sections: aspects, general disclosure recommendations and key performance indicators

SUSTAINABILITY IN CHINA'S FINANCIAL SECTOR

5. Chinese commercial banks report on green credit implementation interim results

Several Chinese commercial banks provided updates on implementation of the green credit policy in their 2012 interim results. Bank of Communications (BoComm) provided data about its funding to green projects, as well as funding decreases to highly polluting and energy-intensive projects. BoComm's outstanding loans to low-carbon economy, environmental protection and comprehensive utilization of energy projects increased by double digits from the previous year to RMB 136.3 billion. Total lending made to highly polluting, high-energy consumption and overcapacity industries decreased by 0.27 of a percentage point to RMB 2.5 billion during the reporting period. Industrial and Commercial Bank of China (ICBC) provided a breakdown of its corporate lending by industry in the first half of 2012 versus the end of 2011, including several highly polluting and energy-intensive industries such as iron and steel, petroleum processing and chemical industry. However, ICBC did not specify loan balances for environmental protection and energy efficiency.

Other banks reported specific data on their lending to green projects. China's Industrial Bank (CIB) reported that by the end of August 2012, the bank financed nearly 4,000 green finance projects worth almost RMB 200 billion. CIB indicated "the annual emission reduced is equivalent to shutting off 149 thermal power plants of 100 MW or stopping running the 70,000 taxis in Beijing for 44.7 years." CIB recently signed an agreement with China Railway Construction Group worth RMB 40 billion, which is to include green projects in China. In the first six months of 2012, China Merchants Bank (CMB)'s lending to environmental protection projects amounted to RMB 38.9 billion; its balance of loans to clean energy amounted to RMB 13.4 billion, an increase of RMB 1.8 billion as compared with the beginning of the year. Of its loans to clean energy, RMB 12.5 billion was granted to renewable energy, representing an increase of RMB 1.8 billion as compared with the beginning of the year.

Finally, many of the largest Chinese commercial banks noted their commitment to green credit policy implementation, development of new green products and progress incorporating environmental protection into their credit risk management systems, but did not provide specific data. China Construction Bank, Bank of China and Agricultural Bank of China (ABC) stated that they strictly controlled loans to industries with excess capacity and increased loans for energy saving and emission reduction projects in the first half of 2012 without providing loan balances.

6. New China Development Bank-financed projects at home and abroad

In the wake of news that China's photovoltaic industry is on the brink of bankruptcy, China Development Bank (CDB) announced in September that it would boost financing to the industry. CDB is to prioritize loans to 12 leading solar energy companies, including Suntech, Trina and Yingli, all of which the financier has provided loans to in the past.

Internationally, CDB has signed an agreement with the Ethiopia Sugar Corp. for USD 500 million worth of loans to build two refineries and expand the company's sugar production in Ethiopia's South Omo region. According to the advocacy group International Rivers, the South Omo plantations are being built through landgrabs from the region's indigenous population, and will be irrigated with waters regulated by the destructive Gibe III Dam. The water withdrawals will also spell further disaster for Kenya's Lake Turkana region.

7. Shanghai Stock Exchange launches index for low carbon companies

The Shanghai Stock Exchange (SSE) launched the SSE Sustainable Development Industry Index in August. The index includes a group of low carbon economy stocks, which consists of those companies that are identified by SSE as engaged in "clean power generation, energy transfer and storage, clean production and consumption, and water and waste treatment." Another category of the new index is "Cyclic Economy" stocks, which are comprised of companies engaged in energy efficiency.

Also in August, the SSE launched the CSI Commodity Equity Index, which consists of companies in such resource-intensive industries as Oil & Gas and Metals & Mining.

CIVIL SOCIETY ACTIVITIES

8. Green Watershed holds green finance events at the World Economic Forum in Tianjin

Green Watershed hosted two events during the Summer Davos meeting of the World Economic Forum, held September 11-13th in Tianjin, China. The environmental NGO hosted a forum to raise awareness about green economy topics including the implementation of the China Banking Regulatory Commission's new Green Credit Guidelines, international financial standards and Chinese NGOs' role in promoting a green economy. Over 70 participants from civil society, green business, academia, China's Ministry of Environmental Protection, the media and China's Industrial Bank attended the full-day event. Additionally, Green Watershed organized the Green Finance Advocacy Workshop for Chinese NGOs. Over 50 participants from 37 Chinese and international NGOs attended the two-day session. Speakers from BankTrack, BankWiser, Berne Declaration, Friends of the Earth-US, Green Watershed, the Institute of Public and Environmental Affairs and International Rivers participated as trainers. Presentations covered the fundamentals of Green Finance, sustainable banking, international initiatives, China's domestic policies and the role of NGOs to hold banks accountable.

As a result of the two events, a network of 25 environmental NGOs have agreed to collaborate on Green Credit advocacy in China, and the groups developed a joint action plan.

9. Chinese NGOs publish environmental ranking of Chinese listed banks (2008-2011)

On September 10, ten non-governmental organizations, including Green Watershed, Friends of Nature, Green Earth Volunteers, and Global Environmental Institute (GEI), released the "Green Credit Performance

Ranking of Listed Chinese Banks (2008-2011).” China’s top 16 commercial banks were evaluated on their environmental performance using ten indicators, including: disclosure of environmental information; environmental policies; environmental measures; special department responsible for green credit; adoption of international environmental standards; withdrawing loans to projects with heavy pollution; high energy consumption and excess production capacity; extension of loans to environmental protection or green industries; public opinion; internal environmental protection activities; and green credit advocacy towards peer banks and clients. During the period from 2008-2011, China’s Industrial Bank was the top ranked Chinese-listed bank.

10. Chinese green groups target German bank over financing of Beijing waste incinerator

Eighteen Chinese non-governmental organizations (NGOs) have taken issue with the German financier of a dirty waste incinerator project to be built in Beijing. NGOs including Friends of Nature, Nature University, Green Watershed, Eco-Canton and Greenovation: Hub sent two letters to German KfW Banking Group in August to express concern over the Bank’s investment in the Beijing Nangong Municipal Solid Waste Incinerator Project. Although KfW has said that the incinerator will be built according to the highest standards, authorities in Beijing have not made public the environmental impact assessment for the project, despite calls to do so. ChinaDialogue called the NGOs’ fight against KfW China’s first environmental campaign directly targeting an overseas investment bank.

11. Greenpeace East Asia briefs investors on China’s renewable energy sector

Greenpeace East Asia is actively sharing the conclusions of two new reports on China’s energy sector with investors. In July, the Head of Sustainable Finance Program of Greenpeace East Asia’s Beijing office gave an investor briefing at Citi’s China division about “China’s current progress on its Clean Energy Development.” The presentation included the findings of Greenpeace’s recent reports on market trends in wind power development and water issues associated with coal production. One of the major conclusions from the Citi talk was that grid connection is the key obstacle of renewable energy development in China. For more information contact Calvin Quek, Head of Sustainable Finance at Greenpeace East Asia.

INTERNATIONAL COOPERATION AND DEVELOPMENTS IN SUSTAINABILITY

12. Draft of updated Equator Principles released for public comment

The Equator Principles Financial Institutions (EPFIs) released the draft of the updated Equator Principles (EP III) for stakeholder consultation and public comment in August. The EPs are a set of voluntary guidelines developed by international private banks for identifying, assessing and managing environmental and social risks of project finance transactions. The EP III draft proposes changes to the current guidelines, including: an extension in the scope of the EPs to project-related corporate loans and bridge loans; changes to bring the EPs in-line with the International Finance Corporation Performance Standards; climate change management; greater emphasis on human rights considerations in-line with the UN “Protect, Respect and Remedy” Framework for Business and Human Rights; and strengthening reporting and transparency requirements for members.

13. Asian Development Bank recommends a ‘green tax’ on resource extraction in China

The Asian Development Bank (ADB) released a report in August that laid out recommendations for China’s environmental protection. “The Chinese government needs to implement a green taxation system to attain

its target of reducing pollution and promote sustainable economic growth,” the ADB report said. In “Toward an Environmentally Sustainable Future,” ADB analysts commended China’s investments in environmental infrastructure, control of energy consumption and ambitious emission targets while recommending that Chinese policymakers impose taxes on resource extraction and pollutant and carbon dioxide emissions.



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