CHINA SUSTAINABLE FINANCE NEWSLETTER

Issue #19 | BANKTRACK | Friends of the Earth | September 2013

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 Katharine Lu.

POLICY DEVELOPMENTS

1. Energy saving sector to become a "Pillar Industry" of the Chinese Economy by 2015

In an effort to tackle pollution, the State Council announced that energy saving and environmental protection industries will be elevated to a "pillar industry" of the Chinese economy by 2015. Support for the sector is reported to come in the form of tax breaks or government funding. The State Council anticipates that the environmental protection sector will grow by 15% per year on average and will reach 4.5 trillion yuan under the new plan. It will broadly cover policies, standards, pilot programmes, financing mechanisms and incentives, emissions and carbon trading. Chinese companies will be encouraged to boost environmental protection projects overseas. The policy is intended to further boost investment in green technologies.

SUSTAINABILITY IN CHINA'S FINANCIAL SECTOR

2. China Banking Regulatory Commission Chairman, Shang Fulin, describes financial reforms

CBRC Chairman Shang Fulin discussed five measures to enhance risk management and strengthen the banking sector in light of liquidity management issues in China. Considerable attention was paid towards improving risk management and assessment systems, particularly in terms of enhancing regulatory coordination mechanisms and clarifying uniform regulatory standards and scales. He also touched upon recent claims that China is on the verge of an economic crisis, stating: "Recently, some international institutions and industrial professionals expressed concerns to the risks in aspects of China economic growth, local debts and real estate. It should be noted that these risks are just some side effects in the process of slowing down, development, transformation and institutional transition of China's economy. As long as the risks are sufficiently realized and correct risk management measures are taken, the risks are manageable."

3. Local banks and government continue to develop green mechanisms and investments

Bohai Bank, Shanghai Pudong Development Bank, and Chengde Bank have continued to develop green loans and establish internal processes to encourage green credit. According to the Shanghai Banking Regulatory Bureau, Bohai Bank has increased their number of green credit investments in energy saving and renewable energy, and established long term green credit mechanisms. Shanghai Pudong Development Bank is partnering with the French Development Agency to implement a credit cooperation for energy efficiency loans with the International Finance Corporation. Plans include encouraging loans to energy efficiency and renewable energy projects through below market average interest rates. Of their current projects, fifty three are domestic green credit projects, in which the estimated annual savings are 1.93 million tons of standard coal and 4.95 million tons of carbon dioxide emissions. Chende Bank has developed a "win win development" green credit strategy. The bank plans to enhance micro financing for small businesses, implement energy efficiency and emission reduction policies, improve public works policies, such as pensions, as well as charity and disaster relief. Lastly, the Tianjing Banking Bureau is taking steps to improve the reliability of their data. New strategies include creating unified assessment criteria, establishing an information sharing platform, an experience sharing platform, and producing research to align finance with environmental interests.

4. Government exchange program provides financial training to local officials

Former head of the China Securities Regulatory Commission, Guo Shuqing, has instituted a finance training program between the central government regulatory department and local city governments in Shandong. Shuqing began his term as governor of Shandong province by establishing a series of financial and economic reforms, known as “Guo’s New Deal”. According to Caixin, local officials generally lacked the academic training and specialized knowledge to develop prudent economic policies. Approximately 30 central government officials have taken up temporary positions in Shandong, while 34 Shandong officials have been sent to the central government offices for training to date.

5. MEP deputy director discusses green credit barriers in Chinese banking sector

Yuan Qingdan, deputy director of the Ministry of Environmental Protection’s Policy Research Center, discussed a recent report ranking the green lending criteria China’s 50 biggest banks by market capitalization. The report concluded that just 12% of banks were fully implementing a green credit policy; at over half the banks, implementation was not ideal, and 18% of banks had no information on their green policies. Yuan argues that a robust market and legal environment is a key precondition for enabling more green lending, as finance institutions are under negligible pressure in terms of abiding by environmental protection standards. Comparatively, Yuan noted that big commercial banks perform better than local credit operatives. He also points out that despite financial innovations, “someone will still need to pay to clean up the pollution created”.

6. MEP suspends approvals for CNPC and Sinopec after failing to meet pollution targets

The Ministry of Environmental Protection will no longer approve the environmental impact assessments for some new refineries and upgrades of existing facilities for China National Petroleum Company (CNPC) and Sinopec projects. The decision was meant to penalize CNPC for failing to meet targets to cut chemical oxygen demand and Sinopec for failing to meet a target to cut nitrogen oxide emissions in 2012. Chinese media called the suspension an “extremely embarrassing circumstance[s]”, since the two state owned enterprises had met pollution standards among their overseas projects, but not domestically.

7. China mulls whether to establish a domestic carbon market by 2015

In an effort to curb carbon emissions, China has implemented a pilot carbon cap and trade program in seven cities, including Shenzhen, where last week the price of its carbon exceeded that of the EU market. New research by Bloomberg New Energy Finance estimates that if China institutes an emissions trading scheme by 2017, China’s carbon emissions could begin to decline by 2023. The researchers state that this estimate assumes that all barriers to adopting this policy would be eliminated, in addition to the full implementation of clean technologies. The pilot program will inform whether the government will establish a nation wide carbon market by 2015.

CIVIL SOCIETY ACTIVITIES

8. Greenpeace East Asia releases new report on the water crisis caused by the coal chemical sector
The report, "Thirsty Coal 2: Shenhua's Water Grab" investigates the proposal to expand China's coal chemical sector. In partnership with the Chinese Academy of Sciences, Greenpeace focused its investigation on the largest of nine coal chemical plants in operation, Shenhua's Coal-to-Liquid Demonstration Project located in Ordos, Inner Mongolia. The report exposes Shenhua's water grabs that have come at the price of local populations and environment and has been censored by the Chinese authorities.

9. Survey to gauge African attitudes towards Chinese companies operating in Africa
Covering fifteen African countries, the survey will assess how Africans view Chinese companies operating in their country. The study will be conducted by the Ethics Institute of South Africa (EthicsSA) in collaboration with the Charles Leopold Mayer Foundation for the Progress of Humankind, the Forum on Ethics and Responsibility, Globethics.net, and the Centre for International Business Ethics (CIBE) Beijing. EthicsSA noted that the study will aim to serve as a "factual basis" for the Chinese government and companies. It is slated to be published next year.

10. Fulbright scholar researchers Chinese views towards environmental protection
In another survey, a Fulbright scholar interviewed Chinese factory owners and managers on their views on environmental protection, finding that most Chinese generally identified environmental hazards as a problem only if it was tied to personal health. Based on the lack of alarmism, trust in technology, and the historical tendency to manage the environment to suit human needs, the researcher concluded that most factory owners and managers had an optimistic view of China's environmental future, even despite their own personal encounters with worsening air and water pollution.

10. Online database provides information on Chinese lending to Latin America and the Caribbean
Global Economic and Governance Initiative and Inter-American Dialogue have produced an online database on Chinese finance in Latin America and the Caribbean. The database includes information on $87 billion of China's loan commitments to Latin American and Caribbean countries, searchable by country, lender, sector and year. The database draws from research conducted by Kevin Gallagher in collaboration with Tufts University's Global Development and Environment Institute.

11. Tsinghua University ranks Chinese cities based on fiscal transparency
The School of Public Policy at Tsinghua University has recently examined the level of fiscal transparency among all Chinese municipalities and prefecture level cities. The first of its kind, the study systematically evaluated local governments' performance in disclosing fiscal information, concluding that fiscal disclosure remains extremely opaque. Out of 400 possible points, no single city earned more than 200; the highest score a city received was 178.78 points out of 400. Some cities even scored zero for failing to release any fiscal information. Guangdong and Anhui provinces, in terms of prefecture level cities, ranked high in the report, in addition to municipalities like Beijing, Shanghai, and Tianjin. On the other hand, Jiangsu, Zhejiang, and Fujian ranked lower, contrary to the expectation that economic development

correlated with fiscal transparency. The study found that political pressure was the major determinant of transparency levels. The study reinforces the need for local governments to transparently and accurately reflect their finances, as the official accounting of local debt, from both the National Audit Office and China Banking Regulatory Commission, often conflict with each other.

INTERNATIONAL COOPERATION AND DEVELOPMENTS IN SUSTAINABILITY

12. Xi Jinping expected to boost confidence in BRICS during G20 Summit
With China as one of the world's top investors in 2012, Xi Jinping is expected to rally confidence in BRICS during the G20 summit in St. Petersburg. The lagging economies of the BRICS nations have lowered confidence in the economic and political formation. According to some commentators, the G20 Summit will be an ideal time for Xi Jinping to describe China's transition to sustainable growth.

BANKTRACK
BankTrack www.banktrack.org
Vismarkt 15, 6511 VJ, Nijmegen, The Netherlands
(t)+31 24 3249220 / Contact@BankTrack.org
Mailing List:
http://www.banktrack.org/show/pages/mailinglist

Friends of the Earth
Friends of the Earth-US www.foe.org
(t)+ 510-900-3150 x 148 / (f)+ 510-900-3155
2150 Allston Way, Suite 240
Berkeley, CA 94704
US