

CHINA SUSTAINABLE FINANCE NEWSLETTER

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POLICY DEVELOPMENTS

1. MEP RELEASES PRODUCT BLACKLIST

The Ministry of Environmental Protection has [blacklisted products](#) with contain high pollution risks. The list includes 722 products and 92 crafts, and the MEP has provided the information to government bodies such as the People's Bank of China and ministries of commerce and finance. The list aims to educate companies and organizations to identify toxic products and consider the implications in the production, safety supervision, decision making, use, manufacturing, or export of those items. Over 300 are excluded from export tax rebates and prohibited by trade and tax bureaus. The blacklisted products are generally associated with heavy metal pollution and high emission of pollutants such as sulfur dioxide and ammonia nitrogen.

2. SSE LISTED COMPANIES' INFORMATION DISCLOSURE CONSULTATION COMMITTEE ESTABLISHED

The Shanghai Stock Exchange has developed the [Listed Companies' Information Disclosure Consultation Committee](#) which will be responsible for increasing regulatory supervision over listed companies. The Consultation Committee will consist of 30-50 members per two year term. The committee bears four responsibilities: assessing the quality of SSE- listed companies information disclosure, assessing regulatory measures and effects of the information disclosure, carrying out subsequent evaluation on the regulatory system, mechanism, and procedures of information disclosure on the capital market, and lastly, studies trends in regulations on information disclosure domestically and overseas.

3. CITY GOVERNMENT FREEZES POLLUTER'S BANK ACCOUNTS

In the wake of recent news that over [95% of Chinese cities failed](#) to meet environmental standards, local governments have taken increasing punitive actions against polluters.

In Shaanxi province, a long running conflict between [Yulin city and Changqing Oil Field](#) (a subsidiary of PetroChina) edged towards resolution when 21 of the company's 22 bank accounts were unfrozen. The local government of Yulin City froze the company's accounts after its failure to pay 850 million yuan (139.7 million U.S. dollars) for water and soil pollution damages from July 2009 – March 2012. The charges also included an overdue fine of 110 million yuan. Since the oil and gas were shipped to Beijing, the company was obligated to pay central, not local taxes, meaning that the resource taxes did not reflect or incorporate local interests.

One bank account remains frozen until the conflict is fully resolved. At this time, this appears to be the only case where a local government has challenged a state owned enterprise by freezing their accounts.

4. HEBEI PROVINCE REJECTS LOANS TO COMPLY WITH GREEN CREDIT POLICIES

In Hebei province, [banks rejected](#) "loan applications worth 12.3 billion yuan (\$2.0 billion) in order to comply with new 'green credit' policies designed to cut funding to polluting industries". Banks cut lending to restricted industries such as steel, cement and glassmaking; loans to steel and cement

projects were cut by as much as 20%. Hebei banks approximately lent 18.26 billion yuan to energy saving projects over 2013, and spent another 42.64 billion yuan on technological upgrades.

SUSTAINABILITY IN CHINA'S FINANCIAL SECTOR

5. CBRC WARNS AGAINST COAL LOANS

The Chinese Banking Regulatory Commission instructed its local branches to closely monitor credit risks in the [coal industry](#) due to concerns about potential defaults. It has also stepped up its monitoring of trust and wealth management products.

The warning follows news in January that investors sought repayment of a 3 billion yuan (\$496 million) [wealth management trust product](#), which ultimately defaulted because of a Shanxi coal mining company. Investors had protested the potential default in front of ICBC branches until an anonymous investor offered a bailout, according to media accounts. Industrial and Construction Bank of China played a role in distributing and marketing the trust product, and have since increased scrutiny of third party investments.

6. CHINESE AUTHORITIES LAUNCH CORPORATE ENVIRONMENTAL CREDIT EVALUATION PILOT PROGRAM

The China Banking Regulatory Commission, the Ministry of Environmental Protection, the National Development and Reform Commission and the People's Bank jointly issued "[Measures for Corporate Environmental Credit Evaluation \(Trial\)](#)", which allow environmental protection departments to rate corporate environmental credit according to the environmental performance of participating corporations. The "Measures" made it clear that the results of corporate environmental credit evaluation would be shared among the People's Bank, banking regulators, and other relevant departments. Corporate environmental credit ratings shall be directly linked to credit approval, while insurance agencies shall restrict businesses by the control of premium rates. By regulating the development and operation of businesses through these two mechanisms, the Measures aim to contain and punish their environmental misconduct.

7. CBRC REQUIRES 13 BANKS TO DISCLOSE BASEL COMMITTEE INDICATORS

The China Banking Regulatory Commission has instructed Chinese banks with on and off balance sheet assets worth over 1.6 trillion yuan to disclose 12 key indicators according to the Basel Committee of Banking Supervision. Some banks include Industrial and Commercial Bank of China, Bank of China, Agricultural Bank of China, China Construction Bank, Bank of Communications, China Citic Bank. Banks are required to disclose claims on liabilities and to other financial institutions, outstanding securities or other financial instruments, cross-border assets and liabilities, among others. The CBRC requires banks to disclose the information within four months after the end of each fiscal year, and no later than July 31 of each calendar year via their websites or annual reports.

CIVIL SOCIETY ACTIVITIES

8. GREENOVATION HUB LAUNCHES NEW REPORTS ON CARBON TRADING, INVESTMENTS IN RENEWABLE ENERGY, AND THE MINING INDUSTRY

Greenovation Hub has launched a series of new reports assessing China's latest efforts to prioritize environmental issues through carbon trading, bank lending, and mining regulations.

Ghub's report on carbon trading in China evaluates the seven current pilot schemes up to November 2013. It analyzes the challenges faced by a Chinese carbon market and provides policy recommendations. The analysis uses four criteria to assess the various approaches to carbon trading, including: scheme design, scheme implementation, market performance, and transparency and stakeholder engagement. The full report with English summary can be found [here](#).

Ghub's report, "Mobilizing China's Energy Transition—A Review of China's Banks' Investment in Renewable Energy", investigates how Chinese banks are contributing to the country's efforts towards fostering the renewable energy industry. The report asserts that as the main financing channel, banks' lending to renewable energy will become the decisive factor for China to achieve the goal of low-carbon energy transition. The report explores the relationship between the banking sector and climate responsibilities and draws upon lessons learned by Chinese banks listed in Hong Kong.

Lastly, a new report "China's Mining Industry at Home and Overseas: An analysis of Regulations, Standards and Practice", offers an introduction to the development of China's domestic and overseas mining industry, its impacts, and the environmental and social regulations that apply to both domestic and overseas projects. Supported by case studies looking at four Chinese mining projects in Fujian, Laos, Cambodia and Peru, the report explores some of the challenges that China's mining companies have encountered in terms of their environmental and social performance and makes recommendations for improving China's mining industry's approach to "Going Out".

For copies of "Mobilizing China's Energy Transition" and "China's Mining Industry at Home and Overseas", please write to policy@ghub.org.

9. INTERNATIONAL INSTITUTE FOR SUSTAINABLE DEVELOPMENT PUBLISHES REPORT ON GREEN BONDS

The International Institute for Sustainable Development has published a new report, "[Growing a Green Bonds Market in China](#)", which discusses how green bonds provide a unique opportunity to "pilot transparency measures in fixed-income markets while helping to achieve the environmental goals of China's 12th Five-Year Plan". Authors Sean Kidney and Padraig Oliver of Climate Bonds explore how green bonds can be developed in China and allow investors to channel capital into green growth areas while simultaneously fostering market transparency. The report draws upon examples of innovative structures in the international market and its potential application in China.

10. MARKING THE ANNIVERSARY OF THE GREEN CREDIT DIRECTIVE

This year marked the two year anniversary of the Green Credit Directive, a Chinese green finance measure largely considered to be one of the most progressive policy in the world. Friends of the Earth US authored two articles assessing the promise and disappointments of the policy. Commenting on a controversial [copper project in Ecuador](#) and a [coal power plant in Bosnia and Herzegovina](#), Friends of the Earth US advocated for the fuller, stronger adoption of the Green Credit Directive. Another article published by [Asociación Ambiente y Sociedad](#) also underscored the necessity for demanding compliance of Chinese financiers to the policy in Ecuador.

11. AMAZON WATCH RELEASES REPORT ON CHINESE INVESTMENT IN THE ECUADORIAN OIL SECTOR

The report, “[Beijing, Banks and Barrels: China and Oil in the Ecuadorian Amazon](#)”, discusses how Ecuador’s reliance on Chinese loans has opened up the Amazon to large scale industrial and extractive projects. It takes particular consideration of that fact that through loans, China has essentially bought 90% of the country’s oil and can seize the assets of oil companies should Ecuador default on their loans. According to the report, most of the oil bought by China has “ended up in refineries in California, including some operated by Ecuador's number one public enemy: Chevron.”

INTERNATIONAL COOPERATION AND DEVELOPMENTS IN SUSTAINABILITY

12. FIRST CHINESE BANK OPENS IN PERU

Earlier this year, Industrial and Construction Bank of China opened its [first office in Peru](#) and is the first Chinese bank to open in the country. The bank currently has 50 Chinese companies and will gradually expand to include Peruvian customers, according to media accounts. It is expected that in addition to mining, the bank may invest in sectors such as agriculture, fishing, and energy. The bank opening represents the [increasing influence of Chinese investment in Latin America](#). Countries unable to borrow from international financial institutions, such as Ecuador and Venezuela, have already approved several large Chinese loans, causing local concern regarding the environmental and social impact on communities. Chinese investment has largely focused on the natural resource and infrastructure sectors, and China has already approved over [50 trade deals](#) in the region.