

China's Green Capital Markets

China

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Background information

Since 2004 China has annually collected data and estimates of its losses of natural capital. The figures range from 3% to 4%. Unfortunately, this represents nearly half of its GDP growth of 7% to 8%. As a response since 2007, China's State Environmental Protection Administration (SEPA) has administered a series of 'Green Capital Market' and other finance policies. SEPA has now advanced to the even more critical role as the Ministry Of Environmental Protection (MEP) within China's central government.

The goal of these policies is to promote environmental protection among China's large state-owned industries, and regulate pollution of other businesses as well. This new framework is composed of seven major elements: pollution charges, emissions trading, a "green" capital market, ecological offsets & taxation, trade of environmentally friendly goods, and environmental insurance.

Quick facts

Zone	National Territory
Key words	Emission trading, ecological offsets & taxation, green insurance,
Topic	Environmental Protection
Implementing Agency	National Government

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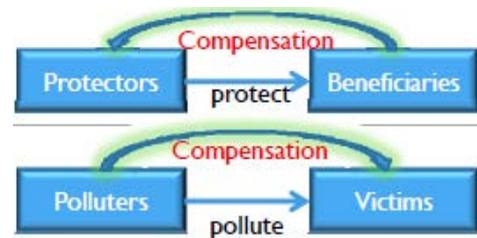
Project Definition

Pollution Charges and Emissions Trading: China first imposed a fee on pollution emissions in 1978. The fee was too low to substantially reduce emissions in many cases. Higher fees, a cap and trade systems should be more effective. There are still challenges such as determining how many emission permits to issue.

Securities: Developed jointly with the China Securities Regulatory Commission. Companies across 13 identified heavy industries (including those in electric power, cement and steel) who apply for an initial public offering on the Chinese stock markets must meet certain environmental criteria before being listed. Already listed companies in certain heavily polluting industries will be made to provide minimum levels of disclosure on environmental and energy performance. Approval of a company's application to raise funds in the capital markets may be delayed if it is in major violation of environmental standards

Business Loans: A framework for bank loans has been developed by MEP and the China Banking Regulatory Commission. Environmental criteria are used to determine which companies receive loans. Businesses that heavily pollute or waste energy and resources are excluded. Companies that are later discovered to have violated environmental protection regulations after loans have been made can have their loans suspended and even recalled. Challenges exist because many of the high-energy consuming and polluting industries are at the same time some of the most lucrative industries in certain areas. Thus some local governments refuse to order the halt of loans. Moreover, a number of these companies are turning from banks to social groups for financing.

Ecological Offsets: The goal is to compensate local areas for the loss of economic development when measures are taken to protect the environment. It applies to nature reserves, areas with important ecological functions, mining zones, and river basins.



Ecological Taxation and Trade: Certain business expenses related to environmental protection result in tax savings. However, products that are highly polluting and environmentally dangerous can have tax refunds, access to processing and trade privileges revoked.

Green Insurance: MEP and the China Insurance Regulatory Commission jointly set up pilot projects to establish an environmental pollution liability insurance system. Industries especially prone to environmental accidents (e.g. transport of hazardous waste) will be required to buy insurance from insurance companies on the basis of their environmental risk profile. The goals are to spread awareness over the risks of environmental damage, facilitate fair and timely compensation to environmental victims, while adding an additional pressure point (i.e. the insurers) on companies to improve their environmental performance

Outcome

As might be expected, there has been a slowing of enforcement efforts since the start of the global recession in 2008. On the other hand, the 12th Five Year Plan has actually accelerated efforts in key areas such as energy conservation, circular economy, and industrial restructuring.

References

"Greening China's Financial System", January 2014. Financial Research Institute of the Development Research Center, China State Council (DRC)

Case Study



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Annex I

Table: Banking Institution Loans To energy Conservation And Environmental Protection Projects

YEAR	2007	2008	2009	2010	2011	2012
Number of projects	2,715	2,983	6,412	7,259	9,349	10,874
Loan balance (RMB TN)	0.341	0.371	0.856	1.172	1.468	3.58

Source: Bank of China (2009, 2010, 2011, 2012); China Construction Bank (2009, 2010, 2011, 2012); Industrial and Commercial Bank of China (2009, 2010, 2011, 2012).