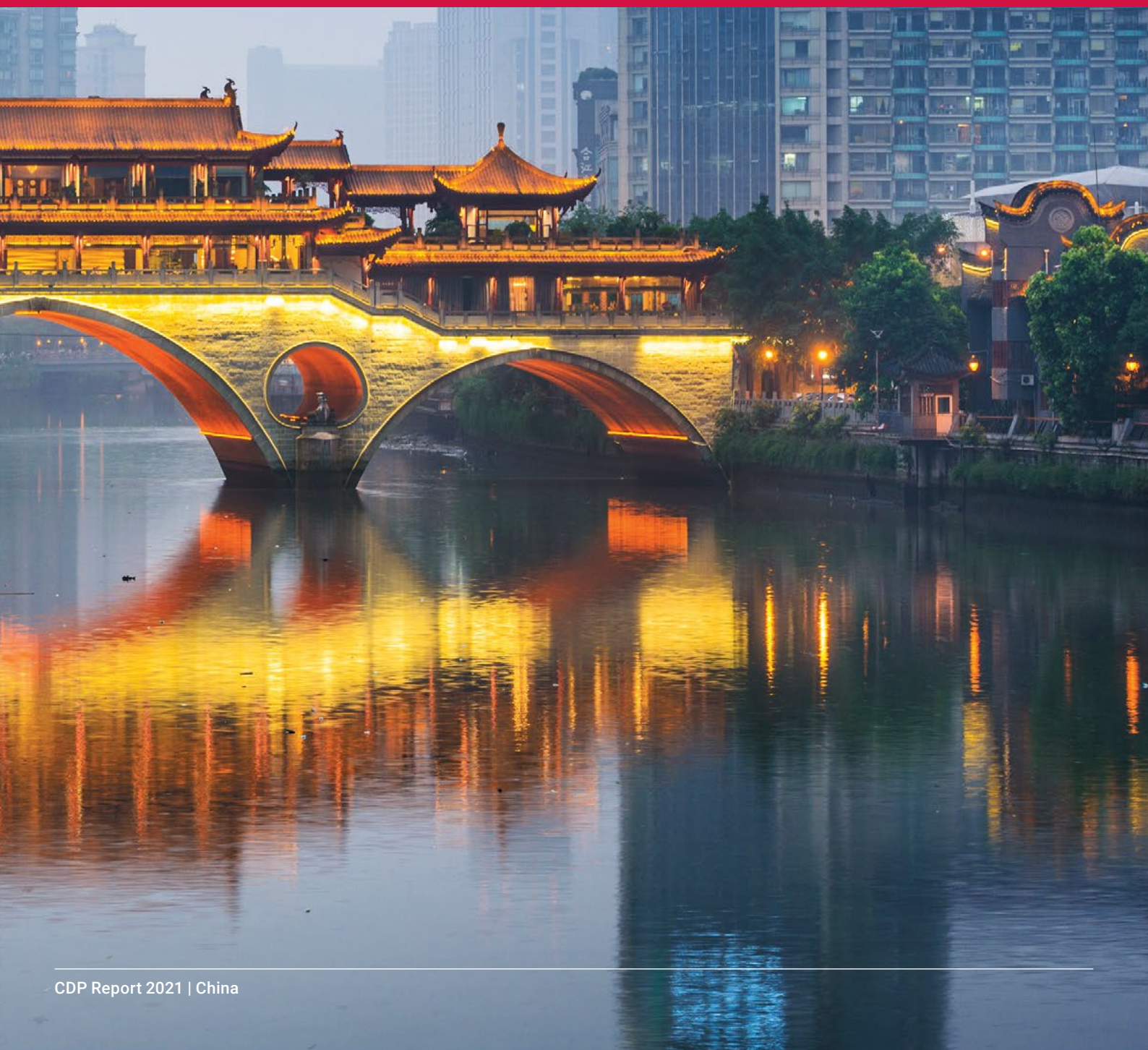


SHAPING A SUSTAINABLE FINANCIAL SYSTEM

Future-proofing global finance for a net-zero, nature-positive world

CHINA



INTRODUCTION

China is now **the world's largest importer of soybeans**

60%
and **timber**
33%

As well as the second largest importer of **palm oil**

12%
and **beef**
17%³

Green finance policy landscape in China

Sustainable finance, usually referred to "green finance" in China, has developed rapidly in recent years and will play a vital role in supporting and accelerating China's transition to a low-carbon, green and sustainable economy.

China has pledged to see its carbon emissions peak before 2030, achieving carbon neutrality by 2060, and has set a long-term goal to build a "Beautiful China" by 2035, a proposal in line with the UN Sustainable Development Goals (SDGs). A study conducted by Tsinghua University in 2020 found that around 138 trillion yuan (US\$21 trillion), over 2.5% of China's annual GDP, is needed by 2060¹ to meet targets in line with the 1.5 degrees Celsius goal of the Paris Agreement.

According to the Ministry of Ecology and Environment (MEE), during the 13th Five-Year Plan period (2016-2020), a total of 224.8 billion yuan was invested into an ecological environment². 78.3 billion yuan was allocated towards tackling water pollution, and 97.4 billion yuan towards air pollution prevention and control.

China is also hosting the 15th meeting of the Convention on Biological Diversity (COP15),

themed "Ecological Civilization: Building a Shared Future for All Life on Earth". COP15 will adopt the Post-2020 Global Biodiversity Framework, the successor to the Aichi Targets. As natural carbon sinks, forests are expected to have a central focus in these negotiations, to both preserve biodiversity and achieve carbon neutrality goals.

However, deforestation driven by China's use of forest-risk commodities is undermining its efforts to combat the climate and biodiversity crises. China is now the world's largest importer of soybeans (60%) and timber (33%), as well as the second largest importer of palm oil (12%) and beef (17%)³. If deforestation is not addressed in these supply chains, China's high dependency on imported forest-risk commodities threatens the stability of its food security, potentially harming its economic growth, and undermining its climate leadership ambition.

The 14th Five-Year Plan period (2021-2025) will be crucial for China to transition to a sustainable and low-carbon economy. Related quantified objectives and tasks for economic and social development during include:



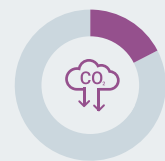
24.1%

Expanding forest coverage to 24.1% of China's total land area



13.5%

Reducing energy consumption per unit of GDP by 13.5%



18%

Reducing carbon dioxide emissions per unit of GDP by 18%

1. https://mp.weixin.qq.com/s?__biz=MzU5MzY5ODIwNQ==&mid=2247489602&idx=1&sn=c6c6ee7b640539cb6f805817173a7990&chksm=fe0dd4b0c97a5da6b00836019650a2adee0075e1b53290703b5c8fdecfbfed7081324a47d9a21&mpshare=1&scene=1&srcid=1019QKC14p8bTPZLd0qgM14p&sharer_sharetime=1604322351627&sharer_shareid=f0c5da8ccb7adf0a445566e4315de8c7&exportkey=AS-m3aeyB9QksnEme7rouRE%3D&pass_ticket=R52RVDV4w1HGH8v6gbuLcuP16T4XDrfprHZAtUvIQF5jMTbF1k3USkp%2FR6SR2Lu&wx_header=0#

2. <http://news.cctv.com/2020/07/28/ARTI50nMFRmfVk0CuK30PwLZ200728.shtml>

3. CCICED, The global green value China- greening China's 'soft-commodity' value chains, Spetember-2020, <https://cciced.eco/wp-content/uploads/2020/09/SPS-4-2-Global-Green-Value-Chains-1.pdf>.

KEY SUSTAINABLE FINANCE POLICY ACTORS

Actor	Comments
MINISTRY OF ECOLOGY AND ENVIRONMENT (MEE) 生态环境部	Develops the national Emissions Trading System (ETS) and “Guidance on Promoting Climate Investment and Financing”, co-host of COP15.
MINISTRY OF FINANCE (MOF) 财政部	Promotes green economic recovery and low-carbon development through the fiscal and tax policy system.
NATIONAL DEVELOPMENT AND REFORM COMMISSION (NDRC) 国家发展和改革委员会	Developed the Green Industry Guiding Catalogue, leads the development of the 14th Five-Year Plan, and leads the policy development and roadmap for achieving carbon peaking and carbon neutrality.
PEOPLE'S BANK OF CHINA (PBOC) 中国人民银行	Central bank. Leads the green finance policy development and implementation, member of the Network for Greening the Financial System (NGFS), co-chair of the G20 Sustainable Finance Study Group, develops the China-EU common ground taxonomy.
CHINA BANKING AND INSURANCE REGULATORY COMMISSION (CBIRC) 中国银行保险监督管理委员会	Regulator of the banking and insurance sectors, develops the Green Credit Guidelines and the Green Finance Statistic System.
CHINA SECURITIES REGULATORY COMMISSION (CSRC) 中国证券监督管理委员会	Regulator of listed companies. Develops mandatory ESG information disclosure requirement and framework.
GREEN FINANCE COMMITTEE OF CHINA SOCIETY FOR FINANCE AND BANKING (GFC) 中国金融学会绿色金融专业委员会	Platform for developing green finance action by facilitating policy research, raising awareness, developing products and tools, and catalyzing international cooperation.

Development of green finance in China

In 2016, the Chinese government published the “Guidelines for Establishing the Green Finance System”, the first time any nation had issued such guidelines.

China has achieved positive results in building a green financial system since. The PBOC has attached great importance to developing green finance, and in recent years, has focused on three major functions:



Resource allocation



Risk management



Market pricing through five pillars

taxonomies, environmental information disclosure, policy incentives and restraints, green finance products and market, and international cooperation in green finance

KEY SUSTAINABLE FINANCE POLICIES AND REGULATIONS

Actor	Policy/Regulation	Supervisory/ Implementation	Sustainable Finance Positioning	Year of Implementation	Addresses Climate Change?	Addresses the Safeguarding of Forest Resources?	Addresses Safeguarding Water Resources?
1	Green Credit Guidelines 绿色信贷指引	CBIRC	Focusing on green credit to encourage banking institutions to: actively adjust credit structure; mitigate or prevent environmental and social risks; better serve the economy; and boost the transformation of economic growth.	1/29/2012	x	x	x
2	Guidelines for Establishing the Green Financial System 关于构建绿色金融体系的指导意见	PBOC MoF NDRC MEE CBIRC CSRC	The guidelines stress that the primary purpose of establishing the green financial system is to mobilize and incentivize more social (or private) capital to invest in green sectors, while restricting investment in polluting sectors. The green financial system will help facilitate a green transformation for the Chinese economy, promote technological progress in environmental protection, energy saving and other fields, and will accelerate the development of new growth drivers and enhance the potential for economic growth.	8/31/2016	x	x	x
3	Green Finance Statistical System 绿色融资统计制度	CBIRC	Captures data on banking institutions' outstanding values of green finance and environmental benefits to urge banking institutions to improve environment and social risk management of their lending.	6/9/2020	x	x	x
4	Guidance on Promoting Climate Investment and Financing 关于促进应对气候变化投融资的指导意见	MEE NDRC PBOC CBIRC CSRC	Provides high-level guidance to promote green finance and outlines the roadmap to mobilize financial resources in line with climate targets. The scope covers both mitigation and adaptation.	10/21/2020	x		
5	Green Finance Evaluation Plan for Banking 银行业金融机构绿色金融评价方案	PBOC	Effective July 2021, the bank will conduct a quarterly evaluation on financial institutions' green finance, and implement incentives and constraints based on these results. Businesses that comply with green finance standards and relevant regulations, including green loans and green securities, will be evaluated.	05/27/2021	x	x	x
TAXONOMIES							
6	Green Industry Guiding Catalogue (2019 Edition) 绿色产业指导目录 (2019年版)	NDRC, MEE, PBOC and others	This catalogue outlines six categories of green activities to guide sustainable investments.	2/14/2019	Addresses energy saving, clean energy, and green infrastructure categories.	Addresses water treatment and water saving categories.	Addresses the ecological agriculture category.
7	Green Finance Statistical System 绿色融资统计制度	CBIRC	Captures data on banking institutions' outstanding values of green finance and environmental benefits, in order to urge banking institutions to improve the environment and social risk management of their lending.	6/9/2020	Addresses the energy saving, clean energy, and green infrastructure categories.	Addresses water treatment and water saving categories.	Addresses the green commodities trade category.
8	Green Bond Endorsed Project Catalogue (2021 Edition) 绿色债券支持项目目录 (2021)	PBOC, NDRC, CSRC	The catalogue will serve as a specialized catalogue list for demarcating and screening green projects and sectors that warrant support. The new catalogue no longer includes clean fossil fuel projects within the scope of support, while also adopting the principle of "no major harm" in order to achieve strict curbs on carbon emissions.	7/1/2021	Addresses the energy saving, clean energy, and green infrastructure categories.	Addresses water treatment and water saving categories.	Addresses the green agricultural supply category.

Nb: This is not an exhaustive list of actors but key regulatory and policy initiatives in China

Environmental information disclosure

In May 2021, MEE issued its “Reform Plan for Law-based Environmental Information Disclosure”, committing to reforming the law-based environmental disclosure system and advancing mandatory disclosure for enterprises. The plan will establish a mandatory environmental disclosure system by 2025.

In June 2021, CSRC issued revised guidelines on the “Contents and Formats of Information Disclosure” for the annual and semi-annual reports from listed companies, intending to improve transparency and disclosure on corporate governance and ESG matters.

The revisions included a new chapter on environmental and social responsibility, and mandatory disclosure of any administrative penalties during reporting periods for listed companies. Voluntary disclosure on measures and effects can be taken to reduce their carbon emissions and consolidate the expansion of poverty relief achievements, rural revitalization, and other related work. The revision is an important step before implementing mandatory ESG information disclosure.

Policy incentives

After the announcement of enhanced climate commitments by 2030 and the 2060 carbon neutrality vision, the PBOC has also shown greater ambition in facilitating green recovery⁴. The bank will also require financial institutions to make transitions towards sustainable finance.

With enhanced ambition to tackle environmental challenges at both global and national levels, Chinese financial regulators

have attached a greater importance in managing environmental and climate financial risks. The PBOC recommends improving the identification, early warning and forward-looking responses to climate-related risks by building methodologies and tools, promoting the implementation of a unified green standard, and encouraging financial institutions to incorporate climate into risk management frameworks⁵.

Taxonomies

In June 2020, the CBIRC updated the Green Finance Statistic System⁶, explicitly listing requirements for green goods trading. This new system includes an article that identifies soybean, palm oil, timber, beef, cocoa, and rubber as high environmental risk commodities, whilst further acknowledging certification by the Roundtable on Sustainable Palm Oil (RSPO), the Roundtable on Responsible Soy (RTRS), and the Forest Stewardship Council (FSC) for green commodity labelling. These efforts have laid the foundation to further incentivize deforestation-free finance. Chinese financial regulators

can build on this standard setting in the upcoming renewal of green taxonomies, focusing on transparency, traceability, minimizing environmental impacts, and certification.

China and the EU are jointly working on the development of a common ground taxonomy under the International Platform on Sustainable Finance (IPSF)⁷. This taxonomy could facilitate the development of the global market and integrate green finance markets from different countries.

4. People's Bank of China, Promoting green finance to facilitate low-carbon development, (December-09-2020), <http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4141550/index.html>

5. Research Bureau of the People's Bank of China, Climate-related financial risks- an analysis from central bank's perspective, May-22-2020, <http://www.pbc.gov.cn/yanjiuju/124427/133100/3982993/4027256/index.html>

6. Caixin, The PBoC included green bond into the updated green finance statistic system. (July-22-2020) <http://finance.caixin.com/2020-07-22/101582882.html>

7. Susanna Rust, International sustainable finance forum starts taxonomy work, gains IMF (October-19-2020) <https://www.ipe.com/news/international-sustainable-finance-forum-starts-taxonomy-work-gains-imf/10048486.article>

Financial products and financial market

By the end of 2020, green loans and green bonds in China totaled US\$1.8 trillion and US\$125 billion respectively, ranking as the world's largest and second largest.

Carbon pricing is a crucial component in deciding how effectively the carbon market can help reduce carbon emissions. The national carbon emission trading market will be a critical mechanism to reduce greenhouse gas emissions, as part of China's effort to peak emissions before 2030 and achieve carbon neutrality before 2060. As the market develops, carbon pricing should become an economy-wide instrument. China's carbon market could create powerful incentives to stimulate investment and innovation.

This is expected to play a major role in China's transition to a low-carbon and green economic growth model. The carbon trading

system will become an important milestone of China's green development and help to form new financial markets. The Shanghai Environment and Energy Exchange will be responsible for building the trading system; the China Hubei Emission Exchange in Wuhan, Hubei province will deal with applications and collect data.

The national carbon emission trading system (ETS) opened in July 2021. Over 2,200 power plants, responsible for more than four billion tons of carbon dioxide emission, are included in the first phase of trading, making it the largest carbon market in the world by volume⁸. China's carbon market is expected to have a total value of 600 billion yuan (US\$93 billion) on the official launch of the trading mechanism, according to an estimate by Sinolink Securities⁹.

International Cooperation

To boost post-pandemic recovery, countries have urged support for green and low-carbon development, putting in place environmentally-friendly and risk-resistant infrastructure, and promoting the development and utilization of clean energy.

China aims to make sustainability a defining feature of Belt & Road Initiative (BRI) cooperation, by building cooperation on green infrastructure, green energy and green finance, and improving the BRI International Green Development Coalition, the Green Investment Principles for the BRI, and other multilateral cooperation platforms.

China and the US will co-chair the G20 Sustainable Finance Study Group. The PBOC and the US Department of the Treasury will chair the group, which is being relaunched after a two-year suspension. The SFSG will study plans to cope with financial risks stemming from climate change, strengthen the disclosure of climate-related information, and support green transformation. The G20 agreed to create a permanent forum for international cooperation on sustainability issues, upgrading the SFSG to a fully-fledged working group (renamed as the Sustainable Finance Working Group). The priorities of the group include sustainability reporting, approaches to identify sustainable investments, and the role of international financial institutions in supporting the Paris Agreement.

8. <https://news.cgtn.com/news/2021-07-17/CGTN-Explains-Understanding-China-s-carbon-market-11XZt8ijknm/index.html>

9. https://www.chinadaily.com.cn/a/202106/24/WS60d3c16ea31024ad0bacb123_2.html

ANALYSIS (INCLUDING GOVERNANCE CHALLENGES)

Currently, green finance has focused mainly on climate change, pollution control, energy conservation and emission reduction, lacking sufficient support to other sustainable targets such as agriculture, forestry, and other land uses (AFOLU), biodiversity and water.

According to CDP's research, between 2013 and 2020, Chinese financial institutions provided US\$5.1 billion in loans and underwriting to Chinese companies in the palm oil value chain¹⁰. At least US\$2.1 billion of loans made by Chinese financial institutions to Chinese companies within the soy supply chain are exposed to deforestation risks; US\$7.1 billion of bond and share issues are exposed¹¹. Mitigating deforestation along forest-risk commodity value chains is in line with China's pursuance of global ecological civilization and the

community of a shared future for mankind, as forests are a key pillar in achieving global climate and biodiversity goals.

The main governance challenges focus on greenwashing: a potential threat to green finance development. Policy actors should coordinate to further develop taxonomies and strengthen climate disclosure requirements. Enhanced taxonomies and enhanced information disclosure can prevent greenwashing and protect market integrity.

The way forward

As the green finance policies evolve with the ambitious environmental agenda, more financial resources should be mobilized to sustainability-related areas. Deforestation-free finance could facilitate China to decouple deforestation with its global forest-risk commodities value chains, deepen international cooperation with key partners and lead global green recovery. China could also develop robust policies that ensure funding is diverted from entities who fail to protect globally important forests, both in operations and supply chains.

Taxonomies

The Green Bond Endorsed Project Catalogue (2021 Edition) has already been revised and issued. However, the taxonomies that govern loans, insurances and green industries should also be refined and strengthened, in line with the enhanced national ambitions and actions.

Enhanced standards

China's increasing overseas investment also requires enhanced standards in line with global requirements to identify green investment opportunities and reduce transaction costs. It will also facilitate cross-border capital flows into green BRI projects.

Mandatory disclosure

It is critical that the central bank establish a mandatory disclosure system that would require all financial institutions and firms to follow unified disclosure standards. To allow companies to operate in the global economy, disclosure requirements should reflect international standards and frameworks and common practice, including the TCFD's recommendations.

10. <https://www.cdp.net/en/articles/forests/chinese-financial-institutions-exposed-to-us51-billion-in-forest-related-risks-due-to-palm-oil-financing>

11. https://6fefcbb86e61af1b2fc4-c70d8ead6ced550b4d987d7c03fcd1d.ssl.cf3.rackcdn.com/cms/policy_briefings/documents/000/005/607/original/NICFI_China_Policy_Brief_EN.pdf?1615283393

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About CDP

CDP is a global non-profit that drives companies and governments to reduce their greenhouse gas emissions, safeguard water resources and protect forests. Voted number one climate research provider by investors and working with institutional investors with assets of over US\$106 trillion, we leverage investor and buyer power to motivate companies to disclose and manage their environmental impacts. Over 9,600 companies with over 50% of global market capitalization disclosed environmental data through CDP in 2020. This is in addition to the hundreds of cities, states and regions who disclosed, making CDP's platform one of the richest sources of information globally on how companies and governments are driving environmental change. CDP is a founding member of the We Mean Business Coalition.

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