

# Financing Green

## The China Report

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## Greening the Silk Road: Green Finance and OBOR

China's Belt & Road Initiative (B&R) is likely to transform trading routes from Asia to Africa and the Middle East to Russia. With the world's largest foreign reserves and a focused determination on building political and economic ties with strategically important governments, China is helping finance much needed major infrastructure projects all along the modern Silk Road. Yet this initiative goes well beyond just financing projects, China is using its economic might to promote its own set of standards; and nowhere is this more evident than in the field of green finance.

*Read More On Pages 2-3*

## National Carbon Market Official Launch

Drumroll please...China's long anticipated national carbon market is rumored for launch in November sometime after the UN Climate Change Conference. This year's Conference will be the 23rd meeting and take place in Bonn, Germany from November 6-17, 2017. China is expected to be a vocal leader at the Conference.

While China will launch the national carbon market, actual trading will not likely happen until 2018.

For more information, check out our recent blog on the launch.



# Financing Green

Top Story



Source: Reuters

## Greening the Silk Road: Green Finance and OBOR

President Xi Jinping is pursuing an aggressive campaign for green development. As part of its “war against pollution,” China has launched what is now the world’s largest green bond market. Now, officials’ promotions are linked to meeting environmental targets and banks are granting preferential interest rates to sustainable projects. As well, China will soon be creating the world’s largest experiment in pricing carbon with its national exchange: all of these initiatives are happening in record time. China is also now using its own domestic platform for green finance to encourage other countries to follow its lead.

At the Belt & Road Forum last May, President Xi said in his opening address, “We should pursue the new vision of green development and a way of life and work that is green, low-carbon, circular and sustainable,” and his words are being translated into action.

While at the B&R Forum, China’s Ministry of Environmental Protection and the United Nations Environmental Program (UNEP) announced the creation of the International Coalition for Green Development on Belt and Road. UNEP sees tremendous opportunity in the B&R’s ability to promote massive sustainable development and to be a part of the reconstruction effort in war torn countries such as Afghanistan and Iraq. But they also see it as an opportunity to require that green standards are adopted both in the financing as well as the construction.

In support of the initiative, UNEP is offering their full range of resources to the Chinese government. As Erik Solheim, Head of UN Environment, stated in an op-ed, “Our environmental expertise runs from sustainable finance and clean technologies to ecosystems and sustainable consumption and production. UN Environment can support technology transfer and creating green economy policies. Through our Finance Initiative, we can work with private investors to promote sustainable investment practices along the Belt and Road.”



# Financing Green

Top Story

## Greening the Silk Road: Green Finance and OBOR (cont.)



### GREEN LENDING STANDARDS



China has committed its banks to develop green lending standards and apply them for domestic and international projects

### GREEN BONDS

Launched in 2016, China's green bond market accounts for 40% of the world's total -- and are being traded in third country markets



### ESG DISCLOSURE



China is encouraging companies investing overseas to disclose environmental information -- and for its overseas partners to do so also

### ENVIRONMENTAL RISK

Chinese financial institutions are coordinating environmental risk management to ensure consistency and applying them at home and abroad



### GREEN INFRASTRUCTURE



Chinese banks are providing lower interest rate loans to green projects -- and to apply these standards to overseas projects to support green development

### GLOBAL CARBON NETWORK

China will support the development of carbon markets in third countries and allow them to trade on its national exchange -- once launched



While UNEP may provide the know-how, China will be setting the green standards for countries seeking investment. In regulations issued last year, the government explicitly stated that it will “enhance the greenness of China’s outward investment.” The government is requiring that Chinese banks apply their own standards and criteria for green projects to any loans that are granted overseas and for infrastructure development. And of course, many of the contracts are going to Chinese companies as they are more familiar with the standards and criteria mandated.

China has a long-term vision, as well, for “exporting” its policies on the trade in carbon. This year, China intends to launch a nationwide carbon market, building on the experiences of its seven regional pilot projects. This exchange, while starting small by Chinese standards, will rapidly become the largest cap and trade program in the world.

Yet even as China grapples with getting its own carbon market up and running, it has a plan for its growth internationally. China intends to work with developing countries along the B&R – starting in Central and Southeast Asia and expanding across the Middle East and Africa – to support their efforts to create their own carbon trading systems. These exchanges are likely to be small, initially, in order to achieve economies of scale, but they will be permitted to trade on China’s national exchange, which will give them much greater exposure and access to capital. This access, however, will be dependent upon complying with China’s policies.

China will set the standards for the growth and development of these satellite exchanges. Their practices will be established in Beijing, not in the local markets. While the creation of these markets is for the greater good with the global reduction of greenhouse gases, China’s ability to set the green standards will ensure that they are the ones adopted along the B&R – which encompasses no less than 60 countries and 4.4 billion people.

China’s Belt & Road Initiative is a clear demonstration of China’s economic might and growing political power. However, it is also a platform for showcasing China’s leadership in green finance. And that may become one of its most meaningful exports along the new Silk Road.

# Financing Green

On Our Radar

## China Carbon Emissions Trading Forum

China will launch its national carbon market later this year - likely in November. The market size at launch is expected to be around five billion tons of CO<sub>2</sub> and to involve over a hundred billion yuan in capital in each of the upcoming years. This is the reason why, even on a weekend (September 23-24), more than 400 stakeholders from across China gathered in Beijing to attend the “2017 China Carbon Emissions Trading Forum” organized by the China Energy Conservation Association (CECA).

Although no further policy signal was released at the Forum regarding when and how the national carbon market will be launched, the participants from energy service companies (ESCOs), carbon management companies, carbon verifiers as well as think tanks and consulting companies were still passionate about exploring their business opportunities in the “blue ocean” of the carbon market. Many issues including monitoring, reporting, and verification MRV systems, China Certified Emission Reduction (CCER) program, carbon capital management, carbon finance innovation and block chain were discussed at the Forum. Also at the Forum, the CECA Carbon Emissions Trading Industrial Alliance was established with over 30 founding members.

To quote a senior international climate change expert on the creation of China’s national carbon market, “It will just be a soft launch this year,” with the likely scenario only the power sector will be covered. Although different voices of doubt, expectation, or both were heard at the Forum, it should be noted that China is taking steps to establish the world’s largest carbon market.

China’s national carbon market is not only expected to play a big role for achieving the long-term goals of the Paris Agreement at the national level, but also, the long-term policy expectation of unlocking financing barriers for green investment and sustainable development at business level.

## Ma Jun's Transition



Source: Brent Lewin/Bloomberg

Ma Jun, Chief Economist of the People’s Bank of China (PBOC) Research Bureau, is leaving the central bank. Ma’s next move will be as Director of the newly established Finance and Development Research Center at the Tsinghua National Institute of Financial Research where he will continue to build out the green finance sector with an emphasis on capacity building

## China-Luxembourg Green Finance Innovation Forum

On September 26, the International Institute of Green Finance at the Central University of Finance and Economics (CUFE), Luxembourg Stock Exchange and China Securities Index Co., Ltd. co-hosted the “China-Luxembourg Green Finance Innovation Forum.” The Forum served as a platform for the launch of the CSI 300 Green Leading Stock Index to provide guidance for foreign investors and promote information disclosure by the listed companies of their green efforts. The Industrial and Commercial Bank of China’s OBOR Green Climate Bond was also unveiled at the Forum and marked the first time a Chinese financial institute adopted both international (CBI) and Chinese (PBOC) standards for green bonds.

## China Carbon Market Roundtable

September 6, 2017

Earlier this month, the Paulson Institute and the Green Finance Committee (GFC) of China hosted the China Carbon Market Roundtable. Close to forty leading experts from different fields of finance, trading and environmental policy met to discuss the challenges of launching this important initiative and develop policy recommendations to help ensure its success. This roundtable is the first in a series that the Paulson Institute and the GFC will convene over the next year.

A few key themes emerged from the discussions:

**Regulation:** It is strongly recommended that while regulation is important, it is better to have less in the beginning. Too much regulation will stifle trading, so better to let the trading start strong and have the regulatory structure “catch up.”

**Legal Framework:** It is important for a world-class legal structure to be developed and enforced, but it still does not exist for carbon markets in China.

**Policy Coordination:** There are many ministries and regulators involved in the launch and oversight of the carbon market, but the reporting lines are unclear.

**Governance:** It is vital to have a clear and transparent governance structure for both governments and the carbon market exchanges.

**Capacity Building:** As it is such a new field, few experts have the environmental and trading knowledge to support the effective launch and operation of the unified carbon market.

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## Vice Chairman Deborah Lehr Global Times Interview

September 7, 2017

Deborah Lehr, Vice Chairman at the Paulson Institute, sat down for an exclusive interview with the Global Times on the sidelines of the 2017 International Green Finance Forum in Beijing earlier this month. Lehr acknowledged the robust efforts of the G20 Green Finance Study Group and the resultant growth of the Chinese green bond market. Lehr also commented on China's plans to launch a nation-wide carbon market.





# Financing Green

Looking Ahead

## Upcoming Event



**Greening the Financial System:  
Exploring the Ways Forward**

The fourth meeting of the Greening the Financial System roundtable series will take place on October 12. The roundtable series provides a forum for market participants to identify opportunities for green finance and to turn the current momentum into genuine global transformation and this meeting will review green finance progress in terms of domestic development, international cooperation, and the impact and opportunities of breakthrough technology in the area.

## Green Dream Team



**Gracie Sun** serves as advisor to the Paulson Institute on the Green Finance Initiative. For the past 12 years, Sun has represented and advised multinational corporations on market access, intellectual property, and investment issues in China. Gracie is located in Shanghai.

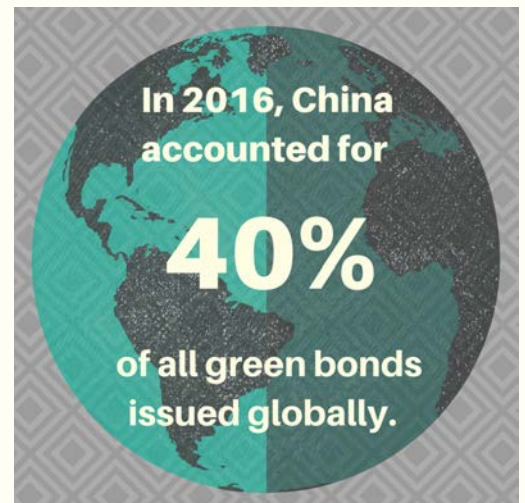


**Li Xiaozhen (Kate)** is Associate Director of Green Finance at the Paulson Institute. She has rich consulting experience in the fields of green finance and low carbon development in China. Kate is located in Beijing.



**Phylcia Wu** is Associate Director of Green Finance at the Paulson Institute. Previously, she worked for the U.S. Chamber of Commerce China Center and the USTR Office of China Affairs. Phylcia is located in Washington, DC.

### DID YOU KNOW?



Please send any comments to [pwu@paulsoninstitute.org](mailto:pwu@paulsoninstitute.org)  
If you like Financing Green, please help us grow by emailing  
[pwu@paulsoninstitute.org](mailto:pwu@paulsoninstitute.org) to sign up.