30 days series 20 by Zhang Kaihui

NAVIGATING NET ZERO

APAC CLIMATE GUIDE - CHINA

DECEMBER 2024

KING & WOOD MALLESONS
金杜律师事务所

CHINA

COUNTRY SNAPSHOT

CLIMATE LANDSCAPE, OPPORTUNITIES AND CHALLENGES

Population **1.4** Billion

GHG emissions per capita **7.5** metric tonnes

38th Adaptation readiness ranking

Net zero by **2060**

The world's second-largest economy could become a global leader in clean energy technologies.

Already the world's largest producer of solar panels, wind turbines and electric vehicles, China is expanding to new industries and export opportunities. With its strong manufacturing base and increasing focus on R&D, China can innovate in areas like energy storage, smart grids and carbon capture technologies.

The Chinese government places significant emphasis on developing mandatory and voluntary carbon markets as tools to achieve its climate goals. A cornerstone of this strategy is the national Emissions Trading Scheme (ETS), which is incentivising emissions reductions in major industries.

China's heavy reliance on coal for energy production remains a significant challenge. Transitioning away from coal while maintaining economic growth and energy security is complex.

Read on for more – and reach out to your KWM Contact.

'The long-awaited renewal of the China Certified Emission Reductions (CCER) market is expected to drive trading activity, develop the market and spur innovation. This is a critical step towards China reaching carbon neutrality by 2060.'

Find out more about China's renewed carbon market here.

MOLLY SU
KWM PARTNER

INVESTMENT OPPORTUNITIES AND CHALLENGES

OUR TOP 5

	01	02	03	04	05
	HIGH-TECHNOLOGY, AI & SEMICONDUCTORS	RENEWABLE ENERGY	ADVANCED MANUFACTURING	TRANSPORTATION & AUTOMOTIVE SECTOR	INFRASTRUCTURE & URBANISATION
OPPORTUNITIES	Rapid development in AI, 5G, semiconductors and quantum computing Expansion of digital economy	Massive investments in solar, wind and EV technologies Potential global leadership in clean energy	Upgrading traditional industries with smart manufacturing Focus on high-value production chains	China is the global leading manufacturer of EVs and technology continues to develop	Continued development of smart cities Expansion of high-speed rail and 5G networks
CHALLENGES	High energy consumption from data centres and tech infrastructure Electronic waste management	Balancing land use for renewable projects Managing the environmental impact of rare earth mining for green tech	Industrial pollution control Energy efficiency in manufacturing processes Sustainable resource management	Promoting the adoption of EVs Developing sustainable public transportation Building the necessary infrastructure to support low-emission transport options	Urban heat island effect Flood risks in coastal cities Sustainable urban planning and green infrastructure development

THE EVOLVING REGULATORY AND CORPORATE LANDSCAPE

OVERARCHING APPROACH TO CLIMATE

China's climate strategy is anchored by ambitious long-term goals announced by President Xi Jinping in 2020: reaching carbon peak by 2030 and achieving carbon neutrality by 2060 (known as '3060').

China has integrated its ambitious '3060' targets into the 14th Five-Year Plan (2021-2025), solidifying their pivotal role in the nation's climate strategy.

This current Five-Year Plan outlines specific climate and environmental objectives, including a targeted 18% reduction in carbon intensity and a 13.5% decrease in energy intensity by 2025. These concrete goals underscore China's commitment to measurable progress in its transition towards a low-carbon economy.

HOW GREEN ENERGY CERTIFICATE (GEC) TRADING HAS EXPANDED

China's green electricity certification system has evolved from its 2017 launch. Initially covering wind and solar PV projects, it has expanded to cover more renewable sources, enhancing certificate credibility and market applications. Key developments include:

2020 – Renewable Portfolio Standard enabling certificate-based compliance

2021 – Green electricity trading platforms launched

2022 – Renewable energy excluded from consumption caps

2023 – The Notice on Implementing Comprehensive Coverage of Renewable Energy Green Electricity Certificates and Promoting Renewable Energy Electricity Consumption (Notice 1044)

2024 – The Issuance and Trading Rules for Renewable Energy Green Electricity Certificates.

HOW CHINA IS IMPLEMENTING ITS CARBON GOALS

2021
'1+N' policy framework introduced as a roadmap for achieving the 3060 targets

The '1' refers to the overarching guideline for carbon peaking and carbon neutrality, while the 'N' represents a series of specific implementation plans for different sectors and regions.

Comprehensive framework coordinating efforts across various domains, including energy, industry, transportation and urban development.

2021
National ETS launched

Currently the world's largest carbon market.

2024
Voluntary carbon market, known as CCER (China Certified Emission Reduction)

Relaunched CCER initially launched in 2012. A suspension of new project registrations in 2017 led to a period of stagnation.

The relaunch signals renewed commitment to this complementary market mechanism.

Both the mandatory ETS and the voluntary CCER market have gradually developed comprehensive supporting registration and trading rules, establishing a more robust framework for carbon trading in China.

Want to know more about the relaunched voluntary carbon scheme, what it means for international investors and why it will mature the trading market? Read our insight Sleeping Carbon Giant Awakes: China's Renewed Voluntary Carbon Market is Here – What You Need to Know.

THE EVOLVING REGULATORY AND CORPORATE LANDSCAPE

GLOBAL INITIATIVES AND LOCAL REGULATIONS DRIVING GREEN FINANCE

Large corporations are increasingly joining international climate and energy alliances such as RE100 and SBTi, driving investments in emission reduction technologies and carbon credits. This shift is cascading through supply chains, as major companies require their suppliers to adopt similar carbon reduction measures.

HOW CORPORATES ARE COLLABORATING TO CHANGE

RE100 is a global initiative that brings together businesses committed to using 100% renewable electricity. As at November 2024, it had 400+ members across 175+ markets worldwide

SBTi is the Science Based Targets Initiative, defining and promoting best practice and giving resources to help businesses to adopt ambitious emissions reductions targets that align with climate science

Regulatory bodies are reinforcing this trend. Since 2020, the China Securities Regulatory Commission has been introducing ESG disclosure requirements for listed companies[1]. As a result, ESG principles are gaining traction among Chinese companies, with investors increasingly incorporating these criteria into their decision-making processes.

The financial sector is responding with rapid growth in green bonds and lending. The People's Bank of China, the National Financial Regulatory Administration and other state agencies are actively promoting green finance initiatives, such as the:

- Green Loan Guidelines
- Green Finance Guidelines for the Banking and Insurance Industries, and
- Green Bond Support Project Catalog (2021 Edition).

These developments collectively reflect a broader shift in China's corporate landscape towards greater environmental responsibility and sustainable business practices, aligning with the country's ambitious climate objectives.

HOW NEW CARBON TRADING REGULATIONS COULD ACCELERATE EMISSION CUTS

The 'Carbon Emissions Trading Management Interim Regulations' was signed by China's Premier on February 4, 2024, and came into effect on May 1, 2024. This is expected to drive more effective emissions reduction and contribute to China's carbon peak and neutrality goals.

This regulation represents a significant step in formalising and strengthening China's carbon market, providing a more robust legal and regulatory framework. It aims to enhance market stability, improve data reliability and align with international standards while maintaining a cautious approach to market expansion.

It significantly impacts China's climate landscape in several ways:

- **Legal framework enhancement:** It establishes a higher-level legal basis for China's carbon market, upgrading from departmental rules to administrative regulations. This creates a multi-tiered legal system including administrative regulations, departmental rules and business rules for trading and registration institutions.
- **Improved regulatory structure:** It clarifies the division of supervisory responsibilities among different government departments, with the Ministry of Ecology and Environment as the main regulator. It establishes mechanisms for information sharing and enforcement collaboration among regulatory bodies.
- **Enhanced data quality management:** It strengthens supervision of data quality, emphasising the responsibility of key emitting entities and technical service institutions for ensuring data authenticity and completeness. It also introduces stricter penalties for data falsification and other violations.

ENERGY TRANSITION

China has made considerable strides in its energy transition over the past decade. Clean energy now makes up more than a quarter of total energy consumption and more than half of all installed generation capacity. China has become the world's largest producer of wind and solar energy. It leads in the EV space, with more than 20 million new EVs on the road in 2023.

The proportion of coal consumption has fallen by a cumulative 12.1 percentage points over the past decade. Energy consumption generally also fell over that period.[2] Behind the data sits regulation that has driven – and is driving - change. China has established a robust regulatory framework and implemented various government initiatives to drive its energy transition, aiming to shift from fossil fuels to renewable and sustainable energy sources. This transition is crucial for the country to meet its ambitious climate goals, including the '3060' carbon emission and neutrality targets outlined in the snapshot above.

A DECADE OF DRAMATIC SHIFTS: 2013-2023

CLEAN ENERGY POWER GENERATION CAPACITY

CLEAN ENERGY POWER GENERATION	CLEAN ENERGY CONSUMPTION	ENERGY CONSUMPTION PER UNIT OF GDP	COAL CONSUMPTION
↑ 58.2%	↑ 26.4%	↓ 26%	↓ 12.1PP
INSTALLED CAPACITY 1700GW – 58.2% OF TOTAL INSTALLED (2920GW)	**COMPRISES 26.4% OF TOTAL ENERGY CONSUMPTION – UP 10.9 PERCENTAGE POINTS**	**CUMULATIVE DECREASE BY OVER 26%**	**CUMULATIVE DECREASE BY 12.1 PERCENTAGE POINTS**

Source: White Paper on China's Energy Transition published by State Council Information Office

REGULATORY SETTINGS AND GOVERNMENT EFFORTS TO ENCOURAGE CHANGE

China has established a comprehensive legal framework to govern its energy transition. The foundation of this system rests on two key laws: the Energy Conservation Law and the Renewable Energy Law. Both are set to undergo revisions.

Energy Conservation Law

- Aims to promote energy conservation across all sectors of the economy.
- First enacted in 1997, revised several times with amendments in 2007, 2016 and 2018.

Renewable Energy Law

- Primary legal basis for the development and utilisation of renewable energy in China.
- Enacted in 2005 and amended in 2009.

These core laws are further supported by a series of important regulations, including:

- the Clean Production Promotion Law
- the Circular Economy Promotion Law, and
- the Interim Regulations on the Administration of Carbon Emissions Trading.

This legal structure forms a robust basis for China's energy transition efforts.

CHINA PLANS TO FURTHER STRENGTHEN AND EXPAND THIS REGULATORY FRAMEWORK

The country is set to advance the codification of environmental protection laws and accelerate the formulation of a new Energy Law. Additionally, there are plans to revise both the Renewable Energy Law and the Electricity Law.

These efforts aim to further improve the regulatory system that promotes green energy production and consumption. Particular emphasis will be placed on reinforcing energy-saving measures, enhancing development targets for non-fossil energy sources, prioritising the use of renewable energy, and fostering green energy consumption through various incentive and constraint mechanisms.

INCENTIVES AND SUPPORTIVE POLICIES

To accelerate the adoption of renewable energy and enhance energy efficiency, the Chinese government has implemented a range of incentives and supportive policies, such as:

01 Financial support

The government has provided financial support for some renewable energy projects, particularly in the solar and wind sectors. These have been instrumental in driving rapid growth in renewable energy capacity.

02 Feed-in Tariffs (FiTs)

This policy guarantees a fixed payment for renewable energy producers, providing a stable income stream and encouraging investment in the sector.

03 GEC trading system

This market-based mechanism allows renewable energy producers to sell GECs, providing an additional revenue source and promoting market competition.

04 New Energy Vehicle (NEV) credit system

This policy requires passenger vehicle companies to meet specific targets for NEV production and importation. Relevant companies can earn tradable credits for NEV production and importation, incentivising the shift towards cleaner transportation and reducing dependence on traditional fuel vehicles.

LEGAL BARRIERS AND CHALLENGES

Despite the supportive framework, several challenges persist in China's energy transition:

01 Reduction of financial support

The gradual phasing-out of financial support for renewable energy projects poses a significant challenge. As the sector moves towards grid parity, companies must adapt to a more competitive, market-driven environment.

02 Grid integration issues

Despite improvements, the integration of renewable energy into the grid remains a challenge, particularly in terms of managing intermittency and ensuring grid stability with increasing shares of variable renewable energy.

03 Regional disparities

There are significant differences in renewable energy development across regions, with some areas lagging. This uneven development presents challenges for national policy implementation and grid balancing.

04 Integration of GEC Market and Carbon Market

The challenge of effectively linking the GEC market with the carbon market presents complexities in policy design and implementation. A key issue is avoiding double counting, where the same environmental benefit could be claimed in both markets. This risks undermining the carbon market's effectiveness in reducing overall emissions.

ROLE OF THE PRIVATE SECTOR

FROM CARBON ALLOWANCES AS LOAN COLLATERAL, TO DIRECT POWER PURCHASES

The private sector is pivotal in China's energy transition, driving innovation and providing capital. A prime example is MYbank's groundbreaking carbon allowances pledge financing, (KWM advised).

This innovative model allows companies to use carbon emission allowances as loan collateral, offering flexible financing for small and micro businesses while simultaneously boosting the carbon market's liquidity and encouraging emission reduction. This case demonstrates how private sector initiatives can create synergies between financial innovation and environmental goals in China's evolving green economy.

Other opportunities for private sector involvement include:

Project development
Private companies can develop, construct and operate renewable energy projects, from solar farms to wind parks.

Technology innovation
Firms can invest in R&D to improve renewable energy technologies, enhancing efficiency and reducing costs.

Energy storage solutions
As grid integration challenges persist, there's a growing market for advanced energy storage technologies.

Green finance
Financial institutions can offer green bonds, sustainability-linked loans, and other innovative financial products to support renewable energy projects.

Corporate Power Purchase Agreements
Large corporations can directly purchase renewable energy, driving demand and supporting project development.

CARBON MARKETS

China's national carbon market system includes both a compliance carbon market (the National Emissions Trading System - **ETS**) and a voluntary carbon market (the China Certified Emission Reduction scheme - **CCER**), designed to work in tandem to achieve the country's emission reduction goals.

The two markets have their respective focuses and operate independently, yet they complement each other and are interconnected through the allowance surrender offset mechanism. However, the CCER offset ratio cannot exceed 5% of the carbon allowances required to be surrendered.

This mechanism provides flexibility for compliance entities while also creating demand for voluntary emission reduction projects, encouraging broader participation in China's overall emission reduction efforts.

COMPLIANCE CARBON MARKET

CURRENT MARKET

2,257
KEY EMITTING UNITS

c.5.1
BILLION TONS OF CO_2 EMISSIONS ANNUALLY

>40%
OF NATIONAL CO_2 EMISSIONS

EXPANDED (PLANNED) MARKET

+1,500
KEY EMITTING UNITS (ADDITIONAL)

+3b
TONS OF EMISSIONS (ADDITIONAL)

c.60%
OF NATIONAL CO_2 EMISSIONS

Recent developement
Covers key emitting enterprises must participate

Participants
Key emitting enterprises - currently only the power generation sector is included in the national carbon market

Trading purpose
Fulfill legal obligations, meet emission limit requirements

Trading object
China Emission Allowances (CEA)

Expansion to sectors beyond power generation
On September 9, 2024, the Office of the Ministry of Ecology and Environment issued a notice seeking public comments on the 'Work Plan for Covering Cement, Steel and Electrolytic Aluminum Industries in the National Carbon Emissions Trading Market (Draft for Comments)', indicating the imminent expansion of the national carbon market to these industries

ENCOURAGING CARBON TRADING: THE HIERARCHICAL LEGAL FRAMEWORK

The legal framework of China's National Compliance Carbon Market is structured hierarchically, with increasingly detailed regulations at lower levels.

At the apex is the 'Interim Regulations on the Administration of Carbon Emissions Trading'. This significantly enhances the legal foundation of China's carbon market, elevating it from departmental rules to administrative regulations.

Interim Regulations on the Administration of Carbon Emissions Trading

Issued as State Council Decree No. 775 in 2024

Supported by...

Measures for the Administration of Carbon Emissions Trading (Trial)

Issued by the Ministry of Ecology and Environment

Supported by...

Specific rules on carbon emission allowances...

Registration	Trading	Settlement
'Carbon Emission Rights Registration Management Rules (Trial)'	'Carbon Emission Rights Trading Management Rules (Trial)'	'Carbon Emission Rights Settlement Management Rules (Trial)'

VOLUNTARY CARBON MARKET

22 JANUARY, 2024

FIRST RELAUNCH TRADING DAY DATA

375,000 TON

TOTAL MARKET TRANSACTION VOLUME

23.835 MILLION YUAN

TOTAL TRANSACTION VALUE

C. 63.5 YUAN

AVERAGE PRICE PER TON[3]

Nature of participation
Voluntary - enterprises, organisations, individuals can decide whether to participate

Participants
Voluntarily participating enterprises, organisations or individuals

Trading purpose
Achieve voluntary emission reduction goals, enhance environmental image, fulfill social responsibilities

Trading object
Certified Carbon Emission Reductions (CCER)

Recent development
CCER trading was officially relaunched in January 2024, after CCER registration was suspended in 2017.

THE LEGAL FRAMEWORK

The legal framework for China's voluntary carbon market is structured around a central trading document that serves as the core of the regulatory system, supported by three main components. There are currently four different types of projects that can generate CCERs in the voluntary carbon market, based on specific guidelines provided in methodologies released in 2023. This is expected to expand to additional project types under a consultation process that kicked off in 2024 (more below).

Central regulation

'Measures for the Administration of CCER Trading (Trial)'

Development of CCER

Includes 'Guidelines for the Design and Implementation of CCER Projects'

Registration of CCER

'Rules for CCER Registration (Trial)'

Trading and Settlement of CCER

'Rules for CCER Trading and Settlement (Trial)'

Four types of projects that can apply for CCER issuance

- Afforestation
- Grid-Connected Concentrated Solar Power Generation
- Grid-Connected Offshore Wind Power Generation
- Mangrove Forest Creation (Under methodologies issued in Oct 2023 by The Ministry of Ecology and Environment)

Second batch of CCER methodologies is open for public consultation, including:

- Utilisation of low-concentration coal mine gas and ventilation air methane
- Energy-saving measures for highway tunnel lighting systems

CASE STUDY

How the concept of a carbon project is expanding to capture coal mine emissions.

China initiated consultations in July 2024 for two new carbon crediting methodologies under CCER: one, to issue credits to projects that utilise coal mine gas, and two, to adopt energy-efficient streetlights in highway tunnels late July 30. Details were in a statement by the Ministry of Ecology and Environment.

Coal mine gas utilisation is crucial for reducing methane emissions from coal mines. Projects must utilise coal mine gas with a methane concentration below 8%. This can involve collecting flaring coal mine gas or utilising gas drained through ventilation facilities. For gas with methane concentration below 8%, flameless oxidation technology is used. The heat generated during this process can be used to produce electricity.

Existing projects have the potential to reduce about 4.5 million mtCO2e of greenhouse gas emissions annually. By 2030, the annual emission reductions could increase to about 20 million mtCO2e. The carbon crediting period for coal mine gas utilisation projects is within 10 years.

c.4.5m

$MTCO_2E$ CURRENT POTENTIAL FOR ANNUAL GREENHOUSE GAS EMISSIONS CUTS

c.20m

$MTCO_2E$ POSSIBLE INCREASE IN ANNUAL EMISSION REDUCTIONS BY 2030

REGIONAL PILOT MARKETS

In addition to the national carbon market system, there are eight regional pilot markets, including Beijing, Tianjin, Shanghai, Chongqing, Guangdong, Hubei, Shenzhen and Fujian. These regional carbon markets have made many beneficial attempts at innovation, which not only help improve market efficiency and promote low-carbon development but also provide valuable experience for the construction of a unified national carbon market.

- **Carbon financial product innovation and carbon derivatives:** Regional carbon markets have actively explored and innovated carbon financial products.

CASE STUDY

The **Shanghai Environment and Energy Exchange** launched carbon repurchase trading in January 2024, successfully completing the first batch of carbon repurchase transactions.

- **Development of carbon derivatives:** Regional carbon markets are exploring the development of carbon derivatives such as carbon forwards, carbon futures and carbon options to improve market liquidity and price discovery functions. These derivatives can provide risk management tools for enterprises to help them avoid risks associated with carbon price fluctuations.
- **Cross-border carbon market innovation practices:** Regional carbon markets have the opportunity to carry out cross-border carbon market innovation practices.

CASE STUDY

The **Guangzhou Carbon Emissions Exchange** is responsible for building an environmental rights trading and financial services platform for the Guangdong-Hong Kong-Macao Greater Bay Area, allowing Hong Kong and Macao entities to participate in carbon emissions trading at the Guangzhou Carbon Emissions Exchange. This will help achieve interconnection between the carbon market and international markets, promoting green and low-carbon development.

COMPLIANCE ISSUES: WHAT TO KNOW / LOOK OUT FOR

Businesses in China face several key challenges in complying with carbon market regulations.

- **Complex multi-level legal system:** This includes national laws, administrative regulations, departmental rules and local regulations, making compliance an intricate process. Companies need to ensure they're adhering to regulations at all levels, which can sometimes overlap or even contradict.
- **Cross-regulatory nature of carbon assets:** Carbon assets, as a new type of asset, inherently possess cross-regulatory characteristics. In the carbon financing and derivatives domain, key regulatory bodies (Ministry of Ecology and Environment, State Administration of Financial Supervision and Administration and China Securities Regulatory Commission) are primarily concerned with systemic financial risks arising from market manipulation and excessive speculation. This multi-faceted regulatory oversight adds complexity for businesses trying to manage their carbon assets effectively.
- **Gap between practical innovation and legal regulation:** There's often a lag between innovative practices in the carbon market and the corresponding legal and regulatory frameworks. This creates uncertainty and potential compliance risks for companies trying to stay ahead in the carbon market.

Businesses may find themselves operating in grey areas where their innovative approaches to carbon management or trading are not yet fully covered by existing regulations.

Alignment with international rules and systems: As China's carbon market becomes more internationalised, businesses face the challenge of aligning with domestic and international carbon market rules and systems. This includes aligning reporting standards, trading mechanisms and verification processes with global practices. Companies operating internationally or planning to engage in cross-border carbon trading need to consider the complexity of different set of rules and standards.

CASE STUDY

How the Hainan Carbon Trading Centre is building the international trading market

As a new addition to China's carbon market landscape, the Hainan International Carbon Emissions Trading Centre (**Hainan Carbon Trading Centre**) was established in 2022 as part of the Hainan Free Trade Port initiative.

Unlike the other eight regional pilot market exchanges, Hainan Carbon Trading Centre is not authorised to issue or trade regional carbon allowances. Instead, it primarily focuses on international transactions, aiming to build an internationalised carbon emissions trading platform, targeting the international market, attracting international clients, and trading international carbon products.

The centre also plans to connect with the UN carbon credit registration system, enabling international emission reduction indicator trading and spot forward transactions. This strategy positions Hainan Carbon Trading Centre to play a key role in enhancing China's global influence in climate change efforts.[4]

FINANCING

In August 2016, China took a significant step in sustainable financing when seven government departments jointly issued the ‘Guiding Opinions on Building a Green Financial System’ (**Guiding Opinions**). This document provided a comprehensive framework for green finance development in China, setting the stage for subsequent policies and initiatives.

Since then, China has made notable progress in developing its green finance system. The market has diversified, with green loans and green bonds emerging as key components. Carbon financial products, including carbon futures, carbon repurchase, carbon lending and carbon derivatives, have also seen significant development.

By the end of the third quarter of 2023 (per official data), by the end of the third quarter of 2023:

GREEN LOANS

¥28.58t

CHINA’S GREEN LOAN BALANCE REACHED 28.58 TRILLION YUAN - 36.8% YEAR-ON-YEAR INCREASE, RANKING FIRST GLOBALLY

GREEN BONDS

¥1.98t

DOMESTIC GREEN BOND MARKET BALANCE STOOD AT 1.98 TRILLION YUAN - SECURING CHINA’S POSITION AS THE WORLD’S SECOND-LARGEST GREEN BOND MARKET[5]

CASE STUDY

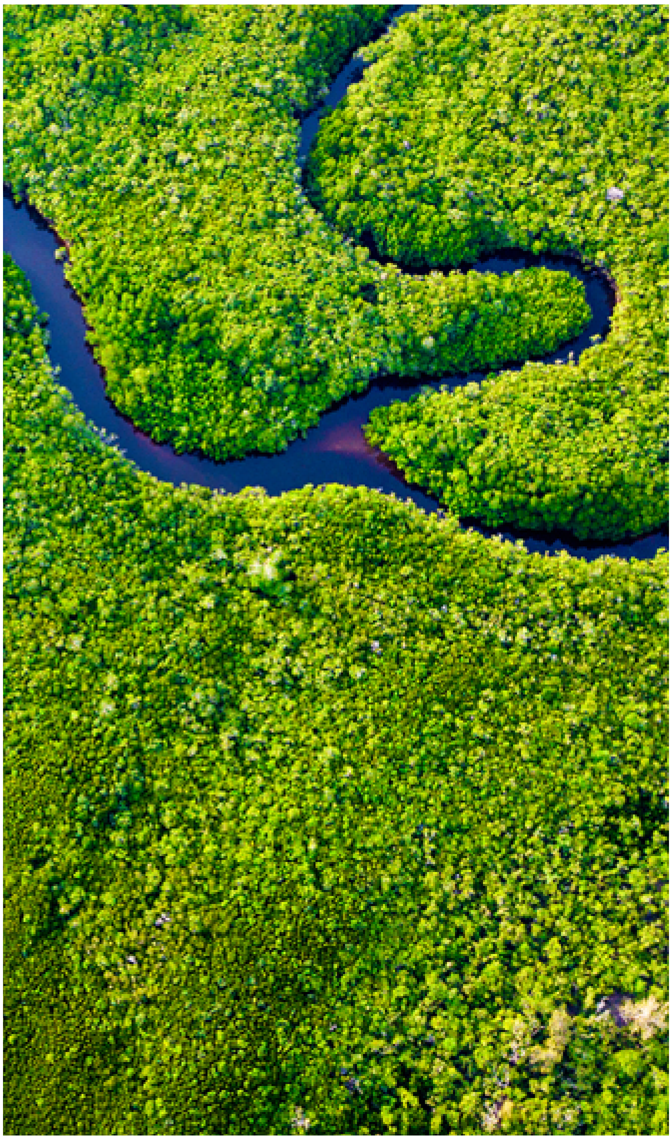
In January 2024, the **Shanghai Environment and Energy Exchange** officially launched its carbon repurchase trading business and successfully completed the first batch of seven carbon repurchase transactions. A total of 10 institutions participated, including CITIC Securities, China Securities and Hwabao Securities.[6]

GREEN FINANCE STANDARDS

China has published several key documents setting standards for green finance, including for green bonds and financial products. Additional standards focusing on crucial areas such as ESG evaluation and carbon accounting for financial institutions and operations are currently in various stages of development or public consultation.

The current guides include:

- the 'Green Low-Carbon Transition Industry Guidance Catalogue (2024 Edition)'
- the 'Green Bond Support Project Catalogue (2021 Edition)'
- 'Guidelines for Environmental Information Disclosure by
- 'Environmental Rights Financing Instruments'
- 'Carbon Financial Products', and
- 'China Green Bond Principles'.



LEGAL FRAMEWORK FOR GREEN FINANCE

The development framework for green finance in China encompasses 'Five Pillars' that are set out in a Guiding Opinion:

01 **GREEN FINANCE STANDARDS SYSTEM**

02 **ENVIRONMENTAL INFORMATION DISCLOSURE**

03 **INCENTIVE AND CONSTRAINT MECHANISMS**

04 **PRODUCT AND MARKET SYSTEMS**

05 **INTERNATIONAL COOPERATION**

These pillars aim to leverage the 'Three Core Functions' of green finance:

01 **RESOURCE ALLOCATION**

02 **RISK PREVENTION**

03 **PRICE DISCOVERY.**

In March 2024, the People's Bank of China, in collaboration with other key government bodies, issued the 'Guiding Opinions on Further Strengthening Financial Support for Green and Low-Carbon Development' further enriching and implementing these policy concepts.

DISCLOSURE AND REPORTING

In the field of climate finance, China emphasises the simultaneous promotion of environmental information disclosure for both financial institutions and enterprises:

- **Financial institutions are encouraged to disclose climate-related information.** In July 2021, the People's Bank of China issued the 'Guidelines for Environmental Information Disclosure by Financial Institutions'encouraging financial institutions to disclose their environmental information at least once a year. This includes environment-related goals, visions, strategic plans, policies, actions, and main achievements.

- **China is promoting environmental information disclosure for listed companies and bond issuers.** These entities should disclose environmental information as required by law, including but not limited to pollutant emissions, carbon emissions, ecological and environmental emergency information and environmental violation information.

- **Companies applying for green loans or green bonds are required to disclose to banks the relevant environmental information.** This information includes environmental benefits of the project, fund utilisation plans, carbon emission data and relevant environmental risk assessment reports. Companies may also need to provide green certification reports issued by third-party certification agencies to prove that the project meets relevant green standards. The direct requirements are set by commercial banks in accordance with regulations.

  The Green Bond Support Project Catalogue (2021 Edition), China Green Bond Principles and 'Green Loan Guidelines' require or encourage commercial banks to establish a compliance review system for the environmental information of relevant enterprises.

  Commercial banks will formulate specific rules requiring relevant enterprises to disclose environmental information in conjunction with the Equator Principles. Created by the International Finance Corporation, the principles set a financial industry benchmark for determining, assessing and managing environmental and social risk in projects.

REGION FOCUS: ELECTRIC VEHICLES

The legal and regulatory environment for China's new EV industry is continuously evolving to support healthy industry development and technological innovation. The Chinese government has a series of Policies and plans to support the growth of the new EV industry include tax incentives, subsidies, promotion of applications and infrastructure construction.

CASE STUDY

According to the 'New Energy Vehicle Industry Development Plan (2021-2035)', the Chinese government aims for new EVs to **account for about 20% of new car sales by 2025**. Additionally, the government encourages enterprises to enhance their ability to secure key resources such as lithium, nickel, cobalt and platinum, and to establish a comprehensive recycling system for power batteries, including cascade utilisation and resource recycling / recirculation.

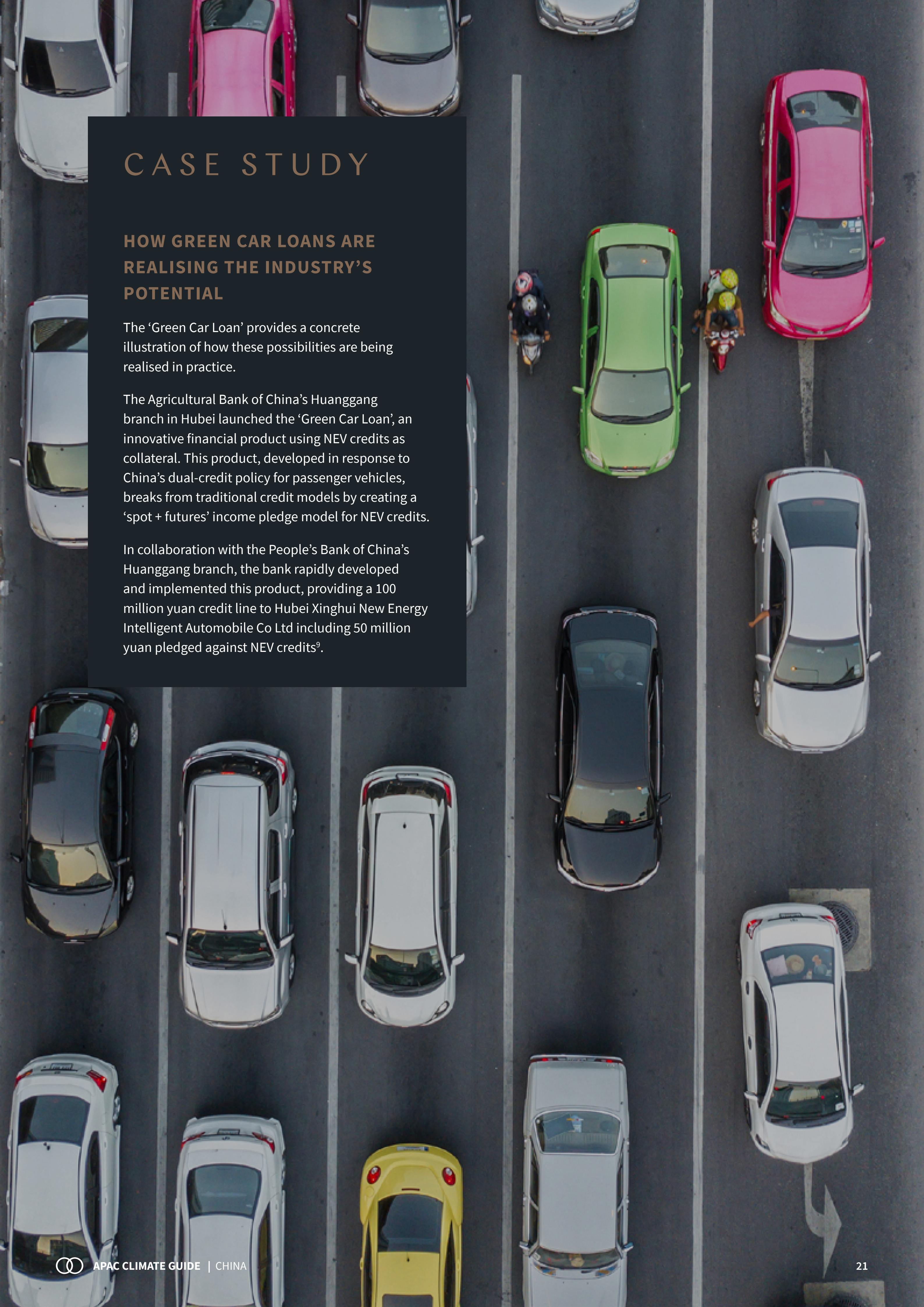
OPPORTUNITIES

9.4+	31.6%	1.2	+60%
MILLION UNITS – NEW EV SALES IN 2023	MARKET SHARE	MILLION UNITS - NEW EV EXPORTS IN 2023	GLOBAL MARKET SHARE

- **Market growth potential:** In 2023, China's new EV market experienced rapid growth, increasing 37.9% year-on-year. New EV sales are expected to reach 11.5 million units in 2024 according to the China Association of Automobile Manufacturers with growth exceeding 3%. The next year will prove crucial for further enhancing China's global position in the new EV industry[7].
- **Technological innovation:** New EVs have significantly improved in driving range, charging speed and safety, providing opportunities for research and innovation in related technologies.
- **International market expansion:** Chinese new EVs are increasingly competitive in the global market, with export volumes continuing to rise. Notably, new EV exports reached 1.2 million units, of 77.6% year-on-year[8].
- **Market-based incentives:** China's New Energy Vehicle (NEV) credit system, implemented in 2017 and revised in 2020 and 2023, creates market-based incentives for passenger vehicle companies (including manufacturing and import companies).
  - This dual-credit system, comprising Corporate Average Fuel Consumption (CAFC) and NEV credits, requires manufacturers to meet NEV production and importation targets.
  - Passenger vehicle companies earn tradable credits for NEV output, creating a market-based incentive.
  - Companies can sell surplus credits or must buy credits if falling short.
- This system encourages NEV production, fosters innovation and aligns with environmental goals. It offers opportunities across the automotive value chain, from manufacturers to suppliers and technology developers.

MITIGATING CHALLENGES

- **Reduction of financial support:** As financial support of the government gradually out, companies need to enhance their competitiveness to adapt to a market-driven competitive environment.
- **Technological challenges:** New EVs still face technological challenges in areas such as battery technology and charging infrastructure, requiring continuous innovation and breakthroughs.
- **Supply chain management:** Price fluctuations of raw materials and supply chain stability are among the challenges facing the new EV industry, requiring companies to strengthen supply chain management and risk control.
- **International competition:** In the global market, Chinese new EV companies face pressure in several aspects:
  - **Trade tensions and protectionist policies:** Ongoing trade tensions between China and other countries, particularly the United States, can lead to tariffs or other trade barriers for Chinese EVs. Some countries may implement protectionist policies to shield their domestic auto industries from Chinese competition.
- **Carbon emission and environmental regulation requirements:** Carbon emission management and battery recycling have become key focus areas, with regions like the EU strengthening management of the lifecycle environmental impact. For instance, the EU Battery and Waste Battery Regulation requires power batteries to declare their carbon footprint starting February 18, 2025, necessitating the rapid improvement of carbon emission data management systems for power batteries. This includes accounting standards, industry chain data and verification mechanisms.
- **Data security and privacy protection issues:** Countries are increasingly strict on data localisation, cross-border transmission and data subject rights requirements. For example, the EU's GDPR sets high standards for personal data processing. Additionally, cybersecurity regulations are constantly upgrading, especially in vehicle network security and software update management, requiring companies to establish comprehensive security protection systems.



CASE STUDY

HOW GREEN CAR LOANS ARE REALISING THE INDUSTRY'S POTENTIAL

The 'Green Car Loan' provides a concrete illustration of how these possibilities are being realised in practice.

The Agricultural Bank of China's Huanggang branch in Hubei launched the 'Green Car Loan', an innovative financial product using NEV credits as collateral. This product, developed in response to China's dual-credit policy for passenger vehicles, breaks from traditional credit models by creating a 'spot + futures' income pledge model for NEV credits.

In collaboration with the People's Bank of China's Huanggang branch, the bank rapidly developed and implemented this product, providing a 100 million yuan credit line to Hubei Xinghui New Energy Intelligent Automobile Co Ltd including 50 million yuan pledged against NEV credits[9].

CONTRIBUTORS

Many people contributed to this publication – we are deeply grateful to them all.

MOLLY SU
PARTNER, SHANGHAI

TEL +86 21 2412 6057
EMAIL sumeng@cn.kwm.com

KATHY FAN
PARTNER, BEIJING

TEL +86 10 5878 5588
EMAIL kathy.fan@cn.kwm.com

MICHAEL LAWSON
PARTNER, SINGAPORE

TEL +65 6991 6503
MOB +65 9026 6929
EMAIL michael.lawson@sg.kwm.com

RICHARD MAZZOCHI
PARTNER, HONG KONG, CHINA HONG KONG SAR

TEL +852 3443 1046
EMAIL richard.mazzochi@hk.kwm.com

CLAIRE ROGERS
PARTNER | HEAD OF ESG, SYDNEY

TEL +61 2 9296 2322
MOB +61 419 264 844
EMAIL claire.rogers@au.kwm.com

SUODI XI
SENIOR ASSOCIATE, SHANGHAI

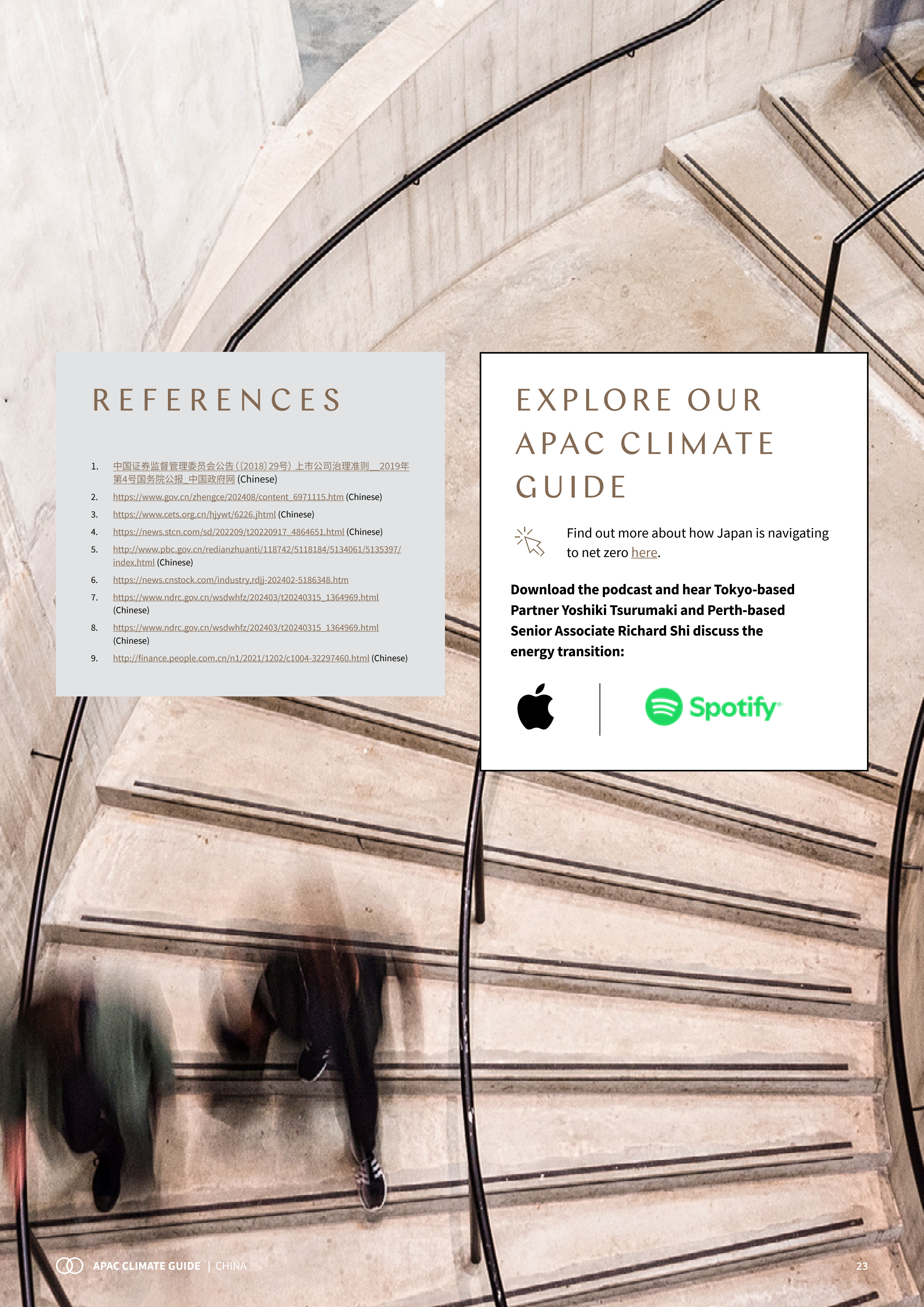
TEL +86 21 2412 6493
EMAIL xisuodi@cn.kwm.com

KWM

JAY DING
ANGELA HAN
EMMA PATANE
GARY SMYTHE
EMMA VERMEY
KATIE WALSH
JINYU XIAO

TAG Design team

ABRAHAM ALVAREZ
DAMIEN WINDOW



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