PRI'S RESPONSE TO THE GREEN BOND CATALOGUE CONSULTATION

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INTRODUCTION

The United Nations-backed Principles for Responsible Investment (PRI) is the world's leading initiative on responsible investment. The PRI has over 3000 signatories (pension funds, insurers, investment managers and service providers) globally with approximately US $90 trillion in assets under management.

Responsible investment explicitly acknowledges the relevance to the investor of environmental, social and governance (ESG) factors in investment decision-making for the long-term health and stability of financial markets.

The COVID-19 crisis has demonstrated the importance of resilient societies and economies, supported by a sustainable financial system. In the short-term, policy makers have rightly focused on the health crisis, immediate economic relief and the prevention of future outbreaks. Policy makers will also need to address existing environmental and climate challenges to ensure the recovery is sustainable. ESG issues, and climate change in particular, remain a priority for financial institutions.

The PRI is working to help investors protect portfolios from risks and to expose them to opportunities in the shift to a low-carbon global economy. With USD 55.8 billion issuance in 2019, green bonds are key to channel investments into low carbon, environmentally friendly assets that will support China's transition to a green economy and an ecological civilisation.

The definition of green bonds in China is therefore of significant importance to global investors. Investors continue to expect policy reform towards a low-carbon global economy: delaying policy action now will likely lead to further, more disruptive, intervention later.

The PRI welcomes the opportunity to contribute comments and suggestions to the PBOC, NDRC and CSRC Green Bond Catalogue consultation.

ABOUT THE CONSULTATION

China is going through a critical period of transition to a resilient, sustainable and low-carbon economy aligned with the Paris Agreement and the Sustainable Development Goals. The Fourth Plenary Session of the 19th CPC Central Committee explicitly called for "promoting an energy revolution and building a clean, low-carbon energy system that is safe and efficient". The new Green Bond-Endorsed Projects Catalogue contributes to a comprehensive policy framework to channel investments into clean, low-carbon assets in China.

The proposed Green Bond Catalogue has been developed under the guidance of the People's Bank of China (PBoC), the National Development and Reform Commission (NDRC) and the China

Securities Regulatory Commission (CSRC). This latest version was updated based on the 2019 Green Industry Guiding Catalogue issued by NDRC. The 2020 Catalogue was updated to:

1) Unify domestic standards and ranges for green projects and green bonds;

2) Address emerging issues including improving the quality of the environment, climate change, and resource efficiency;

3) Align with global standards.

To align with international standards, the 2020 Catalogue removed 'clean coal' projects as well as other 'clean fossil fuels' projects to address climate change in addition to domestic pollution. The 2020 Catalogue also refined project classification based on 2019 Green Industry Guiding Catalogue published by NDRC.

PRI'S RESPONSE TO THE CONSULTATION

The PRI welcomes the consolidation of the existing green bond standards in China into one comprehensive national standard.

Setting up a unified catalogue for activities that qualify for green bond financing, by harmonising existing domestic standards, will provide clarity to market participants and increase market efficiency.

The PRI also strongly welcomes the clarification that 'clean coal' assets do not qualify as green.

Although reducing the emissions and pollution footprint of existing coal-fired assets through technologies such as coal washing or potentially carbon capture and storage will be important to reduce environmental pollution and GHG emissions in China, they cannot be covered by green bond financing for the following reasons:

- Fossil fuels, and especially coal, are source of significant harmful environmental pollution of air, soil and water, and are therefore detrimental to achieving the national ambition of aligning economic and environmental performance and ultimately ensuring "green mountains and blue skies" for China.
- CO2 emissions from fossil fuels represented 70% of China's total GHG emissions in 2015, increasing from 2.1 billion tonnes in 1990 to 9.3 billion tonnes in 2017.[1] Worldwide, CO2 emissions in the atmosphere reached a dangerous level of 416 ppm despite the economic slowdown due to the Covid 19 crisis.[2];
- Renewable energy is now cheaper than coal. More than half of the renewable capacity added in 2019 achieved lower electricity costs than new coal. New solar and wind projects are undercutting the cheapest of existing coal-fired plants. According to the International Renewable Energy Agency, replacing the costliest 500 gigawatts of coal capacity with solar and wind would cut annual system costs by up to USD 23 billion per year and yield a stimulus worth USD 940 billion, or around 1% of global GDP[3];
- International investors want transparent and aligned green finance frameworks across markets. Investors face global climate risks and therefore may be less willing to invest in

[1] https://www.iea.org/data-and-statistics
[2] https://www.unenvironment.org/news-and-stories/story/record-global-carbon-dioxide-concentrations-despite-covid-19-crisis
[3] https://www.irena.org/publications/2020/Jun/Renewable-Power-Costs-in-2019

green bonds if they do not address the key risks of climate change and environmental pollution. Globally, investors are increasingly tightening their climate strategies, including commitment to net zero emissions by 2050. Some of the world's largest asset owners have joined this target through the UN-convened Asset Owner Net Zero Alliance. The investor-led Climate Action 100+ has now close to 400 investors engaged with high-emitting companies to reduce GHG emissions.

- Funding of necessary technical upgrades and transition of existing coal fired power plants can be achieved through other types of financing than green bonds and be based on a just transition strategy for local economies dependent on and jobs engaged in the coal sector.

As next steps, the PRI recommends continuing research and work on four main areas:

- **Contribute to international alignment through continued dialogue with international standard setters and policymakers engaged in defining global green bond standards, taxonomies and related sustainable finance policies;**
- **More broadly, incorporate environmental factors in risk assessment of bonds as many environmental factors pose risks to the ability of issuers to repay their debt (i.e. credit risk) or issuer business models pose risks to the environment that could threaten their license to operate;**
- **Mandate standardised disclosure requirements for issuers to demonstrate alignment with the catalogue and quality of environmental risk management;**
- **Develop technical screening criteria which enable an objective assessment of whether an activity is aligned with the Paris Agreement, and whether it avoids significant harm to other environmental and social objectives**

The PRI has experience of public policy on sustainable finance policies and responsible investment across multiple markets and stands ready to further support the work of the Chinese regulators on promoting financial regulations aligned with a sustainable recovery and green economies.

Any question or comments can be sent to policy@unpri.org.