

CORPORATE SOCIAL RESPONSIBILITY AND CLIMATE PROTECTION IN CHINA

THE CONTRIBUTION OF CHINESE ENTERPRISES TO SUSTAINABLE DEVELOPMENT

Andreas Dittrich

As the world's biggest producer of gases harmful to the climate, China bears a high level of responsibility in combating global climate change. The Chinese government is aware of the enormous challenges facing the country's climate and environmental policies. International media often present China as dragging its feet when it comes to efforts to reduce global CO₂ emissions. Indeed, China certainly avoids entering into international commitments aimed at climate protection. Nevertheless, the government has actually recognised environmental pollution and climate change as serious threats to its affluence and has already undertaken a variety of related measures. The aim is to uncouple economic growth from energy consumption. A "Green Economy" is intended to develop into a key driving force for Chinese growth.

However, the government is increasingly reliant upon the support of society in general and enterprises in particular in order to achieve significant reductions in emissions. In recent years, ever more multinational corporations engaged in China and Chinese enterprises have realised that they, too, share responsibility for sustainable development of the country, and are stepping up commitments in the fields of sustainable utilisation and climate protection. However, the partly considerable distance between Beijing and locations in Western and Southern China impede functional supervision measures, resulting in a strong discrepancy between compulsory duties and their actual realisation in the different regions.



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CORPORATE SOCIAL RESPONSIBILITY

The topic of Corporate Social Responsibility (企业社会责任 / *qiye shehui zeren*, CSR) has also advanced to the position of a key element in the debate on the principles of corporate management. In this respect, enterprises have always also embodied a social function and the debate on corporate social responsibility and its perception has long been under way. The English term "Corporate Social Responsibility" origi-

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nated in the USA and first appeared in 1953 in the publication *Social Responsibilities of the Businessman*, penned by Howard Bowen. Bowen wrote in his book that enterprises have a responsibility to gear their activities to the goals, expectations and values of society. These reflections have also become anchored in the German concept of a social market economy as Corporate Responsibility. The term CSR initially focuses strongly on the social components of corporate responsibility. Over recent decades, however, this concept has been supplemented with the dimensions "Environmental Protection" and "Sustainability".¹

Numerous CSR definitions and CSR standards now exist. The most important and internationally most frequently applied figures are those of the UN Global Compact from 2000 and the standard of the International Organisation for Standardisation (ISO). The Global Compact covers ten basic principles and calls on enterprises to align themselves with fundamental values in the fields of human rights, working conditions, environmental protection and combating corruption.² The ISO 26000 standard defines CSR as "the responsibility of an organization for the impacts of its decisions and activities on society and the environment, through transparent and ethical behaviour", which contributes to a sustainable development that takes into account the expectations of all "stakeholders" and is aligned with international standards.³ In 2001, the European Union

1 | Cf. Alexander Bassen et al., *Corporate Social Responsibility – Eine Begriffsklärung*, 2005, 231 et seq.

2 | Cf. United Nations Global Compact, "The Ten Principles", <http://unglobalcompact.org/AboutTheGC/TheTenPrinciples> (accessed 16 Jan 2013).

3 | Cf. ISO, "ISO 26000:2010(en). Guidance on social responsibility", <https://iso.org/obp/ui/#iso:std:iso:26000:ed-1:v1:en> (accessed 16 Jan 2013). The term "stakeholder" is used to •

published its *Green Paper on Promoting a European Framework for Corporate Social Responsibility*. In this, the EU defines CSR in accordance with other definitions as “a concept that serves enterprises as a basis to voluntarily integrate social and environmental concerns in their business activities and in their interactions with stakeholders”.⁴ Furthermore, trade associations and individual enterprises have also developed their own policies.

The emphasis of the European Commission on the voluntary nature makes it clear that socially responsible action not only involves compliance with legislation, but rather that an enterprise should also commit to taking the interests of its stakeholders into account. Enterprises profit from increasing their competitive ability and being able to avoid risks to their business activities. CSR can assist in this respect in enhancing the relationship with state actors, other businesses and the media and in improving customer loyalty. Employees can be motivated and the image of the enterprise elevated. Consequently, CSR is regarded as an integral element of every modern corporate strategy.

Socially responsible action not only involves compliance with legislation. An enterprise should also commit to taking the interests of its stakeholders into account.

Corporate responsibility manifests as a network of numerous factors and stakeholders: the state defines the legal boundary conditions within which enterprises may operate. Consumers have the countervailing buying power to punish producers for unethical conduct, and the media has the task of reporting on unethical working and production conditions. NGOs can exert additional pressure on enterprises, or support these in the implementation of CSR policies, while investors increasingly base their investment decisions on compliance with environmental and social standards. Other important stakeholders of enterprises are their own employees, the local communities at their production sites, business partners and suppliers, as well as industry associations.

designate persons or groups who have a justified interest in the progression or results of a process or project (“stakeholder groups”).

4 | Cf. EUR-Lex, *Grünbuch – Europäische Rahmenbedingungen für die soziale Verantwortung der Unternehmen*, http://eur-lex.europa.eu/smartapi/cgi/sga_doc?smartapi!celexplus!prod!DocNumber&lg=de&type_doc=COMfinal&an_doc=2001&nu_doc=366 (accessed 16 Jan 2013).

As one of the most imperative global challenges, climate change also increasingly dominates the international debate on corporate responsibility. It is now standard international practice to also integrate climate protection in CSR strategies, and for enterprises to present their efforts to reduce greenhouse gas emissions in their own CSR reports. Enterprises strive to boost the efficiency of production and the goods produced in order to enable⁵ unavoidable CO₂ emissions to be offset and to increase the utilisation of renewable energies and recycling. They also endeavour to achieve greater transparency by measuring their emissions and publishing the data.

CORPORATE RESPONSIBILITY IN CHINA

There is no doubt that the rapid economic development in China over the past 30 years has had an enormous social and ecological impact. Consequently, the question of how enterprises can be brought to render a greater contribution to society is being increasingly discussed. China is not exactly renowned for particularly good working and produc-

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tion conditions. Quite the contrary, one hears time and again of scandals in China, such as the exploitation of workers, some of whom even take their own lives out of desperation, as in the case of Foxconn, toys contaminated with dioxins, powdered milk contaminated with melamine, or civil protests in response to massive environmental degradation, to name but a few examples. Consequently, the view has become prevalent in the West that, while production in China may be cheap, it also blatantly disregards all environmental and social standards. China therefore has a serious image problem, which it must overcome through compliance with CSR principles.

The concept of CSR was largely unheard of in the People's Republic prior to the year 2000. It initially reached China – especially after the country's accession to the WTO in 2001 – via international enterprises, who required their suppliers to comply with certain minimum standards.

5 | This is understood to mean compensating for emissions resulting from production, e.g. through participation in reforestation projects or investments in renewable energies.

Multinational corporations frequently use their own standards in such cases, such as the Nike Code of Conduct. Chinese enterprises at first regarded CSR as a manner of non-tariff trade barrier intended to exclude them from exporting to industrial nations.⁶ This perception has only changed since 2005. Since the Chinese government established a framework for supporting the implementation of CSR in China, Chinese politicians have frequently referred to this concept and increasingly link it to the development of a "Harmonious Society" (和谐社会 / *hexie shehui*).

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Chinese company law was amended to this end. Article 5 of the version from October 2005 stipulates that corporations "observe their social responsibility" (承担社会责任 / *chengdan shehui zeren*).⁷ The State Assets Supervision and Administration Commission (SASAC)⁸ responsible for the regulation of state-owned enterprises likewise published CSR guidelines in January 2008. These call on the 118 most important state-owned enterprises of China, which together account for more than 100 million employees, to set examples in CSR and submit CSR reports by the end of 2012. The guidelines also call for the intensification of environmental and climate protection. Paragraph 11 calls on state-owned enterprises to reduce their energy consumption, develop energy saving products and cut their emissions.⁹ At local level, CSR guidelines have been passed since 2007 in provinces, cities and Special Economic Zones, and CSR evaluation systems have been established for enterprises who operate in these.¹⁰ Several Chinese industry and trade associations have also published their own CSR standards, which can in part be attributed to their opinion that international standards should be adapted to

6 | Cf. Rolf Dietmar, "CSR in China – Recent Developments and Trends", in: *Oekom CR Review*, 2012, 51.

7 | Cf. "中华人民共和国公司法" (Companies Act of the People's Republic of China), http://www.gov.cn/flfg/2005-10/28/content_85478.htm (accessed 16 Jan 2013).

8 | SASAC is also the majority shareholder of the Chinese state-owned enterprise at national level.

9 | Cf. SASAC, "关于印发 关于中央企业履行社会责任的指导意见 的通知" (Notification of the Publication of the "Opinions on Implementation of the Social Responsibility of Central State-Owned Enterprises"), 2008, <http://www.sasac.gov.cn/n1180/n1566/n259760/n264851/3621925.html> (accessed 16 Jan 2013).

10 | Cf. Dietmar, n. 6, 52.

match local conditions. However, these standards are generally less restrictive than their international counterparts.¹¹

In 2006, the Shenzhen Stock Exchange published CSR guidelines for its listed companies. Two years later, the Shanghai Stock Exchange (SSE) followed suit, as well as publishing guidelines on the disclosure of environmental data that are even mandatory for some corporations listed on the stock exchange.¹² 2011 already saw 351 companies listed on the Shanghai Stock Exchange's published CSR reports. What's more, in 2009 the SSE also published for the first time a Social Responsibility Index of the 100 stock corporations listed in Shanghai with the best CSR performance.¹³

Awareness for corporate responsibility in Chinese enterprises has increased significantly in recent years. This is evident from the growing number of CSR reports published in China. While just 32 reports were publicly disclosed in 2006, the number had already reached 898 in 2011.¹⁴ A growing number of Chinese enterprises have also adopted international standards, signed international agreements, such as the UN Global Compact,¹⁵ or aligned the preparation of their CSR reports with the Global Reporting Initiative (GRI).¹⁶ While the role of pioneer was initially assumed by enterprises with foreign participation, other enterprises – especially state-owned enterprises – are now also highly active.

Small and medium-sized enterprises (SMEs) are not legally required to submit CSR reports. These usually only implement CSR when they operate on an export-based footing,

11 | Cf. *ibid.* The German Textile and Clothing Association (Verband der Textil- und Bekleidungsindustrie) published for instance the CSC9000T Standard, which is intended to be implemented by its approx. 1,300 member enterprises.

12 | Cf. Lin Liwen, "Corporate Social Responsibility in China: Window Dressing or Structural Change", in: *Berkeley Journal of International Law*, Vol. 28, No. 1, 2010, 76 et seq.

13 | Cf. Adam Lane, "How Private Equity is Investing Responsibly in China", BSR, 1 Oct 2012, <https://bsr.org/en/our-insights/blog-view/how-private-equity-is-investing-responsibly-in-china-part-one> (accessed 20 Feb 2013).

14 | Cf. Dietmar, n. 6, 51.

15 | Some 260 Chinese enterprises had already signed the UN Global Compact in 2012. Cf. Dietmar, n. 6, 53.

16 | Siehe Global Reporting Initiative, <https://globalreporting.org> (accessed 20 Mar 2013).

or as suppliers of international enterprises who place CSR requirements on them.¹⁷ Privately-owned Chinese enterprises are increasingly establishing foundations, or supporting projects in underdeveloped regions of the country. One well-known example is the Alashan SEE Ecological Foundation (阿拉善SEE生态协会), in which numerous familiar Chinese entrepreneurs have been involved since 2001, organising and financing reforestation projects to combat desertification, as well as other environmental protection projects.¹⁸ The concept of "pro bono" service, i.e. releasing employees for volunteer work in non-profit projects, has also gradually reached China in recent years. Indeed, the first professional service providers have already become established, connecting parties interested in "pro bono" activities with the right contacts. For instance, the Beijing Huizeren Volunteering Development Center (北京惠泽人咨询服务中心 / *Beijing huizeren zixun fuwu zhongxin*) has been established in Beijing. The Center determines the requirements of NGOs, searches for suitable experts in enterprises and then puts these in contact with the matching NGOs.¹⁹

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CSR PRACTICES OF CHINESE CORPORATIONS WITH FOREIGN DIRECT INVESTMENTS

According to the CSR guidelines of SASAC, responsible business practices on the part of Chinese enterprises contribute to China being acknowledged as a "responsible developing nation" and to an increase in its international "soft power".²⁰ Consequently, state-owned enterprises are required to align their activities with international environmental and social standards when realising projects abroad. The China Africa Business Council (CABC) organised by the Chinese State Council together with the United Nations Development Programme (UNDP) has also published CSR guidelines for Chinese enterprises operating in Africa. Major state-owned enterprises, such as the national

17 | Personal interview with Wang Fengyuan, climate and environment expert at BSR sustainability consultancy.

18 | Cf. SEE foundation, <http://www.see.org.cn/see> (accessed 25 Jan 2013).

19 | Cf. Amanda Brown-Inz, "Bringing 'pro bono' to Beijing", China Development Brief, 26 Nov 2012, <http://chinadevelopmentbrief.cn/?p=1322> (accessed 20 Feb 2013).

20 | Cf. n. 9.

oil corporations, mining enterprises, steel corporations and shipping companies have responded to these requirements and begun to also account for their CSR activities abroad. Sinosteel, for example, already published a *Sustainable Development Report Africa* in 2008, in which the enterprise emphasises that it endeavours to implement environmental and resource protection in its activities in Africa, and to comply with safety and health standards.²¹

In their CSR reports, Chinese enterprises make frequent reference to the requirements of the Chinese government, but in doing so also react to criticism of Chinese investments abroad. Time and again, Chinese enterprises are accused of failing to take the interests of local populations into adequate consideration when it comes to their investments, and of accepting environmental pollution as an unavoidable downside. These corporations have begun to invest in CSR projects to counteract negative reports on their commitment. However, elaborations on foreign activities so far account for an exceptionally small part of their CSR reports. Also, specialised CSR departments in general only exist at the headquarters of Chinese enterprises. On the whole, the CSR activities of Chinese corporations abroad are still at best low-key.²²

CLIMATE POLICY CHALLENGES OF THE PEOPLES' REPUBLIC OF CHINA

China is the world's biggest producer of gases harmful to the climate and also ranks amongst those countries most severely affected by climate change worldwide. On account of its high level of industrially based economic growth, the People's Republic also contributes increasingly to climate change. The country has been the largest emitter of CO₂ since 2007. Some 48.5 per cent of the worldwide increase in CO₂ emissions between 1990 and 2007 can be attributed to the People's Republic. China's share of global CO₂ emissions is expected to reach 27 per

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21 | Cf. "Sinosteel Corporation Releases Sustainability Report On Africa", China CSR, 27 Oct 2008, <http://chinacsr.com/en/2008/10/27/3453-sinosteel-corporation-releases-sustainability-report-on-africa> (accessed 19 Jan 2013).

22 | Cf. Dylan Southerland and Glen Whelan, *Corporate Social Responsibility in China's largest TNCs*, Jul 2009, 12 et sqq.

cent in 2030. At the same time, climate change is today already causing droughts and reduced rainfall in Northern China, while Southern China suffers more flooding due to increased rainfall, which has a direct negative impact on food production. Consequently, it is crucial that Beijing plays an active role if the global temperature rise is to be limited to less than two degrees by 2100 compared to the pre-industrial era, and the impact of climate change be maintained at tolerable levels.²³

The Chinese government has recognised that a reduction in energy consumption, and thus also the associated industrial CO₂ levels, is crucial to achieving important development goals in the areas of environmental protection and energy security. Consequently, China has already set itself targets for reducing CO₂ emissions. In 2009, China's government announced that it would reduce CO₂ levels by 40 to 45 per cent by 2020 compared to 1990.²⁴ The ongoing twelfth Five Year Plan (2011-2015) envisages reducing energy consumption by 16 per cent and CO₂ emissions by 17 per cent per unit of GDP through the use of more efficient technologies. This is primarily to be achieved through the increased use of renewable energies, which should produce 15 per cent of China's primary energy by the year 2020.²⁵

Attaining these targets will require the vigorous participation of Chinese enterprises. The primary responsibility of the government is to establish the corresponding legal framework and to offer incentives to induce enterprises to embrace resource-efficient production. Among other measures, this will be realised by a gradual increase in energy prices, as well as tax incentives for the production of renewable energies and energy efficiency technology. Furthermore, enterprises should voluntarily realise their responsibility for making production processes climate friendly.

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23 | Cf. Andreas Dittrich, "Climate Policy in the Chinese People's Republic – Groundwork for Sustainable Growth?", *KAS International Reports*, 4/2011, 77 et sqq., <http://kas.de/wf/en/33.22524> (accessed 21 Mar 2013).

24 | Cf. *ibid.*

25 | Cf. Peter Hefele and Eileen Lemke, "Zwischen Kontinuität und Wandel – Das 12. Fünfjahresprogramm der Volksrepublik China 2011-2015", *Länderbericht China*, May 2011, 6.

THE CONTRIBUTION OF CSR TO CLIMATE PROTECTION IN CHINA

Despite the enormous challenges, the efforts of Chinese enterprises in the area of climate protection as part of their CSR programmes have not developed strongly. A study has revealed that the majority of listed Chinese corporations have yet to take any action to measure their greenhouse gas emissions, yet alone to limit them. The situation is somewhat better when it comes to efforts to increase energy efficiency, which major Chinese corporations have recognised as being strategically important.²⁶ However, there are both state-owned and private Chinese enterprises that have integrated the reduction of CO₂ emissions in their CSR programmes. The number of Chinese corporations that develop emissions reductions strategies is growing continuously.

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The State Grid Corporation of China (SGCC), the nation's largest grid-based provider, was one of the first state-owned enterprises to publish CSR reports. Since then, the enterprise has used these as a platform to call for commitment to the reduction of greenhouse

gases. In a *White Paper on Green Development* from April 2010, SGCC describes how the expansion of an "intelligent grid" has enabled energy savings and the supply of electricity from renewable energies without high losses.²⁷ SGCC gives an account of how much additional electricity from renewable energies is fed into the electricity grid, and how many wind farms and other renewable energy sources are also connected to the grid.²⁸ The paper also explains how losses when distributing these resources via the grid

26 | Cf. Shen Xin, "中国上市公司环境责任调查报告 发布" (Publication of the "Report on the Investigation into the Environmental Responsibility of Listed Chinese Enterprises"), 6 Jan 2013, http://syntao.com/CSRNews/CSRNews_Print_CN.asp?ID=15815 (accessed 28 Jan 2013); Carbon Disclosure Project (CDP), *Corporate Clean Energy Investment Trends in Brazil, China, India and South Africa, 2010*, 20.

27 | Cf. SGCC, "SGCC Releases the White Paper on Green Development, the First Among Chinese Corps", 12 Dec 2010, <http://www.sgcc.com.cn/ywlm/socialresponsibility/whitepaper/index.shtml> (accessed 8 Feb 2013).

28 | SGCC, "国家电网2011年社会责任报告" (SGCC CSR Report 2011), 60 et sqq., http://www.sgcc.com.cn/images/sgcc_csr/reports/2012/2011report.pdf (accessed 8 Feb 2013).

are being gradually reduced, how coal consumption per kilowatt hour of generated electricity is decreasing and how the enterprise is investing in a network of charging stations for electric cars.²⁹ While distributing these resources via the Chinese electricity grid is still fraught with problems and transmission losses are still high, the fact that SGCC even publishes corresponding data at all is a good start. However, the extent to which these disclosures can be independently verified remains to be seen. Such a step would be necessary for the public to understand the realisation of these self-appointed targets.

One example of a private Chinese enterprise that has embraced climate protection is IT enterprise Lenovo. According to the company, it already successfully avoided or offset all direct greenhouse gas emissions in 2010 and 2011 within the scope of its internal Climate Change Strategy. At the same time, Lenovo is working towards the incremental reduction of its suppliers' emissions as part of a supply chain program. Through these efforts, the enterprise wishes – in its own words – to primarily increase energy efficiency, but also to utilise electricity from renewable energy sources. The corporation only invests in carbon offsets when such efforts do not suffice. Additionally, those means of transport that produce the lowest CO₂ emissions should always be used, and the enterprise endeavours to reduce the transportation of goods via air mail. Packing materials and end products are also recycled to an ever greater extent. Lenovo has also installed photovoltaic installations at some of its production sites in China for local electricity generation, as well as solar lamps and hot water solar systems.³⁰ Other privately owned Chinese enterprises that have integrated CO₂ reduction in their CSR strategies include electronics producers Haier and Suning. Together with other electronics enterprises, they have established a "green" value adding chain. They also expect their suppliers to comply with energy efficiency standards.³¹

29 | Cf. *ibid.*, 63 et sqq.

30 | Cf. Lenovo, "Think Green – Combating Climate Change", http://lenovo.com/social_responsibility/us/en/climate.html (accessed 8 Feb 2013).

31 | N. 17; cf. also SynTao, "Suning Corporation released 2010 CSR report", 28 Mar 2011, http://syntao.com/CSRNews/CSRNews_Show_EN.asp?ID=13703 (accessed 22 Feb 2013); Suning, "阳光使命-苏宁电器企业2011年社会责任报告" (Mission Sunshine Project – Suning 2011 CSR Report), 50.

There are numerous other examples of Chinese enterprises that have integrated aspects of climate protection into their CSR strategies to a certain degree. These include oil corporations, energy enterprises and steel corporations, whose activities are associated with particularly high CO₂ levels.³² As energy consumption in buildings is extremely high on account of a lack of insulation, the poor quality of building materials and only meagre use of energy saving technologies, it is pleasing to see that Chinese real estate enterprises have also begun including climate protection measures in their CSR reports. For instance, the largest real estate enterprise in the People's Republic of China, Vanke, details in its current CSR report how it is increasing the number of energy efficient buildings, investing in the rehabilitation of existing building fabric,³³ and how that can prevent greenhouse gas emissions. The

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enterprise asserts that more than half of the private residential houses certified to date in accordance with the Chinese Three Star Standard (绿色三星级别 / *lvse sanxing jibie*) were built by Vanke.³⁴ Even if the total number of energy efficient properties in China is still virtually negligible, such reports foster a certain degree of competition between real estate enterprises as to who is most committed to building in an energy efficient manner.³⁵

Smaller private enterprises that are not yet obliged to submit CSR reports and also lack their own global brands mainly participate in efforts to produce in a more climate-friendly manner when they operate as suppliers for international enterprises or major Chinese corporations, which like Lenovo attempt to integrate this factor in their endeavours. A further example is Walmart. The retail chain

32 | Cf. KPMG, "China's 12th Five-Year Plan: Sustainability", Apr 2011.

33 | The average lifetime of a Chinese building is just 37 years, equating to only a quarter of the comparative value for German buildings. Enormous quantities of concrete and steel are required for the frequent demolition and new construction of buildings, the production of which is particularly energy-intensive and harmful to the climate.

34 | Cf. China Vanke, "2011年度企业社会责任报告" (CSR Report 2011), 47 et sqq.

35 | Large-scale change can only be realised through a combination of effective, implemented legal/administrative requirements and price incentives, especially as regards the (hitherto) low energy prices.

set itself the target of increasing the energy efficiency of its 200 key suppliers in China by 20 per cent from 2008 to 2012. To achieve this, baseline energy consumption and possibilities for saving energy were initially ascertained with the assistance of sustainability consultancy BSR and regular training sessions subsequently held, in which the supplier company managers were trained in matters of energy saving.³⁶ Amongst the Chinese enterprises in the iron and steel industry, Shanghai-based enterprise Baosteel – China’s second-largest iron and steel manufacturer – leads the field in this sector. In order to reduce emissions of greenhouse gases and environmental pollutants along the entire value chain, the enterprise already published its Green Purchasing Action Plan³⁷ in 2008, on the basis of which additional plans have been published in recent years with which the enterprise commits itself and its suppliers to sustainable production and economic management. It has consequently become a role model for other enterprises in the steel industry.

SMEs that operate as suppliers in the automotive industry are usually certified in accordance with international environmental standard ISO 14000. As these suppliers in turn procure components from other SMEs, the requirements are passed on to a larger group of enterprises. However, those SMEs that do not produce goods for the international market are still relatively weak when it comes to implementing environmental standards. For reasons of cost, virtually no investments are made in technology to boost energy efficiency and reduce emissions. They frequently have difficulty even fulfilling the existing legal requirements. If they conduct CSR measures at all, these are generally limited to their own workforce, e.g. through safety standards and non-profit projects at the production sites.

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36 | Cf. BSR, “Walmart: Improving Supplier Energy Efficiency”, Jun 2010, <https://bsr.org/en/our-insights/case-study-view/walmart-improving-supplier-energy-efficiency> (accessed 18 Feb 2013).

37 | Cf. Carbon Disclosure Project, “CDP China 100 Executive Summary”, 2011.

RESPONSIBLE INVESTMENTS AND CHINA'S "GREEN CREDIT POLICY"

A key aspect of CSR involves the responsibility of investors for the enterprises and projects they finance. A growing number of institutional and individual investors are interested in investing their money in sustainable projects. In 2005, the United Nations formulated the basic principles of sustainable investment in the Principles for Responsible Investment (PRI). The signatories to the PRI undertake to refrain from investing in enterprises or projects whose activities have a negative impact on humans or the environment.

Stock exchanges offer investors indices of enterprises that distinguish themselves through compliance with high environmental and social standards. Several Chinese investment funds have already signed the PRI.

The first sustainability funds are also becoming established in China. To aid orientation, stock exchanges offer investors indices of enterprises that distinguish themselves through compliance with high environmental and social standards. Several Chinese investment funds have already signed the PRI. The signatories can essentially be divided into two groups: those like Tsing Capital, who deliberately invest in projects that have a positive impact on climate protection, such as in the area of renewable energies or energy efficiency, and those like Orchid Capital, who purchase shares in all manner of enterprises as long as these avoid social and ecological risks.³⁸ Within the scope of the "Green Securities Policy" of China, enterprises with high levels of environmental pollution cannot be listed on any Chinese stock exchange as long as the Chinese Ministry of Environmental Protection (MEP) refuses to give its approval. This policy has already prevented, or at least delayed, the stock exchange listing of at least 100 enterprises.³⁹

Banks also bear responsibility for the effects of their lending policies on humans, the environment and the climate. If they participate in financing projects that cause high levels of CO₂ emissions, they at least indirectly share responsibility for climate change. If, however, they increase lending to enterprises that pursue renewable energies, energy efficiency and environmental protection, they can render an important contribution to sustainable development. The Equator Principles passed in 2003 and most recently

38 | Cf. Lane, n. 13.

39 | Cf. Adam Lane, "The State of Sustainable Business in China", GC Ticker, Jan 2013, 13.

revised in 2011 formulate rules for risk management for banks when granting loans. This voluntary set of rules is intended to ensure compliance with environmental and social standards in projects financed by the participating banks. Of the 78 banks to have adopted the Equator Principles to date, only one is a Chinese bank, Industrial Bank.⁴⁰

China's government has likewise realised the importance of the financial sector for environmental and climate protection. Together with the People's Bank of China (PBoC) and the China Banking Regulatory Commission (CBRC), MEP published guidelines for a Green Credit Policy (绿色信贷政策 / *lvse xindai zhengce*) in July 2007.⁴¹ These guidelines call on Chinese banks to analyse environmental and climate risks prior to the granting of loans, and to refuse credit to those enterprises with poor environmental performance. Additionally, guidelines on expanding credit for the development of climate-friendly and energy-efficient technologies are being developed. According to experts, these recently revised green credit guidelines are amongst the most progressive in the world and make China a pioneering force in Asia.⁴² In the wake of these new guidelines, Chinese commercial banks have begun to submit CSR reports in which they document their implementation of the guidelines. The Industrial Bank has reacted most quickly and comprehensively to these new guidelines. It became the first Chinese bank to establish a department dedicated to environmental and climate issues, the Sustainable Finance Office, and restricted the granting of loans to enterprises responsible for high levels of energy consumption and environmental degradation (两高 / *liang gao*).⁴³ Other major Chinese banks have adjusted their lending policies and established working groups for "green finance". When granting loans for energy-saving and environmental protection projects, the Industrial and Commercial Bank of China (ICBC) led the field in 2008. In the same year, the China Merchants Bank sent eleven warnings to customers within the scope of the

The guidelines of the Green Credit Policy call on Chinese banks to analyse environmental and climate risks prior to the granting of loans, and to refuse credit to those enterprises with poor environmental performance.

40 | Cf. Equator Principles Association, <http://equator-principles.com> (accessed 22 Jan 2013).

41 | Cf. Lin, n. 12, 80.

42 | Cf. Lane, n. 13.

43 | Cf. "Chinese Banking Industry Environmental Record (NGO Analysis) Executive Summary", 2010, 8 et sqq.

“Green Credit Policy” and placed 144 customers on a warning list. Since 2008, the Minsheng Bank has successively reduced its lending to small coal-fired power stations that display poor energy efficiency. Nevertheless, the efforts of most Chinese state-owned banks in this area still need to be significantly improved.⁴⁴

CHINESE MEDIA AS “WATCHDOGS”

China’s media sector has become greatly differentiated in recent years. Numerous newspapers and periodicals have arisen that specialise in climate and environmental topics. There are also hundreds of Chinese websites dedicated exclusively to covering climate and environmental protec-

tion. These media assume the task of raising the Chinese public’s awareness of climate protection and of exerting pressure on the government and enterprises. For instance, the topic of high levels of fine particulate pollution in China (PM_{2.5}) was first made

The topic of high levels of fine particulate pollution in China was first made known via reports on the Internet and in China’s print media, forcing the Chinese government to take action.

known via reports on the Internet and in China’s print media, forcing the Chinese government to take action. This pressure resulted in several Chinese cities commencing measurements of levels of fine particulates in 2012 and publishing the values. Specialised media review this data and compare it with independent sources.⁴⁵

The Chinese-English periodical *Eco-nomy* (碳商 / *tanshang*) published in Shanghai specialises in reporting on environmentally and climate friendly innovations, providing enterprises that have embraced climate protection with an advertising platform. A current issue reports on the efforts of retail chains to reduce their CO₂ emissions. One particular focus of the periodical in addition to CSR is “social entrepreneurship”, i.e. projects that have a positive impact on the environment and society, while generating profits. The periodical also regularly organises workshops in which entrepreneurs, NGO activists and media representatives can present their ideas for low-CO₂ development. *Eco-nomy* is also holding a major CSR conference in China in

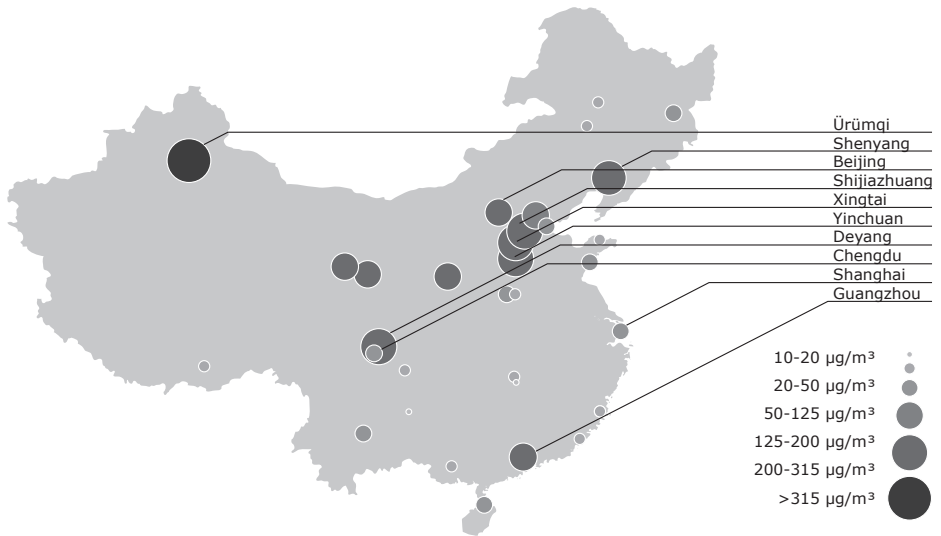
44 | Cf. *ibid.*, 9 et seq.

45 | Cf. Peter Hefele and Andreas Dittrich, “Climate Change and Public Interest – New ways of participation”, Conference Report, 2012, 3 et sqq., <http://kas.de/china/en/publications/30800> (accessed 8 Feb 2013).

2013.⁴⁶ Traditional media are also increasingly reporting on CSR and climate protection, such as *Southern Weekend*, which is well known for its critical reporting.⁴⁷

Fig. 1

Fine dust pollution (PM_{2,5}) of chinese cities



The high fine dust pollution in chinese cities was only publicized via the internet. The pollution measured for Beijing in January 2013 exceeded the WHO-limit of 10 µg/m³ thirteenfold. | Source: TeaLeafNation, own illustration.

Those web portals specialised in environmental and climate protection include bilingual website Chinadialogue. This has become a key platform for international exchange on environmental and climate protection and the work of Chinese NGOs in this area.⁴⁸ The three largest Chinese web portals (Sina, Sohu and Tencent) have likewise developed thematic websites that are highly dedicated to reporting on climate protection. The Website green.sina⁴⁹ reports on the best practices of enterprises that have adopted more

46 | Cf. *Eco-nomy*, <http://tanshangmedia.com> (accessed 20 Feb 2013).

47 | Cf. Lin, n. 12, 84.

48 | Cf. Chinadialogue, <http://chinadialogue.net> (accessed 29 Jan 2013). The non-profit organisation gets supported by numerous foundations

49 | Cf. green.sina (新浪环保 / xinlang huanbao), <http://green.sina.com.cn> (accessed 8 Feb 2013).

environmentally friendly production processes, publicises participation in projects such as Earth Hour⁵⁰ and provides the opportunity to make donations to climate protection projects.

Social media also play an increasingly important role in the monitoring of corporate conduct. Microblogs like Sina Weibo rapidly disseminate information on environmental pollution and social dumping by enterprises. This elevates the risk for corporations of becoming pilloried by the “virtual” public.⁵¹ At the same time, enterprises use their own microblogs to provide information on their CSR projects. However, Chinese journalists expose themselves to risks when they report on environmental pollution caused by state-owned enterprises. Time and again, critical reports are censored.

THE ROLE OF NGOS IN CSR

Chinese civil society actors still have far less influence than their western counterparts, but are gradually developing into important lobby organisations for climate protection vis-à-vis the government and enterprises.⁵² In recent years, the number of environmental and climate NGOs in the People’s Republic has risen greatly, and these have become more professional. Including international NGOs active in China and those organised by the government (GONGOS), it is estimated there have been more than 3,000 institutions specialised in climate and environmental protection in 2008. More than 60 per cent of these involved non-governmental NGOs.⁵³ For a number of years, Chinese NGOs have also taken part in international climate negotiations and the Chinese climate protection movement has received

50 | During the Earth Hour (地球一小时“活动 / diqiu yi xiaoshi huodong), all public and private institutes around the world are called on to symbolically switch off their lights for one hour, in order to increase the awareness of climate change. Many Chinese cities and households also participated in the last Earth Hour on 31 March 2012. For instance, the lights of the Olympic Stadium in Beijing known as the “bird’s nest” were switched off, as were those in all buildings in Shanghai’s busy People’s Square.

51 | N. 17.

52 | Cf. Patrick Schröder, *Civil Climate Change Activism in China – More than meets the eye*, 2011, 4.

53 | Cf. Hefele and Dittrich, n. 45, 5.

an enormous boost, especially from the first China-hosted conference of the United Nations Framework Convention on Climate Change (UNFCCC) in Tianjin in 2010.⁵⁴ In this context, their influence on enterprises has also increased. They act both as partners in the implementation of climate protection strategies, and as “watchdogs” who inform on the irresponsible conduct of enterprises, as well as organise protest actions.

A number of NGOs assist enterprises in measuring their greenhouse gas emissions and in independently reviewing and publishing the corresponding data. This simultaneously enhances the transparency of the participating enterprises and establishes the groundwork for reducing these emissions. The British NGO Carbon Disclosure Project (CDP), the world’s most important institution for emissions disclosure, has also been active in China since 2008, and a growing number of Chinese enterprises provide CDP with information that is subsequently reviewed by independent analysts. However, of the 100 largest listed companies in China, only eleven responded to the annual CDP questionnaire in 2011, and just 35 made relevant data available.⁵⁵

The British NGO Carbon Disclosure Project has also been active in China since 2008. A growing number of Chinese enterprises provide CDP with information that is subsequently reviewed by independent analysts.

Local NGOs also participate in the calculation and disclosure of emissions data. Beijing-based NGO Institute for Environment and Development (IED), for instance, assists SMEs in particular in efforts to measure their energy consumption and emissions.⁵⁶ Another NGO, the Institute of Public and Environmental Affairs (IPE), developed the Pollution Map platform that reports on the environmental performance of enterprises in China. This lists in detail the violations of individual enterprises and names those companies that have not yet provided any adequate information for measuring their emissions data and have thus failed to comply with the requirement of state environmental authorities to transparently disclose their emissions values. The website thus enables enterprises to inform on suppliers who fail to

54 | Cf. Schröder, n. 52, 12.

55 | Cf. CDP, “CDP China”, <https://www.cdproject.net/en-US/WhatWeDo/Pages/China.aspx> (accessed 29 Jan 2013).

56 | Cf. Schröder, n. 52, 8.

meet environmental standards.⁵⁷ The effect is also apparent in the growing number of reviews of environmental standards, which are predominantly carried out by third parties commissioned by multinational corporations in China to review their suppliers.⁵⁸ At the same time, pressure is applied at the local administrative level to establish control mechanisms, as the requirement of government authorities for greater transparency primarily involves state-owned enterprises. The results of the nationwide Pollution Information Transparency Index (PITI) of 2011, however, show that progress in the announcement of environmental data by state authorities is only discernible in some regions. However, regions with a high incidence of stronger environmental pollution caused by enterprises fail to display any greater transparency.⁵⁹

The Green Choice Alliance, which has the environmental performance of enterprises reviewed independently and reports on the endeavours of enterprises to improve their performance.

Together with other NGOs, IPE also established the Green Choice Alliance, which has the environmental performance of enterprises reviewed independently and reports on the endeavours of enterprises to improve their performance.⁶⁰ NGOs are also involved in “green finance advocacy”⁶¹ in China and review the extent to which banks actually implement China’s “Green Credit Policy”. Furthermore, nine NGOs (Green Watershed, Friends of Nature, Institute of Public & Environmental Affairs, Green Earth Volunteer, Global Environmental Institute, Civil Society Watch, China Development Brief, Green Volunteer League Chongqing and Hengduan Mountains Research Society) have formed an alliance. Within the framework of the Chinese Bank Awards of the *Economic Observer*

57 | Cf. Institute of Public & Environmental Affairs (IPE), <http://ipe.org.cn> (accessed 22 Jan 2013).

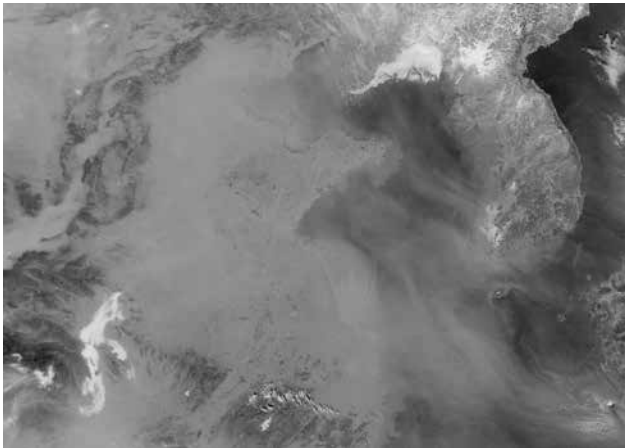
58 | Cf. Rockefeller Brothers Fund, “Institute of Public and Environmental Affairs”, <http://rbf.org/close-up/institute-public-and-environmental-affairs> (accessed 20 Mar 2013).

59 | IPE and Natural Resources Defense Council (NRDC), *Open Environmental Information: Taking Stock. The 2011 Pollution Information Transparency Index (PITI). Third Annual Assessment of Environmental Transparency in 113 Chinese Cities*, <http://ipe.org.cn/Upload/Report-PITI-2011-EN.pdf> (accessed 20 Mar 2013).

60 | N. 17; cf. also IPE, “The Green Choice Alliance”, <http://ipe.org.cn/en/alliance/gca.aspx> (accessed 22 Feb 2013).

61 | This means that pressure is exerted on banks to base their lending practices on principles of sustainability, e.g. by informing the public of which banks are responsible for financing environmentally harmful projects.

periodical, these NGOs have presented the Green Banking Innovation Award (绿色银行创新奖 / Lvse yinhang chuanxin jiang) since 2007 to banks that have shown particular commitment to environmental and climate protection.⁶² In 2010, the group also published for the first time a detailed report on the environmental performance of the Chinese banking sector (中国银行业环境记录 / *Zhongguo yinhangye huanjing jilu*). This positively highlights “best practices” and simultaneously calls for improvements in the realisation of ecological responsibility.⁶³



Fine dust particles moving east over the Bohai Bay, about 150 km west of the capital region. | Source: SeaWiFS Project, NASA/Goddard Space Flight Center, ORBIMAGE (Jan 2002).

PROSPECTS: CSR AS THE INSTRUMENT OF CHOICE FOR EFFECTIVE CLIMATE PROTECTION IN CHINA?

Chinese enterprises have greatly expanded their CSR activities in recent years. The number of CSR reports published in China has risen rapidly. The realisation is gradually being asserted that the interests of all stakeholders must be taken into consideration and that assuming social responsibility also strengthens the competitive ability of Chinese enterprises at home and abroad. A growing number of these corporations have already developed strategies to

62 | Cf. BankTrack, “Chinese NGOs announce third Green Banking Innovation Award”, 22 Oct 2010, http://banktrack.org/show/news/chinese_ngos_announce_third_green_banking_innovation_award (accessed 22 Jan 2013).

63 | Cf. n. 43.

reduce CO₂ emissions and express an awareness of their joint responsibility in combating climate change in their CSR reports.

Stimuli for this change in strategy were provided primarily by the Chinese government, which has set itself the goal of establishing a "Green Economy". Its strong focus on developing renewable energies and increasing energy efficiency has had a positive impact on the efforts of state-owned enterprises, in particular, but also on those of privately-owned enterprises in the area of climate protection. Today, China already leads the field in the utilisation of renewable energies. Thanks to legislation and the publication of guidelines, it has also had a decisive influence on the development of CSR reporting. Those corporations that invest in the reduction of greenhouse gases at an early stage will benefit from doing so, as the pressure to publish emissions values and reduce emissions levels will increase further. China can also use these experiences for the introduction of a nationwide emissions trading system, which reports indicate is being aimed for. This plan is based on the previous practices of pilot programmes in the cities of Beijing, Tianjin, Shanghai, Chongqing and Shenzhen and, with its expansion in 2014 to the provinces of Guangdong and Hubei, is intended to culminate long-term in a nationwide system that would represent geographically the most comprehensive CO₂ trading system in the world.⁶⁴

The quality of CSR reports published in China is in need of significant improvement. In the area of climate protection, enterprises must prioritise improvement of their measurement methods and have their data reviewed by independent experts.

The established CSR guidelines of SASAC are expected to be intensified and also become mandatory for regional and private enterprises. The quality of CSR reports published in China is also in need of significant improvement. In the area of climate protection, enterprises must prioritise improvement of their measurement methods and have their data reviewed by independent experts.⁶⁵

64 | Julian Drape, "China serious about Carbon trading report", *The Australian*, 11 Oct 2012, <http://theaustralian.com.au/news/breaking-news/story-fn3dxiwe-1226493518917> (accessed 19 Mar 2013).

65 | Cf. CDP, "中国报告2010" (Report China 2010), 27.



In August 2011, a demonstration took place against the construction of the Fujia chemical plant close to Dalian in the Liaoning province. The authorities gave in under the pressure of the protests, but didn't name any alternative location. | Source: GlobalVoices (CC BY).

The requirements of international cooperation partners and the government will become increasingly stringent as a result of pressure from Chinese civil society. China's citizens are increasingly aware of the threat posed by environmental pollution and climate change and demand responsible action in these areas. This was again evident from a series of protests in 2012. In July 2012, demonstrators protested against the construction of a copper plant in Shifang in the province of Sichuan,⁶⁶ and in October 2012 against the expansion of a refinery by Sinopec in the coastal city of Ningbo in the Zhejiang province.⁶⁷

The increasing professionalisation of Chinese NGOs and the growing involvement of citizens in their actions will further intensify the pressure on corporations to improve their CSR practices and environmental and climate performance. If civil societies in African and South-East Asian countries in which Chinese investments repeatedly attract criticism on account of poor social and environmental standards become stronger, those enterprises operating there will have no

66 | Cf. Tang Hao, "Shifang: a crisis of local rule", *Chinadialogue*, 18 Jul 2012, <http://chinadialogue.net/article/show/single/en/5049> (accessed 20 Feb 2013).

67 | Cf. Andrew Jacobs, "Protest Over Chemical Plant Force Chinese Officials to Back Down", *The New York Times*, 28 Oct 2012, <http://nytimes.com/2012/10/29/world/asia/protests-against-sinopec-plant-in-china-reach-third-day.html> (accessed 20 Feb 2013).

choice than to expand their CSR activities. Reporting by traditional and non-traditional media on environmental and climate offences by Chinese enterprises is on the rise. Cooperation between NGOs and the media should be further developed in order to step up the pressure.

Although the role of civil society actors, including enterprises, is gaining in importance, China's national climate policy will largely continue to be determined by the government. The fact that it has elevated the topic of environmental protection to one of the top issues on the agenda of the Chinese National People's Congress and, above all, made possible the parallel Chinese Political Consultative Conference in March 2013, illustrates that the communist state leadership continues to see itself forced to take action. A new plan envisages the establishment of a monitoring network by 2020 to review the groundwater quality throughout Northern China under the management of four ministries.⁶⁸ CSR represents an important supplement to this policy, but cannot replace it. The actual effect that CSR measures can achieve with the continuous establishment of mechanisms for monitoring and measuring emissions values would, however, doubtless reinforce the contribution of civil society actors in the long term.

Efforts to combat climate change through the promotion of renewable energies, the tightening of energy efficiency standards and price incentives, etc. must be continued. It is also crucial to better establish climate and environmental protection at local levels. Furthermore, social commitment should be more strongly supported and enterprises with outstanding CSR practices recognised accordingly.

68 | Wu Wencong, "Advisory Body sets sights on pollution", *China Daily*, 12 Mar 2013, 5, http://europe.chinadaily.com.cn/china/2013-03/12/content_16300612.htm (accessed 22 Mar 2013).