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An independent platform to foster trust and cooperation among China's stakeholders for climate action

Interview with the Paulson Institute and Greenpeace, 14th July, 2015

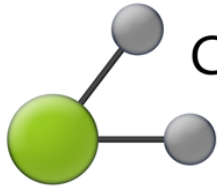
Building on interest surrounding recent news of China's INDC announcement, as well as increased environmental enforcement and blue sky days in Beijing, China Carbon Forum recently interviewed two experts from organisations that work at the intersection of environment and economy in China: Ms. Elle Carberry, a Managing Director for the Paulson Institute Beijing Office, and Mr. Calvin Quek, Head of Sustainable Finance at Greenpeace East Asia.

We discuss the economic transformation going on behind the news, and how economic prosperity and environmental sustainability can go hand in hand.

China Carbon Forum: Welcome to this China Carbon Forum hosted discussion, where we are focusing on China's climate change and environmental developments. My name is Peter Edwards. I'm the General Manager of China Carbon Forum. I'm very pleased today to be joined with two experts from organizations which work at the intersection of environment and economy: Ms. Elle Carberry, a Managing Director of the Paulson Institute, Beijing Office, and Mr. Calvin Quek, Head of Sustainable Finance at Greenpeace, East Asia. Thank you both for joining me.

Just to give a bit of context: recently, China has announced its climate action plan, submitting its INDC to the UN, coupled with, on the ground in Beijing, we are seeing much more blue skies over recent months. So Calvin, perhaps turning to yourself, I know that Greenpeace has collaborated with the Paulson Institute on a commentary entitled Beijing Blue Skies: Is This the New Normal? So Calvin, is this the new normal?

Greenpeace: Well Thanks Peter. That is a really tricky question to answer. As Beijinger's here, and I count myself as one of them, we always wish for wind to blow from the north, because the winds that would come from the south - the more industrialized area of the surrounding province Hebei - would actually bring with it a lot of the industrial effluence - polluting gases that will make our skies grey. And the winds that would come from the north, that would come from Russia down south, would tend to clear that out. In the piece that we had collaborated on with the Paulson Institute, while it wasn't a scientific study, we found that for this year's weather conditions, the way in which the wind blew did not play a very active role in terms of reducing or keeping air pollution levels lower this year,



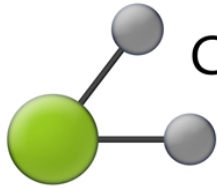
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compared to years previously. We found that this year's air pollution levels are significantly lower compared to 2013 and 2014. Some of that might have to do with the fact that Beijing is in the process right now of implementing its air pollution plan, which it announced in 2013. So, to your question about whether Beijing's blue skies are going to continue really comes down to whether there will be continuous success in terms of implementing many of the key recommendations in that air pollution plan.

China Carbon Forum: *Thank you. Ms. Carberry, perhaps turning to yourself now. You've got a long standing set of experiences here in China focused on the clean-tech industry. When claims are made that China will need to sacrifice its GDP growth to ensure blue skies across China, what is your response?*

Paulson Institute: Our response is that economic and environmental prosperity go hand in hand. The good news now is that many years after environmental laws were implemented in other nations and enforced, we can see the 30, 40 years of experience from places like LA and Pittsburg, where they were quite strong on enforcing the law, rebalancing their industrial mix, and now these cities are growth engines across a diversified set of industries – many are cleaner, greener, manufacturing services and other kinds of industries. So those are wonderful proof points that you can achieve both and frankly, in both of those cities, their impetus to change was caused because of environmental problems and pollution, and from some of the same industries that are causing the pollution here in China. We are trying to bring forward that expertise and insights to China so that China can build upon those, apply what's relevant and build the China model of how to make some of those choices and decisions. In particular, we work closely with the national government as well as with regional government, but we see and have to give credit to the Chinese government around prioritizing the environment as a top part of its national strategy. That's extremely important. Within that was also looking at the problems from a regional basis. There are three big regions in the country that are under focus. In particular, up here in the North, it is the region of Beijing, Tianjin and Hebei or *Jingjinji*. This region is already under the new environmental laws and strong enforcement that the other regions will receive by the time of the 13th Five-Year Plan next March. This region is now a place where we are doing active work to see if we can take the best of other experiences, understand the local experience and try to find the potential solutions. *Jingjinji* is a heavy industry area but also has plenty of emerging examples of new industries that are being created, be it renewable, be it green building, be it the services industries that



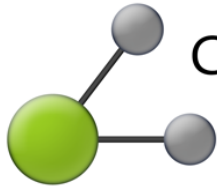
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accompany those. We are trying to bring more awareness to these new industries that are growing up as well as thinking about how do you help control the emission from the heavy industries and we are very supportive of the government and also the overall reform agenda., which is trying to focus on domestic demand and reduce this investment-led culture, which led to overcapacity in many heavy industries. So, that range of environmental and economic policies is the place where we are working closely. It's the mix of those things working together. That's also why we also believe that those two things can occur together – economic and environmental prosperity. There are proof points that show that that is a path forward and we are trying to help make that possible now in China.

Greenpeace: To add to that point – prior to the air pollution issue becoming an issue in China, China was actually growing at almost 8 percent a year. The previous premier, Mr. Wen Jiabao, actually said himself that Beijing's economy was “unstructured, uncoordinated, unbalanced” and that 8 percent was hiding a lot of structural problems in the economy. The claim that dealing with air pollution is not in sync with economic growth is a very overly simplistic assumption. The reality is that if you don't have clean air, you have a lot of other problems that will come and bite your economy over the long term. The Chinese economy, because it's overly dependent on investment-led growth, is particularly inefficient in terms of its resources. So I think when it comes to the air pollution issue, which is galvanizing the country, in some sense it was the tip of an iceberg, for a whole number of issues for the Chinese economy that the Chinese officials wanted to deal with, but never had the popular mandate to deal with. Once the air pollution issue exploded in 2013, we saw such a huge political momentum to deal with this issue. That is the backbone for many of the things that Xi Jinping is saying that he wants to deal with, with respect to the economy. We are seeing now that China is committing to reducing heavy industry and reforming various sectors. It's increasingly also dealing with carbon emissions, which then connects us to the country's commitment that it announced just recently.

China Carbon Forum: *Thank you both. You both come from very well-respected organizations. Perhaps I can ask you a bit about those organizations, but in particular the recommendations that you might have for China given the recent developments. Perhaps Calvin, you can start.*



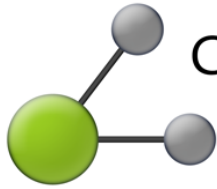
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Greenpeace: Thanks Peter. This economic transformation dealing with the air pollution issue that China is embarking on will not be easy. Hebei is home to the world's largest steel sector and employs hundreds and thousands of people in this sector. There are many entrenched interests are against China moving away from this investment-led culture that Elle mentioned. There are a lot of built up secondary sectors that have relied on the heavy industry sector to survive, and that would have to be reformed if the fundamental pin which held that economy together is going to be rethought over again. So I think with respect to China's officials, what they are going to have to deal with will require a lot of fortitude and internal courage to push these policies ahead. For example, putting a price on carbon, putting a more efficient pricing onto coal resources and dealing with electricity prices. That whole reform agenda is not going to be as easy as we would like it to be, and that's going to take a bit of political courage by Xi Jinping and his colleagues. I think this is an area the NGO sector and my organization can really help. As a third party, we will be able to provide independent sources of information. China today has some of the best air pollution information throughout the entire country, which actually helps the government monitor the situation across the country. It is a very large country with many areas where they don't have their eyes on the ground. I think the role of the NGOs and greater information transparency will help China towards eventual success in promoting its long term economic goals.

China Carbon Forum: *Thank you. Elle, perhaps the Paulson Institute and your recommendations for China?*

Paulson Institute: Just to mention a word about our focus. We focus on the US-China bilateral relationship from the belief that the two largest economies and two largest emitters in the world need to lead from the front. We are trying to enable that, and in particular by looking at how does one invest in the environment as a common agenda between the nations and then through that create sustainable economic growth for both nations. So we think of investment in the environment as the common agenda and the way to grow. Now that there is a very strong environmental law going into place, as I said in phases, starting up here in the north, and along with that the enforcement, where are the next places where policies can have the biggest impact? We think policies that incentivize markets to come along and follow the government's leadership create a big shift in that direction and in ways that are low to no cost to the government. With a simple change in policy, lots of market actors get involved and use their own money, use their own people,



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pay for their training and development, and develop IP. The four areas that we've been doing our recent work - where we think can make the most difference, and we picked them to be everything from energy generation, to energy use, and then broad market mechanisms - on the energy generation side, we are looking at small changes in the power sector that would enable more use of renewables and save millions of dollars in terms of investment in new coal thermal plants as well as tons and tons of savings in emissions. In another area, we are looking at how does industry relate to the grid in terms of how much demand does it have, at what times of the day, and integrating that when renewables are being used, and another way to save coal thermal power and emissions. A third area we are looking at is in the building sector, which uses 40 percent of energy. There are emerging examples internationally and also here in China around if a building publicly discloses its energy use, what does that do to attract tenants who care about more efficient energy use and lower utility bill in the future, as well as then stimulating the market for all the suppliers the provision those solutions for green buildings. The fourth area is a broad market mechanism, that Calvin also just mentioned, around carbon emissions trading. China has been very leading not only in these other areas but also in carbon emissions trading where seven regional pilots are now being fashioned and coordinated into a national system. These are all places where the nation is working hard and aggressively. As an international organization, we are just trying to bring along further international expertise to help think about more of the how-to and the implementation questions so China's implementation can get it as well as possible. Those are places where we think markets can make a difference. We think now is the time, thanks to the air pollution laws, because of the year 2013, and now it really does support what you are talking about, Calvin, that the air pollution issue here - catalyzed in January 2013 - has led to a whole downstream of action that is about environment and emissions, but is very much about economic transformation. You see how well those things go together and we are trying to enable that.

China Carbon Forum: *Thank you very much. Thank you very much for your insights and your recommendations. I'm sure you will agree, it's a very interesting time to be involved in the climate change and environment space in China here. We hope that we can keep this dialogue open. We will invite comments and questions from other experts and hope to have another discussion soon. Thank you both very much.*