

China surges ahead in promoting sustainable development, room to grow - RepuTex

by Michael Bellart

AFTER YEARS OF PUSHING ECONOMIC GROWTH AT ALL COSTS, CHINA'S CENTRAL GOVERNMENT IS LOOKING FOR NEW WAYS TO PROMOTE SUSTAINABLE ECONOMIC DEVELOPMENT WITHOUT THE BROADER SOCIAL AND ENVIRONMENTAL RAMIFICATIONS. WHILE SOME CHINESE COMPANIES HAVE TAKEN STEPS TO IMPROVE THEIR OWN SUSTAINABILITY, MANY REMAIN UNAWARE OF THE OPPORTUNITIES AFFORDED BY PROPERLY MANAGING RISKS RELATED TO ENVIRONMENTAL, SOCIAL AND CORPORATE GOVERNANCE ISSUES, EXECUTIVES AND ANALYSTS FROM AUSTRALIAN SUSTAINABILITY RESEARCH FIRM REPUTEX TOLD INTERFAX.

“In terms of sustainability, a lot of people have this perception that China is really behind.”

Shanghai. June 3. INTERFAX-CHINA - Over the last few years, government officials, investors and executives have been gradually paying closer attention to environmental, social and (corporate) governance (ESG) issues as a way to evaluate risks that threaten Chinese companies.



Martha Grossman, RepuTex's general manager for China

However, there is still a general lack of awareness among Chinese companies, including those in the energy sector, when it comes to the importance of assessing their own sustainability risks, executives and analysts from Australian research firm RepuTex told *Interfax* recently.

"Historically, it has been difficult for companies to understand the financial incentives for pouring more money into sustainability," Martha Grossman, RepuTex's general manager for China, said. "There have been a handful of companies that have understood that enhancing their sustainability performance will in due course enhance their bottom lines."

Even if the majority of company executives are not paying much attention to sustainability, private investors have begun to take notice.

"When you talk to many U.S. investors with assets in China or who are interested in investing in China, one of the first few questions they ask is how Chinese companies are performing from an ESG or sustainability point of view," Bahador Abedi Tari, RepuTex's head of carbon research, told *Interfax*.

RepuTex specializes in assessing companies' exposures to sustainability and other non-financial risks. Sustainability encompasses a wide range of issues, including legal and regulatory compliance, transparency and disclosure, occupational health and safety, pollution and social unrest. Its proponents argue that companies need to address these issues which, left unchecked, could pose risks to a company's competitiveness, profitability and share price.

According to Abedi Tari, the pressure to change has so far come from the Chinese government.

"For its part, the Chinese government has recognized that economic development 'at all costs' cannot be sustained and has responded through the implementation of a range of environmental and corporate governance controls and guidelines," RepuTex said in a June 2008 evaluation of listed Chinese companies, called The RepuTex China Top 10.

Chinese corporate governance issues specifically have been of special interest to institutional investors as poor governance practices pose risks that can directly impact a company's finances, Xu Lin, a RepuTex financial analyst, told *Interfax*.

"If you want to raise funds in the stock market, you have to meet certain corporate governance rules set up by the Chinese government," he said.

RepuTex's research shows that Chinese companies have performed well in the corporate governance area because the government has implemented some very strong regulations and laws regarding disclosure and ownership, Grossman said.

"In terms of sustainability, a lot of people have this perception that China is really behind," Abedi Tari said. "But when you look more closely, you can see that the government is being more proactive than most people give it credit for."

For example, he pointed to the government's energy efficiency and renewable energy policies, its subsidies for solar and wind power and its technological requirements for new coal-fired power plants.

"[Despite the policies], investors are concerned about whether Chinese companies are actually taking up those opportunities" Abedi Tari said.

According to him, the primary opportunity for many Chinese companies is the Clean Development Mechanism (CDM), which allows them to earn additional revenue by investing in projects that reduce carbon emissions.

RepuTex looks into whether companies are capitalizing on opportunities such as CDM when assessing their environmental

Importantly, some segments of China's energy sector are lagging behind in terms of sustainability. Abedi Tari pointed out that carbon-intensive companies like power generators are not keeping up with the carbon market and appear to be unsure how it can impact their business.

Xu said that the problem lies in most Chinese companies still not understanding why ESG issues are important.

According to the China Top 10 report, CSI 100 companies averaged a sustainability rating of "BB," which Reputex deemed as less than satisfactory. Overall, Reputex determined that although Chinese companies are taking sustainability risks into account, there is still a lot of room for improvement.

"Essentially, you can see that the companies that better adhere to ESG guidelines are all state-owned companies. They do what the government requires them to do," he said. "Most privately-held companies don't see the importance of ESG. All they care about at the moment is making as much profit as possible."