

# USCBC Environmental Policy Recommendations for the Chinese Government

March 2019

Since 1973, the US-China Business Council (USCBC) and its more than 200 member companies have contributed to China's economic development. Our members include a range of international enterprises dedicated to the China market.

USCBC supports China's initiatives to improve environmental protection and modernize its regulations. US companies often bring best practices and environmentally-friendly technology to their operations from the United States, benefitting China's citizens and environment. However, companies report that China's intensified environmental enforcement efforts have led to unintended negative consequences that limit the effectiveness of environmental protection measures and adversely affect China's economic growth and investment environment. Our recent [environmental compliance report](#) includes specific examples of some of the environmental enforcement challenges faced by member companies.

To minimize practices that may negatively impact US businesses with operations in China, USCBC makes the below practical suggestions to improve China's environmental policy and enforcement efforts. We believe that these suggestions will help China improve environmental protection while developing a predictable, fair, and rules-based business environment that will stimulate economic growth. While centralized enforcement campaigns create publicity and temporary pauses in polluting behavior, without a long term local presence, it is difficult for central inspection teams to address the root causes of environmental infractions in a sustainable manner. Improvements in areas such as transparency, technical regulatory capacity, science-based rulemaking, and nuanced enforcement measures will not only help China protect its environment, but also improve rule of law across the board.

## **Engage industry**

Companies appreciate the opportunities the Chinese government provides for industry input and encourages the government to expand on initiatives to engage industry in the policymaking process at different stages of the drafting and at different levels of government. USCBC urges local regulators and industrial zone authorities to work with companies to evaluate the root causes of environmental issues and arrive at practical solutions in order to maximize environmental protection while minimizing the impact on company operations. US companies are industry leaders in markets around the world, and their decades of experience and advanced environmental technologies can make them powerful partners in China's continued environmental protection efforts.

## **Avoid one-size-fits-all enforcement**

While many member companies note marked improvements over the past winter, others report that blanket shutdowns and capacity cuts remain problematic. A one-size-fits-all approach to environmental enforcement does not incentivize companies to reduce emissions since they will be affected in the same manner as their heavily polluting neighbors. This approach also disincentivizes whistleblower behaviors since a company reporting their neighbor in the same industrial park may themselves be shut down should regulators choose to close the entire park. USCBC commends the Chinese government on their efforts to make environmental enforcement more nuanced, and hopes to see a continued push towards enforcement based on performance.

## **Ensure local regulators have appropriate authority**

Member companies report frustration with slow environmental approvals for new projects or investment expansions. In many instances where the approval process drags out, companies are told it is because local regulators are waiting on clear guidance from higher-level authorities. It is important to publicize clear regional industrial development plans, both so industry can plan new projects, and also so local officials have clear guidance. Local officials should have latitude to make the environmental approvals necessary for industry to conduct business in a reasonable amount of time.

## **Improve transparency**

While China continues to make progress in regulatory transparency, member companies report challenges with access to local environmental standards, notification practices, and inspection practices.

Local environmental standards are often not published online, creating compliance hurdles for companies. USCBC recommends that the central government publish all central and local environmental regulations and standards online in a central location. A negative list approach in which companies are not liable for regulations not posted to the central location would encourage a high level of regulatory transparency.

USCBC recommends that the government publicly publish relocation requirements in a designated place for a consistent, specified amount of time before the deadline to relocate, rather than companies needing to rely on their connections to find out about relocation requirements. Longer public notice periods that are clearly displayed will give businesses the necessary lead time to take environmental precautions while relocating.

While companies understand the need for some flexibility to accommodate major national events or periods of severe pollution, orders to halt production often lack sufficient advance notice. USCBC recommends providing at least 60 days before requirements to reduce capacity or temporarily shut down operations. The government should indicate beforehand how long companies need to shut down or operate at reduced capacity so that they can make plans to mitigate operational impacts.

Companies also report transparency issues in environmental inspection practices. USCBC recommends requiring that environmental inspectors share their samples, testing methods, and testing data with the companies they inspect. Following these types of international best practices will better enable companies to explain if there is a misunderstanding and address environmental issues if they exist. USCBC also encourages the Chinese government to create a channel for companies to dispute inspection results they believe are incorrect without fearing retaliation by local regulators.

## **Formulate science-based environmental standards**

China's efforts to modernize its environmental standards are commendable and will pay dividends for years to come, but some local environmental emission requirements are well in excess of international standards and can be difficult or impossible to meet even with the most advanced technology. Environmental standards should be continually updated, as they are for food safety, to align with technological progress. Standards should also have sufficiently detailed definitions of key terms to avoid confusion, such as with toxins.

Where appropriate, USCBC recommends, instead of requiring cutting emissions by a certain percent, that regulations require companies to use a technology that emits no more than a certain amount of a pollutant per cubic meter of air or water.

## **Issue reasonable policy implementation timelines**

The implementation of new policies in China can vary greatly. Sometimes implementation timelines provide sufficient lead time and policymakers consult with industry throughout the process, but in other cases, implementation can be hasty. Policies with insufficient implementation timelines can have detrimental consequences, like the scrap import ban that went into effect in early 2018, which has resulted in a shortage of raw materials for China-based manufacturers. As a consequence, those companies have had to turn to using more energy-intensive raw materials, increasing the environmental impact of their operations rather than reducing it. Transparency of implementation timelines and engagement with industry stakeholders throughout the policymaking process is critical to smooth implementation.

## **Improve availability of hazardous waste disposal**

Member companies across a variety of industries report that longstanding difficulties finding qualified vendors to dispose of hazardous waste have intensified in recent years. Making hazardous waste disposal difficult or unreasonably costly increases the chances of environmental incidents and operational delays. USCBC recommends opening the hazardous waste disposal market to more vendors and creating standards to allow more companies to become certified. USCBC also recommends adjusting waste storage policies which will alleviate pressure on companies.

## **Build technical regulatory capacity**

At the grassroots level, effective environmental enforcement is dependent on well-trained inspectors. While China has made improvements in capacity building, companies continue to report issues resulting from poorly trained environmental inspectors. Unprofessional inspectors can cause misunderstandings that disrupt company operations and fail to address environmental concerns. USCBC recommends the government conduct training programs to increase the number of qualified environmental inspectors with the necessary technical expertise at the local level. Offering incentives to attract inspectors with industry experience would also help build capacity.