



THE US-CHINA BUSINESS COUNCIL

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Exploring Pathways Toward a Shared Green Future

USCBC Decarbonization Working Paper 1

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Executive Summary

The private sector has the will and capacity to deliver climate change solutions, an area where President Joe Biden and President Xi Jinping have committed to strengthening bilateral cooperation at both the G20 meetings in Bali and the APEC meetings in San Francisco. USCBC member priorities in China align with those outlined in the US-China Sunnylands Statement, in which both governments identified specific areas to cooperate further on climate. To better understand how to realize this potential, USCBC surveyed and held roundtable discussions with roughly 60 member companies from a range of industries to identify opportunities and obstacles.

This document is the first in a series of USCBC working papers on decarbonization. It focuses on the issue areas of carbon capture, utilization, and storage (CCUS), plastic/waste recycling, methane, and carbon trading. This paper is designed to start a dialogue with both governments about issues areas, policy changes, and industry demonstration projects on which to collaborate to reduce greenhouse gas emissions. The paper is a work in progress and may be refined or expanded over time.

A prevailing theme in discussions with companies was an eagerness to partner with both the US and Chinese governments on decarbonization. There are rich opportunities for sharing best practices and technical expertise on complex policy frameworks, such as carbon trading markets, innovative technologies like CCUS, and the transition to a renewable and circular economy. Efforts to address the challenges of climate change can both contribute to economic development and lay the foundation for a prosperous low-carbon economy in the United States and China.

USCBC member companies seek greater harmony with international standards to ensure fair competition and a level playing field. Companies note China's climate-related regulations and standards are lagging behind other markets. Lack of regulatory clarity and consistency in China has led to significant transaction costs and lost opportunities for multinational firms.

USCBC member companies urge both governments to take a results-oriented approach to climate change cooperation in pursuit of achieving the objectives laid out in the Paris Agreement. Both governments should take concrete steps to advance private sector engagement on US-China pilot projects in key green technologies, harmonize standardization, and deepen bilateral and international exchanges on decarbonization.

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Introduction

China is undergoing a substantial economic shift necessitated by its "dual carbon" plan to reach peak emissions by 2030 and achieve carbon neutrality by 2060. China's decarbonization commitments represent a reorientation of the country's long-term economic strategy, and decarbonization is now an integral part of national, provincial, and local policymaking. This shift gives fresh impetus to US-China climate cooperation in certain areas.

The US-China [Sunnylands Statement](#), released in November 2023, established the foundation for a spirit of bilateral cooperation on climate change in pursuit of the goals of the Paris Agreement. The Working Group on Enhancing Climate Action that came out of Sunnylands will focus on energy transition, methane reduction, circular economy, subnational actions, and more.

American companies are at the forefront of global efforts to build a green and sustainable future. They are therefore primed to share their expertise, experience, and technologies in these areas. USCBC member companies want to work with both governments and other stakeholders to deliver climate change solutions that will benefit both our countries and the world.

Project Statement

This working paper is the first in a series of iterative documents that represent the views of USCBC member companies engaged with decarbonization on the ground in China. It serves as an indicator for both governments of where US companies are willing to invest time, technology, and talent, as well as where these companies see the greatest challenges and opportunities related to decarbonization. Through this project, USCBC aims to expand private sector engagement to advance both governments' climate goals.

This working paper is derived from multiple roundtable discussions and interviews with roughly 60 USCBC member companies across the manufacturing, energy, consumer goods, food and beverage, agriculture, and other sectors, representing stakeholders across the spectrum of global value chains.

Chapter 1: Carbon Capture, Utilization, and Storage (CCUS)

Carbon capture technology can play a pivotal role in emissions reductions by effectively capturing and storing carbon dioxide emissions generated from industrial processes and power plants. By enabling the continued use of legacy energy sources with reduced environmental impact, carbon capture will allow a smoother transition toward a low-carbon future and offers a practical solution to address emissions from sectors that are challenging to decarbonize, including power, oil and gas, chemical, cement, and steel.

Annual investments into CCUS technology have consistently accounted for less than 0.5 percent of global investment in clean energy. Expanded support from both governments will be crucial to realize the full potential of CCUS at a large scale.

The following actions would further CCUS adoption in China:

- **Clarifying the responsibilities** of different government agencies can help other stakeholders understand the CCUS ecosystem in China.
- **Introduction of incentives in China**, like tax reductions, exemptions, and diverse fundraising channels is recommended to lower CCUS costs and foster commercial viability.
- **Advancing carbon reduction efforts through joint initiatives** can offer significant opportunities to advance CCUS in the United States and China. Collaboration pledges outlined in the Sunnylands Statement highlight the potential for large-scale cooperative CCUS projects by 2030. Connecting highly developed subnational regions, such as Jiangsu and California, through CCUS cooperative pilot projects can further demonstrate the viability of scaling up the technology to reduce emissions in both countries without disrupting the traditional energy sector. Other regions in China that can be considered for subnational cooperation on CCUS include Guangdong, Shanxi, Zhejiang, and Hubei.

Identifying key government stakeholders and policy guidance

The lack of a coherent policy making apparatus in China for overseeing CCUS initiatives is a significant challenge for companies. Emissions reduction regulations involve multiple ministries, including the Ministry of Science and Technology, the Ministry of Ecology and Environment, the National Development and Reform Commission, and the National Energy Administration, among others. The sector's complex regulatory landscape, with decentralized responsibilities among different government departments, complicates stakeholder identification and hinders cohesive strategy formation. Once leading organizations are identified, involving key stakeholders in the regulatory formulation process is essential. Multinational corporations (MNCs) can contribute valuable experience and insights to help align regulations with CCUS development needs.

Ambiguity in the CCUS supervisory structure is exacerbated by a lack of clear policy guidance and incentives that are crucial for driving growth and investment in the sector. While existing laws and regulations provide a general framework for CCUS demonstration projects, the absence of specific legislation diminishes the motivation for enterprises to undertake such initiatives. Chinese policymakers should consider expediting the creation of a comprehensive CCUS framework through legislation and clear technological requirements. Establishing uniform industry standards would not only ease compliance for CCUS tech enterprises but also enhance investor confidence. Streamlining the supervisory process by designating specific organizations to lead CCUS efforts will also be crucial for policy consistency.

Deficiencies in regulations related to site selection, construction, operation, geological utilization, closure of storage sites, and post-closure environmental risk assessment and monitoring pose additional challenges. Uncertainties, including safety responsibilities, CO₂ supply guarantees, and market instability in carbon credits amplify investment risks and compound the hurdles faced by the CCUS sector in China.

Taking inspiration from the US [45Q](#) carbon tax credit program, Chinese regulators could introduce incentives, such as tax reductions, exemptions, and diverse fundraising channels. Mirroring 45Q's performance-based approach, these incentives would significantly lower CCUS costs, alleviate industry pressures, and foster a commercially viable and attractive landscape for CCUS utilization.

Advancing US-China CCUS collaboration

Collaboration between the United States and China in CCUS pilot projects presents significant opportunities for advancing carbon reduction efforts. The Sunnylands Statement [outlines pledges](#) for at least five large-scale cooperative CCUS projects each by 2030, underscoring the potential for joint initiatives.

Despite challenges, such as higher marginal costs compared to renewable energy sources, sectors with high emissions offer unique opportunities for scaling CCUS technologies. Collaborations between US and Chinese companies can address economic viability concerns and facilitate rapid expansion.

US firms with expertise in net-zero emissions are eager to extend their technological capabilities to China, particularly in manufacturing hubs like Guangdong and Jiangsu. Subnational engagement on CCUS could further advance the sector and provide benefits to state- and provincial-level decarbonization efforts in both countries. In addition, joint research and development efforts are crucial for fostering innovation and driving efficiency, necessitating enhanced collaboration and knowledge exchange programs between the two countries at both national and subnational levels.

Chapter 2: Waste and Plastics Recycling

China's efforts to reduce, reuse, and recycle waste present significant green business opportunities. According to a recent [UN report](#), a unified global effort to transition to a circular economy could reduce plastic pollution by 80 percent by 2040. The report also finds that if business continues as usual, plastic waste will triple by 2060. China has the world's [largest](#) plastic recycling industry, employing 900,000 people in 2021 and recycling 31 percent of the country's plastic waste, or about 19 million tons. The other 40 million tons of plastic ended up in a landfill or incinerator. While sectors like plastic recycling are relatively mature in China, challenges persist, such as gaps in technologies like food-safe plastics. Polyethylene terephthalate (PET) is a strong, lightweight plastic commonly used for water bottles. Recycled PET (rPET) can be reused many more times than standard PET but is not yet approved for food use in China. In addition, certain kinds of waste, such as lead-acid batteries, are classified as hazardous waste and require more expensive storage and transportation.

The following actions would help increase waste and plastics recycling in China:

- **Encouraging the use of rPET in food and beverage packaging** would make China's economy more circular and accelerate the transition to reusable plastics. Adopting the use of recycled plastics in food packaging aligns with international standards and can reduce emissions, energy use, and plastic waste.
- **Working more closely with global partners and battery manufacturers** can accelerate the development of a circular battery recycling system. To maintain safety when handling hazardous chemicals and decrease unlawful battery recycling, strict rules and due diligence are required.
- **Encouraging public-private partnerships that deliver solutions** with effective incentives would better promote public participation in recycling.

Accelerating action on rPET plastics

Establishing clear guidelines for rPET plastics is essential to decarbonize the food and beverage industry supply chain in China, as rPET can be reused multiple times to reduce plastic waste, emissions, and energy consumption. Despite the high cost of food grade rPET, MNCs are using the material to reduce waste and emissions use. Regular PET bottles are recycled into resin to make clothing, shoes, and furniture that can only be used once before ending up in a landfill. rPET bottles can be remade directly into new bottles four-to-six times before the resin is downgraded for textile use, for a total of up to seven reuses of the original plastic. Companies note that adopting rPET for food and beverage packaging can reduce greenhouse gas emissions by 63 percent and energy consumption by 79 percent compared to virgin PET.

Despite the benefits the adoption of rPET would make toward fulfilling China's climate goals, recycled plastics have not yet been approved for food or beverage packaging.

Another challenge is the cost, as recycled materials are often more expensive to produce than new materials. USCBC members report that recycled plastic bottles cost on average 30 percent more than virgin plastic bottles. Other plastics, like polypropylene (PP) and polyethylene (PE), are more difficult to collect and process for recycling, so they often end up in a landfill. MNCs are developing innovative chemical and mechanical processes to recycle this plastic waste, but progress is slow, as standards have yet to be established for these technologies in China.

Introducing a food-grade regulatory framework for recycled plastics that is harmonized with international standards is an important step to make China's economy more circular. Suppliers should be encouraged to adopt approved recycling technologies for lightweight plastic packaging materials, leveraging expertise from domestic producers already exporting rPET. The growing adoption of reusable plastics is important for MNCs who have set global decarbonization goals to make all of their packaging recyclable in the coming years.

Strengthening sustainability rules for batteries

Battery recycling in China holds significant potential for improvement, especially considering that China is the world's [largest market](#) for electric vehicles (EVs), accounting for about 60 percent of global sales in 2022. Despite an [expected recycling target](#) of 750,000 tons of EV batteries, only 285,000 tons were reportedly recycled that year. The challenge of recycling a rapidly growing volume of batteries is compounded by unregistered scrap dealers and recyclers, [comprising up to](#) 15 percent of the EV battery recycling market, who circumvent environmental and safety standards. This issue also affects licensed recyclers of lead-acid batteries used in conventional vehicles. With the EU releasing its own battery regulations in 2023, disparities in standards may impede trade for Chinese battery exporters to the EU.

To address these challenges, the Chinese government should collaborate with battery manufacturers, licensed recyclers, and international partners to establish a comprehensive circular battery recycling system, drawing insights from the EU's [July 2023 regulations](#). The stringent standards set in the regulations encourage improved recycling practices and due diligence to verify raw material sources, which is crucial for reducing illicit battery recycling and ensuring safety in handling hazardous materials, such as lead and mercury, throughout the recycling process.

Recent [opinions](#) from the State Council show progress in the right direction. They call for the application of extended producer responsibility (EPR) principles to the management of EV batteries. EPR is an environmental policy approach where the economic and social costs of products are placed on producers and is the foundation of the EU's battery regulations.

Encouraging public participation

Public participation remains a challenge in the recycling process, partially due to consumers' and investors' [skepticism](#) over the quality and safety of recycled materials. Consumers harbor health-related concerns, while investors fear reputational and market value risks. Cooperation between the public and private sectors is needed to educate on the safety, reliability, and renewability of recycled products.

Consumers also lack incentives to participate in the recycling process. Container deposit laws in the United States are a helpful model to learn from. State governments partner with grocery store chains to reimburse customers with 5 to 15 cents per bottle recycled, providing conscientious consumers with discounts on groceries. Further consultations between China's local and provincial governments and with the private sector will be critical to formulating feasible implementing policies and incentives for the public.

Chapter 3: Methane

China contributed roughly 16 percent of all methane emissions globally in 2022, but its efforts to reduce its emissions of methane and other non-CO2 greenhouse gases at the national level are still new. China released its first national-level [methane emission control action plan](#) in November 2023. That same month, China agreed with the United States to include reduction targets for all greenhouse gases in its 2035 nationally determined contribution.

Given that methane poses a [higher short-term risk](#) than CO2 for global warming, remaining obstacles to methane emission reduction must be addressed. These obstacles include the continued reliance on coal as a source of energy and a lack of public awareness about the harmful effects of methane emissions.

The following types of actions would contribute to reducing methane emissions in China:

- **Developing a clear government stakeholder map** is imperative to aid businesses in preparing for upcoming methane regulations, given the complexity and limited understanding of methane emissions in China.
- **A comprehensive framework for addressing abandoned coal-mine methane emissions** would help reduce emissions without affecting China's energy supply, which remains heavily reliant on coal.
- **Integrating methane into carbon markets**, particularly carbon offset markets, would incentivize actors in China to address methane emissions.
- **US-China collaboration in areas such as green coal, oil and gas, waste, and agriculture** has significant potential to reduce China's methane emissions.

Clarifying key tasks in China's action plan

China's methane action plan marks the initial phase for establishing a comprehensive national framework for methane management. While the plan calls for the acceleration of regulatory, standardization, and policy systems, crucial aspects are missing or incomplete, such as concrete methane emission reduction targets, plans to address agricultural methane emissions, and delineation of responsibilities beyond designating the Ministry of Ecology and Environment as the lead implementing agency. Developing a clear government stakeholder map is imperative to aid businesses in preparing for upcoming methane regulations.

The action plan underscores the need to enhance methane emissions monitoring, measurement, reporting, and verification systems. This measure is worthy of being expedited, considering the most recent official methane emission data is from 2014. Establishing a robust monitoring system not only supports emission reduction goals but also offers significant employment opportunities, as demonstrated by the creation of

[approximately](#) 85,000 jobs annually in methane mitigation within the US oil and gas sector. With China's vast scale and geographic diversity, the employment impact of its emerging methane monitoring system is expected to be even more significant.

Addressing abandoned coal mine emissions

China's heavy reliance on coal poses a monumental challenge to reducing methane emissions. In 2022, China's coal consumption [surpassed](#) that of all other countries combined. Coal accounts for 60 percent of China's electricity generation and 70 percent of total emissions. Unlike the United States and EU, where methane emissions in the energy sector predominantly stem from oil and gas operations, 90 percent of China's methane emissions from the energy sector [originate](#) from coal mining activities. The complexity lies in addressing methane released through ventilation and drainage systems, which are crucial for mine safety.

An effective way to reduce coal-related methane emissions without affecting China's energy mix in the short term is to reduce abandoned coal-mine methane (AMM). China's action plan lacks a comprehensive framework for addressing AMM emissions. As coal mines [shut down](#) under the 14th Five-Year Plan (FYP), AMM emissions are expected to rise, underscoring the urgent need for [accurate data](#) and regulatory standards for end-of-life mine treatment. Establishing such a framework will not only facilitate methane emissions reductions but also enhance coal mine methane (CMM) recovery and utilization rates, aligning with the action plan's objective of achieving 6 billion cubic meters of annual coal-mine gas utilization by 2025.

Additionally, USCBC supports China's intent to revise coal mine safety regulations and standards and urges the government to expedite these efforts, as ventilation and drainage systems—common safety practices—are [significant sources](#) of CMM emissions. Increased utilization of CMM could not only reduce emissions but also prevent coal mining-related fatalities.

Piloting sustainable agriculture

The action plan highlights three key areas for methane mitigation in the agricultural sector: rice cultivation, utilizing animal manure for fertilizer and natural gas, and pilot projects on enteric fermentation. These topics would benefit from international cooperation and demonstration projects with a diverse range of stakeholders. Chinese policymakers, regulators, and business leaders have much to gain from collaborating with counterparts in the United States and the EU, who have emerged as leaders in methane reduction in agribusiness.

Including methane in the carbon trading market

Incentivizing actors in China to address methane emissions can be achieved by integrating methane into carbon markets, particularly, carbon offset markets. This approach addresses the challenge of pricing methane emissions, especially those from

rice and livestock cultivation. A crucial step is establishing clear standards for China Certified Emission Reduction (CCER) credits from methane reduction projects, as there has been no carbon market alternative for methane emissions in China since its initial approval was shelved in 2017. Including standards for methane projects in the recently resumed CCER will stimulate private sector funding for additional methane emission reduction initiatives.

Deepening US-China collaboration on methane

To accelerate China's methane emission reduction efforts, USCBC recommends that the government engage in fact-finding missions with international leaders in methane abatement regulations and technologies, including the US Environmental Protection Agency (EPA), the International Energy Agency (IEA), and prominent US companies operating in the oil, gas, and coal mining sectors. Collaboration with these stakeholders can facilitate knowledge exchange and adoption of best practices.

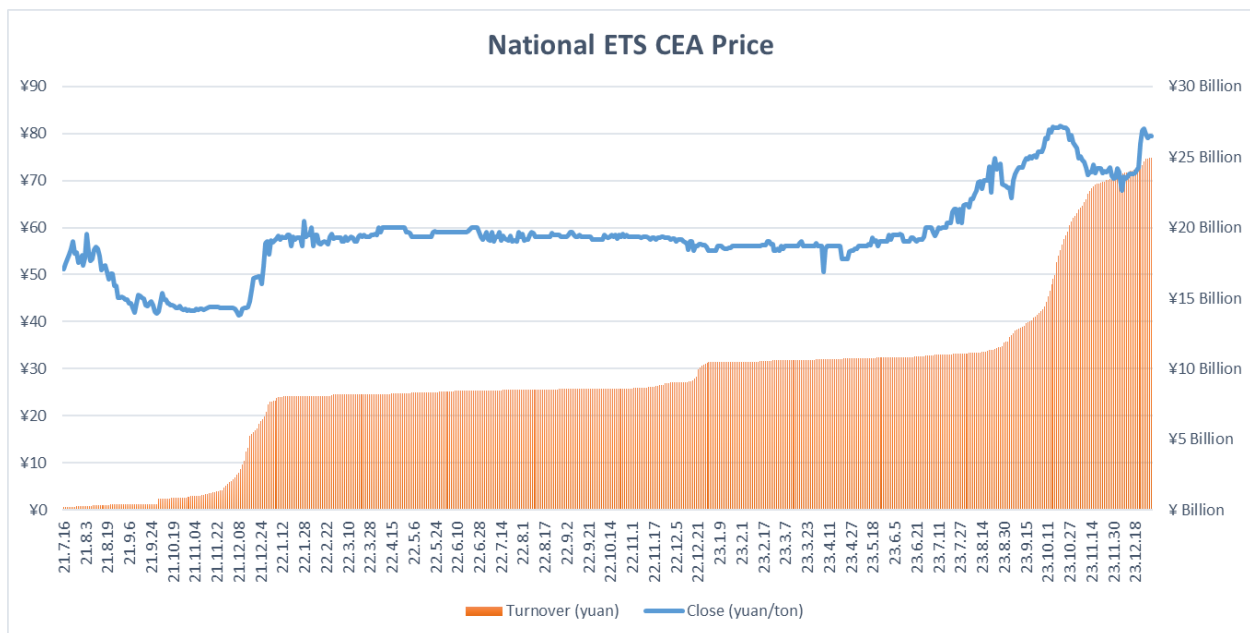
There exists significant potential for collaboration between China and the United States in methane reduction initiatives.

- The United States, along with the EU, launched the Global Methane Pledge at COP 26, and methane reduction has been a focal point in US-China climate discussions. China's recent pledge to include methane reduction targets in its 2035 Nationally Determined Contributions underscores the growing importance of international cooperation in achieving global climate goals.
- The United States' expertise in methane leak detection, innovative monitoring technologies, and standards for high-emitting equipment, as demonstrated by [recent EPA regulations](#), presents opportunities for collaboration that benefits both countries.
- The IEA [estimates](#) that significant reductions in global oil and gas-related methane emissions are achievable by 2030 with existing technologies. Sharing best practices in implementing measures, such as the phase-out of routine flaring in oil and gas operations, can further strengthen bilateral cooperation on methane reduction. Promising areas for further US-China collaboration [include](#) green coal, oil and gas, waste, and agriculture.

Chapter 4: Carbon Trading

China [boasts](#) the world's largest carbon trading program in terms of total emissions covered. The national emission trading scheme (ETS) is the country's mandatory carbon market that came into operation in 2021. The national ETS [regulates](#) more than 2,200 companies in the power sector with an annual emission of 26,000 tCO₂ or more. Covering an estimated 4.5 Gt of CO₂, or over 40 percent of the country's carbon emissions, China's national ETS adopts [an intensity-based emissions cap](#), unlike the [absolute cap](#) of the EU ETS or California's Cap-and-Trade Program.

The national ETS is on track to [achieve](#) its initial goals, including testing the overall design and familiarizing all parties with the market rules. By the end of 2023, carbon emissions allowances pricing stabilized around RMB 70 per ton of CO₂ after hitting RMB 80 per ton of CO₂.



(Source: CNEEEX website)

While Chinese policymakers recognize the carbon market as an important policy instrument in China's decarbonization drive, the current national ETS has [operated](#) at a suboptimal level with limited ability to reduce China's emissions. Issues, such as a generous supply of emissions allowances, limited sectoral coverage, and inadequate market liquidity, have held China's carbon market back from reaching its full potential.

The following types of actions would improve the national ETS regime in China:

- **Transparent plans** are crucial for companies' ability to plan strategies. Policymakers should engage in consultations with industry to formulate a feasible expansion timeline.
- **The adoption of stringent benchmarks** akin to the EU's ETS can incentivize efficiency improvements and help avoid the oversupply issues caused by freely allocated allowances.
- **Inclusion of more market participants** and introduction of sophisticated financial instruments may unlock the potential of China's carbon financing market. Clarification of value-added tax (VAT) regulations will be essential to streamline trading processes.
- **It is imperative that China enhance communication and alignment** with major economies like the United States and the EU as discussions on an international carbon pricing system progress.

Providing a clear roadmap of China's national ETS

Clear communication on the plan for expanding the ETS's scope is vital for its development. It would allow companies to prepare, minimizing non-compliance risks while also enhancing international recognition of China's carbon pricing system. Despite China [announcing plans](#) to include eight energy-intensive sectors by 2025, the lack of a specific timeline of the scope expansion hinders companies' ability to seek guidance. Companies call for a transparent and clear roadmap for ETS expansion to inform their business strategies. Policymakers should engage in consultation sessions to gather industry input and formulate a feasible, cost-effective, and internationally compatible timetable.

Improving the allowances allocation plan

Currently, carbon emissions allowances are freely allocated based on [emission intensity benchmarks](#), leading to an oversupply issue in China's national ETS. Benchmark values are set higher than actual production levels, resulting in excess allowances for regulated entities and driving down trading prices significantly compared to the EU ETS. The IMF [has determined](#) that carbon allowance prices need to reach approximately USD 50/tCO₂ to effectively reduce carbon emissions in China.

To ensure fair and effective emission reduction, both the California ETS and the EU ETS [prioritize](#) stringent benchmarks for highly efficient facilities. For instance, the EU ETS [establishes](#) industry-wide benchmarks based on the emissions intensity of the top 10 percent of performers, with [mechanisms](#) for updating to reflect technological advancements. China's national ETS could adopt a similar approach by setting benchmarks to incentivize energy efficiency improvements across various industries.

Accelerating the development of China's carbon financing market

China's carbon market has the potential to attract foreign investment. However, despite explicit interest from foreign financial institutions, access to China's carbon trading

remains restricted, hampered by inadequate liquidity due to limited market participants and a lack of financial products, like derivatives. To stimulate trading activities, the national ETS should open up to foreign carbon traders and institutional investors.

Moreover, the ETS needs to introduce sophisticated financial instruments for trading, including swaps and options. For instance, developing a carbon futures market akin to a commodities futures market could enhance the national ETS's functionality, with derivative markets playing a crucial role in bolstering price discovery and resource optimization.

Tax authorities across different localities in China lack uniform or standardized approaches to handling VAT on carbon assets. Companies call for the State Taxation Administration to clarify regulations, offer guidance, and issue preferential policies on VAT related to carbon trading, with the goal of streamlining processes, mitigating risks, and providing incentives for market participants.

Strengthening international cooperation on carbon pricing

As discussions progress on an international carbon pricing system, it is crucial for China to enhance communication with major economies like the United States and the EU. This is particularly important given the growing consensus among the US and EU policymakers regarding the use of carbon tariffs to tackle [carbon leakages](#).

The passage of the EU's [Carbon Border Adjustment Mechanism](#) (CBAM) adds to the urgency, as it will significantly impact China-origin exports in CBAM-eligible sectors due to cost competitiveness. In response, China should expedite its carbon market development by expanding the ETS scope and establishing an effective carbon pricing system, which may address the CBAM's compliance requirements for Chinese exporters. It would also create opportunities for China to drive innovation and encourage investments in new clean energy technology.

To promote technical expertise exchange and mutual understanding during the ongoing construction of the national ETS, China should build up bilateral and/or multilateral coordination mechanisms to reinforce cooperation and communication on the construction of carbon markets and harmonize with international carbon footprint standards.

Conclusion

This working paper represents the consensus views of USCBC member companies that are deeply involved with China's decarbonization efforts on the ground. Each company faces unique technical challenges, regulatory hurdles, growing costs, and other obstacles to reaching their decarbonization goals. Despite these difficulties, companies share a common ambition to work more closely with both the Chinese and US governments to identify and implement meaningful solutions.

Private sector know-how is an invaluable resource that should be leveraged during the formation of China's regulatory frameworks related to low-carbon technologies, carbon markets, and the circular economy. Allowing MNCs to provide their expertise through policy dialogues and other forums will accelerate the progress and implementation of agreements made in government-to-government exchanges, including the Sunnylands Statement.

As an organization dedicated to expanding the US-China commercial relationship through results-oriented engagement, USCBC remains committed to bringing key stakeholders in both governments together with the American business community to ensure bilateral action on climate change delivers benefits for both economies, the citizens of both countries, and ultimately, the world.

USCBC will continue to pursue opportunities to conduct research and surveys, convene roundtables of experts, facilitate the exchange of technical expertise, publish reports, and put together programming and events to push US-China cooperation on climate change forward. Future topics for consideration can include hydrogen power, LNG, energy efficiency, subnational cooperation, global value chain decarbonization, biofuels green power trading markets, and more.