Highlights of
China’s New Green Catalogue 2021

Apr. 23rd, 2021

For the 2021 Green Bond Catalogue, SynTao Green Finance believes that there are the following main features:

- Unify domestic standards and accelerate the integration of green bond market.
- Alignment with international standards and favorable recognition by international markets.
- Scope expansion to facilitate the expansion of the green bond market.
- Rich technical details and higher requirements for third-party assessment and certification.

2021 Edition Catalogue Unifies Domestic Green Bond Standards

China’s green bond market was officially launched in 2015. In December of the same year, the People’s Bank of China (PBoC) released Announcement No. 39 to encourage financial institutions to issue green financial bonds. Use of proceeds of green financial bonds must be green projects as defined in the Green Bond Endorsed Project Catalogue (2015 Edition) (hereinafter referred to as the “2015 Edition Catalogue”), including six major areas: energy conservation, pollution prevention and control, resource conservation and recycling, clean transportation, clean energy, ecological protection and climate change adaptation. The 2015 Edition Catalogue thus became the first domestic green bond standard. Since then, the China Securities Regulatory Commission (CSRC), Shanghai Stock Exchange, Shenzhen Stock Exchange and National Association of Financial Market Institutional Investors (NAFMII) have issued guidelines on the issuance of green bonds, all citing the 2015 Edition Catalogue.

In January 2016, the National Development and Reform Commission (NDRC), which is in charge of corporate bonds, released the Guidelines on Green Bond Issuance, encouraging the issuance of corporate bonds for projects in 12 categories, such as energy-saving and emission reduction technology transformation and green urbanization. This guideline was then considered by the market as another green bond standard. In addition, when issuing green bonds abroad, Chinese companies usually use the Green Bond Principles (prepared by ICMA, the International Capital Markets Association) or the Climate Bond Standard (prepared by CBI, the Climate Bond Initiative), which have a high international recognition, as a reference basis.

When issuing green bonds, issuers and underwriters often determine to follow one or more green bond standards depending on the issuing market, bond type and other considerations. However, there are differences between domestic and international standards for green bonds, for example, the clean use of coal, which is considered a green project by domestic standards, is usually considered not to have green attributes by international standards. There are also discrepancies between the two domestic green project standards, from line format to content, which sometimes confuse bond issuers and investors.
In March 2019, seven ministries and commissions, including NDRC and PBoC, jointly formulated China’s first Green Industry Guidance Catalogue, which clearly defines and classifies green industries and green projects, laying the foundation for the update of the green bond catalogue. The New Catalogue is based on the “Green Industry Guidance Catalogue (2019 Edition)” and was launched in July 2020 for public consultation.

In the context of carbon peaking and carbon neutrality, the continuous enrichment of the connotation of green development in China, the continuous update of industrial policies and relevant technical standards, the update of the directory of green bond endorsed projects is imminent. PBoC, NDRC and CSRC jointly released the New Catalogue in April 2021, which scientifically and uniformly defines the areas and scope of green bond endorsed projects, unifies the scope of two domestic green bond standards, and gradually realizes the convergence of domestic and international standards and specifications.

Contents of the 2021 Edition Catalogue


Among them, Energy-saving and Environmental Protection Industry includes 6 secondary level items: energy-efficiency improvement, sustainable building, pollution prevention and control, water saving and non-regular water resources utilization, comprehensive utilization of resources, and green transportation; Clean Production Industry includes 4 secondary level items: pollution prevention and control, green agriculture, comprehensive utilization of resources, water saving and non-regular water resources utilization; Clean Energy Industry includes energy-efficiency improvement, and clean energy. Eco-environment Industry includes green agriculture, and ecological protection and construction; Green Upgrading of Infrastructure includes 6 secondary level items: energy-efficiency improvement, sustainable building, pollution prevention and control, water saving and non-regular water resources utilization, green transportation, and ecological protection and construction; Green Services include 5 secondary level items: consulting services, project operation and management, project evaluation, audit and verification, monitoring and testing services, as well as technical product certification and promotion.
The secondary level items are further refined into tertiary and quaternary levels. The quaternary level items are in line with specific project names, with a description of conditions and limits of the project. For example, the requirement for the item solar energy facilities construction and operation is that "the minimum photoelectric conversion efficiency of not less than 19% and 21% respectively for polycrystalline silicon cells and monocrystalline silicon cells".

**Comparison of different versions of the Catalogue**

Comparing the 2021 Edition Catalogue with the 2015 Edition Catalogue, the Green Industry Guidance Catalogue, and the 2020 Edition Catalogue Consultation Version, there are mainly the following similarities and differences:

First, the 2021 Edition Catalogue mainly follows the structure of the Green Industry Guidance Catalogue, the classification of the six major areas remains consistent, and the number and content of projects are very close, only the classification methods of the secondary and tertiary level of items have been adjusted, and are consistent with the international mainstream green
asset taxonomy and the common statistical classification of the energy-saving and environmental protection industry. For example, in the "Green Industry Guidance Catalogue", "Cleaner Production Industry" is classified by pollutant type (gas, water, solid waste, hazardous waste) and green industrial park, but in the New Catalogue it is classified by pollution prevention and control, green agriculture and so on. Another example is that most of the contents of the "Green Industry Guidance Catalogue" under the secondary level of "New Energy and Clean Energy Equipment Manufacturing" (3.1) are placed under the tertiary level of "New Energy and Clean Energy Equipment Manufacturing" (3.2.1) in the 2021 Edition Catalogue.

In addition, the 2021 Edition Catalogue deleted nine project types from the "Green Industry Guidance Catalogue": manufacturing of comprehensive utilization of sludge disposal in urban sewage treatment plants (1.3.9), ultra-low emission retrofits of coal-fired power plants (2.3.2), clean fuel production (3.3.1), clean utilization of coal (3.3.2), manufacturing of non-regular oil and gas exploration and development equipment (3.1.6), manufacturing of offshore oil and gas exploration and development equipment (3.1.7), manufacturing and operation of extraction and utilization facilities of coalbed methane (coal mine gas) (3.2.6), renovation project and operation of peaking shaving for coal-fired generating sets (3.4.4), comprehensive treatment of coal mining subsidence areas (4.3.11); addition of two project types that were not in the "Green Industry Guidance Catalogue": construction and operation in carbon dioxide capture, utilization and storage (3.2.3.6), clean heating in rural areas (5.1.2.1).

"Green Bond Endorsed Project Catalogue (2020 Edition)" Consultation Version

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"Green Bond Endorsed Project Catalogue (2015 Edition)"

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Second, the 2021 Edition Catalogue is an adjustment and expansion of the 2015 edition. Both primary levels of the catalogues are divided into six major areas, but the adjustment is significant. In general, Energy-saving and Pollution Prevention from the 2015 Edition Catalogue are
integrated into the field of Energy-saving and Environmental Protection Industry in the 2021 Edition Catalogue; Resource Conservation and Recycling largely correspond to the field of Cleaner Production Industry in the 2021 Edition Catalogue; Clean Transportation is integrated into the field of Green Upgrading of Infrastructure in the 2021 Edition Catalogue; Ecological Protection and Climate Change Adaptation are integrated into the field of Eco-environment Industry in the 2021 Edition Catalogue. The 2021 Edition Catalogue follows the framework of the "Green Industry Guidance Catalogue" and adds the Green Service sector as a primary level, which was not available in the 2015 Edition Catalogue.

In addition to Green Services, the 2021 Edition Catalogue also added items in the category of green equipment manufacturing, including energy-efficient equipment manufacturing (1.1.1), manufacturing of advanced environmental protection equipment (1.3.1), manufacturing of resource recycling equipment (1.5.1), manufacturing of green ships (1.6.1), manufacturing of new and clean energy equipment (3.2.1), etc.; nuclear power class projects, including nuclear power equipment manufacturing (3.2.1.5), nuclear power plant construction and operation (3.2.2.5); items related to the green upgrade of industrial parks, including the transformation of the park's industrial linkage cycle (2.3.2.1), transformation of the resource utilization efficiency of the industrial park (2.3.2.2). At the level of specific support projects, new technology projects such as green projects for carbon dioxide capture, utilization and storage (3.2.3.6) have also been added, thus contributing to better serve the strategic objectives of domestic green industry development and ecological civilization construction in the new era. Compared with the 2020 Edition Catalogue Consultation Version, the New Catalogue adds more qualifications on biodiversity conservation and greenhouse gas emission reduction in the condition and limits of projects, such as the protection and restoration of rivers, lakes and wetlands (4.2.1.6), emphasizing the protection of "native" ecosystem of wetlands and "restoration of biodiversity"; in green consulting and technical services (6.1.1) project design and technical consulting for greenhouse gas emission reduction projects, due diligence, etc. were added.

Third, the 2021 Edition Catalogue eliminates the clean use of coal. Both the 2015 Edition Catalogue and the "Green Industry Guidance Catalogue" include "clean coal utilization" in the category of pollution prevention or clean energy. 2021 Edition Catalogue eliminates this item altogether. In addition, the 2021 Edition Catalogue removes a number of items from the tertiary level of the "Green Industry Guidance Catalogue" that are directly related to fossil energy, including: clean fuel production (3.3.1), clean coal production (3.3.3), ultra-low emission retrofits of coal-fired power plants (2.3.2), manufacturing of non-regular oil and gas exploration and development equipment (3.1.6), manufacturing of offshore oil and gas exploration and development equipment (3.1.7), manufacturing and operation of extraction and utilization facilities of coalbed methane (coal mine gas) (3.2.6), renovation project and operation of peaking shaving for coal-fired generating sets (3.4.4), comprehensive treatment of coal mining subsidence areas (4.3.11). In comparison with the 2020 Edition Catalogue Consultation Version, the 2021 Edition Catalogue further eliminated "the development and comprehensive utilization of low-grade energy resources such as oil shale, oil sands, etc. and mineral or energy-associated mineral resources development and comprehensive utilization".

Fourth, the 2021 Edition Catalogue adopts the internationally accepted "no significant harm" principle, making carbon reduction constraints more stringent. Compared with the 2020 Edition
Catalogue Consultation Version, many green projects added qualifying prerequisites. For example, in the specific descriptions and qualifications of several types of new energy facilities involved in the construction and operation of renewable energy facilities (3.2.2), the requirements for hydroelectric power generation facilities, nuclear power plants, and offshore energy utilization projects are clearly defined as "without significant impact on the ecological environment", "under the premise of safeguarding environmental safety", and "under the premise of no serious damage to marine ecology and biodiversity".

Fifth, the "Description/Conditions" column of the 2021 Edition Catalogue explains the scope of projects included in each of the four levels of classification based on the characteristics of the projects endorsed by the green bond. At the same time, the criteria to be met for each project are further refined, and technical screening criteria and detailed descriptions are set up to provide a recommended national standard (GB/T) for reference. In the 2020 Edition Catalogue Consultation Version, there are no specific instructions for green projects to comply with other national and industry standards in their field related to quality, safety, technology and environment.

Interpretation and Summary

First, unify domestic standards and accelerate the integration of green bond markets. The 2021 Edition Catalogue is the first document specifically on green bonds jointly released by PBoC, NDRC and CSRC since the launch of China's green bond market. Previously, green financial bonds, green corporate bonds and green debt financing instruments followed the 2015 Edition Catalogue, while corporate bonds followed the NDRC's Guidelines on Green Bond Issuance. With the unified 2021 Edition Catalogue, issuers and underwriters no longer need to cross-reference two standards, and any debt that meets the 2021 Edition Catalogue can be recognized as a green bond, regardless of the issuing market or type of bond. This will certainly accelerate the integration of the domestic green bond market and has positive implications for the integration of the domestic bond market.

Secondly, it is beneficial to gain international market recognition by aligning with international standards. The removal of coal from the 2021 Edition Catalogue is a major breakthrough, removing a major technical obstacle that has long been a major factor in improving the consistency of green bond standards at home and abroad. On the one hand, it demonstrates China's willingness to work with the international community to promote green development and address climate change, which will be appreciated by the international community, and has already been acknowledged by a large number of foreign institutions after the release of the 2020 Edition Catalogue Consultation Version. On the other hand, it can also boost the confidence of international investors in Chinese green bonds and increase their willingness to buy Chinese green bonds, which is good for issuers and in line with the policy direction of China's two-way capital market opening-up. Passive investment products such as ETFs with green bonds as underlying assets will embrace new opportunities.

Third, the scope is expanded to facilitate the expansion of the green bond market. Compared with the 2015 Edition Catalogue, the scope of the 2021 Edition Catalogue has been expanded to more items, from 38 items in the former three-level Catalogue to 204 items in the latter
four-level Catalogue, with the addition of green services, green equipment manufacturing-type projects, and green upgrading-related projects in industrial parks. The expansion of the scope of the Catalogue means that more green projects can be recognized as green bond endorsed projects, thus favoring the expansion of the green bond market.

**Fourth, the technical details are abundant and put higher demands on third-party assessment and certification.** Compared with the 2015 Edition Catalogue, the New Catalogue not only has an expanded scope, but also comes with more descriptions or conditions. Accompanied with a description, the former only accounts for about 3700 words, the latter has about 20,000 words. Moreover, the 2021 Edition Catalogue also specifically points out that green bond projects need to comply with other national and industry standards on quality, safety, technology, and environment. There will be a lot of technical content in this, especially environmental and social risks, which will rely on technical experts to assess and determine. Hence, the 2021 Edition Catalogue puts forward higher requirements for the third-party assessment and certification of green bonds, and the third-party assessment and certification organizations should familiarize themselves with the 2021 Edition Catalogue as soon as possible to make good technical guarantees for the new round of growth of the green bond market.

In summary, the 2021 Edition Catalogue is more detailed, precise, and comprehensive than the 2020 Edition Catalogue Consultation Version, and incorporates the "no significant harm" principle, which will largely promote the international integration and domestic integration of China’s green bond market, facilitating a new round of growth of China’s green bond market, and is of great significance to the early achievement of the carbon peak and carbon neutrality goals.

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**SynTao Green Finance** is a professional consultancy in China, focusing in providing green finance solutions and responsible investment services. With both international perspective and rich local experiences, we provide ESG data analysis and rating, green bond verification, research and consulting in responsible investment and green finance. SynTao Green Finance has developed a constructive relationship with Chinese and International authoritative organizations.

SynTao Green Finance is a founding member of the Green Finance Committee (GFC) of China Society of Finance and Banking, and a signatory to the UN Principles for Responsible Investment (PRI).

SynTao Green Finance also initiated China Social Investment Forum (China SIF), devoting to a responsible capital market in China.

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