

Carbon Neutralization Background and Banking Opportunities

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Abstract: Carbon neutralization and green finance will become the main focus of future policies. As a major participant in the financial industry, commercial banks are bound to face opportunities and challenges. This paper combs the current background of Carbon neutralization, and analyses its impact of banks, and makes suggestions in combination with green finance businesses.

1. Introduction

The recent government work report, the 14th five-year plan and the draft outline of 2035 long-term objectives also arranged and deployed the work of carbon peak and carbon neutralization, and put forward specific quantitative objectives. The process of carbon neutralization requires a lot of capital investment. Therefore, carbon neutralization and its green financial business under the background will become the main focus of future policies.

2. Carbon Neutralization and Related Financial Business will become the Main Focus of Future Policies

The following table is a summary of the eight important speeches on carbon neutralization.

Table 1 Important speeches on carbon neutralization.

Date	Occasion	Content
September 22, 2020	Address at the general debate of the 75th United Nations General Assembly	China will increase its national independent contribution, adopt more effective policies and measures, strive to reach the peak of carbon dioxide emissions by 2030 and strive to achieve carbon neutralization by 2060.
September 30, 2020	Speech at the United Nations biodiversity Summit	Carbon dioxide emissions will reach a peak by 2030 and strive to achieve carbon neutralization by 2060.
November 12, 2020	Speech at the Third Paris Peace Forum	We will strive to peak carbon dioxide emissions by 2030 and achieve carbon neutralization by 2060. China will formulate an implementation plan for this purpose.
November 17, 2020	Speech at the 12th BRICs leaders' meeting	We will strive to peak carbon dioxide emissions by 2030 and achieve carbon neutralization by 2060. We will do what we say.
November 22, 2020	Speech at the side meeting on the theme of "protecting the earth" of the G20 leaders' summit in Riyadh	We will strive to peak carbon dioxide emissions by 2030 and achieve carbon neutralization by 2060. China will do what it says and unswervingly implement it.
December 12, 2020	Speech at the climate ambition Summit	By 2030, China's carbon dioxide emissions per unit of GDP will drop by more than 65% compared with 2005, the proportion of non-fossil energy in primary energy consumption will reach about 25%, the forest stock will increase by 6 billion cubic meters compared with 2005, and the total installed capacity of wind and solar power will reach more than 1.2 billion kilowatts.
January 25, 2021	Special speech at the "Davos agenda" dialogue of the world economic forum	China will strive to peak its carbon dioxide emissions by 2030 and achieve carbon neutralization by 2060. To achieve this goal, China needs to make extremely arduous efforts.
March 15, 2021	Speech at the ninth meeting of the central financial and Economic Commission	China's efforts to achieve carbon peak by 2030 and carbon neutralization by 2060 are a major strategic decision made by the Party Central Committee after careful consideration, which is related to the sustainable development of the Chinese nation and the construction of a community with a shared future for mankind.

3. Carbon Neutralization and Related Financial Business will become the Main Focus of Future Policies

3.1. Follow the International Trend and Set the Goal of Reaching the Peak

At present, about 50 countries in the world have reached the carbon peak, and their total emissions account for about 36% of global emissions. Among them, the EU basically reached the carbon peak in the 1990s, with a peak of 4.5 billion tons; the carbon peak in the United States was in 2007, with a peak of 5.9 billion tons. According to the calculation of the research department of CICC, China's carbon emission peak will reach 10.8 billion tons in 2030. At this time, China set the carbon peak goal, on the one hand, based on the responsibility of large developing countries, on the other hand, to comply with international trends.

3.2. Address Climate Change and Play a Leading Role

China Fair and reasonable, one belt, one road, and the other will be a major economic entity. It will play an important role in promoting the establishment of a fair, reasonable and win-win global governance system. It will become a global leader in tackling climate change with the United States and Europe and cooperate with the "one belt and one road" countries in the process of "going out".

3.3. Improve Energy Structure and Seize Market Opportunities

Reducing the use of high-carbon fossil energy and developing clean energy and new energy are the general direction of the world. After the technological innovation of clean energy, the reduction of power generation cost and the maturity of various industrial chains are the opportunities to promote the transformation of energy structure, and will usher in a large number of market opportunities. China's active participation can take the lead in seizing market share and give full play to its active advantages.

4. New Opportunities for Banks in the Context of Carbon Neutrality

The guiding opinions on promoting investment and financing in response to climate change jointly issued by five ministries and commissions put forward guiding suggestions on Climate Investment and financing; The deliberation and adoption of the measures for the administration of Carbon Emission Trading (for Trial Implementation) indicates that a unified national carbon market is coming^[1]. Therefore, it can be expected that climate investment and financing and carbon finance will become an important part of the policy framework of financial support entities in the future^[2].

4.1. Investment and Financing Needs Brought by Technological Upgrading and Transformation

According to the Research Report on China's long-term low-carbon development strategy and transformation path led by Tsinghua University, if we want to achieve the 1.5 °C target oriented transformation path, the energy system needs to increase investment by 138 trillion Yuan in 2020-2050, equivalent to an annual increase of more than 3 trillion Yuan, which directly drives the expansion of bank demand for corporate business^[3]. By the end of 2020, the balance of green loans in China was 12 trillion Yuan, accounting for about 6.9% of the total loans, and there was a lot of room for development.

4.2. New business space brought by carbon market and carbon trading

The implementation of the measures for the administration of Carbon Emission Trading (for Trial Implementation) means that the national unified carbon market is about to be implemented, and the scale of carbon trading is expected to enter the doubling stage. Previously, there were 7 pilot carbon markets in China, covering 3000 enterprises in more than 20 industries such as steel and electric power. This year, the first batch of power generation enterprises included in the quota allocation scheme and the list of key emission units in China will reach 2225. In the next step, industries such as iron and steel, chemical industry and electrolytic aluminium will also be included,

and the enterprise coverage will be wider; The carbon quota is allocated by the ecological environment department, the transaction is uniformly managed by the Shanghai environment and energy exchange, and the third-party organization is recognized by the Ministry of ecological environment and the provincial environment department. The management system of carbon emission trading has been further improved.

5. Banks Participate in Carbon Neutral Financial Business

5.1. Issue and Invest in Carbon Neutral Bonds and Carbon Bonds

Banks participate in carbon neutrality and use the most important tools, including green credit and green bonds; as the main body of green credit, banks can also apply to regulators for issuing carbon neutral bonds^[4]. Carbon neutral bonds are a kind of green bonds. The issuers of the first batch of innovative carbon neutral bonds are non-financial enterprises, while CDB is the first financial institution to issue carbon neutral financial bonds in China. In addition, carbon bonds refer to the green bonds related to carbon assets and their income issued by enterprises to investors to raise funds for the construction or maintenance of low-carbon projects. China's first carbon bond is the RMB 1 billion medium-term note of additional carbon income of CGN Wind Power Co., Ltd. mainly underwritten by Shanghai Pudong Development Bank in 2014.

5.2. Provide Carbon Quota Pledge Loans for Enterprises

At present, banks have participated in carbon finance through carbon quota pledge. Carbon Asset pledge refers to the financing method by which enterprises obtain pledge loans from banks with their own carbon emission quotas as pledge guarantees. The first carbon quota pledge loan in China is the pledge loan of 40 million Yuan reached between Hubei Yihua group and Wuhan Branch of Industrial Bank in 2014.

6. Conclusion

The proposal of carbon neutralization is of great strategic significance. From a national perspective, it not only plays a leading role in coping with climate change, but also can improve China's energy structure and seize market opportunities. As a major participant in the financial industry, banks have faced new opportunities, including investment and financing needs in new fields and new businesses in the carbon market. However, when participating in carbon neutral related businesses, commercial banks should be cautious to avoid the risks brought by new businesses.

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