

Chinese ESG reporting regulations what are they, and how do they differ from EU Taxonomy and CSRD?

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The European Union’s ambitious Green Deal initiatives have brought increased focus to sustainability due diligence and reporting requirements. The extensive scope of the EU Taxonomy, the Corporate Sustainability Reporting Directive (CSRD), and the Corporate Sustainability Due Diligence Directive (CSDDD) will encompass thousands of European and International companies operating in the EU. The regulations will have significant impact on the way corporate sustainability is undertaken, assessed and reported in the coming years.

It is also worth noting that similar policy changes on corporate sustainability are occurring in other parts of the world. Companies operating overseas shall also be mindful of the sustainability-related obligations in all countries in which they operate. China is one of Europe’s largest trading partners, and the Chinese government has also gradually unveiled a series of initiatives encouraging responsible business conduct and sustainability due diligence. In this blogpost, we will examine the main sustainability-related policy initiatives from China that could influence foreign companies operating in China, and provide an introductory assessment of the differences between EU’s and China’s initiatives on corporate sustainability.

1. Green Bond Endorsed Project Catalogue – A “Chinese Taxonomy”?

In 2015, the National Development and Reform Commission of the Chinese State Council published the *Guidelines for the Issuance of Green Bond (绿色债券发行指引)*, with the aim of promoting the use of private capital to facilitate environmental sustainability transformation. In accordance with this Guideline, the National Development and Reform Commission, in collaboration with the People’s Bank of China (the Central Bank) and the China Securities Regulatory Commission, introduced the first version of the *Green Bond Endorsed Project Catalogue (绿色债券支持项目目录)* (henceforth referred to as the *Catalogue*). The Catalogue follows a similar format to the EU Taxonomy, and provides a comprehensive list of economic activities that can be considered environmentally sustainable.

The 2015 edition of the Catalogue was drafted with specific focuses on the following twelve areas:

<p>1. Energy-saving and emission reduction technology transformation projects (incl. ultra-low emission and energy saving renovation of coal-fired power plants ...)</p>
<p>2. Green urbanization projects (incl. energy-saving renovation of existing buildings, sponge city construction, smart city construction...)</p>
<p>3. Clean energy and efficient utilization projects (incl. efficient and clean utilization of coal, oil, and other energy sources)</p>
<p>4. New energy development and utilization projects (incl. hydro power, wind power, nuclear power...)</p>
<p>5. Circular economy development projects (incl. recycling in industrial parks, waste utilization...)</p>

6. Water conservation and unconventional water resources development and utilization projects (incl. water-saving transformation, seawater desalination...)
7. Pollution prevention projects (incl. the construction of sewage and waste management infrastructures...)
8. Economical agriculture and forestry projects (incl. the development of organic agriculture...)
9. Energy conservation and environmental protection-related industry projects (incl. energy saving and environmental protection...)
10. Low carbon emission industrial projects (incl. the industrialization of low carbon emission technology...)
11. Experimental projects related to the construction of the pioneering demonstration zones for ecological civilization
12. Low carbon emission pilot demonstration projects

In the latest 2021 edition of the Catalogue, the Chinese authority removed the “energy-saving upgrading projects of coal and other types of fossil fuel utilization” from the Catalogue, in response to concerns about high carbon emission from these projects, further aligning the Catalogue with the globally accepted green bond issuance guidelines, such as the EU Taxonomy. The 2021 edition includes six categories of environmentally sustainable economic activities, each with three levels of subcategories¹:

1. Energy Saving and Environmental Protection Industry	<ul style="list-style-type: none"> 1.1 Energy Efficiency Improvement 1.2 Sustainable Buildings 1.3 Pollution Prevention 1.4 Water Conservation and Unconventional Water Resources Utilization 1.5 Comprehensive Utilization of Resources 1.6 Green Transportation
2. Clean Production Industry	<ul style="list-style-type: none"> 2.1 Pollution Prevention and Treatment 2.2 Green Agriculture 2.3 Comprehensive Utilization of Resources 2.4 Water Saving and Efficient Use of Non-conventional Water Resources
3. Clean Energy Industry	<ul style="list-style-type: none"> 3.1 Energy Efficiency Improvement 3.2 Clean Energy
4. Ecology and Environment-related Sector	<ul style="list-style-type: none"> 4.1 Ecological Agriculture 4.2 Ecological Protection and Construction

¹ See the full Catalogue here (2021 edition):
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4342400/2021091617180089879.pdf>

5. Sustainable Upgrade of Infrastructure	5.1 Energy Efficiency Improvement 5.2 Sustainable Buildings 5.3 Pollution Prevention 5.4 Water Saving and Non-conventional Water Resources 5.5 Green Transportation 5.6 Ecological Protection and Construction
6. Green Services	6.1 Consultancy 6.2 Operation management Services 6.3 Audit, Inspection and Evaluation of Projects 6.4 Monitoring and Detection 6.5 Promotion and Certification of Technical Products

2. “Chinese Taxonomy” vs. EU Taxonomy – what are areas of overlap and what are different?

2.1. On Climate and Environmental Objectives:

Comparing the EU Taxonomy with the Chinese Catalogue reveals differences and similarities in the categorisation of activities. The EU Taxonomy’s categorization employs a top-down approach, initially identifying six climate and environmental objectives (see chart below), and subsequently determining how activities in the 17 identified sectors may contribute to any of the six objectives.

In contrast, the Chinese Catalogue adopts a bottom-up approach that explicitly defines six areas of economic activities that investors and policymakers shall prioritise. Nevertheless, despite a lack of explicit reference, the Chinese Catalogue shares similar climate and environmental objectives with the EU Taxonomy.

EU Taxonomy’s six climate and environmental objectives	Chinese Catalogue’s six economic activity categorization
1. Climate change mitigation	1. Energy saving and environmental protection industry
2. Climate change adaptation	2. Clean production industry
3. Sustainable use and protection of water and marine resources	3. Clean energy industry
4. Transition to a circular economy	4. Ecology and environment-related sector
5. Pollution prevention and control	5. Sustainable upgrade of infrastructure
6. Protection and restoration of biodiversity and ecosystems	6. Green services

2.2. On Overarching Conditions:

The main differences between the EU Taxonomy and the Chinese Catalogue concern the overarching conditions for an economic activity to be considered as environmentally sustainable. The EU Taxonomy Regulation sets out four overarching conditions:

- Make a “substantial contribution” to at least one of the six environmental objectives
- “Do no significant harm” to any of the other five environmental objectives
- Comply with the applicable technical screen criteria

- Comply with the minimum safeguards

The Chinese Catalogue did not contain any overarching condition in its 2015 edition. The 2021 edition introduced the “Do no significant harm” principle to the Catalogue, which currently is the sole overarching condition in the Chinese Catalogue. The absence of “minimum safeguards” in the Chinese Catalogue means, that the Catalogue does not require companies to implement human rights due diligence and remedy procedures aligned with the UN Guiding Principles on Business and Human Rights (UNGPs), referencing the International Bill of Human Rights (that includes the principles and rights set out in the International Labour Organization Declaration of the Fundamental Principles and Rights at Work).

In this way, unlike the EU Taxonomy, the Chinese Catalogue has yet to fully integrate the interconnection between social sustainability and environmental sustainability. While the specific reason for the absence of “minimum safeguards” is unclear, the following section of this blog offers insights that suggest that the Chinese policymakers may share fundamentally different views on social sustainability compared to their European counterparts.

2.3. On Disclosure requirements:

In short, the Chinese Catalogue does not contain any disclosure requirements.

2.4. Is there a Chinese-equivalent to CSRD? And if so, how do they relate to the Catalogue?

The disclosure obligations set out in the CSRD are closely linked with the EU Taxonomy Regulation. Companies fall under the scope of CSRD need to report in their annual reports to what extent their activities are covered by the EU Taxonomy (Taxonomy eligibility) and comply with the criteria set in Taxonomy delegated acts (Taxonomy-alignment). Other companies that do not fall under the scope of CSRD can decide to disclose this information on a voluntary basis to get access to sustainable financing or for other business-related reasons.²

Is there a Chinese-equivalent to the CSRD? The answer is no, not yet; but companies should be prepared to report on sustainability matters because there are indications that these regulations are on their way.

According to the Chinese national corporate reporting laws (*Interim Regulation on Enterprise Information Disclosure 企业信息公示暂行条例*, last amended in 2024), there are no mandatory reporting requirements on corporate engagements on sustainability-related matters. Until very recently, disclosure requirements on corporate sustainability and corporate social responsibility have been voluntary. For publicly listed companies at the Chinese stock exchange markets, the China Securities Regulatory Commission’s regulation *Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public (公开发行证券的公司信息披露内容与格式准则*, revised in 2021) encourages companies to report on their activities in the areas of environmental protection, public relations and philanthropy.

For the first time, in April 2024, Shanghai Stock Exchange and Shenzhen Stock Exchange introduced mandatory ESG disclosure requirements for the largest companies listed at the two stock exchanges

² Source: EU Taxonomy Navigator, European Commission.

(Guidelines No. 14 of Shanghai Stock Exchange for Self-Regulation of Listed Companies – Sustainability Report; Guidelines No. 17 of Shenzhen Stock Exchange for Self-Regulation of Listed Companies – Sustainability Report). Listed companies are now required to conduct double-materiality assessments on 21 topical areas across the “environment”, “society”, and “sustainability-related governance” dimensions.

The Chinese Stock Exchanges’ Guidelines introduced similar environmental topical areas as the topics and sub-topics listed in the European Sustainability Reporting Standards (ESRS) but differed on social and governance topical areas. The Chinese Guidelines also included compulsory disclosures on company activities on rural poverty alleviation, charity, R&D research ethics, equal treatment to small and medium-sized enterprises, among other subtopics that are more closely linked with trending domestic discussions on responsible business conduct in China.

Please refer to the chart below for comparison between ESRS and Chinese Stock Exchanges’ Guidelines:³

	ESRS	Chinese Stock Exchanges’ Sustainability Report Guidelines
Environment	<ol style="list-style-type: none"> 1. Climate Change 2. Pollution 3. Water and marine resources 4. Biodiversity and ecosystems 5. Circular economy 	<ol style="list-style-type: none"> 1. Climate change tackling 2. Pollutant discharge 3. Waste disposal 4. Ecosystem and biodiversity protection 5. Environmental compliance management 6. Energy use 7. Use of water resources 8. Circular economy
Social	<ol style="list-style-type: none"> 1. Own workforce 2. Workers in the value chain 3. Affected communities 4. Consumers and end-users 	<ol style="list-style-type: none"> 1. Rural revitalization 2. Contributions to the society 3. Technological innovation 4. Ethics of science and technology 5. Supply chain security 6. Equal treatment to small and medium-sized enterprises 7. Safety and quality of products and services 8. Data security and customer privacy protection
Governance	<ol style="list-style-type: none"> 1. Business conduct 	<ol style="list-style-type: none"> 1. Due diligence 2. Communication with stakeholders 3. Anti-commercial bribery and anti-corruption 4. Anti-unfair competition

³ See Shanghai Stock Exchange’s ESG reporting guideline here: <https://english.sse.com.cn/news/newsrelease/c/10753174/files/5a3884ca89cd434bb34ab39dd539f8e7.pdf>

3. Final Remarks

It is clear that China will introduce further ESG disclosure regulations in the near future. It would be useful to gain insight into how narratives on social sustainability and governance in China may differ from discourses on these topics in Europe, being mindful of the Chinese support in developing the global minimum standard for responsible business conduct (i.e., the UN Guiding Principles for Business and Human Rights).

Companies are advised to regularly conduct regular operational impact assessments in own operations in China and be prepared to report on the result of these assessments. Shanghai and Shenzhen Stock Exchange's Guidelines provide a useful starting point and serve as a test ground for encouraging broader transparency on corporate sustainability in China. It is likely that we will see further alignment of corporate sustainability reporting and due diligence requirements between China and Europe.