**Removing Regulatory Barriers:**

**Remarks by John Adams**

**Director of HR China Recruitment and Training**

**at the**

**"Belt, Road and Bridge – Creating New China-Europe Connections"**

**Z/Yen, London, 1st May 2019**

I am honoured and pleased to be asked to speak at this Conference, with its very senior Chinese participation. I note of course:-

Director DONG Yan, and Deputy Director HU Bin both from CASS

Deputy Director CHEN of the State Council, Institute of Finance,

WANG Yao, President of the International Institute of Green Finance,

CAO Jing from Tsinghua Centre for Green Economy & Sustainable Development

HUANG Zhao, Deputy Director of Digital Finance

And ZHANG Haiyang, from the University of International Business and Economics in Beijing, which I believe is a training ground for top civil servants in China.

You have come at a very interesting time fro Green Finance, Green Issues and Regulation in the UK.

So I feel I am talking to a powerful and influential Chinese group, and will need to be very careful in what I say. Perhaps you may also wish to note that my given topic is Removing Regulatory Barriers – but this is not necessarily the theme of my talk today. Rather, I would like to direct your attention to the problems that the UK is currently facing in Green Finance and Green Issues and Financing – so my theme is "Please Learn from Our Mistakes."

I note the strong representation of Green interest today: I suppose one of the real topics for us is how can sufficient green funding be found for the Belt and Road initiative. But also what is the green footprint of the BRI ?

I am a frequent visitor to China and am always impressed by the scale and speed of your infrastructure development. You built the Shanghai Metro in 25 years – it took us 150 to do the same with the London underground. You built your high speed train network in even less time – we in the tiny UK are unable to even decide if our High Speed 2, a few hundred kilometres, is a good idea. Per kilometre, it will be the most expensive railway line in the world.

In February I took the Gao Tie from Shanghai to Kunming – a marvellous eleven hour experience, across the whole of China. I was the only foreigner in 1,000 Chinese. But why? Because I had been recruiting for one month is Shanghai, and it rained every day. On two days it snowed. When I first came to Shanghai in 1985 people told me it had never snowed for eighty years in living memory. I finally found sunshine in Kunming. So we are certainly facing climate change – and parts of the three great financial centres of the world, Shanghai, New York (where the subway has already flooded when the Hudson River backed up) and London will probably be underwater within 30 years. I suppose this will be built into the Z/Yen Global Financial Index at some point…

But we are interested in the environmental costs of this success in the BRI. And here the regulatory environment is changing markedly.

Now this is the second BRI conference that I have attended in recent weeks. In April this year I was fortunate to be invited to a Green Finance conference run by OMFIF here in London. OMFIF is a central bank thinktank.

The keynote speaker was Mr MA Jun, the Chairman of the Green Finance Committee, China Society for Finance and Banking, and former Chief Economist at the People's Bank of China. The People's Bank European Representative, Mme Jin, the Bank of England and the Banque de France all attended. I can provide the speech of the Bank of England if participants would like a copy.

The message was very clear. There is no time left. We must act now. The famous British method of improvisation, just in time, will not work. The transition to a new state and asset valuation may be sudden and disruptive – a so-called Minsky moment. You may recall that that Minsky was actually against deregulation of the financial system in the 1980s.….

The message was very clear: It is better for the financial sector better to have an approximate measure of Green risks NOW, not an accurate measure when it is too late.

To this end we have set up a Climate Financial Risk Forum (CFRF) in the UK financial system. "We need more data, greater disclosure, better analytical toolkits, advanced scenario analysis and new risk management techniques to help identify the hidden dangers."

But the strange part of all this is that green policy for banks is now being set by the central banks, and the Bank of England, for example, has set risk parameters for green risks, such as stranded assets. I note that the Chinese term for this has only 4000 hits on Google (I am not sure about Baidu). In English it has only 200,000 hits. So the debate has only just begun, and is confined to experts. You probably also know that Norway's sovereign wealth fund is very concerned with this area. Oil and coal assets could easily become worthless in the near future.

The London Stock Exchange is now home to some 80 green bonds which have raised over $24.5 billion, and among these last year in 2018 ICBC issued US$1.58 billion equivalent green bond on its International Securities Market (ISM) and green bond segment. This was a great success.

ICBC London Branch will use the proceeds to finance eligible green assets under the bank's Green Bond Framework, including renewable energy, energy efficiency, low-carbon transportation, sustainable water and wastewater management. The notes have received Climate Bonds Initiative Certification. CICERO, the Centre for International Climate Research, As an independent, not-for-profit research institute, and Beijing Zhongcai Green Financing Consultants Ltd. 中财绿融 have also provided second party opinions on the company's Green Bond Framework.

Why do I raise all this ? Because when I left the OMFIF conference in the City of London last month at 3pm, I discovered that Oxford Circus and other parts of London had been closed down by an "Extinction" demonstration, with the Shell Oil building in London attacked and vandalised. Eight hundred people have been arrested. The demonstrators were young people concerned for their future. Their inspiration is a 16 year old Swedish young woman. This was only part of a rolling series of demonstrations across Europe. I think you are already aware of these kind of events in China – they will need careful handling. This is another risk to add to the physical risks of flooding, and the transition risk to financial assets – popular unrest, and also mass movements of people in distress.

I also noticed that the lead story in the Financial Times that day was a suggestion by Britain's richest man that government fracking restrictions on earthquakes be relaxed. I do not know what the technicalities of fracking may be, but his sense of timing was very poor public relations. In China you know about earthquakes. I was in Shanghai, on the metro, going under the Huangpu River at 14:28 on 12 May 2008 when I was thrown across the carriage by the Sichuan earthquake some 2000 kms away.

And my final comment here is on the pollution impact of the BRI. We need to know what will happen to carbon releases when central Asia acquires these railways, mines, motorways and cement works. What kind of electricity will they use – bad coal, clean coal, hydro-electric, wind power, solar power, or nuclear ?  On one estimate central Asia could generate the same amount of pollution as China within a generation.  This is clearly unsustainable.

In April 2019 the Bank of England "became the first regulator in the world to publish **supervisory expectations** that set out how the banks and insurance companies …. need to develop an enhanced approach to managing the financial risks from climate change… a new forum brings together a wide range of industry participants (banks, insurers, the London Stock Exchange and asset managers) as well as regulators, with four workstreams – disclosure, risk management, scenario analysis and innovation.

I know from Mr MA Jun that China is also heavily engaged in this debate, and leading in the issue of Green Bonds. We must accelerate transparency and disclosure, apply stringent pollution criteria.

So the regulatory criteria and capital requirements for infrastructure are getting tougher rather than being relaxed, and this is being driven by **The Network for Greening the Financial System,** a group of 34 central banks and supervisors, calling for collective action to green the financial system. Topics include integrating climate-related risks into financial stability reporting, incorporating sustainability into portfolio management.

34 central banks and supervisors – representing five continents, half of global greenhouse gas emissions and the supervision of two-thirds of the global systemically important banks and insurers.

China is of course a full member of the G10 group of central bankers, and will perhaps also want the People's Bank and the Chinese commercial banks to subscribe to these principles and guidelines. Certainly the issue of international green bonds is likely to

You may also have noted that the Governor of Bank of England and of the Banque de France, and the Chair of the Network for Greening the Financial Services last month issued a joint letter on 17 April. The People's Bank of China is one of the 33 Members. One sentence may give a feeling for the whole:

> Carbon emissions have to decline by 45% from 2010 levels over the next decade in order to reach net zero by 2050. This requires a massive reallocation of capital. If some companies and industries fail to adjust to this new world, they will fail to exist.

NGFS has just published its first report, with four attainable goals.

First, integration the monitoring of climate-related financial risks into day-to-day supervisory work, financial stability monitoring and board risk management. by conducting scenario analysis to assess their strategic resilience to climate change policy. Firms are encouraged to take a long-term, strategic approach to the consideration of these risks, and to embed them into their business-as-usual governance and risk-management frameworks.

Second, lead by example, specifically central banks are encouraged to integrate sustainability into their own portfolio management.

Third, collaborate to bridge the data gaps to enhance the assessment of climate-related risks. Public authorities should share and if possible make publicly available any climate-risk data.

Fourth, central banks to cooperate to build in-house capacity and share knowledge with other stakeholders on management of climate-related financial risks.

**PPP** has often been mentioned in the context of the BRI. It might be useful therefore to touch briefly on the reasons for the UK's withdrawal, early in 2019, from PPP or PFI as it is sometimes called. PPP in the UK has had some successes and some failures.

In general terms, the early UK PPPs were slanted in favour of the private construction firm and the company running the new facility. The staff on the public sector negotiating were sometimes inexperienced and faced experienced lawyers, accountants and bankers. In one notorious case, a PPP prison managed to increase its profits by 60%, by the perfectly legal methods of re-negotiating the terms of their loan and insurance and putting its valuable shareholding into the company pension fund.

Another difficulty is the long tenor of PPP contracts usually 25 years, but sometimes up to 60 years. No marriage lasts that long these days, and yet the PPP partners are expected to cooperate over a long period. An interesting twist was the failure of a PPP incinerator contract in NE England. In this case the local authority, the contractor, and managing company were all losing money. They tore up the PPP contact, dismissed the lawyers, and worked out a mutual loss-sharing agreement. The law firm to this day do not know what was agreed.

This may become even more acute for BRI PPP contacts, given the prospect of conflict of laws between countries. But China is very good at arbitration and resolution. Domestic PPP litigation has however already begun in China.

You may also have observed that some **large fund managers** have begun a campaign against what is called ‘greenwashing’– that is where a company declares that its project is environmentally sound, when in fact it may be heavily polluting, according to Environmental, Social and Governance criteria (ESG).

This is an 2018 initiative named Climate Action 100+ supported by 320 institutional investors who are pushing the top 100 industrial companies which account for over 60% of annual global industrial carbon emissions to reduce their pollution. I think that China is already involved here, through a Chinese company called Syn Tao.

So, where does the new emphasis on environmental responsibility by investors leave the BRI ? It is encouraging to note that this appears in the latest statement of 27 April after the 2nd BRI Forum for International Cooperation conference in Beijing – “We underline the importance of promoting green development and addressing the challenges of environmental protection and climate change including by enhancing our cooperation to implement the Paris Agreement.”

But in the UK, the poor experience of PPP, the move by central banks to more supervision, the move by fund managers to demand better green credentials, and the emergence of an organised and politicised youth-led opposition to carbon all point to more rather than less regulation. Thank you.

John Adams

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