

Environmental Compliance for US Companies in China

Executive Summary

Since China declared a “war on pollution” in 2014, environmental protection has become a top political priority, evidenced by tough regulations, enforcement campaigns, and an emphasis in official rhetoric. Stronger environmental enforcement has had mixed effects on US-China Business Council (USCBC) members. In many cases, it has helped level the playing field for foreign companies that already had strong pollution controls, since domestic companies are increasingly held to the same environmental standards as foreign companies. At the same time, the speed of regulatory change and sudden intensity of enforcement has increased costs and uncertainty throughout the supply chain.

Core Challenges

- **One-size-fits-all enforcement:** Chinese regulators sometimes demand production capacity cuts regardless of environmental efficiency. Some industrial parks require all companies to shut down on heavy pollution days with short notice, even those whose individual facility emissions comply with local regulations, rendering companies unable to meet their contractual obligations in some cases.
- **Excessively stringent, non-science-based requirements:** Some local environmental requirements are more stringent than international standards and can be difficult or impossible to meet, even with the most advanced environmental technologies.
- **Insufficient transparency:** Local environmental standards can sometimes be difficult to obtain and new policies often have short implementation timelines.
- **Hazardous waste disposal capacity:** A longstanding shortage of certified hazardous waste disposal companies affects members in a range of industries, leading to increased costs, compliance challenges, and disruptions in supply chains.

Best Practices

- **Proactively engage with regulators:** Companies find success in engaging closely with regulators at all levels to understand their goals, communicate difficulties and policy recommendations, and follow up on inspection results.
- **Closely monitor regulatory changes:** Leveraging internal and external resources to monitor policy changes can help identify risks to current operations or future plans. Some companies have also developed processes to inform their suppliers and customers about changing policies.
- **Mitigate supply chain risks:** Diversifying suppliers and creating contingency plans for diverting capacity or stockpiling goods can lessen the impact of shutdowns.
- **Conduct due diligence and regular audits:** To maintain supply chain integrity and ensure regulatory compliance, companies should conduct robust due diligence and regular audits of suppliers, industrial parks, JV partners, and M&A targets.