

Markets & Countries

ENVIRONMENTAL TAX UNSETTLES COMPANIES



© fotohunter | Shutterstock.com

At the 6th VDMA Mechanical Engineering China Summit in Shanghai, the focus was on the challenges facing the industry regarding environmental issues.

By Daniel Yoo

The People's Republic has developed into the world's leading production country. In 2016, China's industrial value creation reached 24.8 trillion renminbi (RMB), equivalent to 33.3 percent of the gross domestic product. However, industrial development in China is facing challenges such as low resource use, high energy consumption and pollutant emissions. The existing

Environmental Protection Act and the environmental tax that came into effect at the start of 2018 raise many questions for companies.

While China's energy consumption was 570 million tons of standard coal in 1978, this rose to 1.38 billion tons by 2000, and 4.36 billion tons in 2016. Industry is responsible for around 70 percent of this. Coal accounts for 62 percent of total energy consumption, with other energy sources such as natural gas, hydroelectric power, wind and nuclear making up around 20 percent. China's energy consumption is higher than the worldwide average and surpasses that of many other emerging nations.

Air full of smoke and dust

The industrial sector is responsible for 90 percent of the total national emissions of sulfur dioxide and 70 percent of nitrogen oxide emissions. Smoke and dust emissions account for more than 85 percent of the national total. Most non-conventional pollutants, such as persistent organic compounds and heavy metals, also come from industry.

Factories forced to close their doors

The Chinese authorities have repeatedly issued warnings about failure to adhere to regulations over the last two years. A stricter Environmental Protection Act that came into effect in 2015 includes significantly higher fines and enables both government officials and environmental NGOs to take legal steps against companies who violate environmental regulations. In light of this, numerous factories were forced to close for months at a time.

China's leadership is linking environmental goals with more general industrial goals, particularly when it comes to reducing overcapacity and modernizing industries. Smaller, inefficient operators are forbidden from reopening. The government sees this as a key part of reconditioning the Chinese economy. As well as the new Environmental Protection Act, China has also passed an Environmental Protection Tax Act, which came into effect on January 1, 2018. Reporting structures for environmental authorities have been changed, meaning even tighter environmental rules and more frequent routine checks on companies' environmental performance.

New environmental guidelines take effect

Min Bai, Deputy Director of the Institute for Energy Resources and the Environment at the Ministry for Industry and Information Technology (MIIT), described the opportunities and challenges presented in the green supply change management of the Chinese production industry at the VDMA Mechanical Engineering China Summit.

Dr. Jakob Riemenschneider, partner at the law firm Taylor Wessing, then held a presentation on how the latest legislation is being implemented in practice and described its effects on the mechanical engineering industry in China. In his speech, Riemenschneider emphasized the following key points:

- Companies that directly emit air, water and soil pollutants in China are subject to the environmental tax from 2018.
- The current pollution discharge fee system is being abolished.
- Companies are automatically subject to the tax when pollutants are released into the environment.
- The new tax is calculated monthly based on the type and quantity of taxable pollutants.
- Companies must declare the environmental tax payable to the local tax authority on a quarterly basis.
- One of the main difficulties will lie in determining how high a company's pollutant emissions are. The law assigns the responsibility to the tax payer, meaning the tax payer is therefore also responsible for installing the relevant measuring devices, as well as documenting the data. In future, environmental and tax authorities are to work together to check information provided by companies.
- Those who do not declare their pollutant emissions to the tax office correctly will thus not only be guilty of environmental violations, but also of tax offenses.
- Not all companies will have to pay the environmental tax as exemptions are planned for exceptional cases.
- Performance incentives and further measures are also included, as all levels of government are being called upon to encourage tax payers to invest more in technologies that protect the environment. Investments in equipment for automatic pollutant measurement are to be supported.

Environmental tax causing uncertainty

The announcement of the new environmental tax has caused uncertainty. Many VDMA members in China are unable to predict what the revised regulations will mean specifically for their companies. The supply chain is also cause for concern. Some members are worried that some of their suppliers may have to close. VDMA will continue to follow this issue closely and to keep its members up to date on the latest developments. ■

Further Information

[VDMAimpulse](#) | [VDMA Foreign Trade](#) | [VDMA China](#)

Contact

Oliver Wack, VDMA Foreign Trade, E-Mail: oliver.wack@vdma.org

About VDMAimpulse

Read the magazine online: www.vdmaimpulse.org

VDMAimpulse is an international online magazine addressing the mechanical engineering and machine manufacturing industry. VDMAimpulse will be published every other month on or around the last Wednesday in January, March, May, July, September and November. If you want to receive an e-mail every time the new issue of the magazine is published, please contact the editorial office: VDMAimpulse@vdma.org