

## ***Environmental Penalties in the Cement Industry Affect Tax Incentives***

### ***Summary***

On September 23, 2020, the article “warning case| serious environmental pollution of China Building Materials Group Haoyuan Cement Co., Ltd.” released by the Ministry of ecological environment attracted the attention of Lvse Jiangnan Public Environment Concerned Centre (hereinafter referred to as PECC).

Since 2020, PECC has released several green tax reports covering industries such as sewage, waste incineration treatment, comprehensive utilization of resources and new wall materials. However, when screening environmental data, PECC found that Qiqihar Haoyuan Cement Co., Ltd. were all in the list of taxpayers’ information on the VAT instant refund policy for resource comprehensive utilization products and services for 2018/2019 published on the official website of Heilongjiang Provincial Taxation Bureau. This is not conducive to the development of resource-saving and environment-friendly enterprises, not to mention the development of green economy and the construction of ecological civilization.

In April 2021, PECC began to write to provincial and municipal tax bureaus across the country to actively cooperate closely with local tax departments to help them verify the situation of enterprises enjoying green taxes. This letter involves 55 cement enterprises, who are suspected of being punished for environmental protection, but still enjoying tax preference. As of the release of this report, PECC has received specific replies from 12 tax bureaus, of which 5 enterprises have been required to make up the tax, and the amount recovered has reached more than 14 million yuan. Many tax bureaus expressed their gratitude to PECC for providing enterprise environmental data information and timely reminders. Some tax bureaus said that some enterprises enjoy green tax for the first time after environmental protection punishment, so it does not affect the normal enjoyment of tax preference by enterprises; secondly, in the early independent verification process, the enterprise tax has been recovered and tax counseling has been carried out.

This report investigates the current state of development of the cement industry. Through the survey, we found that:

- China is the world’s largest cement producer today, with an annual production of over 2 billion tons of cement for five consecutive years. In 2020, China’s cement production reached 2.395 billion tons, ranking first in the world. Among them, the production of East China, Southwest China, South China and Central China all exceeds 300 million tons. As we all know, the process of cement production determines its nature of “high energy consumption and high emission”, which is mainly reflected in two aspects. On the one hand, it is fuel. The production of cement needs to be heated to 1600°C, which burns coal, tar and so on. On the other hand is forging. Limestone, clay and other impurities are crushed, into the boiler for high-temperature calcination. These two aspects will release a lot of carbon dioxide. It is understood that each ton of cement produced will produce about 1 ton of greenhouse gas. According to the world’s carbon dioxide emission of 40 billion tons, cement production alone accounts for about 10% of the total carbon dioxide emission. How to achieve “carbon emission reduction” in the cement industry has

become the focus of all departments.

- On July 16, 2021, China's carbon emission trading market was launched for trading. The construction of a national carbon market is a major institutional innovation to use the market mechanism to control and reduce greenhouse gas emissions and promote green and low-carbon development. It is also an important policy tool to promote the realization of the carbon peak and the vision of carbon neutralization. The production process of cement determines that it will emit a lot of carbon dioxide. Greenhouse gases capture heat, resulting in an increase in the average temperature of the earth's surface. The more greenhouse gases, the greater the rise in the earth's surface temperature. In terms of current technology, it is impossible to avoid the "zero emission" of the cement industry unless the production of cement is stopped. Even using carbon capture device can not reduce carbon emissions by 100%. Moreover, the green premium of clean cement produced by carbon capture device is very high. However, we still have to work towards the goal of "zero emission", which is inseparable from the support and incentive of national policies to create more demand for clean energy.

This report focuses on the preferential enjoyment of value-added tax for cement enterprises. PECC cooperates with Azure Map Environmental Big Data to check the environmental supervision records of enterprises, actively forms close cooperation with tax departments, and sends letters to local tax bureaus to verify whether enterprises enjoy value-added tax preference under environmental penalties. According to the list published on the official website of tax authorities at all levels, PECC verified the environmental regulatory records with the help of Azure Map big data and identified 55 enterprises with fines over 10,000 yuan as key concerns, involving 18 provincial and municipal tax bureaus nationwide. Prompt the tax department in the form of letters, PECC analyzed and studied according to the feedback content of the tax department, and sorted out this report. The report shows that:

- The 55 enterprises in this letter are mainly distributed in East China and southwest China. Their environmental protection penalties are concentrated in 2017, 2018 and 2019, with penalties mainly for air and dust pollution and fines of 10,000 yuan or more. The province with the largest number of local enterprises is Henan Province, with 9 enterprises. Shanxi Province has the highest accumulative fine amount of about 2 million yuan, involving four enterprises.
- As of the release of this report, PECC has received specific replies from 12 tax bureaus, and 2 tax bureaus said they were in the process of verification. Three enterprises were requested by the tax authorities to recover (back) taxes, totaling 10 million yuan. PECC will continue to follow up and provide feedback. The feedback found that: The filing time will not affect the normal enjoyment of tax preferences by enterprises after environmental penalties; One enterprise in Jiangsu, two enterprises in Hunan and two enterprises in Heilongjiang were charged taxes; The information sharing mechanism between tax and ecological environment departments has been gradually established; Azure Map has become an important auxiliary tool for government departments.

In light of these findings, we recommend policy-makers to:

- The communication mechanism between taxation and ecological environment departments should be further strengthened. Through letters, PECC has conducted friendly exchanges with tax departments all over the country for many times. In the process of communication, it is not difficult to find that the communication mechanism between tax departments and ecological environment departments in many places has been strengthened. However, information sharing between some provinces and ecological environment departments is not smooth. The tax authorities decide whether to give preferential treatment according to the information provided by the enterprise. If the enterprise conceals or omits the disclosure of the information of environmental penalties, and the ecological environment department fails to inform the tax authorities in advance, it is easy to cause the enterprise to enjoy green tax preference under environmental penalties, which is not conducive to the implementation of green tax policies. Similarly, it does not encourage and guide enterprises to practice energy conservation and emission reduction and comprehensive utilization of resources.
- Brand cement enterprises should strengthen the environmental management of their subsidiaries. Many of the companies that PECC wrote this time are affiliated with well-known domestic and even international brands. Practice has shown that using economic behavior to promote the environmental performance of upstream and downstream suppliers is an effective method. Since 2014, IPE has released the CITI annual evaluation report every year, which dynamically evaluates the brand's performance in supply chain management, especially environmental compliance, energy saving and emission reduction, and information disclosure. The higher the ranking of the brand, the better the environmental management of its supply chain and the earnest practice of the concept of green, low-carbon, environmental protection, and sustainable development; it is suitable for consumers to choose and use, and investors to pay attention.
- Give full play to the bridge role of "environmental protection organizations". As an environmental protection organization established for nearly 10 years, PECC adheres to the work method of "serving in supervision and supervising in service", and uses multiple technological levers to leverage the enterprises' energy conservation and emission reduction. In the process of sending the letters, we found that some provincial and municipal tax bureaus still did not give a formal reply to the letters from the PECC. We hope to break the silence and jointly provide suggestions for the healthy development of green taxation, so that environment-friendly and resource-saving enterprises can better enjoy tax dividends, improve their independent innovation ability, increase investment in environmental protection facilities, and contribute to the "30-60" goal.

**English Translation Accuracy Disclaimer: This document has been translated by PECC for the purposes of reference only. If any questions arise related to the accuracy of the information contained in this translation, please refer to the Chinese version of the document. Any discrepancies or differences created in the translation are not binding and have no legal effect for compliance or enforcement purpose.**