

Will Panasonic's 'hazard pay' make a difference to air pollution in China?

The electronics giant will compensate expat workers in China for the levels of pollution they experience as businesses struggle to attract talent to the country

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The Chinese national flag flames in front of a building barely visible due to heavy smog in Beijing. Photograph: Diego Azubel/EPA

Panasonic made an announcement this month that it will pay its China-based expatriates a "hazard pay" to compensate for the dangerous air quality they're subjected to as they work.

The move from the Japanese electronics giant highlights just how bad China's air quality has become. A World Health Organization (WHO) report in March showed that in 2012, seven million people died from air pollution – that's one in eight global deaths – and south-east Asian countries, including China, had the highest burden with 3.3 million premature deaths. The report cites China as hosting the worst air pollution with the most deaths per capita, resulting from indoor and outdoor air pollution. Cardiovascular disease, respiratory disease, lung and bladder cancers are some of the resulting illnesses.

China's premier, Li Keqiang, and his government have declared a war on pollution with several initiatives in place including shutting down coal-fired furnaces and shifting to different types of development. But responses from corporations like Panasonic, whose green initiatives include donating water pumps, solar lanterns and energy efficient light bulbs to Indonesian villages and other areas with limited electricity, are new and controversial. Meanwhile, eco-friendly products specifically for the China market are also emerging.

Will hazard pay help?

Will providing expatriate workers a danger pay do much to tackle China's pollution crisis? Panasonic's move is "a mere drop in the bucket," says Usha Haley, professor of international management at West Virginia University and co-author of [Subsidies to Chinese Industry](#). Haley says by offering its expat workers hazard pay, Panasonic has institutionalized what other companies have always offered on the side.

"It is becoming more difficult for American and multinational companies to recruit top talent to work in China due mostly to the perceived costs on health and well-being," she says.

She adds that China's biggest pollution culprit is coal, supplying two-thirds of the country's energy. "Our research shows that this problem is not going away."

Haley sees part of the issue being China's role as manufacturing capital for the world. Their calculations show these heavily subsidized, highly inefficient Chinese manufacturing industries including steel, glass, paper and auto parts add 30% of manufacturing capacity each year.

"Something has to give. Experts' calculations of China's air pollution probably underestimate the problem – pollution is a politically threatening issue for the Chinese Communist Party," she says.

Alan Scheller-Wolf, professor of operations management at the Tepper School of Business, Carnegie Mellon University, finds Panasonic's hazard pay surprising. The company could just have easily increased pay to employees in China without the hazard pay labeling, he says. "This could cause potential problems by insulting and shaming China's government to fix the pollution problems, for instance."

Scheller-Wolf wonders whether a policy on hazardous pay mandates compensation, and an employee brought the issue to their attention. Alternatively, Panasonic, which aims to be the world's greenest electronics company by its 100th year anniversary in 2018, may be making a statement to establish "green" credibility. "If so, this is pretty remarkable," he says.

"In theory, companies derive benefits from lower costs due to cheap power and lower regulatory burden. Panasonic is essentially publicly calling for higher power costs and increased regulation, which should be counter to their (immediate) cost interests. Of course this would not only affect them; all their competitors would see the same burden."

He suspects the competitive business of China will make other companies match Panasonic's funds, without labeling them hazard pay. More companies will be happy to "help" China clean up its air, if money is to be made.

Just recently, Europe's largest car maker, Volkswagen, announced plans to produce plug-in hybrid cars across China. Larissa Braun, director of CEO communications for Volkswagen China, says it introduced the Porsche Panamera Plug-In Hybrid in 2013 and plans to introduce its first imported full electric car later this year. Braun says these initiatives are 100% related to helping China with its ongoing pollution problems.

Others like Gautam Gandhi, director of new business development for Google India, points out that China's pollution is actually a global problem. Gandhi, (who speaks personally, not on behalf of Google), visited China several times and found the pollution challenging. He adds that India suffers too. In 2010, India's Central Pollution Control Board found particulate matter in the air of 180 Indian cities exceeded WHO's standards by six fold and India has the world's worst asthma rate.

China's air quality will make it even harder for companies to attract workers to the region. On the flip side, he adds that for expatriates in India and China willing to put up with the air pollution, "there's even greater economic upside".

Scheller-Wolf adds he isn't sure how Panasonic's move will play out as a business decision. "But from a societal viewpoint, if offering hazard pay helps push China to clean up their air, we all benefit."

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