

## **Recommendations of CCICED to the Government of China**

The first meeting of the China Council for International Cooperation on Environment and Development Phase III (CCICED) was held in Beijing during November 23-25, 2002. The Council examined the relationship of Environment, Development and Governance at a very auspicious time. The meeting takes place a year after China's accession to the WTO, and just after the WSSD and the Chinese Communist Party's 16<sup>th</sup> Congress.

The smooth transition in leadership at this Congress, representing both continuity and change, marks the next phase of China's long march to the front ranks of the world's most influential nations. Certainly China's remarkable progress on sustainability is a tribute to the efforts of this great country's leaders who took bold steps in the years following the Rio Earth Summit. And the recommitment to sustainable development by the 16<sup>th</sup> Congress is an important decision.

The path ahead will be even more challenging. The nature of environment and development problems is changing. With a doubling of the Chinese economy projected for this decade, and a doubling again in the next, addressing environment and development issues in a timely and effective fashion will require a singularly strong will, more financial resources, and great ingenuity. Sustainable development will have to be linked much more strongly to employment and a number of social policies. The challenge of creating a sustainable national economy on the scale of China's is unprecedented. There is no existing model to draw upon for a country the size and complexity of China.

China's achievements have taken place at a time when the world community is still being drawn in many directions. China's best efforts for sustainable development will fall short unless there is a stronger implementation effort for sustainable development on the part of the global community. And China is a country whose choices during the coming decade will have significant environmental implications for the region and for the globe. In reality, China has much to contribute internationally on how to implement sustainability within a developing economy. For all these reasons, the Council applauds China's effective participation in international processes such as the WSSD, and the commitment at the highest level to fully meet international obligations under the global conventions. China should be preparing itself for an even larger international role in the future.

The Council has heard keynote speeches, issues papers, plus the reports of four CCICED task forces and from four provincial vice-governors on their sustainable development progress. Our recommendations address several urgent issues related to the six priority areas of China's new draft sustainable development action plan. While

the advice is intended for immediate use, it is with the recognition that today's decisions will affect the ambitious national objectives set for the year 2020.

## **PART A THE TRANSITION TO SUSTAINABLE DEVELOPMENT**

### **Environment, Development and Governance**

In the past CCICED has focused its attention on environment and development. The consideration of governance is new and in line with international views that this topic is essential for successful implementation of sustainable development. There are many definitions of governance, including the following one, from the Institute on Governance located in Ottawa, Canada: *Governance comprises the traditions, institutions and processes that determine how power is exercised, how citizens are given a voice, and how decisions are made on issues of public concern.*

Governance mechanisms cover a wide range of subjects, for example, the expanding role of civil society and communities in the management of natural resources, the role business can play in self-regulation of pollution, and partnership models to implement sustainable development. Good governance requires effective government. In this context the Council notes the need not only for improved coordination, but also for integrated approaches, so that sustainable development becomes the responsibility of all units of government and at all levels.

In all parts of the world the role of national and local government is shifting dramatically—from implementer to enabler, and as a partner for sustainable development. The right enabling framework will go a long way towards guaranteeing the success of the partnerships called for at the WSSD, and for attracting new environmental investment. An enabling framework should provide appropriate legal, fiscal, policy and regulatory conditions that promote sustainable development. This approach does not imply a shrinking role for government, since the issues of environment and development are growing more complex, and of larger magnitude. Instead it will permit a better balance of action on the part of government, private sector and civil society.

The CCICED recommends the following actions to improve governance for environment and development:

***(1) Strengthen integrated policy-making for sustainable development, and improve government coordination mechanisms for environmental protection.*** An integrated approach to policy development and implementation has become

commonly accepted elsewhere in the world. Such policies deal with cross-sectoral impacts, the removal of systematic barriers to environmental and resource protection, and the internalization of sustainable development within organizations. The efforts of China to build integrated approaches to environment and economy could be further strengthened.

The existing level of coordination among departments and sectors is limited and forms a major barrier that has been pointed out in previous Council recommendations. At this point in time, when a renewed approach to sustainable development is under consideration, it is appropriate to seek new coordinating mechanisms that take into account the trend toward decentralized decision-making as well as cross-sectoral coordination within government.

***(2) Build sustainable development implementation partnerships and capability among government, enterprises and civil society.*** For China, much work remains to be done in the establishment of such partnership relationships. New mechanisms are needed to provide for rapid funding and effective implementation of partnerships. Partnerships can be encouraged with both domestic and international enterprises. The goals for partnerships can include more effective sustainable development implementation, access to technologies and management experience, and attraction of more private investment. Some partnerships may best be carried out through international networks. An example where China could take a leadership role is in the development of an international Consultative Group on Clean Energy.

***(3) Improve the incentives for enterprises to engage in environmental protection.*** Government can strengthen economic incentives for the participation of enterprises in environmental protection. While numerous initiatives already exist, much more needs to be done. Suggested measures include:

- Raising fees for polluted water and solid waste treatment to reflect total environmental damage costs, and then gradually opening more public utilities to the market.
- Ensure that prices reflect underlying costs and resource values.
- Establishing and improving environmental performance labeling (such as energy efficiency labeling, environmental labeling, etc.).
- Encouraging research and development of cleaner products.

***(4) Encourage the development of non-government environmental protection***

*organizations, and establish and improve an environmental information sharing system.* Solving environmental problems requires collective action, with participation by groups and communities. It is recommended that non-government environmental protection organizations should be encouraged to develop, and to participate in environment and development policy-making, activities and monitoring. Such organizations are very important for improving environmental self-discipline of the civil society.

At the same time, an open and transparent environmental information sharing system should be established. Elements of a system, operating at national, provincial and local levels might include a transparent, highly accountable environmental protection administration; monitoring of regional water quality and drinking water quality; a highly-respected system for food inspection; and a system for corporate reporting on sustainable development. Increased public access to environmental information is an important element for accountability.

*(5) Pay special attention to, and reduce the incidence of environmental degradation and resource depletion on the poorer members of society.* Regulatory and economic instruments to improve environmental performance should be explicitly tailored to poverty alleviation objectives.

## **A Sustainable National Economy**

The renewed commitment of China to build a sustainable national economy based upon environmentally-friendly and resource saving approaches comes at a critical juncture for its future. China's rapid wealth creation could be based on ever increasing levels of consumption that within a few decades or less could result in unsustainable pressures on the environment. Or it could be used to foster unique Chinese patterns of growth placing much greater emphasis on high quality of life approaches, an information-based economy, a high level of investment in environmental goods and services to ensure ecosystem integrity, and an equitable distribution of the fruits of economic progress.

A sustainable national economy is unlikely to come about through an incrementalist approach. It will require innovation, behavioral change, and action that takes China beyond international benchmarks and best practices. High profile and trend-altering events such as the 2008 Olympics can become part of the strategy.

CCICED recommends the development of scenarios that would explore the implications of developing a sustainable national economy. Such scenarios should

draw upon quantitative and qualitative information on cross-sectoral impacts of sustainable development strategies, introduction of new technologies, and other factors. And the scenarios should take into account the impacts of various international financial, security, environment and development conditions.

A sustainable development economy will require even more attention than in the past decade to both sustainable production and consumption. Thus CCICED recommends the following two actions.

***(1) Greatly strengthen the transition to sustainable development in the industrial, biological, energy and service sectors of the Chinese economy.*** China's future economy will be more diverse, with hidden challenges to sustainability, such as those related to tourism, or biotechnology, in addition to the existing environmental problems of energy, manufacturing and resource exploitation. These issues cannot be considered in isolation from employment strategies and concerns such as environmental health.

CCICED welcomes the new Cleaner Production Law and the commitment to a Circular Economy that addresses material reuse, recycling, and reducing the amount of waste. But tougher administrative and regulatory action will be necessary, along with an improved and broader range of economic incentives. Finally, as the experience of leading provinces reveals, a sustainable economy requires major industrial restructuring and redesign set in the context of improved urban planning and development.

***(2) Establish sustainable consumption models appropriate for China's changing economic and social conditions.*** China's current low per capita consumption pattern is an opportunity to avoid the mistakes of many other countries that have developed very high levels of material and energy consumption. In the next five to ten years new patterns of consumption may well be set within China, since so many of China's citizens will be substantially wealthier. It needs to be reinforced that sustainable consumption models can still lead to economic growth. Indeed, attention to environment is an important means for creating growth. Expanding domestic demands also should not mean encouragement of waste. Sustainable consumption patterns within China will push production towards sustainable pathways. Sustainable consumption should have the added benefit of fostering the competitiveness of domestic enterprises and help to eliminate green barriers in international trade.

## **Education and Knowledge for Sustainable Development**

Although sustainable development has become one of China's basic strategies, awareness and understanding of sustainable development still needs to be raised to a much higher level. Education and knowledge expansion of sustainable development need to be further enhanced through a variety of means, including the following: sustainable development capacity building for decision makers, particularly for local level decision makers, and for business leaders; education and awareness-building for the public, using a variety of media; and strengthening sustainability elements of school and university curricula.

## **Role of China in the Global Community**

Members of Council highly appreciate the international role China has played over the past decade. CCICED views that China is well positioned in the coming years for continuing, and, at a rate that only the country can determine, perhaps expand its substantial role in international environmental cooperation. Its membership in the World Trade Organization adds a major new dimension to this capacity.

There is growing international concern about the possible impacts of China's rapid growth on the regional and global environment. It is therefore particularly important that China's policies for growth and sustainable development should take full account of their international impacts and implications. This will go far to avoid international concerns and misconceptions, and will facilitate productive international cooperation in fields vital to China's development.

## **PART B RECOMMENDATIONS BASED ON CCICED TASK FORCE REPORTS**

In this first meeting of CCICED Phase 3, four Task Forces were asked to present their results. These reports receive a full discussion by Council members, who modified and selected among the options presented. The summarized policy recommendations noted below reflect the views of Council. Additional information and detailed technical recommendations are available in the reports and publications of the individual Task Forces.

### **Environmental Economics**

In order to integrate environmental concerns into the mainstream of economic decision-making, the following suggestions are proposed:

***Improve the empirical basis and refine methodologies for strategic environmental assessment.*** According to the new Environmental Assessment Act, environmental and ecological issues of major development plans will be assessed. Effective implementation of the Act requires a series of guidelines on the technical, economic, environmental and social aspects involved.

***Develop a Green National Accounting System that reflects the true social and environmental costs of economic activities.*** Costs should include production, environmental degradation and resource depletion. Such a system should be in the form of satellite accounts, paralleling conventional national income accounting measures.

***Explore environmental pricing and taxation.*** The costs of depletion and degradation of the natural environment should be reflected in pricing policies such as user charges and pollution taxes. Increasing use of economic instruments for environmental management, paying particular attention to the implications for the poorest members of society, and in light of practical implementation issues, should be a key feature of environmental policy in China.

### **China's Accession to the WTO and its Environmental Impacts**

***The Government of China should require that the implementation process of its new Environmental Assessment Act specify that a strategic environmental assessment and perhaps a sustainability impact assessment be performed on the impacts of China's accession to the WTO and other important changes in trade policy.*** Studies have revealed that many of the important gains from liberalization can be dissipated by increased environmental costs if appropriate measures are not taken. A timely assessment and continued monitoring of the environmental affects of accession will allow China to adjust its environmental laws and regulations to counteract the harmful effects of rapid trade expansion.

***China must strengthen the capability of its negotiators to negotiate trade and environmental issues in order to play a more active role in the Doha Round.*** Since China lacks the necessary knowledge and experience to deal with such a wide spectrum of issues simultaneously, considerable effort is needed to enhance technical support groups within SEPA (State Environmental Protection Administration) and MOFTEC (Ministry of Foreign Trade and Economic Cooperation). The enhancement effort should draw upon outside experiences, expertise and information to better inform Chinese negotiators. The technical support groups should become capable of providing analysis of the positions of other countries. And the strengthening effort

should update China on new developments outside the negotiation process, and provide access to the latest research on trade and environment.

***The Government of China and industry organizations should establish mechanisms to monitor and report on significant changes in the laws and regulations of other countries that might affect China's international trade.*** This early warning system, combined with China's access to the WTO's transparency mechanisms will help China to identify potential barriers to Chinese exports at an early stage, and to formulate government policies that assist industries to adjust. However, the key solution for addressing green barriers lies in improving China's own environmental standards and bringing these more into line with international standards. The government should provide incentives to industry to seek ISO 14000 certification. It also should promote international cooperation and exchange on standards development and seek dialogue with China's principle trading partners as they formulate their standards for ecolabels.

## **Forests and Grasslands**

Although China has achieved great success in forest and grassland protection and restoration, the central government still has great opportunities to improve policies and their implementation.

***Improve the SLCP (Sloping Land Conversion Program) and the NFPP (Natural Forest Protection Program) under the existing policy framework.***

For the SLCP, the government should adopt a more holistic, more flexible and multisectoral approach to make land conversion both ecologically and economically sustainable. Needed is an approach aimed at achieving ecological restoration while providing realistic, economic market-based incentives to households. This will require a more fine-tuned, decentralized, location-specific approach suited to highly diverse land conversion circumstances in the different provinces. Second, the government should promote routine independent monitoring and evaluation to improve planning and implementation at all level, adopting a more participatory consultative approach to planning that involves stakeholders.

For the NFPP, remove the logging ban from collectively-owned forests, where appropriate. Furthermore, the government should make a gradual and carefully planned transition over time from a blanket logging ban to a more diversified, flexible approach that enables sustainable forest management on state-owned forests. This will require establishment of land use planning for diversified land use that includes ensuring adequate protection of old growth forests, tree planting, as well as natural rehabilitation of sites.



### ***Adjust overall forest policy.***

Forest policy reform has lagged behind other sectors such as agriculture. Thus it is recommended that reform proceed in at least five priority areas:

- Restructuring of public/private forest management and decentralizing of authority in forest administration.
- Monitoring and evaluation of performance of government and private forest management at the different levels.
- Rationalizing of taxes and improved identification of authority to tax within various sectors.
- Strengthening of property legislation pertaining to collective forests in accordance with the new land contract law; identifying due process for land takeovers by government, and procedures for valuation and compensation in cases of *imminent domain*.
- Updating relevant domestic and international trade policies.

### **Eco-Security**

China's rapid economic development, including explosive levels of growth in trade, transportation and tourism, is increasing the introduction of species—both intentionally and unintentionally. Serious attention should be paid to Alien Invasive Species (AIS) threats and damage to biodiversity and natural ecosystems, and, in turn, to economic loss. It is therefore recommended that:

***China develop a national Alien Invasive Species strategy designed to combat the multiple threats of AIS.*** The strategy should incorporate risk assessment, full social cost pricing, the user pay and precautionary principles, development of an early detection and warning system, fast sharing of information, and rapid response mechanisms.

***China's Convention on Biological Diversity (CBD) Enforcement Coordinating Group should for a special AIS administration office to support the overall AIS program.*** Consideration should be given to establishing AIS administrative institutions at various levels.

***Based upon an overall review of the relevant existing legislation, a new set of regulations pertaining to the control of AIS should be formulated, together with an AIS list.***

***Genetically modified organisms (GMOs) pose similar potential problems to AIS with regard to native species and ecosystems.*** Similar risk assessments and field trials before permitting should be carried for GMOs.

*Research and capacity building for dealing with AIS issues needs to be strengthened.*

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