



# CCICED ANNUAL POLICY REPORT

## HARMONIOUS DEVELOPMENT THROUGH INNOVATION

2008

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The China Council for International Cooperation on Environment and Development (CCICED) was established with the approval of the Chinese government in 1992. Consisting of senior Chinese and international officials and experts and chaired by China's Vice-Premier, it serves as a high-level advisory body with a mandate to conduct research and to provide policy recommendations to the Government of China on China's environment and development. The Council reports to the State Council and each year meets with a senior leader to discuss its recommendations.

Over the past 17 years, CCICED has witnessed significant change and marked progress in China in the field of environment and development policy. Over the Council's tenure, issues have evolved in number, complexity and significance from those discussed at the 1992 Rio UN Conference on Environment and Development to those environmental challenges, such as climate change, that have become mainstream economic and political concerns throughout the world. CCICED continues to be a unique body, highly relevant to China's domestic needs and to fostering a better international understanding of China's contributions to global environment and development.

With ongoing support from the Chinese government, the governments of many other countries, and international agencies, CCICED has completed three phases. Phase I (1992-1996) carried out initial policy studies and research on key issues in the field of environment and development and disseminated and exchanged international experiences and information on successful policies. Phase II (1997-2001) shifted the focus from policy research to policy and project demonstrations. Phase III (2002-2006) was established with broader priorities and a number of major policy studies were conducted. Based on the successful experience of previous phases, Phase IV (2007-2011) has drawn support from a larger number of donors and is focused concerted attention on issues that will determine China's success in becoming regarded as an environmentally friendly society. Indeed, China has entered into a new era, and CCICED will play a major role in promoting China's strategic transformation in environment and development.

2008 was an eventful year for China: it hosted the very successful Beijing Olympics; coped with major disasters including unprecedented snowstorms and the Sichuan earthquake; stayed the course of economic development despite high oil prices and rapid increases in food and other commodity prices; sought stabilization and reform in the global financial sector; and addressed several cases of product contamination, including melamine in milk. Globally, the financial crisis that originated in the United States interrupted the pace of development in most regions, threatened progress towards sustainable development, and created widespread uncer-



tainty. Nonetheless, Chinese Premier Wen Jiabao reiterated China's commitment to progress in environmental protection and sustainable development when he met Council members during the 2008 Annual General Meeting.

2008 was also important year in the development of CCICED. The Council established a number of task forces to examine various aspects of environment and energy. In addition, the Council, along with WWF, published the first Report on Ecological Footprint in China, which aroused considerable interest. Two Task Forces completed their work on important themes, "Environment and Health" and "Building Environmentally Friendly Society through Innovation".

This volume, *Annual Policy Report 2008*, contains documents presented to, and the policy recommendations approved by, the CCICED's Annual General Meeting in November, 2008, for which the theme was "Harmonious Society through Innovation". This book includes: the final text of the Council 2008 Recommendations; which has since been forwarded to the State Council and other governmental agencies; the text of the Issues Paper, prepared as a discussion document addressing current issues related to China's environmental policies; and final and interim reports submitted by task forces to the 2008 Annual General Meeting. The task force reports represent the views of the individual teams and not necessarily those of the Council as a whole, while the Recommendations reflect a consensus among CCICED members attending the 2008 Annual General Meeting.

The materials in this volume offer a great many options for China to consider as it continues to strengthen its governance of environment and development. We wish to share them within and outside of China in the hope that they will lead to a better understanding of the environment and development challenges facing China and China's contribution to resolving environmental issues domestically and internationally.

We extend our thanks to those who support CCICED's work and China's environmental undertakings. We appreciate the financial and other support from the Government of China and generous donors, and the contributions of the many experts who conducted the research reflected in this volume. The invaluable assistance of the Chinese and International Chief Advisors and their group of experts, who provided guidance to the research work, the assistance of the International Secretariat Support Office at Simon Fraser University in Vancouver, and the role of Council members, who volunteered their time and expertise in support of this undertaking, are all gratefully acknowledged.

CCICED Secretariat  
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# CCICED Policy Recommendations to Decision Makers<sup>1</sup>

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## 1.1 Overview

The Second Annual General Meeting of Phase IV of the China Council for International Cooperation on Environment and Development (CCICED 2008 AGM) was held in Beijing from 12-14 November 2008 with the theme of “Harmonious Development through Innovation”. This meeting occurred at a time of great turmoil in the world’s financial markets with the threat of severe global recession but also with a call for ‘re-regulation’. This year was also a time of celebration of tremendous achievement in China – 30 years after the Reform and Opening Up and after the very successful Beijing Olympics.

These events, along with China’s remarkable efforts during the snowstorm and earthquake disasters and in response to the melamine contamination and other public health incidents, have focused our discussions on how environment and development can play a stronger role in China’s future harmonious relationships.

The 17<sup>th</sup> Party Congress of the CPC specified that scientific development, Harmonious Society, and promoting an *Ecological*

*Civilization* should guide China’s social values and progress. Now, a year after this historic meeting, there is growing evidence that transformative action is taking place towards building a resource conserving and environmentally friendly society in China.

It is particularly significant that progress is being made on the 11<sup>th</sup> Five-Year Plan program for energy conservation and pollution reduction, that China leads the world in achieving many of the Millennium Development Goals, and that many of China’s science and technology innovation goals are for sustainable development. Moreover, necessary institutional strengthening, including the formation of the Ministry of Environmental Protection (MEP), is taking place. CCICED applauds this evidence of domestic progress and also China’s expanding role on international environment and development.

Despite these praiseworthy efforts and achievements, China’s domestic program for environment and development still faces many challenges, and much corrective action is necessary before its full contribution to a Harmonious Society can be realized. The action taken at the 3<sup>rd</sup> Plenary Session (October 2008) of the 17<sup>th</sup> CPC Party Congress to reduce the imbalances between urban and rural

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<sup>1</sup> This Chapter is based on CCICED Policy Recommendation to the Chinese Government adopted by the Annual General Meeting of CCICED held in Beijing from Nov.12-14, 2008 and it was drafted by Chief Advisors and Support Team of CCICED.



development is an important opportunity where increased environmental efforts will lead to a more harmonious society. The CCICED members are aware that public health problems induced directly or indirectly by pollution remain a serious factor for social advancement in China. This has been a priority area for CCICED research on harmonious development.

CCICED believes that an appropriate mix of incremental and transformative changes is needed to build a new relationship of environment and development in China and globally. That China is well positioned for carrying out these changes is fortunate. Environmental progress should intensify over time, first through incremental improvements and later by leaps and bounds, as the investments now being made in sustainable development innovation produce better technical solutions. CCICED has examined how environment and sustainable development innovations could be fast tracked, since it is unlikely that incremental change alone will satisfy China's ambitious environmental targets and longer term needs.

Nowhere is this need for innovation greater than in addressing environment and energy relationships and the global need to address reductions in greenhouse gases. CCICED has started several task forces and other activities on these topics. While the main results will not be reported until the 2009 AGM, a few preliminary recommendations are provided in this document.

The global environmental situation continues to decline, with direct effects on China through trade, climate change and in other ways. The Beijing Olympics has created a

level of awareness around the world of China's environmental problems and its capacity to address them. How China chooses to go about its efforts to promote an *Ecological Civilization* at a global level is therefore a significant matter, with implications for trade, market supply chains, and action on pressing concerns such as climate change. But China's domestic and international environment and development efforts could be threatened if the credit and financial crisis turns into a worse situation of recession.

The worsening global economic situation threatens social, economic and environmental progress of all nations, including China. This topic received special attention from both Chinese and international members. The CCICED AGM occurred just as China announced its substantial economic recovery package. Therefore there was a substantive basis for considering how China can turn the economic crisis into an opportunity for strengthening economic growth.

In the period of global crisis ahead there will be many opportunities where China and a few other major developing countries have advantages not found in more established industrial economies. This is particularly the case for sunrise industries and for green products, which will become of increasing significance in the second decade of this new century. In fact there may be a historic shift in leadership on environment and sustainable development from Europe and North America towards Asia. Trade and investment will be drivers for this to happen. Real solutions for global sustainable development are now as likely to arise from action in China as in other parts of the world.

Council members appreciated the Chinese position that the global economic slowdown therefore must not be allowed to stand in the way of environmental progress and that the economic stimulus package developed by China has incorporated environmental aspects. During this time of rebuilding the world's financial system and new economic growth paths, China could benefit by positioning its investments towards activities that will allow it to shape the nature of future world growth, for example as a supplier of renewable energy products and services. These are examples of what CCICED's Chairman, Vice Premier Li Keqiang, noted are actions that "promote development of the economy while taking good care of the earth that we share."

At the 2008 AGM CCICED reviewed final recommendations from Task Forces on Innovation and an Environmentally Friendly Society, and on Environment and Health. In addition, the Council received interim reports with some recommendations from three energy and environment Task Forces that will submit final recommendations in 2009, "Pathway toward a Low Carbon Economy", "Economic Instruments for Energy Efficiency and Environment", and "Energy Efficiency and Urban Development". In addition, the CCICED Issues Paper prepared for the 2008 AGM identified a number of urgent challenges facing China, in part the result of the international economic and environmental situation. Our three key recommendation topics draw upon these reports as well as on the views of Council members and discussions again underscore the need for effective im-

plementation and enforcement of strong environmental legislation, greater use of credible economic instruments, and a more scientific approach to the development and dissemination of reliable environment and development information as means to build confidence and public trust in China's environmental decision making. Of these points, the first and last deserve particular attention. Enforcement of regulations at a level that will change behavior is absolutely essential in order to foster innovative technologies and to improve environmental health conditions. But it is also vital to stress the need for public data that can be trusted by citizens and can become benchmarks for positive change via good standards.

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## 1.2 Recommendations

The following major recommendations to the Government of China are based on the deliberations and agreement at the CCICED AGM 2008. In addition, more recommendations concluded in the researching from task forces of CCICED will be forwarded for reference.

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### 1.2.1 Transformation challenges into opportunities for further implementation of a scientific development approach

2008 will surely be viewed as an exceptional year for China because of the devastating natural disasters, international financial turbulence, food safety incidents, successful Olympic and Paralympics Games and the 30<sup>th</sup> anniversary of the introduction of Reform and Opening Up. The year, on one

hand, gave rise to a number of new problems and challenges for China in the field of the environment and development, while on the other hand, the great success and joy of the year left a precious legacy for China, as well. As the year of 2008 draws to its end, it is now important for the Chinese government to face up to the problems and challenges, identify opportunities and potentials, review experiences and lessons, take positive actions, and look into the future.

Therefore we recommend that China:

(1) Seek Opportunities in the Wake of the Financial Crisis and Advance "Sound and Rapid" Environment and Development Initiatives.

To find a remedy for the financial market and achieve stable economic growth are undoubtedly the top priorities for the world right now. However, we must remain alert to prevent the environment from becoming the next victim of the financial crisis, as may occur in some parts of the world. Once it becomes a trend to neglect environmental factors, the world's sustainable development will take a significant step backward. Thus, China must work with unwavering determination to reduce emissions, improve energy efficiency, and fight climate change. The Chinese government has recognized the risk from the current crisis and has integrated environmental protection in the domestic stimulus package. It must now transform these challenges to opportunities for sound and rapid sustainable development.

The stimulus package should follow four principles with respect to environment and development. First, do no harm to the environment in the implementation of the pack-

age. Second, take a systems perspective that will identify positive relationships for the environment and the economy. Third, highlight labor-intensive activities operating at an appropriate scale to help poor people while protecting local environmental conditions, especially in the countryside. And fourth, seek co-benefits, especially for improving health and ecological restoration, as a consequence of energy improvements, disaster relief and reconstruction, and pollution reduction.

It is recommended that the Chinese government should fully be aware of risks and opportunities and take the following actions:

1) Strengthen supervision and environmental management in the execution of the domestic stimulus plan, so as to prevent regions from boosting economic growth at the expense of environment in their response to the financial crisis.

2) Consider not only environmental protection as one of the investment priorities of the stimulus package, but also carry out examination of supply chain environmental consequences and strengthen green procurement policies. These steps will boost the development of environmental protection industries and convey the strong determination of the government that environmental protection can be maintained even in the wake of the financial crisis.

3) Take advantage of the opportunities arising from the financial crisis in order to advance transformation of the development mode for the domestic economy. This can be done by boosting the development of clean energy and technical innovation, low carbon economy and by strengthening capacities in

the area of environmental protection and climate change in the remaining years of the 11<sup>th</sup> Five-Year Plan, and particularly during the 12<sup>th</sup> Five-Year development period.

4) Advance energy price reform and further internalize environmental externalities with the plunge of oil and commodities prices. It is advisable for China to adopt a long term “escalator” approach to gradually raise energy prices. It means small, but periodic and predictable rising prices or the introduction of additional environment or energy taxes, with information transparency to fully prepare the general public and reduce possible resistance.

5) For the longer-term, develop a Low Carbon Economy.

The Chinese government should attach great importance to the development of a Low Carbon Economy (LCE) and get prepared for action, particularly in terms of technology options and feasibility analysis. The development of a low carbon economy will benefit China both internally, in terms of addressing resources and environmental problems, and externally by contributing to the fight against climate change and raising international competitiveness. China should consider specifying low carbon economy related targets in the 12<sup>th</sup> Five-Year Plan for economic and social development and incorporate a low carbon economy in current strategies and actions.

(2) Create a Better Mix of Government Regulation and Market-Based Mechanisms Between Factors Favoring Innovation and Those Favoring Stability.

The world financial crisis and the infant formula incident have shown that excessive

reliance on market forces without effective regulation will create huge risks. In fact, market failures such as environmental externalities are often hard to control. The government thus should strengthen its supervision while adopting market-based instruments. China is at the initial stage of a socialist market economy where both market function and government regulation await improvement. Therefore the government should step up its supervision while giving full play to market-based instruments suitable for environmental protection.

Some of the most important market based approaches will require significant levels of capacity building for adequate management and supervision, including improved emissions monitoring, consolidating and standardizing emissions data, designating a legal registry for emissions reductions, and enforcing non-compliance with much stiffer penalties.

It is important for the Chinese government to maintain the balance between innovation and stability. Stability is a prerequisite for a harmonious society while innovation often entails reform to avoid unreasonable benefit distribution. Imbalance between the two will give rise to conflicts. But, if innovation helps encourage public engagement, promotes fairer benefit distribution and betterment of social welfare, it will help promote the development of a harmonious society. For instance, environmental innovation could help to optimize the relations between the environment and economy, resolve problems in the field of the environment and health, encourage wider public involvement, and give full play to the role of women in

building a harmonious society.

(3) Increase Speed Infrastructure Construction and Quality for Optimized Development and Harmonious Society.

In the face of such natural disasters as the snow storm and earthquake in 2008, the foundation for optimized development and harmonious society has proven fairly weak. Such weakness can be found in the relevant mechanisms, urban development patterns, the layout and quality of infrastructure, social security and emergency response. The weaknesses demonstrate that it is urgent for China to shift its growth pattern from quantitative expansion to quality development, and to achieve harmony between people and nature. The infant formula incident served notice that corporate social responsibility should be further stressed. A massive and systematic program is needed to achieve a more balanced development among various social and economic aspects. The foundations for harmonious society should be strengthened, including the moral and cultural basis for scientific development. If environmental factors are built into this more advanced approach to development, the chances for sustainability will be enhanced.

(4) Strengthen Rural Environmental Management and Help Improve Overall Environmental Protection in China.

The rural areas of China not only lag behind the cities in terms of economic and social development but also bear the brunt of environmental pollution and ecological damage. The countryside is thus a weak point in environmental protection and the building of a harmonious society. The central government of China is committed to the integrat-

ed development of urban and rural areas. In addition to the strategic goal of building a new socialist countryside, a comprehensive rural reform scheme was passed during the 3<sup>rd</sup> Plenary Session of the 17<sup>th</sup> Party Congress. Against this backdrop, China should create a bigger role for environmental protection as part of the overall strategic goal of building a new socialist countryside. The environmental priorities of rural areas should include greater attention to rural environmental management systems and capacity building, environmental infrastructure, drinking water safety, soil contamination, indoor air quality management, exploration of an integrated urban-rural environmental management mechanism, and eco-compensation. The eco-compensation policies should be expanded to include climate change mitigation and adaptation needs and damages cost by air pollution. Efforts on these priorities will improve overall environmental protection throughout China.

(5) Develop Innovative Environmental Management Systems and Mechanisms Based on the Successful Experiences of Green Olympic Games.

The successful Green Olympic Games has left China with valuable environmental legacies, including hardware such as demonstration projects and infrastructure that help to improve the environment and serve the public, as well as software such as the concept of ecological civilization, improved environmental management, environmental information disclosure and wider public participation. All these may help to bring about deep changes in economic and social development patterns.

In its effort to host a Green Olympic Games, the Chinese government adopted successful measures to promote pollution prevention and control planning, environmentally friendly buildings and infrastructure, environmental information disclosure, public participation, commercialization of the innovative technologies employed in the Green Olympics, control of trans-boundary emissions through the establishment of a regional environmental management system, vehicle exhaust pollution control, and phase out heavily polluting enterprises. China should review these successful experiences and develop standardized and long-term mechanisms of environmental management to improve the environmental quality of Beijing and other parts of the country on a continuing basis.

The 2010 Shanghai Expo offers a new opportunity for the implementation of the 'Green Olympics' experience and the government of China should integrate more green measures in the planning and implementation of a "Better City; Better Life" Expo.

Also, China urgently needs to control transboundary emissions via regional environmental management systems operating on total emissions control, emissions trading, and with appropriate institutions such as coordinating groups comprised of the relevant provincial governors. The experience of the Olympics in reducing the inflow of pollutants from provinces surrounding Beijing sets a remarkable precedent of cooperation that deserves to be emulated.

(6) Review the Experiences of the Past Three Decades and Continuously Improve

the Environmental Management System.

Over the past 30 years, China has tried to keep pace with the international community when dealing with the field of environment and development. In light of its realities, and drawing upon international experiences and expertise, China has developed its own approach with Chinese characteristics to address environmental problems and has made significant progress in creating its environmental management system and, in some locations, in improving environmental quality.

Three decades on, China is now in an important period for strategic transformation of its environment and development relationship. It is now necessary to systematically review the strategic ideas, theories, policies, and managerial practices in the field of environmental protection over the past 30 years. Such a review will not only help to consolidate successes achieved so far and further improve the environmental management system of China, but also will contribute to the international community by sharing the Chinese experience.

The establishment of the Ministry of Environmental Protection in 2008 was a major step forward for the Chinese environmental management system and reflects the commitment of the Chinese government to historical transformation in the environmental field. However, we note that environmental management system reform, perhaps leading to a super environment ministry, likely will be a gradual process. The next step should be further integration of environmental responsibilities of different ministries, which will optimize the central government organization and help raise capacity and effi-



ciency. For the new environmental ministry, current attention should be focused on capacity building and financial resources. Responsibility, power, capacity, and efficiency should be integrated into this super ministry, which can put people first and better serve the general public.

(7) **Make New Contributions to Global Sustainable Development and the Building of a Harmonious World.**

China and the world are mutually dependent. Given the large population and economic output as well as the important role of China in the global environment, the international community has higher expectations for China on issues like climate change and the financial crisis. China has made tremendous progress in development and now proposes concepts such as ecological civilization and harmonious society. These efforts should make the world more interested in China's ideas and experiences.

Therefore, now is the right time for China to make a more substantive contribution towards global sustainable development and a harmonious world. Stabilizing the financial system, sustaining rapid economic growth, and resolving environmental problems in China are in themselves great contributions to the world. Meanwhile, based upon the principle of common but differentiated responsibility, China should make new contributions to the global fight against climate change and sustainable development; China should also expand its existing environmental international cooperation into cooperation for sustainable development with strengthened cooperation between China and other developing countries.

### **1.2.2 Introduce a national action plan or program for environmental innovation, 2010-2020**

China's complicated and unprecedented challenges as it works towards becoming an environmentally friendly society open the door to unprecedented innovation opportunities. Yet environmental innovation in China remains at a low level, lags behind innovations in other fields, and falls well short of the needs. There are several reasons for this situation:

(1) Pollution clean-up rather than pollution prevention still dominates, and the institutions and mechanisms under which environmental protection and economic growth reinforce each other are yet to be established.

(2) Incentives and enforcement actions are still too weak and the command and control approaches still predominate. There is not a mechanism or policy system in place that encourages enterprises to invest spontaneously in environmental innovation.

(3) A disconnect exists between research on environmental science and technology and the commercialization of research achievements due to the absence of technological application research institutes and supporting coordinating mechanisms.

(4) Poorly developed technology and a limited system for collecting and publicizing environmental information accounts for low participation by the general public in environmental innovation and decision making.

China identified innovation as a core national strategy and mapped out the "National Innovation Strategy" and the "Mid-to-long-term Plan for Development of Science and