THE CHINA COUNCIL
FOR INTERNATIONAL COOPERATION
ON
ENVIRONMENT AND DEVELOPMENT

THE THIRD MEETING OF THE SECOND PHASE

Palace Hotel, Beijing
19 - 21 October 1999

SUMMARY RECORD

December 1999
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<td>ADB</td>
<td>Asian Development Bank</td>
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<td>AIJ</td>
<td>Activities Implemented Jointly</td>
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<td>APEC</td>
<td>Asia Pacific Economic Conference</td>
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<td>CDM</td>
<td>Cleaner Development Mechanism</td>
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<td>CFC</td>
<td>Chloro-Fluoro-Carbons</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>DC</td>
<td>Developed Country</td>
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<td>EIA</td>
<td>Environmental Impact Assessment</td>
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<td>EPB</td>
<td>Environment Protection Bureau</td>
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<td>EU</td>
<td>European Union</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<td>IISD</td>
<td>International Institute for Sustainable Development</td>
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<td>ISO</td>
<td>The International Organization for Standardization</td>
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<td>IUCN</td>
<td>International Union for the Conservation of Nature</td>
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<td>LDC</td>
<td>Less Developed Country</td>
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<tr>
<td>MFA</td>
<td>Ministry of Foreign Affairs</td>
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<td>MOFTEC</td>
<td>Ministry of Foreign Trade and Economic Cooperation</td>
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<td>NPC</td>
<td>National People’s Congress</td>
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<td>ODA</td>
<td>Overseas Development Assistance</td>
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<td>ODS</td>
<td>Ozone Depleting Substances</td>
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<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
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<td>PFRA</td>
<td>Prairie Farm Rehabilitation Administration</td>
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<td>R&amp;D</td>
<td>Research and Development</td>
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<td>SDPC</td>
<td>State Development and Planning Commission</td>
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<td>SEPA</td>
<td>State Environmental Protection Administration</td>
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<td>SETC</td>
<td>State Economic and Trade Commission</td>
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<td>SFA</td>
<td>State Forestry Administration</td>
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<td>SME</td>
<td>Small and Medium Enterprise</td>
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<td>SOE</td>
<td>State Owned Enterprise</td>
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<td>TVE</td>
<td>Township and Village Enterprise</td>
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<td>TVIE</td>
<td>Township and Village Industrial Enterprise</td>
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<tr>
<td>UK</td>
<td>United Kingdom</td>
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<td>UNDP</td>
<td>United Nations Development Programme</td>
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<td>UNEP</td>
<td>United Nations Environment Programme</td>
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<td>WBC</td>
<td>World Business Council</td>
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<td>WG</td>
<td>Working Group</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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<td>WWF</td>
<td>World Wide Fund for Nature</td>
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SUMMARY RECORD

I. INTRODUCTION

1. The China Council for International Cooperation on Environment and Development ("the Council") was established by the State Council of the Chinese Government in April 1991 to facilitate cooperation between China and the international community in the fields of environment and development.

2. The Council is a high-level advisory body that makes proposals for consideration by the Chinese Government on the integration of environment and development. It has so far held five annual meetings in the 1st Phase and three annual meetings in the 2nd Phase. It will meet regularly for an additional period of at least two years. It assists in developing an integrated, coherent approach to environment and development, and it encourages systematic cooperation between China and other countries. The Council will also seek to demonstrate its recommendations through pilot projects.

3. The Council is a non-governmental body but with strong government involvement. Currently, the Council comprises 25 Chinese Members and 29 International Members, all chosen for their expert knowledge and their experience.

4. The Members of the Council attended the 3rd Meeting of the 2nd Phase at the invitation of Wen Jiabao, Vice-Premier of China's State Council.

5. The host institution was the State Environmental Protection Administration (SEPA). SEPA has been made responsible for inter-ministerial coordination and for supporting the activities of the Council. It has established a Secretariat to maintain and develop international and domestic contacts and to ensure follow-up within China to the suggestions made by the Council, as well as to deal with the routine work of the Council when it is not in session. The Secretariat is assisted by the International Secretariat, which is directed by Prof. Earl Drake, located at Simon Fraser University in Vancouver and funded by CIDA.

6. This Summary Record of the 3rd Meeting of the 2nd Phase of the Council was prepared for the International Secretariat by Ms Lucie McNeill on the basis of more detailed notes recorded during the Meeting. The Summary Record represents the International Secretariat's interpretation of the discussions and not necessarily the views of all the
participants. To ensure frank and direct exchanges, it has been agreed that the Summary Record of the Meeting should present an overview of the discussions without attribution to individual speakers.

II. AGENDA ITEMS

ITEM 1. APPROVAL OF NEW COUNCIL MEMBERS AND NEW WG CO-CHAIRS

7. A number of new international Council members and WG co-chairs were acclaimed.

ITEM 2. ADOPTION OF THE AGENDA

8. With Vice Chairman Qu Geping presiding as chair, the agenda for the 3rd Meeting of the 2nd Phase was accepted as presented.

ITEM 3. OPENING CEREMONY

9. With Chairman Wen Jiabao presiding as Chair, the following participants made statements to mark the opening of the Meeting:

1. Council Chair Wen Jiabao, Vice Premier of China’s State Council
2. Vice-Chair Huguette Labelle, President, Canadian International Development Agency
3. Vice-Chair Qu Geping, Chair of the Environmental Protection and Natural Resource Conservation Committee, NPC
4. Vice-Chair Liu Jiang, Vice-Chair, SDPC
5. Vice-Chair Xie Zhenhua, Minister, SEPA

10. In the course of these remarks, the following points were made:

11. China has achieved both economic growth and environment protection during its 9th Five-Year Plan. Spending on the environment – ecological construction and environmental protection – is now 3% of the government’s annual budget. Strategic investment has paid off in that 65% of China's industrial wastewater discharges and 66% of all gas emissions are up to national standards. Another major thrust has been in the area of reforestation and control of soil erosion. However, China’s environmental challenges are still daunting and the Council has a contribution to make in the areas of applied research and policy recommendations. As we enter the new millennium, China will continue its modernization drive by pursuing both economic and ecological construction. China will use legal and market mechanisms to help achieve these goals.

12. The Chinese government is embracing both the concepts of socialist market economy and sustainable development. These concepts will guide the design of the 10th Five-Year Plan. The challenge for China will be to engage all sectors of society in curbing environmental degradation. There is great potential for synergy and coordinated action between these sectors. China now realizes environmental degradation hampers economic growth and contributes to poverty. The Council’s responsibility is to provide
China with strategic and relevant policy advice. Some of this advice should focus on market mechanisms, providing incentives for all sectors of society to use resources in a sustainable manner. However, when market forces fail, other measures need to be adopted. The Council’s success is measured in terms of policy initiatives and how these are applied throughout China.

13. The role of government is key in terms of implementing a sustainable development strategy, setting a legal framework, enforcing regulations and investing in ecological construction. The NPC now has on its agenda a bill on environmental impact assessment which would apply to all economic plans. China still needs to switch from the “command and control” approach to environmental management, to a market-based approach. Pollution trading, pollution taxes, resource pricing and other economic tools will need to be devised. Public participation must be encouraged by fostering public awareness.

14. Environmental protection has gradually emerged as a key concern in China’s Five-Year Plans, making its appearance in the 6th Plan. By the 9th Five-Year Plan, the environment was a major focus. It’s expected the 10th Plan will incorporate sustainable development concepts in most policies and programs, to ensure environmental protection becomes an integral part of government planning. This comprehensive approach will aim to coordinate population growth, natural resources development, ecological construction, environmental protection and economic growth.

15. Over the past year, major gains have been made in environmental protection in China. Industrial pollution sources in the Huai river basin, Tai and Dianchi lake basins now meet national standards. The city of Beijing has taken drastic measures to clean up air pollution by promoting clean fuels and controlling vehicle emissions. National spending on environmental protection has grown rapidly, reaching a historic high of 0.91% of GDP in 1998. As part of the country’s economic reforms, obsolete industrial plants and processes are being mothballed. China is also spending more on reforestation and the establishment of ecological zones. Much is expected of the Council in helping China ensure the 10th Five-Year Plan promotes sustainable development.

ITEM 4. GENERAL DEBATE ON CHINA’S 10TH FIVE-YEAR PLAN

16. Chairman Wen Jiabao presided over the Council’s General Debate on China’s 10th Five-Year Plan. Proceedings were initiated by a keynote speech by Maurice Strong, chairman of the Earth Council and senior advisor to the World Bank and the United Nations. During the Debate, the following points were made:

17. The 10th Five-Year Plan is of special importance to China and the world because it will set the direction for China’s development into the next millennium. Globalization, the web of interdependence linking the world’s economies and ecologies, will accelerate. The gap is increasing between rich and poor, and between technologically advanced and technologically deprived nations. The challenge is for governments to access the benefits of globalization while minimizing loss of sovereignty and local culture. Environmental issues illustrate globalization’s dilemmas and opportunities.

18. Environmental problems can only be effectively addressed in the ways we manage the economy through the kind of planning taking place in China for the 10th Plan. Perverse
subsidies, economic instruments which have outlived their intended purpose, impose heavy costs on an economy. Governments are increasingly reorienting their systems of incentives and dis-incentives in order to promote sustainable development. They’re also increasingly promoting public awareness and participation, since an informed public is the most effective way to generate action.

19. In devising its 10th Plan, China should look at placing energy at the heart of its sustainable development paradigm. China already recognizes that changes are needed in energy pricing and market in order to achieve efficiency gains. China will also need to access state of the art technology, focusing on domestic R&D. A set of economic incentives and the availability of investment capital are key to this. Correct planning will allow China to set priorities for investment and to establish incentives to tap domestic savings.

20. The world’s peoples have a direct stake in China’s transition to sustainable development. China is the second largest source of CO2 emissions. But because China is so important to the global environment, the rest of the world has an incentive to help and support China through this transition. This means giving China access to our markets, our technologies and our expertise. China also has a direct interest in avoiding climate change because its impacts could be felt keenly here.

21. In order to support China’s own R&D and to provide China with more ready access to expertise and technology, as well as access to affordable financing, the international community should consider the establishment of a Global Consultative Group on Clean Energy, similar to the existing one on agriculture research. This proposal has already been set forth and should be endorsed by this Council.

22. In reviewing the 9th Five-Year Plan, significant successes include the population stabilized at 1.3 billion and the per capita GDP which has quadrupled as compared to 1980. GNP growth over the period has been healthy, with a vast majority of urban and rural citizens enjoying rapidly improving standards of living. By the year 2000, China plans to have eliminated poverty and socialist market economy institutions will have been set up for the most part.

23. As the 21st century dawns, China’s economy enters a new phase of modernization. Key to this will be information technologies, putting even more emphasis on education, science and technology and R&D. It’s expected average per capita income will continue to rise, economic and institutional reforms will continue and urbanization will accelerate. However, China faces significant problems: slack effective demand; economic deflation; unemployment; inefficient industries; growing gaps between urban and rural residents, as well as among coastal and interior regions; lagging R&D. During the 10th Plan, China will expand the domestic market, increase investment in fixed assets, speed up housing reform, set up a social security system and improve economic conditions in the countryside. China will pursue a sustainable development strategy through family planning, environmental protection and resource conservation.

24. With Vice-Chairs Qu Geping and Huguette Labelle presiding, the Debate continued and the following comments were made:

25. China’s five-year planning cycle is an opportunity to better integrate economic and environmental concerns. The central government is acting increasingly as a regulator of
the actions taken at lower levels by both private and public actors. Effective integration mechanisms should be established and coordinated by political bodies at each administrative level; decisions should be based on environmental assessments. The economy needs to be re-oriented in order to become less energy-intensive, shifting from heavy industry towards the service and information-based sectors. China will be pursuing accelerated urbanization, but the cities created or expanded should be set on a sustainable footing; cleaner technologies, energy efficiency, waste recycling, environment-friendly transportation systems and the establishment of ‘green lungs’ should all be integrated in urbanization plans. Financial reforms should integrate principles of sustainable development, applying economic incentives to achieve realistic resource pricing. China needs to stabilize the investment climate and remove existing barriers to foreign investment.

26. Environmental protection and resource management is one of ADB’s three objectives for China. Pricing of resources is a key determinant of pollution, particularly in the case of coal. Comprehensive, timely planning is key for large geographic areas (such as the Yellow River) and for sectors (such as agriculture). The promotion of trade is important for sustainable development, but economic distortions must first be removed in the domestic market to avoid greater negative impacts on the environment.

27. Asian countries need to allocate at least 1% of their GNP to environmental protection and China should be spending at least 1.5% of its GNP on this. The Council should provide China with more specific recommendations in the areas of public participation and cleaner production. The role of SEPA should be further strengthened in order to perform a function of environmental management on the ground.

28. As China’s economy continues to grow at a rapid rate, it’s expected energy demand will also grow, with consequent impact on global warming. China needs to emphasize greater energy efficiency in order to mitigate the negative impacts of growth. The Chinese economy is generating private capital from this high growth rate; this should be directed to investment in the environmental industry. The Chinese government can assist in this shift by offering tax incentives and by improving the foreign investment climate.

29. In its report on the 10th Plan, the SDPC doesn’t elaborate on its analysis of environmental issues. While it’s true that China has worked hard on solving these problems, there is still a need to recognize the seriousness of the remaining water, air and solid waste pollution throughout the country. The 10th Plan should focus more on sustainable development, making it the underlying principle for all other considerations; at present as formulated by the SDPC, this is only one point among many. There is also a lack of clear goals in the area of environmental protection and resource conservation. China’s industrial structure and its industrial orientation should take into account its existing resources. While rapid urbanization is a sound goal, sustainable development of cities also needs to be considered. The promotion of cleaner production should also be included in the Plan.

30. Integration is the theme of this Meeting, but while this is easy to advocate, it’s much harder to implement. While certain integration mechanisms can be devised to ensure sustainable development goals are pursued by government, the reality is that certain more powerful ministries tend to prevail over weaker ministries. In order to promote change, alternative policy scenarios need to be outlined. Environmental goals need to be
given weight by the government; they should be stated as concretely and broadly as economic goals are. For instance, it’s possible to set energy efficiency goals, with certain indicators chosen to monitor results. This can be done for other sustainable development factors.

31. Water is a critical element. According to the UN, by the year 2025 half of the nations on Earth will be facing severe water shortages. Greater water use efficiency has to be one of the key goals of the 10th Plan. This is especially difficult as another goal of the Plan is to develop China’s north-west, where water is a limiting factor.

32. The focus of the Council’s recommendations to China is to place economic growth on a sustainable development footing. But the specific recommendations enumerate concerns related to the environment and natural resources. Little mention is made of the social dimension. For example, gender, civil society and poverty are not touched upon, yet they will all have an impact on sustainable development. Each of the key sectors mentioned, from energy to pollution control, have social implications which should be spelled out. In terms of the work of the task force which emphasizes integrated planning, the importance of strengthening civil society should be featured among the recommendations.

33. In the 10th Plan, specific environmental targets will be spelled out, although the specifics still have to be determined; this will also be done for the longer term targets of year 2010 and 2015. For instance, in the 10th Plan, environmental protection and ecological construction work will comprise 1.5% of the GDP. We also have targets for grassland expansion and reforestation. At present, ecological reserves account for 7.2% of the territory; by the end of the 10th Plan, this will reach 10%. More emphasis will be placed on the use of market mechanisms to foster environmental protection.

34. As China moves from a planned to a market economy, market instruments and incentives will have to be pursued in order to promote sustainable development. China’s business sector has a key role to play. The World Business Council has been promoting the concept of eco-efficiency since the Rio conference of 1992. This is a win-win proposition for business and the environment. Opportunity-oriented language should be used in the Council’s recommendations to reflect this. Chinese business representatives should also be present at the Council; a Chinese Business Council for Sustainable Development – similar to those which have been created in 22 other developing countries – could be created to promote better information flow and feedback. There should also be better synergy between ODA and business investment in order to promote sustainable development in China.

35. Environmental policy cannot act as the repair shop for the past mistakes committed due to bad planning. It’s not enough to set targets in the formulated plans and to have SEPA raised to ministry status. What is required now is better integrated decision making. One way to do this is to have the Chinese government establish a cabinet committee, under the supervision of the SDPC, with representation from SEPA and other relevant authorities. The same concept should be replicated at the provincial and municipal levels.

36. There is a lack of discussion in the Council’s recommendations on public consultation and participation. As China’s per capita income grows, people’s attitudes and goals will change; some. It’s important for people – rich and poor – to have the opportunity to
express these goals to government. There are five areas in which participation and consultation are needed: environmental impact assessments; involvement in ecological construction; biodiversity protection; managing urban quality of life; flood and other environmental disasters.

37. The Council should explore how to foster volunteer mechanisms for industry and the urban wealthy. As incomes rise, there is a concordant increase in consumption, sustainable or otherwise. Some volunteer mechanisms could include ISO 14000, technological improvement, CO2 emission control and biodiversity conservation.

38. A new area for the Council is the oceans and the coastal zones. Urbanization will accelerate, with probable impact on coastal zones first. Coastal zones in China are under intense resource use pressure at present. There is no mention yet of integrated coastal management approaches, except for the Bohai sea. A focused effort dealing with integrated coastal management should be promoted by the Council.

39. Investment in environmental protection is highly productive, yielding a high rate of return. It is not an expenditure or a consumption good. It’s important for this point to be made clearly. It’s also important to emphasize that the 4% to 8% cost of environmental damage to the economy is felt disproportionately by poor people and poor regions.

40. When considering the reform of China’s energy sector by opening it to market forces and commercialization, we should note the benefits that will accrue as a result. Greater cost efficiency, easier access to new technologies, access to foreign capital are all the benefits of liberalization. But there are also some constraints. In some areas, the market will not work to a country’s advantage, unless the liberalization is not accompanied by sensible public policies, regulations and a coherent tax system. There has to be incentives for households to behave differently in their use of energy. Denmark increased its wealth by 25% without increasing energy consumption and while reducing CO2 emissions. A major tool is increasing coal burning efficiency. NGOs have a key role to play here in stimulating behaviour change.

41. Biodiversity conservation is a key challenge faced here. The work of the Biodiversity WG needs to be supported and its recommendations taken on by the Council as a whole. As a result of the disastrous floods of a year ago, there is now more attention paid in China to the protection of watersheds, forests and wetlands. Biodiversity conservation work requires governments to adopt longer-range planning than a five year cycle; reforestation of some parts of the Loess plateau is now paying dividends some 50 years following implementation.

42. The 10th Plan should aim to have China benefit from the trend towards globalization. Globalization of consumer power and green consumerism are here to stay. Eco-labeling could be a plus for China’s trade products. China is already demonstrating it is taking a pro-active approach to this. China can also take advantage of new global mechanisms to promote green R&D.

43. EIAs should not only be done on a project basis, but should be performed for government policies as well. It’s easier to assess the environmental cost associated with policies before they’re implemented, rather than have to change existing policies later.
on. Public information is key. The EU’s experience is that civil society involvement is key to long-term success.

44. There is a need for the Council to continue advocating support for basic research in the natural and social sciences. Without basic science, there is no applied science and technology. Without changed behaviour, the fruits of science and technology cannot be reaped. There is also a need to stress environmental education and strengthen recommendations to China in this area.

45. China is only starting to do biodiversity conservation work, yet the rapid economic growth in China is already leaving a heavy footprint on the natural environment. Many endangered species here are now on the verge of extinction, and this loss is irreversible. The introduction of a logging ban which was recommended some years back by the Council is commendable. But reforestation has to be done carefully in order to avoid monocultures which would lead to a decrease in biodiversity. In addition, a forest cutting ban in China can have an impact in other countries which are logging their forests in an unsustainable way to satisfy China’s lumber demand. Measures to mitigate the social consequences of China’s logging ban should also be considered.

46. China needs to conduct a biodiversity assessment in order to find out where it stands; capacity building in this area should take place. Public education programs have to be undertaken in order to get the public onside, particularly with communities affected by biodiversity conservation measures such as logging bans. Public participation is a pre-condition to land use change implementation. In other countries, stakeholder consultation and participation have led to community forestry schemes which promote the conservation of indigenous and plantation forests. Holding a Forest Congress could be held to discuss these measures more specifically.

47. The production of cleaner products has to be emphasized. Chemical elements found in electronic products are finding their way into women’s breast-milk in Sweden, yet these products are thought to come from cleaner production manufacturing processes. These products are imported from the Philippines, China and other countries. During the 10th Plan, there will be an increasing interest throughout the world for clean products, which will have a large impact on trade flows.

ITEM 5. REPORT ON THE WORK AND FINANCES OF THE SECRETARIAT

48. Mr. Zhang Kunmin, Secretary General of the Council, reports on the work of the Secretariat since the 2nd Meeting of the 2nd Phase.

1) Recommendations made to the Chinese government at the end of the 2nd Meeting of the 2nd Phase have been followed up by various ministries; in particular, the SDPC is presently formulating a set of economic and social development plans for the 10th Five-year Plan. The government has continued to promote industrial reform in order to eliminate the worst polluters and promote the adoption of cleaner technologies and cleaner production. New measures of soil, grassland and forest conservation, including the creation of new ecological reserves, have been taken.
2) Secretariat staff have contacted various government departments and regulatory bodies to inform them about Council recommendations and forward relevant technical work done by the Working Groups. The Secretariat requested of Council Members that they draft recommendations to the Chinese government on the 10th Five-Year Plan; the response to this request was excellent.

3) The Secretariat is strengthening its links with the Working Groups in order to better serve them; Secretariat staff will now attend WG meetings. In addition, a meeting was convened early in the year by the Secretariat with WG liaison persons present; this allowed the Secretariat to be better informed of WG activities.

4) A new method to draft Council recommendations was devised. The Secretariat used the Members’ draft recommendations on the 10th Plan as a basis for drafting this year’s recommendations to the Chinese government. The draft was then sent to Members’ for consideration prior to this Meeting. The draft was further revised following Members’ feedback.

5) The Secretariat is collaborating in the International Secretariat’s self-assessment which is being prepared for CIDA. The final report of this assessment will be available for Members by the 4th Meeting of the 2nd Phase.

6) The Secretariat continues to emphasize the need for committed funding on the part of international organizations. Ad-hoc, annual commitments make it difficult for the Secretariat and the Council to plan activities. Council income has increased by USD $400,000 this year over last, to reach a total of USD $2,660,000. The lions’ share of Council income (70%) finances the Working Groups’ activities.

ITEM 6. REPORTS BY THE WORKING GROUPS

49. Vice-Chair Huguette Labelle presided over initial reports and discussions.

a) Coordination of the Working Groups

50. Dr. Kees Zoeteman summarized the meeting of the Working Group Co-Chairs and underlined the following issues:

51. The coordination meeting shed light on areas of synergy between Working Groups and outlined the communication methods which could be used to foster better collaboration. The Environmental Economics WG is already using most of those means.

52. The meeting discussed the work of the Task Force, including the ways which could be used by the central government to better integrate environmental concerns into all aspects of economic planning.

53. The meeting also enumerated ways to improve coordination between the Council and the work of the government; these include the development of a long term sustainable
energy strategy and the selection of financial instruments as incentives to environmental protection.

54. While the meeting focused mostly on issues of substance rather than on logistical problems, this was felt to be an indicator of good WG coordination.

b) Energy Strategies and Technology

55. With Vice-Chair Xie Zhenhua presiding, Prof. Ni Weidou and Prof. Thomas Johansson, Co-Chairs of the Working Group on Energy Strategies and Technologies, presented the WG’s report, underlining the following points:

56. The present state of energy development in the world and in China is not consistent with sustainable development. It’s necessary to implement an energy sustainable approach to development. The WG is in the process of identifying and developing a long term sustainable energy policy for China. This is likely to feature more efficient energy use, increased use of natural gas and the development of new coal technologies.

57. Financing will be the limiting factor in China, since domestic funding sources don’t meet the demand. Hence China will need to attract foreign capital, and therefore to foster the right investment climate. Energy pricing will also have to change to attract investors.

58. A sustainable coal strategy for China should be developed, taking into account China’s large coal resources and the emergence of coal utilization technologies. There should be larger investment in energy efficiency, natural gas and renewable energy sources. Incentives should be put in place to encourage a wider use of renewable energy sources.

59. Over the past year, the WG has continued to work on long-term coal strategy, including consideration of synthetic gas and coal gasification. This creates an opportunity for co-generation and CO2 sequestration. A seminar on coal bed methane touching upon the issues outlined above was held this past year. It led to a proposal for a demonstration project, to be funded by Canada and China. This would allow the WG to identify potential sites and find out whether China’s coal beds have the characteristics needed for CO2 sequestration. Present experiments in Canada are promising and costs appear to be in line with thermal power generated from coal and delivered to Beijing.

60. Co-generation would allow China to use fuels and generate electricity more efficiently; it shows most promise in the industrial sector and for district heating. The difficulty faced by co-generation is of an institutional nature, in that co-generators find it difficult to have access to the power grid and to get a fair price for power delivered to the grid. These stumbling blocks should be eliminated. This measure would also benefit wind and biomass power generation.

61. The WG has continued to work on the institutional framework of the oil and gas industry by looking at the renewable energy sector, particularly wind energy. A demonstration project has been completed and possible applications will be developed. Similar to oil and gas, China should consider the creation of a Wind Development Corporation. This would be the public counterpart to some schemes such as wind farm concessions.
The WG has also concentrated on developing a strategy for the development of biomass renewable energy with the cooperation of Jilin province. During the 10th Plan, China should dramatically increase initial financial support for the commercialization of biomass; this should include the use of market instruments to encourage the switch to biomass generation; it should also include setting biomass market share targets. Several institutional reforms are needed to allow this to happen and they are spelled out in the WG’s report.

Over the coming year, the WG will give more detailed attention to the co-generation potential in China, as well as to the energy market restructuring options. The WG will complete the wind resource concession scheme design. It will work on the biomass technologies and their dissemination with the assistance of market incentives, starting in Jilin province. Also, the WG is looking at long-term projections for energy which would meet China’s Agenda 21’s social and economic objectives. The WG hopes to identify a combination of technologies, energy sources and institutional structures to foster sustainable energy use in China.

Discussion

Shell has been doing some work on coal gasification at its Nanhai petrochemical complex, indicating that this can help reduce costs. Necessary technology need not be of large scale and can be manufactured locally, further increasing cost efficiency. Shell is convinced this is competitive, even before looking at the cost of pollution.

Perhaps China should look at setting up a syn-gas park, with syn-gas using industries located around the mouth of a coal mine. This adds value to the complex, without adding to costs due to transportation or the building of gas pipelines. To make this a reality would require the assistance of the government of China.

Denmark is keen to export its wind turbines to China, but even with significant export subsidies and discounted prices, China says wind energy is still not feasible. In Denmark, it has been necessary for the regulators to require of the power companies to purchase a given proportion of their power from the renewables. At present this proportion is 10% but it will eventually climb to 50%. This creates a viable market for producers of renewable energy. As utilization increases, the costs of the technology decrease. As prices converge, then the subsidies can be gradually withdrawn. Renewable energy is of key interest to the least developed regions of China and this could be a good source of wealth for them.

It is curious that the WG’s report makes little mention of nuclear power, while the draft recommendations submitted by the Secretariat state explicitly that China should have a long term nuclear power policy. There is no consideration in this recommendation of the economics of nuclear power. It should be noted that no western country is now investing in nuclear development because it’s not profitable. There are also serious waste issues which haven’t been resolved. It would be irresponsible for the Council to advocate a policy which Western countries are turning their backs on.

On nuclear power, the WG feels China should consider all options and see which are most appealing. But cradle to grave costs of nuclear power have to be factored in to
make the comparison relevant. This work was done previously and the WG feels that other energy options are more attractive to China than nuclear.

69. This WG is a victim of its own success in that energy has been taken up as a theme for the Council’s work. It’s perhaps time to delineate the WG’s scope in order to avoid duplication of effort with the Task Force and with the Pollution Control Groups.

70. In China, the nuclear sector has to be considered whenever power generation is discussed. It’s necessary to optimize the energy grid and by the next century, nuclear power could be called to play a part, particularly in southeast China.

71. China’s energy status needs to be put in a more global context. China stands to benefit from emissions trading and clean energy generation subsidies. Both could become significant revenue generators for China. In addition, consideration should be given to the liberalization of international trade in natural gas and other energy resources.

72. Biomass could become a major energy source in China and the government will be paying more attention to this in the 10th Plan. This is because crop residues in rural China are a significant resource. Biomass energy would allow farmers to access more reliable energy. It would also liberate rural women who spend a significant portion of their week seeking fuel. More research is needed to refine biomass technology.

73. The structure of the energy industry is key to the development of renewable energy. In Europe, the deregulation of the power sector is the reason why renewable energy is being introduced more aggressively. The interfaces between generation, transmission and distribution need to be well designed and regulated.

c) Sustainable Agriculture

74. With Vice-Chair Xie Zhenhua presiding, Working Group Co-Chairs Dr. Bernie Sonntag and Prof. Sun Honglie presented their report, highlighting the following issues:

75. The WG focused on the Loess Plateau since the 2nd Meeting of the 2nd Phase, in part because the development of China’s northwest has been decreed a state priority. The Loess Plateau has been critical to China’s early development and history, but it now suffers from some of the most serious soil erosion in the world. It is the main source of the sediment flowing into the Yellow River, thereby contributing to flooding. Yet this situation could be reversed with appropriate action.

76. The WG’s recommendations deal in part with the Loess Plateau, but some are more general and are relevant to China as a whole. China should follow a strategy of water and land management which is conservation-based. For instance, low-tillage agriculture should be investigated, with demonstration projects and effective extension to farmers. Cultivation and grazing of steep slopes should be halted, with livestock being fed in pens or fenced pastures. The following actions should be taken: re-seeding of slope land;
planting grass strips as opposed to mechanized terracing; reforestation with appropriate shrubs and grasses; planting ground-covers in orchards; and the creation of non-agricultural jobs for people displaced by the ban on steep slope farming.

77. The Yellow River Basin should be managed in an integrated manner. A new agency with appropriate trans-provincial powers will need to replace the existing Committee for Water Conservancy of the Yellow River. This agency should be headed by a senior leader of the State Council and should draw from international experience in trans-boundary water basin management.

78. The structure of agriculture will need to change, with greater emphasis on animal husbandry, in particular ruminant species. Confined feeding systems should be promoted. Local institutions need to develop appropriate technologies to combat soil erosion, using local forages and ground-cover crops.

79. China’s agricultural R&D and extension services need to become more client and market oriented. Research institutions and scientists should be encouraged to support China’s eco-construction work, undertaking innovative research on soil and crop management. National and regional authorities should be more pro-active in the dissemination of appropriate technologies and farming systems, in order to overcome initial farmer resistance.

80. Further economic development in China’s countryside should be based on comparative advantage of local production. Greater emphasis should be given to (a) assessing long-term comparative advantage of Loess Plateau tree fruit production; (b) capacity building of agriculture extension workers in the marketing of agricultural products; (c) supporting farmers by providing them with relevant and timely market information; (d) fruit processing should be investigated to widen market opportunities for fruit producers.

81. Mechanized terracing should be reconsidered, comparing short-term costs and long-term accrued benefits. Alternative ways of terracing should be devised, encompassing such factors as infrastructure, energy and rural development.

82. Land property rights on the Loess Plateau and elsewhere in China should be clarified to encourage farmers to increase investment in long-term land fertility, and to improve land use and the conservation of natural resources. Rural credit services should also be improved, possibly incorporating elements of some present micro-credit schemes.

83. Development planning for the Loess Plateau should be more integrated in the national strategic plans so that (a) national and regional grain policies do not undermine environmental sustainability; (b) people in the north-west benefit in a more equitable manner from national exploitation of the region’s energy resources; (c) re-vegetation measures in the Loess Plateau can contribute to meeting China’s international obligations for climate change mitigation, through carbon sequestration.

84. The WG’s future plans include a focus on the red soil areas of south-central China, and additional demonstration projects in Inner Mongolia involving tillage reduction and grassland management; there is also the possibility of a project located in the south China grasslands. Funding is to be confirmed from CIDA and possibly AusAid for the
Inner Mongolia project; no funding is available yet for the south China grasslands project.

**Discussion**

85. The Secretariat’s draft recommendations seem to water down some of this WG’s recommendations, while ignoring others altogether. The Secretariat should re-draft these recommendations so that the tone of urgency is not lost.

86. There is possibly an area of cooperation between the Biodiversity WG and the Sustainable Agriculture WG on grassland conservation on the Qinghai Plateau.

87. A more macro interpretation of sustainable agriculture should be adopted, with this WG looking also at the fisheries and aquaculture.

d) **Pollution Control**

88. With Council Vice-Chair Huguette Labelle presiding, Pollution Control Group Co-Chair Dr. Toni Schneider presented the WG’s report on behalf of his Co-Chair, Prof. Qu Geping. He underlined the following points found in the Group’s report:

89. The first major project of the WG focused on four cities, namely Guangzhou, Chongqing, Zibo and Suzhou. On the basis of research findings, recommendations have been made for rapidly-developing cities; these have been distributed throughout China. Guidelines for EIAs and for pollution forecasting have been developed. Some of the EIA guidelines may be incorporated in the new law on EIA being considered by the central government. In addition, a popular version of these findings will be developed for educational purposes and for various media.

90. The second major project of the Pollution Control WG focused on the Pearl River Delta. This is an ambitious water management project, taking into account Guangdong’s rapid economic development. The first phase which concerned the eastern section of the delta has been completed; the second part concerns the western section of the delta and should be finished by mid-2000; the last section will focus on the northern delta. Reports in English on the first two phases should be available to Council members by the next meeting.

91. The final project is entitled Policy Options for CO2 Emission Mitigation in China and the project document has been made available to Council members. This project is the result of discussions at the 2nd Meeting of the 2nd Phase. It was funded in June and implementation has already begun. This is a two-year project, comprising five components. Workshops, training and study tours will be conducted in the latter part of this year. Initial model building and model runs will be done next year; the first results should start coming in by the spring of 2000. Cooperation will be sought from the Energy Strategies and Technologies WG, the Environmental Economics WG and the Sustainable Agriculture WG.

92. There are ongoing information exchanges between Chinese and foreign experts under the aegis of this WG. Two workshops were held this past year, in Shanghai and Beijing.
In the coming year, two more will be held: the first one, scheduled for Beijing in February, will focus on PM-10 – air pollution caused by small particulates, which has severe impacts on human health.

93. Regarding the Council’s recommendations, this WG’s suggestions have just been drafted. Following the CO2 project, we recommend that the implementation of joint energy-environment planning in rapidly-growing cities and economic areas should be speeded up.

94. Regarding the WG’s second recommendation, experts have been surprised by the severity of the photo-chemical smog problem that occurs in the summer. This problem receives very little attention at present. Hence, the WG suggests nitrogen pollution and related ozone problems be investigated, particularly in southern China.

95. Lastly, on the issue of small particulates, the WG would like to see more attention paid to the relation between air pollution and human health. Further studies are needed, but it is suspected these health problems are largely caused by small particulates and ozone.

Discussion

96. China has great potential for helping solve the problem of climate change. Japan has done some climate change simulations involving Chinese research institutions and is prepared to share these results with the WG. The Council should be informed that Japan’s Environment Agency will support the next meeting of this WG, which will be combined with a study tour of Japan.

e) Task Force on Environmental Protection and Economic Planning

97. With Council Vice-Chair Huguette Labelle presiding, Task Force Co-Chairs Gao Guangsheng and Dr. Martin Lees focused on the following points during the presentation of their report:

98. At inception three years ago, the Task Force was to concentrate on four main themes. The most important is developing a more integrated decision-making process in which environmental concerns are taken into account when determining economic and investment plans. The Task Force has completed its research project on an integrated economic development and environmental protection decision-making mechanism. With support from the EU, a comprehensive report was produced, as were seven monographs and four case studies.

99. At the request of the SDPC, the International Review Meeting on Proposals to Integrate Economic Planning and Environmental Protection was convened in July. A recommendation was made to create a Policy Office at a high level of government to implement, monitor and supervise the link between economics and environment. In addition, China expressed an interest in greater public participation. There are clear plans to engage the public congresses at various levels in this, as well as the People’s Consultative Committees. This should put the environment squarely front and centre.

100. The SDPC has coordinated the efforts of several ministries early this year to do a preliminary study on the 10\textsuperscript{th} Plan. The first paper focused on how sustainable
development could be promoted by the Plan; this paper incorporates many of the findings of the research project and the Review Meeting. The results of this work should be reflected in the final version of the 10th Five-Year Plan.

101. The second main theme for the Task Force is energy. The International Conference on Energy Technology and Finance for Sustainable Development in China was held in Beijing in late July. The areas discussed included China’s lack of an integrated strategy for the sustainable development of its energy sector. Energy planning at present is not linked to macro-economic planning; environmental, social and other factors are not properly taken into account. Also discussed was the investment climate required to foster foreign investment in China’s energy sector and recommendations to promote international cooperation on technological change in the energy sector.

102. A challenge to the Council is China’s need to measure its progress towards sustainable development. The selection of an appropriate and practical set of indicators is clearly needed. International experience is available on this issue and should be shared with the SDPC.

103. The third theme for the Task Force was to be forestry, but unforeseeable circumstances have forced the Task Force to set the issue aside for the present.

104. The fourth theme is the environmental industry, which has been included by the government in the 10th Plan. More specifically, we need to determine what the government could do to foster its development through incentives, targets, legislation and fiscal measures. A conference will be convened next year on this issue by the Task Force. The WBC has agreed to assist the Task Force in this area.

Discussion

105. The work done by the Task Force is excellent and Council members are being kept informed of its progress. Perhaps it’s time to clarify if this is a task force or a working group, although ‘task force’ does imply overarching concerns, and the fact that all WGs are called upon to contribute to its work. Funding for the next phase of the Task Force’s work is key in that the answers found through its work could be useful to all countries. There is also a need to provide examples where integration has been achieved.

106. Key to integration is the participation of the private sector, both industry and the general public. Incentives and disincentives need to be devised to get the private sector to become responsible for environmental protection. In other countries, NGOs have played a role, making information available and forcing governments to become more accountable. An environment/economic planning integration institutional body is needed to properly advise the top level of government. This would ensure better coordination on the issue among ministries and agencies, as well as between the national and the regional levels of government.

107. An important question is how to get the business sector to buy into the sustainable development concept. Shell is working with Sinopec of China on a natural gas project for Beijing, Tianjin, Hubei and Shandong. This will lead to a 50% reduction in carbon and a 99% reduction in sulfur dioxide emissions. The objective of going to the CDM, in an environment where pricing determinants are vague, is to add an additional incentive
to develop these sustainable energy ideas. Shell is willing to share the particulars of the CDM proposal to interested Council members.

108. Regarding measures and indicators of sustainable development, if you can’t measure it, it’s not likely to happen. But measuring integration is very different from measuring economic development or environmental protection alone. These measures haven’t been worked out for China and this is only being put together in other countries. This represents a good opportunity for the Council. IISD has an international consultative group on sustainable development indicators. ADB is also doing work on this, as are the WB and UNDP. It might be valuable to convene a workshop to draw upon existing international experience and how that might be applicable in China. The availability of reliable data is key to the measurement of indicators, and data in China is not collected in an optimal manner.

109. ADB, with the assistance of Harvard University scientists, has developed indicators based on the concept of environmental elasticity. For every percentage point gain in GDP growth, the corresponding percentage decrease in pollution (air quality in cities, water quality, soil erosion, biodiversity conservation etc) is determined. A workshop on the issue was held in Shanghai earlier this year because China was one of the case studies used. The second concept used is that of social productivity. This is because in Asia, growth should not only be gentle to the environment, but it should also help the poor.

f) **Biodiversity**

110. With Vice-Chair Huguette Labelle president, the report of the Biodiversity WG was presented. On behalf of the new WG Co-Chair Peter Johan Schei, Dr. John MacKinnon and Co-Chair Prof. Wang Song emphasized the following points from the report:

111. The scope of the WG’s report is somewhat limited due to a funding shortfall for WG activities this past year. Two official WG meetings were held, one of which convened the Chinese members of the WG for discussions and recommendations to the central government on the 10th Five-Year Plan.

112. A workshop on Biodiversity Conservation was held in Guangdong Province in August. South China is the repository of large biodiversity resources; this is also where wildlife utilization happens on a massive scale. The Wildlife Trade Survey conducted in border areas of Yunnan Province is summarized in two reports and reveals that wildlife species come from neighbouring countries such as Laos, Vietnam and Myanmar; they are drawn from a vast area.

113. China needs to consider the impact it has beyond its own border. It would be senseless to attempt biodiversity protection within China, while despoiling the resources of other nations. China should consider applying all domestic legislation to the actions of its own nationals and organizations operating outside China. There is no propaganda or public education on the consumption of wildlife as yet. A national education campaign should be launched, using school children to convince their parents not to eat wildlife species.

114. The WG will likely get funding from the Norwegian government this coming year, allowing it to continue its activities.
115. Work has continued on the Biodiversity Conservation Database and more work will be done next year on this. Further work next year will involve the utilization of biodiversity in ecological restoration.

116. The WG’s recommendations for the 10th Plan include a new biodiversity inventory of China, given that the landscape has changed dramatically since the initial inventory was started. It’s feared many species no longer exist and that the present inventory is out of date. A new inventory would also renew interest in basic biological sciences and taxonomy in China, while creating scientific and technical jobs. Members of the public could also become involved in such a survey.

Discussion

117. China’s new goal to double its areas under natural vegetation is unheard of anywhere in the world. This represents a unique opportunity for biodiversity. But caution should be used in reforestation. Using inappropriate species or promoting monocultures could actually reduce biodiversity and in some cases have a negative impact on water retention and runoff control. A land use evaluation process needs to take place and participatory approaches need to be adopted in order to involve all the stakeholders, thereby maximizing the chances of success. Perhaps a conference should be convened on this issue.

118. China refers to ecological construction; this is perhaps the wrong term. Forest rehabilitation is a better term, in that it can represent both natural vegetation regeneration as well as tree planting.

119. The chronic funding problem of this WG is perhaps due to misunderstanding. This is not the realm of butterfly collectors and cuddly animals. Biodiversity is the substrate within which every aspect of the economy takes place. The Biodiversity WG will have to emphasize the economic values of biodiversity conservation. Measuring this is difficult and current methodologies are not satisfactory. The mandate of the WG needs to be expanded to go beyond species conservation, and to include ecosystems. The issue of ecological reserves and parks, their management and supervision, needs also to be addressed.

120. The role of NGOs needs to be clarified in China on the environmental front. The SEPA report also mentions this. The Council’s recommendation on this aspect needs to be strengthened. At present, environment NGOs are at an embryonic stage. They should be encouraged, and through them, public participation.

121. Decision-making on vegetation regeneration should be delegated to lower administrative levels. In some counties, officials decide to plant grasslands with trees in order to access national subsidies. Environmental construction and investment is not sufficiently supervised and regulated.

122. Perhaps more attention should be paid to the forest issue, especially since this has been emphasized two years in a row during Council meetings with Premier Zhu Rongji. Countries which engage in logging bans should also subscribe to the forestry certification process; a simplified version of this could be explored for China. The
Council might consider taking forests as a major theme for its work and Meeting in the coming year.

g) Environmental Economics

123. With Council Vice-Chair Huguette Labelle presiding, Co-Chairs Prof. Li Yining and Prof. Jeremy Warford presented the Environmental Economics WG report and outlined the following points:

124. The WG has conducted a series of studies between August 1998 and August 1999. These include studies on green taxation reform, on the valuation of environmental damage in China, on environmental accounting, on the environmental costs of rice production, on the sustainable use of grasslands and on eco-tourism.

125. The market is a good servant but a bad master. As China moves towards economic liberalization, prices change swiftly; governments tend to ignore the fact that markets fail as they rush to dismantle the apparatus of the command economy. The key to better decision making is to evaluate the true cost of using the environment and natural resources. The WG conducted case studies in water, coal and timber; environmental, depletion and production costs were all examined. Time was required to get the members of the WG to agree on basic economic concepts which are not in current use in China. Great progress has been achieved in this area.

126. Recommendations have been made on pricing policies, but due to equity, social or other considerations, these recommendations need to be implemented gradually by China. We also recommend that the rate of change on natural resource prices and on pollution levies should generally follow the overall trend in market liberalization.

127. There is a close relationship between this WG’s work and that of the Task Force. This WG’s role is to identify tools which the authorities can then use in developing policies. The Task Force’s work is to create the system of incentives within the concerned government agencies so officials themselves recognize their responsibility towards the environment.

128. The WG is also responsible for a series of publications which are both rigorous and accessible. A more popular version of one of these works is being developed in Chinese. This is to increase public acceptance of environmental costs and the need to factor them into price determination.

129. During the remaining years of the 2nd Phase, the WG will concentrate on ongoing work with the valuation of environmental damage and the green taxation studies. On green taxation, a sophisticated model with feedback mechanisms will be constructed in order to assess policy alternatives. Cooperation with various other WGs is also continuing.

Discussion

130. While Chinese data on mortality rates and life expectancy is impressive, this masks the impact of environmental damage on human health. In large cities, the mortality rates of
cancer are much higher than in the countryside. Clearly the environment has a key role to play here.

131. It might be useful to estimate whether or not, and to what extent, environmental protection can stimulate or stifle economic growth. In order to protect the environment, regulations introduced will increase certain costs, but on the other hand this may stimulate the environmental industries sector. If clear conclusions could be drawn from such a study, this might motivate other LDCs to adopt environmental protection measures.

132. In Japan, green taxation has been considered for a long time. A key issue in Japan is price elasticity of demand. Consideration of price elasticity should be included in this WG’s work on green taxation in order to assist the government decide on the advisability of green taxation in China.

h) Cleaner Production

133. With Council Vice-Chair Liu Jiang presiding, Cleaner Production WG Co-Chairs Prof. Qian Yi and Mr. Tsugio Ide presented the Group’s report and emphasized the following issues:

134. One focus of the WG’s work over the past year has been the implementation of a pilot project in Taiyuan City, Shanxi Province. The goal of working with one city is to present a model of cleaner production which could be adopted voluntarily elsewhere in China. By promoting cleaner processes, cleaner production and cleaner products, and by developing mechanisms to promote the adoption of these concepts, it’s expected environmental and economic benefits will be reaped by participants.

135. The pilot project was inaugurated in March of 1999 and involved establishing a municipal level leading group and work group. Other pilot project activities last year included conducting publicity and education campaigns, such as training workshops for municipal officials and technicians. A field visit to Taiyuan for members of the WG was also conducted. Cleaner production audits will be instituted, with ten enterprises selected as initial partners for these audits.

136. Cleaner production as a concept has become more widely accepted in China over the past few years. For the first time, Premier Zhu Rongji in this year’s work report to the NPC stated that China “must support cleaner production”. The SETC has selected 10 cities which are to become cleaner production models. The NPC and the SETC are working on legislation on cleaner production. However, more education is still needed, particularly with industry. Sectoral cleaner production approaches should be developed for tourism, transportation, construction and so on. Enterprise reform could also be aimed at fostering the adoption of cleaner production.

137. This coming year, the WG will work with Taiyuan to improve short, medium and long-term plans. With Taiyuan officials, a summary of cleaner production experience will be produced in order to help the legislation drafting process at the national level. The WG will also assist the city in developing an assessment mechanism for cleaner production,
both at the enterprise and at the municipal level. A national seminar on cleaner production will be held in the year 2000; in 2001, the WG hopes to organize an international conference on this issue.

138. It’s hoped close cooperation can be achieved with relevant WGs and that lessons from Japan’s experience with cleaner production can be drawn by China.

Discussion

139. Council members and international participants in this WG have been key in making international scientific and technical information available to China on the issue of cleaner production. As research is conducted and papers published, this WG disseminates it to interested parties – for instance to Taiyuan colleagues working on the demonstration project.

140. Local officials in Taiyuan have played a major role in promoting cleaner production. For instance, in order to increase public awareness and acceptance of cleaner production, the local television station was told to re-broadcast a documentary on cleaner production for a whole week. This is to ensure cleaner production becomes a household word in the region. Public information and awareness is a key factor in environment protection and this should be harnessed to a greater extent in the future.

141. As China moves towards the socialist market economy, it becomes important to determine how private enterprises can be stimulated to adopt cleaner production voluntarily. Law enforcement should not be the only means pursued in order to achieve compliance. Cleaner production can be a win-win proposition for business because it can bring substantial improvements in production efficiency and hence profitability. The WBC conducted a study on this with UNEP entitled ‘Eco-Efficiency and Cleaner Production’, bringing in case studies from DCs and LDCs, and would be pleased to share this with the WG in order to save it having to ‘reinvent the wheel’.

142. CIDA is supporting cleaner production projects. One of these is with the fertilizer industry. Within one year, through proper maintenance and the recycling of waste water, the company has been able to recoup its initial investment and has been able to increase profits. It’s suggested the WG link up with CIDA’s project in order to share experience and lessons learned.

143. The findings of this WG should be linked up to economics by evaluating the costs related to losses due to non-cleaner production processes. Economic gains due to cleaner production need to be quantified so that companies can be enticed to adopt these eco-efficient processes. The OECD and the EU have programs to promote cleaner production and have no doubt done some of this work.

144. The Energy Strategies and Technologies WG has a long term strategy of syn-gas promotion in the context of CDM. Perhaps opportunities for planning and implementing a demonstration project with Taiyuan should be pursued.

1) Trade and Environment
With Vice-Chair Liu Jiang presiding, WG Co-Chairs Dr. David Runnalls and Dr. Ye Ruqiu focused on the following points during the presentation of their Group’s report:

This WG was started four years ago. It was started in order to give advice to the Chinese government on trade and environment in the context of China’s entry into the WTO. This is still of some importance, given the upcoming Seattle ministerial conference and the doubts surrounding China’s accession to the WTO. Hence, meetings are being held with MOFTEC and with MFA. Perhaps once China enters the WTO, this WG may not be needed. However, the NGOs are now driving the agenda at the WTO and this needs to be explained to China.

This WG’s work has been guided by three central assumptions: trade and sustainable development can be compatible and mutually reinforcing; trade liberalization and export expansion without environmental safeguards can accelerate environmental damage; the marketplace for China’s trade goods is changing rapidly, with green consumers – particularly in Western Europe – asserting their preference for environmentally-friendly products. They are putting pressure on governments to toughen regulations against non-environmentally-friendly products. Green consumerism could be seen as a problem for China’s exports. But this could also represent significant opportunities for Chinese industry.

The WG looked at the impact of EU legislation on textiles and leather. This year, the WG will look into Canada’s and the US’s bans on Chinese wood packaging; preliminary indications are that China reacted swiftly to respond to the challenge and developed alternative packaging to circumvent the German ban. The dyeing industry is starting to adopt new techniques in order for China to regain its share of the textile market, leading also to safer conditions for workers. Changes such as these can be painful, particularly for SMEs. The report contains specific recommendations in this regard, including improved monitoring of trade rules on the part of China.

The WG sponsored one of the early symposia on ISO 14000 certification; more than 150 Chinese enterprises have now obtained this certification. Companies in the Western world are increasingly requesting of their third-world suppliers ISO 14000 compliance. China’s attempts at organic farming and green food labeling could prove profitable. In the coming year, the WG will look at the environmental industry in China and its prospects for expansion.

The WG also considered the issue of trade in new technologies and soft technical transfer through training, management, software and so on. A paper on China’s ability to acquire clean coal technologies was produced this year. A broader study will be funded by the UK next year. This work is being done in cooperation with the Energy WG. Results should be available to the Council by the next meeting.

The WG published a short information paper on AIJ, prior to the Kyoto conference on climate change. Next year, the WG will submit a paper on China’s options under the CDM. Given the sensitivity of this issue for China, no recommendations will accompany this options paper.

The WG did initial work on China’s rules on international investment; recommendations have been submitted to Council in this regard. In the coming year, the WG will study the potential integration between trade and sustainable development in three state-level
economic and technological development zones (Beijing, Tianjin and Wuxi). Another study will look into the impact participation in APEC has had on China’s industrial restructuring.

Discussion

153. Companies in Western countries are clearly under pressure from consumers to conform to high environmental standards; they are also under pressure to transfer these demands to suppliers in other countries. It’s important for Chinese companies to understand these pressures and to either sign environmental commitments or obtain ISO 14000 certification.

154. The environment is becoming more important for EU countries and will be key to their participation in the Seattle WTO meetings. Divergence in understanding and standards between countries is becoming more serious. Increasingly, public procurement for EU countries is green procurement, with eco-labeling, ISO 14000 certification and ODS requirements having to be met. This is just the beginning. In this context, there is a need for a global early warning system on environmental trade requirements, so that the first faint signals of an emerging issue can be identified for trading countries. This WG could perhaps fulfil part of this function for China.

155. China’s ability to meet environmental standards, particularly in terms of coal technology, is directly related to the cost of importing this technology into China. Therefore, DCs have a role to play in making this technology available to LDCs at a lower cost. Similarly, efforts should be made by foreign companies to invest in China in order to foster domestic production of these advanced technologies.

156. The availability of funds for China to import foreign technology is not a critical issue. If the leadership is awake to the advantages of this, the funds can be made readily available. Financial reforms in China could assist the banking sector in playing a more active role in supporting such investments. Incentives such as tax breaks could play a role in encouraging industry to manufacture some of the simpler technology, as opposed to paying for high-priced imports. Some institutional disincentives need to be removed by government to facilitate the import or adaptation of foreign technology.

j) Transportation

157. With Council Vice-Chair Liu Jiang presiding, WG Co-Chairs Dr. Wang Yangzu and Dr. Rudolf Petersen presented their report and emphasized the following points:

158. The WG has been conducting a study on urban transport in 7 cities; this study involves experts from the fields of urban planning, transportation, environmental protection and so on. A seminar was held to discuss these issues, understand the problems at greater depth and collect relevant data. The summary notes from this seminar have been published and distributed.

159. Members of the WG visited EU countries to look at the transportation infrastructure in 11 cities. Discussions were held with relevant officials. Issues investigated include vehicle restrictions, vehicle taxation, pedestrian and cyclist traffic, among others.
160. In June, during the third WG meeting, the first draft of the recommendations, entitled “How to Improve Chinese Urban Transport and Environment”, was tabled. This was later circulated to 42 large and medium-sized cities’ governments. On the basis of their feedback, the recommendations were amended.

161. In the coming year, the WG will focus on sustainable inter-city integrated transportation issues. Special emphasis will be put on highway transportation. Two comprehensive studies will be conducted with the assistance of Qinghua University and the Ministry of Communication’s Science and Technology Information Institute. Transportation planning will be considered, in particular its integration with other areas such as housing, social issues and so on. A workshop on the issue will be held in July 2000.

162. On urban transport, the WG recommends public transportation be deemed a priority and be expanded. The protection of pedestrian and cycle transport should be emphasized. Railway transport modes should be developed, including electric track rail transportation. There should be rationalization of private cars in Chinese cities, with possible substitution of mopeds or motorcycles, where appropriate. Urban transport planning should be integrated with land use policies. Inner-city and inter-city transportation networks should be better coordinated. Pollution control in the transport sector should be strengthened. Vehicles should be tested for emissions and fuels should be improved in order to burn cleaner.

163. Three cities have been selected for integrated transportation pilot projects; they are Dalian, Shenzhen and Kunming. They will allow the WG and municipal governments to popularize and test the proposed measures and recommendations.

Discussion

164. It’s key to approach transportation problems in a comprehensive way. As China’s vehicle traffic grows, the country could be a major contributor of NOx, the precursor chemical for ozone – the most recalcitrant pollutant we know in the West. The second key issue is the amount of land used for transportation; at present, it amounts to 5% of the country’s arable land, hence already competing with agriculture for farmland. This demonstrates the need for coordination between urban and transport planners, since the well-designed city is economical in terms of transport costs.

165. The group should focus on transport problems in big cities. As Beijing grows, so does car traffic. This has more than doubled transit time for most people. It’s a vicious cycle and one that needs more attention.

166. The strongest message Westerners can send China on transport issues is: “Don’t do what we’ve done!” In Germany, people are driving luxury cars, but they’re mostly stuck in traffic, the engine idling at low speeds and generating the worst emissions. Perhaps the one positive lesson from the West is to shift to higher grade fuels.

167. A number of the leading car manufacturers who belong to the WBC for Sustainable Development are interested in promoting sustainable mobility. The Chinese government would find willing partners at the WBC to help China develop both technology and public policy.
The Chinese government has brought in stringent emission controls, while looking into alternative fuels such as natural gas. With traditional technology, but with corresponding improvements in fuel quality, China should see an increase in air quality within ten years. For the longer term, it’s important to keep working on hydrogen fuel cell technology. The WG is cooperating on this with American experts and the WB.

ITEM 7. CHINA'S ENVIRONMENT PROGRAMS AND OTHER MATTERS

Throughout the proceedings of the 3rd Meeting of the 2nd Phase, papers concerning the environment programs at the national, regional and municipal level were presented. The presentations are presented below in their order of appearance.

a) Report on Rural Renewable Energy Development in Jilin Province

With Vice-Chair Xie Zhenhua presiding, Mme. Liu Shuying, Vice Governor of Jilin Province, addressed the Council and emphasized the following points:

Jilin has been working with the Energy Strategies and Technologies WG since 1996. As a result, various seminars, workshops and conferences have been held in Jilin on energy issues. In particular this summer, a workshop was held in Changchun to look into innovative mechanisms for the development of renewable energy in China.

Jilin Province is starting to focus more heavily on biomass energy. This is because its rural areas produce ample crop residues, which traditionally are burnt by the peasants. By promoting biomass energy, air pollution can be reduced, peasants' energy needs are met and the biomass energy waste can then be recycled on the land. A demonstration project has been in operation since mid-1998, supplying methane to 200 households. Following this project, a larger scale biomass project has been implemented in Baicheng City, supplying gas to 3,000 households. With the assistance of the Energy WG, Jilin has received funding from the UNDP for a larger-scale three-year project which is now in the first stages of implementation.

b) Electric Power Development and Environmental Protection in China

With Vice-Chair Xie Zhenhua presiding, Mr. Lu Yanchang, Vice-President of the State Power Corporation of China, outlined the following issues for Council members:

Power generation in China is increasing rapidly; over the past 50 years, average growth rate in generation capacity has been over 7%. China’s power sector now integrates large-scale plants into a grid; automation is widespread.

While the sector has grown, there has also been a lot of attention paid to environmental protection. In-house research and foreign cooperation have helped the industry develop de-sulfurization techniques for thermal power plants. By the year 2000, thermal power plants’ emissions will have been cut down to fly ash and water vapour. Efficiency and energy saving have also been realized as a result of these innovations.
However, there are still significant challenges to be faced. There are still too many small-scale thermal power plants in China. The construction of transmission networks still lags behind that of power plants.

During the next Five-Year Plan, China’s State Power Corporation will work on optimizing its use of resources, promote the wider adoption of de-sulfurizing equipment for thermal plants, promote the utilization of low NOx combustion technology, promote energy conservation and clean coal technologies.

c) Shanghai City’s Energy Situation

With Vice-Chair Xie Zhenhua presiding, Shanghai Municipality’s Vice Mayor, Mr. Zuo Huanchen addressed the Council, making the following main points during his remarks:

Coal still accounts for 70% of Shanghai’s energy consumption, and given the city’s high population and population density, air pollution is a key issue for the government. Still, despite the double-digit growth rate since the late ’70s, pollution has not increased during that time. In fact, emissions have decreased, thanks to the various measures taken by the authorities.

Shanghai has promoted the relocation of major smokestack industries outside the urban residential zone. In the new locations, waste heat is being used for district heating. Shanghai has also been readjusting the structure of its industries, promoting those which are low energy consumers and high technology. These industries now account for 48% of the municipal GDP.

Major regulation and enforcement efforts have been launched. For instance, Shanghai has an energy-saving enforcement team, the first in China. Some 10,000 households in Pudong District are now using natural gas, while 10,000 others are using solar energy for heat and hot water.

For the next century, the city intends on controlling the capacity of thermal power generation and to switch to other power sources. By 2002, there will be increased supply of natural gas, enabling the city to cut further on its thermal energy consumption. Furthermore, coal burning will be forbidden in the city proper; any coal burned in the district will have to be of low sulfur content.

d) Sustainable Agriculture in Inner Mongolia

With Vice-Chair Xie Zhenhua presiding, Mr. Hao Yidong, Vice Governor of the Inner Mongolia Autonomous Region, presented a report to the Council, outlining the following issues:

Inner Mongolia is one of China’s important grazing, farming and forestry areas. On the edge of the Mongolia Plateau and irrigated by tributaries of the Yellow River are the Xilinguole and the Hulunbeir Grasslands; they are both representative of the Region’s grazing lands. However, rangeland desertification and the overcutting of forests have deteriorated the Region’s environment. As a result, animal production and other resource-based industries are not as productive or as profitable as they could be.
185. The regional government has taken measures to counteract the ecological damage. Major forage development programs were pursued. Inappropriate farmland has been reforested or returned to grassland. Better sustainable animal husbandry and farming practices have been promoted by the government.

186. Since 1993, exchanges have been encouraged with Canada’s Agriculture Ministry and the PFRA. In combination with the efforts of the Sustainable Agriculture WG, this has resulted in a project proposal which has been submitted this year to CIDA. If approved, the project will help design more sustainable range management, animal husbandry and cropping practices in the Region.

e) Economic Development and Ecological Protection on the Loess Plateau of Shaanxi Province

187. With Vice-Chair Xie Zhenhua presiding, Mr. Wang Shousen, Vice Governor of Shaanxi Province, highlighted the following issues in his presentation to the Council:

188. Shaanxi Province is among the areas to be most affected by soil erosion in China. Over 50% of the total area is affected by erosion. In the north, the situation is more serious, with the destruction of forest and range cover on steep hillsides by peasants who need land to grow crops. During the 1970s, terracing and the construction of pocket dams exacerbated the problem of soil erosion. In order to fight this, there has been a return to natural vegetation cover and reforestation of unproductive farmland since the 1980s.

189. Tree fruit production, particularly apple, apricot, pear and Chinese date production, has been promoted throughout the province. In order to open new orchard land, further terracing has been done.

190. Since 1997, greater efforts have been made to invest in ecological construction. Water conservancy, reforestation, fighting desertification, pasture improvement, the promotion of ecological farming and other measures have been promoted.

191. In the coming years, additional land will be converted from crop production to natural vegetation and economic forestry. Water conservancy projects will be expanded. More intensive farming and animal husbandry practices will be promoted. In order to stimulate the fight against soil erosion, land returned to forestry or natural brush cover will be exempt from agricultural tax; the tenure for this land will be extended.

f) Sustainable Agriculture in Central and Western China

192. With Vice-Chair Xie Zhenhua presiding, Mr. Wan Baorui, China's Executive Vice Minister of Agriculture, addressed members of the Council and underlined the following issues:

193. Central and western China’s land area represents 86% of the total territory, while its population represents only 60% of the total. A major proportion of China’s grain, cotton, oil crops and meat is produced in the area. However, due to the poor infrastructure, distance to markets and other factors, there is a large income disparity between this
region’s and that of the coast. China’s central government is therefore focusing on developing this region over the next few decades.

194. Agriculture is to be the corner-stone of the government’s development strategy for the region, with main tasks focusing on poverty reduction, increased production and environmental protection.

195. The government will further promote dry land farming techniques, with the use of demonstration projects and integrated agricultural development. Capacity building of the area’s agriculture personnel will be emphasized. The government will foster strategic alliances between township enterprises in east and west China. There will be investments made in farm products processing, storage and marketing.

196. In order to protect the region’s fragile environment, reforestation and regeneration of natural vegetation will be promoted. Watershed improvement plans will be implemented. Ecological agriculture pilot projects have been selected and will be used for research and extension work.

197. Recognizing that the human factor is all important, greater investments will be made in education and public information. The government will intensify its efforts in research and extension of sustainable farming practices, including biological agriculture.

198. The protection of farmland and the legal framework for China’s agricultural sector will be strengthened.

g) Sustainable Development in Jiangsu Province

199. With Vice-Chair Huguette Labelle presiding, a representative from Jiangsu Province’s EPA made the following remarks to the Council, on behalf of Mr. Zhang Lianzhen, the Vice Governor of Jiangsu:

200. Jiangsu Province has built its sustainable development plan around China’s Agenda 21 goals for environment protection. In doing so, it has shut down 1,401 small enterprises which were major polluters and inefficient energy users. Since the mid 1990’s, efforts have been made to clean up the Huai River, the Yangtze River and Tai Lake. A significant proportion of industries and enterprises now meet effluent discharge standards. Of 13 rivers in the province, 6 are showing marked improvement in water quality.

201. Major efforts have been made to clean up urban environments, particularly air pollution. Cleaner production and ecological agriculture concepts have been promoted and pilot projects have been set up to demonstrate their feasibility. By the end of 1998, Jiangsu had established 21 ecological reserves (5.6% of Jiangsu’s territory).

202. Future challenges remain. Jiangsu aims to halt pollution increase by the year 2000 and major environmental indicators in urban areas should be maintained at 1990 levels. By the year 2010, Jiangsu should see some major improvements in environmental standards as a result of industrial readjustments and the emphasis on cleaner production. Jiangsu has issued preferential policies for industries and companies which adopt cleaner production technologies.
Jiangsu is implementing integrated decision making, linking environmental concerns with economic, social and other plans. In order to formalize this, the party committee and government of Jiangsu issued this summer a document entitled: “Circular Concerning Earnestly Strengthening Comprehensive Policy-making System on Development and Environment”. Public participation is being emphasized and will include a public hearing process.

Jiangsu is educating its decision makers in order to avoid a dichotomy in economic and environmental plans. The impact of this and other integrated planning measures will be evaluated in order to assess their effectiveness and adjust government actions as necessary.

h) Environmental Protection in the Context of the National 10th Five-Year Plan

With Vice-Chair Huguette Labelle presiding, Mr. Zhu Guangyao, Vice-Minister of SEPA addressed the members of the Council, underlining the following issues in his presentation:

The guiding principle for the 10th Five Year Plan is Deng Xiaoping Theory, with economic growth as the core and improvement of environmental quality as a target. Pollution control and ecological conservation will be emphasized equally, with priority being set on key regions and sectors.

China plans to have in place a comprehensive environmental legal framework by 2005; in particular, cities and regions experiencing rapid growth will be targeted for increases in environment quality. Priority regions and basins will be the Yangtze, Huai, Liao, and Hai river basins; Tai, Chao and Dianchi lakes; the acid rain and SO2 control zones; Beijing City and the Bohai sea.

SEPA will continue to control and eventually cut total pollutants discharged. Regulations to this effect will be refined, put in place and enforced. Cleaner production will be promoted. Clean coal technologies will be substituted for existing technologies. Hydro, nuclear, wind, solar and biomass energy sources will be further developed. ISO 14000 certification and eco-labeling programs will be pursued. The promotion of sustainable urban areas will be stepped up, with investments in sewage and solid waste treatment facilities, a progressive shift from coal to natural gas and more effective control of vehicle emissions.

Further refinement and creation of protected areas, natural parks and ecological reserves will be stepped up. Ecological agriculture, including the use of effective green fertilizers and low toxicity pesticides, will be promoted more aggressively. The government will encourage further development of an environmental industry.

SEPA will also invest further in capacity building and management training for its personnel. Improved monitoring and enforcement practices will be put in place. Integrated decision making will be established. The EIA Law will be promulgated and enforced. China’s program of eco-construction will be pursued and intensified. R&D will also be strengthened in order to bolster environmental protection efforts.
211. SEPA will continue to work on effective economic tools to entice industry and the public to conserve resources, cut pollution and pursue sustainable development goals. Finally, greater public participation and education campaigns and programs will be launched, including encouraging NGO participation in environmental decision making, as well as pollution monitoring and supervision.

I) Promotion of Economic Development Through Cleaner Production in Taiyuan

212. With Vice-Chair Liu Jiang presiding, Mr. Chao Zhonghou, the Mayor of Shanxi’s Taiyuan City, addressed members of the Council and emphasized the following points:

213. While Taiyuan is one of China’s oldest cities, rich in cultural relics and important historical sites, it’s also one of west China’s industrial centres. Its main industries are power generation, heavy machinery manufacturing and chemical engineering. Hence, the city has had to deal with the effects of heavy pollution for decades.

214. Since 1993, major clean-up efforts have been made. UNEP and the CCICED designated Taiyuan a Cleaner Production Demonstration City in 1998. The SETC and SEPA further decreed in 1999 that Taiyuan would become China’s first municipal pilot project for cleaner production. This entails various pollution control programs, industrial restructuring and resource conservation; there are now 38 ongoing projects, with a total investment of 1.5 billion RMB.

215. Jointly with the cleaner production programme, Taiyuan is promoting ecological agriculture in the city’s vicinity. Flower production, eco-tourism, agro-tourism and high-tech agriculture are being promoted.

216. The municipal government has proclaimed various regulations, policies and plans to enforce environmental protection. Cleaner production targets will be monitored and assessed. A database is being compiled and Taiyuan has a homepage on the internet on cleaner production, in order to facilitate greater international exchange and cooperation.

ITEM 8. DISCUSSION AND APPROVAL OF THE RECOMMENDATIONS

217. With Vice-Chair Huguette Labelle presiding, the Meeting debated the points to be made by Council spokesman Martin Lees during the Council’s meeting with Premier Zhu Rongji. During the discussion, the following issues were stressed:

218. The recommendations as presented are much more specific and in depth. However, in terms of putting in place an environmental reporting system, the Council should ensure a broad definition of environment be adopted. Hence, this reporting system should be called ‘environment and sustainable development’.

219. There is a need for better coordination among departments and ministries in China in order to streamline the administrative and regulatory processes. For foreign investors looking for project approval, it’s key to cut down on the lead time needed for getting the green light.
220. Integration of environment and economic planning should mean that EIAs are required for all ministry plans, hence the need for a central, high level coordinating body which would ensure each ministry and agency conducts and assesses EIAs.

221. The Task Force’s report could form the focus of the presentation, while the Council’s final written recommendations could be more detailed and specific. It’s important that the focus be put on the importance of financial instruments such as better taxation, reduction of perverse subsidies, introduction of incentives and disincentives, reform of natural resource pricing and so on.

222. The word ‘business’ is completely absent from the present draft of the written recommendations prepared by the Secretariat. Moving to a market economy means requires the participation of foreign and domestic entrepreneurs and companies. In addition, environmental industry is mentioned under R&D, while it’s often not a question of finding new technology but rather of using existing technologies. These issues should be corrected in the final version of the Council’s recommendations.

223. China has a unique comparative advantage given its demographics. It has high growth as well. China can therefore demonstrate that environmental management is a productive investment and an engine for sustainable economic growth. China has an enormous internal market for renewable energy and green products. Not pursuing investment in environmental conservation and pollution control could impose high costs on China in the coming 30 years.

224. After two years of disastrous flooding, the Premier deserves support for his bold move to ban logging in the upper watersheds of the Yellow and Yangtze rivers. It should be emphasized that biodiversity conservation and flood control are intimately related. It’s very urgent to stop forest losses which are irreversible. This concept, while present in the Biodiversity WG’s recommendations for the 10th Plan, is not reflected in the draft recommendations submitted by the Secretariat.

225. Using population migration to solve worsening ecological conditions is not something the Council should advocate, as is found in the draft recommendations prepared by the Secretariat. Historically, population migration is not effective and only leads to more serious social problems. Increasing population in west China where the environment is fragile may not be beneficial. The Council should be very prudent in its recommendation dealing with population migration.

226. It’s key for China to develop its grassland and forest resources. China has already one year’s grain supply in storage, so perhaps the Council should stress the development of the animal husbandry sector.

227. The Council should stress the importance of a sustainable development indicator or set of indicators. EIAs should also be required of every ministry when making plans or assessing projects. It should also be mentioned that foreign capital should be enticed to invest in the environmental industry in China.

228. The need to harness public participation and to make greater efforts in public education needs to be emphasized. All development plans and policies should include consideration of environmental as well as social factors.
ITEM 9. CLOSING CEREMONY

229. With Vice-Chair Liu Jiang presiding, SEPA Minister and Council Vice-Chair Xie Zhenhua pronounced the closing address for the 3rd Meeting of the 2nd Phase. During his speech, Mr. Xie made the following points:

230. This 3rd Meeting of the 2nd Phase of the Council has been a productive one, with key speeches from Vice Premier Wen Jiabao and other Chinese members, as well as Mr. Maurice Strong. Discussions have been substantial and lively. Vice Premier Wen transmits his gratitude to all participants.

231. During the 1st Phase of the Council, work was focused on macro policies. The focus of the Council’s work was adjusted for the 2nd Phase, to include a greater emphasis on more specific policies often combined with demonstration projects.

232. Some of the demonstration projects are already producing results, for instance: Jiangsu’s Integrated Decision-making on Environment and Development; Greenhouse Gas Mitigation in Shanghai; Biomass Energy in Jilin Province.

233. Since the outset, the Council has put forward valuable policy recommendations to the Chinese government. Some have already been adopted, while others are to be implemented in the near future. It’s expected the Council’s impact on China’s decision making on sustainable development will continue to grow. This is especially true as China prepares to embark upon its 10th Five-Year Plan.

234. The Council’s recommendations have been summarized in a draft put forward by the Chinese Secretariat. They will be further refined and presented to China’s State Council and relevant agencies. China still faces serious challenges in the coming years and will be striving to integrate economic growth and sustainable development.

235. The 4th Meeting of the 2nd Phase will be held from October 31st to November 2nd 2000. All members are invited to take part in those deliberations.

236. With Vice-Chair Liu Jiang presiding and on behalf of all Council members and WG participants, Mr. Claude Martin expressed his appreciation of Vice-chair Huguette Labelle who is retiring from CIDA. He expressed the hope Mme. Labelle would continue to play a role in the Council in the future.

III. RECOMMENDATIONS TO THE CHINESE GOVERNMENT

237. Given the altered schedule of the 3rd Meeting of the 2nd Phase, members of Council were not able to discuss Council recommendations in detail. It was resolved that both Secretariats would revise the draft recommendations submitted to Members prior to the 3rd Meeting and would then submit them to the Chinese government.
IV. PRESENTATIONS BY MEMBERS OF THE COUNCIL TO PREMIER ZHU RONGJI

a) Summary of the Presentation by Mr. Martin Lees

238. The Council has made a number of concrete proposals to the Chinese government; only a few will be highlighted at this time. Of utmost importance is the need for China to better integrate environmental matters into all aspects of decision-making. More specifically:

239. There should be formal environmental assessments of all major policy decisions and investment plans; there is the need for a coordination mechanism, such as a cabinet committee, to be established at the top levels of government, at the national, provincial and municipal levels in order to ensure the environment is taken into account in all important decisions; as China moves towards a market economy, and in order to achieve greater collaboration between all sectors of the economy, a business council for sustainable development should be established in China.

240. Sustainable development should be the underlying theme of the 10th Five-Year Plan, and not just one issue among many. The role of SEPA should be strengthened and the share of national resources devoted to environmental issues should rise to 1.5% of China’s GDP.

241. The Council is concerned by the decline in China of the rich biodiversity resources, a decline which is fundamentally irreversible. The Chinese leadership is applauded for its decision to restrict the logging of forests.

242. The Council is aware of the importance of agriculture to China. In considering sustainable agriculture, the Council suggests soil erosion and unsustainable water use can be reduced by new farming methods. In addition, China’s vast grasslands can be tapped to increase animal husbandry, increasing food security and rural incomes at the same time.

243. The Council notes China needs a more coherent strategy for the development of the energy sector. There is also a need to increase China’s capacity to analyze these issues so that the leadership can make informed decisions. Coal can be used in cleaner ways. The Council hopes China’s relevant ministries will develop an explicit strategy to use coal in a more sustainable manner.

244. The Council pays close attention to financial aspects of its recommendations, noting there are opportunities for financial links to environmental protection, namely green funds and environmental screens for bank loan approval.

245. In the area of international instruments to fight climate change, there are opportunities which could be tapped by China, but preparations must be made to grasp those opportunities. Much of the capital, technology and know-how needed by China will have to be imported; hence there is a need to eliminate red tape and facilitate foreign investment in this area.
The development of an environmental industry in China is key to future employment and trade opportunities, as well as enabling China to reach its sustainable development goals.

**b) Summary of Comments Made by Mr. Kees Zoeteman**

The Netherlands and China have several problems in common, including high population density, floods and pollution. An impressive body of legislation and regulations has been developed to deal with those problems and the experience can be shared with China. For instance, taxes can be increased on waste water effluent and the revenues used to subsidize new waste water treatment plants. Industries can be forbidden to use the higher quality groundwater, reserving this high quality resource for human consumption.

By switching from coal to natural gas, urban air quality is significantly improved. Cleaning up thermal power plants and promoting the use of low sulfur coal can be achieved through tax or pricing incentives.

Transportation is an important source of pollution in cities. New vehicles should be equipped with catalytic converters, while there should be more investment in light rail transit to link cities and the suburbs to downtown. Cities can be designed to minimize the need for people to use a private car.

**c) Summary of Comments Made by Mr. Svend Auken**

There are significant opportunities for China as it embraces sustainable development. China will be recognized as a leader among developing nations. New industries, new jobs and new investment opportunities will be opened up, stimulating the economy in the process. China has a major contribution to make in helping mitigate global warming.

Public participation is key and should be actively encouraged. China’s largest resource is its people. People are also at the centre of any solution to environmental problems and the actions needed to tackle this. Education, public awareness campaigns, economic incentives for households and companies – these are all means which can be used to harness the public. NGOs have potentially a large role to play in garnering public support for environmental conservation measures and in helping to change behaviour. NGOs should be strengthened.

The most effective way to integrate environmental concerns into public decision-making is to make all ministries responsible for the environment. Every agency at every level should be held to EIAs for plans, policies and projects.

**d) Summary of Remarks Made by Mr. Maurice Strong**

Industrial efficiency is key to environmental protection; efficiency incorporates better resource utilization and lower waste output. The 10th Five-Year Plan presents China with a unique opportunity to reexamine its system of incentives, penalties and instruments; perverse subsidies could be removed while sustainable development incentives are introduced.
254. The development of an environmental industry with its techniques, products and services, can be a major engine of growth and generate considerable employment.

255. There is a proposal emerging to create a global consultative group on clean energy, similar to the one which was set up on agricultural research. This group would mobilize technological know-how and international finance to fund China’s and other countries’ adoption of new technologies for sustainable development.

V. RESPONSE BY PREMIER ZHU RONGJI

256. The Chinese government has paid great attention to all the Council’s visits. While this presentation was brief, it nonetheless well grounded in the Chinese reality. Council recommendations will be taken into consideration by the Chinese government.

257. In reviewing our activities this past year, I find that combining economic development and environmental conservation is a way to deal with our present problem of economic deflation – this is a new realization for us.

258. After last year’s unprecedented floods, the government spent vast sums to shore up and rebuild part of the flood control infrastructure, and to rebuild people’s homes. We found that the fundamental cause of these floods is environmental degradation, especially the cutting of forests in the upper reaches of the Yangtze and Yellow river basins. One of our most far reaching plans is to take land out of farming and restore natural vegetation on the slopes. This public investment is stimulating the economy and helping to curb deflation.

259. Over the past year, I have visited several cities in the west of China and will be going to 3 northwestern provinces tomorrow. In visiting mountainous areas, I have been shocked by the fact that trees have completely been logged and farmers are growing crops on a patchwork of small steep plots. This is both arduous for farmers and the yields are poor. Most importantly, it leads to environmental damage: water and soil erosion is exacerbated and the silt clogs up the Yellow and Yangtze rivers, leading to flooding.

260. I visited a World Bank project in Shaanxi where terracing was used as a way to control erosion. But this is not correct. Soil erosion still occurs and there is no real need for farmers to produce grain on hillsides. Planting trees, shrubs and grasses would be preferable.

261. In the past when China needed grain, farmers had to develop marginal hilly land. But since 1977, we’ve had grain surpluses every year of at least 25 million tonnes. It is more desirable to have farmers restore hillside vegetation and plant trees, while providing them with grain relief from our stores.

262. China’s grain surplus is not suitable for export because cost of production is higher here than in the US or Canada. It is preferable to import this from you, especially improved cereal varieties and provide grain for land reclamation workers (farmers), instead of having all this stored grain go to waste.
263. This new policy of the central government has been welcomed and Sichuan province has started to implement it. In the future, when I am no longer Premier, I will continue to work in order to ensure the success of this policy. I'm confident that within the next ten years, we will double the forest cover in China.

264. I'm not alone in this. Many high officials will be retiring soon and perhaps they'll join me in forming an association for the promotion of afforestation (laughs)! Panda habitat in Sichuan could be improved with tree planting, making this a top tourist spot.

265. There has also been significant progress in the way cities deal with air and water pollution, as well as solid waste management. Beijing is an example of this success. Two years ago, I warned Beijing officials and asked them: "With so many top leaders living in Beijing, are you trying to slowly kill us all? Beijing has taken up the challenge and is spending USD $8 billion on pollution control. Other cities are also making significant progress.

266. Aside from Xiamen, I hope you will visit Dalian which is doing even better. Shenzhen has also made remarkable progress. Before each annual meeting, I recommend you visit or revisit these cities to witness the progress accomplished.

267. I have taken note of what you say, and China already has this experience, that environmental protection and economic growth are related. The environmental industry can become an additional growth engine for China. International organizations can help with both access to new technologies and capital.

268. Capital however is not the most urgent need. China has money. But the participation of international organizations such as the World Bank, UNDP and the IMF is good in that it sends a message to the Chinese public that these issues are important.