

Improving Governance Capacity and Promoting Green Transformation

Policy Recommendations to the Government of China

CCICED 2015 Annual General Meeting

In the past year, the China Council for International Cooperation on Environment and Development (the Council or CCICED) marshaled its considerable expertise, established several Task Forces and Special Policy Studies surrounding the theme selected for 2015, conducted pilot projects, and after in-depth discussion among Council Members, has issued its 2015 Policy Recommendations.

The Council agrees that, during the 13th Five Year Plan, China will be going through a green transformation period and deepening reform. Environmental issues such as heavy air pollution events and frequent incidents of ecological risks have become a bottleneck for the achievement of a moderately well-off society. In order to promote a national green development transition and generally improve ecological and environmental quality, it is critical for China to strengthen its environmental governance capacity, establish a multi-stakeholder governance system underpinned by the rule of law and driven by green financial innovation, and focus on the establishment of an environmental risk control system and capacity building. These are the critical issues facing China during the 13th FYP.

Recommendation 1: Accelerate ecological civilization reform and establish a multi-stakeholder environmental governance system

The national governance system is actually one of co-governance, with coordination among government, the market and society. The objective of environmental governance reform is to establish an effective multi-stakeholder governance system to ensure robust implementation of ecological civilization thanks to a green transformation strategy and roadmap.

1. Hold a central working conference on ecological civilization at the appropriate time

When appropriate, organize a central working conference on ecological civilization, in order to assign the broad responsibilities of ecological civilization and resource/environmental protection; accurately analyze the new normal and current state of resources and the environment; issue forward-looking policies; and put forward clear requirements for key tasks. Strengthen environmental responsibilities at various levels of government and party committees to promote economic, social and environmental sustainable development.

2. Establish an environmental coordination body in the State Council

Establish an Environmental Protection Commission of the State Council,, with specific environmental protection responsibilities, objectives and explicit responsibilities assigned to various departments, especially departments for overall economic and social development; direct and coordinate ecological protection and pollution control among various departments, inter-provincial regions and river basins; take into consideration the environmental impacts of major national decisions; and conduct monitoring and evaluation of the environmental performance of various departments under the purview of the State Council and local governments. Enforce financial and administrative penalties for activities that are not in compliance with environmental legislation and undermine the national environmental protection objectives, and strengthen both the uniform application and the effectiveness of ecological and environmental regulations.

3. Strengthen uniform regulation responsibilities at the local government level and for specially designated regions

Implement a vertical management system for environmental supervision under the provincial-level. Explore the establishment of regional environmental protection bodies in regions such as Jing-Jin-Ji (Beijing-Tianjin-Hebei), and strengthen regional approaches to pollution control. Strengthen environmental performance supervision of local governments. Use environmental quality as a key indicator of performance evaluation for

local governments. Organize third-party bodies to conduct regular independent environmental performance evaluations of local governments, and disclose evaluation results to the public.

4. Establish and improve market incentives and implement pilot tests for key new policies

Reform the pricing mechanism for critical resources, and use fossil fuels (such as coal and oil) as entry points to internalize environmental costs into a pricing mechanism. Develop green financial and taxation policies to reflect environmental costs of production and consumption. Create a market environment with healthy competition for green industries and actively promote energy-saving and environmental industries. Promote governmental green procurement, and encourage leading enterprises to implement voluntary green supply chain management. Establish an enterprise environmental credit evaluation system, and enforce mandatory environmental information disclosure for listed companies. Accelerate the implementation of various fiscal, taxation, pricing and financial policies that encourage environmental protection, and ensure that the growth of central fiscal investment in the environment is not lower than the growth rate of fiscal revenue. Encourage private public partnerships (PPP) for environmental infrastructure construction and operation in order to lower investment costs and improve operational performance. Establish pilot zones for green development and transformation, implement a green transformation governance capacity reform as well as test and promote innovative green financing mechanisms, and generally improve China's environmental governance capacity.

5. Encourage social participation in environmental protection and promote sustainable consumption

Further improve legislation to clarify the public's rights and obligations regarding environmental protection, as well as the channels and procedures for participation in various environmental matters. Improve the cooperation mechanism between

governments and social organizations in environmental protection, and establish communication, coordination, information sharing and project cooperation mechanisms for various levels of governments and social organizations and enterprises. Improve environmental public interest litigation and accelerate the implementation of pilot litigation. Strengthen environmental technology innovation, establish a nationwide environmental database, information system and data management platform to improve environmental information and decision-making capacity. Motivate social forces to participate in environmental protection, advocate sustainable consumption, encourage sustainably produced and consumed food, clothing, housing and travel, and guide the greenization of people's lifestyles.

Recommendation 2: Improve environmental legislation and provide a solid legal framework for Green Transformation

Comprehensively improve the legal system of environmental protection in accordance with the general principles of rule of law and ecological civilization, and improve the applicability of laws through enhanced interpretation to provide a solid legal basis for green transformation.

1. Accelerate the compilation of a Green *Civil Code*, and conduct timely research on the *Environmental Code*

China's Civil Code is a basic law of the market economy, a basic code of conduct for citizens, and the basis for judges to rule in civil and commercial cases. It is recommended that while the Civil Code is in development, the concept of ecological civilization be defined in its general provisions section, including the establishment of principles of prevention and sustainable resource use; environmental rights are to be regarded as one of the basic civil rights for citizens. Establish a green review mechanism for draft legislation and assign to the Environment and Resource Committee of the National People's Congress the responsibility to review the conformity of draft legislation with the requirements of ecological civilization. Start research on the development of an

environmental code, identify and address the inconsistencies among various environmental laws in order to assemble a complete, harmonious and effective legal system.

2. Develop a *Dangerous Chemicals Safety and Environmental Risk Control Law*

Focus on the reality of environmental and safety risks of chemicals, improve the current situation of supervision involving multiple departments, consolidate the dangerous chemical management responsibilities scattered among departments of safety supervision, environmental protection, agriculture, transportation and public security, and establish a unified, independent and effective chemical safety regulation and environmental risk control system.

3. Rename the planned *Soil Pollution Control Law* to *Soil Environment Protection Law*

Compared with the *Soil Pollution Control Law*, the *Soil Environment Protection Law* implies broader coverage and could better reflect the objective of protecting clean soils such as farmland. It encompasses clean soil protection, soil environmental quality improvement, soil pollution prevention, risk control of contaminated soils, and treatment and remediation of contaminated soils. The title is therefore a better fit with China's long-term strategic goal of land protection.

4. Draft the *Emission Permits Law* and *Environment Standards Law*

Draft an *Emission Permits Law* to integrate the emission permit system within the broad system of environmental standards, environmental monitoring, environmental impact assessment, integration of the concept known as "Three Simultaneous", namely pollution emission registration, total emission control, and the regulation of environmental facilities and management of emission discharge outlets. Enhance the legal status of the emission permit system, and ensure this system forms the core of environmental management. Develop an

Environmental Standards Law, establish a systematic environmental standards system, and incorporate key environmental quality and emission standards directly into environmental legislation.

5. Draft a *National Parks Law*

Clarify the nature and types of National Parks in China, establish an integrated administration system, and improve the current situation which is typified by varied administration systems, unclear functions and overlapping management bodies for nature reserves, scenic areas, geological parks and forest parks.

6. Strengthen legal interpretation

Strengthen environmental legislation interpretation by the NPC's Standing Committee and the Legislative Affairs Office of the State Council in order to improve the applicability and effectiveness of environmental legislation.

Recommendation 3: Reform and innovate a green financial system and promote Green Transformation and the upgrading of industries

Green financing is an important means to break the funding bottleneck for green development, and a critical driving force to safeguard eco-security and achieve green industrial upgrading.

1. Establish a National Green Development Fund

The fund should consist of fiscal funds from the central government, other financial institutions and private investors, with a total initial amount of no less than 300 billion RMB. Its operation should be subject to market-based and professional management. The Fund should mainly support large and medium, mid to long-term green projects and other pilot projects that have major demonstration effects, including demonstration projects of clean energy, environmental technology and environmental industries. Explore commercially sustainable operation models,

and make full use of the leverage of green funds to mobilize more social capital for low carbon and environmental protection projects.

2. Promote green credit, green bonds and green insurance

Promote green credit and develop a market for green bonds and green insurance through innovative means. In high environmental risk areas, implement a compulsory environmental liability insurance system. Use green refinancing, fiscal interest subsidies and a green guarantee system to lower the cost of green financing, and encourage banks to support green financing. Support the establishment of professional green guarantee entities. Revise the *Commercial Bank Law* to clarify the environmental responsibilities of banks. Support and encourage financial institutions and enterprises to issue green bonds. Implement a mandatory environmental liability insurance system for high-risk sectors.

3. Establish cross-department green financing coordination mechanism

Establish a green financing coordination mechanism at the national level, i.e. establish a green financing guidance and implementation entity run jointly by the People's Bank of China, the China Banking Regulatory Commission, the China Securities Regulatory Commission, the China Insurance Regulatory Commission, and environmental protection and finance departments. Streamline pricing and fee collection for green industries. Establish a multi-department coordination mechanism required for green finance reform.

Recommendation 4: Establish an effective environmental risk control system and safeguard public health and ecological security

To address the deteriorating situation of cumulative and acute environmental risks and safeguard public health and ecological security, China should establish an environmental risk-based decision-making and risk control system to effectively address potential critical environmental risks that could have adverse impacts on public health, safety and social stability, and to reach a more institutionalized approach to environmental risk

management. Special attention should be paid to ecological environment risk controls in the implementation of the Belt and Road Initiative.

1. Control environmental risks at source and establish a national environmental risk control system

Establish an environmental risk assessment and prevention system for major national macro strategies, conduct risk assessments for macro strategies such as the Belt and Road Initiative, the integration of the Jing-Jin-Ji region, and the development of the Yangtze River economic belt to form an integrated environmental risk prevention system. Incorporate environmental risk assessments into the “Integration of Multiple Plans”, identify priority regions for risk management, and develop environmental risk control redlines. Set environmental risk management goals and strategies, with consideration of different time-scales, regions and types of risk. Establish an environmental emergency response system focusing on practical emergency response plans, with coordination among multi-departments. Clarify and enforce the primary responsibility of enterprises for environmental risk control. Integrate environmental risk information, and establish an effective, transparent and publicly interactive risk communication platform.

2. Pay close attention to the ecological risks of the Belt and Road Initiative and achieve a green BRI with consultation and cooperation among involved countries

Advocate for and implement ecological civilization and green development concepts, strengthen environmental protection policy cooperation and exchange with countries along the BRI, and establish a BRI environmental information sharing and service platform. Incorporate green financing mechanisms into the financing of BRI projects, encourage Chinese enterprises that plan to operate in the BRI area to pay attention to environmental protection and to actively implement corporate social and environmental responsibility. Develop a national green overseas assistance action plan, strengthen South-South cooperation, and implement a low-carbon, environment-friendly and green BRI.