

IMPLEMENTING SUSTAINABLE DEVELOPMENT

Between 2001 and 2004, OECD work on sustainable development has focused on indicators and peer reviews; on obstacles to reducing environmentally harmful subsidies and to further use of environmentally-related taxes; on social aspects of sustainable development; and on policy coherence and integration. The range of OECD activities undertaken over this period has looked at the “interface” between the environment and the economy, on one side, and between the economy and society, on the other.

Environmental-economic interface

Environmental performance has improved in several respects since 1990 and OECD countries continue to set targets for further improvement. Environmental protection costs have also risen throughout this period. They amount to about 2% of gross domestic product (GDP) or more in countries that have set comparatively demanding standards and could have been at least 25% lower through the greater use of more cost-efficient instruments in many OECD countries. This option has not been exploited, in part because of a lack of integration of environmental and economic concerns in policymaking. Concerns over the social consequences of environmental policies and political economy considerations have also increased costs as they have led to exemptions or lower abatement granted to some of the most polluting activities. Abatement costs could rise markedly in the future as standards become stricter, thus reinforcing the need to use cost-efficient options in coming years. This is particularly the case with the reduction of greenhouse gas emissions, where policies capable of meeting objectives at least cost become increasingly urgent with the approach of the target date of the first commitment period under the Kyoto Protocol (2008 to 2012).

While all OECD countries use some kind of environmental taxes to lower abatement costs and raise revenues, a number of countries have substantially extended their use since the early 1990s, with environmental tax revenues amounting to about 2% of GDP. Several OECD countries have introduced environmental tax reform, often on a revenue-neutral basis (e.g., combining increases in energy taxes with reductions in social security contributions). While the revenue from environmentally-related taxes increased significantly in some countries between 1994 and 2001, proceeds have declined by 8% on average since 1999. About a third of this fall is due to lower revenues from sales of petrol, following tax-induced hikes in prices. This highlights the fact that significant behavioural changes can be achieved by applying appropriate tax rates, or through tradable permit systems that create similar price incentives.

While there is little evidence that environmentally-related taxes have reduced international competitiveness significantly, this conclusion must be qualified by the many exemptions and tax rate reductions currently granted to sectors most exposed to international

competition. As industry usually pays very modest amounts in environmental taxes, significant impacts on competitiveness would not be expected. Moreover, competitiveness concerns must be balanced against the main goal of environmental reforms: to protect the environment by way of encouraging alternatives to harmful products/processes.

Environmental damage is often a by-product of subsidy policies. OECD countries provide about USD 400 billion in subsidies every year – about three-quarters of these subsidies go to agriculture, one-tenth to transport, and the rest to fisheries and forestry, energy production and manufacturing. While there has been a shift towards less environmentally harmful support in agriculture since the mid-1980s, progress has been slow. Agricultural support that is potentially harmful for the environment amounts to about USD 235 billion per year. Most of the USD 6 billion in fisheries subsidies in OECD countries goes to general services – some of which supports research, management and enforcement activities that can benefit the environment. However, some expenditure on general services supports fisheries infrastructure and enhancement programmes that can contribute to over-fishing. Estimates of energy subsidies range between USD 20 billion and USD 80 billion per year. Subsidies to coal and peat production are among the most harmful to the environment, with OECD countries' support to the coal industry estimated at about USD 5 billion per year.

Against this background, the OECD has recommended fundamental changes in policy settings:

- In view of the lack of effectiveness and efficiency of **voluntary agreements**, the OECD *Economic Surveys* have called for a reassessment or a termination of such practices.
- While recognising that **regulations** are the most appropriate instrument to control pollution in some cases, the OECD has recommended that less emphasis should be placed on such instruments, as mounting evidence showed that these can prevent companies from using the most efficient ways to reduce their emissions and thus increase costs for society.
- The OECD recommends that greater use should be made of transparent **taxes** or **tradable emission permits** that concentrate abatement in activities where emissions can be cut at the lowest cost. However, these instruments will only be cost-efficient if they cover all sources of any given type of pollution. As a result, the OECD calls for the removal of current exemptions from carbon and water pollution taxes in the most pollution-intensive activities.
- Where taxes and tradable permits have adverse social consequences, these should be addressed through the standard social security system, for example, by adjusting the way support payments are calculated or by introducing new support instruments.
- A multi-pronged strategy is required to overcome obstacles to subsidy reform. It is important to recognise that a range of options is available to meet societal objectives, and that subsidies are generally inefficient tools for achieving employment or other social policy goals. Other ingredients of successful reforms include the diffusion of innovative schemes; better targeting of existing subsidies; and improved programme design, to improve the efficiency of subsidies aimed at correcting environmental problems – although even these may violate the polluter pays principle.
- For dealing with cross-border environmental problems, the OECD recommends taking advantage of international agreements that allow abatement to be concentrated in areas where it can be obtained at lower cost, while stressing the benefits of further international co-operation.

Social-economic interface

On the economy-social interface, *Economic Surveys* have focused on the sustainability of retirement income systems in OECD countries, and on ways of improving living standards in developing countries. With reference to the first issue, many OECD countries have already taken steps to assure the financial sustainability of public pension systems. In others, however, progress has been slow, and the OECD has recommended specific measures that should be undertaken to accelerate the pace of reforms in ways that do not compromise income adequacy in old age. In particular, the OECD has called on these countries to remove incentives that artificially shorten working lives, such as eliminating opportunities to withdraw from the labour force permanently at an early age via unemployment, disability or special benefit schemes and, in some cases, raising the standard age of pension entitlements.

More generally, the OECD has stressed the importance of a well-functioning social protection system for addressing social problems and for maintaining conditions that facilitate both economic growth and environmental sustainability. Assuring the sustainability of social protection systems requires confronting a range of long-term pressures – in terms of demography, family structures, labour markets, and distribution of economic resources and opportunities – through policies specific to each phase of individuals' lives. This perspective links concerns about sustainable development at the global level with that of preserving social cohesion through well-designed programmes within each country.

With reference to living standards in developing countries, the OECD has stressed that the improvements which have characterised most of these countries since 1990 have proved elusive in Sub-Saharan Africa. In other regions, improvements in living standards have been accompanied by strong export performance, which in part reflects falling protectionist barriers in OECD countries and specific measures to open up OECD markets to the least-developed countries. However, agricultural products from the developing countries still face barriers because of trade restrictions and agricultural subsidies. The OECD strongly encourages member countries to reduce support to agriculture. Living standards in developing countries have also been raised through greater emphasis on poverty alleviation in development assistance and through measures to make assistance more targeted and efficient, and the OECD recommends further moves in that direction. Especially important is targeting assistance to health improvement in the least developed countries. For example, welfare in Sub-Saharan Africa could increase by USD 30 billion or more, if the loss of life years caused by infectious diseases could be reduced by two-thirds, yet this region receives only 20% of bilateral development assistance.

Further work

There is a demand for the OECD to continue to do work on sustainable development and to raise the visibility of this work. Areas identified for further work include obstacles to reducing environmentally harmful subsidies and to further use of economic instruments; on sustainable resource use including material flow accounting, decoupling of environmental pressures from economic growth and resource productivity; and on emerging issues as appropriate.

Round Table on Sustainable Development

The OECD Round Table on Sustainable Development has worked in the past year on whether illegal, unregulated and unreported (IUU) fishing can be halted, how far actions

taken by OECD countries under international agreements on sustainable development really help to further development in the poorest countries and what practical steps can be taken to meet the Millennium Development Goals for water and sanitation access.

Fisheries ministers from OECD and developing countries met in June 2003 and set up a Task Force led by ministers which over the next 18-24 months will produce analysis and recommended action to tackle IUU fishing on the high seas. In March 2004, ministers identified priorities for the forthcoming UN Commission on Sustainable Development (UNCSD) meeting on water and sanitation.