

ENVIRONMENT: RECENT PROGRESS AND FUTURE CHALLENGES

In April 2004, OECD environment ministers met to discuss their progress in implementing the OECD Environmental Strategy for the First Decade of the 21st Century adopted in 2001. The background report for the meeting, *OECD Environmental Strategy: 2004 Review of Progress*, shows that countries have made a good start in a number of areas, but much more ambitious measures are needed. Current policies are insufficient to adequately protect biodiversity or address climate change, and the decoupling of environmental pressures from economic growth in key sectors is proceeding too slowly. A number of obstacles to environmental policy reform are identified in the report – including both political obstacles, such as poor policy integration, and inadequate information – which will need to be faced. Increasingly, OECD environment ministers will have to work together with colleagues in other ministries, colleagues in other countries, and with partners from business and civil society in order to ensure that appropriate environmental policies can be developed and implemented.

Climate change

Although greenhouse gas (GHG) emissions are still growing in many OECD countries, most have reduced the GHG-intensity of their economic growth. Many have partnered with the private sector and other countries to create synergies in developing tools and new technologies to address climate change. About half of all OECD governments have carbon or energy taxes in place, a similar number have initiated formal voluntary approaches with industry to address climate change, and emission trading schemes are gaining in importance. Nonetheless, it is clear that additional measures will be needed if the objectives of the UN Framework Convention on Climate Change are to be met, let alone the targets agreed by most OECD countries under the Kyoto Protocol. Given that significant climate change impacts are expected in coming decades, despite current commitments to reduce GHGs, efforts will be needed by OECD countries to integrate adaptation to climate change into both domestic policies and development assistance programmes.

Freshwater resources

Most OECD countries have been able to manage their freshwater resources to ensure an adequate supply for human needs, including by expanding the use of water pricing mechanisms to manage demand. They have also given increased attention to social concerns about access to, and affordability of, water services for low income households. At the 2002 World Summit on Sustainable Development in Johannesburg, OECD countries committed to developing integrated water resources management plans by 2005, but they will need to allocate substantial resources to ensure their proper implementation. The worst-polluted water bodies have been cleaned up in OECD countries, and point source

discharges to surface water have been significantly reduced, especially from industrial and urban wastewater systems. However, less progress has been made in addressing pollution arising from agricultural run-off and other non-point sources of pollution. The trend in most OECD countries is towards a worsening of groundwater quality, particularly from elevated levels of pesticides and nitrates and, in some countries, from salinisation.

Biodiversity

Protected areas established to achieve biodiversity-related goals have reached 14.6% of the total land area for OECD countries, and some progress has been made in creating ecological networks with corridors to connect protected areas. Not enough is being done to slow habitat loss and fragmentation outside protected areas or to apply the ecosystem approach to natural resource management, reflecting a lack of integration of biodiversity concerns in sectoral policies (e.g. agriculture, fisheries, forestry, tourism). The percentage of known species that are endangered continues to increase, and indicators of the total numbers of vertebrates in the wild continue to register declines. While a couple of the key international agreements to support sustainable fisheries management entered into force in the last few years, it is too early for their implementation to have slowed the continuing trend towards over-exploitation of fish stocks. The use of market-based instruments (fees, charges and environmental taxes) to promote sustainable use of biodiversity is increasing, as is the assignment of well-defined property rights.

Agriculture

Some progress has been made in reducing the negative environmental pressures from agriculture, but much more is needed. Land use and soil loss have decreased, long-term reductions in on-farm biodiversity have slowed, and some decreases in greenhouse gas emissions from agriculture have been achieved. However, water use in agriculture has risen, and levels of nutrient and pesticide run-off remain high in many countries. Many OECD countries have been addressing the environmental impact of agriculture through increased use of agri-environmental measures and cross-compliance requirements, whereby farmers have to meet environmental conditions to be eligible for support. However, market price support, output payments, and input subsidies – potentially the most environmentally harmful types of support – still account for 80% of total agricultural support. A positive development has been the setting up in all OECD countries of a system of regulatory oversight to address the potential environmental and health impacts of genetically modified organisms (GMOs).

Transport

The environmental and health effects associated with some major air pollutants from transport – such as lead, sulphur dioxide and nitrous oxide – have been decreasing for some time in OECD countries. Emissions of most pollutants remain high, however, and limit-standards for air quality, and critical levels and loads for acidification, eutrophication (nutrient pollution), and tropospheric ozone, continue to be exceeded. Progress in noise reduction, the prevention of habitat fragmentation, and reducing run-off from transport is proceeding more slowly, while carbon dioxide emissions from transport have continued to increase. Many countries have been reforming their systems of transportation taxes and charges to better target environmental externalities and congestion and to foster shifts to less environmentally harmful transport modes; some have introduced or extended tram

and light rail systems, and increased the capacity of inter-city passenger rail, to encourage greater use of public transport. The environmental impacts of rapidly-increasing air transport also need to be addressed urgently, with air transport already responsible for about 11% of transport-related energy consumption. Better integration of transport and urban planning, as well as the use of strategic environmental assessments in transport planning, is needed.

Energy

The efficiency of industrial, household and commercial energy use has improved as a result of technical change, encouraged by a combination of price incentives, and regulatory and voluntary approaches addressed to buildings, appliances and electric motors. However, much of the potential for further energy efficiency improvements remains untapped, including even low or no-cost options. Regarding energy production and transformation, market forces and regulatory reform have fostered fuel substitution from coal to gas in many OECD countries, with resulting environmental benefits. In addition, several new research initiatives have recently been launched on the viability and cost-effectiveness of carbon capture and storage. The combination of structural change and improvements in energy efficiency has led to some decoupling of energy use from economic growth. However, further improvements are not likely without substantially more ambitious policies and measures, including better internalisation of environmental costs in energy prices and hence an accelerated development and diffusion of cleaner technologies.

International environmental governance and co-operation

International environmental governance has been strengthened by the entry into force of a number of multilateral environmental agreements (MEAs). OECD countries have ratified an even larger number of environmental conventions, not all of them yet in force. They have also supported measures to strengthen the control or review mechanisms of several existing conventions, and to improve co-operation among the secretariats of MEAs. Economic agreements also increasingly include environmental elements – for example, regional and bilateral investment and trade agreements, and the 2001 Declaration of World Trade Organization (WTO) ministers (the Doha Development Agenda). Member countries of the OECD Development Assistance Committee (DAC) have made available some USD 50-55 billion per year in the form of official development assistance (ODA) since 1998, with about USD 5-6 billion provided to environmentally-related activities. DAC members are also working to mainstream responses to environmental concerns, such as climate change, into their core development assistance activities. Despite increases in foreign direct investment, resource mobilisation is currently insufficient to meet internationally agreed goals such as the Johannesburg commitment on access to drinking water and sanitation. OECD countries agreed in 2003 on common approaches for incorporating environmental considerations in the provision of export credits. Several OECD countries have since strengthened environmental impact assessment requirements for projects benefiting from credit guarantees, and taken other steps to ensure transparency in integrating environmental objectives into project planning and financing decisions. They have also promoted implementation of the OECD guidelines for multinational enterprises, including their environmental components.