



Meeting of the OECD Environment Policy Committee at Ministerial Level

**Opening statement by Angel Gurría,
Secretary-General
OECD**

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Thank you, Minister Pecoraro, for your kind words. I am sure we can look forward to a constructive meeting under your chairmanship, joined by Ministers from Portugal, the US, Denmark and Mexico to chair the four Sessions of this Ministerial, and Japan as Vice Chair to link to the G8.

Ministers, distinguished guests, ladies and gentlemen,

I am very pleased to welcome you to this meeting of the OECD Environment Policy Committee at Ministerial Level. Our discussions will take a hard look at the interaction between the Environment and Global Competitiveness, the overarching theme of this meeting; they will also allow for an exchange of views on the more relevant environmental issues that have arisen since the last EPOC Ministerial in 2004. Finally, and perhaps more importantly, we will be able to define the strategic directions for the future OECD work on the environment.

Reconciling competitiveness and the environment has always been an important concern. As the issue has gained relevance in the public policy agenda, the actions needed to address it pose economic and social challenges, but they also create new opportunities.

Let me mention some of these challenges in the context of the fight against climate change. A major concern is that of “carbon leakage”: introducing carbon reduction policies only in some countries could lead companies to relocate to other countries that do not apply strong climate policies. Global emissions would simply be displaced rather than reduced. And the lack of a level playing field and the fear of negative impacts on affected industries, especially those that are energy-intensive and exposed to trade, would explain the reluctance of many countries to move ahead with ambitious climate change policies.

The OECD has been working on such “political economy” issues that governments face when implementing policy reforms. We found no convincing evidence that environmental

policies to date have harmed competitiveness at a macroeconomic level. There may be negative impacts on specific firms, sectors or regions but these tend to be compensated by positive effects elsewhere in the economy. Our work shows that these impacts can be managed with “smarter” policy design and identifies a range of measures that governments can use to reconcile competitiveness and environmental concerns.

Now let us look at the other side of the coin: tackling climate change brings new opportunities that can improve competitiveness in some sectors. Ambitious environmental policies can act as a catalyst for eco-innovation, for example, by creating new markets for low-carbon technologies. Some countries have acquired a competitive or “first mover advantage” in the renewable energy sector by strategically investing in the development of “green” sectors. Wider diffusion and further development of existing technologies will help keep the costs of reducing greenhouse gas emissions affordable. Ongoing work on eco-innovation in EPOC and in other parts of the OECD can contribute to a comprehensive approach to mitigating greenhouse gas emissions; it will also provide an input to the OECD Innovation Strategy.

But these new opportunities will only be realised if governments provide a clear and consistent long-term policy framework with the right incentives. What should these incentives look like? Let’s take a look at subsidies. Subsidising specific clean technologies holds the risk of locking-in the state-of-the-art today, even if this may turn out to be less appropriate tomorrow. A much better way is to put a price on greenhouse gas emissions, through carbon taxes or emissions trading. This provides powerful incentives for eco-innovation: it makes low-carbon technologies more cost-competitive and lets the market determine which technologies work better. But carbon pricing alone will not be sufficient. We need a mix of policies to support sufficient investment in green R&D and to help new technologies compete on a level playing field. The message is thus a positive one: reconciling competitiveness and the environment is possible and a wide range of policy measures exist to address

competitiveness concerns and to take advantage of opportunities presented by eco-innovation.

Let me now move to my second point: what has happened since 2004? To put it simply: the world has become a different place. We are already seeing the impacts of climate change and the urgency of policy action is clearer every day. But climate change is not the only environmental challenge we face. Our recently published *OECD Environmental Outlook* projects that, without new policies, by 2030, many more animal and plant species will continue to become extinct, over 1 billion more people than today will live in water stressed areas, and premature death linked to air pollution will increase. To prevent these grim prospects, policy changes are needed today in agriculture, energy, transport and fisheries sectors as well as in land use planning. [I believe copies of my presentation of the Outlook at the launch last month in Oslo have been distributed to you.]

At your last Meeting in 2004, you mandated a study on the *Cost of Inaction*. This work will be published later this year, and complement the *OECD Environmental Outlook* (which focuses on the costs of action). We looked into available evidence on the cost of inaction in some of the key areas of environmental policy: air and water pollution effects on human health; climate change; industrial hazards and natural disasters; and natural resource management, focusing on marine fisheries and groundwater.

The economic and social costs of failing to address environmental problems are substantial. They show up as increased health expenditures due to air and water pollution; as time and money devoted by families to secure access to clean water; as increased unemployment benefits for out-of-work fishermen; as remediation costs for oil spills and contaminated sites; and as the construction of dykes to protect against flooding. Add to these other, less tangible costs, such as the pain and suffering associated with poor health and further losses in essential ecosystem services. Failing to protect our forests, marshlands and mangroves

means losing carbon sequestration, water purification and protection from floods and hurricanes.

Shedding light on the costs of action and inaction will allow more enlightened policy decisions and gaining public support for them. The *Environmental Outlook* shows that compared to the cost of inaction and taking into account the world's projected economic growth, the solutions to the key environmental challenges are affordable. Not cheap, but affordable. But we need to act now, before we pass critical thresholds beyond which we face irreversible damage or before the costs of action increase significantly.

We need to shift our economies towards a low-carbon future, but the transition will need to be managed carefully to address social and competitiveness impacts, and to take advantage of the new business opportunities that arise. This is an economy-wide challenge that requires government-wide efforts. I will be listening carefully to your "message" to Finance and Economy Ministers who will discuss the Economics of Climate Change at the Ministerial Council Meeting in June.

Policy-makers, businesses and consumers all need to play their part to implement the ambitious policy reforms which will deliver environmental improvements in cost-effective and socially responsible ways. We need to act now, based on solid scientific and economic evidence of what works and what doesn't. We need to do it in the least costly way by making sure that every country is part of the solution. And we need to find ways to allocate the costs in a way that will encourage such global participation. We can build a sound economic footing for the post-Kyoto architecture. The "what" is available, the "how" is achievable; the "how much" is affordable.

Thank you.