

OECD Environmental Strategy: 2004 Review of Progress

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Summary

OECD countries are working hard to tackle the environmental problems they face, but much more ambitious policies will be needed if their national and international commitments are to be met. Progress has been made in a number of areas since OECD ministers agreed in 2001 on an *Environmental Strategy for the First Decade of the 21st Century*. For example, air pollution regulations have been tightened, new market-based policies to mitigate climate change at least cost are in place or planned, regulatory frameworks are being strengthened to protect the environment and human health from chemicals, and a number of key international agreements to protect the marine environment and ensure sustainable fishing have recently entered into force, thanks in part to their ratification by some OECD countries. But current policies are insufficient to adequately protect biodiversity resources, or to address climate change. Economic growth no longer leads automatically to an equal increase in pressure on the environment in some key sectors, indicating at least some “decoupling” of environmental pressures from economic growth, but the environmental impact of continuing road transport expansion, energy production, and agricultural practices remains high.

A number of obstacles to environmental policy reform continue to block progress – including political obstacles, such as poor policy integration, and inadequate information. The science of climate change continues to be questioned, hampering international agreement on the appropriate policies to address it. The largest and most polluting energy users often still benefit from exemptions to energy taxes, reducing the economic efficiency of these taxes as well as their environmental effectiveness. While there is a gradual trend toward the “greening” of agricultural subsidies, obstacles to subsidy reform remain high and so progress is slow. Increasingly, OECD environment ministers will need to work together with their colleagues in other ministries and other countries, as well as with partners from business and civil society, to ensure that appropriate environmental policies can be developed and implemented.

This Policy Brief looks at the progress made so far in implementing the *OECD Environmental Strategy* and the future challenges for OECD countries. ■

What is the OECD Environmental Strategy?

The *OECD Environmental Strategy for the First Decade of the 21st Century* was adopted by OECD Environment Ministers on 16 May 2001, and endorsed by a meeting of the OECD Council at Ministerial Level on 17 May 2001. It identifies five over-arching objectives (see box) for OECD countries to achieve environmentally sustainable development. OECD countries identified the key challenges under these objectives, listed 71 national

actions to address them, and asked the OECD to support them by undertaking further work in a range of areas. The main issues highlighted in the *Strategy* are those identified in the *OECD Environmental Outlook of 2001* as the environmental problems needing to be addressed most urgently to move toward the longer-term goal of ensuring environmental sustainability. OECD Environment Ministers will meet again in April 2004 to discuss their initial progress in implementing the *Strategy* and identify areas for further action. ■

Box 1. The 5 Objectives of the OECD Environmental Strategy

The *OECD Environmental Strategy* identifies five inter-linked objectives for enhancing cost-effective and operational environmental policies in the context of sustainable development:

- *Objective 1:* Maintaining the integrity of ecosystems through the efficient management of natural resources (with a special focus on climate, freshwater, and biodiversity).
- *Objective 2:* De-coupling environmental pressures from economic growth (with a special focus on agriculture, transport, and energy).
- *Objective 3:* Improving information for decision making: Measuring progress through indicators.
- *Objective 4:* The social and environmental interface: Enhancing the quality of life.
- *Objective 5:* Global environmental interdependence: Improving governance and co-operation.

What are its main objectives?

Maintaining the integrity of ecosystems

Objective 1 of the *OECD Environmental Strategy* focuses on maintaining the integrity of ecosystems through the efficient management of natural resources. It highlights three priority areas for attention: climate change, freshwater, and biodiversity.

- **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 importance. None-the-less, 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. While emission trading schemes, carbon-related taxes, and project-based flexibility mechanisms are only now starting to be introduced in OECD countries, they will be increasingly important components of future policy mixes to address climate change in order to keep costs to an acceptable level. 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:** 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. A greater challenge is the design and implementation of water management policies that better reflect ecosystem needs for freshwater, as well as human needs. OECD countries are committed to

developing integrated water resources management plans by 2005, but will need to allocate substantial resources to ensure their proper implementation. While most countries show sustainable use of water resources at a national level, this may conceal unsustainable use in some regions (e.g. arid or semi-arid regions) and over some periods. 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 majority of OECD countries do not yet meet the baseline quality standard for inland waters (suitability for fishing and bathing). Moreover, the trend in most OECD countries is towards a worsening of ground water 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. The management of protected areas is in need of considerable improvement, however, and the establishment of more marine protected areas is urgently needed. Not enough is being done to slow habitat loss and fragmentation outside of 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. OECD countries are employing a wider array of policy instruments to provide incentives for the sustainable use and conservation of biodiversity, although total expenditure (public and private) on nature conservation is still limited. 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, for example the use of individual transferable quotas in fisheries and development rights for wetlands conservation.

Decoupling environmental pressures from economic growth

Objective 2 of the *OECD Environmental Strategy* emphasises the need to decouple environmental pressures from economic growth in the context of working towards sustainable consumption and production patterns. It focuses on the priority sectors of agriculture, energy, and transport.

- **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 occurred. 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 environmental impacts 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.
- **Transport:** The environmental and health effects associated with some major air pollutants from transport have been decreasing for some time in OECD countries. Emissions of most pollutants remain high, however, and limit-standards for air quality continue to be exceeded. Progress in noise reduction, the prevention of habitat fragmentation, and reducing run-off from transport is proceeding more slowly, due to continued expansion of road networks and overall transport activity; while carbon dioxide emissions from transport have continued to increase. Regulatory timetables for meeting air quality goals and emission ceilings have been established through 2008 in all OECD regions, based on best available control technology. 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.

Only a few countries have introduced targeted policies to reduce the trend towards urban sprawl and the related environmental impacts. In terms of reducing environmental risks from maritime transport, an action plan to combat substandard shipping was agreed by OECD countries in 2001; and in Europe an accelerated timetable to phase-out single-hulled vessels in the transport of fuel oil was agreed in 2003. Until this plan is fully operational, however, marine pollution from oil and hazardous material continues to be a risk. 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. For example, standby power consumption, especially from consumer electronics, remains unregulated in most OECD countries. 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. Fiscal policies, tradable renewable energy certificates, and other policies have led to rapid growth in the development of renewable energy sources and greater use of combined heat and power, albeit from a low base. These developments have reduced the carbon intensity of energy production and further reduced emissions of sulphur dioxide, particulate matter, and other air-borne pollutants. 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 unlikely without substantially more ambitious policies and measures, including better internalisation of environmental costs in energy prices and faster diffusion of cleaner technologies.

Improving information for decision-making

Objective 3 of the *OECD Environmental Strategy* highlights the need to improve information for decision making, including through the use of indicators to measure progress. In an effort to promote accountability, many OECD countries produce small sets of summary indicators designed for their communicative value, and some have undertaken environmental outlook exercises. The number of countries carrying out environmental data collection and dissemination work has increased, as has its thematic scope. Successes include the regular compilation of air emission inventories and the establishment of operational pollutant release and transfer registers (PRTRs) in about half of all OECD countries. Efficient web-based technologies are increasingly used for environmental information reporting and exchange. Impact assessments, cost-effectiveness studies and cost-benefit analysis are also becoming more prevalent. Agreements have been reached to extend the methodology of OECD environmental performance reviews to some non-OECD countries in the near future.

However, high quality, policy-relevant data and sectoral detail remain scarce in important areas such as biodiversity, economic aspects of environmental performance, and risks related to toxic contamination. The timeliness of data, as well as their comparability among countries and over time, still need considerable improvement. Also, many countries find it increasingly difficult to respond to expanding demands for environmental information, while maintaining continuity in core data activities.

Addressing the social-environmental interface

Objective 4 of the *OECD Environmental Strategy* highlights the need to address the social and environmental interface. OECD countries have continued to make progress in this area, for example through work on a Globally Harmonised System for Classification and Labelling of Chemicals, testing and assessment of endocrine disrupters, development and revision of test guidelines for chemicals, and preventing hazards from major accidents. OECD countries have accelerated the processes for testing and assessment of high production volume chemicals. The Rotterdam Convention on Prior Informed Consent (PIC) for chemicals trade entered into force in February 2004, and the Stockholm Convention on Persistent Organic Pollutants (POPs) will come into force in May 2004. A few countries have introduced measures to limit the

exposure to hazardous chemicals and air pollution of particularly vulnerable groups.

A few OECD countries have used some of the proceeds from environmentally related taxes to reduce labour costs, although the employment effects of this, "double dividend" approach need to be assessed. Most OECD countries have used a range of measures including tariff adjustments, direct income support, and service vouchers to ensure access to and affordability of water, energy, and waste disposal services for low income households, while maintaining incentives for environmental improvements. Most OECD countries have made progress with regard to information, participation, access to justice in environmental matters, and environmental education. However, access to environmental information has been uneven when held by ministries other than environment or by semi-public bodies. ■

Strengthening environmental governance

Objective 5 of the *OECD Environmental Strategy* emphasises the need to improve governance and co-operation in light of global environmental interdependence. 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 WTO Ministers (the Doha Development Agenda). Little progress has been made, however, in ratifying a number of international agreements on liability for environmental damage.

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 impacts 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. The practice of implementing environmental management systems and issuing environmental reports has grown within the business sector of OECD countries, although few businesses engage in systematic environmental cost accounting or associated reporting, and even fewer make use of third-party certification of their reports. ■

What more needs to be done?

Progress has been made in implementing most of the National Actions listed in the *OECD Environmental Strategy*, but further measures will be needed if all are to be achieved by 2010. A number of obstacles to policy reform remain, including the need to better integrate environmental concerns in economic and sectoral policies, to address the fear of a loss of competitiveness or of social impacts, to improve scientific understanding, and to collect reliable and comparable environmental information. The OECD will continue to support member countries in implementing the *OECD Environmental Strategy* through analytical work on how to overcome these obstacles, and by monitoring country progress through environmental indicators and country environmental performance reviews (see box). ■

For further information

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Box 2. OECD Environmental Performance Reviews

When OECD Environment Ministers adopted the *OECD Environmental Strategy* in 2001, they asked OECD to monitor their implementation of the *Strategy* through the Environmental Performance Reviews and the environmental indicators programme. The Environmental Performance Reviews scrutinise country efforts of member countries to reach their environmental goals – both domestic objectives and international commitments – and provide for each country around 50 recommendations. For each individual country, the process is one of “peer review”.

The first cycle of performance reviews for all OECD member countries was completed in 2000, and a second cycle is now underway. This second cycle – in view of stimulating greater environmental accountability – places more emphasis on the use of indicators to measure performance, the integration of environmental, economic and social policies to achieve sustainable development, and reviewing progress with respect to international commitments, including OECD decisions and recommendations. Special emphasis is being placed on overcoming barriers to policy reform in member countries, by identifying, for example, obstacles which can slow down implementation of reforms.

Review recommendations are presented at a press conference, usually given by the Environment Minister in the capital of the reviewed country to reach public opinions and decision-makers. Some 2 years later, formal “government responses” are made public.

Several non-member countries have also been reviewed (e.g. Russia) or are to be reviewed (e.g. Chile, China). This OECD programme has provided the model for country environmental reviews of Eastern Europe, Caucasian and Central-Asian countries (through the UN-ECE programme), and led to co-operation with UN-ECLAC (for Latin American) and the Asian Development Bank (for South-East Asia).

For further reading

- **OECD Environmental Strategy for the First Decade of the 21st Century**
– available at: www.oecd.org/env/min/2001.
- **OECD Environmental Outlook (2001)**
ISBN: 92-64-18615-8, €75.00, US\$65.00
- **OECD Environmental Strategy: 2004 Review of Progress** (2004, forthcoming)
ISBN: 92-64-10780-0
- **OECD Environmental Performance Reviews:**
Germany, Iceland, Portugal, Norway (2001)
Slovakia, Japan, Italy, United Kingdom (2002)
Netherlands, Poland, Mexico, Austria (2003)
Canada, Spain, Sweden, Chile (forthcoming 2004)
- For more information on the OECD's work on the environment, see: www.oecd.org/env/.
- For more information on the 2004 Meeting of OECD Environment Ministers, see: www.oecd.org/envmin2004.

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