



Launch of the Environmental Performance Review of the Slovak Republic

Introductory Remarks by Simon Upton,
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Minister, Ladies and Gentlemen

I am very pleased to be in Bratislava today to join you in launching the second OECD Environmental Performance Review of the Slovak Republic. The previous Review was published in 2002, shortly after the Slovak Republic became a member of the OECD, and just before it joined the EU in 2004. This Review allows us to take stock of the progress made by the Slovak authorities in the field of environmental policy in what has been an eventful decade, on all fronts, for the Slovak Republic.

The EPR of the Slovak Republic is part of a peer review process. This is one of the OECD's classic working methods, and similar programmes are implemented in other areas. For example, our Economics Department prepares economic reviews, and the most recent OECD Economic Survey of the Slovak Republic was published one year ago.

Peer review involves all countries reviewing each other, to learn from each others' positive achievements, and to provide advice and support to improve performance. Thus, environmental performance reviews aim to provide mutual support for Member countries to improve their environmental performance, individually and collectively. For this Review we had experts from the Czech Republic and Portugal working with the secretariat as peers to assess the Slovak Republic's environmental performance.

The report presents 35 targeted recommendations in areas including green growth, environmental management, international environmental co-operation, climate change, and integrating agricultural and environmental policies. It was discussed at a meeting of the OECD's Working Party on Environmental Performance in June 2011, and we were very pleased that Minister Nagy personally was able to lead the Slovak delegation for that discussion. The Assessment and Recommendations were endorsed by the Working Party, so they express the views not only of the OECD secretariat, but also OECD Member countries.

Between 2000 and 2008, the Slovak Republic had the highest rate of growth among OECD countries. This rising wealth generated environmental pressures related to consumption, particularly from transport and waste. However, the overall level of pressures was less than in many other OECD countries because GDP per capita remained well below the OECD average. Economic restructuring led to the closure or modernisation of pollution- and energy-intensive manufacturing sectors, sometimes leaving an environmental legacy in the form of contaminated land. EU membership supported increased investment in environmental infrastructure, and an upgrading of environmental policies and institutions, though not at the same pace as economic development. As a result, environmental trends are mixed, and the effectiveness and efficiency of environmental measures will need to be strengthened in the future.

Let me highlight some of the key trends identified in the Review:

- Emissions of most air pollutants were reduced while GDP increased rapidly. However, concentrations of particulates and ground-level ozone still frequently exceed health-based limit values.
- Slovakia is one of the least water-intensive economies in OECD, and abstractions for the most water-intensive sectors have significantly decreased. However, effective management of water resources remains a challenge, and in recent years floods have caused much harm and imposed significant costs on the economy.
- The amounts of energy and carbon used to produce each unit of economic output have fallen significantly. However, Slovakia remains one of the most energy- and carbon-intensive economies in OECD.
- The amount of materials used to produce a unit of GDP has decreased. However, there has been little progress in diverting waste from landfill which still accounts for 80% of waste disposal.

- Forests cover 40% of the territory, and more than 20% of the total area is under legal protection. Moreover, the Slovak Republic has played a leadership role in promoting regional cooperation on biodiversity, especially for wetlands. However, trends in biodiversity conservation are mixed: the proportion of threatened species is relatively low for birds, average for mammals and freshwater fish, but high for reptiles, amphibians and vascular plants.

The Review commends the Slovak Republic for the progress it has achieved in aligning its environmental policies with those of the EU. This was a huge undertaking and was largely concluded on schedule. However, it was not without costs. The environmental administration experienced a period of instability, frequent changes of Environment Minister, and deteriorating relations with stakeholders. Following a merger with the Ministry of Agriculture, a separate Ministry of Environment was re-established in 2010. Under Minister Nagy's leadership, this has provided an opportunity to reinvigorate environmental policies and institutions.

Toward the end of the decade, the Slovak Republic was severely hit by the global economic and financial crisis: GDP fell by about 5% in 2009. Although the economy rebounded quickly, driven by strong external demand, it is still vulnerable to fluctuations in economic activity in its trading partners. To continue to improve the living standards of its people, the Slovak Republic must boost the productivity and competitiveness of its economy, particularly compared to eastern neighbours where labour costs are cheaper.

The EPR suggests that there are potential synergies in confronting these economic and environmental challenges. It recommends that the Slovak Republic should develop a new environment strategy as an integral part of its overall strategy for economic and social development. The OECD Economic Survey that was issued last year, also made a number of recommendations to facilitate the transition to a greener economy. Some of the key recommendations made in the two reports include:

- Broadening environmental taxes
- Removing environmentally harmful subsidies and tax exemptions
- Promoting further structural change
- Improving the policy framework for innovation in general, and for eco innovation in particular
- Fostering human capital formation, and
- Enhancing the business environment.

I would highly commend the Slovak authorities for using the Environmental Performance Review as the basis for a “National Workshop: Toward Green Growth in Slovakia” that will take place this afternoon. In our view, this is an excellent and timely initiative. The involvement of all of the key ministries with portfolios that affect the environment, including, Ministers of Finance, Economy, Labour, Agriculture, is very encouraging. I will also participate in this meeting and summarise the main findings of the OECD Green Growth Strategy that was presented to the annual meeting of OECD Ministers of Finance, Economy and Trade in May this year. I am confident that the three OECD reports - the EPR, the Economic Survey, and the Green Growth Strategy - will provide a useful basis for discussion.

Minister: there is a wealth of material in the Review we are releasing today – far more than could be covered in a single speech. Given these time constraints, I’d like to comment on just two issues which were examined in-depth in the Review and which are also relevant to discussions on green growth; these are climate change, and the integration of agriculture and environmental policies.

Regarding climate: by 2009, the Slovak Republic had already over-achieved its target of reducing GHG emissions under the Kyoto Protocol. By then, emissions had been reduced by more than

40%, whereas the Kyoto target called for an 8% reduction in the 2008-12 period compared to 1990 levels. Two decades of economic restructuring, a lower share of coal in the fuel mix, and efficiency gains underlay these trends.

However, as I mentioned earlier, the Slovak Republic remains one of the most energy and carbon intensive OECD economies. Moreover, emissions are projected to grow in the post-Kyoto period, especially in the transport and industrial sectors, creating potential challenges for the Slovak Republic to meet its mid- and long-term reduction targets. Identifying ways to move beyond a pattern of economic development locked-in to use of fossil fuels is a key challenge for the Slovak Republic and virtually all other OECD countries.

The Review makes 7 recommendations on climate change. Several of them target taxes and subsidies for energy products. The principle underlying these recommendations is that addressing the challenge of mitigating climate change efficiently and effectively is best achieved by establishing a clear, consistent and appropriate price for carbon in all sectors of the economy. In the current economic and financial crisis, there are increased concerns that raising taxes or removing subsidies for energy related products will particularly affect the poorer sections of society. This is certainly a risk. But we would argue that the price should be maintained and targeted support provided to the affected groups. This would be better for both the public budget and the environment.

Several recommendations address transport. GHG emissions from the road transport sector are projected to continue to increase. This is linked to rising living standards, increased trade, heavy investment in roads, and the lack of reliable alternative transport modes. In these circumstances it is crucial that environmental costs are internalized in the costs of road transport. A positive step involved the introduction of a distance- and emissions-based electronic toll system for heavy vehicles. The Review recommends that this be extended to passenger vehicles. The Review also recommends that the tax rate on diesel should be brought back to the same level as gasoline; it

was lowered in 2010 to compensate for the increase in road tolls and to attract freight transport. From an environmental point of view, we think that, if anything, the tax on diesel should be higher than on gasoline. Finally, the Slovak Republic is one of the few OECD countries that does not tax car ownership. The Review recommends that the annual tax on commercial vehicles should be extended to private cars, and the rate should be linked to the environmental performance of the vehicle.

The Review makes several other recommendations related to the price of carbon. It suggests that subsidies for coal and tax concessions for energy use by households and in energy-intensive industries should be gradually phased out. It also suggests that taxes on energy products used in sectors not covered by the EU ETS could be restructured and include a CO₂ component.

Coming from New Zealand, I take a keen interest in the integration of agricultural and environmental policies. The issue is clearly important in the Slovak Republic where rural areas account for 80% of the territory and 40% of the population. The Slovak Republic has made good progress in addressing some of the challenges in this area. The restructuring of the sector that has been underway since the early 1990s has significantly reduced environmental pressures such as nutrients, agricultural chemicals and water use. Payments have been introduced to help manage biodiversity in Natura 2000 sites which cover a high share of Slovakia's territory. Agri-environment payments have supported the development of organic agriculture which in 2009 accounted for 7.6% of farmland, exceeding the 2010 target of 7%. Agri-environment payments have also helped to maintain extensive forms of farming, and to prevent farm abandonment in areas of high environmental and recreational value.

However, agriculture still exerts important pressures on the environment. Almost 60% of farmland is located in nitrate vulnerable zones. The Review suggests that more effective fertilizer and manure management plans should be implemented in these areas.

Although agri-environmental payments have achieved positive environmental results, more could be done to link payments with environmental outcomes. This should be further explored in the context of the harmonized rural development programme, including Natura 2000 payments, other agri-environmental payments, and payments to maintain farming in less favoured areas which make up 50% of agricultural land.

Finally, 85% of farm operations are carried out on leased land. From an environmental perspective, this reduces incentives to manage farmland in a longer-term, environmentally-sound manner. It also creates obstacles for accessing EU agri-environment programmes, which must be implemented for 5 consecutive years in order to receive payment. These problems would be addressed if land markets were better developed. Admittedly this is not easy because of the difficulty of identifying landowners that arose with the transition to a market economy. Nevertheless it is a strategically crucial issue that merits further attention.

Minister: let me stop there to allow sufficient time for any questions you may have. I am conscious that there are many other issues that may be of interest to this audience. My colleagues and I would be happy to join in a discussion on this or any other issue you may wish to raise.

Let me also take this opportunity again to thank the Slovak authorities for all your support, and for your positive and constructive cooperation in preparing the Review. We hope that our Assessment and Recommendations, and the supporting analysis, will provide further support to the considerable efforts you have already taken to improve the quality of your environment and the lives of your citizens.

Thank you for your attention.