



Message to the Council
on the Implementation of the Environmental Strategy for
the First Decade of the 21st Century

MAKING
GREEN GROWTH
DELIVER

Meeting of the Environment
Policy Committee (EPOC) at
Ministerial Level
29-30 March 2012



OECD Environment Ministers adopted the *OECD Environmental Strategy for the First Decade of the 21st Century* on 16 May 2001. The following day, the OECD Meeting of Council at Ministerial level endorsed the *Strategy*.

At our meeting on 29-30 March 2012, we took stock of the progress that we have made over the intervening decade. This followed on from two interim reviews along the way. We submit this report to the OECD Council at Ministerial level on the lessons that can be learned to help guide future action.

The *Strategy* was intended to provide directions for environmentally sustainable policies in OECD Member countries, and to guide the future work of the OECD in the field of environment. Given the multiple and cross-sectoral pressures on the environment, many of the policy actions identified in the *Strategy* fell outside the responsibility of Environment Ministries. Their implementation depended on a whole-of-government response.

The fundamental objective of the *Strategy* was to maintain ecosystem integrity, particularly climate, biodiversity and water. Four other objectives were also established: decoupling environmental pressures from economic growth (particularly in the energy, transport and agriculture sectors); improving information for decision-making; enhancing the interface of social and environmental policies; and improving global environmental governance and cooperation.

Ten years on we must conclude that the objectives of the *Strategy* have not been fully achieved. Despite significant improvements on some environmental fronts, it is clear that much work remains. Environmental pressures have not been reduced to the extent needed to maintain ecosystem integrity and to ensure environmentally sustainable development. Although uncertainties remain about environmental thresholds, crossing them would entail real reductions in well-being and welfare. There is an urgent need for more ambitious policies to tackle environmental pressures. But such policies will only be acceptable and effective if they demonstrate that they take full account of economic and social considerations. For this reason, the active engagement of other Ministers will be essential, including those responsible for Finance, Economy and Trade, as well as the private sector, trade unions and NGOs.

The *OECD Environmental Strategy* is a living document that will continue to provide a reference for the Environment Policy Committee's Strategic Vision and guide its priorities. The OECD's *Green Growth Strategy* must now guide us and relevant OECD committees in integrating environmental and economic policies and pursuing green growth objectives.

Areas of progress

Some of the main areas where progress has been achieved by OECD countries in implementing the *OECD Environmental Strategy* over the last decade, include:

- Advances in the scientific and economic understanding of climate change, biodiversity, and other key elements of global change science;
- The more active participation of a better informed citizenry in environmental policy development and implementation;
- The development and use of more cost-effective policy instruments, individually and in combination, in many environmentally related areas;
- Initiatives by cities and other sub-national levels of government;

- The beginnings of an international carbon market;
- An increase in the share of official development assistance allocated to the environment, particularly to support implementation of the Rio Conventions; and
- Strengthened environmental governance in areas such as the marine environment and chemicals.

These efforts have helped to reduce some important environmental pressures and to improve environmental conditions:

- Overall emissions of some key air pollutants such as SO₂, NO_x have decreased, thereby reducing their related environmental impacts;
- Water-borne disease in large urban areas is generally a thing of the past for OECD countries, life has returned to many rivers that had been considered dead, and water bodies are increasingly managed on the basis of hydrological rather than administrative boundaries;
- There are many local examples where populations of endangered species, and the extent of protected areas, have increased;
- Some OECD countries have reduced their emissions of greenhouse gases in absolute terms; in others, the increase has been less than the rate of growth of GDP;
- Some of the key environmental pressures from the agricultural sector, including the use of freshwater for irrigation, GHG emissions and inputs of nitrogenous fertilizers, have been reduced;
- Total annual water abstractions have remained unchanged in the OECD area, and some countries have reduced the volume of water abstracted;
- Donors have helped some developing countries to improve their environmental conditions and to strengthen their capacities for environmental management;
- Damage to the ozone layer has been arrested and is beginning to be reversed.

Key challenges

Despite the progress that has been achieved over the last decade, the overall result falls short of what is needed to ensure the integrity of ecosystems. In particular, we note that:

- We are not on track to limit the rise in the average temperature of the global atmosphere to 2°C above the pre-industrial period; overall GHG emissions from OECD countries increased in the last decade;
- The overall energy mix in OECD countries has not changed appreciably and is still more than 80% reliant on fossil fuels;
- The environmental gains associated with more fuel-efficient, less-polluting motor vehicles have been overwhelmed by the increased scale of their use, which is related to the continued dominance of motor vehicles in the modal split, urban sprawl, and the expansion of motorways;

- Air quality, particularly in many urban centres, poses an increasing risk of premature death and disease, particularly to vulnerable populations such as children and the elderly;
- There are increasing risks of non-linear, irreversible changes in ecosystems on which economic and social development depends; one indicator is the increasing number of endangered animal and plant species;
- Major changes in agricultural policies and practices are needed if a growing world population is to be fed without over-exploiting scarce natural resources or further damaging the environment;
- Diffuse sources of pollution, the declining quantity and quality of groundwater, as well as the increasing frequency and severity of droughts and floods, in some countries partly due to climate change, is making the sustainable management of aquatic and related ecosystems more challenging;
- Increased collaboration is needed to better understand the risks as well as the benefits associated with chemicals, including nanomaterials and the products of modern biotechnology.

Key obstacles

There are a variety of factors holding back progress. A key factor is that prices still do not sufficiently internalise environmental costs; and some subsidies create perverse incentives for environmentally harmful activities. Natural assets are consistently undervalued in conventional economic analysis and decision making. As a result, there is a gap between private returns from economic activity and the overall benefits that accrue to society.

Policy ambition and implementation is another key factor. There are wide variations in environmental performance among, and sometimes within, OECD countries. Some of these are inevitable. Countries have different resource endowments, different economic and social structures, and different legacies. Nevertheless, if all OECD countries converged with the performance of the “top-runners”, the overall performance of OECD countries would be substantially improved. However, even this would not be enough to decouple environmental pressures from economic growth in absolute terms. Even more demanding policies will be needed if critical environmental boundaries are to be respected. The size of the challenge underlines the need for countries to adopt the cost-effective policies.

The scale of many environmental pressures has continued to outstrip the gains that current policies have achieved in terms of more efficient resource use and reduced pollution generation. Current economic structures, and the associated patterns of production and consumption, are reinforcing the dominance of existing technologies, infrastructure and related institutions. These are formidable barriers to the transition to a low-carbon, more resource-efficient economy. Overcoming this inertia will require substantial innovation, not just in technologies but also in the social and institutional relations in which they are embedded.

At the global level, the main engines of economic growth and the associated environmental pressures are increasingly occurring beyond the OECD’s membership. Thus the ability of OECD countries to influence global environmental conditions is decreasing. The growing importance of the major emerging economies is posing both new opportunities and challenges for global economic and environmental governance. In both spheres, there appears to be a shift away from multilateral to more bottom-up approaches. The challenge is to find ways to make these approaches complementary and consistent, while staying within critical environmental limits. Increasing economic interdependence calls for further efforts to harness trade, investment, capital and aid flows to support the achievement of environmental objectives.

Achieving environmentally sustainable growth requires a better understanding of the political economy of reform; what it takes to make reform happen. At the heart of this is the challenge of managing the distribution of the costs and benefits of more ambitious policies, within and among countries, and across generations. This requires a continuing effort by governments to integrate environmental considerations into policies that generate environmental pressures, and to coordinate action at different levels of government. Successful reform requires not only effective enforcement but also winning from stakeholders an acceptance of the need for compliance, and developing effective partnerships. This should be based on effective communication, and on public participation, strengthened access to information, robust data and indicators, and evidence-based analysis. It also requires effective leadership, well-designed institutions, good sequencing of reforms, and strategies for mitigating the impacts of policy change on those most adversely affected.

Towards Green Growth

The economic and financial context is much less favourable now than when the *OECD Environmental Strategy* was adopted. However, this is no excuse for inaction. While governments are facing severe pressures to reduce budget deficits, there are nevertheless opportunities for environment-related policies to contribute to fiscal consolidation (by removing environmentally harmful subsidies and shifting the tax burden from capital and labour to environment), and to improving productivity and competitiveness (by driving innovation, more efficient technologies, and related employment opportunities). Moreover, the messages from the *OECD Environmental Outlook to 2050* are clear: if we do not take policy action to address the key environmental challenges, the costs of inaction to the economy and human well-being of over-use of natural resources, pollution and waste will be significant. With cost-effective policies, the costs of action now are likely to be much lower than the costs of delayed action or inaction in a number of areas.

In addressing future environmental challenges, the main objectives and recommendations in the *OECD Environmental Strategy* remain valid. In addition to the issues identified in the *Strategy*, more attention should be given to other issues, including sustainable resource management, related issues of waste management, and the linkages of environmental policy to spatial planning. Moreover, we need country-targeted advice, for example through the improved and streamlined environmental performance reviews to address the political economy challenges of implementing environmental policies. We ask the OECD to continue to support us in these efforts through its work on green growth and the environment.