

**2005 ANNUAL REPORT  
ON SUSTAINABLE  
DEVELOPMENT  
WORK IN THE OECD**



Sustainable Development Studies

**2005 Annual Report  
on Sustainable Development  
Work in the OECD**



ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

# ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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## *FOREWORD*

A main task of the OECD Annual Meeting of Sustainable Development Experts (AMSDE) is to review annually the range of work carried out by the organisation to identify outstanding gaps in analyses relating to sustainable development and to enumerate priorities for future activities. This brochure contains the 2005 survey.

The OECD carries out a wealth of studies and discussions on issues related to sustainable development, particularly on the efficiency and effectiveness of policies in the economic, environmental and social spheres. The level of joint Committee and cross-Directorate work in the OECD has increased in recent years, both within and outside of the horizontal programme on sustainable development.

Yet more could be done in the OECD to integrate the three pillars of sustainable development – economic, environmental and social – into ongoing cross-sectoral analysis, sectoral studies, measurement and indicators, and country reviews. In 2005, the AMSDE proposed a number of topics for future cross-cutting OECD Committee work, including sustainable production and consumption, corporate responsibility, environment and health, sustainable governance, development policy, and sustainability analyses in various sectors (*e.g.* manufacturing, services, forestry).

This survey is published on the responsibility of the Secretary-General of the OECD.



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## INTRODUCTION: SUSTAINABLE DEVELOPMENT IN THE OECD

What is sustainable development? In 1987, sustainable development was defined by the World Commission on the Environment and Development (in the *Brundtland Report*) as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. Unfortunately, this definition remained vague and little guidance was offered on how countries could develop coherent sustainable development policies.

There is a common understanding that sustainable development implies a better balance between economic, social and environmental goals in policy formulation as well as a long-term perspective about the consequences of today’s activities. It also includes the recognition that global co-operation is required to achieve sustainable economic, environmental and social conditions worldwide. But sustainable development continues to be a difficult concept to measure and operationalise.

### High-Level Advisory Group (1997)

In 1997, a *High-Level Advisory Group on the Environment* was convened by the OECD Secretary-General to advise on the organisation’s environmental activities. Broadening its mandate, the Advisory Group noted that the OECD – given its unique abilities in systematic analysis, indicators and peer reviews – was the only institution with “the capacity to build the cross-cutting teams necessary to help governments move towards sustainable development”. However, early OECD work relevant to sustainable development was largely pursued in a decentralised way by individual OECD Committees, according to their own priorities and resources, and with minimal internal co-ordination. The Advisory Group stressed that “sustainable development embraces every aspect of the OECD, so leadership and direction must come from the top”.

As noted by the Advisory Group, the OECD is uniquely placed to advance the sustainable development agenda owing to its interdisciplinary



skills in Committees and Directorates; its strong foundation in economic analysis and the development of internationally comparable statistics and indicators; and its long tradition of conducting peer reviews of the performance and policies of member countries and, increasingly, non-member countries. The OECD carries out a wealth of analyses and discussions on issues related to sustainable development, particularly on the efficiency and effectiveness of policies in the economic, environmental and social spheres. Moreover, OECD countries bear special responsibility for leadership in sustainable development, because they have the strongest influence and impacts on the global economy, society and the environment.

The Advisory Group called upon the OECD to re-interpret the 1961 OECD Convention — which calls on the organisation to pursue policies that promote sustainable economic growth and employment — to mean growth that sustains human and environmental, as well as economic, capital and to make sustainable development the basis of its mandate. Following this recommendation, the 1998 Ministerial Council “agreed to interpret the term *sustainable* as including social and environmental, as well as economic considerations” and called the achievement of sustainable development a key priority for OECD countries.

### **Horizontal Programme on Sustainable Development (1998-2001)**

The first cycle of OECD horizontal work (1998-2001) on sustainable development was co-ordinated by a Deputy Secretary General and involved several Directorates, the International Energy Agency (IEA) and the Nuclear Energy Agency (NEA). It focused on the areas of climate change, technology development, sustainability indicators, and the environmental impacts of subsidies. The horizontal programme culminated in a Ministerial meeting between Economic and Environment Ministers in May 2001. Priorities for action were identified in the report that the OECD addressed to Ministers (*Sustainable Development: Critical Issues*) and further elaborated in its contribution to the *World Summit on Sustainable Development* in 2002.

On this basis, OECD Ministers asked the Organisation to pursue and strengthen its work on sustainable development, which they saw as an “overarching” goal for the organisation and its member countries. They advocated that future work focus on developing indicators for sustainable development, identifying how to overcome obstacles to the use of economic instruments and the reduction of subsidies, and understanding the social aspects of sustainable development.

## **Ad Hoc Group on Sustainable Development (2001-2004)**

An *Ad Hoc Group on Sustainable Development* was established in late 2001 to provide overall guidance to OECD work. Its bureau was composed of the chairpersons of some of the relevant OECD bodies (the Economic Policy Committee, the Economic and Development Review Committee (EDRC), the Environmental Policy Committee (EPOC), and the Employment, Labour and Social Affairs Committee (ELSAC)). Between 2001 and 2004, OECD work on sustainable development focused on indicators and peer reviews, subsidies and taxes, the social aspects of sustainable development, and overall policy coherence and integration. A concise brochure on *Implementing Sustainable Development* was distributed to OECD Ministers at their meeting in 2004.

In March 2004, the Ad Hoc Group agreed to a set of recommendations on how OECD work on sustainable development should be pursued and advocated mainstreaming sustainable development in the regular work of Committees and Directorates. Special attention was to be given to economic instruments and subsidies, sustainable resource use (including materials flow accounting) and emerging issues which could feed into the work of the UN Commission for Sustainable Development (UNCSD). The Group also recommended strengthening sustainable development peer reviews through the EDRC and the Environmental Performance Reviews, and reviewing the environmental and social dimensions of the OECD Guidelines for Multinational Enterprises. Regarding institutional arrangements, the Group recommended establishing an Annual Meeting of Sustainable Development Experts (AMSDE), a Deputy Secretary General who would report on sustainable development work to the Council, and a full-time advisor to coordinate OECD activities and serve the AMSDE.

## **Annual Meeting of Sustainable Development Experts (AMSDE) (2005-2006)**

The AMSDE first met in September 2004 and prepared a programme of work and budget for the next cycle of horizontal OECD work on sustainable development (2005-2006). This included the preparation of an annual survey of OECD sustainable development activities, analysis of the political economy of using economic instruments and reforming environmentally-harmful subsidies, development of guidelines on materials flow accounting, and analysis of four emerging issues related to UNCSD work (national strategies for sustainable development, science and technology co-operation for sustainable development, education for sustainable development, and public/private sustainable development partnerships).

A Deputy Secretary General was appointed to oversee this work assisted by a sustainable development advisor. Through publications and policy briefs together with participation and presentations at international forums (*e.g.*, UNCSO, World Bank), national seminars (*e.g.*, in Finland, Korea) and various OECD workshops (*e.g.*, on subsidies, development), the Secretariat continues to provide OECD inputs to the general sustainable development debate.

The AMSDE, at its 2<sup>nd</sup> meeting on 3-4 October 2005, discussed the Annual Report on Sustainable Development Work in the OECD with invited Committee Chairs and reviewed the proposed contribution to CSD-14 in 2006 on the themes of energy, climate change, and industrial development. It reviewed the draft output results of the work programme including approaches to overcoming obstacles to greater use of economic instruments in environmental policy, guidelines for materials flow data collection and accounting, and the identification of good practices in national strategies for sustainable development. Progress on work on education and sustainable development, international science and technology co-operation for sustainable development, and public/private partnerships for sustainable development was considered. In addition, a one-day workshop was held on 5 October 2005 on Reforming Environmentally Harmful Subsidies.

Beyond the boundaries of the OECD, a Round Table on Sustainable Development was established in 2001 which continues to sponsor high-level meetings. Chaired by Simon Upton, the Round Table has held several sessions on topics including measuring sustainable development, eco-labelling, illegal fishing, renewable energy, and addressing climate change. These activities have helped to enhance Ministerial interest in the sustainable development agenda and provided intellectual stimulus to the work of the Secretariat.

## SUSTAINABLE DEVELOPMENT IN CROSS-SECTORAL ANALYSIS

A prime strength of the OECD is its multi-disciplinary nature as reflected in its Directorates and Committees covering a range of subjects from environment to agriculture to taxes to financial markets. The inter-disciplinary strengths of the Organisation make it well placed to carry out analyses related to sustainable development. The work of the OECD on improving the cost-effectiveness of public policies in the economic, environmental and social policy domains is pervasive and not summarised in this chapter. Rather, the focus here is on how environmental and social concerns have been taken into account in dealing with other policy areas, notably in joint work involving more than one OECD Committee or significant inter-Directorate collaboration.

Great progress has been made in recent years in OECD cross-Committee work on the interrelationships between different disciplines and policies related to sustainable development and the implications for governments. However, this has mostly focused on the integration of environmental concerns into other policy spheres – fiscal, trade, science and technology, foreign investment, etc. In addition to traditional OECD analyses of the economic-environment and economic-social interfaces, work has been done more recently on certain social-environment linkages, *e.g.*, environment and employment and environment and health.

Less has been accomplished in terms of examining the interrelationship between the three dimensions of sustainable development – economic, environmental and social – in cross-sectoral analyses. Although the OECD has capabilities in these three areas, it still lacks the analytical approaches and tools for integrating them in more comprehensive assessments. Attempts are now being made to apply integrated methodologies in areas such as subsidies, taxes and development policy.

## Environment

### *Environment policy*

As evidenced by this report, the Environment Policy Committee (EPOC) maintains several joint working groups with other Committees (*e.g.*, environment and trade, environment and agriculture) and carries out many joint projects and events (*e.g.*, environment and development). In addition to work on environmental indicators and peer reviews (described in later sections of this report), the EPOC has introduced sustainable development approaches (covering economic and social aspects) to many areas of its work programme -- for example, climate change, biodiversity and water -- which are discussed below.

OECD climate change work has progressively incorporated more social aspects alongside the traditional environmental and economic dimensions. Analysis of the benefits of climate change policies has addressed the benefits to human health as well as their distribution across different social groups. Ongoing work on adaptation to climate change is also aimed at raising public awareness of climate risks and the need to adapt to them. Effective responses depend on involving a wide range of actors and institutions, putting in place the appropriate incentives, and finding synergies between responding to climate change and concerns such as poverty reduction.

The 2004 Council Recommendation on the Use of Economic Instruments in Promoting the Conservation and Sustainable Use of Biodiversity calls on Parties to adopt economically and socially sound measures to preserve ecological diversity. The Handbook of Biodiversity Valuation, based on country case studies, reviews methodologies for making trade-offs among environmental and economic values as well as cultural, traditional and spiritual values in policy-making for preserving biodiversity. Other analyses address how public policy in the form of market creation can be used to internalise the loss of biodiversity and strike the right balance across economic and social concerns. Ongoing analysis examines the links between biodiversity and the economic and social value of ecosystem services.

Economic and social aspects are integrated into analyses on the environmental dimensions of drinking water and sanitation. For example, a 2004 workshop on full cost recovery for water utilities in Southeast Asia explored strategies for improving the environmental and financial health of water utilities as well as the issue of ensuring water affordability for all social groups. The Almaty plus 5 Ministerial Conference in November 2005

will assess progress in implementing the water-related Millennium Development Goals, including challenges in the rural water supply and sanitation sector; the social aspects of water sector reforms, and institutional frameworks for water service provision at the local level.

More generally, the EPOC is exploring links between social and environmental aspects of sustainable development. For example, the effects of environmental policy on employment can be either positive – in terms of jobs in the environmental goods and services industry which is experiencing rapid growth – or negative – in terms of job losses in firms that most contribute to environmental damage. Findings regarding the “double dividend” – the possibility that employment might rise when revenues from economic instruments in environmental policies finance lower payroll taxes and labour costs – indicate that such effects are small.

The distributional effects of environmental policies on households have been analysed by looking at both costs and benefits in terms of environmental quality and financial burdens. The evidence suggests that low-income households tend to be more exposed to environmental risks and hazards as well as bear a heavier burden in terms of the costs of environmental policies. Measures to respond to distributional concerns include targeted mitigation of risks, financial compensation and provision of environmental services.

Ongoing work is assessing general linkages between health and environment, including combined cost-effectiveness analysis and the co-ordination of policies in these two spheres. A recent EPOC session on the costs of policy inaction examined the costs to human health from the failure to adopt adequate policies to reduce air and water pollution. Preliminary evidence suggests that it could be less costly to take measures to lower pollution than to treat related diseases. Other initiatives examine how environmental conditions may lead to health and safety risks that largely affect children.

## Social

### *Social policy*

Social concerns and their economic impacts have long been considered in the OECD Employment, Labour and Social Affairs Committee (ELSAC) through activities on employment, income distribution, living standards, health, ageing, international migration, etc. In 2002, the ELSAC began discussions on the social aspects of sustainable development which

culminated in a report on the role of social protection. This provides a framework for analysing the long-term challenges to the sustainability of social protection systems in OECD countries in terms of demography, family structures, labour markets and equity. Social protection that maintains the well-being of citizens contributes to both economic growth and environmental protection. Analysis is currently being conducted with the Economics Directorate on defining and measuring alternative notions of the well-being of countries and their citizens to supplement economic concepts such as gross domestic product (GDP).

Despite extensive OECD work on social concerns and social aspects of economic growth, it remains the weak link in defining and operationalising sustainable development. Measuring social cohesion and social capital has proved especially difficult. Thus far, the links between social and economic aspects – such as regards jobs and income distribution – are well-studied while social and environment linkages are far less so. The prioritisation of the social elements of sustainable development and their integration with economic and environmental dimensions in operational terms is a challenge to be addressed.

### ***Education policy***

The social elements of education are a main focus of the Education Committee through analyses on lifelong learning, social cohesion, developing competencies for the knowledge economy, ensuring inclusive education for all societal groups, and developing human capital. Analyses have also been directed to better defining and measuring concepts of social capital. The Education Committee previously maintained projects on environmental education through co-operation with the Environment and Schools Initiative (ENSI), started in 1986, which advocated mainstreaming environmental awareness into curricula and educational systems.

Improving the sustainability of educational facilities has been a major objective of the Programme on Educational Building. The Programme on Institutional Management in Higher Education is considering new work on the sustainable management of higher education institutions. In the context of the UN Decade of Education for Sustainable Development (2005-2014), the Education Committee is considering projects which could contribute to enhancing educational contributions to sustainable development goals.

### ***Consumer policy***

Given the role of consumer information and public awareness in driving sustainable development in the public and private sectors, developing policy

instruments to promote sustainable consumption is essential. Sustainable production and consumption, one of the current UNCSO themes, was the subject of earlier work in the OECD. An EPOC workshop on information and consumer decision-making for sustainable consumption was held in 2001. A 2002 publication summarised the results of EPOC work on sustainable household consumption which analysed environmental impacts in five areas: food, tourism-related travel, energy, water and waste generation.

This is now being followed-up in a survey-based project to better understand household consumption patterns to improve the effectiveness of environmental policies. EPOC has maintained work programme items on green public purchasing to examine the environmental aspects of public procurement, which was the subject of a 2002 OECD Council Recommendation. The OECD Consumer Policy Committee has also addressed sustainable consumption issues and prepared a summary report in 2000.

## **Economic**

### ***Tax policy***

The Joint Meetings of Tax and Environment Experts have carried out numerous analyses of environmentally related taxes, including certain social dimensions. Although the OECD has recommended the use of taxes and other market-based instruments for addressing environmental problems for a few decades, certain barriers continue to limit their use. Environmentally related taxes can have negative effects on the international competitiveness of some firms or sectors relative to those in countries which have not levied such taxes. In social terms, the tax burden may adversely affect specific regions or fall most heavily on those that can least afford it. As a result, there are few cases where environmentally related taxes have been consistently applied to major productive sectors of the economy, despite their many benefits relative to regulatory instruments in terms of economic efficiency and cost-effectiveness.

Case studies of specific environmentally related taxes in countries and sectors have provided insights into the political economy of levying these instruments, which is being summarised in a report on the policy implications of recent work on environmentally related taxes. Simulation studies of the steel and cement industries and case studies of climate change levies and taxes on heavy-duty vehicles and excess nutrients show that firms in a given sector will be affected differently by taxes due to varied inputs



and emission profiles. Adjustments in related markets must be taken into account since they imply some shifting of the tax burden to suppliers and customers. Undesirable distributional effects can be addressed through social security schemes or through tax allowances and tax credits.

Complementary policy measures can attenuate the economic impact of environmentally related taxes on firms. These include exempting a small fraction of emissions from the base of a tax and modest compensation mechanisms. However, in many countries, the most polluting sectors have been exempted from environmentally related taxes owing to competitiveness effects. The larger the group of countries that adopt such taxes, the more limited are the impacts on sectoral competitiveness in international markets.

Political acceptance of environmentally related taxes is related to awareness among the general population of the environmental problems that they target and the perceived fairness of the instrument. These considerations underscore the need for accurate and well-targeted public information, explaining that all types of policies—not only economic instruments—have potentially undesirable distributional impacts. It also underscores the need to involve relevant stakeholders in policy formulation.

Environmentally related taxes, despite their many advantages, still remain underused owing to perceived negative social and competitiveness effects. Further analysis will explore these dimensions, assessing how environmental, economic and social trade-offs might be better achieved through use of instruments such as tax credits and border tax adjustments. In addition, work continues on the use of different instrument mixes – taxes, tradeable permits, regulations, voluntary approaches – in making these trade-offs. To this end, the OECD has developed a database on environmental policy instruments other than regulations in place in member countries ([www.oecd.org/env/policies/database](http://www.oecd.org/env/policies/database)).

### ***Subsidies***

An OECD project on environmentally harmful subsidies has been going on for three years, including workshops in 2002, 2003 and 2005. This work is the most cross-disciplinary of the OECD, involving Directorates and Committees concerned with trade, industry, agriculture, fisheries, energy, transport and environment. Subsidies, together with regulations, are among the most important government policy instruments, and are prime subjects for analysing their effects on sustainable development. Government support often introduces economic, environmental and social distortions and can produce unintended consequences. However, subsidies can also contribute to economic, environmental and social goals when they are used to finance

public goods, such as primary research, and the protection of ecological amenities.

The analysis of subsidies at the OECD has focused on defining subsidies, improving their measurement and assessing the surrounding political environment. For practical and historical reasons, the coverage of data collection efforts varies across sectors (*e.g.*, whether, in addition to cash payments, market price support or tax expenditures are included). Most progress has been made in terms of measuring support to agriculture (using the producer support estimate, or PSE, indicator), fisheries, and coal. The OECD has also developed a checklist to assist governments in identifying subsidies whose removal would benefit the environment. Subsidies can be environmentally harmful if they encourage overuse of fossil fuels and other inputs to production or lead to the over-exploitation of resources and stocks (*e.g.* fish). This checklist was applied in case studies in the agricultural, fisheries, transport, energy and water sectors.

More recently, work has been undertaken to better understand the function of trade agreements in supporting the reform of environmentally harmful subsidies. Subsidies are disciplined by the World Trade Organisation (WTO) because they can distort international trade. Highlighting the additional negative environmental impacts of many subsidies could encourage better targeting of subsidies, and support reform efforts. Discussions on subsidies at the WTO, during the formation of regional trade agreements, and in connection with the OECD-facilitated draft agreements on steel and shipbuilding, and agreements reached by export credit agencies, are more likely to achieve outcomes in support of sustainable development if the environmental effects, as well as the economic effects, of subsidies are taken into account.

The focus of current OECD work on subsidies is directed to understanding the obstacles which stand in the way of subsidies reform across both countries and sectors. Exploring the economic, environmental and social effects of subsidies in tandem could provide sound arguments for their removal and help to overcome the objections of vested interest groups. This integrated approach is being used by the OECD Fisheries Committee. The development of a harmonised database on subsidies in different sectors is included in the sustainable development work programme.

### ***Industry policy***

Sustainable development analyses have been sporadic in the field of industry policy despite the important role of business in achieving sustainable outcomes. Within the OECD, work on corporate governance and corporate social responsibility has shifted to the realm of multinational

corporations and concerns mainly impacts through foreign investment and on non-OECD countries. A Business and Industry Policy Forum on “Encouraging Environmental Management in Industry”, sponsored by the Industry Committee in 2000, was not followed up in that forum. This is despite conclusions on the need to “find ways in which mandated environmental actions can be redefined in a corporate context into opportunities” and “strengthen the links between environmental and financial performance at firm level”.

Earlier analyses by the Industry Committee explored the role of the environment industry which produces goods and services used to control, reduce or remediate pollution. A conference held in 1994 discussed how to define and improve data collection relative to this industry in order to explore its role in both economic growth and environmental protection. This subject is now pursued in the context of trade liberalisation of environmental goods and services. Also, under the renamed Committee on Industry and Business Environment (CIBE), an analysis in 2002 addressed means for enhancing environmental awareness and performance in small and medium-sized enterprises (SMEs). The 2005 SME and Entrepreneurship Outlook acknowledge the importance of corporate social responsibility as a core business strategy for SME development.

The EPOC sponsored a conference in June 2005 on the effects of public environmental policy (and other factors) on environmental behaviour at the level of individual firms. Background analysis was based on original firm surveys which collected data from more than 4 000 facilities, both large and small, in 24 different sectors in seven OECD countries. The impact of public policy was found to be significant, with the perception of policy stringency an important factor driving environmental management, innovation and environmental performance. The likelihood of a facility having an environmental management system (EMS) tends to be positively correlated with size, belonging to a multi-facility firm, profitability, international scope, having a foreign head office, presence of quality management, and positive regulatory incentives. The provision of public financial support was also an important influence particularly for small and medium-sized facilities. Better environmental performance was found to have a positive impact on firm profitability.

### ***Science and technology policy***

Analyses of the interaction between science, technology and the environment have been carried out by the Committee for Scientific and Technological Policy (CSTP) starting in the 1990s. Early studies explored how science responds to environmental threats, and an attempt was made to

define and track trends in environment-related expenditures on research and development (R&D) by industry and governments. A 2000 workshop on innovation and environment explored how environmental policy could stimulate technological innovation and how innovation policy could enhance environmentally sustainable development. Other workshops examined the role of technology foresight exercises in identifying future environmental concerns and innovative responses, and the links between technology, economics and environment, particularly in terms of economic modelling.

Biotechnology, especially its contributions to agricultural and industrial development and associated health and environmental safety issues, has been a special focus of OECD work. The CSTP is focusing on trends in the bio-based economy, founded on biotechnology, bio-based feedstocks and bioprocesses in industrial production. OECD work on biosafety, under the auspices of the Chemicals Committee, aims to promote harmonisation among member countries of notifications and registrations of biotechnology products such as genetically modified crops and micro-organisms, and novel foods and feeds. A regulatory information exchange and database to support this process has been established through BioTrack Online.

In 2004, sustainable development was on the agenda of the CSTP Ministerial meeting and resulted in a declaration on the role of international science and technology co-operation for sustainable development. Among other initiatives, Ministers agreed to take the necessary steps to strengthen existing national and regional research and development funding programmes and instruments to support international collaboration in science and technology, improve citizen education and public awareness and strengthen the innovation capacities of developing countries for sustainable development. Progress towards these goals will be reviewed in three years.

A Conference on International S&T Co-operation for Sustainable Development was held in November 2005 in South Africa with sessions focusing on co-operative S&T activities to build capacities, partnerships and networks as well as on specific topics such as technologies for water management and energy efficiency. As stated in the goals of the conference, further work could be undertaken on better ways of co-operating internationally to build capacities in science and technology, enhancing knowledge and technology transfer and creating effective knowledge networks.

## International

### *Trade policy*

The Trade Committee at times considers social aspects as well as economic impacts in its work to support continued trade liberalisation. An earlier activity examined the relationship between labour standards and international trade. A recent project on trade and structural adjustment identified, for both developed and developing countries, the requirements for successful trade-related structural adjustment by reallocating labour and capital to more efficient uses, while limiting adjustment costs for individuals, communities and society as a whole.

Most trade-related analysis under the sustainable development umbrella is undertaken by the Joint Working Party on Trade and Environment (JWPTE). Formed in 1990, this group originally analysed the environmental impacts of trade as well as the trade impacts of environmental policies and sought to develop guidelines for the use of trade measures in implementing multinational environmental agreements. It has also been involved in the analysis of environmentally harmful subsidies and the trade implications.

Recent work has focused on markets for environmental goods and services and the effects of environmental requirements on market access for developing countries. The group has attempted to define environmental goods and services which are potential objects for trade liberalisation. However, translating environmental goods into trade terms requires additional negotiations on harmonising the encoding of products in country tariff nomenclatures. Related work identifies the determinants of demand for these goods based on country case studies. The most important markets concern water supply and waste-water treatment, solid-waste management, hazardous-waste management, and air-pollution control. Liberalisation of trade in environmental goods and services could translate into real gains for both importing and exporting countries whatever their stage of development.

Other analyses address difficulties hampering market access to developing-country exporters because of environmental and health requirements. Concerns relate to access to information and problems in adjusting to technical regulations and standards. Drawing lessons gleaned from more than 20 case studies, the JWPTE has suggested that adverse trade impacts could be minimised through addressing information flows and the capacity-building needs of developing country exporters, and changing the procedures followed by importing countries for developing, implementing and reviewing regulations and standards. A Forum on “Technical Assistance

and Capacity Building for Trade and the Environment” was organised with the Organisation of American States (OAS) in November 2005.

In 2003, the OECD's Working Party on Export Credits and Credit Guarantees (ECG) agreed to convert its 2001 voluntary accord on common approaches to the environmental review of projects benefiting from officially supported export credits to a set of OECD Recommendations on Common Approaches on Export Credits and the Environment. With the aim of reducing potential negative environmental and social impacts, countries agreed to classify projects for which official support is requested and to conduct environmental assessments of the more sensitive projects. Additionally, in 2005, the Participants to the Arrangement on Officially Supported Export Credits agreed to a two-year trial programme to promote use of renewable energy resources and increase access to safe drinking water and waste-water treatment by extending repayment terms for associated export credits, and will also discuss guidelines for assessing the environmental impact of hydropower projects.

### ***International investment policy***

The *OECD Guidelines for Multinational Enterprises* cover areas that are central to sustainable development. The Guidelines are subject to the Investment Committee's oversight responsibility. They constitute a set of voluntary recommendations to multinational enterprises in all the major areas of business ethics, including employment and industrial relations, human rights, environment, information disclosure, combating bribery, consumer interests, science and technology, competition, and taxation. Thirty-nine (OECD and non-OECD) countries adhere to the Guidelines, and while implementing the Guidelines is voluntary for companies, authorities in adhering countries are committed to promoting them among enterprises operating in or from their territory. A recent comparative study of the Guidelines and the United Nations Global Compact concluded that the two are among “the world's foremost corporate responsibility initiatives” and that they “complement and reinforce each other in many ways”.

Recent work has aimed to assist enterprises, governments and members of civil society in using the Guidelines to improve corporate environmental performance. The environmental components of the Guidelines were the subject of the annual OECD Roundtable on Corporate Responsibility held in June 2004. Discussions touched upon the special challenges for small and medium-sized enterprises, health and safety issues, dealing with environmental risk and the need for greater visibility. The 2005 Roundtable focused on implementing the Guidelines in weak governance zones – an

issue pertinent to the social, economic and environmental development in many of the world's poorest nations.

Work by the EPOC Working Party on Global and Structural Issues has examined how to maximize the contribution of foreign direct investment to global environmental goals through multilateral environmental agreements, *e.g.* the United Nations Framework Convention on Climate Change, the Convention on Biological Diversity, the United Nations Convention to Combat Desertification, and the Montreal Protocol for the Protection of the Ozone Layer. Environmental objectives under MEAs and the goals of private investors can reinforce each other through technology transfer, expansion of markets for environmental goods and services, and capacity building and public education. Analysis has also addressed how to employ environmental assessment tools more widely in developing countries to evaluate the impacts of official development assistance (ODA), private finance flows and funds from multinational investment banks.

### ***Development policy***

The recognition of the collective responsibility of the international community, and the OECD in particular, to reduce absolute poverty and to shape globalisation to the benefit of the world's poor is the basis of OECD development activities. OECD work concerning development in non-member countries -- carried out by the Development Co-operation Directorate (DCD), the Development Centre, the Sahel and West Africa Club in conjunction with the overall outreach strategy of the OECD carried out by various Directorates and co-ordinated by the Centre for Cooperation with Non-Members (CCNM) -- has progressively moved towards greater consideration of environmental and social aspects alongside the purely economic inputs to growth.

The focus on official development assistance (ODA) in monetary terms has been supplemented with increasing aid effectiveness through capacity-building in developing countries. This involves enhancing their indigenous abilities in terms of 1) economics -- investment, taxation, budgets and public management, trade, entrepreneurship, technology, local development; 2) environment -- environmental assessments, effective resource management, preserving biodiversity, addressing climate change; and 3) social amenities -- good governance, gender equality, equity, health, education. Addressing these concerns in developing countries has featured in the work of several OECD Committees as well as in those bodies dealing specifically with non-member countries. A key role is played by the Development Assistance Committee (DAC), in its efforts to co-ordinate and improve the effectiveness of bilateral assistance provided by OECD donors.

The majority of analyses address the economic and social aspects of development, although OECD work on development-environment linkages has also been considerable. Numerous studies and workshops explore how to enhance general environmental policies, regulations and enforcement in developing countries and address specific environmental issues – e.g., water, sanitation, biodiversity, pollution -- in various parts of the developing world – e.g., Africa, Southeast Asia, Latin America, the countries of Eastern Europe, Caucasus and Central Asia (EECCA). In the fiscal area, recent analysis has demonstrated how developing countries can mobilise resources and further environmental goals through natural resource pricing measures, reforms of product subsidies and taxes, cost recovery measures such as user charges on energy and water, and pollution charges.

A joint EPOC/DAC project was initiated in 2002 to explore synergies and tradeoffs between climate change, natural resource management and economic development. Six country case studies found potential climate change impacts to be large and the economic development benefits of improvements in ecosystem and natural resource management to be significant. A subsequent Global Forum on Sustainable Development concluded that decisions about energy choices, transportation infrastructure, land use or forestry will affect future greenhouse gas emissions and the rate and magnitude of climate change in developing countries. Mainstreaming climate change mitigation and adaptation measures in development strategies and ODA-supported projects is needed. In this vein, the DAC agreed in 2004 on how expenditures on Clean Development Mechanism (CDM) projects could be reportable as official development assistance.

A concerted attempt has been made to increase policy coherence in the development activities of the OECD, as reflected in the recent paper on *Making Poverty Reduction Work* which describes the role of the OECD in working with partners to achieve the Millennium Development Goals (MDGs). A number of studies and workshops are planned to increase coherence between OECD country development policies and those in the macroeconomic, agriculture, fisheries, migration, trade, environment, health and science and technology areas. In addition, a joint Environment/Development Ministerial meeting will be held in 2006 which will aim to develop a “Common Plan of Action” to support the integration of environment and poverty reduction at country level.





## SUSTAINABLE DEVELOPMENT IN SECTORAL ANALYSIS

The OECD has several Committees and bodies concerned with sectoral issues – agriculture, fisheries, energy, transport and industry. OECD sectoral work has traditionally been directed to economic analysis on, *e.g.*, efficient management, security concerns, trade, subsidies and competitiveness. This chapter discusses how sectoral studies in the OECD have taken environmental and social concerns into account and whether this analysis has extended to non-OECD countries.

To date, most OECD sectoral analysis has focused on purely economic issues or the economic dimension of environmental concerns. Some sectoral activities -- *i.e.* agriculture and fisheries -- have adopted a more integrated sustainable development framework for analysing economic, environmental and social issues at both national and global levels, although this is still in the early stages. Work in other sectors – *e.g.* energy, transport – is focused largely on economic and environmental concerns in a domestic context, although some social issues have been included. Environmental and social analysis has been largely lacking with regard to manufacturing and services sectors, with the exception of tourism.

### Agriculture

Numerous studies on interactions between agriculture and environment have been undertaken by the Joint Working Party on Agriculture and Environment as summarised in a recent synthesis report on lessons learned from a decade of OECD work. This found that since the early 1990s there has been an overall improvement in the environmental performance of agriculture in OECD countries, as measured by the set of agri-environmental indicators, which show decreased nutrient surpluses in water supplies and decreased soil loss. However, water and pesticide use has increased and greenhouse gas emissions have grown on average, while the evidence on biodiversity and landscape preservation is mixed. Moreover, because agricultural subsidies in the form of commodity production-linked measures

remain the main type of government support, these may give incentives to adopt environmentally harmful practices (e.g. more intensive use of chemicals) and expand commodity production to environmentally sensitive land. The OECD has long urged governments to phase out production and trade-distorting supports to agriculture, while implementing targeted measures to protect and enhance the environment.

Agriculture, trade and environment linkages have been explored through case studies in the pig sector, the dairy sector and the arable crops sector. Evidence suggests that trade liberalisation has resulted in some shift in production from higher to lower cost and input-using systems. It has reduced production intensity in countries with historically high levels of fertilizer and pesticide application, but raised environmental pressure where production has increased. There was little evidence that environmental regulations significantly affect trade competitiveness for producers.

The Agriculture Committee is increasingly adopting a sustainable development perspective in its work. Recent analysis of biomass feedstocks from agriculture addressed the economic, environmental and social factors in exploiting this potential energy source. The costs of biofuels remain high relative to fossil fuels largely because external socio-economic and environmental benefits and costs are not taken into account. Although technological advances are reducing the price of bioproducts, policies are needed to reduce technology costs, implement standards and guidelines and establish tradeable carbon markets for biomass products. The analysis of sustainability, markets and policies regarding biomass and agriculture is being followed by a workshop on sustainability concerns in agriculture and water.

A publicly-available online database of policy measures addressing environmental issues in agriculture was launched in July 2005 ([www2.oecd.org/agr-envdbo/index.asp](http://www2.oecd.org/agr-envdbo/index.asp)). This inventory tool will supplement the producer support estimates (PSE) database on levels and types of supports to agriculture and the AEI database on agri-environmental indicators. In addition, the Joint Working Party is undertaking analysis of the environmental impacts of different policy measures, using both modelling (Policy Evaluation Model or PEM) and statistical tools. The PEM is also being developed to examine the impacts of different agricultural policy measures on land and other input use.

## **Fisheries**

The Fisheries Committee has also begun examining fisheries management in a sustainable development framework, jointly exploring

economic, social and environmental aspects. Previously concerned primarily with economic (cost and access) issues and steps to address illegal fishing, analysis now addresses policy coherence in fisheries management including the effects of government supports on both OECD and non-member countries. Economic and social sustainability indicators for fisheries have been developed. A general survey of current practices in fisheries management was published in 2005 and an inventory of management policies and practices is maintained online.

The impact of government financial support to fisheries in both economic and environmental terms was the subject of many studies, and the emphasis is now on the implications of fisheries subsidies for overall sustainable development. An analytical framework has been adopted to examine the effects of fisheries supports on resource stocks, economic profitability, trade, investment in fleet capacity, employment, regional growth and social cohesion. The intent is to reduce those types of subsidies which contribute to overexploitation of fish stocks, illegal fishing and overcapacity in fishing vessels.

A joint workshop with DAC will be held in 2006 on policy coherence for development in fisheries, intended to enhance attention to sustainable management of fisheries, marine resources and ecosystems in both developed and developing countries. Analysis, based on country case studies, examines policies for addressing the spillover effects of domestic fisheries policies and assessing impacts on international development goals. Policy coherence for development is examined in terms of livelihoods and poverty, economic performance, social conditions and food supply.

## Energy

Energy contributions to climate change have been the focus of sustainable development work at the International Energy Agency (IEA), which has traditionally been concerned with the security of energy supply. The IEA database on policies to reduce greenhouse gas emissions in the energy sector shows the combination of instruments used to bring climate change mitigation into mainstream use ([.iea.org/dbtw-wpd/textbase/envissu/pamsdb/index.html](http://.iea.org/dbtw-wpd/textbase/envissu/pamsdb/index.html)).

A range of analyses have underlined that better policies could foster faster deployment of more efficient and cleaner energy technologies. These approaches include changes in regulatory frameworks, more investment in research and development, and encouraging the public to accept higher energy prices. Progress is particularly needed in improvements in fuel economy and efficiency gains in vehicles, electrical appliances, lighting and

industry. A number of measures are also necessary to integrate wind energy and other renewables into modern electricity grids. Carbon capture and storage could provide the long-term key to reducing emissions in coal-fired electricity generation.

With regard to social issues, links between energy and poverty were examined in the 2004 World Energy Outlook which concluded that energy is a prerequisite to economic development. Halving the proportion of very poor people will require increases in the availability and affordability of commercial energy in developing countries. Many people have no electricity and rely on traditional biomass for cooking and heating in unsustainable ways. Energy services would also help meet such basic human needs as food and shelter and support education and public health services needed for social development.

The contribution of nuclear energy to reducing greenhouse gas emissions from the energy sector is a topic studied by the Nuclear Energy Agency (NEA) together with its traditional working areas – nuclear safety, radioactive waste, radiation protection, nuclear science and technology, economics and nuclear law. A recent IEA/NEA report on costs of generating electricity analysed the economic competitiveness of alternative options and investigated externalities such as security of supply and carbon emissions. Previously NEA had reviewed the external costs of nuclear electricity generation. Activities in the field of society and nuclear energy cover communication with stakeholders on nuclear energy issues with emphasis on social dimensions of safety and waste management and disposal issues. However, it should be noted that some member countries do not consider nuclear power to be a sustainable energy option.

## **Transport**

Sustainable aspects of transport – including drivers of transport demand and environmental implications, improving the environmental performance of vehicles and infrastructure use, making urban transport more sustainable, and social issues such as improving access to transport for disabled persons and reducing accidents – have been assessed by the EPOC, IEA and European Conference of Ministers of Transport (ECMT).

The first phase of EPOC work on decoupling the environmental impacts of transport from economic growth concluded that freight transport will grow as the economy expands but its environmental and social externalities are only partially reflected in prices for vehicles, fuels or infrastructure use. Internalising these impacts through taxes and regulations would have environmental and economic benefits. There were similar findings regarding

passenger commuter travel. Attempts should also be made to reduce the environmental impacts of tourism or leisure travel, including aviation, by internalising environmental costs and increasing the availability and convenience of more environmentally friendly transport modes. Current work includes an in-depth study of policy instruments to achieve this objective.

The ECMT agreed to a 2004 recommendation on charging for the use of infrastructure and imposing user charges as a means of managing demand and internalising the costs of accidents, pollution and noise in road transport. A project to review some 400 transport sector climate change measures found that those which focus on fuel efficiency were best at achieving quantifiable reductions in greenhouse gas emissions. Tighter emission controls achieved a significant decrease in emissions of local pollutants from motor vehicles, despite the increasing size of vehicle fleets and the increasing distances travelled.

A joint IEA/ECMT study on making cars more fuel efficient analysed light-duty vehicle fuel economy measures, and identified cost-effective technologies for reducing fuel consumption. A Round Table on Sustainable Development in 2004 concluded that more sustainable road transport could be achieved through large-scale public investment in R&D and public transport, public procurement of alternative fuel vehicles and fiscal incentives for consumers, and removing subsidies that have the unintended effect of increasing emissions.

Regarding the social aspects of transport, a report on keeping children safe in traffic shows how child casualties can be reduced through education, training and publicity as well as vehicle and bicycle safety standards. The ECMT also agreed to a recommendation to improve access to transport by disabled persons through regulations and guidance to manufacturers and managers of transport services as well as means to ensure compliance.

## **Manufacturing**

Although the OECD has maintained a sectoral division dealing with steel, pulp and paper, shipbuilding and other industries, few studies have been conducted of sustainable development or environmental concerns in particular manufacturing sectors. A review of general environmental trends and concerns in manufacturing (including the chemicals, iron and steel, pulp and paper, textiles, automobile and electronics sectors) was prepared for the first OECD horizontal programme on sustainable development. The Steel Committee has at times examined environmental issues, such as approaches

to reducing greenhouse gas emissions, and discussed environment-related supports in negotiations to reduce subsidies.

A Round Table on Sustainable Development discussion in June 2005 on transnational sectoral agreements to reduce greenhouse gas emissions demonstrated the scope for sectoral analysis. Four manufacturing sectors -- aluminium, cement, steel, automobiles -- and coal-fired electricity generation were reviewed in terms of industry structure, contribution to greenhouse gas emissions, mitigation possibilities and potential for a sectoral agreement.

The IEA explored the near-term impacts of climate change mitigation via tradeable emission permits on energy-intensive industries, with a focus on cost competitiveness. The analysis covered power generation, iron and steel, cement, paper, aluminium and oil refining. In spite of being implemented in only a subset of countries whose industry often competes with unconstrained producers, a CO<sub>2</sub> cap-and-trade system would only have moderate effects on most industries. However, the study highlighted the importance of indirect effects, in this case, on the price of electricity, with negative implications for large consumers such as primary aluminium production.

The chemicals industry has had special attention through the OECD Chemicals Committee, whose activities are primarily technical rather than featuring economic or sustainable development analyses. The chemicals programme, established in 1971 to help ensure the safety of chemicals products and facilities for the environment and human health, has developed principles of good laboratory practice, agreed test guidelines, a system for mutual acceptance of data, harmonised criteria for classifying hazardous chemicals, principles for preventing chemical accidents, databases on pollutant release and transfer registrars as well as harmonisation of pesticide registration data and reviews.

## Services

Analysis of services, which now account for over 70% of total employment and value-added in OECD countries, is focused on economic concerns such as policies for increasing innovation and productivity. The Joint Working Party on Trade and Environment addresses the liberalisation of trade in environmental services, while the EPOC discusses specific environmental services such as waste management. The Tourism Committee, which is the only Committee concerned specifically with a service activity, has addressed environmental issues such as the ecological effects of tourism infrastructure and the impacts on rural development.

Reviews of national tourism policies assess the economic, environmental and social impacts of tourism and country efforts to develop sustainable tourism over the long-term, including through eco-tourism.





## THE MEASUREMENT OF SUSTAINABLE DEVELOPMENT

Sustainable development statistics are needed to illustrate to policy makers and the public the linkages and trade-offs between economic, environmental and social values; to evaluate the longer-term implications of current decisions and behaviours; and to monitor progress towards sustainable development goals. But simple and easily-understood measures that do not compromise the underlying complexity of sustainable development have been difficult to formulate. This chapter reviews OECD work on developing indicators of sustainable development as well as accounting frameworks for their integration.

This has been a difficult exercise due to differences across countries on definitions of sustainable development and relevant indicators. Individual countries use a broad range of indicators to monitor their national performance in sustainable development terms. Over time, improved accounting frameworks could be used for developing more internationally comparable sustainable development statistics. An OECD Statistics Brief on *Measuring Sustainable Development* has been prepared to explain the various avenues and obstacles to achieving better measurement of sustainable development.

### Indicator sets

The OECD has developed a wide range of economic, environmental and social indicators to follow developments in member and some non-member countries. The Statistics Directorate has compiled these in an *OECD Factbook of Economic, Environmental and Social Indicators*. In the economic field, macroeconomic and structural indicators are developed and used by the Economic Development and Review Committee (EDRC) in economic reviews of countries and by other Committees. In the environmental field, key environmental indicators covering pollution and natural resource issues, are published regularly and used— alongside “core” and “sectoral” indicators — in environmental performance reviews. In the

social field, the OECD regularly publishes social, health, labour market and educational indicators. Indicators are also developed for individual sectors, as in the case of the agri-environmental indicators produced by the Agricultural Committee.

Many countries and groups have combined these data into lists of sustainable development indicators. However, these do not always address what should be measured or how the information provided by each indicator can be combined into an intelligible framework. While having some common elements, these indicator lists also vary widely due to differences across countries in their national conditions, policies and priorities. A review of sustainable development indicators assembled by individual OECD countries when testing the set proposed by the UN Commission on Sustainable Development (UNCSD) found great diversity in the indicators selected under each of the categories and themes proposed.

Attempts have also been made to develop reduced sets of “core” or “headline” indicators, which are more accessible and easily understood than longer shopping lists. In 2001, the OECD proposed a limited set of sustainable development indicators to measure whether we are maintaining current assets as well as satisfying current needs in sustainable development terms in the publication *Sustainable Development: Critical Issues*. A combined presentation of indicators from various disciplines allows key aspects of sustainable development to be communicated in a simple way. However, these indicator sets are not designed to provide a full picture of economic-social-environmental relationships, but rather to capture key trends and draw attention to selected issues.

Core sets of sustainable development indicators can be useful in conducting peer reviews of performance and policies. Thus, certain indicators were the basis for the inclusion of sustainable development themes in the EDRC reviews in 2001-2004. However, it was difficult for countries to agree on a consensual list of sustainable development indicators given differences in their natural attributes, industrial structure, and political, cultural and social contexts. From a set of seven policy issues backed up by indicators, countries collectively selected for each individual country the three issues on which it was reviewed.

## **Accounting frameworks**

Indicators generally need a conceptual organising framework to enhance consistency and comprehension. Some OECD countries have adopted a “capital” framework for organising sustainable development indicators where the focus of measurement is on the stocks and flows of different

national assets: natural capital, environmental capital, financial capital, human capital, social capital etc. Here, the question of sustainability is framed as whether countries are managing their resource base – national wealth as reflected in different types of capital – in a way that secures its maintenance over time. Work has also been conducted on developing measures of sustainable livelihoods, which involves economic, environmental and social indicators addressing both current consumption and future needs.

While indicators covering the three dimensions of sustainable development are illustrative of the range of issues that OECD countries regard as important for measuring progress, they do not provide much insight into the interrelations between variables. Here, accounting frameworks can be useful by providing a representation of the relationships between indicators and a common scale to compare developments. Accounting frameworks have a long history as a tool for integrated assessments and have been increasingly used in the environment domain. Flow accounts have been developed for pollution, energy and material use in different sectors as well as asset accounts for stocks of various types of natural resources. These accounts help derive indicators on the intensity and sustainability of current patterns of the use of inputs to production.

In 2004, the *OECD Council Recommendation on Materials Flows and Resource Productivity* encouraged the OECD to develop indicators of material resource use within and among countries as well as tools to measure resource productivity. OECD work is based on developing accounts in physical units (usually tonnes) comprising the extraction, production, transformation, consumption, recycling and disposal of different types of materials. The aim is to develop a common accounting framework within which countries can collect data and fashion indicators on materials flows. The development of material flow accounts provides the basis for evaluating the resource efficiency of economies

A major contribution to the development of such accounts is the System of Integrated Environmental and Economic Accounting (SEEA) formulated jointly by several international organisations including the OECD. The SEEA complements standard economic accounts such as GDP by providing a common framework for examining interactions between the economy and the environment. In linking resource use to economic activity, the SEEA accounting framework leads to better understanding of policies for decoupling environmental degradation from development and growth.

However, these types of accounts involve large sets of numbers which make it a demanding task to extract easily understandable and politically relevant information. A 2003 OECD workshop, which discussed the

usefulness of accounting frameworks for sustainable development, found that several good practices already exist although most focus on relationships between “pairs” of dimensions. Frameworks capable of bringing the three pillars of sustainable development together simultaneously are still missing, partly due to the lack of progress in the social field.

## SUSTAINABLE DEVELOPMENT IN OECD COUNTRIES

Peer reviews are a main OECD mechanism for assessing the performance of countries *vis a vis* others and for sharing policy insights for addressing common challenges. These include reviews of development co-operation policies by the Development Assistance Committee (DAC), education policies by the Education Committee, energy policies by the International Energy Agency (IEA) and innovation policies by the Committee for Scientific and Technological Policy (CSTP). For the most part, these reviews have not included sustainable development elements. This chapter discusses review processes where sustainable development has been covered – those by the Economic Development and Review Committee (EDRC), Environmental Policy Committee (EPOC), the Territorial Development Policy Committee (TDPC), and the Public Governance Committee.

### EDRC reviews

In response to the 2001 Ministerial mandate, the EDRC reviews of OECD countries conducted in 2001-2004 included a discussion of domestic policies in selected areas related to sustainable development. For each country, the chapters on sustainable development in the Economic Surveys covered three policy areas, drawn from a menu of seven topics of which five pertained to the environment -- reducing emissions of greenhouse gases, reducing air pollutants, reducing water pollution, moving towards sustainable use of renewable and non-renewable natural resources, reducing and improving management of waste – and two related to social concerns -- improving living standards in developing countries and ensuring sustainable retirement income policies. The reviews focused on the extent to which current policy settings are oriented towards minimising the economic costs involved in attaining goals in the other dimensions of sustainable development.

The reviews found that, because relatively inefficient policies were chosen, the strengthening of the environmental pillar of sustainable development has come at an unnecessarily high cost to the economic pillar.

Where feasible, it was recommended that purely regulatory approaches be substituted by the use of economic instruments that concentrate abatement in activities where emissions can be cut at the lowest cost. However, these instruments will only be cost efficient if they cover all sources of any given type of pollution; exemptions from carbon and water pollution taxes in the most pollution-intensive activities should be removed. Where regulatory approaches are necessary, it was recommended that regulation be focused on the targets to be achieved while leaving freedom for economic agents to fulfil targets in the least costly manner.

In retirement policies, countries were encouraged to remove incentives that artificially shorten the working life of their citizens. With regard to assisting developing countries, it was recommended that OECD countries scale back support to agriculture and better target development assistance. In general, the reviews emphasised the usefulness of cost-benefit analysis and regulatory impact analysis as instruments to ensure an integrated policy approach.

The cycle of sustainable development chapters was completed in 2004, and there is no longer a set framework for the consideration of these issues in the Economic Surveys. The approach to structural issues in the EDRC reviews has evolved with emphasis being put on “key challenges” confronting each country. In that context, sustainable development issues enter into discussion insofar as they are important challenges for the country concerned. The EDRC has specifically requested that attention be given to such issues, in particular as regards environmental aspects which might otherwise be overlooked. Using this new format, sustainable development issues could be raised in the first “challenges” chapter, though they may also be raised elsewhere in the survey and occasionally will be the focus of a longer section or part of a chapter. Various environmental issues are being highlighted and, in the social area, sustainable retirement incomes are treated in the context of concerns about ageing and the fiscal costs of pension systems.

In three recent EDRC reviews, for example, the following issues have been addressed: for Korea, air quality and pension reform; for the United States, retirement incomes and a chapter on energy and the environment; and for the United Kingdom, pension reform and congestion problems related to transport infrastructure. Key policy recommendations in these areas are repeated in the Assessment and Recommendations section at the beginning of each survey.

## **Environmental performance reviews**

Since 1991, the EPOC Working Party on Environmental Performance has been conducting environmental performance reviews of OECD countries which provide an overview of country efforts to reach their environmental objectives and country-specific recommendations to improve performance. A first cycle covered all OECD member countries, while a second cycle of reviews began in 2001 and is now two-thirds complete. Additional reviews were conducted for non-member countries such as Russia and Chile and a review is now planned for China.

For the most part, the reviews focus on environmental performance and policies. A first section addresses the environmental effectiveness and economic efficiency of policies for reducing pollution, improving management of natural resources and conserving nature and biodiversity. A second part reviews the integration of environmental concerns into both general and sectoral policies (mainly energy, transport and agriculture, but also forestry, mining, building and industry). These sections are entitled “sustainable development” and review progress in decoupling environmental damage from economic growth as well as institutional arrangements for sustainable development and for monitoring the implementation of national strategies for sustainable development. In the social sphere, the reviews cover issues such as environmental health, environmental democracy and access to information, and environmental awareness and education. They also cover international environmental co-operation, including implementation of multilateral environmental agreements.

## **Territorial development reviews**

The Territorial Development Policy Committee conducts territorial development reviews of member countries, which concern primarily economic and social aspects of territorial development policies. However, the Committee has looked at environmental concerns at sub-national levels, including the adoption of environmental management systems by regional and local authorities. Urban policy analyses have promoted the sustainability of large metropolitan areas, leading to a set of Principles of Metropolitan Governance, which advocates policies for healthy and ecological cities. A conference in October 2005 addressed linking competitiveness with social cohesion in promoting sustainable cities.



## Public governance reviews

The Public Governance Committee conducts reviews of regulatory reform in member countries. In 2001, the Committee prepared five country case studies of sustainable development governance, focusing on national strategies for sustainable development, and found that “the main constraint to implementing sustainable development across levels of government remains the inadequacy of traditional co-ordination mechanisms”. The case studies were discussed at a seminar on “Improving Governance for Sustainable Development” and provided the basis for a “checklist” to assist policy-makers in assessing the adequacy of domestic institutional practices to further the sustainable development agenda. The checklist identifies five criteria for improving policy coherence: common understanding of sustainable development, clear commitment and leadership, institutional mechanisms to steer integration, effective involvement of stakeholders, and efficient management of scientific evidence.

## AMSDE

Related analysis of national sustainable development strategies is included in the current sustainable development work programme of the Annual Meeting of Sustainable Development Experts (AMSDE). Governments agreed to develop these strategies as part of Agenda 21, signed at the Rio Earth Summit in 1992. The target date of 2002 for implementing national strategies was extended to 2005 owing to the lack of progress in many countries. These strategies often represent the most visible manifestation of the importance of sustainable development for the policy agendas of individual OECD governments.

In 2005, national sustainable development strategies in OECD countries were reviewed to identify good practices. This assessment built on OECD guiding principles for national sustainable development strategies which were formulated by the Development Assistance Committee (DAC) in 2001. It generally found that countries continue to encounter difficulties in identifying synergies and making trade-offs between the environmental, economic and social spheres of sustainable development. The timeframes of many national strategies are often too short to take into account intergenerational and intertemporal considerations, which are difficult to assess in any case. Despite these problems, several countries have adopted innovative approaches to assessing sustainable development impacts and developing more integrated government strategies. A workshop on overcoming obstacles to the implementation of national sustainable development strategies will be held in 2006.

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