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Introduction

I would like to begin by thanking the Swedish Environmental Advisory Council for providing me with an opportunity to share with you some of the main outlines of recent OECD work on the important topic of sustainable development. Although I will confine most of my remarks to the *substantive* messages that are emerging from that work, here are a few aspects of the *process* currently underway within the OECD that will help place this work it an appropriate context.

- The OECD is nearing the end of a 3-year project on Sustainable Development. This project has involved most OECD Directorates, so it is an example of the very integration that sustainable development requires.
- The culmination of the project will be a Joint Session of OECD Finance/Economy Ministers and Environment Ministers this May, dealing with sustainable development. Just prior to that meeting, OECD Environment Ministers will also adopt an "Environmental Strategy for the 1st Decade of the 21st Century", aimed a reinforcing the environmental dimension of sustainable development. These events will provide a unique opportunity to focus political attention on sustainable development.
- An OECD Round Table on Sustainable Development has also been functioning for the past two years. This is a high level advisory body, which will continue to function for the foreseeable future.
- There are several outputs being prepared to support the Ministerial discussions, one of which is a *Policy Report on Sustainable Development.* Although the ideas to be included in this report are still preliminary, some of the substantive ideas currently under discussion include:

Making markets work for sustainable development

There is significant scope to expand the use of market-based instruments and to reform support programmes in pursuing sustainable development. This would increase economic efficiency, as well as reduce long-term pressures on the environment. Obstacles to reform in these directions can be addressed by measures to facilitate structural adjustment. The active participation of the business community in the sustainable development effort should also be encouraged.

- Make greater use of environmental *taxes;* expand *tradable permit* arrangements.
- Phase-out *subsidies* linked to inputs or outputs that are environmentally damaging.
- Strengthen the environmental effectiveness of *voluntary arrangements.*
- Encourage the use of environmental/social codes of conduct by the private sector.
- Address competitiveness and distributive concerns through: *(i)* international co-operation, and *(ii)* incentives to substitute towards less polluting or resource intensive products.
- Develop active labour-market measures, to help redeploy workers displaced by reforms.

Strengthening decision-making

The organisation of internal policy design and implementation processes provides an important opportunity for governments to demonstrate leadership on sustainable development. This can be done by: *(i)* focusing on effective integration among the three dimensions of sustainable development (economic, environmental, and social); *(ii)* improving the general capacity of government to support sustainable development; and *(iii)* developing transparent and productive mechanisms for interacting with civil society.

- Encourage sectoral policies to take account of important environmental and social objectives, and before key decisions are taken.

- Encourage a high level of commitment to objectives, supported by specific indicators of success, targets, and timetables.
- Promote the active participation of civil society in policy discussions.
- Periodically evaluate progress.

Harnessing science and technology

Technological development is a major force determining growth in productivity and improvements in living standards. It also offers considerable promise for de-coupling economic growth from long-term environmental degradation. However, technological change that supports sustainable development objectives is not automatic — there is no guarantee that innovations will appear when and where they are most needed, or at a price that reflects all environmental and social externalities associated with them. Governments therefore need to set framework conditions that are conducive to these processes (both domestically and internationally), and to fund basic research and related initiatives by the private sector in an appropriate manner.

- Use market-based approaches to create permanent incentives to innovate and diffuse sustainable development-related technologies. When market-based instruments are not appropriate, prefer performance standards to measures that prescribe specific technologies.
- Support *basic* research; fund *applied* research when it is clearly in the public interest.

Managing linkages to the global economy

International trade and capital flows have significant potential to influence growth and development in more sustainable directions. However, this potential will only be realised if these flows also support important environmental and social policy objectives; and conversely, if environmental and social policies support important trade and investment policy goals.

- Develop methodologies to assess environmental impacts of trade/investment liberalisation.
- Reform trade-distorting measures in OECD countries that also lead to environmental damage.
- Build up the capacity of developing countries to benefit from trade and investment activities (especially via improved governance and technology co-operation).
- Focus development assistance on those developing countries not currently benefiting from foreign direct investment, and on those sectors most likely to benefit sustainable development in those countries.
- Accelerate trade liberalisation in economic sectors that are important for the environments of developing countries.

Responding to climate change

Addressing climate change will require the participation of all major economic sectors and all emitting countries. Domestic policies need to be properly aligned with climate change reduction objectives. More use of market-based approaches, combined with focused technology development and diffusion, are likely to be important elements of that realignment. At the international level, introduction of the flexibility mechanisms agreed within the Kyoto Protocol needs to be accelerated.

- Implement abatement policies now, not later. Plan for abatement targets in the long-term that go beyond Kyoto levels.
- Adopt a comprehensive approach to reducing the costs of greenhouse gas mitigation (all gases, sinks, and sectors).
- Reform sectoral subsidies that increase greenhouse gas emissions.

- In assessing policy options, incorporate both the ancillary benefits of mitigation policies, and the climate benefits of other policies.
- Support basic research, technology demonstration, and technology diffusion projects aimed at generating greenhouse gas abatement benefits.
- Develop adaptation strategies to reduce exposure to the long-term risks of climate change.

Managing natural resources

Sustainable development requires that both the "ecosystem" and "use" values of natural resources be taken fully into account when policy decisions are made about those resources. Progress is currently lacking in both areas, partly because of information gaps, and partly because of concerns about the distributive effects associated with potential reforms. Stronger reliance on market-based approaches in the policy mix would be beneficial.

- Reform subsidies that encourage either natural resource-based outputs, or their use as inputs to production processes. Make cross-subsidies more explicit.
- Integrate marginal social-cost pricing, full-cost recovery, and cost-benefit considerations into infrastructure management policies.
- Prefer direct income supports as a way of achieving social objectives.
- Expand application of tradable permit approaches in the policy mix for managing natural resources.
- Encourage cost-effective life-cycle, recycling, and materials-flow approaches.