



OECD Environmental Strategy

2004 REVIEW OF PROGRESS



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2004 Review of Progress



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Preface

OECD Environment Ministers agreed in 2001 to an ambitious plan: the OECD Environmental Strategy for the First Decade of the 21st Century. The Strategy was adopted by OECD Environment Ministers when they met on 16 May 2001 and endorsed by OECD Ministers of Finance and Economics when they met with their environment colleagues the next day.

Through the OECD Environmental Strategy, OECD countries agreed to undertake 71 national actions to support the environmental pillar of sustainable development in a cost-effective and equitable manner. They asked the OECD to support them in this through analytical work and monitoring implementation of the Strategy. When OECD Environment Ministers meet again on 20-21 April 2004, they will hold themselves accountable to the commitments they made in the Strategy and discuss how to strengthen its implementation. This report provides an assessment by the OECD Secretariat of the progress made so far, as background material to support the Ministerial discussions.

There is some good news. Key international agreements to protect the marine environment and ensure sustainable fishing have recently entered into force, thanks in part to their ratification by some OECD countries. OECD countries have also made progress in strengthening their regulatory frameworks regarding the environmental and health impacts of living modified organisms (LMOs). Air pollution regulations have been tightened. New market-based policies to mitigate climate change – such as emission trading schemes, carbon taxes, and use of project-based flexibility mechanisms – are in place or are planned in many OECD countries.

But we are far from reaching our goals. Naturally we do not yet see the results in the environment of the new policies that have been adopted. But, in many cases, the obstacles to setting new policies continue to be intractable. Countries can not agree on the science of climate change, let alone the appropriate policies to address it. The largest and most-polluting energy users often still benefit from exemptions to energy taxes, reducing the efficiency and effectiveness of these taxes. Taxes on “dirty” fuels are set too low in most countries, reducing incentives to switch to alternative, cleaner energy sources. While there has been progress in reducing air pollution from transport, we are still far from implementing the more dramatic changes needed to address greenhouse gas emissions as well as congestion in our cities. While there has been some very gradual “greening” of agricultural subsidies, the national action agreed in the Strategy to phase out or reform all environmentally damaging agricultural subsidies by 2010 is clearly not on track.

The 2001 OECD Environmental Outlook identified a number of “red light” environmental issues that need to be urgently addressed. I fear that this new assessment of progress made since 2001 shows that only a few of the red lights identified in the Outlook have turned yellow, and none have yet turned to green. The ambitious policies agreed to by countries in the OECD Environmental Strategy are essential to achieving environmental sustainability, but their full

implementation will require strong political actions. The OECD Secretariat remain committed to supporting our member countries in their efforts to implement the Strategy, including through the use of OECD country environmental performance reviews to provide regular, peer-reviewed assessments of how implementation is proceeding.

Donald Johnston
Secretary-General of the OECD

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The report was compiled by Helen Mountford and Kenneth Ruffing. A number of staff members of the OECD Environment Directorate contributed to drafting or production of the individual sections, including: Shardul Agrawala, Christian Avérous, Philip Bagnoli, Jean-Philippe Barde, Carla Bertuzzi, Gérard Bonnis, Nils Axel Braathen, Stephen Bygrave, Nadia Caid, Maria Dos Santos, Katherine Kraig-Ernandes, Jan Corfee-Morlot, Jane Ellis, Marie-Line Fontaine, Martha Heitzmann, Frédéric Gagnon-Lebrun, Brendan Gillespie, Henrik Harjula, Marie-Chantal Huet, Nicholas Johnstone, Tom Jones, Peter Kearns, Kumi Kitamori, Myriam Linster-Malaval, Laurence Musset, Ysé Serret, Richard Sigman, Henri Smets, Harald Sorby, Cristina Tebar Less, Adam Troman, Rob Visser, Peter Wiederkehr, and Frédérique Zégel.

Experts in other OECD Directorates and associated bodies commented on drafts of the report, including colleagues from the Directorate for Food, Agriculture, and Fisheries; Development Co-operation Directorate; Centre for Tax Policy and Administration; Trade Directorate; the International Energy Agency (IEA); the European Conference of Ministers of Transport (ECMT); and the Nuclear Energy Agency (NEA). Experts from the Secretariat to the UN Framework Convention on Climate Change (UNFCCC) provided comments on the climate-related sections of the report. Colleagues from the Translation Division and the Public Affairs and Communication Directorate enabled the production and publication of the report in English and French.

The report is published on the authority of the OECD Secretary-General.

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Executive summary

The OECD Environmental Strategy was adopted by OECD countries in 2001

The OECD *Environmental Strategy for the First Decade of the 21st Century* was adopted by OECD Environment Ministers on 16 May 2001, and endorsed by the OECD Meeting of Council at Ministerial Level on 17 May 2001. It identifies five inter-linked objectives for enhancing cost-effective and operational environmental policies in the context of sustainable development. OECD countries identified the key challenges under these objectives, listed 71 National actions to address these challenges, and asked the OECD to support them by undertaking further work in a range of areas. The main issues highlighted in the *Strategy* are those identified in the *OECD Environmental Outlook of 2001* as the environmental problems that most urgently need to be addressed to move toward the longer-term goal of ensuring environmental sustainability.

Much more ambitious policies will be needed to ensure its full implementation

This report provides a review of initial progress in implementing the *OECD Environmental Strategy*. Overall, it finds that countries have made a good start in a number of areas, but much more ambitious measures will be needed if the *Strategy* is to be fully implemented by 2010. Current policies are insufficient to adequately protect biodiversity or address climate change, and the decoupling of environmental pressures from economic growth in key sectors is proceeding too slowly. A number of obstacles to environmental policy reform are identified in the report – including political obstacles, such as poor policy integration, and inadequate information – which will need to be faced. Increasingly, OECD Environment Ministers will have to work together with colleagues in other Ministries, colleagues in other countries, and with partners from business and civil society in order to ensure that appropriate environmental policies can be developed and implemented.

Objective 1: maintaining ecosystem integrity

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

Although greenhouse gas (GHG) emissions are still growing in many OECD countries, most have reduced the GHG-intensity of their economic growth. Many have partnered with the private sector and other countries to create synergies in developing tools and new technologies to address *climate change*. About half of all OECD governments have carbon or energy taxes in place, a similar number have initiated formal voluntary approaches with industry to address climate change, and emission trading schemes are gaining importance.

Further policies will be needed for OECD countries to meet their existing climate objectives, and to adapt to future climate change

Nonetheless, it is clear that additional measures will be needed if the objectives of the UN Framework Convention on Climate Change are to be met, let alone the emission commitments agreed by most OECD countries under the Kyoto Protocol. While emission trading schemes, carbon-related taxes, and project-based flexibility mechanisms are only now starting to be introduced in OECD countries, they will be increasingly important components of future policy mixes to address climate change in order to keep costs to an acceptable level. Given that significant climate change impacts are expected in coming decades, despite current commitments to reduce GHGs, efforts will be needed by OECD countries to integrate adaptation to climate change into both domestic policies and development assistance programmes.

OECD countries have made progress in managing water demand, while also addressing concerns about access to and affordability of water services

Most OECD countries have been able to manage their *freshwater* resources to ensure an adequate supply for human needs, including by expanding the use of water pricing mechanisms to manage demand. They have also given increased attention to social concerns about access to, and affordability of, water services for low income households. A greater challenge is the design and implementation of water management policies that better reflect ecosystem needs for freshwater, as well as human needs. OECD countries are committed to developing integrated water resources management plans by 2005, but will need to allocate substantial resources to ensure their proper implementation. While most countries show sustainable use of water resources at a national level, this may conceal unsustainable use in some regions (e.g. arid or semi-arid regions) and over some periods.

The worst polluted water bodies have been cleaned up in OECD countries, and point source discharges to surface water have been significantly reduced, especially from industrial and urban wastewater systems. However, less progress has been made in addressing pollution arising from agricultural run-off and other non-point sources of pollution. The majority of OECD countries do not yet meet the baseline quality standard for inland waters (suitability for fishing and bathing). Moreover, the trend in most OECD countries is towards a worsening of ground water quality, particularly from elevated levels of pesticides and nitrates and, in some countries, from salinisation.

Biodiversity loss outside of protected areas continues, and common resources such as fish stocks are being over-exploited

Protected areas established to achieve *biodiversity*-related goals have reached 14.6% of the total land area for OECD countries, and some progress has been made in creating ecological networks with corridors to connect protected areas. The management of protected areas is in need of considerable improvement, however, and the establishment of more marine

protected areas is urgently needed. Not enough is being done to slow habitat loss and fragmentation outside of protected areas or to apply the ecosystem approach to natural resource management, reflecting a lack of integration of biodiversity concerns in sectoral policies (e.g. agriculture, fisheries, forestry, tourism). The percentage of known species that are endangered continues to increase, and indicators of the total numbers of vertebrates in the wild continue to register declines. While a couple of the key international agreements to support sustainable fisheries management entered into force in the last few years, it is too early for their implementation to have slowed the continuing trend towards over-exploitation of fish stocks.

OECD countries are employing a wider array of policy instruments to provide incentives for the sustainable use and conservation of biodiversity, although total expenditures (public and private) on nature conservation is still limited. The use of market-based instruments (fees, charges, and environmental taxes) to promote sustainable use of biodiversity is increasing, as is the assignment of well-defined property rights, for example the use of individual transferable quotas in fisheries and development rights for wetlands conservation.

Objective 2: decoupling environmental pressures from economic growth

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

Efforts to phase-out or reform environmentally harmful agricultural subsidies need to be accelerated

Some progress has been made in reducing the negative environmental pressures from agriculture, but much more is needed. Land use and soil loss have decreased, long-term reductions in on-farm biodiversity have slowed, and some decreases in greenhouse gas emissions from agriculture have occurred. However, water use in agriculture has risen, and levels of nutrient and pesticide run-off remain high in many countries. Many OECD countries have been addressing environmental impacts of agriculture through increased use of agri-environmental measures and cross-compliance requirements, whereby farmers have to meet environmental conditions to be eligible for support. However, market price support, output payments, and input subsidies – potentially the most environmentally harmful types of support – still account for 80% of total agricultural support.

A positive development has been the setting up in all OECD countries of a system of regulatory oversight to address the potential environmental and health impacts of genetically modified organisms.

Significant reductions have been made in air pollutants from transport, but more ambitious policies will be needed to tackle urban congestion and to achieve air quality standards

The environmental and health effects associated with some major air pollutants from transport have been decreasing for some time in OECD countries. Emissions of most pollutants remain high, however, and limit-standards for air quality, and critical levels and loads for acidification, eutrophication, and tropospheric ozone, continue to be exceeded. Progress in noise reduction, the prevention of habitat fragmentation, and reducing run-off from transport is proceeding more slowly, due to continued expansion of road networks and overall transport activity; while carbon dioxide emissions from transport have continued to increase.

Regulatory timetables for meeting air quality goals and emission ceilings have been established through 2008 in all OECD regions, based on best available control technology. Many countries have been reforming their systems of transportation taxes and charges to better target environmental externalities and congestion and to foster shifts to less environmentally harmful transport modes; some have introduced or extended tram and light rail systems, and increased the capacity of inter-city passenger rail, to encourage greater use of public transport. Only a few countries have introduced targeted policies to reduce the trend towards urban sprawl and the related environmental impacts. In terms of reducing environmental risks from maritime transport, an action plan to combat substandard shipping was agreed by OECD countries in 2001; and in Europe an accelerated timetable to phase-out single-hulled vessels in the transport of fuel oil was agreed in 2003. Until this plan is fully operational, however, marine pollution from oil and hazardous material continues to be a risk. The environmental impacts of rapidly increasing air transport also need to be addressed urgently, with air transport already responsible for about 11% of transport-related energy consumption. Better integration of transport and urban planning, as well as the use of strategic environmental assessments in transport planning, is needed.

Energy efficiency is increasing, but better pricing and faster uptake of new technologies could significantly reduce environmental impacts of energy use

The efficiency of industrial, household, and commercial energy use has improved as a result of technical change, encouraged by a combination of price incentives, and regulatory and voluntary approaches addressed to buildings, appliances, and electric motors. However, much of the potential for further energy efficiency improvements remains untapped, including even low or no cost options. For example, standby power consumption, especially from consumer electronics, remains unregulated in most OECD countries.

Regarding energy production and transformation, market forces and regulatory reform have fostered fuel substitution from coal to gas in many OECD countries, with resulting environmental benefits. Fiscal policies, feed-in tariff compensation, tradable renewable energy certificates, and other policies have led to rapid growth in the development of

renewable energy sources and greater use of combined heat and power, albeit from a low base. These developments have reduced the carbon intensity of energy production and further reduced the emissions of sulphur dioxide, particulate matter, and other air-borne pollutants. In addition, several new research initiatives have recently been launched on the viability and cost-effectiveness of carbon capture and storage. The combination of structural change and improvements in energy efficiency has led to some decoupling of energy use from economic growth. However, further improvements are not likely without substantially more ambitious policies and measures, including better internalisation of environmental costs in energy prices and hence an accelerated development and diffusion of cleaner technologies.

Objective 3: improving information for decision making

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

Better collection and dissemination of environmental information are contributing to increased transparency and accountability in policy making

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

Objective 4: addressing the social-environmental interface

Objective 4 of the *OECD Environmental Strategy* highlights the need to address the *social and environmental interface*. OECD countries have continued to make progress in this area, for example through work on a Globally Harmonised System for Classification and Labelling of Chemicals, testing and assessment of endocrine disrupters, development and revision of test guidelines for chemicals, and preventing hazards from major accidents. OECD

countries have accelerated the processes for testing and assessment of high production volume chemicals. The Rotterdam Convention on Prior Informed Consent (PIC) for chemicals trade entered into force in February 2004, and the Stockholm Convention on Persistent Organic Pollutants (POPs) will come into force in May 2004, and. A few countries have introduced measures to limit the exposure to hazardous chemicals and air pollution of particularly vulnerable groups.

OECD countries are working to address environmental and health risks related to the production and use of chemicals

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

Objective 5: improving international environmental governance and co-operation

Objective 5 of the OECD *Environmental Strategy* emphasises the need to improve governance and co-operation in light of global environmental interdependence. International *environmental governance* has been strengthened by the entry into force of a number of multilateral environmental agreements (MEAs). OECD countries have ratified an even larger number of environmental conventions, not all of them yet in force. They have also supported measures to strengthen the control or review mechanisms of several existing conventions, and to improve co-operation among the secretariats of MEAs. Economic agreements also increasingly include environmental elements – for example, regional and bilateral investment and trade agreements, and the 2001 Declaration of WTO Ministers (the Doha Development Agenda). Little progress has been made, however, in ratifying a number of international agreements on liability for environmental damage.

Resource mobilisation is insufficient to meet internationally agreed environmental goals, such as those on access to water and sanitation

Member countries of the OECD Development Assistance Committee (DAC) have made available some USD 50-55 billion per year in the form of official development assistance (ODA) since 1998, with about USD 5-6 billion provided to environmentally related activities. DAC members are also working to mainstream responses to environmental concerns, such as climate change, into their core development assistance activities. Despite increases in foreign direct investment, resource mobilisation is currently

insufficient to meet internationally agreed goals such as the Johannesburg commitment on access to drinking water and sanitation.

OECD countries agreed in 2003 on common approaches for incorporating environmental considerations in the provision of export credits. Several OECD countries have since strengthened environmental impacts assessment requirements for projects benefiting from credit guarantees, and taken other steps to ensure transparency in integrating environmental objectives into project planning and financing decisions. They have also promoted implementation of the OECD guidelines for multinational enterprises, including their environmental components. The practice of implementing environmental management systems and issuing environmental reports has grown within the business sector of OECD countries, although few businesses engage in systematic environmental cost accounting or associated reporting, and even fewer make use of third-party certification of their reports.

Further work at the OECD:

OECD will continue to support country implementation of the OECD Environmental Strategy

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

Introduction

This report provides an initial review of the current implementation of the *OECD Environmental Strategy for the First Decade of the 21st Century*. The *OECD Environmental Strategy* was adopted in 2001, with the intention that it should be implemented by 2010. The progress by OECD countries in implementing the 71 national actions agreed to in the *OECD Environmental Strategy* is presented in this report, with both the successes and the remaining challenges highlighted.

Background

The *OECD Environmental Strategy for the First Decade of the 21st Century* was adopted by OECD Environment Ministers on 16 May 2001, and endorsed by the OECD Meeting of Council at Ministerial level on 17 May 2001. Its purpose is to provide clear directions for environmentally sustainable policies in OECD countries, and to guide the future work of the OECD in the field of environment.

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

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

OECD countries identified the key challenges they face under these objectives, agreed 71 national actions they would take to address these challenges, and asked the OECD to support them by undertaking further work in a range of areas.

The main issues addressed in the *OECD Environmental Strategy* are those that most urgently need to be addressed in OECD countries, as identified in the *OECD Environmental Outlook* of 2001. The *Outlook* is an economy-based outlook to 2020 of the main environmental pressures and developments, produced to support the identification of the key issues to be addressed in the *OECD Environmental Strategy*. The *Outlook* also contains analysis of the impacts of specific policies of the type reflected in the National actions countries agreed to undertake in the *Strategy*. The National actions identify specific environmental policies or actions OECD countries agreed to take in order to contribute to the achievement of environmental sustainability. In designing environmental policies, the

OECD *Environmental Strategy* identified four specific criteria necessary to ensure environmental sustainability:

- *Regeneration*: Renewable resources shall be used efficiently and their use shall not be permitted to exceed their long-term rates of natural regeneration.
- *Substitutability*: Non-renewable resources shall be used efficiently and their use limited to levels which can be offset by substitution by renewable resources or other forms of capital.
- *Assimilation*: Releases of hazardous or polluting substances to the environment shall not exceed its assimilative capacity; concentrations shall be kept below established critical levels necessary for the protection of human health and the environment. When assimilative capacity is effectively zero (e.g. for hazardous substances that are persistent and/or bio-accumulative), effectively a zero release of such substances is required to avoid their accumulation in the environment.
- *Avoiding Irreversibility*: Irreversible adverse effects of human activities on ecosystems and on biogeochemical and hydrological cycles shall be avoided. The natural processes capable of maintaining or restoring the integrity of ecosystems should be safeguarded from adverse impacts of human activities. The differing levels of resilience and carrying capacity of ecosystems must be considered in order to conserve their populations of threatened, endangered and critical species.

Purpose of the report

Ministers agreed in the *Strategy* [paragraph 2] that:

The Strategy should be implemented before 2010. The OECD Environmental Performance Reviews and the environmental indicators programme will be used for the monitoring of progress. Future meetings of the OECD Environment Policy Committee (EPOC) at ministerial level will review the progress achieved in implementing the Strategy.

The first opportunity for OECD Environment Ministers to review their progress in implementing the *OECD Environmental Strategy* will be when they meet in Paris on 20-21 April 2004. This report provides the background information to support those discussions. It is expected that this will be the first of periodic reviews of implementation of the *OECD Environmental Strategy* by Ministers.

As this review takes place only three years after the adoption of the *OECD Environmental Strategy*, the indications of progress achieved for most areas covered are only very preliminary. Furthermore, data and indicators to measure the achievements made are often lacking. As such, this first report on implementation is intended to provide a general overview and baseline against which future reviews can measure the progress made. It is also an opportunity to identify some of the specific challenges or obstacles to implementation of the *OECD Environmental Strategy* that are already apparent. Some of these include political obstacles, such as inadequate co-ordination with other parts of government and other countries, or opposition to environmental policy reforms. In other cases, the obstacles reflect gaps in the data available to monitor implementation. Finally, this report suggests a future process for implementing, and reviewing implementation of, the *OECD Environmental Strategy*.

OBJECTIVE 1

Maintaining the integrity of ecosystems through the efficient management of natural resources

