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INTRODUCTORY ADDRESS ON THE COST OF ENVIRONMENTAL INACTION BY MR. SERGE LEPELTIER, MINISTER FOR ECOLOGY AND SUSTAINABLE DEVELOPMENT, FRANCE

EPOC High-Level Special Session on the Costs of Inaction

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INTRODUCTORY ADDRESS TO THE OECD SPECIAL SESSION ON THE COST OF ENVIRONMENTAL INACTION[1]

(OECD, Paris, 14 April 2005)

by

Serge LEPELTIER

(Minister for Ecology and Sustainable Development, France)

In April 2004, the OECD Environment Policy Committee meeting at Ministerial level asked the Organisation to initiate work aimed at quantifying the costs resulting from inaction on environmental problems. This evaluation is of course necessary to provide the information required for national debates on the policies to be implemented. It is a pleasure to be here, one year later, to introduce your discussions as a representative of this body of Environment Ministers and, of course, as the Minister responsible for these issues in my own country, France.

We are all aware of the difficulties involved in implementing ambitious environmental policies in the face of traditional economic arguments such as our firms' loss of competitiveness and the painful consequences in terms of job losses in the short term. However, we all know that it is possible and even advisable for the economy and society to take the environment into account, and that the economic valuation of the environment is the necessary means of doing so.

When an environmental protection policy is developed, the players who are going to be bearing the costs of implementing this policy are quick to call attention to these costs and the consequences that they foresee. It is important to know these costs and to know which players may be adversely affected in order to introduce the necessary redistribution and transition policies.

On the other hand, it is also essential to know the costs of environmental degradation that will result from a laissez-faire policy. The problem here is that we very often lack incontrovertible data on the costs of the damage being inflicted on society as a whole through the deterioration of the environment.

However, how can we not react when the WHO estimates that the cost of inaction with regard to access to drinking water and sanitation in Africa will be $220 billion over 10 years, when a $15 billion investment over the same period would eliminate much of the problem?

How can we not react when, in France, the cost of paying compensation for asbestos-related illnesses is estimated at €40 to 60 billion over the next 20 years, when bans and precautionary measures could certainly have been introduced sooner at a much lower cost?

These are very large figures indeed, and the magnitude of the burdens being shifted from one generation to the next as a result is staggering. We must therefore improve the way that we estimate these costs and anticipate situations that are so burdensome for society.

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[1] Presented by Marie-Claire DAVEU, Executive Assistant to the Minister.

I realise, however, that determining the costs of environmental inaction involves considerable methodological difficulties. The first issue that must be addressed is that of the baseline scenario. Scenarios show how the costs of action vary depending on the options chosen. Against that, it is also necessary to address the long-term viability of current trends and evaluate the cost of the damage that would result from inaction.

The subjects that will be discussed today in this seminar are serious issues with major consequences both for now and the future, such as diminished health, climate change and biodiversity loss.

You are familiar with all the other major methodological difficulties, which I shall reiterate briefly:

In many cases, little is known about the phenomena. They are highly complex and, while scientific knowledge does provide us with some information, it is still fragmentary. For example, there is a degree of uncertainty regarding the extent of future climate changes due to the increase in greenhouse gases, and evaluating the impacts of these changes is fraught with even greater uncertainty. The number of species that disappear each year is uncertain, and we do not even know how many species there are actually are. In the field of health, we do not really know the effects of various types of exposure to different types of pollution. This means that policy-makers will have a key role to play, since the scenario that they choose will reflect the degree of risk that they wish to introduce.

Damage assessment is uncertain: environmental degradation leads to losses of goods and services that are poorly evaluated, such as the water purification service that a specific ecosystem can provide. Even when this service is identified, it is often difficult to translate it into monetary terms and various contingent evaluation methods have to be used. Lastly, the option value represented by the preservation of a particular resource is always very difficult to evaluate, precisely because of the fact that its future uses are not known;

The effects are very long term, non-linear, cumulative and irreversible: for example, greenhouse gas emissions are cumulative, and a drastic reduction of these emissions will not prevent them from continuing to grow. In addition, we also face problems subject to threshold and irreversibility effects, such as the disappearance of living species and the effects of exposure to chronic pollution. These non-linearity effects must be taken into account. Lastly, the time horizons are extremely long, for it takes 20 years to find out the health impacts of exposure to a specific pollutant, and it will take 50 years before we know the extent of ecological upheavals due to climate change.

The usual method used to take the future into account in an economic valuation is to apply a discount rate. We must be wary of the fact that this approach tends to devalue the very long term in decision-making, and examine it accordingly since this will have serious consequences when the decisions made have irreversible effects on the future situation. This dimension requires a real conceptual shift among policy-makers, since future generations will be affected by the allocation decisions made today. In response to this long-term challenge, France's *Commissariat Général du Plan* recently recommended a degressive discount rate which will be higher in the initial years, will decrease after 30 years and taper off to 1 or 2% after 50 years.

We must also address the issue of the share of progress with environmentally-friendly technologies that is incorporated in the baseline scenario. Eco-technologies must be developed to protect the environment effectively, but their development is dependent on market prospects that will be that much brighter if they are boosted by an environmental policy that includes adequate incentives.

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Recognition of the precautionary principle at the Rio Earth Summit in 1992 was a policy response to the growing international awareness of the harm being done to our environment.

In the same vein, France has just incorporated an Environmental Charter in its Constitution, which attaches high legal status to the precautionary principle. This principle states that we must act without delay in the light of current knowledge and that we must take steps to expand this knowledge and create the institutional means that will make it possible to put this new knowledge to good use.

I am convinced that many other countries will follow France's example in enshrining the precautionary principle in its constitution.

In this context, it is essential for us to act together now to make progress in evaluating the costs of environmental inaction. This is a very important aspect of the discussions on the precautionary principle, and the OECD is a forum where in-depth and open discussion should make it possible to move forward. Social and political expectations in this regard are immense.

For this reason, it is imperative to develop scenarios that systematically target the various points that I have just reviewed, whether it be the assessment of risk and uncertainty, the valuation of environmental damage or the incorporation of the long term, threshold effects and irreversibility.

It would be useful if, in your work, you drew up a list addressing all these key points for the evaluation of an inaction scenario. It should be possible to use this list as a grid for the systematic development of evaluations. This tool would be a kind of reference "code" that would enable studies on the cost of inaction to act as an advocate for the defence of the environment, as an "environmental guarantor", to use the European terms, with regard to traditional macroeconomic considerations.

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Most of the methodological difficulties that I have mentioned above have been known for quite some time.

I am sure that you will agree that, even though these difficulties are to some extent technical, decision-makers also have a role to play in solving them, in particular by balancing long-term against short-term considerations, the interests of future generations against those of present generations and the well-being of the few against the well-being of everyone.

This is a process that will require an open and democratic discussion of how to measure the cost of environmental inaction and then take it into account in decision-making.

I have every confidence in your ability to tackle this most important task of providing an economic valuation of the consequences of environmental inaction so that I and other decision-makers will have the information that we need. In doing so, you will enable us to promote ecology more effectively.