

## 2008 IEMA Conference

### Bournemouth

June 4 2008

## Building market economies and democracies whilst respecting environmental limits

Lutz Blank

### European Bank for Reconstruction & Development

When IEMA invited me to give a presentation at this year's conference I was attracted both to the overall theme of the conference (Aligning Environmental and Economic Priorities) and to the suggested title of my presentation, "Building Market Economies and Democracies whilst respecting Environmental Limits". The theme of building market economies in a democratic context and integration of environmental considerations in this process is at the heart of what I am doing as an environmental professional.

I am working for the European Bank for Reconstruction and Development (EBRD) in London. EBRD's mission is to assist the countries of the former Eastern Bloc in their transition to democratic market economies. This done through project investments in industry, commerce and infrastructure. The Agreement establishing the EBRD places particular emphasis on fostering environmentally sound and sustainable development practices as part of this transition process. As a practical consequence of that all projects funded by EBRD have to meet a stringent set of environmental and social criteria. Our investments and associated grant funded assistance (e.g. for institutional strengthening or help with project implementation) are designed to assist an economic transition and at the same time implement highest standards of environmental protection. What we are asking for is compliance with not only national standards but also with EU standards. This is a tall order for some projects and for some countries.

Whilst the previous keynote address focussed on the UK, this presentation will to a large extent be about countries which do not meet the same standards of environmental care; development of democratic structures; and economic development as what we are used to in the EU.

We are living in a well established European democratic society with a functioning market economy. This gave us an unprecedented level of freedom and affluence. Within the EU, we have profited from a steady and in some countries astonishing rate of economic development. What is more, this is no longer coming at the price of unchallenged environmental pollution and degradation, as was the case in the earlier

days of industrial development. We have learned, often the hard way, is that there is a need for checks and balances; for standards and limits; and for clear political directions as to what is acceptable and what must be avoided. This has not only been a process of increasingly stringent legal requirements in the form EU Directives; national law; and International Conventions. It has also been a steady process of public debate and reflection which has led us to re-define priorities.

I grew up in Germany where environment became an issue in the late sixties. I remember that one of the major political parties promised that there would be 'blue skies over the Ruhr' – obviously only if you voted for them. The Ruhr valley used to be Germany's industrial heartland, full of coal mines, steel works, and heavy industry – and definitely not with blue skies. This election promise left a lot of people somewhat perplexed, as industrial progress (and therefore higher income for the individual) was by its nature directly linked to higher emissions and pollution. It was either 'prosperity' or a 'pristine environment'. The two would not go together. Thankfully, this view changed as another way of economic development and prosperity emerged.

What we have seen in Germany and in all similar industrial western economies is that, looking back, rapid industrial development used to be coupled with uncontrolled exploitation of resources and uncontrolled emissions; discharges; and wastes. What happened some fifty years ago was a slow 'public awakening', the recognition that the price we paid for prosperity was too high. Public and media pressure led to political changes and a wide range of environmental legislation aimed at a reduction of emissions and discharges from industry and infrastructure, and at the protection of the natural environment as well as of public health.

This was initially met by a very unwilling industry which took a defensive stand ('this cannot be done'). However, this changes quite quickly once the legal framework was in place and it became clear that there was the political will to see it through. Legislation such as the Clean Air Act or the EU Large Combustion Plant Directive paved the way. They were effective and produced tangible results – demonstrating to everyone that there is another way. Looking back it is quite amazing to see how quickly industry overcame its reluctance; embraced this challenge; developed new technologies and products; and is now better placed to compete successfully in a rapidly growing global market for environmental goods and services.

In addition to national legislation, often based on EU Directives, there is now also a large number of 'International Conventions' which address environmental issues. There are now more than 30 such conventions. One of them is the 'Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal', aimed to protect human health and the environment against dangers arising from the generation, management, transboundary movement and disposal of hazardous wastes. It came into force as late as 1992 - and has now, only 16 years later, 170 Parties. This is a prime example of how fast international agreements can be reached and ratified, adding another, necessary dimension to national law.

This development of stringent pollution control legislation went hand-in-hand with discussions on other issues, such as the role and the rights of the individual when it comes to environmental decisions. The increasing public interest manifested itself in the rise of environmental pressure groups; the emergence of the NGO; and the

success of green parties. These are all signs of the change of attitude, interest and values in a large part of the population. Environment is in, green is good.

This also led to legal provisions, nationally and internationally, which define the rights of individuals in environmental decision making and conflict. The Aarhus Convention (on '*Access to Information, Public Participation in Decision Making and Justice in Environmental Matters*') is one example. As of April 2008 it was ratified by 41 countries, mainly in Europe and Asia. It grants the public rights regarding access to information and focuses on the interaction between the public and national authorities. And it is quite an effective weapon in the hand of a determined individual or NGO to name and shame a country and its authorities.

However, what is probably more important than this international convention are provisions in national environmental legislation, particularly legislation relating to new and environmentally significant developments. A good example is the EU Environmental Impact Assessment Directive, was transposed into the national legislation of all EU countries and already the basis for legislation in many more countries aspiring to become EU members. An important part of this directive is the weight it places on the rights of the affected population to have their say when it comes to the permission of new developments, and on the public consultation process that has to be followed by the developer and the national authorities.

When we look back some forty or fifty years, and assess where we are now in Western Europe, we will see that we have come a long way, and achieved a lot. I think the main achievement is that we have come to realize that long-term economic development has to go hand-in-hand with environmental protection and the efficient and sustainable use of the limited natural resources on which our industries rely and on which our prosperity is built.

In short, we have integrated environmental considerations into our market economies and our democratic societies. For us, a prosperous democratic society demands a minimum of environmental care and protection. And this message is driven home by politicians, media, stakeholders. We have also come to accept that there is 'no free lunch', and that our goods and services come with an environmental cost which has to be paid for by the customer. At a time of rapidly rising costs for basic commodities this led to a more sustainable use of our resources. Energy is one example. Western Europe has by far the lowest CO<sub>2</sub> emissions from fossil fuels as a proportion of real GDP, with a clear downward trend projected to continue.

Whilst this change in attitude and reality has taken place in Europe and in other developed democracies this is sadly not yet the case in major parts of the world. Only a minority of the global population benefits from such achievements and change in values. The global population exceeds 6 billion, living in around 190 countries. Many of these are developing countries which have a large and rapidly growing population with a low average income and limited or no access to a functioning health and education.

Many of these countries, particularly in Asia, are in the process of rapid economic and political transition. Countries such as India and China are driven by rapid industrial development, fuelled by global demand for cheap goods. These countries are not only

in a process of economic transition. They are in an equally dramatic political transition process towards more openness and better public governance; towards more freedom for the individual and the media; and ultimately to a political structure much closer to the one we have.

Whilst the economic development itself is good news as it helps to overcome poverty, there is only too often a disturbing lack of environmental care and protection. What is missing are effective checks and balances. The world's pollution hotspots have moved east, the 'sulphur triangle' in Central Europe is old news, look to China for the worst polluted cities and rivers. The link between long-term economic development and the sustainable use of all natural resources (industrial resources as well as air, water, soil) is only slowly recognized. Pollution control law, where it exists, lacks effective implementation.. Political structures do not tolerate the right to disagree. Public and media interest is growing fast, but from a low level, and has a long way to go before it has the same power as in Western democracies.

Most of these rapidly developing countries are moving towards more democracy and a market economy. But there remains a group of 'failed states' (as defined by the US Foreign Policy magazine and the 'Fund for Peace' think tank). Their 'Failed States Index', which scores countries based on 12 criteria, makes very disturbing reading. Top of the list are Sudan, Congo, Ivory Coast, Zimbabwe, Chad, Somalia and Haiti. This is not *per se* a ranking of democracies or of countries which have failed to become recognizable democracies. But you can take it as an indication as to where democracy and the rule of law are weak or non-existent; and where economical development is slow, has stalled, or has come to stand-still. These are also countries with significant and unchallenged environmental problems, and with little hope for change.

There is yet another group of countries which is worth watching. These are not developing countries. What I am referring to are the countries which emerged from the former Eastern Bloc and the former Soviet Union. This is a very diverse group of countries. It includes the ten recent new EU member states; other European countries that aspire to join the EU, e.g. on the Balkan; the Caucasus countries Armenia, Georgia and Azerbaijan; the four Central Asian Countries; and Russia, Belarus and Ukraine. These are countries with an established political system, with a largely functioning infrastructure, with a good educational system and basic health care, and with a developed industry and agriculture.

But these countries also have their problems. One of the legacies of communism was the large-scale pollution and degradation of the environment. Stringent environmental protection laws existed but were frequently ignored or circumvented. Industrial and agricultural output took precedence over protection of the natural environment and public health. The targets of the 'Five Year Plan' were sacrosanct. Inefficient and highly polluting industrial plants were common. Inefficient use of raw materials and energy was not an issue but the norm. Outdated production processes were not replaced or rehabilitated. The Communist Party was always right. Public and media opinion (let alone criticism) was neither asked for nor was it tolerated.

It has been suggested that the collapse of socialism in 1989 to 1991 was to a large extent driven by public realization of the dire state of the environment. This is an

academic discussion. I think there can be no doubt that this was a factor. People were disillusioned with their political system and their standard of living in general. They demanded a better future – politically, economically, socially, environmentally. The United Nations Development Programme (UNDP) summarized in ‘Development and Transition, April 2008’, that *‘nearly 20 years later, important progress towards sustainable environmental and energy policies have been made. Still, ordinary people rarely seem to see improvements in environmental quality, particularly in the region’s poorer countries in Central Asia and the Southern Caucasus’*. The UNDP also states that *‘Problems of environmental sustainability are also at the heart of the broader development and transition challenges facing the region. The sharp increase in poverty and economic insecurity that accompanied the large declines in incomes and output during the 1990’s reduces the public importance attached to environmental concerns. Weaknesses in central and local governance continue to constrain state responses to ecological threats. The limited development of civil societies – particularly in CIS countries and the Balkans – constrains prospects for the mobilization of environmental activism that plays a key role in promoting sustainable resource management in OECD countries’*.

This is a pessimistic summary. It describes the situation in part of that region but certainly not in all of its countries. The EBRD’s annual ‘Transition Report’ charts the progress made by these countries, based on economical performance, structural reforms and governance. This shows that progress is widespread but unequal. Viewing the last decade, some of the the post-communist countries in Europe have made tremendous progress in achieving the same environmental and efficiency standards as the ‘old EU’. The most impressive examples, looking at the environmental achievements as well as at economic performance, are the most recent EU members and some of the prospective accession countries.

The economical development in the 10 most recent EU countries has gone hand-in-hand with the replacement of outdated factories and production processes; the implementation of low emission/low discharge/low waste technologies which are state-of-the-art; the strengthening of the legal framework in line with EU regulations, and better implementation of the law; and the onset of a healthy and diverse public and media debate on environmental issues and the sustainable development of the country.

New developments in these countries, from industry to municipal infrastructure or transport are as good or even better than what we are used to in the UK. The standard of living is rising fast, people are no longer just emigrating, there is now a reverse flow back to Poland and other countries. The products coming from these countries are also equal in quality to what we are used to – a prime example is the automotive industry. This is being achieved before the background of environmental legislation based on EU standards, just like ours. New industrial plants have to meet highest environmental standards. There are still inconsistencies in the application of environmental laws and procedures in some countries, but this is changing fast, not the least because of the public, media and NGO pressure.

This rapid development, albeit from a high starting point when compared with developing countries in Asia or Africa, gives hope that democracy; market economy; and environmental care and sustainability are indeed a winning combination and can be implemented successfully.

Let's go back to the role environment plays in this combination. It was a late-comer. But it has a key role to play, increasingly so. The driver is the global debate about climate change. This issue has propelled the environmental agenda onto a different and much higher level – politically, in industry and commerce, in the media, in the public. What we have is no longer a discussion about the need for curbing specific emissions or controlling movements of waste. The current debate is much more fundamental. It is about how do we go from here as a global society.

I think there is now an unwritten agreement that we are in the same boat and that economic development and protection of our natural environment have to go hand-in-hand. Unless we agree on that and act upon it we may well be eroding the basis of our wealth and well being beyond repair. The recognition that we are at a cross-roads strengthens the role of 'environment'. It has become a major factor in economic development, and it may well become the limiting factor and determinant.

I could conclude here but it is just too tempting to refer to what this means to the environmental professions we represent. Because I think that is quite exciting. We work in environmental protection; legal compliance; efficient and sustainable use of resources; protection of worker and public health, and much more. There is now a wide variety of environmental job opportunities. It was a slow start for the 'environmental profession' some 30-40 years ago, without a clear definition, without agreed minimum requirements and professional standards. From that weak starting point our profession developed quickly. It is now much more diverse, demanding and rewarding. And it is getting better.

We are key players in industrial development, whether we are environmental managers or consultants working on impact assessments or on the technical-environmental design of a new facility. We can make a major contribution to sustainable industrial, agricultural and infrastructure development. As environmental considerations have become more important and widely accepted, our role has broadened and our contribution to development has become more important.

What this means is that we need to be aware of the broader picture and the contribution we have to make; we need to be better trained and prepared for more complex tasks; we need to be more aware of increasing pressures; and most of all we need to be open and prepared for the opportunities we have in making change happen. I think this is an exciting prospect.

