

Davos  
Prime Minister  
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When I had the privilege of speaking here at Davos two years ago about the vital issues of the 1990s, the annual meeting took place against a background of positive change and growing opportunities. In the Northern hemisphere, East and West were coming closer together. Former adversaries were able to define common attitudes towards common problems. Prospects for peace in this part of the world had never been greater.

My message in 1989 was that we needed not only a European, but a global perestroika, a market comprising 700 million people in Europe alone, and a redoubling of our commitment to bridge the poverty-gap between the North and the South. We needed growth, vigorous growth, because only growth can eliminate poverty and only growth can generate the capacity to solve environmental problems. I called for more contacts and improved understanding between oil-exporting and oil-importing countries and pinpointed the environmental and economic benefits of avoiding sharply fluctuating oil prices. I called for the creation of a global peace economy as the Cold War was finally coming to an end.

This might have appeared to be too radical at that time, but really, reality has been radical. Reality has - since then - surpassed the imagination of many; Germany is united. That is no longer a distant goal. The countries of Central and Eastern Europe have taken command of their own future. Traditional dividing lines established for reasons of security and strategic positioning are more permeable. We are able to expand contacts between what we have been referring to as the East and the West. Although it seems that in the Soviet Union Perestroika has taken a pause, a lasting return to the rigid regime seems unlikely.

Today, world attention is focused on the crisis in the Gulf. Leaders all over the world are preoccupied with a war. Stock markets have been fluctuating daily according to the result

of the hostilities. People are uncertain and afraid. Does this mean that we have to change the agenda for the 1990s? Do we have to postpone dealing with all those other vital issues which will determine the future of humankind far into the next century?

No. Far from it. The hostilities in the Gulf will come to an end. We believe that this will happen sooner rather than later. Post-war periods are always a time of changing orders. We must now start planning for the new order.

The Middle East will need a period of healing, based on the three priority issues I proposed to the United Nations in 1987 as Chairman of the World Commission on Environment and Development: Peace, environment and development. Stability in the Middle East must be based on a system which takes all legitimate interests into account. Our European experience demonstrate that economic integration and interdependence is the best insurance policy against the reopening of confrontation.

The objective of the present conflict is to restore the independence of Kuwait. This is not a war against the Iraqi people or against the territorial integrity of Iraq. The objective must be accomplished with a minimum of losses and human suffering. A healing period will also be required to restore the environment in the region, which has been severely affected by the deliberate spilling of enormous quantities of oil, and which can be even more severely damaged in a ground war.

I want to make one particular point about the war in the Gulf before returning to the challenges of peace. How could we in the industrialized countries, - we who are so determined to reduce offensive capabilities in Europe, allow the enormous build-up of Iraqi power? Governments and the private sector alike are reponsible. Governments have failed to establish the necessary international rules, and the private sector has exploited this vacuum in pursuit of profit.

We cannot ever again allow such dictators to arm for war. We need new treaty obligations which can control and verify trade in arms. The Security Council and the CSCE-countries have a

particular responsibility to give this issue top priority.

It is essential that we do not lose sight of the objective of long-term management, even in times of crisis. We must reverse the dangerous trends which threaten the human environment. We must use resources without overusing them. And we must ensure that our children and grandchildren can realize their aspirations and ambitions. This is in essence what sustainable development is all about. To ensure it is a challenge both for politicians and for the private sector, which is the primary transformer of global resources.

Through satellites and cables we receive fragmented images from all over the world, 24 hours a day. Complexity is reduced to disconnected simplicity. One day of multi-media information comes close to what Umberto Eco calls a journey in hyper-reality. But decision-makers must not be blinded by the immediate. We must adopt a longer term view and never forget what it takes to promote change; in-depth knowledge, firm commitment and a clear vision of where we are headed.

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By the end of the 1980s the concept of sustainable development had become securely anchored on the international agenda. The attention paid to environmental issues at the World Economic Forum is encouraging in itself. I especially welcome the Eco-industry initiative discussions of the days to come.

We have now begun the hard work of integrating the principles of sustainability into the way we run our societies - from the level of the individual to the level of international decision-making.

Statements from all over the world are clear as regards the willingness to act, but there is also a considerable confusion about what to do, about who should do it, - and when.

We have made progress in many countries with regard to solving regional and local environmental problems. But much remains to be done and there is a growing need for a broader international effort. We need consultations between governments and private sector. Corporations must realize

their full innovative capacity, and government incentives must help them in the process. This vital strategic alliance is a prerequisite for change.

However, it will take longer - and we will all lose - if we use our economic resources on problems that cost the most. The private sector often finds itself squeezed between the need to respond to environmental demands and short term profit objectives. The urge to maintain a competitive edge often works against the environment in an international economy where competitors may be subject to more lenient requirements.

Consequently, the ground rules for economic operators must work in a wider geographical context.

Unless we are able to develop new thinking on how to proceed, we risk stagnation. The whole process of change is at risk. The strategy of the past has so far favoured uniform percentage reductions of emissions from each country. This has worked to the satisfaction of many. There have been reductions and seemingly reason to be pleased.

This is an illusion - a self betrayal. We have actually applauded smaller reductions than we would have had if the best available technology had been used. Percentage reductions have provided a licence to pollute up to a certain level for many who actually could have performed much better.

Today's environmental agreements are not capable of achieving optimal results. Clearly, the marginal costs of emissions will differ between sources. Uniform percentage reductions of emissions are therefore not a cost effective way to achieve environmental goals, neither nationally nor internationally.

Let me illustrate this by one example: Acid rain is a serious problem for Norway. Ninety per cent originates in other countries. If we want to deal with this problem, we must do so on a regional level. Infact, further reductions in Norway's low sulphur dioxide emissions cost ten times as much as similar reductions in Poland. We could improve the environment much more quickly by investing in a clean-up operation in Poland rather than in Norway.

In fact, even national efficiency in all countries or regions will not necessarily result in international or global efficiency.

Going through a transition period, we must aim at a future where one basic principle is common to all environmental measures:

They must give the maximum environmental benefit for the minimum cost. We will all benefit if we first reduce emissions where reduction cost the least. This must be the primary objective of the new generation of environmental agreements which we must develop.

The aim of this transition is to ensure that further reductions of emissions will cost the same regardless of where the reduction takes place.

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As national politicians we experience that the nation state is too small a scene for addressing regional and global environmental challenges. It will become increasingly contradictory to promise to remedy these international challenges through national measures alone. We need to lift the decision-making of democratic institutions to the international level. As nation states we must have the maturity to unite our sovereignties.

Acidification in Europe originates in Europe. This will require European solutions. Global warming is a global problem, which requires global solutions.

The shaping of a new Europe will be a test of our ability to develop this new generation of environmental agreements, not only in Europe, but also at the global level. I take the European example because Europe has been a cradle of innovation for more than 2000 years, also with regard to political organization, and has set standards for global cooperation.

For decades we have planned our trade and environment

cooperation on a continent divided by military logic. Now, however, two historic processes are helping to create a new, more united Europe.

One process has its roots in Western Europe, where nations are uniting their forces in a broad process of integration. The other process is taking place in Eastern and Central Europe, where the old system is breaking down, and where new democracies have begun rebuilding their societies.

After the end of the Cold War all European nations have become tied together in a common destiny. We were never able to tailor real solutions to our crucial environmental challenges due to the political barriers of post-war Europe. This has left us with a dramatic lack of appropriate policies and measures to match all-European needs.

We know that the political and economic process of reform in the Soviet Union and the countries of Eastern and Central Europe will be difficult and even painful. There are limits to the hardship these new democracies can endure. As the people of Central and Eastern Europe are taking command of their own future, we in the West must assist in the process.

Above all we must remedy the catastrophic environmental situation which has been revealed in many countries. We need short-term measures and consistent, long-term strategies, based on the recognition that economy and ecology are indeed one issue.

There is little doubt that the European Community, cooperating with or including present EFTA members, will play a key role in the shaping of European cooperation into the next century. I see no alternative to more binding international cooperation at the European level.

A common legal framework for the European market is gradually taking shape. Market economy incentives will be necessary to rebuild an outdated industrial structure. But the process must be guided by agreed environmental principles. Low environmental standards must never afford a competitive advantage.

We need economic and financial facilities that allow the transfer of the best available technology. Financial institutions, such as the European Bank for Reconstruction and Development will have an important role to play in forging economic incentives which integrating environmental concerns. We will also need a European system of surveillance and enforcement to ensure that environmental commitments are respected. In certain cases it may even prove necessary to intervene directly in one country to limit environmental damage that threatens human rights or Europe as a whole.

As the internal market will link Europe together, new all-European institutional arrangements will be necessary to guide the further process of integration. After World War II, peace was reinforced in Western Europe by integrating the coal and steel industry of former adversaries. An institutional framework for this strategic market encouraged growth, further cooperation and political stability.

The success of this undertaking has inspired a new venture in a broader European context today. The proposal of an all-European Energy Charter put forward by Prime Minister Lubbers last year may mark a milestone for the future of both energy and environment cooperation in Europe.

The energy charter is intended to set out how market economy principles can be applied to energy transactions and link the Soviet Union and the new European democracies closer to the all-European energy market. Rational use of energy would benefit the environment in all of Europe.

Energy, environment and development are inextricably linked. Europe will need both energy efficiency and energy security in support of sustainability. Energy cooperation in Europe can spearhead economic revitalization in a sustainable way. We now have a unique opportunity to stimulate economic growth throughout all of Europe while at the same time protecting and restoring the environment. We can provide the evidence that sustainable development is possible.

Today the energy production of Eastern European countries is characterized by low efficiency and a high degree of waste. Soviet researchers estimate that Soviet emissions of

greenhouse gases are 70 percent higher than US emissions per GDP unit. It is estimated that the leakages of methane from the Soviet pipelines - only the leakages alone - equals nearly 10 per cent of the total CO<sub>2</sub> emissions from the European Community, or seven times the total Norwegian emissions of CO<sub>2</sub>.

It would be a missed opportunity if we failed to take advantage of the Lubbers initiative to strengthen the environmental dimension of energy trade and consumption. As a major exporter of natural gas to Europe, Norway supports the initiative of a European Energy Charter. A more stable and predictable market for natural gas would make increased use of a cleaner energy sources. There is a considerable potential for a shift from coal to natural gas. If this is to be realized, industry and consumers must be ensured that markets are stable and predictable.

We must define our environmental targets, and structure our agreements to achieve our common goals.

At the Paris Summit in November President Delors proposed a conference to elaborate the European Energy Charter which may take place during this autumn. Energy related environmental issues should be included in the Charter. An environmental protocol would be both appropriate and necessary.

Such a protocol could deal with common all-European targets for the reduction of energy related climate gases. By drawing on our combined creativity, Europe can provide a most needed leadership in this vital issue. This could be a valuable contribution in our global quest to stabilize the climate and to launch a new generation of environmental agreements.

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Our global challenge is put on the agenda in Washington this week with the beginning of negotiations on a climate convention. This convention should be adopted at the UN Conference on Environment and Development taking place in Brazil in 1992.

The nations of the world are facing a task of formidable proportions. The maturity and vitality of international



cooperation will be put to the test. We must provide a truly global climate for change in order to protect the global climate.

The Intergovernmental Panel on Climate Change, which submitted its first comprehensive report on climate change in August 1990, confirms scientific consensus.

We can expect an increase in the earth's mean temperature at a rate of approximately 0.3 degrees per decade if no countermeasures are taken. Such an increase is greater than that experienced over the last 10 000 years, and represents a rate of increase 3 times higher than we believe ecosystems can sustain. The earth's mean temperature is expected to increase by 1 degree by 2025, and by 3 degrees before the end of the next century.

As a result, sea level is expected to rise at an average rate of 6 cm per decade. Such a rise will represent a serious threat to low-lying coastal areas and to island states, which may become uninhabitable long before they are inundated. We risk floods and erosion. Agriculture will be seriously affected. Countries which are least able to adapt may become most seriously threatened.

Global warming does not arise in - or cause harm to a single country. All countries produce climate gases - and the globe as a whole will suffer from it. Only global solutions will do. The costs of reducing emissions of greenhouse gases vary considerably from country to country.

Some indication of the difference in costs can be seen by comparing emissions of carbon dioxide per produced unit. Japan is responsible for 14 per cent of the world's gross national product, but for only 5 per cent of CO<sub>2</sub> emissions. China is responsible for only 2 per cent of the world's national product, but for as much as 9 per cent of CO<sub>2</sub> emissions.

Here again, there is no alternative to the principle of cost-effectiveness. The implications of reducing emissions must not lead to a tangible distortion of competition. All countries must therefore commit themselves to appropriate efforts to combat global warming.

To achieve this we need to combine equity and efficiency. The industrialized countries have been developing for decades without having to pay for the damage done to the environment. Our economies have been built on cheap and abundant fuels as if there was no tomorrow. That is one of the main reasons why we now have to pay extra. We can not say to the developing world: Sorry, we have filled the wastebasket, there is no room left for you. Although we have emptied our refuse free of charge, now we will all have to pay, and pay equally.

There will be limits to what we can achieve if parts of the population in countries or group of countries who lack the basic necessities of life are asked to slow down their development, while others are able to pay without hardly noticing.

If we forget about equity, our effort may prove politically impossible. The industrialized countries are responsible for more than 70 per cent of the emission of greenhouse gases. They must take the lead in reversing trends.

Industrialized countries that have contributed most of the damage to the environment so far, should increase their technological and financial assistance to Third World countries. True additionality is necessary. If this is rejected, the whole global political consensus will be at risk.

Additionality, equity and efficiency is the only option that will work.

Among the greenhouse gases, CO<sub>2</sub> is the most important and the most difficult to deal with, but deal with it we must. There is a widening belief in the efficiency, under certain conditions of both international CO<sub>2</sub> charges and tradable CO<sub>2</sub> quotas. Since tradable quotas is the newer idea, I will suggest some ideas on how they can be applied.

We can establish a global ceiling for emissions. Each country or region may then reduce emissions according to an emission quota within this global ceiling.

Countries or regions could then choose to use their quotas, or to trade them. Countries where the costs of reducing emissions are high could buy quotas from other countries where such costs are low. Economists suggest that both the country which receives and the country which sells emission rights will gain by such agreements.

Such a system of tradeable quotas could be further refined to stimulate sustainable development. Emission quotas could be paid for in several ways, not only in the form of money, but also by deliveries of pure energy, clean technology, by comprehensive trade agreements, or by a mix designed to promote environment and development.

Transfers of quotas should be time-limited. We are really talking about "hiring" rather than "buying" emission rights. To ensure control the obligations of every country or regions, such a process must be open and accounted for.

Trade in emission rights could take place both between states and directly between companies. If companies make a deal involving emission rights, this deal must be calculated against the emission quotas of the countries concerned.

Such trade should also promote transfer of resources from rich to poor countries. Furthermore, it must reflect that the developing countries are responsible for only a small percentage of greenhouse gas emissions. It must reflect their legitimate need for economic growth.

Developing countries should be allocated initial emission quotas that are higher than their actual emissions today. Developing countries must be allowed to increase their emissions while we in the North must carry the main burden.

Within a fairly limited geographical area such as Europe it is also possible to visualize trade in emission rights other than those referring to greenhouse gases. In the context of the Energy Charter we should build on work accomplished in the European Commission for Europe and the OECD.

Progress will depend on our common efforts. We must bridge economic and technological gaps and work out practical

solutions. This is what political progress is all about.

The issue of climate change alerts us to the scale and magnitude of the changes needed. Climate change is not merely a pollution problem. It is the very essence of lifestyles and consumption patterns on a global scale. The problem goes to the core of the North-South gap. It is a fundamental part of the economic life and industrial level of states.

We have a tremendous task ahead of us. New strategic alliances will be required. We will succeed if we combine our efforts faced with this megachallenge.

We need a world based less on power and status and more on justice and contract, a world that is less discretionary, more governed by fair and open rules.

In September 1989 Scientific American published a special issue entitled "MANAGING PLANET EARTH". In his closing article my colleague in the World Commission William Ruckelshaus suggested that sustainability requires changes in values and social institutions on a scale comparable only to two other eras that transformed the history of humankind: the agricultural revolution and the industrial revolution.

The process of change is in itself a dynamic restructuring process which requires economic activity at a high level. We will see the need to replace capital stock at a high rate to promote energy efficient technology. We will see investments in infrastructure required to meet an entirely new model of future activity. Consequently, the private sector, trade unions as well as governments should see the great opportunity for investments, and for employment, created by the need for change.