



The Voice of OECD Business

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BIAC Consultation with OECD Ambassadors  
*Paris, 3 December 2008*

## Next steps for the OECD Horizontal Water Programme

### Executive Summary

Water is fundamental for sustainable economic growth and social development, but ensuring the sustainability and growth of water services is proving to be a major challenge in which failure cannot be tolerated. The aim of this paper is to encourage OECD Ambassadors to take action towards urgently enlarging the scope of the OECD Horizontal Water Programme. This would encourage and enable national and local decision-makers to consider water as a priority issue in need of pressing and informed actions. While not an exhaustive list, the main policy-focused considerations that BIAC proposes in this paper for the future scope of the OECD Horizontal Water Programme are:

- Work on governance should focus on the local levels and recommendations should aim to raise the political profile of water and initiate priority actions.
- Further work on water infrastructure should demonstrate the need for sustainable water sector economics that support long term viability of water services and investment.
- Research is needed on the critically important relationships that exist between water, climate change, energy and food.
- Further analysis of trade issues should include focus on understanding the role of “virtual water” and “water footprints”.
- The OECD should work with other international institutions to find ways to urgently overcome the serious shortage of reliable data on water.

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## I. Water and Business

Business recognises that water is vital for economic growth and social development. However, as economic growth occurs and populations increase, more demand is placed on water resources. Crucially, policy-makers must understand the interconnectivity of water issues in order for there to be sustainable provision and consumption of water.

BIAC thus welcomes the OECD Horizontal Water Programme, launched last year, in which the focus has largely been on sustainable financing, pricing, and infrastructure management. It is clear that the Programme has enabled the OECD to take the international lead in raising considerations and developing evidence-based recommendations in order for policy-makers to address these critical aspects of the global water challenge.

However, the need to expand the scope of the Programme is now more urgent than ever in the context of the current financial crisis and economic slowdown, which is expected to heavily impact on water infrastructure, agricultural and industrial water consumption patterns, investment in R&D for innovative water technologies, and so on. This is of particular significance to the many OECD Member, Accession, and Enhanced Engagement countries that already face severe and continued water problems. The aim of this paper is thus to encourage Ambassadors to take actions to expand the scope of the OECD Horizontal Water Programme. To do so would help fill critical gaps in current knowledge about water issues, enabling the OECD to establish itself as a leading light in providing solid facts and best-practice recommendations towards effective political action on all levels for meeting the global water challenge.

## II. BIAC Considerations for the OECD Horizontal Water Programme

BIAC endorses the future work priorities outlined in the September 2008 OECD Council document (“OECD Horizontal Water Programme”), which include: policy guidance for the integrated management of water resources; examination of water governance; capacity-building tools for the implementation of policy recommendations on national and local levels; and special focus on enhanced engagement countries.

However, in order to understand the dynamics of these identified priority areas more fully, additional related policy issues need to be examined. As the Council document states, there is a need to better understand “policy coherence with sectors lying ‘outside the water box’.”<sup>1</sup> Water issues therefore cannot be examined in isolation. Effective solutions for water challenges thus require a whole-of-government approach with strong political commitment if they are to be successfully implemented and have positive impact.

### *Water Politics and Governance*

We appreciate the next steps identified in the Council document relating to water governance across different levels of government. Political leadership, policy formation, regulation and governance require strengthening and adaptation in many countries where

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<sup>1</sup> OECD (2008) Council document “OECD Horizontal Water Programme”, Paragraph 12. C(2008)159.

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political neglect is apparent. Particular attention should be paid to local levels of governance, where the political, economic, social, and environmental impacts of water are most salient and where sufficient capacity and effective reforms need to be implemented. *The OECD should focus on why the political profile for water in many cases is lacking, and which approaches policy-makers should employ to successfully implement reforms.*

### **Water Infrastructure**

The OECD is in a prime position to build upon the excellent work that it has carried out on shortfalls in the financing and maintenance of water infrastructure, as demonstrated in the OECD (2006): “Infrastructure to 2030” publication. *We encourage the OECD to examine key issues that impair the performance of municipal water distribution and wastewater collection and treatment services. Furthermore, the OECD should review its predicted trends for the public and private investment in infrastructure to mitigate the impacts of the current financial crisis.*

### **Water and Energy**

Water and energy are intimately linked. Firstly, water is a source of energy: hydropower is one of the cheapest and most sustainable forms of energy. Water is also an enabler for other sources of energy: it is essential for cooling traditional and nuclear power plants, biofuels production and for many industrial processes. In addition, water provision is a consumer of energy, as treatment and transport require substantial amounts of energy.

As energy demand is likely to continue to increase faster than population growth, it is therefore necessary to secure the allocation of increasing quantities of water for energy purposes. However, while the priorities included in the Council document rightly mention the importance of climate change considerations, there is no focus on the water and energy relationship and the broader implications for economic sustainability. *We encourage the OECD Horizontal Water Programme to include analysis of the important links between energy and water issues in its future work.*

### **Water and Food**

Similarly, the issues identified in the Council document do not include the relevance of water for food supply. Agriculture demands the lion’s share of water supply in many countries, particularly in developing countries, but also in some OECD countries. With growing populations, water usage for agriculture is going to face more intense pressure as demand for food increases. When water shortages occur in major agricultural producing areas, either due to water services problems or periodic droughts (the latter of which was recently the case in Australia), they can significantly contribute to rising prices of agricultural commodities. This has knock-on effects on global economic growth as basic living costs become higher. Moreover, it is important to note that significant volumes of water are wasted in over-irrigation, leading to negative impacts on plant yields and increases in energy costs.

*BIAC encourages the OECD Horizontal Water Programme to provide information about the above-mentioned links between water and agriculture. One particular track of OECD research that could form part of this work could focus on the potential impact of liberalisation of trade in agriculture for efficiency benefits in water use for farming.*

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### **Water and Trade**

The role of “virtual water”<sup>2</sup> in international trading patterns is likely to increase the political awareness of water issues. Thus considerable work has already been done on measuring and describing national water consumption (i.e. national water “footprints”<sup>3</sup>). However, unlike carbon footprints, the value of water withdrawals is particularly sensitive to timing and can impact most heavily on local areas. A number of BIAC members are thus currently engaged in developing the extension of the water footprint concept so that it can be applied at a more local level to describe “activity” footprints (municipalities, businesses and supply chains), product footprints and individual footprints. *This business-led work could be complimentary to the examination of the value and economics of water that BIAC calls on the OECD to further analyse. Moreover, BIAC encourages the OECD to consider the ways in which greater understanding of virtual water and water footprints in international trade is impacting water consumption and provision patterns in countries.*

### **Water Data**

There is a shortage of reliable data on many aspects of water. For example, real time online monitoring technologies are not widely used and yet these can shed great insight into water quality and thus the determination of the appropriate treatment techniques and related costs. Reliable data would also help drive future regulations and help address emerging concerns and issues related to water quality and security. *The OECD should cooperate with other international organisations towards generating reliable water data and measurement techniques.*

### **Additional Considerations: Cooperation and Communication**

The broadening of the OECD Horizontal Water Programme will require effective communication. This will be critical, both on an internal OECD level (i.e. coordination between a larger number of OECD committees), and on an external level (i.e. coordinating with other international organisations, such as the World Water Council, UNESCO, the FAO, and so on).

On an internal working level, BIAC feels that the OECD Horizontal Water Programme and the OECD Horizontal Innovation Strategy should seek to work more closely together towards research on innovative technologies for water. On the external level, BIAC is aware that the OECD Horizontal Water Programme is already collaborating with the UN World Water Assessment Programme, particularly on the issues of finance and pricing. This is important and the OECD should look for specific niches following the publication of the UN World Water Development Report No. 3 to continue to make its contribution towards this programme. BIAC itself is similarly coordinating with other business organisations, such as

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<sup>2</sup> “Virtual water” refers to the water used in the production of a good or service. Thus, when goods and services are exchanged, so is virtual water. For example, when a country imports a quantity of wheat instead of producing it domestically, it may save a large volume of real indigenous water. If the exporting country is water-scarce, however, it has exported a large volume of virtual water since the real water used to grow the wheat will no longer be available for other purposes.

<sup>3</sup> Water “footprints” include the direct consumption of water and the indirect consumption of virtual water.

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the International Chamber of Commerce and the World Business Council for Sustainable Development, to harmonise business messages towards policy-makers.

As an additional issue, the work priorities of the OECD Horizontal Water Programme should be communicated to the general public, and an easy-to-navigate website section dedicated to water providing a concise overview of the Programme and work-to-date would be a useful communication tool.

### **III. Proposed Actions**

In 2006, the OECD indicated that it would consider the water issue as one of its top long-term priorities. Despite the successful work of the OECD Horizontal Water Programme to date, the OECD business community believes that much still remains to be done. BIAC therefore asks Ambassadors to take the necessary actions to expand the scope of the Programme, as described above, and to transform it into a real flagship initiative for the OECD. In doing so, this will help ensure that the outcomes of the OECD Horizontal Water Programme are used effectively by policy-makers to fully inform their decisions and to turn them into practice on national and local levels.

Business and industry play key roles in data provision, developing innovative technologies, and in ensuring the sustainability of financial strategies for water (notably in the form of public-private partnerships). BIAC thus stands fully ready to provide continued business input and support towards the OECD Horizontal Water Programme going forward.