



Business and Industry Advisory Committee to the **OECD**

Comité Consultatif Economique et Industriel Auprès de l' **OCDE**

**BIAC contribution  
to the discussions on preparations for the OECD Environment Ministerial  
"Implementing the OECD Environmental Strategy"  
at the November 2003 EPOC Meeting**

*BIAC is pleased to submit comments on the preparations for the OECD Environment Ministerial, which will be discussed at the November EPOC meeting. We hope that recommendations below will be reflected as essential aspects of the discussions. In our view, these considerations are crucial for business to make an effective contribution to implementing recommendations contained in the Environmental Strategy, which we understand to be set in the broader inter-disciplinary context of sustainable development.*

*We also briefly comment on the other two key themes of the Ministerial, 'Efficiency and Effectiveness: Improving Domestic Policies' and 'Partnerships: The Environment in a Globalising Economy'.*

**Key messages**

- **Business commitment:** Business is fully committed to advancing progress in the complementary areas of economic growth, environmental health and social development and continues to be an important actor in the pursuit of sustainable development.
- **Foster innovation:** Contributing to these objectives should be considered in the context of business opportunities, which requires researching, developing and commercialising innovative product design, manufacture and management systems. Upgrading and disseminating technology is indispensable to the more effective use of resources and thus improved environmental performance. Technological innovation and co-operation should be supported by capacity building in the public and private sectors. Governments should not attempt to choose technology "winners" and "losers" among technologies.
- **Integrated approach:** Industry supports an integrated approach to environmental and economic objectives. Government should set regulatory frameworks in a transparent manner, with due internal consultation and co-ordination with ministries of commerce, industry, trade, investment, employment and energy. Industry requires a framework that is predictable, science- and risk-based, practical and which does not adversely affect the competitiveness of their products and services.
- **Market approaches:** Regulatory frameworks should encourage innovation and foster beneficial technological change. Therefore, policies should be flexible and incentive-based and be designed to stimulate economic efficiency. Programmes that take advantage of market forces can achieve impressive environmental results with lower transaction costs. Free and open markets and liberalised trade and investment provide an excellent context for companies to disseminate and share their environmental policies and practices, and to comply with rules at least cost with greatest effectiveness.
- **Cost-benefit analysis:** There should be a clear reference to the sustainable development context, practicalities of solutions and cost-effectiveness of decisions on economic and social

fronts. The micro-effects of measures need to be taken into consideration, as well as consideration of impacts on developing countries, where applicable.

- **Support for voluntary approaches:** Voluntary approaches are usually designed to address a specific challenge within a specific setting. Thus, they can be expected to reflect management and technical trends and engage those with expertise and ownership to propose and execute measures that are effective from a cost-benefit standpoint. Governments should encourage companies to initiate and implement voluntary approaches.
- **Promote environmental innovation world-wide:** The spread of innovative approaches to non-OECD countries will be of crucial importance to reducing the environmental impact of economic activities. Policies should be designed that promote technological co-operation, local entrepreneurship, innovation and capacity building and thereby reinforce improved environmental performance.

### **Efficiency and Effectiveness: Improving Domestic Policies**

Industry supports an integrated approach to environmental and economic objectives. Governments should set regulatory frameworks in a transparent manner, with due internal consultation and co-ordination with ministries of commerce, industry, trade, investment, employment and energy. Such a framework should ideally combine regulations with market-based instruments and voluntary approaches. Industry requires a framework that is predictable, practical and does not adversely affect the competitiveness of their products and services.

Regulations and other measures should be based on scientific understanding and risk and cost-benefit analysis, to ensure that financial resources are deployed effectively. Environmental policy instruments should be designed to meet environmental challenges cost effectively while taking into account the functioning of markets. Their implementation must be preceded by a comprehensive cost-benefit analysis and all policy alternatives should be carefully evaluated to identify the most cost-effective instrument.

In particular, economic instruments for environmental policy call for special care in addressing environmental and economic objectives. The implementation of economic instruments must be preceded by comprehensive cost-benefit analysis to identify the most cost-effective approach. They must be easy to administer, implement and monitor, and their administrative costs must be minimal. The incentives used must be proportionate to the costs borne and the benefits to be achieved.

Governments have shown increasing interest in the use of tax measures to pursue environmental aims. In general, the increased use of fiscal measures such as taxes and levies in the environmental field is accelerating internationally in an uncoordinated way. Environmental taxes have the potential to create distortions to cross-border trade and competition. Industry is also concerned that green taxes could and have often become, simply revenue-raising mechanisms for governments, leading to economic and fiscal distortions and overall reduced industrial competitiveness. Proper consideration needs to be given to the possible impacts of tax policies in the global context, and competitiveness issues need to be clearly addressed.

Voluntary actions represent a promising approach with respect to many environmental problems. They are designed to address a specific issue, and as such are based on a comprehensive consideration of technical trends and management-related issues. Voluntary measures engage those with expertise and ownership to propose and execute measures that are effective from a cost-benefit point of view. Industry agrees with OECD that voluntary approaches need to be carefully designed. However, BIAC was disappointed to see that again OECD “questions the economic efficiency of voluntary approaches”. We believe that this negative generalising statement does a disservice to the many voluntary approaches that have been initiated, does not take into

account the wide range of voluntary approaches that exist and can only act as a disincentive to companies to engage in them. On the contrary, we believe OECD has an important role in helping governments to encourage companies to initiate voluntary approaches and play their role in achieving environmental improvements.

No single policy measure or instrument can be considered as a general panacea for all environmental problems. All policies and measures should be considered and the selected measure or mix of measures should take into account the circumstances of the effective target group, the effects on international competitiveness as well as economic and environmental efficiency. Implementation of policy measures is also an important part of any assessment of policy mixes and their effectiveness. If a policy is not attaining its objectives, or has remedied a specific challenge and is no longer necessary, there should be flexibility to adapt or discontinue the policy.

For all policy instruments under consideration, it is vital that there is effective communication between government, industry and other governments to share information and explore the soundness of principles and the most economic efficient and environmental effective solutions taking into account the specifics of the respective target group.

### **Partnerships: The Environment in a Globalising Economy**

The issues to be addressed in this portion of the Ministerial should be more clearly defined. While the majority of the description deal with integrating environmental policies with trade and investment goals, we recommend to further develop the issue of partnerships, including partnerships involving business.

The advance of democratic governments, market liberalisation and international communication have created significant benefits for society through greater wealth, freedom and mobility and improved access to products and services. At the same time, they have made the linkages between environmental, social and economic values more vivid and international co-operation among governments more important. Many environmental challenges have a transboundary or global dimension and therefore require a co-operative global response. Unilaterally imposed environmental measures which seek to impose one country's environmental norms on other countries are not viable in this setting.

Economic growth is key to solving environmental and social challenges world-wide and reducing poverty. To address poverty reduction successfully, governments should encourage better market access, foreign direct investment, improved governance, capacity building and targeted aid, rule-based trade, while at the same time promoting international environmental co-operation.

Trade and investment liberalisation is essential to speed the transfer and diffusion of more environmentally friendly technologies and management systems. Governments should therefore provide the enabling legal, fiscal, economic and social framework conditions for private investment and technology co-operation to take place – as well as to foster successful domestic business communities. At the same time, the importance of good governance and implementation of laws and regulations at the national level, including compliance with existing requirements and transparent rule-making at the national level is critical.

With increasing globalisation of production systems and markets, industry also makes an important contribution to improving its own environmental governance and in contributing to capacity building of its employees, partners, contractors and local community and government authorities. Building on the trend to view environmental protection and management strategically as well as a matter of legal compliance, many corporations have adopted high standards of performance in their operations, including environmental management. Through international principles and management systems, companies have demonstrated that strong environmental and economic performance are mutually supportive. The proliferation of the ISO 14000 environmental management standards can also supplement and support these trends.

The World Summit on Sustainable Development recognised the contribution that partnerships can make in mobilising a range of sectors of society, including business. Establishing a sound dialogue with those who have a stake in the issues to be addressed will become increasingly important. Public-private partnerships have a key role to play, for example, to meet particularly difficult research challenges and stimulate the development and deployment of more environmentally beneficial technologies. Business has an important role to play in public-private technology co-operation and capacity building, voluntary initiatives with governments and stakeholders to maximise environmental benefits; and in consultation and collaboration with local communities and stakeholders.

Dialogue and partnership can also help to increase public understanding of complex issues, such as technological change and raise awareness of the need for a broad base of action to involve all parts of society to work towards sustainable development. We encourage OECD to facilitate business participation in its deliberations and to include and recognise voluntary partnerships as an effective instrument to address environmental challenges.