



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

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

**OECD Environment Ministerial  
“Implementing the OECD Environmental Strategy:  
Accountability, Efficiency and Partnership”**

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**BIAC Discussion Paper**

*BIAC is pleased to submit this paper to the 2004 Meeting of the Environment Policy Committee at Ministerial Level. In addition to our key messages, this paper addresses the necessity of improving domestic policies and the importance of partnerships, which are two of the key themes of the Ministerial.*

*The last section contains BIAC's views on the four themes of the stakeholder consultation: climate change and energy; de-coupling and resource efficiency; globalisation, trade and environment; and technology innovation to address environmental challenges.*

## **I. KEY MESSAGES**

The OECD Environmental Strategy represents an ambitious set of recommendations for addressing a wide range of environmental challenges and specifies actions that countries have to take to address some of the most pressing issues. Underlying the Strategy is a need to develop policies towards fostering sustainable development within OECD countries in a way that is also responsive to non-member countries working towards sustainable development. Therefore, active co-operation with non-member countries is important as the success of implementing the Strategy depends not only on action in OECD countries alone.

In addition, active partnership with the private sector is essential, as an engaged business community is key to achieving real progress. Business has been a long-standing partner with OECD governments and the OECD itself in promoting sustainable development objectives and activities. For business to be able to make its contribution most effectively, we encourage policy makers to take into account the following issues when designing policies to address environmental challenges:

- **Develop an integrated approach:** The challenge for policy reform is integrating and coordinating across environmental, social and economic policies with a clear reference to the sustainable development context, practicalities of solutions and cost-benefit analyses of decisions.
- **Forge open markets:** Free and open markets along with 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 and with greatest effectiveness.
- **Set an enabling policy framework:** Business needs a policy framework that is transparent, predictable and based on scientific knowledge. Policies should be flexible, incentive-based and designed to stimulate economic efficiency.
- **Foster innovation:** Upgrading technology is a prerequisite for more effective use of resources and thus improving environmental performance. Policies should be designed to promote innovation and facilitate the spread of innovative approaches to non-OECD countries.
- **Pursue case-by-case analysis:** When designing instruments to address environmental challenges, all policy options should be considered and assessed on a case-by-case basis taking into account both economic efficiency and environmental effectiveness.
- **Encourage voluntary approaches:** Voluntary approaches allow those with the best and most immediate knowledge of their own business to propose measures that are effective from a cost-benefit standpoint. OECD should provide enabling frameworks for voluntary approaches as part of a wider toolbox of policy measures.
- **Address the global dimension of environmental challenges:** Many environmental challenges have a transboundary or global dimension and therefore require a co-operative global response. We encourage OECD to explore opportunities for partnerships with non-member countries to address environmental challenges.

## **II. KEY MINISTERIAL THEMES**

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

Business is fully committed to advancing the complementary themes of economic growth, environmental health and social development, and continues to be an important actor in the pursuit of sustainable development. **Business supports an integrated approach to economic, environmental and social objectives and therefore recommends that governments set regulatory frameworks in a transparent manner**, with due internal consultation and co-ordination between the relevant ministries.

Industry requires a framework that is predictable, science- and risk-based and which does not adversely affect the competitiveness of their products and services. Policies should be flexible and incentive-based and be designed to stimulate economic efficiency. No single policy measure or instrument can be considered to be a panacea for all environmental problems or in all settings. Therefore, 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 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 explore the soundness of principles, and the most economically efficient and environmentally effective solutions.

Regulations and other measures should be based on scientific understanding 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 assessment and all policy alternatives should be carefully evaluated according to their environmental efficiency and economic effectiveness.

We are particularly concerned to see that OECD questions and seems to summarily dismiss the environmental effectiveness of voluntary actions and agreements. There is a wide array of voluntary approaches, which should be assessed on a case-by-case basis. Instead of determining their effectiveness against arbitrary or "ideal" criteria, the starting point should be whether they have attained their own objectives (in the case of agreements, presumably mutually arrived at with governments) and how cost effectively.

Voluntary actions represent a promising approach with respect to many environmental problems and can help reduce both compliance and enforcement costs. They are designed to address a specific issue, and as such are based on a comprehensive consideration of technical trends and management-related issues. They engage those with expertise and ownership to propose and execute measures that are effective from a cost-benefit point of view. At the same time, they promote partnership, awareness of existing and new management practices and encourage the development and dissemination of effective technologies. **We strongly believe that OECD has an important role in helping governments to encourage companies to initiate voluntary approaches and play their role in achieving environmental improvements.**

Economic instruments for environmental policy call for special care in addressing environmental and economic objectives. 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. However, 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.** Discussion of economic instruments should reflect the extent to which such measures have (or have not) delivered environmental results and discuss the increased costs imposed on society.

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

The advance of democratic governments, market liberalisation and international communication have created significant benefits for society through greater wealth, increased employment, 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 frequently counter-productive and increase tensions in this inter-connected and inter-dependent setting.

**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, 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, are 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, 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 World Summit on Sustainable Development recognised the contribution that partnerships can make in mobilising a range of sectors of society, of which business is an important part.** In this context, business welcomes UN General Assembly Resolution *Towards Global Partnerships*, which encourages the private sector to engage as reliable and consistent partners in the development process, including through partnerships. 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.

Establishing a sound dialogue with those who have a stake in the issues to be addressed will become increasingly important. Dialogues that follow the "life chain" of products, from producer to consumer, may create a better understanding of the range of possibilities and

consequences. Dialogue and partnership can also help to increase public understanding of complex subjects, such as technological change, and raise awareness of the fact that a broad base of action is needed to involve all parts of society to work towards sustainable development.

BIAC has been actively involved in the development of the OECD Guidelines for Multinational Enterprises and supports their effective implementation. In this context, we believe it is appropriate for the OECD to consider how it could add value to existing resources and initiatives to promote good environmental management in connection with the MNE Guidelines. We understand the intent of the MNE Guidelines with regard to environment is *not* to set any absolute standard for performance, but rather to take into account varying levels of advancement in implementing environmental management systems (EMS), and to encourage improvement from whatever baseline. The OECD's work currently underway to develop a background report on the environmental section of the Guidelines should not give the impression that all EMS's should be moving toward some single universal framework.

### **III. TOPICS FOR THE STAKEHOLDER CONSULTATION**

#### **1. Climate Change and Energy**

Energy use is at the heart of economic growth and commercial activity in the OECD. At the same time, energy use accounts for a large part of total greenhouse gas emissions in the OECD, with a growing contribution to global GHG totals coming from developing countries. Actions to control and mitigate these emissions will surely have a significant impact on our energy policies. We have already begun to tackle this major environmental challenge in a number of ways, such as increasing energy efficiency, fostering renewable and nuclear energy and encouraging less energy-intensive production and consumption patterns. However, it is essential to consider trade-offs and balance among the economic, social and environmental considerations to decide on the role that the various energy options should play in a country's energy mix.

Securing the world's energy supply will be a major challenge. The rising demand for energy requires considerable investments in both the production and distribution of energy. The most significant portion of these investments will consist of long-term projects that are calculated with returns over multiple decades. Consequently, returns from such products need to be as predictable as possible. BIAC encourages governments to set a sound policy framework for investment; commit to a long-term and consistent policy framework; maintain their policy focus on market reforms; and implement rules that do not hamper trade and competitiveness while realising a secure, efficient and environmentally sound energy system.

##### *Taking a long-term view*

The very nature of climate change requires a long-term framework for a response strategy. Climate change policies should take into account a number of criteria to guide the complex response that is required. They must be cost-effective, credible and consistent with economic, social and environmental objectives. An engaged business community is essential to successfully tackling the climate change challenge, while at the same time taking into account the responsibilities of all parts of society in affecting climate change in an equitable and efficient manner.

BIAC encourages OECD governments to take a long term view as they consider climate policies and initiatives, recognizing that many options to reduce emissions involve considerable time and expense to alter energy inputs, operations and products, and to develop and introduce technological innovations. Furthermore, the planning basis for business development, investment decisions, and cost-recovery may be profoundly affected by governmental commitments and changes in the international framework in the longer term. Due consideration needs to be given to the long-term investment cycles in the energy sector.

In this context, all energy options should be kept open for the pursuit of development and environmental objectives. No radical changes in energy trends are likely to occur in the near future, as market penetration of energy systems is a very long-term process. New technologies, changes in capital stock and institutional reforms take time to have a major impact on the global scale. Therefore, there can be no sudden changeover from existing major energy systems to new ones. The continuing diversification of energy systems needs to be supported.

##### *Fostering innovation and technology*

Since the effects of climate change are of global nature, climate protection policy must be addressed world-wide, and measures to protect the climate should neither distort

international competitiveness, nor give rise to trade restrictions. Therefore, it is important to include steps to improve the ability of developing countries to reduce emissions, while at the same time recognizing their needs for economic development. The main vehicle for this form of co-operation has been and will continue to be the private sector, through its day-to-day business activities of technology development, foreign direct investment and technology sales and dissemination.

Ultimately, addressing the risks of climate change while meeting the needs and aspirations of sustainable development will require the development, commercialization and global deployment of innovative new technologies as well as broader deployment and use of existing technologies that render climate change benefits. The development and deployment of new technologies that minimise greenhouse gas emissions and mitigate greenhouse gases in the atmosphere are crucial to address the concerns about global climate change over the longer term without undermining the competitiveness of companies or compromising sustainable economic growth. Government policies should avoid choosing “winners” and “losers” among technologies. Instead, governments should remove market barriers and strengthen enabling frameworks for technology innovation and dissemination.

#### *Encouraging voluntary approaches*

The wide range of voluntary approaches, initiatives, partnerships and agreements provide custom-tailored long-term responses, offering early and cost-effective action and allowing for great flexibility to suit the different conditions and circumstances in various OECD countries and industries. There is a broad diversity and range of voluntary actions, many of which include setting goals, taking measures to achieve them, monitoring and communicating their progress and achievements. Voluntary initiatives can be more cost-effective than alternative measures in a given period, due to their flexibility and reduced bureaucracy, and provide a framework for innovation and creativity that allows for new approaches and more rapid changes than would be possible under mandatory programmes.

#### *Seeking market flexibility*

Mechanisms and policy instruments should be carefully analysed for their impacts on economic activity and to ensure that they enable action to address climate change at minimal cost to business and to society as a whole. For many business sectors, countries' actions to address Kyoto targets will result in increased costs with direct implications for their growth and international competitiveness. It is therefore essential that national programs permit maximum market flexibility and that great care is taken to ensure that implementation of the Kyoto Protocol does not distort the market and threaten competitiveness, growth and jobs in the most affected sectors.

Comprehensive, well-designed policies should allow economic growth, permit markets to allocate resources efficiently and reduce the bureaucracy and compliance costs necessary to implement them. They should also facilitate the spread of current and emerging technologies and broaden international co-operation. Where appropriate, systems need to be simplified to allow society to meet emissions reductions at least cost.

BIAC agrees with the OECD Environmental Strategy that the Organisation has an important role in assisting countries to implement policy options, facilitate dialogue and promote the exchange of information, assess policies and analyse implementation options. In that context, we would encourage OECD to bear in mind that addressing climate change will require global cooperation and action by all elements of society, actions that will affect individuals, as well as governments and businesses. OECD analysis should review costs and benefits of climate policy implementation and encourage cost-effective options. We would also encourage the OECD to explore opportunities for partnerships with non-OECD member countries in order to pursue economic development and address climate change synergistically through investment, technology co-operation, capacity building and sharing of good practices to promote energy efficiency.

## 2. Decoupling and Resource Efficiency

### *Economic Growth and De-linking*

Efficiency improvements, reduced environmental impacts per unit of production and other technological innovations all contribute to “de-linking” and help address environmental and social problems. The opening and deregulation of markets, a global rules-based system for trade and investment, and the modernization and international extension of commercial and environmental rules are intrinsic to this progress. At the same time, it is important to take into account the social and environmental costs of *not* increasing global economic growth and development, and of *not* pursuing cooperative environmental management. The fundamental objectives of sustainable economic growth, i.e. the raising of living standards and the reduction of poverty in developing countries, have to be kept in mind.

### *Eco-efficiency and Cleaner Development*

Cleaner development should be seen as a concurrent objective with the de-linking of environmental impact from economic growth. Terms such as ‘*eco-efficiency, cleaner production, design for the environment, industrial ecology, environmentally preferred products, environmental management systems, full cost accounting and full cost pricing*’ are now widespread. These concepts are increasingly being taken into account in business strategies and by many governments for both economic and environmental reasons.

### *Indicators*

Environmental and sustainability indicators, measurements, and accounting frameworks are a promising area for future attention, and should be predicated on the MDGs. Efforts to improve and expand sustainability indicators and understand their uses and limitations in various decision-making settings will be most useful if they are reflective of the many aspects of sustainable development, and complement the use of existing indicators. The development of new indicators should maintain a balance among the three pillars of sustainability.

Moreover, indicators should not be utilized “in a vacuum,” but rather placed in local contexts. Given the potentially complicated factors, weightings and assumptions that will be reflected by inter-disciplinary indicators, care should be taken in making comparisons, taking them out of context or presuming priorities that may vary from country to country in terms of relative importance. Transparency regarding the criteria used for indicator selection and prioritisation is essential.

Analytical tools such as life cycle assessment, risk assessment, full cost pricing and socio-economic analysis should be used appropriately, within the framework of sound science. Policies based on them should be utilized judiciously, with full awareness of scientific and economic limits of available methodologies. Life-cycle approaches provide useful tools to help decision-makers and businesses evaluate the tradeoffs of different policy and management options, but are not appropriate for determining a universally appropriate best choice. The OECD should support the development of new and strengthening established methodologies, in partnership with other organizations, notably the UN Office of Statistics in UN DESA.

### *Sustainable Consumption and Production*

The OECD has already produced extensive analysis on sustainable consumption and production (SCP) issues. Further initiatives should draw from this existing work and add value to current international discussions. From a business perspective, SCP should be understood in a positive and forward looking manner:

- SCP is not about producing less, but about producing *better*.
- SCP is not about consuming less, but about consuming *differently*.
- SCP is not about limits to growth, but about *sustainable growth*.
- SCP is not about improving the environment alone, but about *improving quality of life*.

SCP should be seen to reconcile economic development, resource use and consumption with social equity, environmental integrity and overall sustainability of human activities, rather than as a “zero-sum” exercise. There are many cases of more from less: by designing more environmentally sound products and by developing and exploiting less wasteful production methods. For example, in the consumer products sector one can find concentrated laundry products that use 50% of the ingredients per wash cycle compared to former products; products that wash effectively at lower temperatures so offering the opportunity to save significant energy; plastic consumer products that use less material; targeted pest control techniques that use up less active substance than more intrusive methods, etc. OECD should pursue opportunities to dialogue with business to further promote the innovative capability of business in the context of competitive pressures from free markets and within the context of consumer choice.

SCP presents a shared challenge and opportunity for both developed and developing countries. Addressing poverty eradication in developing countries through increased ODA, FDI and capacity building in public and private sectors will lay the groundwork for resources and know-how needed to manage environmental and other sustainability issues. Local needs and circumstances need to be taken into consideration when assessing options for technology transfer, using the potential of ODA and FDI to enable progress toward sustainable consumption and production.

### **3. Globalization, Trade and Environment**

#### *The importance of trade and globalization to sustainable development*

The phenomenon of “globalization,” in which traditional barriers restricting the flow of information, participation, trade, investment and cooperation have been lowered, has helped drive economic growth, increased political transparency and stimulated international cooperation on numerous environmental challenges in recent years. Some question whether globalization is compatible with sustainable development. In this context, it is important to recall that the processes of globalization result not by any particular design, but from a synergy encompassing free movement of capital, goods, services, and people; rules and institutions which permit more open trade and investment; greater information access worldwide through telecommunications and the Internet; and upgraded participation by non-governmental organizations in international policymaking.

More fundamentally, globalization fosters economic growth, which in turn generates and distributes additional resources for environmental protection. At the same time, increased trade and investment also promote opportunities to exchange more environmentally-efficient technologies, share good practices, and contribute to environmental capacity-building, particularly in developing countries.

Environmental protection should be pursued at global, regional, national and local levels, and policies should be targeted at the level which is the most appropriate to the issue at hand. Where there are global impacts, international cooperation, information sharing, and technology innovation can significantly accelerate efforts to implement solutions. This is not hampered by the existence of multilateral trade disciplines. Also very important are the potentials to contribute to increased multinational cooperation (notably on environmental issues and multilateral environmental agreements) and to the development of environmental data and indicators.

### *Trade and environment policies should be mutually reinforcing*

In spite of the disappointing conclusion of WTO discussions in Cancun, the need for a rational discussion and resolution of trade and environment issues remains as pressing than ever. Open markets and enhanced market access for, and within, developing countries are key to sustainable development. Environmental policies which unnecessarily block products from developing countries are counter-productive.

Difficulties continue to arise from unilaterally imposed trade policies, particularly those that seek to discriminate between products based on their processing and production methods (PPMs). BIAC urges the OECD to analyse and favour environmental policies that support trade and economic growth and do not create protectionist barriers. There are several areas that could be pursued:

- Greater transparency in WTO work on environmental matters and in dispute settlement proceedings, e.g. easier access to documents. Efforts to increase transparency and openness must not, however, interfere with the inter-governmental nature of the WTO and other trade bodies or give a social policy orientation to institutions established to promote trade liberalization and arbitrate trade disputes. A call by OECD Ministries to make WTO dispute Settlement documents available in a timely way and to take other steps to promote greater transparency would be an important step forward.
- MEAs should take into account and respect existing trade regimes. The OECD could usefully assess the trade impacts of environmental treaties, and examine how their domestic implementation affects market access.
- Continue discussions to reduce tariffs on environmental technologies provided that a correct definition of what constitutes an environmental good is found. BIAC is opposed to introducing non-product related PPMs and end-use categories into the definition of environmental goods.
- Continue cost-benefit analysis, taking full account of social factors, on the reduction and removal of environmentally damaging subsidies.

#### **4. Technology Innovation to Address Environmental Challenges**

Innovation is crucial to break the links between economic growth and environmental degradation. Upgrading technology is a prerequisite for more effective use of resources and thus improving environmental performance. In most cases, newer technologies and processes are both more efficient and less polluting than the technology they replace, allowing increased production using less material and causing less pollution. At the same time, environmental performance often presents business opportunities that enhance firm-level efficiency.

##### *Fostering effective research and development*

Technology development depends on the effectiveness of the R&D efforts both in the public and private sectors. While government efforts are crucial, most non-defence R&D takes place in the private sector. There are continuous, robust industry research programmes under way, which are focused on the efficient and cost-effective use of product inputs and natural resources. Public policies need to take into account both the potential and the complexity of these environmental innovations, as well as of the flexibility, support and incentive structure that encourages firms to innovate and diffuse new technology, bearing in mind that commercial success depends upon carrying out business in value-creating ways.

Firms that give priority to resource productivity, process change and product innovation can achieve significant performance gains at lower cost. Strategies to improve performance often also reduce negative environmental impacts. The first focus is to search for ways to lower the use of inputs or materials and natural resources. Lower costs, driven by competition, bring prices down and can in many cases improve environmental performance. More efficient production processes and products through innovation and a reduction in resource use and pollution can be mutually reinforcing objectives.

#### *Offering a supportive public policy framework*

The market depends on a stable and supportive framework of public policy. Given the economic, environmental and social importance of innovation, regulatory programmes need to fully take into account the effects of regulations on the development of new technologies. Regulatory reform to increase competition and encourage new market entrants is key to innovation. Policies need to be flexible and incentive-based and be designed to stimulate dynamic efficiency. Innovation policy approaches need to look for creative ways to enhance co-operation across sectors, from R&D to commercialisation, as well as public-private partnerships to meet particular research challenges.

Regulatory programmes that take advantage of market forces can achieve impressive environmental results with lower transaction costs and fewer prescriptive requirements than traditional approaches. These tools need to be extended to a wider range of pollution control and prevention programmes. Innovations in product design, pollution prevention and resource management work best in a regulatory system that builds on business's proven success in meeting requirements through investments in science, technology and process innovation. Fiscal policies need to provide incentives, e.g. lower statutory rates, R&D credits for firms to invest and innovate.

Drawing on recent innovations in environmental stewardship that have emerged from the private sector, public policies should foster a culture of performance-based management. This culture would focus on defining, measuring and rewarding environmental results and reorienting core regulatory functions so they are driven primarily by performance goals. Policies need to set clear, transparent goals that establish desired environmental outcomes and give business greater flexibility in determining how to achieve these outcomes.

#### *Fostering private sector initiative*

Industry relies on innovation to improve production efficiency and reduce environmental impacts. Voluntary actions represent a promising approach with respect to many environmental problems. Compared to other more prescriptive policy tools, they provide a flexible framework for innovation and creativity that allows for new approaches, the opportunity to improve environmental competitiveness and more rapid changes than would be possible under mandatory programmes. Improvement in actual performance will more easily occur through private sector initiative than through imposed government constraints, which do not allow the same degree of flexibility needed for ongoing progress. As national regulations are further developed, policies should be designed in a way that they promote innovation and the absorption of technology and thereby reinforce improved environmental performance.