



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

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

BIAC Discussion Paper

OECD Workshop on "Globalization and the Environment: New Challenges for the Public and Private Sector"

Paris, 13-14 November 1997

-
- **Globalization, accompanied by open trade and investment, provides the conditions for improved economic prosperity and environmental protection, the mutually reinforcing goals of sustainable development.**
 - **Business continues to be an important and engaged actor in the pursuit of sustainable development, and in partnership with governments, can make its contribution most effectively in the framework of economic growth, more open trade and investment, globalization and a conducive regulatory structure.**

Introduction

The ongoing processes of democratization, trade and investment liberalization, market reforms, and privatization in many regions have combined to create a period of sustained economic growth. The resulting expanded international economic activity has created global markets in capital and investment products, international products, and worldwide manufacturing and customer bases. Globalization, with its increased economic interactions, serves to reinforce and consolidate the political, market and economic reforms well under way. Consequently, while disparities remain in certain areas, increasing income and wealth generation in open economies have raised living standards for millions.

Sustainable development combines the mutually reinforcing objectives of economic growth and environmental protection to increase prosperity and human welfare. Business and industry groups, including the Business and Industry Advisory Committee to the OECD (BIAC), have worked to expand awareness and understanding of the objectives of complementary economic growth and environmental protection among companies, and to encourage them to internalize sustainable development concepts in day to day operations, while maintaining product value and profitability.

Business continues to be a key actor in the diffusion of managerial, technological, and financial resources which provide and foster positive economic, social and environmental benefits, wherever it operates. More importantly, successful and competitive businesses have learned that good environmental management is good business.

This reality is expanding with the trend towards globalization. As more countries rely on the market system, investment and trade for the functioning of their economies, they look to the private sector – not just to address environmental challenges but also – as a primary source of employment creation, information, training, capacity building and education.

Government, Globalization and Sustainable Development

Government reform, democratization, and privatization have played an essential role in creating the environment for globalization. Moreover, sound governance and good government are a determining factor for international investment for companies. The introduction of efficient and effective governance founded in the rule of law produces considerable benefits for the environment through enforcement of environmental and other relevant regulations and renders a country more attractive for investment over all.

These trends provide assurances against the concern that the scale of economic activity resulting from the integration and expansion of markets globally will cause extensive environmental damage. The experience of OECD countries, documented in country performance reviews, show that economic growth can be achieved while reducing environmental impacts, and addressing past environmental damage.

While extensive gains have been made in this regard, much more can be done to refine and improve national environmental standards to create the most effective environmental regulations at the least cost. The greatest potential for environmental improvements remains in the implementation of national standards, an effort which can be furthered through international cooperation, but which cannot be replaced by international policy.

If the private sector is to make its full contribution to the broad societal goals inherent in sustainable development, an essential prerequisite is a sound policy framework, both at the national and international levels, which will promote and encourage growth and development. Careful consideration will have to be given to attain the proper balance of governmental engagement, intervention and encouragement.

Although the OECD countries have been leaders in strong and effective environmental policy, approaches that have shown results in the OECD may not be optimal or relevant outside the OECD. Innovative approaches to environmental protection and sustainable development, such as public-private sector partnerships, should be considered for non-OECD countries.

In particular, OECD studies have shown that voluntary programs can reduce costs, increase flexibility, speed implementation, foster trust, and build capacity, all important factors in developing countries. Programs like the *ICC Business Charter for Sustainable Development*, the chemical industry sector "Responsible Care" program are well known, and thousands of business, industry, non-profit and government agencies currently participate in voluntary programs to address various aspects for sustainable development. These experiences could be helpfully brought to bear as a tool of choice among government and industry representatives interested in working toward balanced sustainable development policy objectives in the context of globalization.

Business and Sustainable Development

Clearly, different parts of the business community face different challenges in the pursuit of sustainable development, and mutually beneficial partnerships within the business community, particularly involving SMEs, will be crucial to raise environmental standards in developing countries, and worldwide. Multinational companies are not limited to those headquartered in the OECD, and several non-OECD countries have thriving business sectors comprising large companies, as well as SMEs. In any case, companies which have gained experience and expertise in both their home markets and in international operations will raise the level of environmental performance in emerging economies by introducing good practices directly, through joint ventures, and in supplier-contractor relationships.

Globalization and Corporate Environmental Policies

Many companies operate according to a company-wide policy or set of principles world-wide, and therefore have a strong beneficial impact on environmental management in the countries in which they operate. Experience has shown that the international practices of large multinationals spread good

environmental management practices to joint venture partners, suppliers, and contractors wherever they operate.

Nevertheless, there is much to be done by enterprises and industry associations to promulgate and improve environmental assessment methodologies, management methods and international standards. The special situation and role of small and medium size enterprises, especially in developing countries, must receive particular attention from both the public and the private sectors.

ISO 14000 Standards: A Tool for Business

The ISO 14000 environmental management standards have been designed and developed as a voluntary mechanism to improve the internal management of environmental issues in an organization, and thereby create opportunities to improve its environmental performance. The standard has been developed with the understanding that different companies – in OECD and non-OECD countries – will need the flexibility to implement the standard using the methods best suited to it; it presents a common language for environmental improvement. As such it is well placed to be an effective tool for sustainable development in the context of globalization.

Conclusions

Both business and governments will continue to play vital roles in expanded economic integration which, we have argued, has a positive effect on the environment. Business will continue to contribute to capacity building in the diffusion of managerial, technological and financial resources, leading to economic, social and environment benefits. Governments should seek environmental improvement in the development of national requirements that are most effective at least cost. They should resist protectionist or discriminatory actions that will hamper the positive economic and environmental trends discussed above.

OECD studies and independent research has shown that countries have not adopted environmental policies for perceived trade benefits, nor have they deliberately lowered environmental standards to gain competitive advantage or to attract investment. Economic integration should not affect the rights of national or local governments to set environmental standards or take any action they deem necessary to protect the environment. What it has introduced is the concept that such standards should apply equally to domestic and foreign investors.

In developing countries, and in the broader context of globalization, it is more important than ever to encourage communication and involvement of business representatives in forums such as this, the U.N. Commission on Sustainable Development, and other relevant regional entities. BIAC is ready to participate constructively in discussions such as this one, and suggests that the OECD pursue consideration of how to bring representatives of both OECD and non-OECD business communities together to discuss sustainable development, and cooperative approaches to improving environmental management.