

BIAC Background Paper

OECD Green Growth Strategy Workshop

Paris, 10-11 February 2011

I. BIAC Key Messages

BIAC has been actively involved in the development of the OECD Green Growth Strategy since it was launched in 2009. In BIAC's view, the OECD can play an important role by carrying out fact-based analysis to address "green" and "growth" in a balanced and mutually reinforcing manner. BIAC has encouraged the OECD to concentrate on areas where it has clear added value, making use of its economic focus and multi-disciplinary nature to look for win-win situations across the entire economy.

As the final report is being prepared for the 2011 OECD Ministerial Council Meeting, we encourage the OECD to focus on concrete measures and practical steps for a sustainable economic recovery. The OECD should recognise the fundamental role of the private sector in implementing green growth policies, and should offer support for a long-term and predictable policy framework to allow businesses from all sectors to develop practical solutions and allocate scarce resources effectively. The overarching key messages below should be reflected in the policy recommendations to Ministers:

- **Consider the potential of *all* business sectors:** Recognising the important role of business, green growth policies should aim at fostering innovation, entrepreneurship and competitiveness across all sectors, focusing on where improvements that are both economically efficient and environmentally effective can best be achieved.
- **Set a sound policy framework for investment:** Recognising the fact that huge investments will be necessary to make green growth a reality, we encourage the OECD to highlight the importance of addressing constraints to private sector investment, thereby providing greater incentives for businesses to develop greener solutions.
- **Foster innovation-led growth:** Innovation is a "must" for green growth and requires high-level political commitment and policy co-ordination. The outcome of the OECD Innovation Strategy should be a major building block of the Green Growth Strategy. While breakthrough technologies are important, due consideration should be given to achieving efficiency improvements across all sectors.

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- **Encourage education and awareness-raising:** Broad-based education efforts are vital to ensure that workers with the necessary skills are available to support a greener growth model. Furthermore, policy makers, businesses and consumers require objective and fact-based information so that they have a clear understanding of the challenges to be addressed and the changes that will be needed.
 - **Ensure broad-based involvement and support:** The success of the OECD Green Growth Strategy will depend on the active involvement of all parts of society, including governments, businesses from a range of sectors, consumers and stakeholders. In addition, close cooperation at the global level is important, and BIAC strongly recommends engagement with key non-member countries to ensure broad international support.

Governments have a key role to play both as consumers and by creating the policy framework that can transform the global economy. At the same time, business must be an integral part of the discussions and can help identify the most effective ways to work towards green growth in a pragmatic manner. BIAC stands ready to work closely with the OECD towards this objective as the Green Growth Strategy report is being finalised and as the next steps are being discussed.

On the following pages, we briefly summarise our key messages for the topics to be addressed in the various breakout-sessions at the OECD workshop. Our detailed comments on the draft synthesis report will be submitted separately prior to the deadline.

II. Economic Instruments

To achieve and maintain environmental quality within the general framework of sustainable development is a primary concern of business. Sound and rational policy instruments must be developed to tackle environmental challenges in a cost-effective way, taking into account social and economic impacts in a balanced and integrated manner. There are a number of different economic instruments for environmental policy, including fiscal instruments and tradable permits, which aim at promoting the production and use of environmentally sound products and processes within a market framework. By enabling industry and consumers to adapt to market signals, such instruments are intended to provide greater flexibility than traditional command-and-control regulation.

Instruments to enable firms to tackle green growth challenges should ensure that initiatives taken are as effective as possible, e.g. by firms choosing where the best efficiency improvements can be made in a cost-effective manner. We support the view that a mix of different policy instruments, including voluntary approaches, is required, which should be assessed on a case-by-case basis, taking into account different national and sectoral circumstances. At the same time, it should be recognised that there are a number of challenges involved in designing market-based instruments. In view of their complexity, it is important to have a clear understanding of the precise size and impact of environmental externalities, which requires a pragmatic approach. The following general principles should be taken into account:

- Economic instruments for environmental policy must be properly designed to meet environmental challenges while taking into account the functioning of the market. The implementation of economic instruments must be preceded by comprehensive cost-benefit analysis. All policy options should be carefully evaluated to identify the most cost-effective approach.
- The design of economic instruments must be based on solid and complete data, taking into account environmental effectiveness and economic efficiency, as well as policy linkages and uncertainties, and based on transparent objectives.
- Where multiple instruments are employed, care should be taken in policy design to ensure that the instruments price environmental externalities equitably. The use of economic instruments must not create market distortions or barriers to trade.
- Economic instruments should be applied if real choices are available to the actors involved. They should be incentive-based and promote business innovation. The incentives used should be proportionate to the costs borne.
- Economic instruments must be adjustable to changing circumstances and should allow time for adjustment by the actors involved. They must be easy to administer, implement and monitor, and be compatible with existing tax systems.
- Economic instruments should be designed in close collaboration with business and other stakeholders who will be directly affected and should only be applied after full consultation to ensure that their implementation is realistic and achievable.

There is an ongoing debate about the effectiveness and efficiency of certain types of economic instruments, notably environmental taxes, including in the context of green growth. BIAC understands that government intervention is necessary to ensure that society appropriately and effectively addresses environmental externalities. However, policymakers need to think very carefully about what intervention is appropriate in a particular context to achieve a specific objective.

Unilaterally introduced taxes can have major impacts on companies' competitiveness if they distort the level playing field, and limited effectiveness in addressing global environmental externalities. By increasing costs, they can take away scarce resources that could be otherwise invested in the research, development and deployment of transformational technology.

Whether taxes, subsidies or other policy instruments are employed, they need to be based on cost-benefit analysis, be transparent, non-distortive and both economically and environmentally effective. We encourage the OECD to put strong emphasis on the importance of cost-effectiveness of policy instruments, which is of key importance if "green" and "growth" are to be advanced simultaneously.

III. Indicators for Green Growth

The development of measures used to demonstrate progress towards greener growth is of great importance to the OECD Green Growth Strategy. BIAC considers the OECD to be in a strong position to create reliable indicators that are well-balanced, well-rounded and forward-looking. In the early drafting stages of the Report on Green Growth Indicators, BIAC emphasised that a balance between economic and environmental measures needed to be struck. This is to ensure that indicators can capture both economic growth and the overall greening of the economy – vital to the uptake of green growth as a concept. BIAC continues to underline the importance of this integrated approach.

Building on this perspective, BIAC has the following core messages on this topic:

- **Ensure the coverage is appropriate:** To date, it appears that the majority of emphasis has centred on the environmentally-focused measures. The indicators covering the socio-economic dimension of green growth are also critical and warrant careful attention and selection. The Green Growth Strategy should provide an opportunity for the OECD to reflect on those indicators that are most appropriate to highlight progress towards overall sustainable growth.
- **Capture green opportunities that exist at *all* levels of the economy.** Green growth should promote the long-term greening of all sectors and jobs, rather than categorise investments, processes and jobs into “green” and “not green”. There are naturally major definitional issues that could be encountered when trying to define a green job, for example, which do not recognise that sectors are intrinsically linked (e.g. cement for wind turbine foundations).
- **Consider possible issues with subjective indicators:** There are inevitable challenges that may arise when indicators of a subjective nature are included. First, indicators such as ‘public opinion on environmental issues’ may be difficult to measure. Unbiased, wholesale and accurate interpretation of public perception will be imperative to the robustness and credibility of any subjective indicators that are used. Second, incorporating a few subjective measures into a set of otherwise objective measures may undermine the overall reliability and meaningfulness of the overall indicator set, and this is worth consideration.
- **Consider resource requirements:** The inevitable resource requirements that enable accurate indicator measurement, monitoring and reporting are worthy of early investigation, particularly in those countries where that resource and/or incentive to measure may be lacking. Facilitating the unbiased and accurate public interpretation of the completed indicator dataset and the comparisons made from it will be crucial to ultimate success of the indicators.

BIAC supports the OECD in its plans to further develop a set of green growth indicators beyond the 2011 MCM to help measure progress over time and across countries. Improving regional coverage and including major non-member economies will improve the overall quality of the indicators, which can be further enhanced by developing interesting and forward-looking indicators, such as the environmental aspects of FDI, for example.

IV. Food and Agriculture

The considerable challenge facing the food and agriculture system is to decrease any negative environmental impacts and to develop ecosystem services, while at the same time increasing food production to meet rapidly growing demand. Moreover, the system is faced with other challenges, such as increasing volatility in food and agricultural commodity prices, trade and investment barriers in many countries, climate change, and resource scarcities.

Despite these challenges, BIAC underlines that **food security and environmental protection are not mutually exclusive goals**, and “win-win” solutions should be actively sought. In this effort, OECD economies must co-operate closely with emerging and developing economies to create a policy environment that will increase productivity, boost innovation, and stimulate trade and investment.

BIAC welcomes the inclusion of food and agriculture as a special annex to the Green Growth Strategy Synthesis Report. Our key messages for the annex are the following:

- **A predictable and sound policy framework for investment** is necessary for the private sector to be able to make its contribution most effectively. As low levels of investment in agriculture are a major stumbling block to achieving global food security, investment requirements must be considered urgently and broadly, not only to encompass scientific advances, but also to address the need for appropriate infrastructure, human resources and capacity building. Policy-makers should look at the returns on investment in agricultural research in order to determine the most cost-effective options in which to invest for greener growth. Public-private partnerships can boost much-needed investment for improving sustainable agriculture.
- **Market distortions must be addressed in order to create truly open markets.** Concluding the WTO Doha Development Agenda, and lowering trade barriers and export restrictions, will be a key policy priority to boosting global food security and improving the overall business environment for green growth. In addition, indications of future market requirements/access scenarios would assist the agro-food sector in developing and assessing greener supply options.
- **Challenges need to be considered in a broader political, economic, environmental and social perspective.** It is increasingly important to address interactions between sectors and global challenges and to ensure policy coherence between all relevant decision-makers, such as international governmental organisations, national governments and ministries, as well as business and civil society. Public-private collaboration across the whole supply chain is important for optimal green growth supply scenarios that incentivise lasting and harmonised behavioural change throughout the agro-food supply chain.
- **Innovation will need to play a key role** for increasing productivity in the food and agriculture sector from existing land, while also reducing environmental impacts. Increasing farm productivity on existing land should be a top policy priority as it is the most productive and environmentally-friendly option available. Innovation efforts should include focus on new crop varieties, crop protection, innovative water management, responsible use of fertilizers, soil conservation, and adjustment in farming practices, etc.

For the private sector to be able to play its role most effectively in fostering innovation, it requires: open markets; an enabling science-based regulatory framework; the effective protection of intellectual property rights; human capital formation in information technology, applied information sciences, agricultural sciences, soil sciences and related disciplines; and a willingness of governments to adopt effective methods for sharing and disseminating knowledge and best practices.

- **In the area of climate change, both mitigation and adaptation need to be considered**, as already small changes in climate change can have significant impacts on agricultural production. Preparing agriculture for adaptation should go hand in hand with proactive mitigation strategies.
- **A credible system should be considered that improves the traceability of whole foods and food ingredients**, and their associated environmental impacts, but which avoids trade distortion. This would provide greater transparency for consumers and customers, therefore assisting in stimulating a market-led green growth. If this system is not put into place, then only the cost of food will drive consumer behavior (which is not effective for lasting behavioural change) and this is also costly for exporters in countries where environmental management costs are lower due to more lenient environmental regulatory regimes.
- **Policy-makers should take into account the interrelations between competing demands for limited resources** (e.g. land, water, nutrients, energy sources, etc.) and the impact on agricultural production, particularly where policies may increase the demand for non-food agricultural production causing further pressure on food supply and pricing. Policy coherence will be essential in this effort. Policy-makers should always consider the full lifecycle impacts related to the use of natural resources in order to fully understand their impacts on the food and agricultural system.
- **Policy-makers should work closely together with the business community and other stakeholders**, in order to communicate clear and objective information to the general public. This is essential for developing stronger public knowledge on important policy issues relating to the food and agricultural system. At the same time, dialogue and partnership among stakeholders is important.

V. Jobs and Skills

In both national and international discussions on green growth, major emphasis is placed on the issue of jobs. While underlining the importance of greening of jobs across sectors, BIAC has voiced concerns about considering so-called “green jobs” in isolation.

In BIAC’s view, it is important to remember that there are close links between conventional and new industries. Building the foundations that enhance innovation across sectors and that lead to job creation and the greening of jobs throughout the economy is therefore crucial. The issue of “green jobs” should be embedded in a wider concept of sustainability, and should recognise the need to develop more sustainable products and processes across different sectors.

In light of this, BIAC recommends the following issues for future analysis:

- **Broaden the focus from “green jobs” to the “greening” of jobs:** BIAC’s strong preference would be to give more consideration to the overall greening of jobs which recognises that all economic sectors have the potential to develop green approaches and which focuses on how to make all jobs, rather than a select few, more environmentally sustainable.
- **Assess the long-term viability of jobs:** In response to the crisis, many government stimulus packages introduced have rightly included a considerable focus on the environment, including jobs. Whilst BIAC welcomed the rapid and concerted action, it is important to differentiate between job creation based on direct support measures and job creation driven by the market. The focus should be on how to foster sustainable job creation through the market.
- **Identify education and training needs to avoid skills shortages:** It is expected that innovation and the development of new technologies will create new opportunities for investment and growth. Skills shortages would undoubtedly have major implications for the greening of the economy. Therefore BIAC believes that education systems should shift to a greater emphasis on vocational and educational training (VET) and employability skills to more effectively respond to rapidly changing labour market needs.
- **Foster innovation-led job creation:** All sectors and technologies should be considered when fostering innovation. In this context, human capital is key. We encourage the OECD, in follow-up to their Innovation Strategy, to continue work on analysing the links between human capital and a country’s innovation capacity. Particular attention needs to be paid to small and medium-sized enterprises (SMEs) with regard to access to finance that is needed to make necessary investments.
- **Take into account micro-economic and structural considerations as well as national circumstances** in the analysis of overall employment impacts: In addition to macro-economic analysis of overall employment impacts, analysis should be refined, taking into account transitional, local and sectoral issues, lack of flexibility in the labour market, barriers to mobility, etc. A proper assessment of social and employment impacts would generate a better understanding of transitions required and projected costs.

VI. Innovation

Innovation is a “must” for addressing green growth challenges. BIAC recommends that the role of innovation and the spread of technologies be addressed as key issues in this context. In particular, BIAC would like to underline the following:

- **Addressing global challenges through innovation:** Solutions to the increasing global challenges can only be found in the widespread application of innovative approaches across sectors. BIAC encourages the Directorate for Science, Technology and Industry to play an active part in developing green growth policy approaches and in ensuring that the outcome of and follow-up to its Innovation Strategy becomes an important cornerstone of the Green Growth Strategy. Due attention should be given to the convergence of technologies and the role of “smart infrastructure” in driving green growth.
- **Fostering a sound investment framework for innovation:** Having the right investment framework in place should be an overarching priority for the OECD Green Growth Strategy because the changes that are needed will call for huge investments in innovation. Such a policy framework needs to encourage the private sector to invest and engage in technology cooperation and provide adequate incentives to create and adopt new technologies in all areas. In this context, we would like to underline the importance of fostering entrepreneurship for driving green growth.
- **Addressing financing needs:** Vast amounts of financing will be necessary to spur the development of technology. The majority of the funds required will have to be mobilised through the private sector, underlining the importance of cost-effectiveness of policy measures so that scarce resources can be invested in innovation to address green growth challenges. However, public sector finance will also play an important role, including in the area of basic research and in leveraging private investment.
- **Fostering broad-based education efforts for innovation:** High-quality lifelong education and training are necessary to foster innovation and ensure that the necessary skills for both technological and non-technological innovation are available. Close dialogue between the private and public sectors and education institutions is essential in this respect.
- **Encouraging cooperation:** Public-private partnerships can play a major role in promoting cooperation and in building knowledge infrastructure. International cooperation is particularly important to foster green growth throughout the world and avoid duplication of resources.
- **Encourage the global spread of innovative technologies:** Equal attention needs to be given to the spread of existing technologies. In many cases, technology dissemination takes place in the context of commercial transactions. Governments have to be aware of the commercial nature of technology deployment when setting policies to facilitate the spread of environmentally friendly technologies. A company's decision to invest in a major project in a developing country will be directly influenced by the conditions in the host country.

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- **Effective intellectual property protection:** An effective and efficient IPR regime provides incentives to take risks and encourages the creation and adoption of new technologies in all areas. A robust IPR regime is required to maintain the balance between exclusive protection for a defined period and disclosure of IP in accordance with internationally established IPR policies. At the same time, the access and diffusion of IPR for innovation can increasingly be accelerated through a range of new collaborative mechanisms as well as through the emergence of global knowledge and innovation networks and markets.
 - **The importance of taking a “system approach”:** High technological capacity in a recipient country is a key factor in encouraging transfers. To address a specific issue, key technologies need to be supplied together with related technologies as well as know-how. A “system approach” is necessary instead of focusing on individual technologies in isolation. Further discussions among governments and with the private sector and more effective cooperation, including in the area of capacity building, are important to achieve long-lasting and substantive progress.

VII. Development

The severity of the environmental challenges facing the world economy demands a coherent and integrated global response. For this reason, understanding how the OECD Green Growth Strategy can be applied to countries at differing stages of development will be fundamental to its success. Developing countries account for a rapidly increasing share of global greenhouse gas emissions. The environmental consequences of this extend beyond climate change, and also lead to a deterioration of air quality in many parts of the world. BIAC identifies the following key points:

- **Advance low-emission development strategies:** A sustainable future requires overall development strategies that take green growth into account. In this regard, previously devised national low-emission development strategies in OECD countries may identify ways in which developing countries can achieve development in a sustainable manner, and these should be used to inform the process. A shift towards more efficient energy use is particularly important here.
- **Incentivise private financing for climate change:** The OECD Secretary-General recently commented that “developing countries will be hit hardest by climate change and are the least able to pay the bill”.¹ Private financing in low-carbon infrastructure and cleaner technologies will be critical in the shift towards an economic model that results in greener growth in developing countries. However, the incentives for this private financing will only emerge if a sound, coherent and predictable investment framework is in place. This should be considered a priority.
- **Incentivise innovation in developing economies:** Market reforms and an improved overall institutional framework will be fundamental to encouraging and rewarding innovation in many developing countries. The removal of trade barriers in green technologies and the promotion of competition through the elimination of barriers to entry are considered particularly relevant by business to drive forward innovation in the developing economy context. Robust IPRs regimes and adequate implementation are required to stimulate the spread of innovative technologies.
- **Achieve greater outreach to non-OECD economies:** Devising green growth strategies for developing countries requires an accurate and comprehensive perspective of the growth composition and the regional context of each country. Greater outreach is needed to uncover the specific green growth challenges that may be posed by resource dependent economies, for example, which may create unique skills requirements in a given economy. Monitoring environmental performance is not easy; international co-operation is therefore essential. The Green Growth Strategy must extend beyond OECD borders in order to realise its objectives.

¹ 8 Dec 2010. ‘Climate change: yes we can!’, editorial by Angel Gurría, available at: http://www.oecd.org/document/61/0,3746,en_2649_34361_46647421_1_1_1_1,00.html