

OECD Green Growth Strategy

Workshop on green technologies: A case for international cooperation

Paris, 12 March 2010

A BIAC PERSPECTIVE

Introduction

BIAC welcomed the launch of the OECD Green Growth Strategy and is committed to making a constructive contribution. As highlighted in its submission to OECD Ambassadors in November 2009, innovation is a “must” for advancing on a green growth path. It should therefore be considered an overarching priority for policy makers from different Ministries and a cornerstone of the Green Growth Strategy. Reaping the full benefits of innovation requires high-level political commitment and the co-ordination of policies by taking a whole-of-government approach. In this respect, BIAC believes that the OECD Innovation Strategy, the final report of which will be submitted to the OECD Ministerial Council Meeting in May 2010, should be an important cornerstone of and provide direct input to the Green Growth Strategy.

BIAC supports the need for innovation as one of the primary tools for achieving green growth while addressing environmental, economic and social challenges in a broader policy context. Green growth requires major progress in the development of key technologies, better use of existing knowledge and technologies across sectors and geographical boundaries, and increased international and public-private co-operation. In addition to the development of technologies, the deployment of both existing and new technologies is equally essential. This necessitates fostering international co-operation and creating the right framework for business to invest, bearing in mind that investors need a transparent, stable and long-term policy horizon. Increasing cooperation between OECD and non-OECD countries will be central in this endeavour. Solutions will require collective action, and will depend upon an effective balance of responsibilities between the public and private sectors.

Addressing the range of technology options

To achieve green growth, it is important to ensure equitable treatment of different low-carbon technologies, including renewable energy and more sustainable use of fossil fuels as well as technologies that can lead to energy efficiency improvements in a wide range of other

sectors. Innovation and green growth need to be pursued in the overall economy, and opportunities should be explored at all levels. There is significant potential for reducing emissions by using and improving upon existing technologies that are not yet realised at their full capacity. At the same time, the development of new approaches will be essential. This will require a policy framework that provides adequate incentives to create and stimulate adoption of the new underpinning technologies.

Research and approaches within other disciplines can also bring about significant advances. For example, in the energy field, such disciplines include, to name just a few, materials research, catalysis research and the development of processes that increase efficiency and the conservation of resources, nanotechnology as well as biotechnology research. Policy frameworks, support measures and R&D should consider the full range of efficiency improving technologies.

Green technologies can play a variety of roles, all of which need to be fostered in order to achieve both the maximum ecological and economic benefit. In addition to addressing carbon footprint of existing technologies, green growth policies should look at the transformational innovations that technology can create or facilitate. The following issues need to be addressed: How can green technology shrink carbon footprints; how can green technologies create new and innovative solutions that are both more energy efficient and contribute to economic growth; and how can we better use information to measure and control ecological impacts? As we consider these topics, it is clear that information and communication technologies (ICTs) play a significant and cross-sectoral role in each of these concepts. A strong ICT infrastructure encourages entrepreneurship, access to information and improved education and should therefore be given due attention in the development of the Green Growth Strategy.

Fostering an enabling policy framework for innovation

While the private sector has a key role in the area of innovation and technology, research needs to be carried out using both public and private resources. Governments need to provide the institutional support for basic research that ensures the community can draw upon the skills and resources of its universities and public research organisations when the need arises. A policy framework needs to be in place that encourages the movement of research carried out in the public sector to private innovations. At the same time, public policies should be designed to take into account the potential and complexities of environmentally beneficial innovations as well as the incentive structure that encourages firms to innovate. The provision of an enabling framework for the private sector that facilitates the necessary financial flows and that encourages firms to address green growth challenges is essential.

BIAC considers the following over-arching issues as particularly important:

- Encourage international collaboration to foster R&D to minimise duplication and maximise opportunities for international cooperation in basic research;
- Foster cooperation between governments and the private sector for research on the range of technologies that are likely to lead to improvements;

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- Set an overall policy framework that provides adequate incentives to create and adopt new technologies in all areas and that encourages the private sector to invest and engage in technology cooperation;
 - Emphasise the importance of skills and human resources, which are indispensable for the development of technology;
 - Foster open trade and investment liberalisation to facilitate the diffusion of technology;
 - Involve the banking sector in discussions as access to the necessary financing will be key for the necessary innovations to come forward.

Above all, and as highlighted by the OECD Innovation Strategy, BIAC encourages governments to address innovation in a cross-cutting and horizontal manner, highlighting the importance of high-level political leadership and close cooperation among all the relevant Ministries involved.

From technology development to deployment

While the refinement and development of technologies is key, equal attention needs to be given to encouraging the global spread of innovative technologies, especially as non-OECD economies are becoming larger emitters. For rapidly growing economies, the right investments in production processes and using the best possible technology available have the potential to achieve major energy savings and ensure that negative environmental effects do not increase at the same pace as their economic growth.

It should be borne in mind that the main vehicle for the deployment of technology will be the private sector, through its day-to-day business activities of technology development, foreign direct investment and technology sales and dissemination. 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. Good investment conditions in developing countries include, for example:

- Political stability and a clear legal framework;
- A well functioning market economy, a stable economic system and an attractive investment opportunity for investing partners;
- Transparent and equitable legal and financial structure and sound environmental laws;
- A fair return on capital to investing partners, inter alia through effective intellectual property protection;
- A safe and secure working environment for all employees and contractors;

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- No unnecessary barriers to movement of personnel and material within companies operating in different countries.

Technology cooperation and capacity building require trust, long-term commitment and clearly demonstrated mutual benefits for all partners to support this more integrated approach. Whether as a commercial transaction or as part of an overseas development assistance package, successful technology cooperation should be beneficial both for the host nation, by offering economic growth, better training of workforces and improved environmental management, and for the investor, in that it can be an attractive investment opportunity.

Resisting protectionism

As mentioned above, open trade and markets are indispensable to the diffusion and deployment of climate friendly technologies, particularly to developing countries. Particular attention currently focuses on the elimination of trade barriers to environmental goods and services. BIAC supports this increased focus, since it is a prerequisite for the successful diffusion of new technologies with positive effects on the climate. The identification of such goods and services should be non-discriminatory, clear and not lead to new tariff lines.¹

On the other hand, re-emerging protectionism as a response to the economic crisis – in the forms of increased tariffs, non-tariff barriers, buy national or local procurement policy, export credit products that distort international competition as well as FDI protectionist measures favouring national companies and technologies – is a serious threat to global growth and recovery. While business agrees to the increased government support for green priorities, it is on the other hand important to show vigilance. It is important that governments do not adopt policies that unfairly protect their domestic green industries. Non-discriminatory policies in supporting green growth are essential, and the use of subsidy schemes should fully comply with the WTO agreement on subsidies. In this context, we welcome OECD analysis on the removal of environmentally harmful subsidies.

Green protectionism can take many forms, both at the border and behind the border. Border adjustment measures are highly unlikely to be implemented in a way that would avoid carbon leakage, and would instead lead to increased bureaucracy and an unlevel playing field. This is therefore not the appropriate approach to convince other governments to implement stricter CO2 reduction targets. Protectionism in the form of behind-the-border measures is also highly counter-productive. Green protectionism under the pretext of addressing environmental goals will act as a critical brake on intentions to encourage global green growth.

¹ BIAC's position on this issue is summarised in the document «BIAC priorities for the WTO Doha Negotiations and Recommendations to the OECD», February 2005.

Intellectual property rights

One fundamental requirement for the spread of technologies is effective intellectual property protection, which is one of the central public policy pillars on which knowledge-based industries and global markets rest. Rapid changes in key technological, policy, and social drivers underscore their growing importance. Intellectual property rights (IPRs) provide increasingly essential legal and policy building blocks for spurring innovation, for stimulating the investments needed to develop and market new innovations, and for diffusing technology and other knowledge in socially beneficial ways. Overall recognition of the importance of innovation and sound framework conditions for a well-constructed and high-quality IPR regime are therefore indispensable.

BIAC strongly believes that IPR protection is indispensable in supporting growth in technology innovation, development and dissemination generally, and in the context of climate change. IP protection is an integral part of the policy framework that companies need to make investments with confidence and will play a crucial part in facilitating technology development and deployment. Therefore, measures to prevent climate change should not create any burdens or legal uncertainty for IPR and should not undermine the essential role of IPRs.

As mentioned in a recent OECD paper, firms tend to increase the availability of new technologies when patent rights are strengthened, and compulsory licensing has not been effective in forcing technology transfer. BIAC also appreciates the caution expressed by the OECD with regard to trade restrictions and border tax adjustments, which are considered counter-productive for many reasons and would reduce incentives to transfer technologies. Recognition of the importance of intellectual property protection for innovation is essential. In this respect, OECD outreach to non-OECD countries to highlight the importance of IP for innovation will be important.

IPRs not only provide incentives for business to invest, thus increasing the amount of research being done, they also provide the frameworks around which legal agreements for technology transfer can be structured. In addition, they encourage technology diffusion as patents require publication. At the same time, the role of voluntary patent pools and licensing backed by public support could be further explored.

Addressing financing needs

Vast amounts of financing will be necessary to spur the development and deployment of technology, and the majority of the funds required will have to be mobilized through the private sector. At the same time, public sector finance will play an important role, including, for example, in the areas of adaptation, basic research, breakthrough technologies and to leverage private investment. Public financing has an important role to play to support new technologies, many of which require extensive basic research, and activities that are unlikely to attract the necessary investment. Specific R&D policies are needed to support low-carbon technologies that are in early stages of development. Active cooperation with the private sector should be sought in the early stages.

In many ways, the most effective use of public finance is to leverage action by the private sector. According to OECD's own analysis, experience with the GEF and with CDM has

shown that limited public funding can make a significant contribution to leveraging investment. Public funds can be used to reduce private sector risks and close financing gaps in a number of ways, such as tax credits or loan guarantees. In this context, it is important that public international finance assures a level playing field that is neutral with respect to the selection of technologies and companies that can get involved.

OECD analysis demonstrates that high technological capacity in a recipient country is a key factor in encouraging transfers. Countries that innovate are more likely to benefit from innovations coming from other countries. Therefore, policy dialogue and targeted capacity building to support policy reform should be an important part of development cooperation and financing initiatives. Finally, while mobilizing public finance is important, it is equally important that these funds are channelled towards the most effective investments and that activities are tailored to the country-specific needs. Public funds should be used as efficiently as possible and in a transparent manner, ensuring an overall level playing field.

Fostering cooperation

The development and deployment of environmentally sustainable technologies is a highly complex task that may be beyond the financial, technical or organisational capacities of any single business. International as well as public-private cooperation will be key for firms and the public sector to reach their targets and ultimately achieve their goals. This will require enhanced investment from both public and private sources, and collaboration between firms on both a national and an international basis. Cooperation on a regional basis – such as the Asia-Pacific Partnership - has the potential to enhance the possibility for clear business collaboration in this field.

In emerging and developing economies, the diffusion of environmental, low carbon technology is often hampered by low absorptive capacity or little economic and political progress to encourage development. Barriers such as these must be overcome in order for collaboration to be successful, and to encourage greater foreign direct investment. Technology transfer alone will not be sufficient to solve the challenges at hand. It needs to go hand-in-hand with improvements in the areas of infrastructure, know-how and capacity building broadly. International cooperation and public-private dialogue and partnership are an important avenue for ensuring that the necessary frameworks are in place.

Concluding remarks

The private sector will have to deliver many of the changes that are required. But on its own, it will not always achieve the desired results. Governments have a major role to play in supporting the development and deployment of energy efficient technologies and in addressing some daunting barriers. In this respect, partnerships and global cooperation will play a particularly important role. No part of society can address green growth challenges in isolation. Government, industry and consumers in both OECD and non-OECD countries will have to work together to be able to take the necessary steps to advance on a green growth path.