

## BIAC Comments

### 'Outline for the Green Growth Strategy Report'

BIAC actively supports work on green growth, recognising that environmental and growth challenges should be addressed in a mutually reinforcing manner and that all parts of society have a role to play. BIAC welcomes the opportunity to provide initial comments on the Outline of the Green Growth Strategy's Synthesis Report. We underline the importance of looking for win-win situations across the entire economy where sustainability and growth can be achieved and to focus on areas where the OECD can provide real added value.

#### 1. General comments on the Outline for the Report

- The draft as it stands puts a lot of emphasis on "green", but should **give additional attention to the importance of sustainable, long-term growth**, and the importance of a consistent pro-growth policy agenda, including in the areas of investment, market openness, innovation, skills development, entrepreneurship, and market-based job creation. The fundamental importance of growth for raising the necessary resources for addressing environmental challenges should be underlined. Without these attributes, the prospect of growth, let alone "green growth", is likely to be unrealistic.
- The draft refers on several occasions to "green" innovation, "green" investment, etc. We would like to underline that there should be **no separation between so-called "green" and "traditional" sectors**. Green growth policies should therefore not just try to support specific "green" industries, but be interpreted in a broad sense, i.e. aim at fostering "greening" across sectors and economies. This requires supporting innovation, entrepreneurship, and green growth across all sectors, focusing on where improvements that are both economically efficient and environmentally effective can best be achieved. This should be underpinned by public information to help build demand for a real market where innovation can yield its real potential. At the same time, due attention should be paid to the role of the financial sector, including incentives for the sector to invest in "greening projects".
- **Innovation** should be seen as fundamental to achieving Green Growth. BIAC agrees with the view that "underscoring the benefits from robust innovation policy will be very important" (p.5). As such, strong emphasis should be placed on understanding how policy can be co-ordinated to foster innovation-led growth, an area where the OECD has carried out major work through its Innovation Strategy, which should be seen as a major cornerstone for the Green Growth Strategy. Government policy should be designed to assist innovation and the least cost

introduction of new technologies. This should go alongside supporting energy efficiency improvements in existing production processes. Equal attention should be attached to helping to accelerate the adoption of existing technologies.<sup>1</sup> In this context, the role of global standards and methodologies should also be considered.<sup>2</sup>

- The Outline should give **additional attention to global challenges**, including concerns over energy, food and water supply, all of which are fundamentally interconnected. For example, work already completed or underway in the OECD Horizontal Water Programme, such as the recent paper on the benefits of water supply and sanitation, would be highly relevant in this regard. This work should contribute towards an additional “Key Issues” report to complement the other suggested thematic reports in paragraph 26.
- For a greener world economy to be realised, **global outreach** to emerging non-OECD countries is essential. The success of a Green Growth Strategy will depend on a “substantial transformation” not just in OECD countries, but all over the world, and as such it is absolutely necessary that widespread international support is targeted. There is a need to create sensitivity in OECD and non-OECD populations alike to the need for Green Growth. Clear explanations and definitions of “Green Growth” and “Sustainable” policies could help here. These points should be further underlined in the Outline.
- BIAC understands that government intervention is necessary in the transformation to a greener economy. However, policymakers need to think very carefully about what intervention is appropriate in a particular context to achieve the underlying objective – a greener growth model. Unilaterally introduced taxes, which have major impacts on companies’ competitiveness, are not desirable. So-called ‘green taxes’ have the potential to increase costs, thus taking away scarce resources that could be otherwise invested in the research, development and deployment of technology necessary for achieving green growth. The synthesis report should emphasise the importance of **removing barriers to investment and trade**. In addition to traditional investment barriers like FDI restrictions and capital controls, improved and increased access to capital is required as liquidity underpins business operations.
- Efforts should go into ensuring that the Green Growth Strategy does not allow for “green” trade measures that contain protectionism possibilities. Indirect barriers (such as national procurement policies, additional environmental requirements on export projects eligible to export credits support, complex customs procedures etc.) should be discouraged in order to avoid distortions to global trade.
- Whether taxes 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. The paper should put **further emphasis on the**

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<sup>1</sup> Information and communications technologies (ICT) could cut global “business as usual” greenhouse gas emissions by 15% from 1990 levels, saving €600 billion by 2020 - SMART 2020 Report: <http://www.smart2020.org/publications/>

<sup>2</sup> See Boston Consulting Group 2010 ‘Evaluating the Carbon-Reducing Impacts of ICT: An Assessment Methodology’, which analyses such standards and methodologies: (<http://www.gesi.org/ReportsPublications/AssessmentMethodology.aspx>)

**importance of cost-effectiveness** of policy instruments, which is of key importance if “green” and “growth” are to be advanced simultaneously.

- Policy should encourage greater **efficiency savings** at all stages of the production process, and address the **lifecycle** of products, drawing on sectoral experience from industry where possible. The concept of ‘lifecycle’ is not mentioned. OECD work on resource efficiency and sustainable materials management should be considered as an important contribution to the Green Growth Strategy. We also recommend that other areas where significant improvements can be made, such as in the area of urbanisation, should be given more attention. In this respect, the recent high-level roundtable on Cities and Green Growth should be considered as important input.
- With regard to the issue of job creation, which is high on governments’ policy agendas, BIAC recommends **broadening the focus from “green jobs” to the “greening” of jobs**: Recognising the definitional difficulties, OECD research should explore opportunities that exist in the full range of business sectors of the economy, taking into account the linkages that exist between sectors. OECD analysis should also assess to what extent jobs have been created in response to support measures and job creation driven by the market. For the greening of jobs, investment in training and skills will be indispensable, both at the level of schools and with regard to upgrading of skills to suit new labour market requirements.
- BIAC recommends that when it comes to highlighting areas where reforms have had positive impacts, the OECD refers to examples in the business community where significant efficiency savings have already been made. The Green Growth Strategy offers a good opportunity to **highlight specific action industry that has been taken** with regards to energy consumption, sustainable materials management, the improvement of production processes, etc.
- Finally, BIAC finds the way in which **competitiveness effects** are discussed in the Outline (and in other recent OECD documents) problematic. The reasons for this are expanded below.

## 2. Comments on ‘Competitiveness Effects’

- BIAC continues to be **concerned about the way in which the issue of competitiveness losses** repeatedly appears to be downplayed in recent OECD publications. For instance, the Interim Report declares that “fears of competitiveness losses or carbon leakage... may be exaggerated” (p.41).
- This sentiment is repeated in the Outline for the Synthesis Report, where it states that “[w]ays to overcome competitiveness-based objections and avoid caving in to naked rent-seeking should be discussed” (p.6). The wording of this particular sentence is troubling. First, it indicates that the OECD is already looking to overcome such objections, evidently without detailed discussion with the sectors concerned on why this is such a major concern. Second, it implies that such objections are potentially made for ‘*rent-seeking*’ purposes.
- The business community unquestionably recognises the need to adapt production processes to become more resource-efficient, and great advances have already

been made in this area. However, asymmetric environmental policies can have major impacts on companies' competitiveness, can stall investment decisions, or lead to carbon leakage and capital outflow to countries with less stringent regulations. It is for this reason that a truly inclusive, international agreement should remain the core objective of policymakers.

- The reliance on macroeconomic modelling when conducting OECD carbon leakage estimations may help to explain why the OECD comes to a conclusion that competitiveness concerns may be exaggerated. However, assessing carbon leakage accurately is a notoriously difficult task that requires consideration of microeconomic and regional factors in addition to macro factors. Analysis needs to reflect variation in specific regions, and critically, specific sectors.
- Competitiveness losses from a non-inclusive commitment on emissions reduction are equally hard to measure due to the spread of global value chains, which makes it difficult to locate exactly where competitiveness losses on businesses are being felt. In addition, investment decisions from environmental policies are based on a complex assortment of factors, which also explains why environmental policy costs are passed on to the consumer in different ways.
- Industry experts from specific fields should be consulted to provide further input into the nature of the competitiveness concerns before the OECD issues recommendations in this area. BIAC would be pleased to facilitate meetings with sector experts to ensure that business considerations are duly reflected. For further information, please see the BIAC thought starter on carbon leakage and competitiveness impacts.

### **3. Suggestions for measurement and indicators**

- The development of measures used to demonstrate the progress made with respect to greener growth is naturally important, and the OECD is in a strong position to create reliable indicators. BIAC underlines that agreed indicators should be well-balanced and well-rounded.
- This is to ensure that indicators are able to capture both growth and 'greening of the economy' at all levels, which is what is necessary for green growth in the long-term, as opposed to measuring short-term green projects which may not have a lasting impact. To do this, a balance between economic and environmental indicators needs to be struck.
- Single aspect and backward-looking indicators like CO<sub>2</sub> intensity should not be the main focus. Many other more forward-looking indicators already exist in this area (e.g. patents and venture capital raising).
- A summary of possible gaps (paragraph 23) should acknowledge the situational limits of the application of any 'universal' indicator. Where an indicator is forcibly applied to a specific context for which it was not originally designed, it loses its effectiveness as a universally comparable progress indicator.

- The use of prescriptive standards can reduce indicator applicability and therefore render them unsuitable as universally comparable progress indicators. It is hoped that by encouraging the adoption of voluntary measures, active progress measurement in a non-discriminatory manner would be achieved. Business experts should be included in further discussions with regards to the choice of indicators.

#### 4. Key messages to be conveyed by the synthesis report

- **Put in place a comprehensive strategy that fosters investment:** The changes needed call for huge investments in low-carbon technologies, advanced power plants of all types, smart grids, energy efficient manufacturing, equipment, appliances, buildings, transport, logistics and infrastructure, including ICT. Having the right policy framework in place to ensure that the necessary investments come forward and addressing investment obstacles should therefore be an overarching priority for the Green Growth Strategy. What is needed is a long-term global strategy to foster investment, market openness, innovation, skills development, entrepreneurship, and market-based job creation.
- **Foster entrepreneurship and innovation-led growth:** Innovation is a “must” for green growth. Business has been calling for greater coherence in policies aimed at fostering innovation and entrepreneurship and strongly supports using the OECD Innovation Strategy as a major input to the Green Growth Strategy. At the same time, while breakthrough technologies are important, there are energy efficiency potentials in many areas, which should be an integral part of OECD work on green growth.
- **Consider the potential of *all* business sectors to develop green growth approaches:** Green growth policies should therefore not just try to support specific “green” industries, but aim at fostering innovation, entrepreneurship, competitiveness and green growth across sectors, focusing on where improvements that are both economically efficient and environmentally effective can best be achieved.
- **Encourage education and awareness raising:** We need broad-based education efforts not only to ensure that the necessary skills are available for future job requirements, but also to ensure that policy makers, business, consumers and the public have objective and fact-based information at their disposal so that they can have a clear understanding of the challenges that lie ahead of us and the changes that will be necessary.
- **Foster green growth throughout the world:** The success of the OECD Green Growth Strategy will depend on the active involvement of all parts of society, including governments, business broadly, consumers and stakeholders as well as close cooperation with major emerging economies. BIAC strongly recommends involving key non-member countries in OECD work on green growth on an equal footing and to aim for broad international support.