



The Voice of OECD Business

OECD Green Growth Strategy – Beyond the Crisis

Discussion Paper for the Consultation with the OECD Liaison Committee

24 November 2009

Introduction

1. In June 2009, the OECD Ministerial Council Meeting adopted the Declaration on Green Growth and invited the Organisation to develop a cross-cutting Green Growth Strategy to facilitate economic recovery and environmentally and socially sustainable economic growth. BIAC welcomes the launch of the Strategy, which is timely in light of the major challenges we are facing.
2. For business, green growth is not a new concept. Over the last few decades, changing consumer preferences in favour of more sustainable products and practices as well as efforts to drive out unnecessary costs have encouraged business investment in a range of sectors, leading to major improvements in efficiency. Simultaneously, business has successfully developed new sectors and new business opportunities thanks in large part to innovation. Creating the right investment framework for business to make its contribution to green growth is therefore essential. What business needs is clarity and an international framework where it can invest with confidence.
3. Defining green growth is a challenging issue. For business, there should not be a separation between “green” and traditional industries, as all industrial sectors have the potential to develop green approaches. Green growth should be understood as a continuous process that requires governments, consumers and business from a wide range of sectors, both “existing” and “future”, to work towards economically and environmentally sustainable global growth.
4. Green growth should be viewed broadly and interrelated with other major global challenges, such as food security, water, health, energy security and poverty eradication. Policies need to be developed and co-ordinated globally, with input from all stakeholders including business, labour and civil society. The economic crisis should not be an excuse to weaken long-term efforts to achieve sustainable growth. What is needed is a long-term global signal supported by predictable policy

frameworks. This will encourage market-based solutions, enabling both private and public investors to efficiently allocate the scarce investment resources that will be decisive for green growth, and generally the “greening” of our economies, in the longer term.

5. The world’s attention now focuses on the UN climate change conference in Copenhagen and efforts to negotiate an international agreement. BIAC strongly believes it is crucial to reach a balanced agreement that would provide business with an acceptable and stable framework to stimulate investment and encourage technological development taking into consideration other global challenges mentioned above.
6. This paper presents business views in the areas of investment, trade, innovation, employment, skills, and global co-operation, which in our view are indispensable factors for achieving global green growth.

Business contribution to a greener economy

7. Targeted investment, innovation and private initiatives will enable the global economy to meet the challenge of sustainable economic recovery, taking into account societal and environmental challenges. Business has played and must continue to play a major role in the implementation of green growth in many different ways, including through the reduction of environmental impacts of the production process, efficient use of natural resources, waste prevention, and the development of new products and services.
8. Business contribution to a greener economy will involve all industrial sectors. Traditional industries, such as iron, steel and chemicals, provide input and support to many “green” industries and the economy in general. In return, traditional industries will introduce innovative technologies from “green” industries into their systems.
9. Today, many companies are involved in forward-looking projects that combine “greening” with “making business”. Environmental and climate protection can drive economic development and present new business opportunities. It is important to build on technological advantages, not just to address environmental challenges, but also to create sustainable jobs.
10. At the same time, more and more companies representing many different sectors are using a life cycle approach to improve their products along the supply chain. All the effects of a product, from extracting and processing the raw material to its disposal, can be incorporated into this approach.¹

¹ To highlight the contribution of traditional industry by a specific example, the International Council of Chemical Associations has recently published a global report which reveals that greenhouse gas emission savings enabled by the chemical industry are more than double the industry’s emissions.

Moving beyond the crisis

11. Stimulus packages together with extraordinary monetary and financial measures, in response to the economic crisis, have undoubtedly played a major role in addressing the immediate effects of the recession and have triggered concrete measures to facilitate green growth. It is encouraging to see that many of the stimulus packages in both OECD and non-OECD countries include green measures as a priority, notably China and Korea.² As endorsed by the G20 meeting in Pittsburgh, governments must continue to implement stimulus programmes to support economic activity until recovery clearly has taken hold.
12. However, recovery remains weak and there is concern about increasing public budget deficits. Long-term recovery cannot be achieved through continued subsidies for job creation or through green initiatives alone. Governments need to develop a transparent and credible process for withdrawing extraordinary fiscal, monetary and financial sector support. The goal must be to return to sustainable enterprise and job creation accompanied by private sector initiatives and investment driven by forces of a competitive market, geared where possible towards green growth. While short-term measures have a role to play, the overall focus needs to be on how to address these challenges in a long-term sustainable way.

Key business considerations for OECD's Green Growth Strategy

Investment for “greening” the economy

13. The changes needed to build a sustainable economy will call for huge investments in low-carbon technologies, advanced power plants of all types, smart grids, energy efficient manufacturing, equipment, appliances, buildings and transport. Having the right investment framework in place should therefore be an overarching priority for the Green Growth Strategy.
14. This framework should not just secure investment conditions in low-carbon industries, such as energy and clean-tech production, but also incorporate improved investment opportunities in the economy as a whole, since these will be part of the solution for obtaining green growth. This broader scope for improved investments must also be seen in the context of dealing with other global challenges, such as food security, health, water, energy security and development.
15. Governments have a key role to play by creating the policy framework and partnerships that transform the global economy, deliver green growth and allow the private sector to act as a key delivery agent of a greener economy. Given its central role, business must continue to be an integral part of the discussions to identify the most effective ways to accelerate transformation to a low-carbon economy.

² OECD draft report, “Trade and economic effects of responses to the economic crisis”, TAD/TC(2009)2

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16. Hurdles to business investment need to be addressed, taking into account the often long investment cycles. The global development and deployment of advanced technologies to address climate change and other environmental challenges will require appropriate institutional frameworks, including adequate protection of intellectual property rights, to accelerate the spread of technologies. Also, better lending conditions and access to financial capital for companies involved in green innovation investments are necessary. At the same time appropriate frameworks must rely on non-distortive tax and pro-competitive regulatory frameworks that facilitate growth-generating cross-border activities by business.³
 17. Both OECD and non-OECD countries will benefit from the establishment of supportive investment frameworks, market conditions and incentives for the necessary investment to come forward. With the correct regulatory, legal and economic framework in place, forward-looking companies, applying their experience and expertise in both home and foreign markets, can help improve environmental performance while contributing to economic growth.

Resisting trade and investment protectionism

18. Free international trade and investment are important fundamentals and key drivers for obtaining global economic growth that is environmentally and socially sustainable, thus increasing economic welfare in the long run. Re-emerging protectionism as a response to the financial and 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 – is therefore a serious threat to global growth and recovery.
19. Specifically in relation to green growth, while business agrees to the increased government support for green priorities, it is on the other hand important to show vigilance. The green share of total stimulus measures has increased – estimated at around 16 % on average and considerably higher in some countries.⁴ But it is at the same time essential that governments do not adopt policies that protect their domestic green industries if the positive effects are to be realised. Therefore non-discriminatory policies in supporting green growth are essential, and the use of subsidy schemes should fully comply with the WTO agreement on subsidies.
20. 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.

³ As an example, the OECD project on the tax treatment of tradable permits is an important opportunity to identify best practices in this area, and preclude tax obstacles to cross border trade as it relates to emissions trading systems.

⁴ OECD draft report, TAD/TC(2009)2.

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21. Protectionism in the form of behind-the-border measures is also highly counter-productive (e.g. by subsidising domestic environmental industries, by delivering investment aid in green sectors exclusively to domestic companies or by introducing environmental regulations at the disadvantage of internationally competing industries). This green protectionism under the excuse of addressing environmental goals will act as a critical brake on intentions to encourage global green growth.
 22. Any subsidies should therefore be based on a general and non-discriminatory approach that treats both foreign and domestic companies equally. Both internationally and on the domestic level, it is essential that stimulus packages are designed so as to preserve the level playing field of fair competition.

Innovation-led growth

23. Innovation is a “must” for productivity growth, addressing global challenges and advancing on a green growth path. It should therefore be considered an overarching priority for policy makers from different Ministries. This requires high-level political commitment, leadership and the co-ordination of policies by taking a whole-of-government approach. While business has a key role to play in this area, governments need to provide the frameworks to support research and development and the successful commercialisation of promising technologies, and should foster both the technological and non-technological innovation that can lead to green growth in the overall economy.
24. We need innovation in a wide range of technologies. This requires major progress in the development and deployment of key technologies, better use of existing knowledge and technologies across sectors and geographical boundaries, and increased international and public-private co-operation. All options need to be pursued as we will need a wide range of green technologies.
25. This requires 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. Competition authorities in particular must make sure that they grant to innovation the appropriate level of consideration in their analysis of economic situations. We also need capacity building in a wide range of fields, including, for example, energy efficiency, urban planning, construction, and waste management.
26. Business has been calling for greater coherence in policies aimed at fostering innovation and entrepreneurship. BIAC has therefore strongly supported the development of a cross-cutting OECD Innovation Strategy, which seeks to harness innovation for stronger and more sustainable growth and development and to help address increasingly urgent global challenges. A stable and coherent policy framework, which encourages the private sector to invest and engage in technology co-operation, is essential. One key element of such a policy framework should be a high-quality IPR system including effective implementation, which is essential for the development and diffusion of both new and existing technologies.

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27. In BIAC's view, the OECD Innovation Strategy as well as its work on eco-innovation and sustainable manufacturing should provide a major input to the OECD Green Growth Strategy. In addition, continued work on the spread of energy efficiency in industry, transport, buildings, and as applied by consumers broadly remains equally important.

The role of information and communication technologies

28. One specific example of an innovative technology that enables green growth is ICT.⁵ ICTs and the Internet support increased efficiency and productivity in manufacturing, provision of services and in working methods. They help to reduce energy consumption and manage scarce resources. Both the "greening of ICT" and "greening by ICT" are important in this respect.
29. Governments must continue to ensure regulatory and policy environments that support innovation in ICT technologies and continued capital investment in the telecommunications infrastructure, such as high speed networks and broadband, necessary to support and green ICT applications across sectors.

Employment issues in relation to green growth

30. Great emphasis has been placed on so-called green jobs as important sources of job creation. However, all jobs can and should be made "greener".
31. As previously introduced in this paper, without traditional industries, such as steel and chemicals, "green" innovations, such as wind power and insulation, would be impossible. The existence of so-called "green jobs" often depends on jobs to which this appellation would not be applied. Business encourages governments to think in terms of overall "greening" instead of "green". In fact the "greening" of existing jobs is already underway through use of technologies, such as ICT to reduce travel and promote more flexible work such as telecommuting.
32. An important goal is also to stimulate as quickly as possible job creation in emerging innovative sectors and innovation in more traditional industries. While development of new industries and technologies will be an important part of recovery and future job creation, it is unrealistic to expect it to be a cure for the jobs crisis. Changing the energy mix and manufacturing processes of the global economy is a long term process, and will require massive investment by business and governments over time, including in education and training, essential to enable individuals and firms to adapt and move into these new areas.

⁵ Examples of ICT green applications include: smart grids, cleaner transportation, clean building design and use. ICT can also provide important information platforms for energy efficient industries. Developments such as cloud computing significantly enhance the scalability of ICT services via the Internet and their potential for supporting green growth.

Education and skills for green growth

33. Without the right skills, we cannot achieve green growth. Education and training are therefore not only necessary to ensure against shortages of highly-skilled workers in key economic sectors, including new sectors, but also necessary to help individuals' adaptability to the greening of jobs across all sectors.
34. First, this will involve the reorientation of education curricula and teacher-training programmes from early childhood education through to tertiary and vocational education and training (VET) programmes to ensure sustainability issues are dealt with adequately. In addition to focusing on generic employability skills, particular attention should be placed on encouraging education in science, technology, engineering and mathematics. VET programmes should focus on refining sector-specific expertise and workplace skills to keep pace with advances in policy-making, technology, and to address environmental challenges. When carried out transparently and efficiently, partnerships between business and government can help with the passing on of the practical expertise required for the greening of the economy.
35. Second, attention must be paid to raising public awareness through informal and non-formal education structures to communicate fact-based and objective information. The aim should be to increase public debate about green growth strategies and new technologies, and thus potentially foster increased social acceptance of policies, necessary investments and new technologies.

The need for global co-operation

36. The success of the OECD Green Growth Strategy will depend very much on the active involvement of major emerging economies. Several important emerging economies were not signatories to the OECD 2009 Declaration on Green Growth, including notably China and India. We call upon the OECD to actively involve these countries on an "equal footing" to learn from the proactive steps and best practices taken by both OECD and non-OECD countries.
37. The Green Growth Strategy represents a real opportunity to accelerate "enhanced engagement", which would be facilitated by a dedicated working group focusing on promoting credible and interactive dialogue with key emerging countries. The Heiligendamm-L'Aquila process could be a suitable model for this. BIAC stands ready to provide business input from BIAC members in OECD countries as well as BIAC observers from a growing number of non-OECD business communities.⁶

⁶ Eleven national business organisations from ten different countries currently participate in BIAC as observers: Argentina, Brazil, Chile, India, Israel, Latvia, Morocco, Russia, Slovenia, and South Africa.

Conclusion

38. BIAAC strongly supports OECD efforts to help governments foster economic growth, while reducing emissions, pollution and waste, promoting a more efficient use of natural resources and addressing other global challenges. The Strategy should be based on lessons learnt from OECD analysis and draw on on-going initiatives, such as the Innovation Strategy, work on sustainable development, and the contribution from a wide range of OECD Directorates. Greening of growth is needed throughout the world. We strongly recommend involving key non-member countries in OECD analysis and policy recommendations.
39. Green growth that is welfare-enhancing should be recognised as a key objective by all parts of society, including governments, consumers, stakeholders and business in general. But it should not be considered in isolation. It needs to encompass issues such as investment, market openness, innovation, skills development and entrepreneurship, sustainable job creation and the development of metrics to support analysis of these issues and be able to measure progress. Realising the potential of green growth strategies across sectors will only be attainable if we put the right investment framework in place, foster innovation, keep markets open, eliminate market distortions, upgrade skills and human capital, and provide an overall enabling and stable policy environment. BIAAC looks forward to engaging in an open and constructive dialogue with the OECD as the Green Growth Strategy is being designed.