



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

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

BIAC STATEMENT

1998 MEETING OF THE ENVIRONMENT POLICY COMMITTEE AT MINISTERIAL LEVEL

I. Introduction

1. The world is undergoing profound change. Trade and investment linkages are intensifying, creating the prospect of a truly global economy in which all countries should be active participants. Globalisation, accompanied by open trade and investment, provides the conditions for improved economic prosperity, environmental protection and social progress, the mutually reinforcing goals of sustainable development.

2. This statement sets out recommendations on how industry and government can work co-operatively to implement sustainable development in this era of globalisation. In addition to certain general conditions that need to be fulfilled so that industry can make its contribution most effectively, it focuses on specific recommendations on the role of voluntary actions and economic instruments, post-Kyoto challenges, waste management and health and safety issues.

II. Implementing sustainable development

3. BIAC supports sustainable development and the promotion of wider environmental awareness, recognising that the impact of human activity on the natural environment must be prevented from causing irreparable degradation. A **dynamic and innovative industry** supplying better environmental solutions is part of the evolving path to sustainability. A sound and feasible policy framework at the national and international levels is an essential prerequisite if the private sector is to make its full contribution to the broad societal goals inherent in sustainable development.

4. Sustainable development requires **economic growth** accompanied by improvements in public health, social welfare and sanitation. Both developed countries, which have invested heavily in environmental protection, and developing countries, which are increasingly doing so, require a solid base of economic activity in order to provide the resources necessary for such investments. Economic development itself can therefore be considered a fundamental vehicle for environmental improvement and the means by which the considerable potential of advancing technology and better environmental practice is realised.

5. **Innovation and technological improvements** by the private sector are a key element in achieving sustainable development. Industry contributes to sustainable development by devising, adopting and commercialising new and cleaner technologies, processes and products. In addition to being a response to increasing demands for sustainability, innovation is also driven by competitive pressures for superior product performance and increased profitability. The free market provides incentives to replace old and wasteful products thanks to new technology and is thus one of the drivers of environmental progress.

6. Business conceived, and is now implementing, the concept of **Eco-Efficiency**: satisfying more consumer needs with less of the world's resources. Many older products are the least eco-efficient and priority areas

need to be determined for tackling global environmental problems most efficiently (e.g. most of today's automobile pollution is caused by a small number of older, inefficient cars).

7. Current **reporting and measuring systems** should be further developed and refined in balance with the need to protect the incentives for innovation, namely confidential information. A more qualitative approach is needed which takes account of the environmental risks and impacts of activities, not just the volume. For example, the volume of waste measured in terms of tons does not express the burden on the environment and can lead to the wrong priorities being set or to the use of arbitrary selection criteria. Industry can provide good scientific data to better set improvement priorities. BIAC supports the setting of benchmarks for environmental performance by companies, the exchange of best practices and regular monitoring, which will require cross-cutting work on the environment and other related policies.

8. BIAC supports programmes for the **collection and public disclosure of environmental information** that are coherent, focus public attention on significant environmental and health risks, and that employ fair and transparent processes. However, in order to establish sound and sustainable public environmental information programmes, public disclosure of information must be balanced with adequate protections for the regulated community. Environmental information programmes should therefore be consistent with national policy goals, require effective management and control of the data, protect confidential business information, and be protected from unauthorised access.

9. Risk-based prioritisation and **cost-benefit analysis (CBA)** should be applied in every major environmental regulatory decision, including chemical risk management, waste legislation and climate change measures. The OECD has done considerable work in the area of CBA and could develop a generally accepted CBA methodology whereby governments and interested parties can help determine priorities based on risk and whether the costs of environmental regulations are proportionate to the benefits.

10. The voluntary **ISO 14000 standards** represent the result of intensive work carried out by industry worldwide. The ISO 14040 series on Life Cycle Assessment (LCA), for example, helps companies provide credible information about their products' impact on the environment. The use of Environmental Management Systems (EMS) such as ISO 14001 (and EMAS in Europe) enables companies to build up their internal infrastructure for the implementation of sustainable development.

III. The challenges of globalisation and implications for industry

11. Economic **growth and increased international trade and investment** will be among the key results of globalisation. Evidence from the OECD countries over the past 2-3 decades indicates that economic development, at least in part through increased globalisation, has fostered sustainability. While disparities remain in certain areas, globalisation has increased wealth and raised living standards, thereby providing the economic resources necessary for addressing environmental problems. It encourages companies to innovate, as they respond to the diversity of the global market place and fosters more efficient manufacturing and distribution infrastructure.

12. Globalisation encourages **technology exchange and the diffusion of environmental solutions** more rapidly from the industrialised world to less developed countries. 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 directly introducing good practices and clean technology, through joint ventures and in supplier-contractor relationships. Not only the industrialised world but also non-OECD member countries will thus benefit from ecologically beneficial technology and business practices, which need to be applied on a global scale to achieve environmental improvements.

13. BIAC cautions governments to **resist protectionist or discriminatory actions** that will hamper the positive economic and environmental trends resulting from globalisation. 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. However, such standards should apply equally to domestic and foreign investors. In this regard, BIAC supports current efforts to develop a Multilateral Agreement on Investment (MAI), which will establish high standards of non-discrimination, investment protection and dispute settlement. BIAC believes that the MAI should be consistent with high levels of environmental protection, as provided for in the three pillar approach. However, the MAI should not be used to require specific levels of environmental protection, which would be better defined in specialised fora or by individual countries within the context of their particular circumstances.

IV. Voluntary action and the role of economic instruments

14. **Business-led, market-based voluntary action** should be recognised as an effective policy option when seeking environmental improvement. Voluntary programmes can reduce costs, increase flexibility and innovation and speed implementation, as is demonstrated by numerous examples such as the chemical industry's Responsible Care Programme. BIAC recommends greater use of voluntary approaches and flexible economic instruments instead of command and control measures, which can cause "technology lock-in" and discourage the development of better solutions.

15. **Economic instruments** should be based on sound scientific data, be properly designed and be applied in such a way as to reward success in meeting environmental standards cost-effectively while maintaining fiscal neutrality. Eco-taxes can have unanticipated and perverse effects and can easily devolve into revenue-raising mechanisms. BIAC cautions against the wide introduction of eco-taxes and the distortions to which they might lead. There is no real evidence of the so-called "double dividend" and little correlation between shifting taxes from labour to the environment and job growth, which is more dependent on reduced tax overall.

16. The business community generally believes that it is preferable to have **lower tax rates** rather than incentives. However, when analysing the effect of subsidies, social aspects and economic benefits should be taken into consideration in addition to environmental aspects.

V. Post-Kyoto challenges for industry

17. Climate change is a **global issue** requiring a global response. Industry is offering valuable assistance in achieving objectives to minimise emission of greenhouse gases by offering its expertise with regard to technology transfer, voluntary initiatives, and other policy instruments (e.g. German industry's declaration on global warming prevention; Keidanren, ICC, WBCSD joint statement on voluntary business initiatives, which has been endorsed by BIAC).

18. It is important that global policies **encourage innovation** and creativity, rather than impose specific solutions. Response strategies should allow for gradual change and avoid economic dislocation. The costs and benefits of a wide range of measures need to be analysed so that the most fitting solutions can be implemented first. It is essential that government, industry and the public co-operate, and that policies and measures under international consideration be designed to promote cost-effective, **voluntary actions**.

19. The development of **cleaner, more efficient technologies** for energy will be a decisive factor. Industry is responding actively to the climate change issue by developing energy saving technology and waste heat recovery and by promoting renewable energy as well as the safe use of nuclear power. Of all the various areas of energy use, industry has been the most successful in achieving considerable improvement over the past 30 years and continues to take pro-active measures to mitigate climate change.

VI. Waste Management

20. BIAC supports flexible, socially acceptable, environmentally sound and cost effective integrated waste management, based on sound scientific data, including risk and cost-benefit analyses. In recent years, industry has made considerable efforts to improve the recyclability, design, standards and properties of its products to reduce and manage waste. Industry will continue to improve production methods and the standards of its products. Governments should assure that policies encourage industry to make further progress.

21. A **sound and harmonised definition of waste/non-waste** should be developed. Global trade in recyclable materials and the access to recycling facilities worldwide is essential to economic development and reduction in final disposal. The expanding restrictions for transfrontier movements of secondary raw materials and trade-disruptive measures in the context of the Basel Convention obstruct the essential trade of recyclable materials and the reasonable and integrated use of recycling facilities. A transfer of OECD waste management activities to Basel would have very negative consequences for the intra-OECD trade with recyclables. BIAC therefore strongly recommends to maintain the Review Mechanism for waste classification at OECD level.

22. Waste can be an important **source of energy**. The practical and reasonable use of alternative and environmentally recommended fuels, e.g. biomass resulting from pulp and paper industry, should not be restricted. Increased landfilling of valuable fuel resources can by no means be considered to be environmentally effective. It is important that high standards of waste management are achieved and that the range of options available is kept as wide and flexible as possible. The rigid adherence to the concept of a “waste hierarchy” is not always environmentally or economically desirable.

23. BIAC supports the concept of **Shared Product Responsibility (SPR)** according to which all those involved in the life cycle of a product (including not only producers but also governments, retailers, distributors and consumers) have a responsibility in resource conservation, pollution prevention and waste reduction. BIAC encourages the OECD to consider SPR as a means to address waste reduction and achieving sustainable development, recognising that environmental improvements require a life-cycle approach.

VII. Health and Safety Issues

24. Industry is committed to continuous improvement in environmental protection and the health and safety of employees and the general public. BIAC welcomes the work carried out by the OECD Environmental Health and Safety Division as it promotes integrated world-wide co-operation on practical issues and encourages the continuation of these OECD activities.

25. The **existing chemicals programme** agreed among the OECD members should be further promoted in order to avoid rising pressure to control substances for which the risks are unknown. The OECD has a key role to play in the development of health and safety information for high volume production chemicals. Proper testing methodologies as well as improved risk and hazard assessment need to be encouraged. BIAC urges governments to continue support for the OECD Environmental Health and Safety Programme.

26. Risk management of chemicals should include **socio-economic analysis** as a component both in the early and later stages of risk management decision-making for chemicals. The OECD should take a leading role in developing and promoting the integration of socio-economic analysis in chemical risk management and in implementing it on a global scale. BIAC welcomes the recommendations of the OECD Workshop on the Integration of Socio-Economic Analysis in Chemical Risk Management held in London in January 1998.

27. BIAC recommends that the OECD take steps towards facilitating the **mutual acceptance of notification** to aid international trade while protecting man and the environment. Multiple notifications

around the world can prove to be immensely difficult given the variations in the different test protocols and the hazard data required.

28. BIAC recommends that OECD work be extended through **mutual recognition agreements**. The progressive globalisation of the international economy has been made possible by a reduction in tariffs. However, regulations are increasingly becoming important "speed bumps" to trade. The OECD has already done important work in developing standards such as good laboratory practice (GLP) and mutual acceptance of data (MAD), which need to be further encouraged.

29. The OECD is playing a key role in the **harmonisation of classification and labelling** of substances, which should ultimately permit easier material trade and increase the awareness of users of the hazard of products. It is a complex field that requires the necessary level of discussion to ensure that all the technical alternatives have been properly assessed. Since this process may require the development of appropriate testing methodology, the completeness of results is of utmost importance.

VIII. The OECD's role in achieving sustainable development

30. BIAC supports the OECD in promoting greater awareness of sustainable development issues and policies among governments, business and the general public. The OECD's high-quality analytical work and integrated analysis make the Organisation perfectly suited to continue its leadership role in this area. The OECD should build on these strengths in taking further steps to integrate sustainable development into its work programme, balancing economic, social and environmental aspects.

31. The OECD can share the experience of OECD Member countries in fostering economic development and environmental progress, thereby promoting and even accelerating improvements in non-member economies and environments. It can help Member countries share tested public policies that improve opportunities for innovation in the context of sustainable development and can promote the harmonisation of policies that contribute positively to globalisation and free trade, thereby increasing economic growth and the availability of resources for environmental progress.

32. The OECD's work on sustainable development policy should promote consistency among the various elements of sustainable development and encourage business enterprise, innovation and ingenuity in the framework of competitive markets. BIAC recommends that particularly in times of general budget restrictions, the OECD should not divert resources from core activities such as chemicals and waste management, which provide considerable value to Member states (and non-members) on practical issues. BIAC recommends that these operational activities should be preserved in any new strategy to be adopted.

IX. Conclusion

33. Business continues to be an important actor in the pursuit of sustainable development and can make its contribution most effectively in the framework of economic growth, a competitive market, globalisation and a conducive regulatory structure. Industry recognises the importance of sustainable development and is responding to the challenge by developing and implementing such measures as eco-efficiency. An equally large responsibility rests on governments and consumers: on the former to assure that policies adopted are balanced and equitable; on the latter by taking responsibility for the environmental impact of their choices as consumers. Business, governments and civil society all have important and complementary contributions to make if we are to implement sustainable development in this era of globalisation.

34. Environmental policy and measures to stimulate improvement should be based on constructive dialogue between business and Government, on the best available scientific knowledge and analysis, on a thorough assessment of technological options, and hence on a realistic appreciation of the costs, benefits and trade-offs between different environmental objectives. Direct consultation between industry experts and government policy-makers is an extremely effective means of exchange. BIAC, which is representative of

business and industry in the OECD, provides a crucial channel for the business community to contribute well-balanced information, advice and partnership necessary for developing sound environmental policy.

35. BIAC welcomes the opportunity to contribute constructively to OECD discussions and negotiations and looks forward to continued cooperation with the OECD and Member countries in addressing environmental and sustainable development challenges.