Business and Industry Advisory Committee to the OECD

Comité Consultatif Economique et Industriel Auprès de l' OCDE

BIAC DISCUSSION PAPER

FOR THE CONSULTATION WITH THE OECD ENVIRONMENT POLICY COMMITTEE (EPOC) ON THE CLIMATE CHANGE SECTION OF THE OECD ENVIRONMENTAL STRATEGY

PARIS, 31 MARCH 2003

BIAC, which represents business and industry in OECD member countries, is pleased to submit this discussion paper to the March 2003 consultation with EPOC, which will focus on the climate change section of the Environmental Strategy. BIAC represents national industry and employers associations, small and medium-sized as well as multinational enterprises of all major business sectors. While there are various views on the strategies to combat climate change, business is committed to playing its part in addressing this major challenge, and many companies throughout the world have already taken significant action.

In this paper, we would like to address the contribution that business makes to address climate change challenges effectively. As mentioned under the challenges identified by the OECD, it is important to "further develop new technologies, market approaches and other innovative solutions to address climate change". Business has an important contribution to make to address these challenges.

Business is also watching with interest how countries' implementation of climate policies will impact economic conditions in OECD and non-OECD countries. In that regard, business encourages OECD governments to take a long term view as they consider climate policies and initiatives, recognizing that many options to reduce emissions involve considerable time and expense to alter energy and raw material inputs, operations and products, and to develop and introduce technological innovations. Furthermore, the planning basis for business development, investment decisions, and cost-recovery may be profoundly affected by governmental commitments and changes in the international framework in the longer term. Uncertainty regarding longer term time frames has already introduced concerns and delays in decision making in important sectors, especially regarding international investments for energy production and distribution and projects to develop long-lived infrastructure.

Innovation and technology

Ultimately, addressing the risks of climate change while meeting the needs and aspirations of sustainable development will require the development and global deployment of innovative new technologies, as well as broader deployment and use of existing technologies that render climate change benefits. All technology options may be required to enable countries to address climate change and should be kept open.

Business is and will continue to be a primary source of such technologies. Government policies should encourage business to undertake the research and development required to create innovative technology. If such technologies are to become a global reality, longer-term commitments must promote an enabling framework for development and commercialisation of new technology, and they must encourage technology utilisation, technology transfer and capacity building so that both developed and developing countries can benefit from technological progress.

The development and deployment of new technologies that minimise greenhouse gas emissions and mitigate GHGs in the atmosphere are crucial to address the concerns about global climate change over the longer term without undermining the competitiveness of companies. Government policies should avoid to choose "winners" and "losers" among technologies. Instead, governments should remove market barriers and strengthen enabling frameworks for technology innovation and dissemination. Opportunities for OECD and non-OECD partnership can be found in strengthening the infrastructure of developing nations to adopt and manage new technologies.

As private sector investment levels surpass overseas development assistance, both OECD and non-OECD countries will benefit from the establishment of supportive frameworks, market conditions and incentives for more environmentally-friendly technologies and business practices to stimulate domestic entrepreneurship and attract investment. Government policies should therefore encourage business to undertake the research and development required to create innovative technology. In addition, enabling frameworks for the commercialisation and transfer of these new technologies and for capacity building will permit both developed and developing countries to benefit from technological progress. Strong industry-government and business to business partnerships should be encouraged to accelerate this technology development and co-operation.

Voluntary approaches

The very nature of climate change requires a long-term and on-going framework for a response strategy. The wide range of voluntary approaches, initiatives and agreements provide custom-tailored long-term responses, offering early and cost-effective action and allowing for great flexibility to suit the different conditions and circumstances in various OECD countries and industries. There is a broad diversity and range of voluntary actions, many of which include setting goals, taking measures to achieve them, monitoring and communicating their progress and achievements.

Many countries have had positive experiences with voluntary initiatives which can:

- be more cost-effective than alternative measures in a given period, due to their flexibility and reduced bureaucracy;

- provide a framework for innovation and creativity that allows for new approaches and more rapid changes than would be possible under mandatory programmes;

- allow for easier and thus more rapid adaptation to changing conditions than legislative measures;

- offer an effective means of ensuring consultation and partnership;
- promote awareness of existing and new technical management practices;
- allow companies to prepare themselves for emissions trading;
- encourage the dissemination of existing effective technologies, the development of innovative approaches, and faster implementation of both.

Business-led, market-based voluntary initiatives and actions have proven to be an effective means to control and mitigate emissions while at the same time fostering innovation and investment in new technologies. In this context, companies and sectors may differ in their capacity to undertake voluntary actions to control GHG emissions and need flexibility to determine what actions can be taken after reviewing their own operations and in light of their financial situation and important competitiveness considerations. The OECD and its Member states should encourage companies to initiate and implement voluntary initiatives to address climate change, and factor such voluntary approaches into domestic action plans.

Market approaches

The various mechanisms and policy instruments should be carefully analysed as to their impacts on economic activity and ensure that they are enabling actions to address climate change at minimal cost to business and to society as a whole. For many business sectors, the Kyoto targets will result in increased costs with direct implications for their growth and international competitiveness. It is therefore essential that national programs permit maximum market flexibility, allowing the Kyoto mechanisms to operate in a flexible manner and promote technology development and dissemination. Great care should be taken to ensure that implementation of the Kyoto Protocol does not distort the market and threaten competitiveness, growth and jobs in those sectors.

Comprehensive, well-designed mechanisms should allow economic growth, permit markets to allocate resources efficiently and reduce the bureaucracy and compliance costs necessary to implement them. They should also facilitate the spread of current and emerging technologies and broaden international co-operation. Where appropriate, systems need to be simplified to allow society to meet emissions reductions at least cost.

In principle, market based instruments permitted under the UNFCCC should allow firms to acquire, exchange and utilize greenhouse gas emissions "credits" from both developed and developing countries. Such credits could be of economic and competitive value to any firm from small and medium-sized enterprises to affiliates of multi-national corporations, from businesses that operate in a single developed or developing country to those operating in many countries. Consequently, obligations and risks of companies concerning greenhouse gas emissions and opportunities to acquire and exchange emissions credits and allowances may have important consequences for all businesses, not just those that operate in developed countries which ratify the protocol.

With regard to market-based approaches to climate policy:

- Companies benefit from a reliable policy framework working within liberalizing trade, commerce and investment. Such frameworks will facilitate compliance and lessen transaction costs for the implementation and enforcement of UNFCCC measures.

- Governments should recognize that in most countries, a number of climate protection measures are already in place. It is important to select the mix of instruments with a view to implementing the various national climate change protection targets most effectively.

- Countries should recognize equally all valid credits and allowances acquired by companies through market based approaches under the UNFCCC, without imposing selective criteria based on their national source or final owner of credits.

- Nations should not apply export/import limits on exchanges and transfer of credits through trading or other market based approaches. Such limits would inevitably result in arbitrary restrictions on companies that may wish to transfer credits across borders.

- Internal transfers of credits between affiliated companies of multinational corporations should not be subject to taxes or other restrictions.

- Transparent procedures to issue and exchange credits from national allocation procedures and project activities should be established so that companies will be able to undertake transactions confidently based on readily available information.

- Nations should not establish procedures concerning eligibility, compliance and liability that would retroactively affect transfers undertaken in good faith by companies under UNFCCC measures.

Further work in OECD:

BIAC agrees with the Strategy that the OECD has an important role in assisting countries to implement policy options, facilitate dialogue and promote the exchange of information, help develop tools to evaluate progress, assess policies and analyse implementation options. In that context, as a business group in society, we would encourage OECD to bear in mind that addressing climate change will require global cooperation and action by all elements of society, actions that will affect individuals, as well as governments and businesses. OECD analysis should review costs and benefits of climate policy implementation and encourage cost-effective options.

We would continue to encourage the OECD to supplement its work on climate by exploring opportunities for partnerships with non- OECD member countries, in order to pursue economic development and address climate change synergistically through investment, technology co-operation, capacity building and sharing of good practices to promote energy efficiency.

Greenhouse gas emissions arise from essential everyday activities through energy use, agriculture, land use, and others. Consequently, efforts to curtail the considerable projected growth in future emissions under the UNFCCC will have impacts, not just on industry, but on individuals in their everyday activities at home, at work and in the use of services such as transport.

Open discussion on the various policy options and their implications is essential to enhance understanding of these complex matters. In particular, it is important that policy instruments are being considered in a sustainable development context taking into account environmental, economic and social considerations. BIAC believes that the OECD has an important role to play in informing these deliberations given that its expertise can help to foster economic soundness and free market compatibility.

ANNEX

SELECTED EXAMPLES OF INDUSTRY'S CONTRIBUTION

The Business Roundtable's Climate RESOLVE Initiative

The Business Roundtable (BRT) is launching Climate RESOLVE – Responsible Environmental Steps, Opportunities to Lead by Voluntary Efforts – to mobilize the resources and expertise of BRT member companies behind the goal of enhanced voluntary action to reduce the greenhouse gas (GHG) intensity of the U.S. economy. Every company in every sector of the economy has a role in minimizing the risks of global climate change by helping control greenhouse gas emissions.

The Business Roundtable's Climate RESOLVE initiative urges – and assists – companies to take steps to voluntarily reduce, avoid, offset or sequester greenhouse gases. The ultimate objective is to assist the federal government in reaching its goal of an 18 percent reduction in the greenhouse gas intensity of the economy (GHG emissions per $ GDP) by 2012. Our goal is participation of 100 percent of BRT companies in voluntary greenhouse gas management programs.

The BRT will conduct workshops, offer one-on-one consulting support and provide examples of options to help companies determine effective ways to measure, control and report greenhouse gas emissions. Progress will be reported publicly.

The Importance of Greenhouse Gas Management

The Business Roundtable views global climate change as an important and complex issue with significant potential environmental, energy supply and economic implications. Although scientific uncertainties continue to exist, we are committed to taking action to address the potential impact that increasing concentrations of greenhouse gas in the atmosphere may have on the global climate. We believe that the development and global deployment of new, highly efficient technologies that minimize carbon emissions and maximize removal of carbon from the atmosphere is the most effective long-term response to concerns about global climate change.

However, businesses should not wait while scientific understanding of the issue evolves and the transition is made to new technologies. Instead, companies should take voluntary actions to reduce, avoid, offset or sequester greenhouse gas emissions and demonstrate that voluntary programs rather than mandatory approaches will succeed in meeting emissions-reductions objectives at less cost to businesses.

All companies throughout the country and the economy will need to take part in these voluntary reduction efforts to help meet President's Bush's goal of an 18 percent overall reduction by 2012 in the intensity of greenhouse gas emissions.

The Role of Business

Through Climate RESOLVE, The Business Roundtable has chosen to lead by example. The BRT's commitment to expanded participation in voluntary greenhouse gas management programs sends a strong signal about the importance of these efforts and we hope it will catalyze broader action across industry.

What It Will Accomplish and How It Will Work

- The Business Roundtable (BRT) is launching Climate RESOLVE to mobilize the resources and expertise of BRT member companies behind the goal of enhanced voluntary action to control greenhouse gas (GHG) emissions and improve the GHG intensity of the U.S. economy.

- BRT has consistently emphasized that concerns about global climate change can best be addressed by developing and deploying breakthrough technologies without undermining the competitiveness of our economy. BRT has advocated strong industry-government partnerships to accelerate technology development. While new technologies mature, BRT continues to support voluntary near-term measures by U.S. industry to control GHG emissions and reduce GHG intensity.

- BRT has identified near-term opportunities for accelerating technology innovation and deployment, and spurring voluntary GHG mitigation actions through changes in regulatory, tax and trade policies. The BRT will continue to urge the Administration and Congress to provide appropriate incentives to encourage participation in Climate RESOLVE.

- President Bush has challenged American business to take additional steps to lower the GHG intensity of our economy. BRT supports this goal. We agree with the President that voluntary programs represent the best approach for controlling GHG emissions. These programs will deliver results at less cost than mandatory approaches and will simultaneously foster innovation and investment in new technologies.

- Strong and sustained support for voluntary action is the best way to avoid undesirable mandatory GHG controls. By participating in Climate RESOLVE, BRT members will underscore the importance that leading companies in each sector attach to voluntary GHG management efforts and catalyze broader action across industry. BRT Climate RESOLVE will continue through 2012, a critical milestone year for reviewing U.S. progress in reducing GHG intensity and determining next steps.

- It will take the collective actions of every nation, industry and company to address the risk of global climate change. Precisely because emissions from any individual company are small relative to total GHG emissions, it is essential that every company take effective actions to manage its GHG emissions. That is why the ultimate goal of BRT Climate RESOLVE is *100 percent participation by BRT members in voluntary GHG management programs*. BRT will monitor the activities of its members and regularly report cumulative progress toward this 100 percent goal.

- BRT Climate RESOLVE reflects a recognition that each BRT member is in the best position to select measures for reducing, avoiding, offsetting or sequestering GHG emissions that fit its business strategy and operational profile. BRT Climate RESOLVE likewise does not set specific targets for the level of GHG emissions that companies should reduce, avoid, offset or sequester. Each company will need to determine what actions to take after reviewing its own operational and financial situation. For example, some companies will want to invest in developing more efficient technologies that reduce GHG emissions when used by industry and the general public, rather than reducing or avoiding emissions in their own manufacturing operations. In developing GHG emission management strategies, however, companies should carefully consider the President's goal of reducing GHG intensity by 18% by 2012.

- BRT members differ in their readiness and capacity to undertake voluntary actions to control emissions. BRT will provide support and guidance to members who need additional assistance. In early 2003, BRT will distribute an implementation workbook. It will also sponsor workshops in February and September 2003 on cost-effective strategies for assessing and managing GHG emissions. One-on-one counselling on program design and implementation will be provided to individual companies on request.

- BRT members should inform BRT of their plans to participate in BRT Climate RESOLVE by February 1, 2003. Companies with limited experience in managing emissions may begin participating in the program by reviewing their operations and putting in place plans for controlling emissions and developing procedures to track progress. These first steps will provide a foundation for actions to reduce GHG intensity in later years.

- Communicating a company's GHG management efforts to government and the public is vitally important so that overall progress can be measured and recognized. While the mechanism for such communication is best determined by each individual company, BRT recommends that its members submit reports to the Department of Energy (DOE) 1605(b) registry or its successor program so that their actions are reflected in the national GHG database.

- During the first half of 2003, BRT will conduct one-on-one outreach to individual companies as needed to broaden participation in BRT Climate RESOLVE and will seek participation commitments from additional members by May 1, 2003.

- In mid-2003, BRT will distribute to its members the first of its annual reports on the status of Climate RESOLVE. These annual reports, will provide an update on the progress of BRT members in establishing and implementing GHG management programs and achieving target levels of participation in BRT Climate RESOLVE.

- At the end of 2003, we will assess progress under BRT Climate RESOLVE by surveying participating companies to get a fuller picture of their activities during 2003. Outreach to members will continue in order to maintain progress toward the goal of 100 percent participation in voluntary GHG management programs.

- In mid-2004, BRT will distribute to member companies its second annual status report on BRT Climate RESOLVE. Soon thereafter, BRT will release its first annual public report on accomplishments under Climate RESOLVE to date and measures planned for subsequent years. The report will be provided to government policymakers and the general public. It will not disclose the details of individual company programs but will provide a profile of GHG reduction efforts by BRT members as a whole. Included in this profile will be examples of the wide variety of actions BRT members are taking to manage GHG emissions through energy efficiency, manufacturing improvements, new products, investments in technology and changes in management practices.

Agreement on Climate Protection
between the Government of the Federal Republic of Germany
and German Business

In 1995, after intensive negotiations with the Federal Government, German Business submitted its Declaration on Global Warming Prevention. A year later the Declaration was updated, made more precise and extended. German Business has set itself the objective of making a special effort, on a voluntary basis, to reduce specific CO2 emissions and/or the specific energy consumption by 20% by the year 2005 as against 1990. A voluntary agreement for the reduction of specific fuel consumption of passenger cars has also been undertaken by the German automobile industry.

The Federal Government and German Business agreed that the implementation and further development of the Declaration on Global Warming Prevention of German Business should be subject to continuous monitoring and review, within the framework of a monitoring concept, by an independent, scientific institute which may make suggestions for developing the declaration further.

In view of the conclusions of the monitoring reports of November 1997 and March 1999, as well as of European and international undertakings for the implementation of the Framework Convention on Climate Change and the Kyoto Protocol, the Federal Government and German Business decided on the further development of the Declaration on Global Warming Prevention of German Business in February and March 2000. The two parties agreed to put the declarations, unilateral at present, on a joint basis and thus to emphasize the validity of the commitments for both parties. This new agreement was signed by Chancellor Schröder and Ministers Trittin and Müller as well as the presidents of BDI and of three more umbrella organisations on November 9, 2000. The Federal Government acknowledged that this agreement constitutes a major building block of the national climate protection programme.

In this agreement German Business under the auspices of the BDI renews and emphasizes its commitment to continue making particular efforts to reduce its specific CO2 emissions as well as other greenhouse gas emissions. With a view to the objectives of the Kyoto Protocol, German Business enlarges its commitment and declares itself prepared, in the sense of this agreement, to reduce the specific emissions of all six greenhouse gases referred to in the Kyoto Protocol (CO2, CH4, N2O, SF6, HFC and PFC) by a total of 35% by the year 2012 as against 1990. In connection with this, German Business agrees to make additional efforts to achieve a specific reduction in CO2 of 28% as compared to 1990. These reduction targets are valid on the basis of the methods of calculation used by the jointly authorised neutral monitor (RWI) including the assumptions made in this respect.

As long as the “Agreement on Climate Protection between the Government of the Federal Republic of Germany and German Business” is successfully implemented and jointly developed further the Federal Government will not take any initiative to achieve the climate protection targets through command and control measures. The transposition of EU law remains unaffected. The Government has decided against introducing a binding energy audit .

As regards tax measures, the Federal Government already took due account of industry’s efforts in climate protection during the first steps of the ecological tax reform. It will endeavour to ensure that further development of the ecological tax reform will not cause any competitive disadvantages on the international level for the industries involved in the agreement. Inter alia, in view of the harmonization of energy taxation yet to take place in Europe, the net burden on companies is also to be kept within reasonable limits.

As regards EU-wide harmonisation of energy taxation, the Federal Government will advocate solutions compatible with competition, i.e. uniform levels of taxation rates, uniform objects of taxation and a uniform basis of assessment. In this respect the Federal Government will endeavour to guarantee that on the European level due account will be taken of the contributions by German Business and other players made to date.

The Federal Government will endeavour to ensure that German Business will not suffer any competitive disadvantages at the international level as a result of the Kyoto obligations and the instruments involved (particularly Emissions Trading) and EU Burden-Sharing. With a view to the results of further Conferences of the Parties on the Framework Convention on Climate Change, the Federal Government and Business will decide jointly on the use of flexible instruments.

The French System of Engagement against Greenhouse Gas Emissions

The French system is the result of an intense dialogue between the two most directly concerned Ministries: The Ministry of Environment, the Ministry of Industry and a delegation of firms led by the MEDEF and the AFEP in co-operation with the EpE. This dialogue results from a shared wish to launch the move for action and from an aspiration on behalf of companies to show the system's viability. The Ministries and companies have thus agreed on a voluntary trial-and-learn period, with the ministries taking an observation role. An Association for the Reduction of Greenhouse Gas Emissions (AERES) has been created by about 20 companies that have all signed a framework agreement which sets the rules and criteria that their own individual engagement for GHG emissions reductions must comply with. The association is open to all enterprises or groups of enterprises that accept the rules.

The framework agreement states in particular that:

- The gases concerned are the six greenhouse gases mentioned in the Kyoto Protocol, provided that it is possible to validly estimate their emissions.

- The concerned periods are 2003-04 and 2005-07, as it is anticipated that a European market of tradable emissions permits will open in 2005, in line with the EU directive and, that in 2008, the first period as anticipated in the Kyoto Protocol will begin.

- Failure to meet the individual objectives will result in a financial penalty paid to AERES and used to encourage co-operative R&D or small companies' progress for GHG reduction.

- The role of the AERES is to validate and update the engagements, taking into account the changing perimeters of companies. The AERES keeps track of the emissions of its members on a registry and produces and publishes an annual account of the various emissions reports.

A focal point for this initiative is a Consultative Committee with approximately thirty members, including two experts and four observers designated by the government. This Committee examines the individual engagements and gives its opinion to the Executive Board of the AERES, which will then decide whether or not to approve the commitment. This structure is envisioned in order to develop common practices and to enrich the methodology for discussing objectives, an important condition for a well functioning tradable emissions market. Members of the association will be able to trade among each other on an experimental basis in preparation for participating in the European emissions trading scheme.

The French system is at the same time flexible, pragmatic and co-operative. Its intention is to facilitate the involved parties' first step in a long and difficult process imposed by the carbon constraint.

Climate Protection Initiatives by the Confederation of Norwegian Business and Industry (CNBI)

In 1989/90, Norwegian Business and Industry together with Nordic sister federations submitted a report to the Nordic Governments which called for a role for emissions trading in European Climate Change polices. This report recommended that emissions trading was a cost effective way of meeting future commitments in the field of Climate Change. This was one the impulses that inspired the Norwegian Government to make flexible instruments and cooperation between countries part of the negotiations both for the climate convention and the Kyoto Protocol.

Within Norway CNBI followed up with a suggestion to use ET to meet ECE commitments in SO_2 to 2010 involving both downstream and upstream sectors and sources. This model was later adopted for our recommendations for a Norwegian emissions trading scheme to meet GIG commitments in the Kyoto Protocol. This scheme was supposed to be used while taking away the CO_2-taxes. In 2002 the Norwegian Parliament decided to have such a full fledged scheme covering all gases and sectors in place from 2008.

CNBI has also recommended that Norway joins the EUs ETS from 2005 in the same sectors and in the same way as other European countries. In sectors that are not covered by the scheme and that have no CO_2 taxes we have proposed that agreements could be linked to the system.

Norway has also had an agreement between the aluminium industries and the Government with a 50% reduction in all GHG-gases from 1990 to 2005. We also have a large system of agreements in the waste sector to make less waste go to landfills and more to be reused either as materials or as energy. We have also recommended that the landfill tax and the tax on waste used as energy better reflects the environmental costs of methane and other emissions from landfills. More waste should be reused as energy and less go to landfills.

CNBI has also had initiatives in the field of energy both to more efficient use, green certificates to promote renewable energy and to build gas fired power stations to get less dependence on imported coal fired electricity. Such imports make meeting the Kyoto Protocol harder for our neighbouring countries such as Denmark, although within a ETS Norway will have to pay for allowances or credits from JI or CDM projects to get such electricity in the future that will make domestic gas-fired plants more competitive. Right now we have a 100% hydro-based system with no emissions.

International Fertilizer Industry Association: Improving knowledge on Nitrous Oxide and Nitric Oxide Emissions Throughout the Product Life-Cycle to Better Target Mitigation Measures

The International Fertilizer Industry Association (IFA) cooperated with the Food and Agriculture Organization of the United Nations (FAO) to improve information and understanding of the links between nitrogen fertilizers and GHG emissions from agricultural lands. The resulting study "Global Estimates of Gaseous Emissions of HN_3, NO and N_2O from Agricultural Land" helps the industry and policymakers both make more precise decisions about measures to mitigate the release of greenhouse gases through

agricultural production. The results summarized here show that there are different effects among various products, but also that the way in which the end consumer, the farmer, use the fertilizer product can also contribute significantly to reducing unwanted emissions. The results show that focusing only on the industry measures would clearly be a suboptimal way of addressing this issue.

The two organizations commissioned a reputed climate scientist involved in the Kyoto Protocol discussions to lead a study to examine the effects of different fertilizer products under different agri-ecological conditions. The study also considered the impacts of how farmers applied the products, thus considerin

The outcome of the model indicated that the potential impact of fertilizer use regulations would be modest from a global emission perspective, although it varies between products. The study also noted that the ability of the consumer (farmers) to curtail such emissions is strongly linked to economic incentives, in particular in South and South East Asia. This helped point the way for the most effective policy response to encourage the sustainable consumption of fertilizer products that constitute a valuable plant nutrient source.

This report was an extension of the commitment already demonstrated by the industry through significant reduction of emissions from production facilities over the last 15 years. An international industry benchmarking encourages further improvements in the performance of production facilities, from mines to factories. The fertilizer industry is one of the first to consider in such detail the relationship between the use of its products and key policy issues like climate change.

To download the publication, please visit www.fertilizer.org/ifa/form/pub_det.asp?id=916.