

Chairs' Summary



Meeting of the Environment Policy Committee (EPOC) at Ministerial Level

Environment and Global Competitiveness

28-29 April 2008



For a better world economy

CHAIRS' SUMMARY¹

Meeting of the Environment Policy Committee at Ministerial Level "Environment and Global Competitiveness" [ENV/EPOC(2008)/12/FINAL]

Paris, 29 April 2008

Italy as Chair and Denmark, Japan, Mexico, Portugal and the United States as Vice-Chairs were honoured to lead the 2008 OECD Environment Ministers Meeting over the last couple of days, on the theme of "Environment and Global Competitiveness".

Ministers had an excellent and lively debate. They very much appreciated the contributions and the enriching dialogue with colleagues from OECD countries, and the opportunity to listen to the candidate countries for accession to the OECD (Chile, Estonia, Israel and Slovenia), other key partner countries (Brazil, China, Indonesia and South Africa), and the stakeholders - business, trade unions, and environmental NGOs.

Setting priorities for the coming decades

Ministers discussed environmental priorities and the challenges and opportunities created by the current economic situation and policies, including on biodiversity and climate change. They discussed how to be competitive and green in a globalised world. Ministers heard how some countries have succeeded in combining strong economic growth with ambitious environmental policies.

Ministers supported further work on the OECD Environmental Outlook, building on the lessons learned and recommendations of the just published Outlook, especially on the four "red light" issues – climate change, biodiversity loss, water scarcity and health impacts of pollution. Building on the experience with the Outlook, Ministers requested the OECD to update the *OECD Environmental Strategy for the 2nd Decade of the 21st Century*. Some Ministers stressed the importance of Environmental Performance Reviews as a tool for the continued evaluation of the implementation of the Environmental Strategy in OECD countries.

Some Ministers described how the Environmental Outlook has helped them set priorities and rethink environmental policies, for example, to focus on policies that can have multiple co-benefits. The Outlook showed that ambitious environmental goals are achievable and feasible.

Some Ministers highlighted the importance of sustainable consumption and production patterns and, in this context, the key role of education. Many commented on the current biofuel debate and the need to ensure the sustainability of biofuel production.

Resource efficiency and material flows are important issues, on which the OECD has done and is encouraged to continue to do significant work. In this context, Ministers noted and welcomed the recently approved *OECD Council Recommendation on Resource Productivity*.

¹ The present document is a summary of the interactive dialogue that occurred among the ministers at the OECD Environment Policy Committee at Ministerial Level. It reflects the ideas presented and discussed rather than a consensus view of all points raised by participants.

Getting the policies right

Ministers expressed a general appreciation for OECD work on environment. In particular, they appreciated the focus on policy integration of the various dimensions of sustainability as well as on policy mixes or packages. Some ministers suggested that the OECD could do further work on the costs, benefits and effects of specific policy options, including the option of no further policy action.

Ministers highlighted the need for Governments to create the right framework conditions and have the right policies in place in order to improve environmental quality. These policies and framework conditions should be as economically efficient and environmentally effective as possible. In this context, the Ministers welcomed the publication of the *OECD Framework for Effective and Efficient Environmental Policies*.

Enhancing environmental co-operation between OECD and partner countries

The environmental challenges we face today require strengthened international cooperation. And as the *OECD Environmental Outlook to 2030* shows, cooperation among current OECD members alone will not be sufficient to achieve common environmental goals. We know that OECD countries need to show leadership. But new global actors – for example the BRICS countries – are playing an increasingly significant role economically and environmentally, and OECD countries need to find new ways of working with them. We also recognise the need to strengthen cooperation with developing countries to enable them to develop in an environmentally sustainable way. This is critical in terms of reducing stresses on natural resources and ensuring protection of our shared environment from pollution. Some speakers emphasized that environment and development cooperation need to be better integrated.

Ministers discussed various approaches for international co-operation on climate change. Further dialogue is clearly needed. Some issues were discussed in other sessions of the meeting.

Ministers and representatives from participating countries welcomed this opportunity to meet at OECD to exchange views and to discuss common approaches and challenges. Our discussions highlighted a number of issues:

- The need to overcome obstacles to the dissemination of affordable and cost-effective environmental technologies, including information about such technologies, and to develop more environmentally friendly technologies;
- The need to stimulate investment in environmentally-friendly technologies, including low carbon technologies, particularly by the private sector, but also examining the role that public finance can play;
- Mobilising sufficient finances internationally to support developing countries' efforts to address environmental issues of a global nature, and likewise supporting their efforts to establish nation-wide, market-based finance systems for environmental projects as a means of attracting private capital, domestic and foreign;
- The need for a better understanding of the linkages between globalisation, competitiveness, environmental protection and issues like hunger, for example the linkage between biofuels and rising food prices;

- The need for effective environmental governance, including environmental institutions, enforcement and compliance, and environmental information systems and the need to optimise the mix of environmental policy instruments, e.g. economic instruments, standards and voluntary instruments; and
- The need to disseminate information and best practices and to promote environmental education in support of capacity development.

Ministers recognised that, although these undertakings can and should be undertaken by OECD members through their various bilateral relationships, OECD can itself serve an important leadership role in this area as a forum for discussion and collaboration for purposes of building environmental capacity where it is needed most. In this regard, we welcomed the OECD efforts to strengthen environmental co-operation between current members and emerging economies. For example, the OECD Environmental Performance Reviews that have already been conducted of China and Chile enhanced the understanding of these countries' environmental policies and institutions, supported the process of reforming environmental policies in partner countries, and strengthened the basis for further co-operation.

The OECD Council decisions to launch accession discussions with five countries (Chile, Estonia, Israel, the Russian Federation and Slovenia), and to develop programmes to enhance engagement with another five countries (Brazil, China, India, Indonesia and South Africa) and the region of South-East Asia, provides opportunities for engaging these countries directly in the OECD work. We believe this will be good for OECD and good as well for these partner countries. Some Ministers thought that OECD could particularly help member and partner countries develop a "common vocabulary" on some of the key environmental challenges we face.

Ministers recognised that countries need to work together more effectively to build capacity environmentally world-wide. Some Ministers supported a second joint meeting of OECD Environment and Development Ministers, following the first one in 2006.

Ministers noted and welcomed the *OECD Council Recommendation on the Implementation of the Strategic Approach to International Chemicals Management (SAICM)*. The Resolution provides a solid foundation for OECD countries to cooperate with partners from developing countries in sharing information and building capacity for effective chemicals management.

Competitiveness and climate change policies

Ministers noted that tackling climate change and moving towards low carbon economies is a shared ambition, but moving to a low-carbon society will require significant structural shifts in the economy. This can create opportunities, but also competitiveness challenges (though often overstated), for particular industries, sectors, and workers. The competitiveness impacts are most likely to be reduced if strong international cooperation and common policy frameworks can be agreed.

Ministers stressed that competitiveness impacts and risk of carbon leakage can be managed, especially in a context of strong international co-operation and common approaches. Whatever policies are used to respond to climate change will need to work closely with existing international trade rules, in search of opportunities for mutual support. Some Ministers also look to sectoral approaches for helping with the competitiveness issue, although other Ministers were less certain about the efficacy of these approaches.

Some ministers asked OECD to deepen understanding on specific ways of avoiding leakage problems in the post-2012 architecture. This analysis should include discussion of key available policy options. In particular, this analysis could examine the issue of sectoral approaches and how would they supplement other elements of the general policy framework (carbon markets, technology promotion, targets, etc.). Such analysis would be valuable input to the COP 15 in Copenhagen in 2009 and thus could be available by mid-2009.

Promoting eco-innovation for a low carbon society

Technology developments will help reduce the costs of mitigation, both directly and indirectly (by contributing to environmental co-benefits). Technology development also helps to keep economies competitive over the long-term (growth, jobs, energy security). The environmental technology industry also represents a large (and growing) business opportunity. First mover advantages can be important.

Ministers stressed that business has a central role in leading eco-innovation, but governments will need to send clear and consistent signals to support long-term investments. Consumers will also play a key role in the development and diffusion of technological change.

Governments can contribute by applying an appropriate framework for technological progress. Some Ministers noted that such a framework could include such things as: establishing a common carbon price, through use of fiscal incentives (taxing the bad, but also rewarding good behaviour), establishing (transitory) support schemes for promising low carbon technologies, and progressive standard-setting.

Ministers agreed that an integrated “whole of government” approach is vital. National governments need to work closely across government (e.g. with local economic actors) on achieving technological progress. In particular, opportunities exist for broader collaboration with municipal governments and with small-medium size enterprises. Some Ministers suggested that education, training and information & communication technologies can assist to address climate change (e.g. the OECD Ministerial meeting “Future of the Internet Economy” will address some of these issues). The framework should also complement key policy objectives in other areas (industry policy, urban planning & transportation, etc.)

Removing subsidies to carbon-intensive technologies, pricing pollution and creating a “level playing field” is also important to enable low carbon alternatives to compete fairly in the market, and to find ways of helping these technologies to move quickly into the market-place.

Further analysis by the OECD could investigate the specific national policies that can help to take advantage of environmental technology development and diffusion opportunities. OECD is also requested to provide more information regarding links between energy prices and fossil fuel subsidies.

Towards a post-2012 international framework on climate change

Ministers discussed the notion of a “cascade of responsibilities” for a post-2012 framework for responding to climate change that reflects both top down approaches (e.g. targets) and bottom up approaches (technology mainstreaming). We need to work on opportunities for convergence among these two approaches.

Ministers noted that the 2012 framework will need to include a wide range of components, such as a shared vision about a long-term goal; binding mid-term targets for developed countries;

monitorable, reportable and verifiable (MRV) support for the financing of technology transfer; verifiable reductions below baseline in developing countries.

Some Ministers stressed that strong governance -- to provide accountability for commitments that are undertaken -- will also need to be codified and applied by all countries participating in this framework. It was noted that open markets should be preserved and the right balance needs to be struck between private and public sector contributors, using available market mechanisms (e.g. putting a clear price on carbon), and to help reduce competitiveness impacts.

Ministers emphasised that work should also continue on identifying, understanding and reducing trade barriers to the more rapid deployment and transfer of low carbon technologies. Governments can also play an important role in providing the "hurdle finance" that will be needed to bring new technology investments to the task.

Whatever its eventual shape, the post-2012 international framework on climate change will need to contribute to the development, deployment and diffusion of low-carbon technologies and practices, in particular to accelerate the transfer of technologies to developing countries.

The OECD could contribute further analysis of policies within the international framework including those needed to promote clean technology development, deployment and transfer. This would include policies to: enhance private sector financing for global climate-friendly action and build effective public-private partnerships; accelerate targeted R&D; reduce trade barriers; enhance capacity building and extend the role of development co-operation policies. Such analysis would be valuable input to the COP 15 in Copenhagen in 2009 and thus could be available by mid-2009.

Linking to the G8 Environment Ministers' Meeting

As the chair of the G8 this year, Japan will transmit the key messages of the discussions Ministers have had over the last couple of days as valuable inputs to the G8 Environment Ministers Meeting, which is to discuss three themes, biodiversity, the "3Rs" (Reuse, Reduce, Recycle), and climate change in Kobe Japan at the end of May. Given the increasing importance of collaboration among international forums, further linkage between the OECD and the G8 was encouraged. The OECD work to address resource productivity and competitiveness were highlighted as good examples.

* * * * *

Ministers asked to meet again no later than in 2012.

ANNEX
SUMMARY OF SESSION IV & MESSAGE TO OECD MCM (4-5 JUNE 2008)
29 APRIL 2008

Strengthening Co-operation across Government for Ambitious Climate Change Policies

- Environment Ministers of OECD countries met on 28-29 April 2008 together with the Ministers of Environment from most of the accession countries to the OECD (Chile, Estonia, Israel and Slovenia) and the enhanced engagement countries (Brazil, China, Indonesia and South Africa), participating as observers. They discussed “Environment and Global Competitiveness”, with a focus in two sessions on climate change. There were a number of messages which Environment Ministers wanted to convey to their colleagues, the Ministers responsible for Finance, Economy and Trade, who will meet on 4-5 June 2008 at the OECD Meeting of the Council at Ministerial Level.
- Ministers emphasised that climate change is not just an environmental challenge, but also a major economic challenge. Tackling climate change is essential for achieving sustainable development.
- Many Ministers stressed the urgency of action, and the need for all countries to redouble their efforts to address climate change. The need for ambitious long-term and medium-term targets for emission reductions was highlighted. Ministers discussed the importance of moving forward the Bali Action Plan under the UN Framework Convention on Climate Change, as well as the potential contribution to this of other ongoing processes such as the Major Economies Meetings and the G8 process.
- Ministers observed that climate change is an economy-wide challenge. To ensure a smooth transition to a low-carbon society, many Ministers stressed the need for mainstreaming climate change policies across all areas of government. A number of Ministers noted that the risk of carbon leakage and reduced competitiveness for countries that take measures to tackle climate change are often overstated and can be managed. They indicated that whatever policies are used to respond to climate change will need to be consistent with international trade rules, for the two to be mutually supportive.
- Environment Ministers – as those with climate change in their portfolios –discussed how they can best co-ordinate and co-operate with other Ministries, which are often responsible for the implementation of policies to mitigate climate change, as well as to respond to the impacts of or adapt to climate change (e.g. Ministries of Finance, Economy, Industry, Agriculture, Transport, Energy, Trade, Development Co-operation, among others). Ministers recognised that the overall responsibility for comprehensive, coherent and ambitious climate change policies rests with Heads of Government, and noted that they are increasingly engaged on this issue.

- Ministers observed that clear roles and responsibilities for all players are needed. Governments will need to provide the regulatory framework to foster engagement of private sector in addressing climate change. Local government authorities and cities, the business community, and civil society will be key partners. The potential for an enhanced role for local governments and municipalities in particular was discussed by Ministers.
- Environment Ministers wanted to underline to the Ministers responsible for Finance, Economy and Trade the need to strengthen the use of market-based approaches (e.g. cap-and-trade schemes and carbon taxes) in order to keep the costs of action manageable, with some noting the importance of moving towards a global carbon price. These Ministers are responsible for getting the financial incentives right – including inter alia, taxes, subsidies, and tariffs. The potential role of sectoral approaches, including to address carbon leakage concerns, was also highlighted.
- Ministers observed that public and private sector financing will need to be mobilised, and a broader policy framework put in place to encourage further technological development and rapid deployment, especially in developing countries. Finance and Economy Ministers should play an important role in developing an adequate, predictable and sustainable financing framework for climate change action. Some Ministers suggested the need to develop an international funding mechanism with automatic replenishment. Others noted recent developments in international collaboration and funding for technology development and transfer. A few more mentioned the potential for scaling-up and strengthening the Clean Development Mechanism.
- Some Ministers highlighted the opportunities for climate change policies to contribute to achieving a competitive edge, in particular through possible “first mover” advantages. Furthermore, many Ministers stressed the costs of inaction or “indecision” on climate change, or more precisely the adverse consequences of continuing with “business as usual”. Some Ministers noted that, as reflected in the *OECD Environmental Outlook to 2030*, ambitious climate policies are economically rational when both the direct benefits and co-benefits of these policies are taken into account.
- Ministers provided a wide range of ideas for possible further work by OECD on the economics of climate change, including to support their efforts in reaching agreement at UNFCCC COP15 in December 2009. Suggestions included analysis of the policy mixes that might be used to address climate change effectively and at low cost, examination of the role of market-based approaches and carbon pricing, the effects of policies on carbon leakage and competitiveness, how sectoral approaches might be a complement to – not a substitute for – economy-wide actions, the costs of inaction (or costs of business as usual) and the benefits and co-benefits of action, integration of adaptation across public policies and in development co-operation, and how policy framework can help mobilise financial resources and private sector investment, as well as spur the development and transfer of technology.
- Several Ministers suggested a meeting of Ministers of Environment and those responsible for Finance and Economy at the OECD, perhaps back-to-back with the OECD Meeting of Council at Ministerial Level in 2009.