Overview

1. Growing concerns about the environmental unsustainability of past economic growth patterns and increased awareness of a potential future climate crisis have made it clear that the environment and the economy can no longer be considered in isolation. At the same time, the financial and economic crisis has provided the opportunity for policy interventions aimed at encouraging recovery and renewed growth on more environmentally and socially sustainable grounds. A strategic vision is necessary to ensure that, during the crisis exit and beyond, the policies that governments will implement are the most appropriate from an economic efficiency, environmental integrity and social equity point of view, as well as coherent both at a national and an international level.

2. Within this context, green growth is gaining support as a way to pursue economic growth and development, while preventing environmental degradation, biodiversity loss and unsustainable natural resource use. It builds on existing sustainable development initiatives in many countries and aims at identifying cleaner sources of growth, including seizing the opportunities to develop new green industries, jobs and technologies, while also managing the structural changes associated with the transition to a greener economy. Managing the employment and other distribution effects of change in more traditional sectors will also need to go hand in hand with exploiting new opportunities. New indicators and data will be needed to measure progress towards green growth, including to reflect environmental quality, natural resource scarcity and quality-of-life beyond material well-being.

3. Green growth policies need to be embedded in a coherent, integrated strategy covering demand and supply aspects, both economy-wide and at the sectoral level. This will ensure that green growth is not a just a short-term response to the crisis but a transforming dynamic for both production processes and consumer behaviour. While green growth is relevant to all countries, the policies and approaches used will have to be tailored to specific national circumstances. The overarching priorities for most emerging and developing countries are still poverty eradication, the provision of basic education, ensuring food security, and delivering essential services such as water supply and sanitation. At the same time, a large share of their economies is dependent on natural resources and they are often particularly vulnerable to the impacts of climate change, especially in terms of security of food supply and access to water resources. As such, their economic development will depend on timely adaptation and the sound management of the natural resources that are such a critical base for their economies.

4. The OECD will deliver a Green Growth Strategy Synthesis Report to the 2011 Ministerial Council Meeting, which will elaborate specific tools and recommendations to help governments to identify the policies that can help achieve the most efficient shift to greener growth. The 2010 Interim Report highlights preliminary findings on a number of key issues that policymakers are currently facing in transitioning to greener economies. These reflect only a sub-set of the broader range of issues that will be addressed in the 2011 Synthesis Report.

5. The Strategy will develop a framework to help ensure that green growth policies contribute to greater economic integration, technology co-operation and reduced pressure on scarce environmental resources. It will highlight the importance of ensuring that green growth policies are not a source of increasing green protectionism.

6. Green growth strategies will require a mix of policy instruments, including market-based approaches, regulations and standards, measures to incentivise R&D, and information-based instruments to facilitate consumer choices. Correctly pricing pollution or the exploitation of a scarce resource through taxes, natural resource charges or tradable

permit systems should be a central element of the policy mix, most notably to provide a clear market signal. However, market-based instruments alone will not be enough to bring about a shift to greener consumption and production patterns. Regulations will be needed in cases where market failures result in weak responses to price signals or when a complete ban on certain activities is necessary, for example in the production and use of toxic chemicals. Other approaches, such as voluntary instruments and information-based measures such as energy efficiency ratings and well-designed eco-labelling can play an important supporting role in raising consumer and producer awareness on the environmental impact of specific activities as well as on the availability of clean alternatives.

7. Innovation will be a critical driver of green economies and job creation. Policies to accelerate the development and diffusion of clean technologies and related knowledge will be another key part of the policy mix. As identified in the OECD Innovation Strategy, this will involve a broad approach, comprising price-based instruments and incentives for firms to engage in green activities, as well as public procurement and the funding of basic research. It will be essential to remove barriers to trade in clean technologies as well as to the entry of new firms, and improve the conditions for entrepreneurship, especially in light of growing evidence that young firms represent a large source of more radical innovations. There is also the need for more effective and inclusive multilateral co-operation on science, technology and innovation. The Strategy will address this issue and consider challenges relating to co-operation across countries, funding arrangements, capacity building and international technology transfer. Analysis by the International Energy Agency (IEA), for example, shows that there is considerable potential for the further development and deployment of renewable energy, energy efficiency and other low-carbon technologies. Tapping into this potential will be critical for greening the energy sector.

8. As part of their stimulus packages to respond to the crisis, a number of countries increased public investments in green infrastructure – particularly in terms of public transport, low-carbon energy production, smart electricity grids, energy efficiency of public buildings, and water and sanitation infrastructure. Given that one likely effect of the crisis has been to raise risk premia and therefore lower private investment in higher-risk projects, governments could further build on these measures to move forward investments that would facilitate the development of green technologies and industries. Some countries have also invested in basic R&D to support green innovation and increased their use of environmentally-related taxes. However, not all of the stimulus measures will have been good for the environment, and some may have encouraged investments which could lock in more traditional polluting activities. For example, unless carefully designed, the significant support provided to the automobile industry in some countries, investments in road building and car-scrapping programmes, may have exacerbated pressures on the environment by increasing incentives for private car use.

9. Beyond the crisis, it will be essential to remove policy barriers that hamper the transition to green growth. This involves the reform of environmentally harmful subsidies, the removal of barriers to trade in environmental goods and services, and rationalising conflicting policy instruments. The Interim Report includes a focus on the reform of environmentally-harmful fossil fuel subsidies as an important 'win-win' strategy for green growth and briefly presents some recent developments in greening agricultural support. OECD analysis based on IEA data finds that removing subsidies to fossil fuel consumption in emerging and developing countries could reduce global greenhouse gas emissions by 10% in 2050 compared with business-as-usual. It would also make these economies more efficient, reduce the burden on government budgets, and alleviate the potentially distortive effects of subsidies on competition.

10. The Interim Report also presents recent OECD analysis on the use of environmentally-related taxes, charges and emission trading schemes. While their use is spreading across OECD and emerging economies, there is considerable scope for expansion in the use of green taxes. Wider use of these market-based instruments can also be an important source of government revenues. For instance, OECD analysis shows that if all industrialised countries were to cut their emissions by 20% by 2020 relative to 1990 levels,

via taxes or emission trading systems with full permit auctioning, proceeds generated in 2020 could be as high as 2.5% of GDP across countries.

11. Revenues from carbon taxes or auctioned permits can offset more distortive forms of taxation, to generate welfare gains. They could also be used to help meet the financing commitments in support of climate change adaptation and mitigation in developing countries. Given the urgent need to reduce government deficits following the crisis, revenues could also be used for fiscal consolidation. In emerging economies, such revenues could finance other pressing priorities, such as education, health care and poverty alleviation.

12. While green growth will create opportunities for technological advances, jobs and skills development, one of the main challenges will be to facilitate the re-allocation of capital and labour across economic sectors while minimising the adjustment costs that result. Many governments have highlighted the potential employment impacts of the green elements of their stimulus packages. In the current context of low economic activity and a slack labour market, some of these measures can have an important short-term, positive impact on employment, while accelerating the transition to green growth. However, the long run impact on net employment is uncertain across most green growth scenarios, and will be examined in more depth for the 2011 Synthesis Report. Initial OECD analysis suggests that reallocation of labour across sectors, firms and regions/localities is likely to be considerable and there will be significant changes in job skill requirements.

13. The Interim Report presents initial analysis areas across the issues highlighted above. The 2011 Report will build on this to develop an integrated framework to guide government intervention across broader green growth policy areas, covering fiscal, innovation, trade, labour and social policies, and in key sectors such as energy, transport, agriculture and fisheries. It will address the key issues requiring international co-operation, including the financing of global public goods (e.g. to help address climate change and biodiversity loss), enabling pro-poor growth, international technology transfer, and the potential leakage and competitive effects of policy action. A new accounting framework and a new set of green growth indicators will be developed to identify gaps and to measure progress.