

## OECD AND GREEN GROWTH

### Why Green Growth?

Countries still do not take full account of the costs of inaction on environmental challenges such as climate change, air and water pollution and inefficient use of energy and resources. Such costs of inaction can be considerable, especially for developing countries whose economies rely more heavily on natural resources and where climate change is expected to hit hardest. A new paradigm is needed to ensure that countries take better advantage of the large potential benefits that can accompany the move towards greener economies. A paradigm which recognises that to build a prosperous world economy, “green” and “growth” can no longer be considered in isolation.

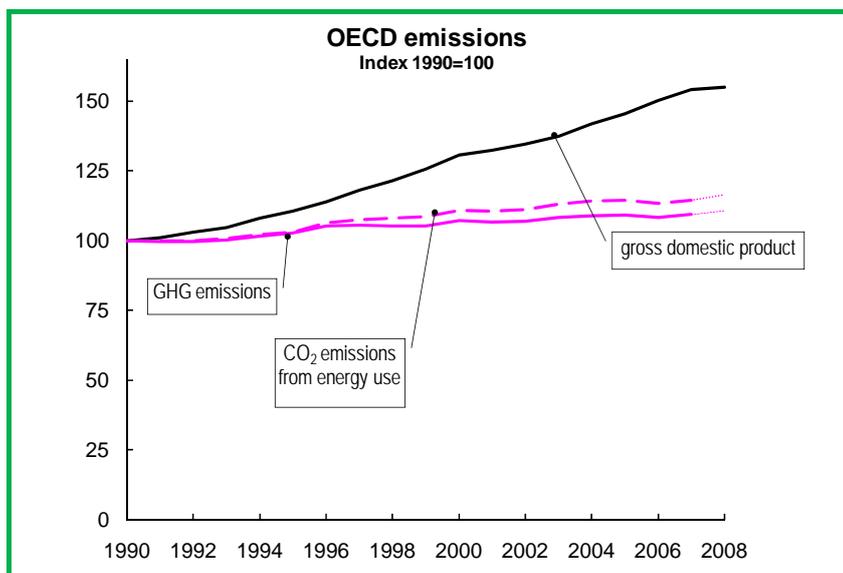
### OECD Mandate for the Green Growth Strategy

At the OECD Ministerial Council Meeting (MCM) of June 2009, Ministers from all 30 OECD countries as well as Chile, Estonia, Israel and Slovenia signed a Green Growth Declaration, declaring *inter alia* that they will: “Strengthen their efforts to pursue green growth strategies as part of their responses to the crisis and beyond, acknowledging that green and growth can go hand-in-hand.” To this end, they endorsed a mandate for the OECD to develop a Green Growth Strategy, bringing together economic, environmental, social, technological, and development aspects into a comprehensive framework.

As one of OECD’s horizontal priorities, the Strategy will draw on the work of 25 OECD Committees involved in its development. The Strategy’s Final report will be delivered at the 2011 MCM, with an Interim report being prepared for the June 2010 MCM.

### What Does Green Growth Mean?

Green growth is the means by which the current economy can make the transition to a sustainable economy. It involves promoting growth and development while reducing pollution and greenhouse gas emissions, minimising waste and inefficient use of natural resources, maintaining biodiversity, and strengthening energy security. It requires further “decoupling” of environmental impacts from economic growth, and greening of consumption and production patterns, while reducing poverty and improving health and jobs prospects. Green growth means making investment in the environment a new source of economic growth.



While a number of OECD countries have decoupled their CO<sub>2</sub> and other GHG emissions from GDP growth, most countries have not succeeded in meeting their own national commitments to decrease their GHG emissions. Indeed, their emissions continued to increase throughout the 1990s, despite gains in energy efficiency (i.e. relative decoupling).

Source: OECD Key Environmental Indicators, 2009.

## **Green Growth as an Opportunity for Sustainable Development**

In line with the principles of sustainable development, the green growth paradigm responds to the need for a new model of growth that is much less intensive in natural resources and that can lead to social well-being and poverty reduction in both developed and developing countries.

Green growth builds on the opportunities created by the financial and economic crisis to promote a greener recovery through stimulus packages in support of greener jobs and industries.

## **Towards a Green Growth Strategy**

A strategic vision is needed to ensure that policies are appropriate from economic efficiency, environmental integrity and social equity points of view, and coherent both from a national and an international perspective.

The overarching goal of the Green Growth Strategy is to identify a policy framework that blends economic, social and environmental policy objectives for the most efficient shift to a sustainable world economy. Such a policy framework will be flexible enough to adapt to different national contexts.

The Strategy will quantify the potential effects of green growth and assess the adjustment costs of the transition towards a sustainable economy at both the national and international levels. Overall, the Strategy will:

- Develop a new growth accounting framework that takes environmental and well-being aspects into consideration.
- Provide specific tools and policy recommendations to help governments to identify policies for the most efficient shift to a sustainable economy.
- Explore how OECD countries can better support green growth in emerging economies and in developing countries, including through increased coherence in OECD country policies that affect development and by strengthening development co-operation.
- Focus on the employment dimension of green growth and consider opportunities for job creation both in the short and longer term.

## **International Green Growth Dialogue**

To ensure international co-ordination, the Strategy will launch an International Green Growth Dialogue (IGGD), with the participation of OECD, emerging and developing countries, the European Commission, international organisations, the private sector as well as NGOs. Such a collaborative arrangement will encourage and facilitate an open, structured discussion on green growth matters, while providing a platform for the exchange of lessons learned and best practices.

## **Policy Toolkit**

The Strategy will provide countries with a **broad and flexible mix of instruments** that cut across several policy areas such as investment, taxes, innovation, technology, trade, employment and education. Recommendations will also be developed to ensure policy coherence, to exploit synergies and to avoid costly overlaps.

As market failures and social concerns vary widely across countries, especially across OECD and non-OECD economies, the weight given to each of the policies in the toolkit will depend on the relative importance of different market failures as well as on the corresponding social policy environment.

**The toolkit will cover both short-term and long-term policies.** Short-term policies will focus on those to ease pressures from the re-allocation of jobs across sectors, to facilitate the development of green infrastructures and to address competitiveness concerns. Long-term policies will identify those that are good for both income and the environment as well as policies that can boost income growth at the least cost in terms of quality of the environment (and vice-versa).

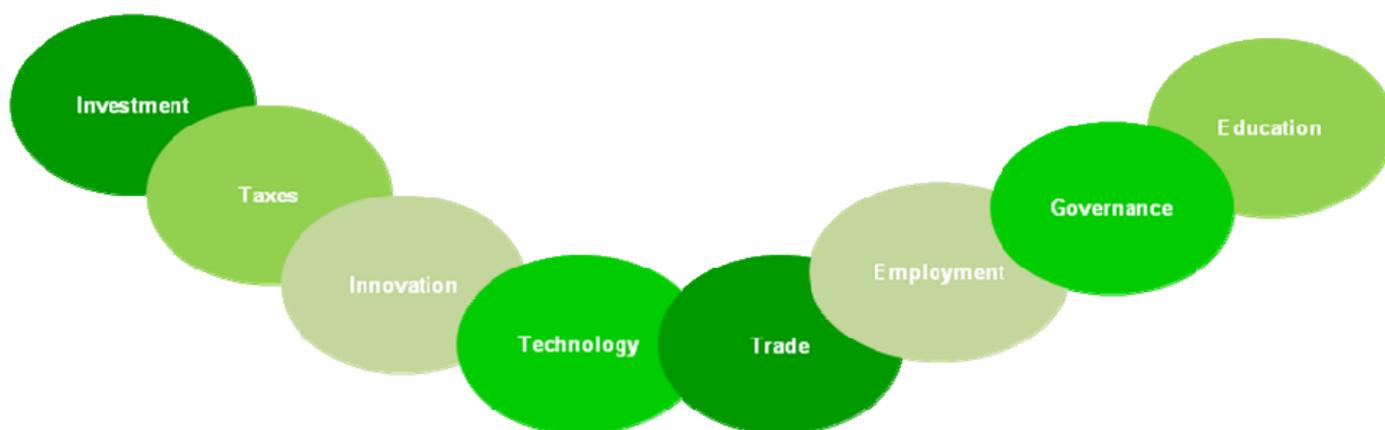
## **Green Model of Growth**

The Strategy aims to put forward a new, holistic model for green growth. A modified growth accounting framework will be developed to take into account the priority environmental concerns and specify the nature of the key market failures that policies seek to address.

**Addressing the opportunities and challenges of a greener economy** will require policies that can facilitate green jobs creation, labour resource re-allocation and industrial re-structuring. The Strategy will quantify the jobs potentials of new green industries and address the key labour market and education/training policy challenges to promote the shift towards “green” jobs and the upgrading of worker’s skills. The Strategy will also assess other distributive effects of moving to a sustainable economy, including effects on poverty and inequality.

**Expanding green markets and developing green policy instruments** will necessitate policies that can help overcome the market failures and lock-in to existing infrastructure and habits inhibiting the deployment of green goods and services. The Strategy will examine price incentives such as greenhouse gas emission trading schemes and green taxes as well as the phasing-out of environmentally harmful subsidies, including for fossil fuels, agriculture and fisheries. Moreover, it will analyse complementary policy instruments, including regulations, standards and green public procurement.

**Fostering green technologies and innovation** is critical for driving green growth. The Strategy will identify policies to accelerate research, development and deployment of green technologies and innovation, as well as successful policies to drive more systemic and radical eco-innovation. It will also address the issue of international technology transfer to make clean technologies more affordable and accessible to developing countries and share the benefits of international cooperation on science, technology and innovation.



**Greening the energy sector.** The energy sector is responsible for about 60% of all greenhouse gas emissions and must therefore be a key part of any Strategy that seeks to reduce them. Current global trends in energy supply and use are unsustainable. Energy efficiency, renewable energy, carbon capture and storage and new transport technologies all need to be deployed widely to curtail greenhouse gas emissions while promoting energy security. Power systems need to evolve more flexibility to cope with larger shares of variable renewables, demand response and storage. In partnership with the IEA, the Green Growth Strategy will look at the technologies and policies that will be needed to achieve such an energy revolution.

**Trade policies can help the transition to a greener future.** Liberalisation of trade in environmental goods and services and removal of associated tariff and non-tariff barriers can contribute to green growth. An analysis of the effect of green growth policies on trade will also be carried out, with a view to distinguishing between those policies that positively contribute to trade and economic growth and those that have a perverse effect or act as a disguised restriction on trade.

**International investment is a vital source of finance and a powerful vector of innovation** in support of countries' efforts to address the effects of climate change and promote green growth. The Strategy will develop policy recommendations to facilitate international investment in low-carbon products, green technologies and clean infrastructure. Emerging countries' fear that “green investment policies” may be used for protectionist purposes will be addressed. Analysis will also look into promoting responsible business practices which work in harmony with government policies and public expectations, consistent with the OECD Guidelines for Multinational Enterprises. Building on OECD and Enhanced Engagement country case studies informed by the Policy Framework for Investment, the work will document policy incentives conducive to responsible investment in support of green growth.



**Linking green growth with development** will involve providing policy guidance for integrating climate adaptation and environmental capacity building into development co-operation. Given the heavy dependence of most developing countries' on natural resources and agriculture for economic growth, export revenues, employment and livelihoods, the Strategy will also focus on issues related to natural resource management, associated capacity development needs and governance challenges. Options available to developing countries to shift towards lower carbon growth paths will be examined, as well as exploring how development assistance can support capacity building, science and technology co-operation and technology transfers between developed and developing countries.

**Greening key sectors and infrastructures** will entail identifying framework conditions and specific policies that can help develop transport, buildings and other infrastructures to use resources and energy more efficiently. Similarly, analysis will cover agriculture as well as fisheries.

**Green growth indicators** will be identified to help measure the progress towards greener economies. These will include indicators of resource efficiency of production, the environmental contents of consumption and the stocks of environmental assets. As suggested by the Stiglitz-Sen report, existing indicators could be supplemented by a range of indicators on how environmental conditions affect quality of life.

#### Contribution of the Green Growth Strategy

- ✓ Assessing countries' green growth measures taken since the crisis and future plans;
- ✓ Quantifying the potential effects of the transition to green growth;
- ✓ Developing a conceptual framework for green growth;
- ✓ Identifying key policy principles and providing a toolkit for green growth policies;
- ✓ Developing a set of indicators covering economic, environmental and well-being aspects;
- ✓ Strengthening performance through peer reviews of green growth policies;
- ✓ Addressing the political economy considerations of green growth;
- ✓ Identifying lessons learned and best practices;
- ✓ Providing a platform for international co-ordination and dialogue through the *International Green Growth Dialogue* initiative;
- ✓ Promoting co-operation between OECD and non-OECD countries on issues relating to green growth.

#### Further reading

OECD Work on Green Growth  
OECD Work on Environment

[www.oecd.org/greengrowth](http://www.oecd.org/greengrowth)  
[www.oecd.org/environment](http://www.oecd.org/environment)

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