

Globalisation and Environment

Highlights of recent work at the OECD

Cristina Tébar Less

Programme Manager

Trade, Investment and Environment

OECD Environment Directorate

Overview of presentation

- 1. What is globalisation?
- 2. Investment and Environment

Business contribution to environmental protection

3. Trade and Environment

Environmental considerations in trade agreements

1. What is globalisation?

- The term globalisation has been widely used to describe the increasing internationalisation of markets for goods and services, the financial system, corporations and industries, technology and competition.
- Three major forces have contributed importantly to the globalisation process:
 - (i) the liberalisation of capital movements and deregulation of financial services
 - (ii) the further opening of markets to trade and investment
 - (iii) the key role played by information and communication technologies in the economy.

Some key features of economic globalisation

- Reduction of barriers to trade
- High integration of financial markets is increasingly impacting on the conduct and performance of the industrial sector.
- Foreign direct investment is becoming a crucial factor in the world-wide process of industrial restructuring and the development of genuinely global industries.
- ***Multinational firms constitute one of the main vectors of economic internationalisation.***
- Close linkages between trade and direct investment.
- Evolving frameworks for trade and investment.
- Internationalisation of production: multinational origin of product components, services and capital often characterised by co-operation or subcontracting agreements among firms.

Some key features of economic globalisation

- Location strategies for the activities of multinational firms are strongly influenced by the comparative advantages of countries and regions.
- International dissemination of technology and shortening of the cycle of production and technological innovation.
- Competition in markets between numerous new competitors from all over the world leads to extremely rapid structural adjustments in numerous areas.
- Compression of time and distance in international transactions and reduction of transaction costs.
- ***Multiplication of regional trade agreements***

2. Investment and Environment

- One of the key features of globalisation is that multinational firms constitute one of the main vectors of economic internationalisation.
- Recent OECD projects have looked at how business can contribute to environmental protection in a globalised economy
 - Environment and the OECD Guidelines for Multinational Enterprises
 - Business and Multilateral Environmental Agreements
 - Environmental innovation and global markets

OECD Guidelines for Multinational Enterprises

- Adopted in 1976, revised in 2000
- The only government-backed code of conduct for enterprises
 - 39 adhering countries (30 OECD countries, 9 non-OECD countries)
- Voluntary recommendations to MNEs in all major areas of business ethics
- Binding commitments to adhering governments (follow up mechanisms via National Contact Points)
- Stakeholders can address themselves to NCPs via “specific instances”

Areas of business ethics covered

- General policies:
 - Contribute to economic, social and environmental progress
 - Respect human rights
 - Encourage local capacity building and human capital formation
 - Refrain from seeking exemptions (e.g. in the areas of environment, labour, safety)
 - Apply good corporate governance practices
 - Develop practices to establish trust with the societies in which they operate
 - Not discriminate against “whistleblowers”
 - Encourage suppliers to have good corporate conduct

Areas of business ethics covered (II)

- Disclosure of information regarding activities, structure, financial situation and performance
- Employment and industrial relations
- Environment
- Combating bribery
- Consumer interests
- Science and technology
- Competition
- Taxation

Environment in the OECD Guidelines

- Many parts of the “general policies” are also relevant to the environmental behaviour performance of MNEs: not to seek exemptions from environmental laws, not to discriminate against whistleblowers, engage suppliers in good practices, etc.
- Environment chapter
 - General recommendation: Enterprises should conduct their activities in a manner contributing to sustainable development
- - 8 specific recommendations

Environment chapter of the OECD Guidelines: recommendations

1. Environmental management systems
2. Public information and stakeholder consultation
3. Life-cycle assessment
4. Precaution
5. Emergency prevention, preparedness and response
6. Continuous improvements in env. performance
7. Environmental education and training
8. Contributing to the development of env. policy

How are the Guidelines' recommendations on environment reflected in practice?

- OECD survey of over 4,000 manufacturing facilities with 50 or more employees in 7 OECD countries (Canada, the United States, France, Germany, Norway, Hungary, and Japan)
- 37% of respondents reported having an environmental management system in place
- Similarly large proportions of companies had adopted specific environmental management tools
 - 40% of companies commissioning external audits to verify their environmental performance
 - 25% use environmental accounting tools.
- Out of 45 cases brought by NGOs for non-respect of the Guidelines, 20 deal with environmental issues

Business contribution to Multilateral Environmental Agreements

- Trends:
- Business action that contributes to addressing the goals of the UN Framework Convention on Climate Change has increased significantly, especially since the entry into force of the Kyoto Protocol in 2005, private sector action in addressing the goals of the UN Convention on Biological Diversity is much lower, but on the rise, and very limited business action is occurring relevant to the goals of the UN Convention to Combat Desertification.
- The financial sector is getting more and more involved, especially in the area of climate change: including through standards to incorporate social and environmental criteria in their lending practices, investing in clean technology, and offering metrics and benchmarks to assess the effect of environmental issues on risk management.
- The size of the global environmental market has grown considerably offering new business opportunities. Most of the growth is linked to the climate change agenda, but biodiversity-related products and services are also increasing.

Suggestions for further government action (1)

- ***Understanding the objectives of MEAs.*** Businesses need to understand MEAs goals to get involved, and the benefits of contributing to them. This includes awareness of the impacts of their activities on MEA objectives.
- ***Raising the public's awareness:*** Improving transparency about corporate behaviour, including behaviour related to global environmental problems, is a useful way to make companies engage more in tackling those problems. Government measures to enhance transparency include reporting requirements.
- ***Creating market opportunities:*** Governments can help to develop and strengthen environmental markets by taking measures to increase the demand for environmental technologies and goods thus maximising market opportunities, e.g., by setting standards for products that require a high level of environmental performance, establishing policies for ecosystem services, raising consumer awareness about the importance and benefits of switching to greener product choices, and working with local governments and municipalities to improve the environmental performance of their infrastructure.

Suggestions for further government action (2)

- ***Supporting innovation:*** Business engagement requires a regulatory framework that promotes the creation of new markets for environmental goods, services and technologies, and supports innovation.
- ***Access to capital:*** Financial analysts and rating agencies are incorporating environmental considerations in their risk assessments. Some investment funds have been established specifically to finance companies that have a solid environmental record. Indexes to track the financial performance of companies are also emerging. Governments could further promote dialogue between environmental experts and the financial community to mobilise investments that address environmental goals.

Environmental innovation and global markets

- Project looks at **how globalisation affects environmental innovation** in firms (both in OECD and non-OECD countries).
- Explores whether - and how - increased competition, new markets and R&D centres affect **green R&D decisions**.
 - Are markets - or regulation - the key driver for producing leading to environmental innovation?
 - Are current R&D policies (regulation, market instruments) adequate to support environmental innovation?
- Is based on information obtained directly from companies and government officials.
- In Japan: Toyota, Sharp and Ibiden will be interviewed

Preliminary findings

- *Main drivers for environmentally-related R&D:* Regulation remains the key driver for environmentally-related R&D, but other factors are gaining importance (conquering new markets). For large companies operating globally, regulation in all their potential markets, not only in their home country, is increasingly important.
- *Ensuring enforcement to create a level playing field in global markets:* Regulatory requirements drive environmental innovation, but they need to apply to all participants.
- *Outsourcing and relocating environmentally-related R&D:* One of the features of the internationalisation of R&D is the increasing relocation and outsourcing of R&D activities. This also happens in the field of environmentally-related R&D. However, what is outsourced to these countries is mostly “development”, whereas basic “research” is still mainly done at headquarters.
- *Fewer subsidies, more investments in R&D and education:* The corporations and business organisations interviewed so far (mainly large multinational enterprises) do not support the use of subsidies as a tool to promote the development of technologies: subsidies can lead to inefficiencies by encouraging companies to produce technologies that might not be commercially-viable.

Preliminary findings

- *Domestic coordination is key:* Environmentally-related R&D, and especially, R&D in the areas of energy efficiency and renewable energy, is often the competence of several ministries. Inter-agency coordination is necessary for integrating environmental considerations into R&D and innovation policies.
- *Barriers to environmentally-related R&D:* Regulatory uncertainty and the fragmentation of requirements in different markets are key barriers to corporate investments in R&D. Other barriers: insufficient protection of IPRs.
- *Incentives:* Public policies to create markets, such as guaranteeing purchases of energy produced from renewable sources, are providing producers with incentives to invest in R&D. Support for pilot projects to test new technologies is also an important area for government involvement.
- *Measures to scale-up technologies:* In some areas, e.g., energy efficiency, the bottle neck is not R&D – the necessary technology is often already available – but large-scale deployment of the technology. Governments could address these obstacles by promoting markets in these areas (e.g. through government procurement).

3. Trade and Environment

Regional Trade Agreements (RTAs) and Environment

- Examines key environmental aspects of RTAs
- Summarises experience with the implementation of RTAs
- Highlights findings that could be useful for the discussion and implementation of new RTAs

Including environmental considerations in trade agreements: key experiences

Key benefits

- Contributes to sustainable development
- Levels the playing field
- Helps focus environmental co-operation

Key difficulties

- Overcoming trade partner's scepticism
- Determining the scope and level of environmental commitments
- Lack of capacity and resources
- Little government commitment
- Pressure to speed up negotiation process

Some findings on RTAs and Environment

- The number of RTAs is increasing rapidly (WTO predicts soon 400 will be in force).
- Many RTAs include references to environment: mainly those by the US, EU, Canada, New Zealand. Among non-OECD countries: Chile.
- Level and scope of environmental provisions vary: most deal with environmental co-operation; few include binding environmental provisions
- Japan is lagging behind other OECD countries- environmental provisions in its RTAs are not very ambitious
- It remains difficult for smaller economies to make the case of including environmental provisions in RTAs
- Positions evolve at regional level, but little progress at multilateral level
- More experience sharing on implementation is essential
- Proliferation of RTAs and varying environmental commitments is rendering the implementations and management of provisions complicated

THE END

- For any questions:
- cristina.tebar-less@oecd.org
- www.oecd.org

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