green ECONOMIES DIALOGUE

The Washington Dialogue

October 12, 2011
Hosted by Resources for the Future

www.green-dialogue.org

Expectations and Starting Points

On October 12, Resources for the Future hosted the first meeting of the Green Economies Dialogue project, an initiative of the United States Council Foundation, USCIB and a number of partner organizations and companies. The goal of this and other Green Economies Dialogue meetings is to foster discussion of green economy topics among business, government, inter-governmental organizations and other stakeholders, with a focus on international cooperation and market-based approaches that will enhance prospects for greening growth.

Government, business and NGO representatives engaged with economists and academics in wide-ranging discussions. These focused on a review of experiences, possibilities and unknowns associated with the pursuit of a greener economy, efforts to better understand one another's perspectives on how economic and environmental policy approaches can be promoted effectively in North America, and, in particular, the role that international market-places and regulatory frameworks could play in taking greening global marketplaces.

Participants shared U.S. experiences, and looked ahead to how public and private sector resources could be deployed most effectively to speed the evolution to greener economic growth that is meaningful both in the U.S. and globally. ■

About the Green Economies Dialogue

While there is broad agreement on the need for green business and green growth, there is less consensus on the definitions of these terms and the best way to promote them. The Green Economies Dialogue seeks to provide a clearer understanding of the path forward to building international cooperation in this arena.

Ensuring greener economic growth is a top challenge for national governments and global institutions in the years ahead. Technological innovation will be key to fostering more environmentally friendly and less resource- and energy-intensive production and consumption. In building a global policy and market environment that is conducive to innovation, it will be crucial to make the transition from favoring or subsidizing particular technologies to creating a system where the private sector and the marketplace can drive improvements in technology and management processes. Industry, government and other actors must be partners in this effort, in light of levels of private investment having surpassed overseas development assistance.

To make the case for the efficacy of market-based solutions that work in global commercial and regulatory frameworks, USCIB, BIAC and their partners are pursuing dialogue thru educational, outreach and advocacy efforts in international policy deliberations. With support from a number of private-sector sponsors, they have organized a series of meetings to engage the private sector and inform discussions ahead of the Rio conference.

The Green Economies Dialogue also includes the development of a series of peer-reviewed, academic papers to provide specialized perspectives on a range of green economy areas. The 'Green Perspectives' papers are to be published in a special edition of *Energy Economics* alongside Rio+20. The next dialogue session, hosted by BIAC, will take place at the OECD in Paris (November 14). Planning is underway for sessions in Asia and Latin

I. Context: Challenges on Multiple Fronts to Green Growth

<u>Speakers</u>:
Phil Sharp (Resources for the Future)
Peter Robinson (United States Council for International Business)
Shalini Vajjhala(U.S. Environmental Protection Agency)
Amy Fraenkel (United Nations Environment Program)
Jan Corfee-Morlot (Organization for Economic Cooperation and Development)

The discussion began with reminders of environmental and sustainability challenges facing the world. Population will soon surpass seven billion, with between nine and 11 billion people expected by the end of this century. Following a historic massive over-leveraging, the global economy is going through a massive de-leveraging.

Clearly, the international community faces unsustainable levels of environmental and economic stress.

Presentations framed possible practical approaches to emerge from Rio+20 discussions:

- Using environmental information to track progress, highlight problems and involve citizens
- Developing portfolios of green economy investment to bring resources to small projects packaged in integrated bundles
- Creating partnerships that provide benefits to developing countries, particularly those focused on capacity building
- Proposing sharing of good practices in environmental and other policymaking, aimed at improving transparency, inviting public input and notification of rules
- Considering global discussions around carbon prices as an alternative to the current climate change negotiations based on targets and timetables
- Including green investment elements in the World Bank "Doing Business" report and other similar reports relating to investment conditions.

The overall consensus: economic growth is needed, and it has to be greener.

In light of the complexity of many institutions and factors at the international level relating to greener growth, speakers recognized that a single one-size fits all framework will not serve the purpose. Rather, Rio+20 and other international deliberations will need to animate a wide range of further work in metrics, innovation, valuing natural capital and demonstrating benefits. Many in the meeting cited the importance of building social considerations into the debate and framing of green growth policies. Approaches will need to account for national circumstances and priorities.

Overall, there was consensus that economic growth was needed, and it had to be "greener." Most agreed that economic growth would be essential to finance many aspects of the green agenda, while not all "green" initiatives result in economic growth. There were deemed to be substantial risks in failing to address green challenges, as will be addressed in the OECD 2030 Environmental outlook. While there are many different approaches to greener growth among governments, the increased attention to greening growth in the G20, OECD and U.N. system provides an opportunity to consider international enabling frameworks and policies, and models of engagement and partnership. ■

II. Green economy, industrial policy and green jobs

Panelists: ***Charles Schultze*** *(Brookings Institution),* ***Ann Condon*** *(General Electric),* ***Dick Morgenstern*** *(Resources for the Future)*

Presentations and discussion in this session focused on industrial policy and drew some conclusions about what can be expected from industrial policy. The discussion emphasized that getting the prices right (GPR) should be the primary focus. However, this alone won't be enough to drive needed basic research that will still require government support to deliver options that can overcome long-term challenges. In several other respects, governments are not often capable of choosing proper instruments, and have limited freedom to act. In particular, experience shows that governments are poor at picking technological winners and losers, and politicians and bureaucrats working with taxpayer funds do not make good entrepreneurs. A better approach based on GPR, support for basic research, and limited involvement in deployment of advanced technology could work, but it would be tough politically.

In considering how to define and discuss green jobs and their impacts on other jobs, the fundamental point was that creating green jobs depends on many of the same conditions as the creation of jobs in general. Participants flagged the dynamic nature of technological evolution – what might be considered a green job today, would be regarded as less so as technologies become more advanced and societies move forward. It was not just a matter of the number of jobs, but also the value associated with the jobs. If the value of the jobs lost is greater than the value of the green jobs replacing them, then the economy will lose, and vice versa. It is essential to consider the "opportunity cost" of government support for green jobs.

Pursuing greener economic growth will depend on globalization and trade.

The discussion also touched on the "green technology race." The point was raised: If the Chinese choose to subsidize development and production of solar panels, for example, and the U.S. can purchase them more cheaply as a result, the U.S. economy thereby gains a benefit. Competitiveness and trade tensions surrounding government policy in green growth has been unhelpful. The reality is that for U.S. companies, significant opportunities for growth are occurring outside the US, so pursuing greener economic growth will depend on globalization and trade. ■

The synergy between economic and environmental policy has been a common theme of the work of our organizations, and we appreciated the diversity of views and ideas presented in the course of the Washington Dialogue. It became clear that every participant in the meeting brought a unique vision of green growth, and all were seized both by the urgency of the challenges and the long-term nature of the tasks ahead. Important questions were raised that we will take up at future meetings of this project:

- *How to manage efforts to establish a low-carbon economy and stay on track for prosperity?*
- *How to get prices right?*
- *How to "bend the curves" to improve environmental performance while meeting the needs and aspirations of growing populations?*
- *How to use life cycle assessments and other metrics to give consumers meaningful information that will help them make sound choices?*

In the first meeting of this series in the U.S., in spite of challenging domestic political realities, we recognized that stimulating competitiveness and innovation, and moving to a better model of policymaking and implementation, is an imperative for U.S. companies. In particular, multinational companies need to develop effective means to work with governments around the world to address challenges and pursue opportunities posed by green growth.

A range of presentations laid out the theoretical possibilities according to economists and the aspirations of governments and intergovernmental organizations. Discussions provided opportunities for business to provide input on the reality of today's global and domestic markets, economies and the role of consumers. We heard ideas about how to build international approaches which encourage growth and prosperity, while keeping a "clean nest." We heard that trade and getting prices right can open pathways to efficiency, productivity and prosperity.

While the dialogue brought forward many ideas and perspectives, this first meeting could only scratch the surface. Future meetings will broaden the topical and geographical scope of the discussion. Green growth poses long term challenges that require business and governments to cooperate. We are hopeful that meetings like the one in Washington will encourage fruitful brainstorming and discussion leading to practical ideas that can be considered at Rio+20 and beyond. We are hopeful that with business and government at the table, we can put environmental and economic policy on a trajectory for success.

Phil Sharp*, President, Resources for the Future*

Peter Robinson*, President and CEO, United States Council for International Business*

III. Low carbon economy

<u>Panelists</u>: ***Henry Jacoby*** *(Massachusetts Institute of Technology),* ***Francesca Costantino*** *(U.S. Department of Energy),* ***John Dillon*** *(Canada Council of Chief Executives)*

Here the discussion considered linkages between climate policy and the growing international momentum to promote greener growth. Climate change seems to dominate the attention of the current debate, which risks proliferating the intractable political issues of climate change into forums which are not equipped to address them, and which will distract from substantive progress on other fronts. Presentations also highlighted the risk of losing focus with the enormous range of issues and metrics under consideration in the green economy debate. Loss of focus brings the danger of spreading resources too thinly, and not putting priority on addressing the most critical challenges. Speakers questioned whether setting unattainable targets undermines credibility and trust in multilateral processes. In that vein some questioned the ability of liberal democracies to establish credible commitments, and indeed to have capacity and appropriate processes to address these long-term issues, as the experience of Copenhagen demonstrated.

At this stage in the evolution of approaches, several speakers suggested that it is important to begin bending the curves in positive ways for key factors such as emissions, technology development and deployment, rather than seeking ever more difficult and long term aspirational outcomes. Business and other actors require credible commitments by governments to create a viable framework for action and investment.

Participants recognized that while climate change mitigation continues to be a pressing priority, adaptation also requires attention, and might present cost effective opportunities.

Governments must seek policies that shift investment patterns. In the face of substantial amounts of financing to be mobilized, concerns about wealth transfers and unintended consequences and inefficiencies have to be addressed. It appears that companies will continue to have to navigate markets without a strong climate regime and only a loosely coordinated international approach.

The reality is that the move to lower carbon activity is going to proceed in small steps, rather than a sudden, giant leap.

The pragmatic reality is that the move to lower carbon activity and energy mix is going to proceed in small steps, rather than by a sudden step change. In general, participants flagged the risk of further complicating the international negotiations by introducing climate change considerations into international green economy policy deliberations, such as Rio+20. ■

IV. Policy instruments and finance

*Panelists: **Barry Bosworth** (Brookings Institution), **Matthew Haskins** (PricewaterhouseCoopers), **David Montgomery** (NERA Economic Consulting)*

In this session, participants switched gears to consider financial and investment policy and its potential in greening economic activity. Here too participants cited outstanding questions around institutional issues such as tax treatment and accounting – often these unknowns will dampen the fullest

utilization of new markets. Participants compared the pros and cons of carbon trading and taxes. Although the double dividend is attractive in principle, and has been applied in a few settings, the public still remains skeptical about the trade-off. In particular, many do not believe that governments will actually follow through to reduce other distorting taxes and levies in return for raising fees on emissions. Presentations flagged the benefit of maintaining technology neutrality in financial instruments. Long-term risks like climate change can be factored in and managed, but the current climate change policy volatility is a fundamental damper on corporate decision-making.

With regard to the U.S. experience on green stimulus spending and infrastructure, it has been mixed. Most of the stimulus finding has not yet been spent, so it is not yet possible to assess its full impact. Fundamentally, the substantial and long term research and investment required for a shift to greener economy activity don't lend themselves to near term "stimulus" approaches. Participants observed that government is limited as a "venture capitalist" by its inability to choose alternatives, and make hard choices. ■

V. Implications for Rio +20 and promoting a Greener Economy

*Panelists: **Ray Kopp** (RFF), **Keri Holland** (U.S. Department of State), **Norine Kennedy** (USCIB), **Louise Kantrow** (International Chamber of Commerce)*

The closing discussion described some expectations for next year's Rio+20 meeting, and what it can achieve. Unanticipated developments, such as the global debt crisis and the rise of China have added challenges to the pursuit of sustainability. Given the difficulty in defining "green economy," the outstanding question continues to be how to step up the pursuit of sustainable development in practical ways. Within the Rio2012 deliberations, consideration of institutional changes should seek to more substantively engage business in tapping its "green economy" expertise and stimulating partnerships that could supplement governmental action.

With populations increasing and their environmental impact intensifying, green growth policies will have to manage resource scarcity. They will have to be seen as beneficial by the "G193," that is by all countries in the U.N. system, not just those in the OECD. Participants also reflected on the imperative of global competition, including in terms of green growth. Energy security, capable work forces and innovative and efficient products will be the key to keeping the U.S. competitive and contributing to progress. Approaches that proceed from the bottom up – such as adaptation – are part of the gradual evolution that will be critical to greening growth. Finally, enabling frameworks will underpin the greening of economies; these include such things as good governance, rule of law, IPR and property rights in general, absence of corruption, and other fundamentals.

Reflecting on Rio+20, many noted that it is an important political opportunity, but not the only one. Extending the conversation about greening growth to other forums will be

important. The fundamental task is to "get the economics of the environment" adopted into government policy, but also into business bottom lines and into people's minds. This is not a simple accounting practice; it requires continuous improvements in science and development of political consensus concerning the valuation of non-market impacts. The process will need to be flexible to account for new knowledge and experience. Clearly, new understanding and challenges have reshaped the international policy agenda today compared with the first Rio conference in 1992. Stepping up the substantive engagement of the business community in this process will need to take place as the international debate gets more fully underway. ■