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## From Grim to Green: towards a low-carbon future

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Remarks by Angel Gurría, OECD Secretary-General, delivered at the International Economic Forum of the Americas (Conference of Montreal) - Day 2 Plenary Session : "Energy & Sustainable Development in the Context of the Economic Crisis"

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Ladies and Gentlemen:

It is a great pleasure for me to join you here again in Montreal to take part in the International Economic Forum of the Americas, a valuable incubator of new ideas and approaches to global challenges of the day, to quote the words of the Right Honourable Stephen Harper. To participate in the Montreal Conferences, before this auditorium filled with so many eminent speakers and delegates, is a real privilege.

Today I would like to consider four aspects of the topic of our session – "Energy and Sustainable Development in the Context of the Economic Crisis". Firstly, the link between short-term recovery plans and a greener economy. Secondly, the link between such plans and longer-term structural reforms. Thirdly, the key contribution of innovation to [sustainable development](#). And lastly, the importance of securing a satisfactory agreement at international level at the Copenhagen Conference in December 2009.

### 1. A green fiscal stimulus: the chance of our lives

Let me start by talking about the importance of "fiscal greening". At this very moment, governments throughout the world are implementing the largest global fiscal stimulus in history. These stimulus packages are the greatest opportunity we have ever had for "greening" our economies.

Thirty OECD member countries together with our [five candidates for accession](#) (Chile, Estonia, Israel, Russia and Slovenia) and our [five Enhanced Engagement partner countries](#) (Brazil, China, India, Indonesia and South Africa) will implement stimulus measures worth more than 2.3 trillion dollars in their fiscal packages between 2008 and 2010. Canada, for example, will implement the fourth largest fiscal package of the OECD, with 61.5 billion dollars (for 2008-2010). These numbers can change the world.

If an important part of these measures includes direct public spending and tax incentives to make "green" investments in areas such as public transport, energy efficiency, alternative energy supply, "smart" electricity grids, water supply, sanitation systems and pollution control, then we will be seizing the opportunity. If on the contrary, these powerful packages promote the use of dirty and wasteful fossil energies, natural resources depletion and irresponsible consumption, then the opportunity is wasted and the future of our children is threatened.

Such is the defining moment in which we stand!

It is fundamental to ensure that economic stimulus packages do not lock-in polluting energy technologies or dirty production and consumption, but instead promote clean alternatives. To ensure

this, the environmental impacts of all recovery measures in the stimulus packages should be assessed. Particular caution should be observed when considering measures such as car-scrapping programmes, investments in new roads, and reducing or freezing electricity and fuel charges. Short-term efforts to revitalise the economy must not come at a long-term cost to the environment. We in the OECD will be closely monitoring the alignment of these stimulus measures with long-term growth objectives.

We must also use the crisis to break deadlocks and make progress in our structural environmental reforms and policies.

## **2. Time for structural progress, at the lowest cost**

We are facing a unique chance to reform costly and environmentally damaging policies; an opportunity to improve efficiency in the use of energy and materials. Countries will now be even more aware of the costs of policy actions, so the OECD policy recommendations for least-cost approaches to climate change and other environmental challenges are ever more relevant.

To contain costs, we should use market-based instruments; such as water pricing, greenhouse gas emissions trading with auctioned permits, taxes on pollutants, and waste charges. These measures have the added benefit – in a situation where public finances are over-extended – of bringing in revenues which could be used to offset reductions in other taxes that create economic distortions. A number of countries are already using the crisis as an opportunity to push through green tax reforms, often using the revenues raised to reduce taxes on labour income.

Some people fear that green taxes and emissions trading would put industry at a disadvantage with foreign competitors who may not be subject to similar costs. However, OECD analysis has found that the effects of climate policies on competitiveness are often quite small, particularly if a sufficiently large group of countries take action.

Another key element in policy reform for a green growth is to remove environmentally harmful subsidies, especially for fossil fuel production (still prevalent in some OECD countries), consumption (especially in some emerging economies and developing countries) and for environmentally-harmful agricultural production. It would save money for governments and taxpayers and shift the economy away from activities that pollute and over-use natural resources. For example, new OECD analysis suggests that removing subsidies to energy consumption in a number of emerging and developing countries could drastically reduce their greenhouse gas emissions, by as much as 30% in some regions in 2050 compared to business-as-usual, and also contribute to increased economic efficiency.

Countries should also move now to assess the cost and environmental benefits of some of their environmental policies, for example some measures to support renewable energy. Recent OECD analyses show us that support policies for biofuels production in the US, Canada and the EU can cost as much as 1000 US dollars per tonne of CO<sub>2</sub> reduced – a very high cost for achieving emission reductions.

All these policies and reforms will bear best fruit if accompanied and supported by a strategy to foster clean technologies for a greener future, a sine-qua-non in the sustainable development equation.

## **3. Promoting green innovation: the new policy frontier**

New green technologies can help to cut the future cost of addressing climate change and indeed many other environmental problems.

For a start, putting a price on carbon emissions and other pollutants will provide incentives and help create markets for the development and diffusion of green technologies such as solar and wind energy and carbon capture and storage.

Specific R&D policies are also needed to complement the pricing of pollution. Public and private financing for green innovation needs to be increased. Some governments are supporting longer-term R&D in the area of green technology as part of their economic stimulus packages. But this is not a

choice between better pricing or stimulation of technological innovation: getting the prices right will likely be one of the best triggers for such innovation. We are organising an OECD Global Forum on Eco-Innovation (Paris, 4-5 November) to take stock of best practices in promoting green innovation.

After all, we are talking about a crucial sector for our future; one with amazing potential not only for environmental progress but also as a stimulant of "green" economic growth and "green-collar" jobs. As the New Energy Finance Report, "Cleaning up 2009", reflects: growth in private equity and venture capital investment in clean energy technologies, companies and projects, has increased from 1.3 billion dollars in 2003 to more than 32 billion in 2008. Cleaning the environment and fostering a greener growth can be great business as well.

And of course, innovation to address climate change goes much beyond R&D and new technology. [The OECD Innovation Strategy](#), on which I spoke yesterday, provides an in-depth perspective on how government policies can best support innovation to address global challenges, including climate change. Our analysis clearly shows that better pricing will be one of the best triggers for the development and diffusion of greener innovation. And, fortunately, there is now evidence that innovation in climate change mitigation technologies is accelerating.

But all these crucial leaps – greening our fiscal stimulus packages, reducing emissions through market mechanisms and fostering green innovation– can only be achieved through collective action and bold political will. The [UN Climate Change Conference that will take place in Copenhagen in December 2009](#) will measure and reflect precisely that: our decision-makers' political will. In other words, it will be about vision and courage.

#### **4. The COP15: towards a successful agreement**

Climate change is no doubt the most critical of the environmental challenges world leaders are focusing on this year. Without new policy action, global greenhouse gas emissions are expected to increase by 70% by 2050, leading to higher temperatures, droughts and storms, poor crop yields and damaged infrastructure. Inaction can also significantly reduce economic productivity. We're already seeing and paying for the impacts of environmental damages.

Tackling climate change should not be delayed any further. The economic crisis provides no room for complacency. At the most, it might slightly reduce global emissions temporarily, after which an upward trend will resume. Delaying action on climate change would only mean larger cuts later.

The success of the COP15 Conference will be crucial if we are to move the world economy onto a greener development path. What are some of the key ingredients for a successful outcome in Copenhagen?

Quantity is certainly one of them. Or perhaps I should say inclusiveness. We need as many countries as possible to join. It is obvious that the more countries that participate in global efforts to curb greenhouse gas emissions, the lower the global cost of action will be. But to make sure that key emerging economies and developing countries are on board, we need to agree on who should take action and who should bear the costs of that action.

Financial and technology support for developing countries will be needed. The success of COP15 depends very much on political will and international co-operation on an unprecedented scale to reach an ambitious but equitable agreement; an agreement that spells out who takes what actions to mitigate and adapt to climate change, and who pays for them. The OECD Conference on the Economics of Climate Change in Paris on 18 September will discuss the latest results from our work aimed at helping countries put the post-2012 climate regime on a solid economic footing.

Partnerships between the private sector and government will also have a decisive role to play in the creation of a low-carbon economy. The Copenhagen agreement might also give rise to new partnership mechanisms, in particular strategies to reduce emissions at the sectoral level given the even more active role that the private sector is now called upon to play in the fight against climate change.

Ladies and Gentlemen:

The economic crisis cannot serve as an excuse to postpone the introduction of ambitious measures to address climate change and other environmental challenges. On the contrary, the crisis must be seen as an unhopd for opportunity to intitiate the reforms needed to step onto a path of sustainable economic development.

This is a decisive moment in time. I feel that we are on the threshold of a period of major transformation. A fundamental change seems to have been set in motion to replace modernism, hyperconsumption and growth at any price with an economic model and way of thinking that are more ecological and more human.

So let us take advantage of the crisis. Let us use it as a springboard to a green and sustainable world economy, a new departure towards fascinating and optimistic futures.

Thank you for your attention.

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[Top of page](#)