



For Official Use

Organisation de Coopération et de Développement Economiques
Organisation for Economic Co-operation and Development

DSTI/SU/SC(98)28

OLIS : 05-Oct-1998

Dist. : 06-Oct-1998

Or. Eng.

**DIRECTORATE FOR SCIENCE, TECHNOLOGY AND INDUSTRY
STEEL COMMITTEE**

SUSTAINABLE DEVELOPMENT

This document will be considered at the next meeting of the Steel Committee on 4-5 November 1998.

Contact: Mr. Wolfgang Hübner, Head of DoT and Steel Unit, STI; tel.: (33 1) 45 24 91 32;
Fax: (33 1) 45 24 88 65; Internet: Wolfgang.Hubner@oecd.org

70046

Document complet disponible sur OLIS dans son format d'origine

Complete document available on OLIS in its original format

**DSTI/SU/SC(98)28
For Official Use**

Or. Eng.

SUMMARY

This document provides an overview over the OECD's programme of work on sustainable development and identifies two areas in which the Steel Committee could make a valuable contribution to this horizontal activity: i) a case study on voluntary agreements involving the steel industry on the reduction of greenhouse gases and ii) an inventory of environmentally harmful subsidies in favour of the steel industry.

ACTION

The Committee will be asked to consider the document and to decide if and, if yes, in which area it wishes to contribute actively to the horizontal activity on sustainable development.

RELATED DOCUMENTS

- SG/COM(98)51
- C(98)117
- DSTI/SU/SC(98)5/REV1
- DSTI/SU/SC(98)11/REV1
- DSTI/SI/SC(97)56

SUSTAINABLE DEVELOPMENT

I. Introduction

1. The Steel Committee at its 52nd meeting held on 29 May 1998 took note of a report by Mr. Nezu, Director of the DSTI, touching on the horizontal activities carried out by the Organisation and, more specifically, on the activity on *sustainable development* which has emerged as a new priority of the OECD. In his statement Mr. Nezu highlighted the problems of climate change and carbon gas emissions. He pointed to the great potential that existed in this context for the Steel Committee to make an important contribution to the horizontal work of the Organisation, thereby strengthening its political importance and improving its visibility.

2. The Committee agreed to have an exchange of views on the role it could play in the horizontal activity on *sustainable development*. Such an exchange of views should in particular build on mutual initiatives both by the Committee and the Secretariat. Moreover, the Committee requested that the Secretariat elaborate an appropriate action plan for consideration and, if possible, decision at the forthcoming meeting of the Committee on 4-5 November 1998.

3. In response to the Steel Committee's request, this document i) presents an overview on the OECD's work programme on *sustainable development* and the elements of this programme which are specifically related to the steel industry, and ii) outlines areas of future work on *sustainable development* to which the Steel Committee could actively contribute.

4. This document has been submitted to the relevant divisions within the DSTI and to the relevant horizontal working groups with representation from OECD directorates and affiliates that were created to carry out the programme of work on *sustainable development*. Comments and suggestions received from these bodies have been taken into account. The document has been brought to the attention of the *Sustainable Development* Steering Group chaired by the Secretary-General, and the Co-ordinating Group on Climate Change chaired by Deputy Secretary-General Thorvald Moe.

II. OECD Work on Sustainable Development

5. The concept of *sustainable development* encompasses a variety of inter-related economic, social and environmental objectives. It puts the focus on welfare more broadly rather than just economic growth, by stressing the needs for a secure and cohesive social system and a clean and well-functioning environment. The emphasis is on the links between the key components of sustainability, namely the economic, environmental and social dimensions; on the need to balance these links when there are conflicts while fully exploiting the potential that new technology and more efficient production techniques hold; and on ensuring that economic policy takes into account environmental and social policy concerns, and vice-versa.

6. Sustainable development is one of the five priority areas for future work of the OECD. A strategy for work to be undertaken over the period from 1998 to 2001, involving many parts of the Organisation and its affiliates was endorsed by the OECD Ministerial Council Meeting in April 1998. The Communiqué [SG/COM(98)51] states that, “Ministers agreed that the achievement of sustainable development is a key priority for OECD countries. They encouraged the elaboration of the Organisation’s strategy for wide-ranging efforts over the next three years in the areas of climate change, technological development, sustainability indicators, and the environmental impact of subsidies...”. Furthermore, “Ministers asked the OECD to enhance its dialogue with non-member countries in these areas and to engage them more actively, including through shared analyses and development of strategies for implementing sustainable development”. This work is intended to lead to a major report to the OECD Ministerial Council Meeting in 2001. A number of intermediate studies and reports will be produced in the interim.

7. The OECD’s work programme on sustainable development [C(98)117] initially focuses on four specific projects:

- a) climate change;
- b) the impact of support measures, taxes and resource pricing;
- c) technology and sustainable development; and
- d) measuring performance: indicators of sustainable development.

8. The overall focus of the work may be broadened. Other projects, e.g. drawing on work on regional, local and urban development, on work on natural resources, and on activities with non-members could be developed as the work proceeds. The Secretary-General’s discussion paper (www.oecd.org/subject/sustdev/oecdwork.htm) summarises the four projects as follows:

a) *Climate change*

9. This horizontal project aims to assist Member countries to respond to the threat of climate change in an effective, efficient and equitable way. It will address three main issues:

- Clarification and implementation of the Kyoto Protocol and the United Nations Framework Convention on Climate Change. This will require assessing the design options of the new mechanisms (International emission trading, joint implementation, and the clean development mechanism) and the compliance system envisaged by the protocol, as well as the domestic strategies for achieving emission reduction targets. The latter work will consider the reform of sectoral policies in the fields of agriculture, transport and energy; the potential contribution of financial and fiscal support and other policy instruments; and the role of technologies to limit greenhouse gases.
- Effects of achieving the Kyoto targets, including the quantification of the economic effects. Building on the significant experience of the OECD and IEA, one strand of work will focus on the development and use of models to explore the economic aspects of climate change. Quantitative analysis will be complemented by an overall evaluation of the Kyoto Protocol,

including analysis of technical, social and political issues which are not easily addressed by models.

- Moving beyond Kyoto to achieve the longer-term objective of stabilising concentrations of greenhouse gases in the atmosphere. Work will address how incentives may encourage the participation of developing countries, consistent with the principle of “common but differentiated responsibilities”; the economic benefits of involving non-Annex I countries (footnote: Annex I of the UN Framework Convention on Climate Change includes: all OECD countries, except Korea and Mexico; Belarus, Russia and the Ukraine; and central and eastern European countries. Turkey is formally listed in Annex I but has never ratified the Convention and does not have an emission target under the Kyoto Protocol) in a global emission trading system; and the scope for low-cost green house gases reduction measures and measures to foster cleaner technologies.

b) *The impact of support measures, taxes and resource pricing*

10. “Getting prices right” is essential to enhance the allocation of resources in the light of economic, social and environmental considerations. Regulations, the use of tradable permits, the reform of direct and indirect support measures, and the levying of fees, charges and taxes are all instruments that can be used to achieve these objectives. The main objectives of this project are:

- To expand data gathering on support measures, environmental taxes and resource pricing methods, notably in agriculture, fisheries and energy.
- To further develop analytical tools to investigate how these policy measures interact with each other, with other policies and with country- and site-specific circumstances to affect the environment, the economy and employment, and to apply these tools in country reviews.
- To offer policy advice to countries on how to enhance the effectiveness of these policy measures, and to identify those areas where internationally concerted actions may alleviate the perceived political and economic consequences of going alone.

c) *Technology and sustainable development*

11. Technology and innovation have a key role to play in delinking economic growth from environmental degradation. An overall interest exists in strengthening the development and the diffusion of cleaner technologies and environmentally-sound products, and the creation of cleaner and safer workplaces. The primary aims of this project are:

- To deepen understanding of the concepts of *eco-efficiency* and *resource productivity*, both in general and as applied to specific sectors and technologies.
- To understand how enterprises incorporate environmental objectives into their management strategies, and what signals are needed to stimulate investment in clean technologies.
- To recommend to Member countries policies which promote the development and use of environmentally-sustainable technologies.

12. These issues will be examined in a set of case studies. One of the envisaged case studies will analyse in more depth the contribution to sustainable development of the use of information technologies in the steel industry.

d) Measuring performance: indicators of sustainable development

13. The emergence of the concept of sustainable development has intensified the need for indicators which capture the economic, social and environmental dimensions and the links that exist between these dimensions. The main objectives of this horizontal project are to:

- Review progress toward establishing a common framework for the development of sustainable development indicators.
- Explore how progress can be achieved on technical aspects of indicator development, such as measurement (physical and monetary) and scales (global, regional, national, local).
- Advance work on an integrated and practical set of indicators for policy analysis, including monitoring and evaluation.

III. The Steel Committee's Approach to Sustainable Development

14. Two basic approaches exist concerning the way the Steel Committee could be involved in the OECD's work programme on sustainable development. On one hand, the Committee could limit its contribution to the work programme by commenting on elements which are relevant to the work of the Committee, but carried out in other parts of the Organisation and its affiliates. On the other, the Steel Committee could get actively involved in the programme of work by preparing relevant case studies or contributing to the analyses under the four horizontal projects as described above. Either approach is deemed to be feasible. However, an active involvement of the Steel Committee could span a broad variety of scenarios combining the commenting on work done elsewhere and the launching of specific activities.

15. Whatever approach would be favoured by the Steel Committee, the timing of the activities in the overall perspective of the sustainable development work programme, and the co-ordination with the project organisation, notably at the level of the five Working Groups on:

- Climate Change;
- Modelling;
- Support, Taxes and Pricing;
- Indicators; and
- Technology

would be indispensable.

16. The Steel Committee's decision making on the approach and possible areas of contribution (see chapter IV) should take into account the implications on the Committee's programme of work for the years 1999 and 2000 and the resources involved. Given the schedule of the sustainable development strategy, any input from the Steel Committee to this horizontal activity should be finalised, more or less, by the end of the year 2000.

IV. Areas of Work on Sustainable Development of Specific Interest to the Steel Committee

17. The Steel Committee works on a broad variety of issues which are relevant in the context of sustainable development. It is involved in the sectoral analysis of strategies directed toward the reduction of greenhouse gases. Moreover, this Committee addresses, from a sectoral perspective, sustainability issues such as water and air pollution, energy efficiency, energy taxation, clean technologies, recycling, and the problem of shifting steelmaking capacity to low wage and low environmental standard countries at its meetings.

18. In general, most of these topics could qualify to be launched as a specific activity by the Steel Committee to the sustainable development work programme, notably in terms of the value-added they may generate for the overall project. However, in the light of the scarce resources available, the Secretariat proposes that possible active contributions to this work programme could focus on one of the following topics:

- Voluntary agreements on the reduction of greenhouse gases; and
- Inventory of environmentally harmful subsidies in support of the steel industry

a) Voluntary agreements on the reduction of greenhouse gases

19. On the basis of the expertise gathered in document DSTI/SU/SC(98)11/REV1 on the impacts of the Kyoto Protocol on steel industry competitiveness, the Steel Committee could collect information on voluntary action programmes for the reduction of greenhouse gases, both at the sectoral and firm level. More than a handful of such agreements have been concluded to date, and negotiations on such agreements have been increasingly initiated in the course of 1998 in OECD Member countries. The agreements would be examined against the background of the legal obligations concerning emission reduction targets. By addressing a set of questions related to the efficiency of such agreements from the perspective of the firms/industry concerned, the case study would aim at shedding more light on the economic strengths and weaknesses of voluntary sectoral agreements. In particular, the motivations of firms to conclude voluntary agreements and the short-term and long-term effects of such tools on competitiveness both at the national and international level would be highlighted. The voluntary agreements would also be analysed with a view to identify good practice therein, mechanisms which work and those which do not, and designing the structure of a model of a voluntary agreement which could be used in the steel industry as well as for other significant generators of carbon gas emissions.

20. As a part of this exercise, the new mechanisms of the Kyoto Protocol -- international emission trading, joint implementation and the clean development mechanism -- could also be examined in more depth in the context of their application by the steel industry. The findings of such bottom-up approaches are very likely to foster and facilitate the implementation of the Kyoto Protocol.

21. Assuming the steel industry and industry associations would volunteer in providing the information necessary to carry out such a case study, the implications on staff resources in the years 1999 and 2000 are estimated to amount to 6 staff months in total. This would exceed the resources devoted to the activity *Steel and the environment* [DSTI/SU/SC(98)5REV1] by 2 staff months. Efforts would be made by the Secretariat in order to obtain a voluntary contribution to fill the gap.

b ***Inventory of environmentally harmful subsidies***

22. The Steel Committee has launched an activity on trade and trade-related issues. In response to the questionnaire [DSTI/SI/SC(97)56] information is being collected on subsidy programmes in support of the steel industry. The information provided could be analysed with the view to clarify the impacts of such programmes on the behaviour of firms, notably investment and operational decisions that relate to the use of materials, energy and natural resources. Apart from the questions related to the trade-distorting potential of such subsidies, the Steel Committee may also wish to identify support programmes which have perverse effects on the environment. The results of such analysis could feed in the horizontal project on the impact of support measures, taxes and resource pricing, and more specifically, in the reform of direct and indirect support, which may deal with the reduction or removal of support that is environmentally damaging and the implementation of support that is environmentally beneficial.

23. The additional work involved in such a case study is estimated to amount to 4 staff months.

c) ***Other proposals***

24. In addition to these proposals made by the Secretariat, the Steel Committee may wish to undertake other activities in support of the work programme on sustainable development. Such proposals should be sent to the Secretariat.