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**PUBLIC GOVERNANCE AND TERRITORIAL DEVELOPMENT DIRECTORATE
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Regional Development at the Core of Green Growth

Main Issues for Discussion

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This document is submitted to delegates of the TDPC for DISCUSSION.

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REGIONAL DEVELOPMENT AT THE CORE OF GREEN GROWTH:

MAIN ISSUES FOR DISCUSSION

1. Although it cannot be predicted what a green economy could really look like in the future, it will surely depend on innovation and the availability of natural resources to generate renewable energies. Therefore, regional and local dimensions will be at the core of green growth agenda. *First*, regional policies can accelerate the shift to clean technologies by enlarging the market and by promoting their development. *Second*, interactions at the local level generate agglomeration and spillover effects that are essential for the emergence of new development paths and innovation. Local and regional governments – as planning and regulatory authorities, purchasers, developers and managers of infrastructure, enablers of private investments, and role models – are crucial to the transition to low-carbon, resilient economic development. They will be critical for example to implement policies to avoid negative externalities of renewable energy production, such as utilisation of agricultural land. Through policy action they can address market failures, such as under-pricing or the unsustainable use of natural resources.

Issue 1: How can cities contribute to a green growth agenda?

2. How cities grow impacts both environmental quality and national competitiveness: cities are the drivers of national GDP and main centres of innovation due to specialization in higher value added activities. They consume, however, 60-80% of energy worldwide and therefore are responsible for a large share of greenhouse gas emissions. The urban form matters: the lower the urban density, the higher energy intensity is for electricity and transport. There is a clear economic rationale for using urban policies to pursue a green growth strategy: short-term costs of urban environmental policies are lower than at the national level because of the effects of stronger synergies. Local policies to reduce pollution increase attractiveness – a main factor of city competitiveness, especially in economies that are higher up the value chain. Applying densification policies or congestion charges can have long-term positive effects on the economy due to technological innovation: *e.g.* high-quality, more-efficient public transport that responds to economic needs and better connects labour with employment, thus increasing firms' productivity. Cities also provide the right scale for markets of eco-products and for large-scale green infrastructure investment. Cities can pursue green growth strategies through greening public investment and purchasing, supporting greener local industries, raising consumer awareness, and catalysing research and the development of the green-tech clusters.

- What concrete green growth initiatives are more effectively taken on by cities rather than higher levels of government?
- In what ways can green growth initiatives improve urban amenities and attractiveness?

Issue 2. How can national urban policy frameworks enhance cities green growth activities?

3. There is a need to bridge the gap between national and local approaches to green growth. National plans do not account for the spatial elements of green growth or cities' existing contribution to green growth. Urban green growth strategies tend to be stand-alone, "flagship" green projects that are dependent on short-term political cycles. Long-term sustainable economic growth calls for a systematic, citywide, multi-sectoral approach. National governments could green urban finance by re-designing taxes and grants to sub-national governments to correct incentives for unsustainable behaviour and reward cities that create environmental benefits beyond their borders. Technical assistance, funding and knowledge-sharing is needed for large-scale infrastructure projects – such as smart grids, high-speed trains, and green

R&D – and to help cities measure the economic and environmental impact of green growth initiatives. Strong national and international environmental targets and baseline standards are needed to remove policy obstacles, prevent harmful competition among regions and promote incentives for a “race to the top”. Cities also need flexibility to innovate urban-level policy responses that can then be scaled up. Finally, green growth is impacted by the way environmental quality and carbon emissions are valued. Urban green growth policies would benefit from national price signals and standards – *e.g.* through carbon taxes or other pricing mechanisms. There is also a need for a common set of urban environmental and economic indicators to compare best practices and measure green jobs and growth. Access to this information by national governments could inform both urban and national strategies.

- What pricing signals on carbon and other environmental goods do cities need in order to make green growth policies cost-effective?
- What changes are needed to make existing national and international financing mechanisms more responsive to multi-sectoral urban investment needs?

Issue 3. How can compact cities contribute to green growth?

4. The concept of “Compact City” as a spatial development strategy was introduced as far back as the 1970s, or even earlier, in order to deal with rapid urban expansion. Since then, the emphasis has been put on controlling suburban sprawl and protecting agricultural land and natural resources. Currently, it is increasingly discussed from more diverse perspectives, including climate change and regional growth. The principal characteristics of a “compact city” are seen as: higher densities, mixed land uses, and mass transit linkages. The compact city concept is a holistic approach to achieve the goals of environmental and economic sustainability at the same time, which perfectly fits the context of green growth strategy. Although the concept is attracting more attention, there are a number of concerns in designing and implementing the policies, which makes many policymakers hesitate to introduce such policies. How to cope with the difficulty of actual implementation should be the priority for the discussion.

- What are the challenges and the most effective policy interventions to achieve compact cities? How it may contribute to the green growth agenda?
- Are there any examples in which compact city policy has been successfully implemented, or in which it has failed to achieved its objectives, and why?

Issue 4. How can rural policy make the most of the opportunities presented by renewable energy?

5. Producing renewable energy could be a development opportunity for many rural areas in OECD countries. It could generate valuable jobs, firms, and boost local investment. Rural regions are usually well-endowed with renewable sources of energy. These can be used to make local communities self sustainable and less dependent on national power grids, or for export purposes, thus becoming a driver of rural economies. To make the most of this opportunity, and give substance to the slogan “green growth”, there is the need for an integrated policy approach that goes beyond the common borders of the rural policy; which focuses on skills, infrastructures, and economic diversification, while involving local communities in the design and implementation of such policy interventions.

- Is it possible to create valuable and stable jobs in rural areas through renewable energy?
- Does this represent an “industrial policy” or “cluster policy”? Which role can (or should) rural communities play in this policy? What reforms are needed and how can they be passed?