eco@work

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Sustainable reading from the Oeko-Institut

Green Economy Sustainability, repackaged?

A Green Economy in the Global South

Interview with Professor Markus Lederer

We need real progress!

Michael Sailer
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The Green Economy? To me, it feels as it has never been off the Oeko-Institut's agenda. We were talking about it back in 1985, when we published our second study on energy system transformation, focusing on energy services and the future role of the municipal utilities as key actors in this process. We were talking about it in 1996, when we joined forces with Hoechst to think about a sustainability-oriented corporate strategy. And we were still talking about it in 2009, with our Annual International Conference on "Sustainable Industrial Policy for Europe". The message is clear: as an industrial country, Germany relies on a well-functioning economy. But it's equally clear that this economy must not destroy our natural life support systems by emitting visible or invisible harmful gases (and then concealing them to such an extent that fraud is suspected), by leaching the goodness out of our soils, by leaving a legacy of radioactive or other toxic waste as a burden on humankind for millennia to come, or by contaminating our natural ecosystems and food cycles. What we need instead is a successful economy that acts rationally – also from an environmental perspective. And that means making conscious and sparing use of resources, relying on non-fossil energies, recovering precious raw materials from waste, and bringing non-polluting products to market. Companies can learn a great deal from the studies that we and others have published in the past so that we move closer to a Green Economy now and in future.

And a few words relating to the Oeko-Institut itself: you will have noticed from the pdf version of this issue that we have given eco@work a subtle facelift. The content and columns remain unchanged, but we hope you will like the brighter and more flexible layout. We look forward to receiving your feedback.

I hope you enjoy this issue of eco@work.
With all good wishes for the New Year.
Yours,

Michael Sailer

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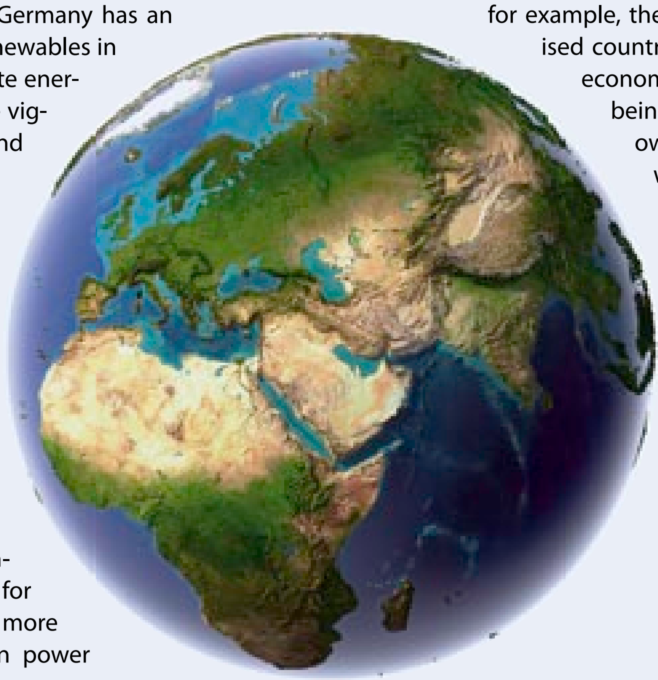
“There is great willingness to cooperate”

When we talk about the Green Economy, we generally only hear about the benefits: more economic efficiency, resource conservation, and a stronger emphasis on the social dimension. But do these advantages apply to a Green Economy in emerging and developing countries? Or can a Green Economy only ever play a subordinate role in these countries, particularly in relation to food and energy security? What potential does a Green Economy have to offer for developing countries and emerging economies, and what are the challenges? In this interview with eco@work, Professor Markus Lederer from the University of Münster provides some answers.

Professor Lederer, can we expect emerging economies and developing countries to embrace the Green Economy?
Of course, the Green Economy is not a priority for most developing countries. They have other more pressing problems to solve, not least as regards security, food and the energy supply. But that doesn’t mean that developing countries can’t take action now or in future. Indeed, some are doing so already. In the larger emerging economies, especially China, but also in countries like Mexico and even Ethiopia, the need for a sustainable economy is certainly recognised. And often, there is also great willingness to cooperate with the industrialised countries.

What, specifically, can the industrialised countries do?
We must be willing to provide lavish funding in order to help the developing countries and emerging economies build sustainable energy systems and infrastructures, for example. However, many of these measures will only be successful if the right institutional frameworks are in place. Here, tangible support can be provided through development cooperation, for example. And in my view, Germany has an obligation to take action on renewables in the global arena and to promote energy system transformation more vigorously, both at political level and in relation to civil society.

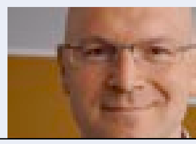


Where do you see encouraging signs of a Green Economy in developing countries and emerging economies?
China has done a great deal to massively increase the number of solar panels. In my view, the criticism of these exports to Europe is counterproductive. There is also a great willingness to invest in renewables. Last year, for the first time, China installed more capacity in this sector than in power generation from coal. And in many countries, there is also great potential to make use of renewable energies, such as hydropower, where Costa Rica, for example, is already a model of best practice.

But the emerging countries don’t always have a positive view of the Green Economy.
That’s true. There are two main points of criticism. Firstly, the Global South is concerned that the Green Economy will establish neo-colonial structures in which the industrialised nations dictate what is right and proper. And secondly, there is a concern that the industrialised countries are simply trying to buy time with their action on the Green Economy, while in reality they simply want to continue with “business as usual” in their own dirty economies.

Is this criticism justified?
To some extent. In my view, there is much less of a risk of neo-colonialism, particularly given that the emerging economies now have enough power and resources at their disposal to be able to avoid being dictated to by the Global North. The problem is more complex. My view is that every single one of us would love to carry on with the lifestyle that we have enjoyed up to now, with more growth and prosperity, but we also want everything to work perfectly on the environmental front. But reconciling these two goals is extremely difficult and can only be achieved with sweeping political reforms. Some people believe that green growth is impossible, and refuting that criticism poses immense challenges. Not long ago, for example, the Pope called for the industrialised countries to abandon their pursuit of economic growth, at least for the time being. That doesn’t accord with my own view, but one thing is certain: we will have no option but to give up some of the conveniences that we currently take for granted – in relation to domestic flights or meat consumption, for example.

Thank you for talking to eco@work.
The interviewer was Christiane Weihe



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Green Economy

A repackaging exercise?

In September 2015, the world's leaders met at the United Nations in New York and adopted the Sustainable Development Goals (SDGs). The launch of a process to develop a set of SDGs was agreed at the Rio+20 Summit three years ago. The Summit also adopted a decision on the Green Economy. So what was the thinking behind that decision, and how far has the debate progressed today? What is the Green Economy? And how does it add value?

According to the declaration adopted in Rio de Janeiro in 2012, 20 years after the first United Nations Conference on Environment and Development, a Green Economy should contribute to poverty reduction, sustained growth, social cohesion and employment without compromising the ability of ecosystems to function. However, no detailed definition or goals were adopted. Not surprising, then, that today, a plethora of different concepts and policy approaches exists at national and international level. What is the purpose of a Green Economy, and what can and should it accomplish? These remain contentious issues – as is the question of whether it adds value compared with other approaches.

"In terms of its content, the Green Economy concept doesn't offer much that is new," says Franziska Wolff from the Oeko-Institut. So it's just repackaging, then. Does that mean that we can archive the idea of the Green Economy with a clear conscience now that we have embraced the concepts of the "sustainable economy" and "sustainable development"? Not quite. "Strategically, the decision on the Green Economy has an important function. It is creating new momentum in a debate that we have no option but to engage with," says Franziska Wolff, who heads the Oeko-Institut's Environmental Law and Governance Division. "It's a debate about pathways towards an economic model that fulfils both the social and the environmental dimensions of sustainability. It also considers how we should initiate the radical transformation of our society that is required." One fact which is beyond dispute is that faced with a growing world population and rising consumption, coupled with climate change, resource scarcity and the ongoing destruction of precious ecosystems, a radical restructuring of the global economy is the only option.

ENVIRONMENTAL AND SOCIAL

But what exactly is a Green Economy? The United Nations Environment Programme (UNEP) – a driving force behind the Rio+20 decision – has produced a working definition, which is often quoted: a Green Economy "results in improved human well-being and social equity, while significantly reducing environmental risks and ecological scarcities". However, the developed nations' definitions tend to have a rather different emphasis: for Germany's Federal Ministry of Education and Research, for example, the Green Economy is "an internationally competitive economy that is both environmentally and socially compatible". The problem with this definition is that environmental goals risk being undermined by the reference to competitiveness.

Other definitions focus mainly on environmental protection. This is the approach adopted by the German Environment Ministry, for example. "Naturally, this is very welcome from an environmental perspective, especially as it covers not only climate protection but a very broad range of environmental issues with some very ambitious goals – such as a 100 per cent renewable energy supply and an absolute reduction in the use of non-renewable resources," says Franziska Wolff. These goals are not watered down by economic targets such as growth and competitiveness. "But at the same time, the question is what sets the Green Economy concept apart from ambitious environmental protection." And as she explains, because it excludes distribution issues and the development policy dimension, this definition makes the concept of a Green Economy very unpopular in the Global South.

In the Oeko-Institut's view, many policy-makers have an overly "soft" understanding of the Green Economy. "They rely on technological progress within a growth-fixated system, and don't challenge the system itself," says Franziska Wolff. "But we need to set boundaries for ourselves – and keep to them." In her expert view, efficiency is not enough. Sufficiency is needed as well – and that means changing our consumption patterns. One thing is clear: "We need to look critically at our consumer culture and the prevailing growth paradigm." The transition to a Green Economy thus requires a radical transformation of society and a change of culture in numerous areas. "It's not just about improving technologies, products or services," she says. "It's about changing the way in which markets function, and it's about changing the financial system, consumption structures and knowledge production. We have to look at social security and distribution issues and, ultimately, at social discourses, paradigms, individual behaviour and lifestyles."

Nonetheless, the Green Economy discourse offers an opportunity that can be utilised by environmental policy. "The Green Economy is a very attractive 'brand' – one which is capable of securing majority support," says Franziska Wolff. "It enables us to join up our thinking about the economy and the environment, rather than seeing them as being in conflict. If we fill it with the right content, it can facilitate and legitimise an ambitious package of sustainability policies."

CHALLENGES AND SOLUTIONS

Nonetheless, implementing the Green Economy faces numerous challenges, so the Oeko-Institut is currently seeking to identify barriers and ways of overcoming them. These issues are being explored together with Projektträger Jülich (PtJ) within the framework of a project funded by the German Federal Environment Agency (UBA), entitled "Transition to a Green Economy: Necessary structural changes for and enablers of a viable implementation in Germany", which will run until 2017. During Phase I of the project, PtJ undertook a comprehensive review, focusing, for example, on the debate about how to define a Green Economy and identifying examples of international best practice. In the present phase, systemic barriers to a transition towards a Green Economy are being identified and analysed. One of them is the rebound effect: making products – such as cars – more efficient often reduces their running costs, but this often means that they are then used more frequently, reducing the beneficial effect on the environment and in some cases cancelling it out entirely. And there's another barrier: "If the transformation to a Green Economy leaves the existing market economic model untouched, its structural problems are simply reproduced," says Martin Gsell from the Oeko-Institut. Future-oriented sustainable infrastructures then compete for investment with the existing systems, which are based around the global capital markets – and these in turn are geared towards profits, not (environmental) policy goals. "By focusing on profits, even a Green Economy would continue to create incentives that externalise commercial costs and pass them on to the public over the long term. In this scenario, the social and political objectives of a Green Economy would be subordinated to market performance," he says.

The third project work package investigates policy options to promote a Green Economy. "We start with the German Environment Ministry's definition of a Green Economy and the targets associated with it and, on this basis, explore ideas that look promising in terms of reforming existing policies and developing new ones," explains Dirk Arne Heyen from the Oeko-Institut's project team. As the first step, he says, it is essential to end all the policies and practices that constitute a barrier to the transition to sustainability, such as environmentally harmful subsidies, and public investment in the fossil fuel industries. Potential new instruments – some of which need further exploration – include an absolute limit on land consumption, a tax on primary inputs, the expansion of ecodesign criteria to more product groups, and the adoption of additional criteria such as resource conservation. But there are other options as well, such as tax relief for green research and development, and the obligation for major institutional investors and rating agencies to comply with sustainability criteria.

As the UBA project draws to a close, the researchers will also look in detail at green services. Their analysis will focus on three sectors: new green services, such as carbon offsetting; sectors in which green services – such as car sharing – are replacing existing offers; and services where competition exists, as in the energy supply. "In our analysis, we will be looking at possible environmental burdens and relief, but also at rebound effects. We will also be exploring the impacts on employment, market development and wealth creation," says Martin Gsell.

WHAT ACTION IS NEEDED?

With the UBA project, the researchers will show which strategies and policies are useful in promoting the transition to a Green Economy. "Ambitious quantitative goals, coupled with time limits, would massively increase the political and practical value of the Green Economy concept," says Franziska Wolff. What's more, removing costly and environmentally harmful subsidies would free up resources that can be used to promote the social dimension of the transformation – and that would help to counter some of the resistance that may well be encountered as the Green Economy becomes a reality. And as she makes clear: "Provided that the transition to a Green Economy is understood not just as technological optimisation but as deep transformation towards sustainability, then the Green Economy will be very much more than a repackaging exercise."

Christiane Weihe

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Green Finance

Investing in climate protection

We're big spenders, aren't we? We splash out on the latest electronic gadget, a smart new outfit, a fast car ... We also put much of our wealth aside for a rainy day, holding it in pensions, savings accounts or life insurance. But what do the banks and insurers do with all our cash? Although green investment opportunities often promise to deliver a healthy profit, they are not being exploited to an adequate extent. For example, German insurers held a staggering 1.4 trillion euros in investments in 2014, making them by far the largest institutional investors, but channelled only a fraction of this capital into green projects. And yet trillions of dollars of investment are needed worldwide to protect the climate – by promoting green technologies, a more efficient economy, and resource conservation. So how can we boost investment in these sectors? That is another of the issues being explored by the Oeko-Institut's researchers.

In 2013, PricewaterhouseCoopers defined green finance as "financial products and services, under the consideration of environmental factors throughout the lending decision making, ex-post monitoring and risk management processes." Their aim is "to promote environmentally responsible investments and stimulate low-carbon technologies, projects, industries and businesses." This type of investment is needed in many areas, including the production and storage of renewable energies, and transport infrastructure. "There are various calculations showing how much investment is needed worldwide," says Andreas Hermann from the Oeko-Institut. "For example, the United Nations Environment Programme (UNEP) estimates that the additional investments required to make a Green Economy a success worldwide are likely to be in the range of 1-2.5 per cent of global GDP per year from 2010-2050." The need for investment will probably be highest in the energy, transport, building and tourism sectors. A point of criticism from UNEP is that the political and legal frameworks do not encourage flows of private capital into the Green Economy. Investors are generally risk-averse and conservative, and for that to change, according to UNEP, reliable policies and a regulatory framework favourable to green investment must be created.

PRIVATE CAPITAL

So how can conditions for green investment be improved here in Germany? That question was explored by Oeko-Institut researchers as part of the "Frameworks for Climate Investment – Barriers and Actions" project on behalf of the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB). Together with project partners from TU Darmstadt, Frankfurt University of Applied Sciences, BCC Business Communications Consulting and the Ecologic Institute, they identified legal barriers to green investment and looked at ways of dismantling them. The project focused on various investment sectors, such as infrastructural measures in buildings and transport, energy efficiency for businesses, and the production, transmission and storage of renewable energies. "We need more private capital in these sectors," says Andreas Hermann. "Private investors, such as insurance companies, play a major role as they have far more resources available than the public sector." For example, the insurers' 1.4 trillion euro portfolio in 2014 contrasted with Germany's total government spending of 295.4 billion euros. And yet only a fraction of the insurers' funds – less than 1 per cent – is currently invested in climate protection. "In the project for the German Environment Ministry, we looked at various branches of the law to identify barriers to investment, as well as opportunities to create incentives that are being ignored at present," says Andreas Hermann. The project team focused on capital and investment law, commercial and company law, and accounting and tax law. The analysis was based primarily on interviews with 20 senior representatives of various stakeholder groups, including private investors, credit institutions, insurers, businesses and rating agencies. "An important message to come out of the interviews was that due to the low interest rates, enough investment capital is available and capital pooling instruments are in place. However, there is a lack of suitable projects," says Andreas Hermann. And he adds: "The project must, of course, suit the investor. Standalone wind turbines are far too small to be appealing to an insurer, for example."

The study found that climate investment barriers vary across branches of the law. A major obstacle prevailing in accounting law, for example, is the lack of uniform climate protection reporting. "If clear rules existed here, investors would have a much better basis for decision-making – and that would certainly boost investment," says Andreas Hermann. In other words, clear performance indicators and uniform rating standards would cut the costs for investors seeking suitable projects. "It would also be helpful to establish climate protection reporting on a broader footing and involve more companies," he says. A further barrier is the lack of incentives in tax law, especially in corporation, business and income tax. Opportunities to deduct expenditure are more likely to encourage climate investment than tax exemptions or allowances. For example, a revision of Section 7d of the German Income Tax Act, in order to allow more deductions of capital assets that protect the climate, would be helpful. In relation to the energy upgrading of buildings, too, the existing legal framework offers a number of entry points, despite the failure of previous legislative initiatives in this field. Sections 7h and 7i of the Income Tax Act – which allow more deductions for upgrading measures undertaken in the context of urban development, urban renewal and listed building projects – could serve as a model for regulatory measures here, according to the study.

But not every branch of the law needs to be reformed or expanded in order to promote green investment. "There are some areas of the law where very few barriers exist – in trade law, for example," says Andreas Hermann. Barriers existing in other branches of the law must be dismantled, however. After all, an investment in climate protection is an investment in our future – one which offers much better returns than the latest smartphone, a pretty dress or a high-performance car.

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