



BUSINESS TO SUPPORT SUSTAINABLE MANAGEMENT OF WORLD RESOURCES

Global Business Coalition Statement for G20 Resource Efficiency Dialogue

October 26, 2018 - Efficient use of finite natural resources is a necessary condition for sustainable economic growth. Yet, over the last decade, material productivity measured as economic value that enterprises extract from every ton of material has not been growing. The business community shares a deep concern that material productivity is lagging behind the tremendous gains in labor and energy productivity. It is a worrisome symptom of misaligned policies. We call on the G20 to focus the dialogue with business on correcting this mismatch.

Public and private sectors share the goal that the resources we take from nature for economic growth should yield the highest utility possible, which means value retention along the life-cycle of products and across global value chains. The use of resources is an increasingly global enterprise with interlinked local and global impacts. Circular economy should be conceived on an international scale. Expansion of global production and consumption drives international trade in primary materials and secondary products. However, most of the policies related to the use of finite resources are national or sub-national.

Business is an indisputable major agent of change in the transition towards more sustainable economic growth. The private sector extracts, transforms, and transports the vast majority of materials. Material and process efficiency is high on the business priority list for the most responsible and innovative companies who strive to remain successful over the long haul and preserve their license to doing business locally and globally. Therefore, the governments, consumers and investors should recognize resource efficiency as a hallmark of good management, responsible governance and quality of production.

International public-private dialogues to support sustainable management of the world's resources can bridge the disconnect between the global challenges and local policies, leverage private sector's leading role and better inform public policies. The dialogues should increase the understanding of the potential of different governance approaches and reveal the shortcomings of the currently dominant policies. Any constructive dialogue must be based on analysis of economic data, scientific assessments of technological solutions best available techniques and the realities of doing business in diverse markets.

While greater resource efficiency is essential to long-term economic growth and international sustainability goals, significant regulatory and cost barriers remain.

Financial barriers

- **Costs:** Investing in value retention through remanufacturing, remake and refurbishing frequently takes substantial outlays on new technologies and skills.

- **Prices:** Demand for recycled materials is price-dependent. For example, recycled materials may be expensive to repurpose because of contamination, which requires costly special processing. At the same time, consumers are reluctant to pay the same price for the secondary products regardless of their actual quality.
- **Institutional Knowledge:** Even sophisticated businesses experience cost and logistical obstacles in implementing resource efficiency and deploying reverse logistics schemes needed for recycling.

Regulatory barriers

- **Trade and networks:** Fragmentation of international regulations or trade tariffs hinders the ability of businesses to trade and create market ecosystems to trade resource-efficient or recycled materials.
- **Today rules, regulation and laws are designed to sustain a linear economy rather than value retention.** For example, customs rules and tariffs inhibit and, in some cases, make the use of reusable packaging cost prohibitive.
- **Lack of supporting infrastructure:** Poorly planned infrastructure slows the movement of goods and services obstructing the growth of circular economies.

Despite these barriers, there are several promising business trends and policy directions that have the potential to encourage greater and better resource efficiency.

Government policies are critical enablers of resource efficiency. G7 Resource Efficiency Alliance and G20 Resource Efficiency Dialogue allow for a diversity of policy views about the drivers of resource efficiency and enable best policies to emerge and be tested in the marketplace.

We urge G7 and G20 to structure discussions with stake-holders based on a positive approach that connects sustainability goals with incentives for continuous innovation:

- Environmental solutions as a new demand driver
- Value retention as a competitive strategy
- Circular economy as a business risk mitigation strategy
- Long-term risk management through natural capital protocols
- Resource efficiency as operational efficiency
- Resource efficiency as a license to do business
- Resource efficiency as a development driver
- Life-cycle management as a health cost reduction mechanism
- Resource efficiency as an indicator of quality and investment in skills
- Resource efficiency as a component of low-carbon development

In order to accelerate the transition towards a sustainable economy, we encourage G7 and G20 to take prompt action in the following areas:

Innovation to face challenges

Support the generation of knowledge in all relevant fields.

Develop mechanisms for eco-innovation, joint R&D and sharing R&D outputs.

Support science-based consumer education about the principles of value retention and circular economy.

Dissemination of business knowledge and training

Dated technologies, combined with mismatched worker skills, may hinder the adoption of resource efficient processes, particularly given that remanufacturing processes often require more skilled labor than making the virgin product.

Government assistance in building a workforce able to operate advanced technologies and implement more complex solutions will make it cheaper for businesses to undertake technological updates that enhance resource efficiency.

Communication between business and government will also be essential to help government prioritize resources toward technical education and retraining programs that address the most pressing needs. All stakeholders should design schemes of resource efficiency collaboratively with an integrative approach.

Governments can also facilitate peer learning across industries by encouraging industry leaders with an established track of value retention and life cycle design to share their experiences with other sectors.

Fiscal incentives & innovative public procurement

Green public procurement and public procurement of innovation are powerful tools to promote product development taking into account their entire life cycle as well as the potential for reuse and recycling of these products.

Public purchasers should aim to make their purchasing as sustainable and resource efficient as possible by using domestic or – wherever possible - international standards and eco-labels for product performance. The public sector should be a role model for resource efficient purchasing, leading the way for other sectors to follow.

Smart regulation

In order to remove barriers to transition towards a circular economy, it is essential to have a coherent and harmonized set of rules for the management of resources and by-products, which reflect the global nature of markets. These rules should be supported by monitoring and surveillance mechanisms.

Many more opportunities for a resource efficient economy would open up if policies that represent barriers to global movement of secondary goods were removed. Both the repair and the recycling industries are global and are dependent on easy shipments across borders for resource and cost-effective solutions. Ongoing tightening of trans-border shipments (e.g. through the Basel Convention) will likely decrease these important pillars to resource efficiency.

The removal of trade barriers to ensure global movement of (used) goods must not result in dumping of used goods from one part of the world to another. The explosion in the production and use of electronic goods must be accompanied with investment in value retention to eliminate electronic waste. To support circular economy in the IT industry, regulators must distinguish between the illegal movement of waste from the much-needed value recovery. In a sustainable economy, one company's by-product is another company's input.

Public/ Private financing tools

It is necessary to create innovative models of public-private financing mechanisms for initiatives and projects that contribute to the advancement of resource efficiency and relevant innovation.

There are numerous financial innovations that encourage greater attention to sustainability. For example, sustainability goals and resource constraint risks can be addressed with corporate finance and transparency rules.

Since resource inefficiency may represent a credible supply risk to long-term business operations, one option countries can pursue is to require companies to disclose environmental, social and governance (ESG) performance if the information would be of interest to investors. These disclosures ensure capital investors seeking to find resource-efficient businesses can do so but developing this information may be costly and the data may be unavailable in some cases. Similarly, while green bonds are mostly focused on energy, land-use, and infrastructure investments, these instruments can ensure new investment meets certain standards, assurance, and resource efficiency certifications. However, the additional costs incurred by industry to certify their debt as “green” hinders the growth of this solution. Broader, more consistent global policies are also needed to develop independent and uniform standards, and to monitor actual environmental compliance and outcomes.

Infrastructure

Infrastructure investments require large up-front costs, while benefits accrue over the long term. Urban infrastructure typically lasts for decades, and as a consequence, infrastructure built today may “lock-in” efficiency levels for periods lasting decades into the future. Infrastructure choices that hinder resource efficiency practices may create a long-term and expensive obstacle for business to overcome. The procurement for major infrastructure projects can be used as a viable vehicle to improve resource-efficiency practices when long-term planning considers environmental and resource usage goals.

Recent advances in digital passports and sensor data analytics for the built environment hold the promise of a dramatic reduction in the waste of construction materials and energy resources. They require policy support in order to increase the retention of value beyond the life-cycle of buildings and infrastructure.

Change agents and enabling factors

Private sector is a key change agent that will lead in implementing sustainable resource management. Participatory design approach, such as industrial symbiosis, contributes to the efficiency of the management policies’ implementation.

We have long recognized the many advantages of investing in sustainable and efficient resource management:

- Ensure resource availability for economic growth in the immediate future
- Manage resource price volatility
- Enhance resource security and reduce flash points
- Sustain license to do business by limiting environmental damage from resource extraction, transportation, processing & use; and
- Harvest the economic benefits of resource efficiency in productivity and competitiveness gains

Public policies, incentives, public and private financing and value recognition will spur global transition to a much higher level of resource efficiency. Private sector will be enabled to lead the transition through investment and innovations in:

- New technologies
- New metrics
- Business model innovation
- Eco-design
- Waste-as-a-resource business models
- Finance mechanisms for innovation
- Innovation in Policy

All these enabling factors cut across all sectors and markets. As a matter of priority, we need to mobilize major sectors who already have clear and growing level of dependency on the availability of natural resources:

- Extractive industry
- Manufacturers
- Transportation and logistics
- Builders, construction companies
- Financial service providers

We offer G7 and G20 to convene substantive workshops for each of the priority sectors in order to establish a shared base line for further policy action and public-private partnerships.

Our shared objective is to find answers to the major policy question: how to develop substantial incentives for the private sector to overcome the costs of transition to sustainable management of the world's dwindling resources.

We recognize that this overarching question will have many answers depending on the structure of economies, technological advancement and political consensus. Diversity of positive responses should not detract from the urgency of the question.

Current market signals are insufficient to overcome the large cost of transition to sustainable and efficient resource management. Together with such other stakeholders as consumers, labor and shareholders, we should be seeking ways to overcome the numerous challenges of the marketplace:

- Lack of consumer awareness
- Barriers to scaling up value retention
- Low returns in green finance
- Access to the secondary product streams
- Global market fragmentation
- Lack of reliable dialogue with policy-makers
- Competitive pressures from cheaper virgin goods
- Shortage of skills
- Free rider problem
- Excessive, costly and unproductive reporting
- Insufficient temporary storage solutions

These marketplace difficulties are compounded by the challenges facing policy-makers:

- Product specific instead of outcome-specific regulations
- Outdated definitions of secondary goods and material streams
- Fragmentation of policies between industries and between national, international and subnational levels
- Vague requirements and standards
- Limited research funding for technological breakthroughs
- Trade barriers to discarded and remanufactured goods
- Lack of prioritization and absence of a whole-government approach

Conclusion

While the carrying capacity of the planet is unknown, no one – and least of all business leaders - can afford to test its limits. Our capacity to contribute to wealth creation around the world depends on working together to transition to a sustainable path using all the tools of the information age and all the ingenuity of market forces.



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This statement is issued by the Global Business Coalition members, in Berlin, Brasilia, Brussels, Buenos Aires, Istanbul, London, Madrid, New Delhi, Ottawa, Paris, Rome, Seoul, Sydney, and Washington, D.C.

ABOUT GBC

The Global Business Coalition (GBC) brings together leading independent business associations from the major world economies and advocates on behalf of more than 6.8 million small, medium and large companies. GBC, established in 2012, operates as a worldwide platform of exchanges between national business communities, and aims at building consensus and developing common positions on issues critical for enterprises. Through its broad-based representation, GBC engages policy-makers at a global scale and advocates policies that contribute to growth and job creation at regional and international levels.

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