



# **Open Trade as a Catalyst for Growth in Renewables**

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EWEATURE

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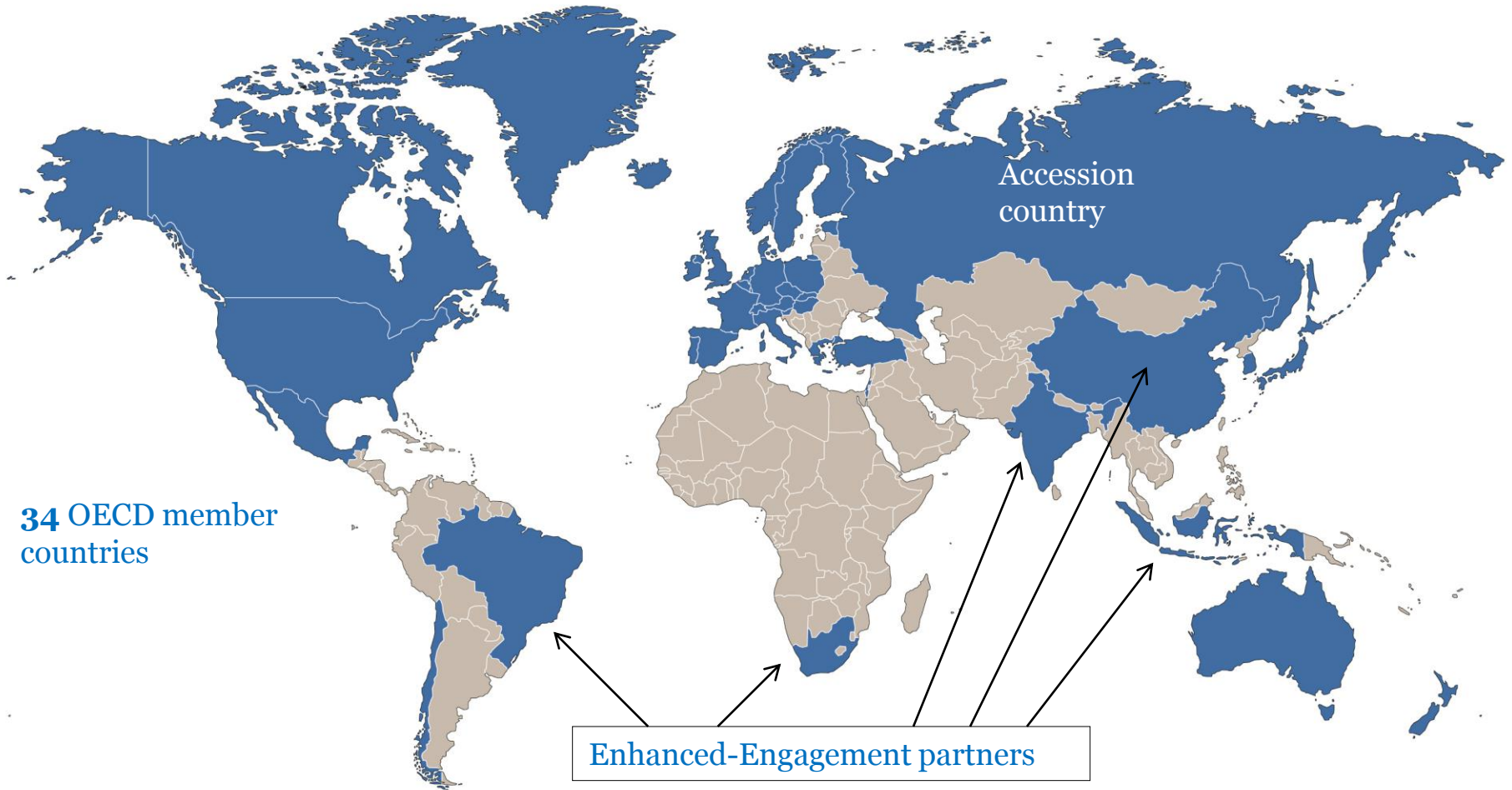
# What is the OECD?

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- The OECD is a 34-member inter-governmental organisation that drives **better policies for better lives**
- It aims for a **stronger, cleaner, fairer** world, through:
  - sustainability and prosperity
  - integrity and respect for the environment
  - equal access to opportunity and its benefits
- It takes a **multidisciplinary** approach, and **collaborates** with many different Ministries
- It offers evidence-based, **independent policy advice**  

... but ...
- It does *not* provide **financial assistance**.

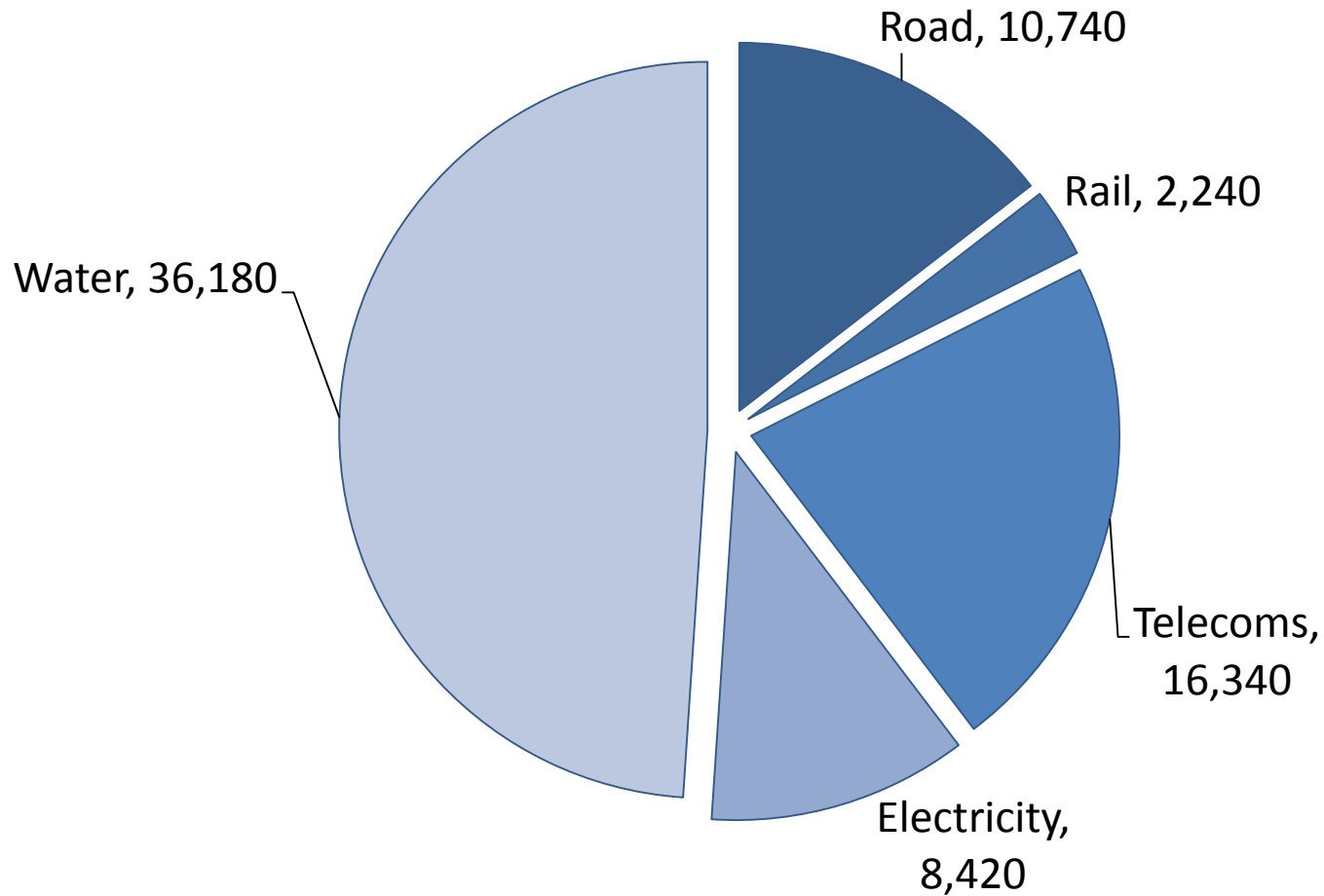
# OECD = Developed countries and more



Global growth in market for  
environmental goods and services  
is expanding rapidly

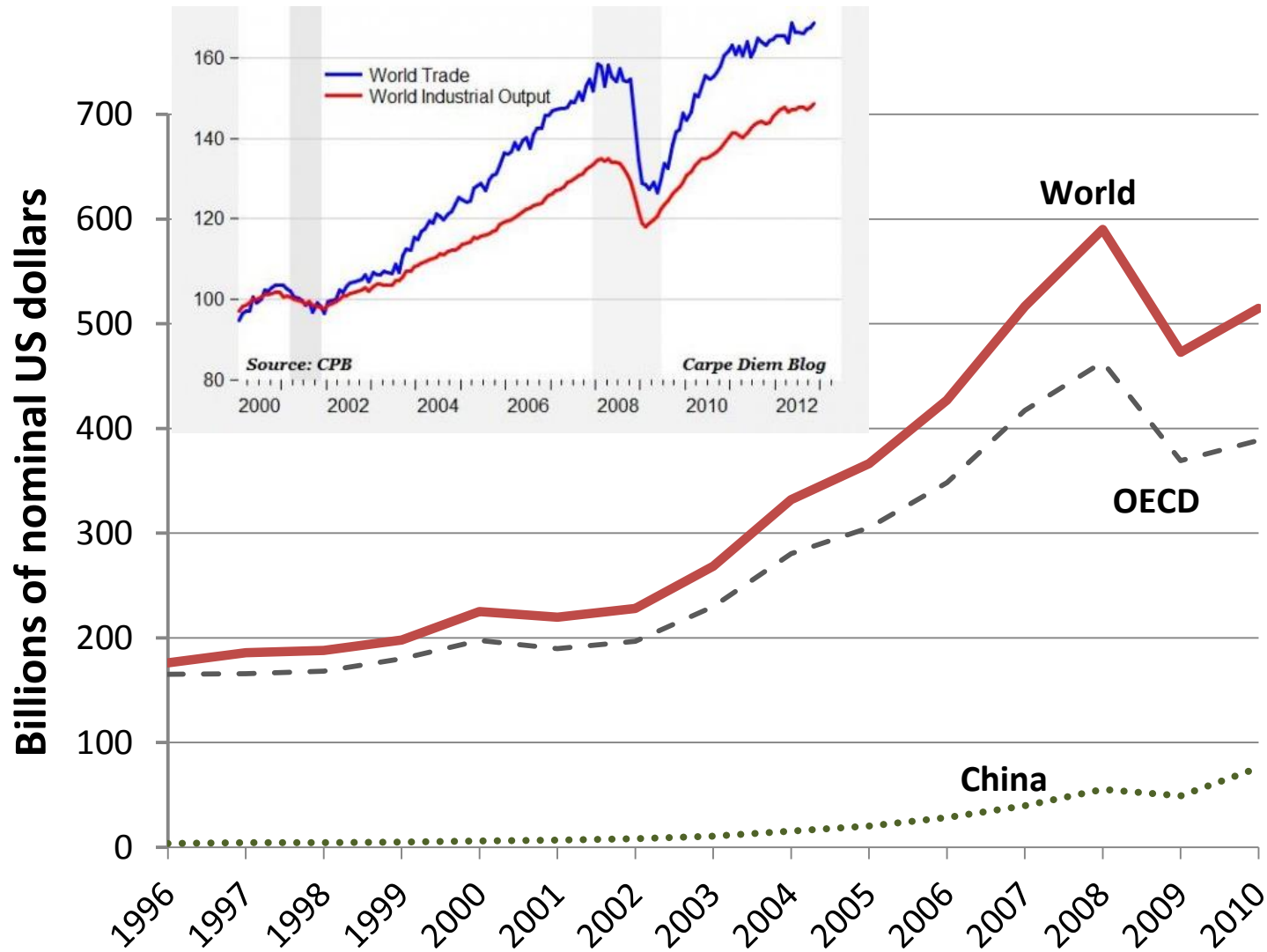
# Where are the big opportunities?

## Global investment needed between 2010 and 2030 (USD millions)



Source: OECD

Between 2000 and 2010, world trade in environmental goods increased by almost 150%, compared with 60% for goods overall



Should policy give it a boost?



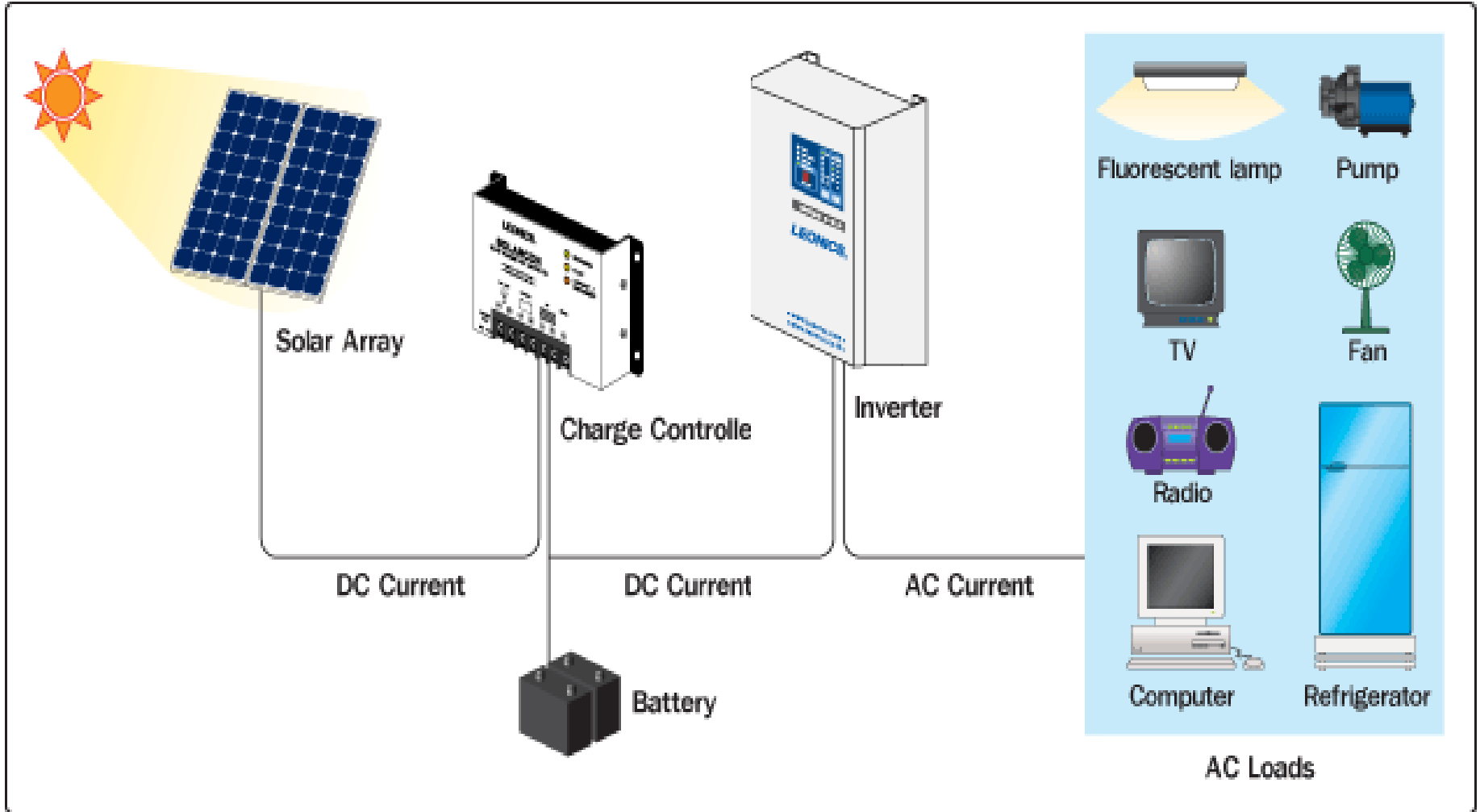
# Value of renewable energy

- There is a value to renewable energy irrespective of where the equipment are manufactured:
  - Cleaner *air*
  - Reduced thermal pollution in rivers, lakes and seas
  - Reduction in imports of fossil fuels
- To the extent that domestic goods & services are used in ...
  - the manufacturing of equipment
  - constructive of plants
  - operation and maintenance of plants
- ... there will be value added generated in the economy as well.

# What does that mean for Industrial policy?

- Most countries that are supporting greater generation of electricity by RE would like to secure some of that value added.
- Some advanced economies already have sophisticated “industrial ecosystems” that spur the development of new technologies.
- But most small and mid-size emerging economies would struggle to develop such “ecosystems” at home.
- So some have imposed local-content requirements (LCRs).
- A better strategy for them is find and exploit niches in the global value chains.
- That starts with creating more open trade.

Environmental goods typically involve multiple components:  
in a world of global value chains, not necessary to become a leading  
supplier of all



## Applied MFN import tariffs on RE equipment (as of January 2013) are generally low among OECD countries , higher elsewhere

HS Code	Commodity description	Turkey	EU	Canada	Brazil	Russia	Tunisia*
84101.1	Hydraulic turbines of less than 1 MW	4.5%	4.5%	0-3.5%	14%	15%	0%
8502.20	Generating sets with spark-ignition internal combustion piston engines	0-2.7%	0-2.7%	0%	0-14%	0%	15%
8502.31	Wind turbines	0-2.7%	2.7%	0%	0%	0%	10%
8504.40	Static converters (incl. inverters)	0-3.3%	0-3.3%	0%	14-18%	0-10%	27%
8541.40	... including photovoltaic cells whether or not assembled in modules or made up into panels; light emitting diodes.	0%	0%	0%	0-12%	0-10%	0%

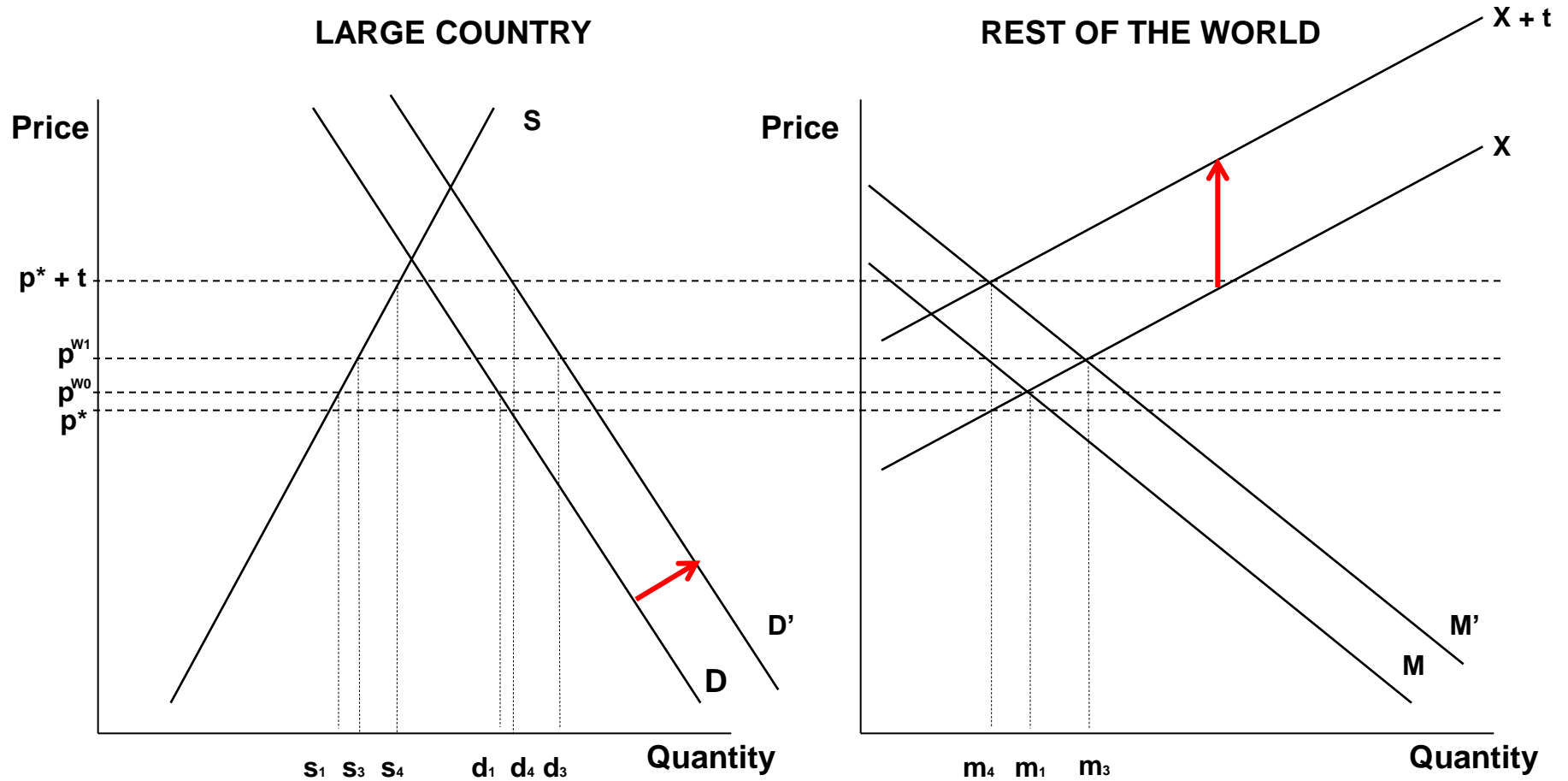
\*Lower or zero tariffs apply to goods imported from the EU .

Source: European Commission, Market Access Database.

# Problems with local-content requirements

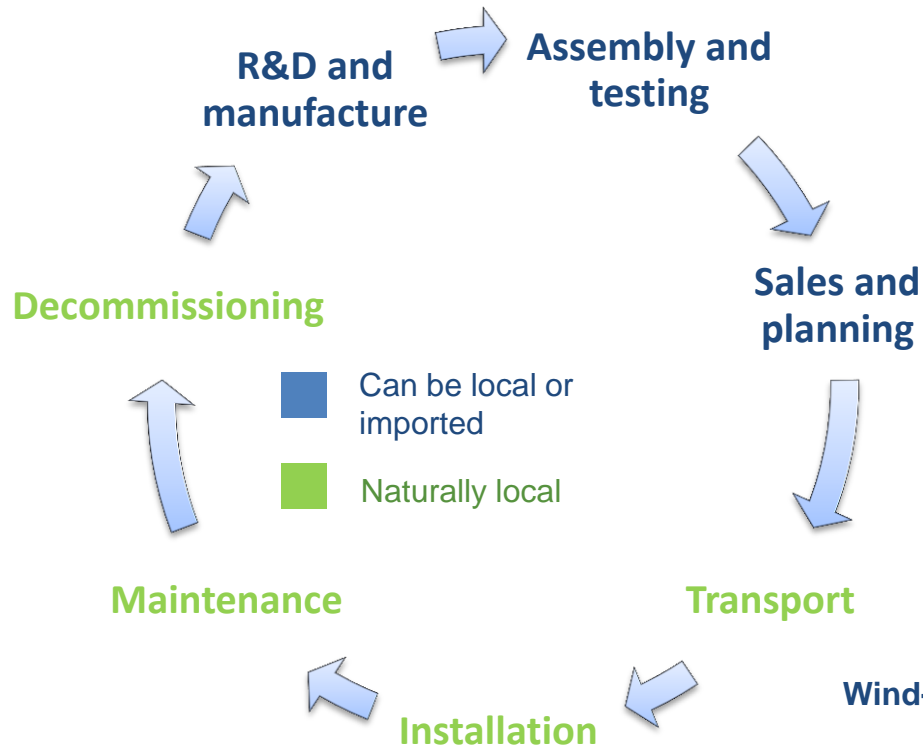
- Increases cost of renewable energy, especially in short term.
- Imposes a large administrative burden on companies. (Learn from the example of rules of origin.)
- Insulates local equipment manufacturers and service providers from pressures of international competition.
- Can lead to quality problems, delays, perverse outcomes.
- Can lead to the creation of companies that are dependent on continuing protection.
- Collectively, if practiced by many countries, can lead to global over-capacity, thus depressing prices and returns to manufacturers everywhere.
- Contrary to agreed trade principles; can invite costly disputes.

# Example: Impact of a FIT in combination with an import tariff on the market for RE equipment in a large country

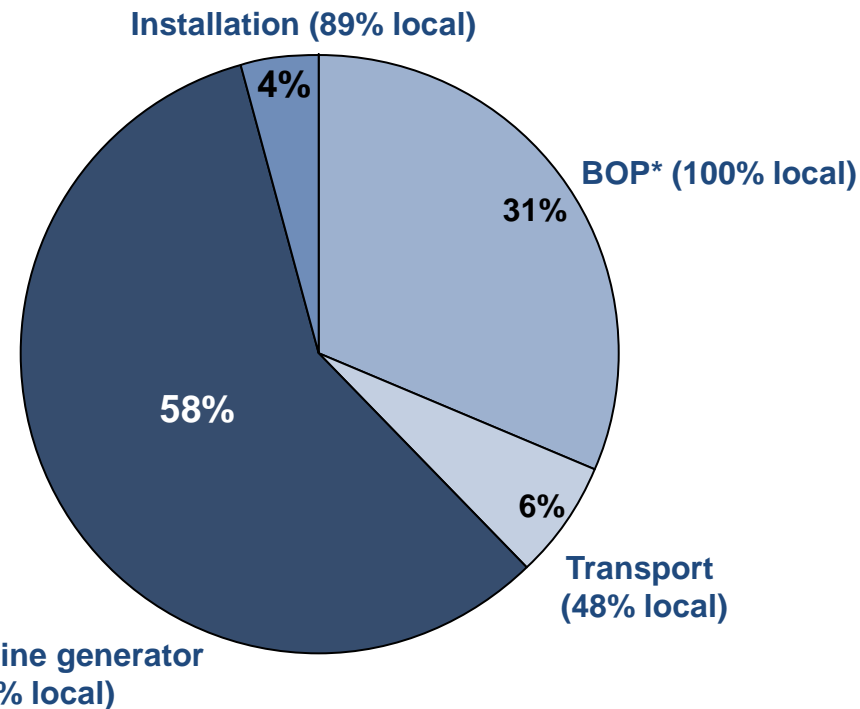


# Are “localisation” policies really needed? Much local content is natural!

## Example: Wind Turbine



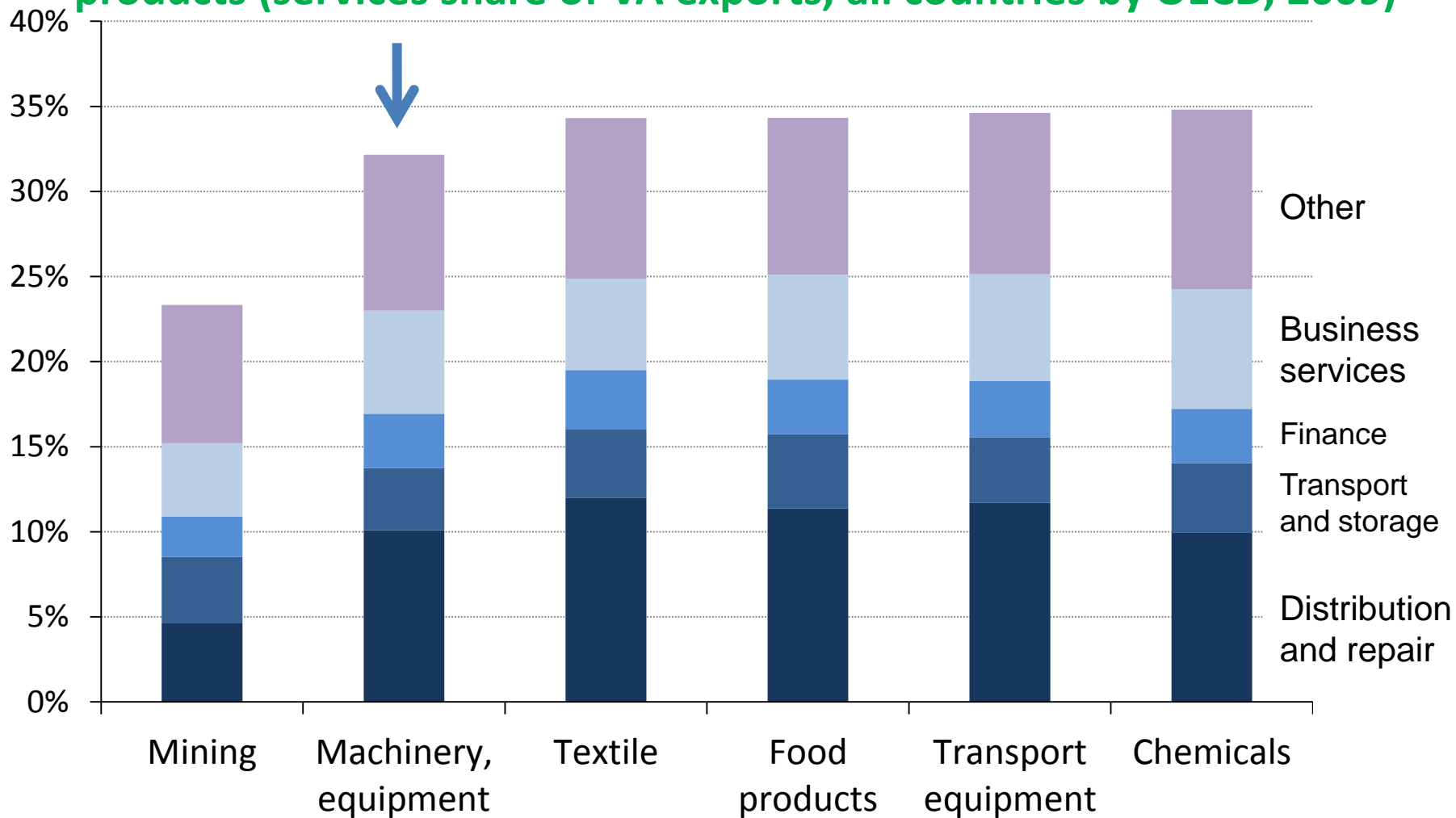
## Example: Ukraine



Source: Peter C. Brun, Vestas Wind Systems Ltd.

\*BOP consists of: Civil works, foundation, repair operating complex, substation construction, transformer substation construction and cabling.

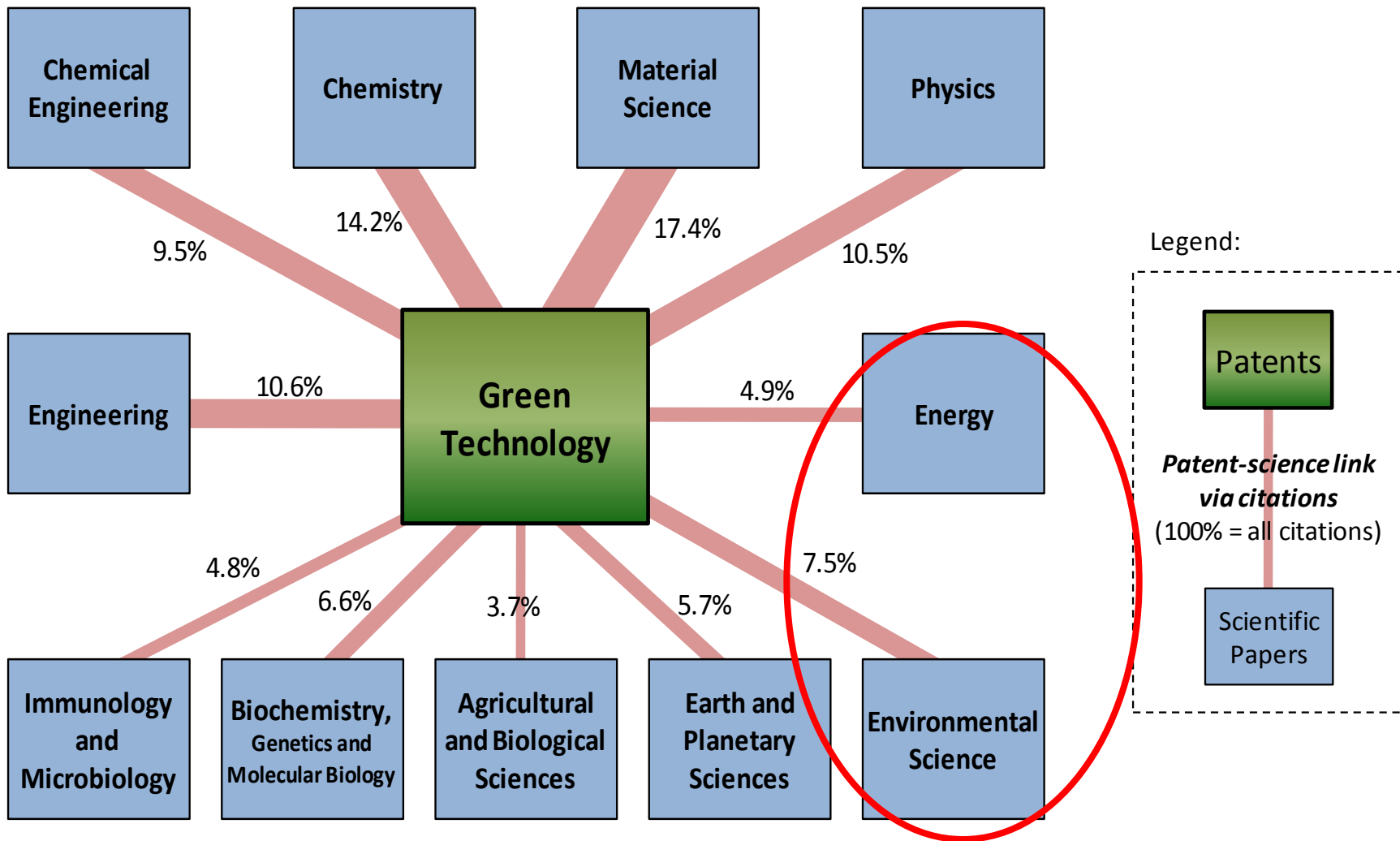
## Services make up an important part of value added even in basic products (services share of VA exports, all countries by OECD, 2009)



Source: Dorothee Rouzet, OECD.



# Innovation cannot be forced: it arises from unexpected places



Source: OECD

Mersi!

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