



The Voice of OECD Business

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Tackling climate change:

Considerations for a post-2012 framework

A BIAC perspective

The Business and Industry Advisory Committee (BIAC) to the OECD thanks Keidanren for the opportunity to participate in the second G8 Business Summit. We welcome the fact that climate change will again be high on the agenda at the G8 Summit in Hokkaido, which will provide an important opportunity to foster discussion on key issues arising out of the Bali conference. This paper summarizes BIAC's key considerations for a post-2012 policy framework, focusing in particular on our cooperation with the OECD and IEA, which we believe can make an important contribution to the G8 and UN processes with a view to ensure that business considerations are adequately reflected and that the post-2012 policy framework rests on a sound economic basis.

The road from Bali

According to the 2008 OECD Environmental Outlook, world greenhouse gas emissions are projected to grow by 37% by 2030 and by 52% to 2050 compared to 2005 levels, if no new policy action is introduced. The overarching nature of the global warming challenge bears significant consequences on nearly every sector of modern economies and poses challenges to all countries, developed and developing alike. Solutions, therefore, require collective action and holistic approaches. It is in this context that BIAC expressed its support for the outcome of the UN climate change conference, which was held in Bali in December 2007. This event opened the door to broadening cooperation on climate change and paved the way for post-2012 discussions calling for a new agreement to be decided upon by COP-15, which will be held in Copenhagen in 2009. In this context, the G8 summit will provide an important opportunity to deepen discussion and cooperation among major economies.

The Bali conference rightly acknowledged that G8 countries and major emerging economies can no longer individually address the challenges that global warming represents. BIAC welcomed the call for a shared vision for long-term cooperative action as well as the clear signal to enhance action on technology as a crucial prerequisite to achieve breakthroughs and long-term improvements. The outcome of the G8 summit in Hokkaido should help deepen international discussions in the run-up to Copenhagen to make progress towards an agreement that would be economically sound and would involve all major emitters.

A key role to play for the OECD and IEA

The OECD and its sister organization, the International Energy Agency (IEA) have an important role to play both in the G8 and the UNFCCC processes. Their work provides fact-based policy recommendations based on input from the 30 OECD governments working in close cooperation with the business community and with the increasing participation of major emerging economies. BIAC welcomes the recent OECD decision to start accession talks with five countries, including Russia, and to increase cooperation through enhanced engagement with Brazil, China, India, Indonesia and South Africa (“enlargement and enhanced engagement”). This is an important step forward and will allow the Organization to increasingly include major non-member economies in their deliberations on key policy issues, including climate change, for which a broad-based international approach is urgently needed.

The OECD’s comprehensive work program covers most of the relevant policy areas that have an impact on climate change policies, contributing an economic and cross-cutting focus. The IEA has made a major contribution to recent G8 Summits and has carried out groundbreaking work in the area of energy efficiency, which business greatly values. At the same time, BIAC sees the OECD as ideally placed to provide a platform for a mutually beneficial dialogue between G8 and other major economies on cross-cutting policy issues. We welcome the Heiligendamm Process, for which the OECD provides the forum to foster dialogue with major economies on four key policy topics, including energy efficiency.

Defining a global policy framework

In order to be effective and efficient, the post-2012 policy framework needs to bring all major emitters on board. It is in this context that the OECD decision on “enlargement and enhanced engagement” can play an important role by fostering discussion and trust building among major economies. The wider the coverage of abatement efforts across sectors and countries, the more affordable the economic costs of action. While industrialized countries have committed to provide leadership in addressing climate change, practical immediate opportunities for emission reductions exist in non OECD countries, for example through greater use of energy efficient building practices in new construction or through ensuring that new power stations use latest technology. Equitable burden-sharing needs to be pursued in a constructive and balanced manner.

It is essential that major emerging economies find incentives to join. How this can best happen should be an integral part of the OECD analysis and a key focus of discussions in the framework of accession and enhanced engagement. At the same time, broad-based coordination is needed to ensure consistency between the various policy instruments developed in different parts of the world with a view to limit abatement costs and eventually work towards a unified climate change policy framework. The OECD can make an important contribution by providing fact-based policy analysis and recommendations to support countries in achieving emissions reductions in an efficient and cost-effective way, which will be crucial for reaching an agreement on the way forward.

Providing an economic basis to future climate policies

The Bali conference identified mitigation, adaptation, technology and finance as key areas to be considered for a post-2012 agreement. BIAC believes that these four building blocks should be

addressed, taking into account the most cost-effective ways of achieving them and considering actual impacts on economies. The costs of tackling climate change and the role of cost-effective policy instruments in the control of greenhouse gas emissions deserve the highest attention. BIAC therefore welcomes the new OECD efforts to shed further light on the economics of climate change and assess the economic impacts of policy options, while at the same time analysing the incentives for emerging economies to get involved in discussions on climate change mitigation objectives.

To be acceptable to a broad range of countries, it is important that climate change economics take into account a long-term vision, the extent and nature of uncertainties, the role of technological innovations, the international scope of the issue, and the uneven distribution of policy costs across space and time. The approach needs to be comprehensive and integrated, taking into account both macro- and micro-economic implications and capturing the most cost-effective mitigation policies as well as incentives for major emerging economies to pursue international climate objectives. It is important that clear messages about the likely costs and benefits of climate change measures and who will bear the costs can be conveyed to policy makers, including G8 leaders, the governments of other OECD countries and major emerging economies, the business community and society at large.

Fostering flexibility and private sector activities

Policymakers choose from a vast range of climate change mitigation instruments. Alternatives include emissions taxes, emission quotas, cap and trade, abatement subsidies, and performance standards. While environmental efficiency and safety are important, all policies should be carefully examined with regard to their impacts on economic activity and innovation to ensure cost-effectiveness and equitable burden sharing while preventing carbon leakage. Approaches that maximize the dynamism of the private sector will be essential in making lasting progress. The role of consumers and users should be given due attention. BIAC calls upon governments to maximize efforts to address both mitigation and adaptation through approaches that take into account national circumstances and sectoral implications and that allow the private sector to make its contribution most effectively.

If unilaterally introduced without careful analysis, some policies have the potential to affect competitiveness. In particular, energy intensive sectors can be severely impacted if far-reaching measures are taken in the absence of a level playing field. It is important that these industries continue to develop in countries which have a robust environmental policy framework in place. BIAC calls on policy-makers to foster consultation with industry and give due consideration to competitiveness and regional impacts as well as the administrative costs of implementation. Early discussion with affected sectors is an immediate step that should be taken. However, BIAC has concerns about proposals relating to border tax adjustments and urges G8 leaders to exercise the greatest caution. Such measures would not only be difficult to implement, but could invite retaliation from targeted countries, thus negatively impacting the global environmental dialogue as well as trade.

Encouraging voluntary initiatives

The private sector has and should maintain an important role in addressing climate change, and it strongly supports the role that voluntary approaches can play. Business has the advantage of possessing unique expertise on technical trends, customers' needs and management related

issues, enabling it to come up with the most efficient and cost-effective measures for its respective industry, while at the same time providing benefits for involved partners. Given the current emphasis on sectoral approaches, the value added that industry-led voluntary approaches can provide in addition to government action should be given due attention. At the same time, it should be recognized that there is a wide range of voluntary approaches, which can serve as a flexible and cost-effective way to achieve environmental objectives.

Voluntary sector discussions are already underway in several energy intensive industries, such as the aluminium industry. Such industry-led cooperation encourages the dissemination of best-practices and technology across a sector, while facilitating international cooperation. In this sense, industry-led voluntary initiatives can provide incentives for companies in emerging economies to reduce their emissions. However, in discussions on sectoral approaches, it should be recognized that further clarity on their scope is required. A balanced effort among sectors and countries as well as flexibility for companies and sectors need to be maintained, and differing national circumstances must be considered. Business should be closely involved in these discussions.

Benefiting from free trade to help address climate change

BIAC underlines the fundamental importance of reducing trade barriers across the board for all products and commercial services. Furthermore, with the right policy framework in place, trade can have positive effects on environmental quality by increasing the efficiency of resource use, stimulating competition and generating innovation and economic growth, which may facilitate improved environmental protection. Trade policy and climate change objectives should not be seen as opposing each other. Open trade enables the dissemination of environmentally friendly technologies not only within OECD countries, but also to emerging and developing economies, which are often most vulnerable to climate change. Reaching a comprehensive agreement that lowers barriers to trade in both goods and services can thus positively influence the course of global climate change policy. On the other hand, if trade and climate policies are set against each other, this would fuel protectionism and complicate the task of reaching a global consensus. BIAC calls upon G8 leaders to continue to support free trade and consider the contribution it can make in addressing climate change and fostering technology transfer.

Addressing the Economics of Adaptation

The mainstreaming of climate change adaptation into all relevant areas of public policy has recently become increasingly prominent in climate change discussions and is expected to remain a major theme in discussions on the post-2012 policy framework. Adaptation to climate change is now recognized as an important and complementary response to climate change mitigation. It is essential that adaptation measures, which are increasingly being considered both in developed and developing countries, rest on a sound economic basis. Further work is necessary on exploring ways of estimating the costs and benefits of adaptation, which requires flexible and proactive approaches. The business community stresses that adaptation efforts need to be based on cost-benefit analysis and encourages policy makers to consider adaptation from an economic angle in terms of whether the benefits of such actions exceed the costs incurred.

Boosting Energy Efficiency

As illustrated by a number of IEA studies, including those in response to G8 requests, energy efficiency needs to be part of the solutions pursued to achieve both short and long-term goals in greenhouse gas reduction. Improving energy efficiency in the major consuming sectors, including buildings, appliances, transport and industry must be a top priority for policy makers. In view of the major potential, BIAC hopes that energy efficiency efforts will remain high on the G8 agenda. Business appreciates the work carried out by the IEA and welcomes the additional emphasis on energy efficiency in buildings. It will be important to involve businesses of a wide range of sectors and sizes, including the financial sector, in this response by providing information that improves understanding of the potential financial and competitive benefits. This process can also help the banking sector when developing environmental credit risk assessments. Cooperation at the international level, including major emerging economies, is essential.

In a number of cases, OECD-based companies are using energy more productively than industry in other countries, and many cost-effective solutions to reduce energy consumption are already available on the market. It is therefore important to identify the right framework and positive incentives that should be provided to spread these solutions throughout the world. Integration of climate change and energy efficiency considerations in buildings, transport and industry investment is important as today's investments will lock in the infrastructure, fuel and technologies to be used for decades to come. BIAC hopes that energy efficiency will continue to figure prominently in both national and international policy discussions.

The crucial role of technology

In line with the Bali roadmap, BIAC supports the need for technology innovation as a primary tool for sustainable climate change mitigation and economic growth and encourages G8 leaders to continue to focus their attention on the importance of innovation to address climate change. It is unrealistic to think that the issue of climate change can be dealt with by a solely mandatory approach. Both public and private sector research & development and new innovative approaches will be key, bearing in mind that most of the funding for more climate friendly technologies will originate in the private sector. Public policies need to take into account the potential and complexities of environmentally beneficial innovations, as well as the flexibility, support and incentive structure that encourages firms to innovate. The vast majority of financial and investment flows will come from the private sector. Providing an enabling framework for the private sector that facilitates these financial flows and that encourages firms to address climate change is therefore essential.

Existing technologies have significant potential for reducing emissions that is not yet realized. At the same time, the development of new innovative approaches and technologies requires a policy framework that provides adequate incentives to create and adopt new technologies. The full range of technologies bringing efficiency improvements needs to be considered, including those that enable more productive use of fossil fuels, safe nuclear energy, renewables and carbon capture and storage. Specifically, we require:

- Greater emphasis on international collaboration to foster R&D while avoiding duplication of efforts and maximizing opportunities for international co-operation in basic research;

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- An overall policy framework that provides adequate incentives to create and adopt new technologies in all areas, including a high-quality intellectual property rights framework;
 - Cooperation between governments and the private sector for the range of new technologies;
 - A policy framework which encourages the private sector to invest and thus engage in technology cooperation;
 - A forward looking and solution-oriented approach that looks beyond the energy sector and considers improvements that can be achieved through progress in other sectors, such as information and communication technologies, nanotechnology and others.
 - Trade and investment liberalization to facilitate the diffusion of technology.

BIAC believes that the work of the IEA as well as the horizontal OECD Innovation Strategy can play an important role both in advising countries on how to set an overall beneficial innovation framework and to consider specific recommendations on using the potential of innovation to address the climate change challenge. It is important that the post-Kyoto framework incorporates a broad-based technology strategy to accelerate the development and commercial deployment of low-emission technologies. Financial support and incentives should be broad-based targeting all emissions abatement measures with due attention being placed on encouraging the dissemination and application of best-available technologies in emerging and developing countries. In this context, barriers to private technology transfer need to be identified and removed.

Concluding remarks

BIAC considers that the OECD and IEA offer an excellent platform from which to encourage international dialogue in the fight against global warming, thus making an important contribution to G8 and UN-led discussions. Solid and rigorous economic analysis including a wide range of countries will be necessary to provide the foundation for formulating future climate policies that merge both realities and opportunities for the wider goal of sustainable development. Such research and analysis will be an essential foundation for discussion at G8 and UN levels.

We underline that resolute and concerted international action is urgently needed, which can and must be undertaken in a way that fosters innovation and technology dissemination and supports sustainable growth in developing, emerging and industrialised economies, while avoiding economic distortions. BIAC encourages G8 leaders to promote broad international cooperation, stable and transparent international frameworks as well as opportunities for the business community to provide practical input with a view to come closer to an effective and equitable strategy to tackle climate change. BIAC would be pleased to provide on-going assistance in these initiatives.