Aligning policies for the transition to a low-carbon economy

BIAC Comments

BIAC appreciates the opportunity to submit comments on the OECD report on aligning policies for the transition to a low-carbon economy, which we hope will be reflected as the report is being revised as well as in the short summary document to be prepared for the OECD Ministerial Council Meeting in June. We would appreciate the opportunity to review and provide comments on the draft summary in preparation for the Ministerial.

- **Aligning policies is key to ensure consistency across policy objectives, across different levels of government and across borders**: BIAC welcomes the objective of the OECD project. As a multi-disciplinary organization, the OECD has a unique role in helping to align policies across different policy areas and work towards true policy integration to ensure that environmental policies are not considered in isolation but rather in interaction with other objectives. Climate change is clearly not just an environmental issue and can only be effectively addressed if interactions are correctly understood and policies are aligned. Policy coherence will be indispensable to reach a global agreement that encourages effective solutions that take into account the interactions with other policy fields, international agreements, and other major development goals and global challenges that need to be urgently addressed.

- **Highlight the importance of a global agreement**: Not only national, but also international alignment of climate efforts will be key to achieving real progress. This will also help mitigate effects on industrial competitiveness and minimize distributional impacts. We therefore encourage the OECD to clearly highlight the importance of a global agreement up front in its policy recommendations. The Paris agreement must provide a clear framework for international action, committing all large emitting economies to the measurement, monitoring and reporting of pledged activities to reduce greenhouse gas emissions to create a global playing field. We encourage the Organization to actively contribute to the upcoming Paris conference by providing fact-based analysis of the economic effectiveness and environmental efficiency of policy options, including the design of market mechanisms.
• **Highlight the importance of an overall enabling policy framework for investment:** Transformational change in infrastructure, including in the energy, transport and building sectors, will require large-scale private sector engagement. This clearly demonstrates that climate change policies cannot be considered in isolation, but need to be viewed in a broader policy context, with an enabling investment framework at its center. A policy framework for green investment is in many respects comparable to an enabling environment that is conducive to investment in general, bearing in mind the importance of specific additional framework conditions. Due attention should be given to activities across the value chain as well as industries producing intermediate inputs and the contribution that ‘traditional sectors’ are making by providing important input materials. As the report mentions, both public and private investment will be essential. With governments facing tight fiscal constraints, the report should further highlight the importance of better targeting scarce resources to help mobilize private sector investment.

• **Encourage policy alignment to foster innovation:** As the paper mentions, innovation does not occur in isolation and requires multi-disciplinary collaboration from a diverse number of actors. Unleashing green innovation will require government policy action, based on a sound overall framework for policies for innovation as set out in the OECD Innovation Strategy. As underlined in previous OECD analysis, better pricing will not be enough to deliver the necessary green innovation, which primarily contributes to incremental innovation. Additional policies and an overall pro-innovation policy framework will therefore be needed to strengthen green innovation, including effective intellectual property protection and encouraging the entry of new firms through regulatory designs that take into account the development of new technologies and their potential contribution towards a greener economy. As the paper mentions, product market regulation is an important policy tool to achieve this goal. Government policies to this effect could encourage entrepreneurs and new firms to enter the market and boost investor confidence on R&D spent on breakthrough technologies.

• **Highlight the importance of stability and predictability:** While there are differing views on the issue of carbon pricing, there is a basic need for business everywhere to operate in a stable and predictable policy environment. The report should underline that in countries and regions where carbon pricing is being implemented, the focus should be on predictable pricing mechanisms. Existing mechanisms and legislation need to be taken into account to avoid market distortions for business already working with national or regional carbon pricing systems. Furthermore, top-down approaches need to be combined with bottom-up approaches. While a meaningful price signal plays an important role, we underline the importance of a careful arbitrage between achieving environmental objectives and considering economic implications.

The primary purpose of environmental taxation (including carbon tax) is generally to change behavior by accounting for externalities, whether carbon or otherwise. We underline that the focus should not be on increasing fiscal revenues and that economic and social side-effects of increasing fiscal burden need to be taken into account. Due consideration needs to be given to
fiscal neutrality, the overall fiscal mix and fiscal burden, and consequences for growth, competitiveness and revenue neutrality. With regards to subsidies, while BIAC agrees with the need to address the issue of environmentally harmful subsidies, we also encourage the OECD to analyze energy subsidies broadly to assess their environmental effectiveness and economic efficiencies. Any changes considered to existing legislation should bear in mind the reason for putting it in place in the first place and whether the changes address the core policy objectives.

Ensure free trade and open markets: Open trade policies are a key element for a global climate deal to succeed. Trade policies must serve as a means for innovative technologies and know-how to spread quickly across countries. We welcome the paper’s focus on the need to develop policies that can support GVCs and on the role of trade in services to help achieve both goals of trade liberalization and sustainable development. Bridging the gap between developing and developed countries, making firms globally competitive and strengthening the innovative capacity of the private sector, the Paris agreement should pay special attention to the link between trade and climate change policies. Market distortions and unilateral barriers to trade and investment must be avoided—the paper mentions this clearly in the field of local content requirements, particularly in the field of wind and solar energy—and inefficient environmental subsidies should be removed. Exploring how climate and trade policies can be made mutually supportive will be of great importance not only to the UNFCCC process but also to other fora such as the G20 and the WTO.

Recent OECD analysis shows restrictive export policies flourish particularly for steelmaking raw materials, and metal waste and scrap. Such restrictive policies are intended to support and benefit domestic metal works and downstream metal-consuming industries by undervaluing the waste and scrap, not least in terms of embodied energy and CO2 savings, and so hinder the overall efficiency of the global Circular Economy. This issue should be further highlighted, bearing in mind CO2 emissions thanks to recycling activities.

We caution against using unbalanced language on ISDS which does not take into account different views on the need for RTAs to have robust ISDS mechanisms and request deletion of one-sided arguments. To read the BIAC paper on ISDS, please click here.

- **Communicate competitiveness impacts in a balanced manner:** While the report notes that there is very little evidence of sector-level competitiveness effects arising from carbon pricing system, BIAC strongly recommends communicating both macro- and micro-economic impacts in a balanced manner. As mentioned in previous OECD analysis, any proposed measures should be scrutinised in terms of their economic efficiency, the incentives they create for reducing GHG emissions, their impacts on developing countries, and their effectiveness in addressing competitiveness concerns.

- **Underline the need for close cooperation with the private sector:** We generally believe that the report touches on many important issues to be addressed, including investment, innovation, trade, and taxation. However, we would recommend giving additional attention to the importance of active involvement of the private sector as a provider of concrete solutions as
well as top-bottom and partnership approaches that have proven successful in the report and the executive summary.

- **Broad-based and cross-sectoral involvement in addressing climate change:** The focus areas in part II rightly address the issue of electricity, urban mobility, and rural land use. While it is probably not practically feasible at this stage to add other dedicated chapters, it should be made clear in the introduction that the potential of all sectors should be used in greening growth. Green investment includes activities across all segments of the green value chain and industries producing intermediate inputs, which should be duly highlighted.

- **A more coordinated approach to financial regulation:** We appreciate the section in the report titled “Financial regulations: a disincentive to low carbon, long-term investing?” As highlighted in BIAC’s 2014 discussion paper “The case for a more coordinated approach to financial regulation”,¹ we believe it is essential to strengthen knowledge and awareness about the unintended consequences of financial regulations on economic growth and returns on investment. The sorts of unintended consequences for low carbon, long-term investing described in the draft OECD report could provide useful information for the G20 Turkish Presidency in 2015, which focuses mainly on the completion of the international regulatory program and consistency in implementation.

- **Green growth in the agro-food chain:** We appreciate the report’s focus on rural land use and green growth in agriculture. Our BIAC discussion paper “Green Growth in the Agro-Food Chain: What Role for the Private Sector?” (2013) emphasizes the important role to be played by business in achieving a transition to a low carbon agri-food sector.² Food security and environmental protection are not mutually exclusive goals and ‘win-win’ solutions are being actively sought by companies. But success depends much on the creation of enabling policy frameworks in which private sector-led and collaborative investment and innovation initiatives can thrive.

¹ Available online [here](#).
² Available online [here](#).