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Getting ready for the Paris Agreement:

Key Actions for the OECD

As the world is working towards a binding agreement on climate change, fact-based policy analysis is more important than ever so that policy makers can base their decisions on objective data and information. In BIAC's view, the OECD, as a multi-disciplinary economic organization with long-standing experience in environmental policy analysis can play an important role in this area. To make the Paris meeting a success, a number of outstanding issues remain to be addressed.

Key business considerations

➤ **Foster global engagement**

The agreement to be signed in Paris must provide a clear framework for international action, committing all large emitting economies to the measurement, monitoring and reporting of pledged activities to reduce, in a cost effective manner, greenhouse gas emissions. The business community calls for collective action to create a global playing field between industries from all major countries. Only a deal built on common responsibilities can foster competition and provide the stable policy environment for business needed to invest and innovate.

➤ **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. 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. 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, and inefficient environmental and energy subsidies should be removed.

➤ **Foster innovation**

There is an urgent need to encourage innovation across sectors and the dissemination of technologies through open trade and investment. It is essential to promote the widespread adoption of available green technologies, while focusing attention on developing and deploying new solutions that will be crucial to address climate change challenges. Public policies should create the right market conditions to trigger innovation at the required scale, including through stable market frameworks and encouraging research cooperation and partnerships. A future climate agreement needs to ensure full protection of intellectual property rights (IPR).

➤ **Financing climate action**

The Green Climate Fund reached its targeted initial capitalization of US\$ 10 billion at the Lima meeting. However, going from US\$ 10 to 100 billion will depend on effective mobilization of private investment. Public funding alone will not be sufficient to meet the rising demand for investment and advance climate objectives. We encourage governments to use public funding in a way that leverages private financing. A pro-investment policy framework, correct incentives as well as clear policy frameworks concerning international financial regulation must be in place to foster investor confidence and enhance private investments.

➤ **Encourage 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 considered in a broader policy context, with an enabling investment framework at the center. A policy framework for green investment is in many respects comparable to an enabling environment that is conducive to investment in general. Due attention should be given to activities across the value chain and industries producing intermediate inputs. Especially, emphasis should be placed on policies that enable industrial investments into modernization and into state of the art technologies. This underlines the need of a stable and predictable investment climate that allows research and development to focus on more energy efficient technologies.

➤ **Work with the market**

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. In countries and regions where carbon pricing is being implemented, we encourage policy makers to focus 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. Also of crucial importance to business is the alignment of the various carbon pricing mechanisms that are in place or currently under way. There is a patchwork of different approaches and timescales pursued by countries regarding carbon pricing which risks limiting its efficiency and hindering economic activity. Market distortions should be addressed as an urgent priority. In general, it is particularly important to reduce emissions in a cost effective and commercially reasonable manner. Due consideration should be given to potential competitiveness impacts.

➤ **Foster private sector engagement**

Governments need to recognize and embrace the importance of a strong and well-functioning private sector, including a healthy industrial base, in a sustainable economy. If a global climate agreement does not allow the private sector to actively engage, it will not become a success. Transformational change will be necessary, which cannot be achieved without active participation of the business community, providing practical solutions to address the challenges at hand. Given the undeniable impact that a global climate agreement will have on markets and national regulatory frameworks, it is essential to have well-functioning channels to provide business input all along the process.

➤ **Encourage a life-cycle approach**

Governments should take into account the full life-cycle of products when creating new regulations. Only by doing this, can the actual impact of each stage of a product's life be calculated and efficiently addressed. Therefore, taking the life-cycle approach will help to create reliable and predictable frameworks for cost effective energy and environmental policies. Green growth initiatives should also give due attention to the concept of circular economy.

For example, recycling has the potential to substantially avoid or reduce greenhouse gas emissions and maximize the benefits of products' use phase. Climate change policy should therefore promote the economic, social, and life-cycle benefits of products across their full lifecycle, from production, through use, to end of life. The development and deployment of multi-material solutions should be considered rather than a silo approach.

A key role for the OECD

The OECD can and should make an important contribution to the upcoming Paris agreement by providing fact-based analysis of the economic effectiveness and environmental efficiency of the various policy options, including the design of new market-based approaches. As a multi-disciplinary organization, the OECD can contribute in particular to aligning policies across different areas and working towards true policy integration to ensure that environmental policies are not considered in isolation but rather in interaction with other policy objectives. Policy coherence will be indispensable for an 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.

Bearing in mind the overarching need to foster policy coherence, the OECD can make an important contribution in the following areas:

- **Build solid measures of progress** by continuing work on indicators that are well-balanced and forward-looking to help measure progress over time and help establish internationally accepted and rigorous systems for measuring, reporting and verification (MRV) of national emissions.

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- Foster a comprehensive and cross-cutting **pro-innovation policy framework** and give due attention to addressing climate challenges in the implementation of the OECD Innovation Strategy.
 - Continue work on integrating climate and environmental policy goals into investment policy frameworks and infrastructure planning and highlight the importance of a **pro-investment policy framework for greening growth**, including in the implementation of the OECD Policy Framework for Investment.
 - Further analyze the effectiveness of **climate policy instruments** and carbon pricing schemes, including on the issue how schemes should be linked with schemes of other jurisdictions and analyze effects where nations pursue different approaches and systems.
 - Evaluate the **risks of unilateral trade measures** and shed further light on the positive role that open markets for trade and investment can play in supporting climate change policies, giving due attention to avoiding carbon leakage.
 - Conduct research on the role that trade plays in the international diffusion of climate change technologies, highlighting the importance of effective **protection of intellectual property rights**.
 - **Foster a life-cycle approach** as an important tool for future environmental policy and analyze the role that recycling can play in a global circular economy.
 - Analyze **the business role in adaptation and risk assessment** and consider how such analysis could be used for actions by government.
 - Continue work on tracking financial flows and identifying incentives for **scaling-up public finance to effectively attract private sources** of capital and incentives that need to be in place for greater climate-friendly investment.
 - Foster capacity building through **dialogue with non-member countries**, including through the OECD/IEA Climate Change Expert Group.