# From Grim to Green
# OECD Messages on Green Growth

## *The crisis is no excuse to postpone environmental action*

The economic slowdown should not be used as an excuse to weaken long-term efforts to achieve low-carbon economic growth. Inaction on key environmental challenges, such as climate change, could lead to severe economic consequences in the future.

- *Costs of Inaction on Key Environmental Challenges* (OECD, 2008) highlights the economic and social costs of delaying action on climate change, air and water pollution, natural resource management, and natural disasters (www.oecd.org/env/costofinaction/publication), while the *OECD Environmental Outlook to 2030* (OECD, 2008) showed that well-designed policies to address the key environmental challenges are economically rational (www.oecd.org/environment/outlookto2030).

## *"Green" investments can help*

The recession can open up new opportunities to both address the economic crisis and kick-start a move towards a low-carbon and "green" economy. For example, the stimulus packages being rolled out by many governments are opportunities for greening our economy. Many of them include direct public spending to support "green" investments in areas such as public transport, energy efficiency, alternative energy supply and "smart" electricity grids, water supply and sanitation systems, and pollution control. Tax incentives are also being given to firms and households that make green investments, for example in better insulation or energy efficient appliances.

New investments being made today in energy production, buildings and transport infrastructure will be in place for decades. So it is important to ensure that economic stimulus packages do not lock-in polluting energy technologies or dirty production and consumption, but instead promote clean alternatives. To ensure this, the environmental impacts of other measures in the stimulus packages should be assessed, with particular attention paid to those such as car-scrapping programmes, investments in new roads, and reductions in electricity and fuel charges. Short-term efforts to revitalise the economy must not come at a long-term cost to the environment.

- The OECD Meeting of Council at Ministerial Level (24-25 June 2009) brought together Ministers of Economy and Finance from OECD countries and the major emerging economies. A major focus of discussions was on how best to foster a green recovery. (www.oecd.org/mcm2009)

## *Countries should reform costly and environmentally damaging policies*

The crisis is also an opportune moment to re-assess and reform those policies that are both economically costly and environmentally damaging. A key element in policy reform for green growth is to remove environmentally harmful subsidies, especially for fossil fuel production (still prevalent in some OECD countries), consumption (especially in some emerging economies and developing countries) and for environmentally-harmful agricultural production. It would save money for governments and taxpayers, and shift the economy away from activities that pollute and over-use natural resources.

- A new OECD report on *The Economics of Climate Change Mitigation: How to Build the Necessary Global Action in a Cost-Effective Manner?* finds, amongst other things, that removing fossil fuel subsidies in emerging and developing countries alone could reduce global GHG emissions by 10% by 2050, while also increasing the efficiency of these economies.

## *The crisis is an opportunity to put in place cost-effective environmental policies*

The current economic crisis also provides an incentive to improve efficiency in the use of energy and materials and an opportunity to push through reforms that move us towards a greener world economy.

Countries will now be even more aware of the costs of policy actions, so the OECD policy recommendations for least-cost approaches to climate change and other environmental challenges are increasingly more relevant. To contain costs, governments should use market-based instruments such as water pricing, greenhouse gas emissions trading with auctioned permits, taxes on pollutants, and waste charges. These measures have the added benefit – in a situation where public finances are over-extended – of bringing in revenues which could contribute to fiscal consolidation or be used to reduce other taxes that create economic distortions. A number of countries are using the crisis as an opportunity to push through green tax reforms, often using the revenues raised to reduce taxes on labour income.

Some industries fear that green taxes and emissions trading would put them at a disadvantage with foreign competitors who may not be subject to similar costs. This was seen last year in discussions on free allocation of permits for the EU Climate and Energy Package, as well as more recently with the proposed Waxman-Markey Bill in the US. But OECD analysis has found that the effects of climate policies on competitiveness are often quite small, particularly if a sufficiently large group of countries take action.

Price- and market-based policy instruments should be complemented by regulations and standards, R&D, eco-labelling, and education. Examples include encouraging more energy-efficient buildings through building codes and household electric appliance standards, and cutting trade barriers to climate-friendly goods such as low-energy light bulbs. Countries should also assess carefully the costs and environmental benefits of some of their environmental policies, for example some measures to support renewable energy. Recent OECD analyses show that support policies for biofuels production in the US, Canada and the EU can cost as much as 1000 US dollars per tonne of $CO_2$ reduced – a very high cost for achieving emission reductions.

- OECD work on the economics of climate change is supporting countries to develop and implement cost-effective policies to address climate change. An OECD report *Climate Change Mitigation: What do we do?* was released in December 2008 in Poznan, supported by a series of technical working papers. (www.oecd.org/env/cc/econ)
- A new OECD report on *The Economics of Climate Change Mitigation: How to Build the Necessary Global Action in a Cost-Effective Manner?* was released in June 2009. It will focus on identifying least-cost policy mixes, analysing the incentives for major emitting countries to participate in action, addressing carbon leakage and competitiveness impacts, and assessing financing possibilities.

## *How can we foster clean technologies for a greener future?*

New green technologies can also help to cut the future cost of addressing environmental challenges such as climate change. But investors need policy certainty, and stable and predictable price signals to know that it is worth developing technologies for a green future. For a start, putting a price on carbon emissions and other pollutants will provide incentives and help create markets for the development and diffusion of green technologies such as solar and wind energy and carbon capture and storage. But specific R&D policies are also needed to complement pricing of pollution. Public and private financing for green innovation needs to be increased, as well as public-private collaboration on large-scale R&D projects. Some governments are supporting longer-term R&D in the area of green technology as part of their economic stimulus packages. But this is not a choice between better pricing *or* stimulation of technological innovation: getting the prices right will likely be one of the best triggers for such innovation.

- OECD is developing an *Innovation Strategy* to provide an in-depth understanding of how government policies can best support innovation to address key challenges, including environmental challenges. (www.oecd.org/innovation/strategy)
- A recent OECD report *Environmental Policy, Technological Innovation and Patents* provides empirical evidence of how government policies best incentivise environmentally friendly innovation in a number of areas, including renewable energy technologies. (www.oecd.org/environment/innovation)
- OECD Global Forum on Eco-Innovation (Paris, 4-5 November) will take stock of best practices in promoting green innovation. (www.oecd.org/environment/innovation/globalforum)