FOLLOW-UP TO COP21 - SUPPORTING THE IMPLEMENTATION OF THE PARIS OUTCOME

(Note by the Secretary-General)

Meeting of the Council at Ministerial Level, 1-2 June 2016

Background Document
Supporting the implementation of the Paris Outcome

1. The outcome of the 21st session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP21) is an important milestone in international efforts to craft an effective response to climate change. This outcome includes several elements in addition to the Paris Agreement and individual countries’ earlier submission of Intended Nationally Determined Contributions (INDCs). In particular, the accompanying Decision to the Paris Agreement (hereafter, the Decision) reflected the progress made on support and on enhanced action prior to 2020, recognised and built on the important contribution of the Lima-Paris Action Agenda, and welcomed efforts of non-Party stakeholders to scale up their climate actions.1

2. The Paris Agreement aims to strengthen this global response to the threat of climate change, including by:
   i. Holding the global average surface temperature increase to well below 2°C and to pursue efforts to limit it to 1.5°C above pre-industrial levels, recognising that this would significantly reduce the risks and impacts of climate change;
   ii. Increasing the ability to adapt to adverse impacts of climate change and foster climate resilience and low greenhouse gas (GHG) emissions development without threatening food production;
   iii. Making finance flows consistent with a pathway towards low GHG emissions and climate-resilient development.

3. The Paris Agreement establishes “an enhanced transparency framework”, including tracking of individual Party’s level progress on action (i.e. mitigation and adaptation) and support (i.e. finance, technology and capacity-building). Parties agreed to a “facilitative dialogue” in 2018, which will take stock of collective mitigation efforts and inform the preparation of Nationally Determined Contributions (NDCs). Thereafter, a five-yearly cycle of global stocktakes (beginning in 2023) and renewed NDCs representing a progression on the then current NDC are foreseen. This will allow Parties to increase action over time, a critical aspect for the credibility of the Agreement.2 In the accompanying Decision3, Parties are invited to communicate, by 2020, mid-century, long-term low greenhouse gas emission development strategies.

4. Achieving the mitigation aims of the Paris Agreement will require major structural change to overcome the carbon-intensity that is hard-wired into economies, systems and behaviours, a challenge that is at once both urgent and wide-ranging. Significant policy misalignments currently exist within national policies for example in the organisation of electricity markets and fiscal signals, be they property sales tax or the tax treatment of company cars. The persistence of spending programmes and tax concessions that favour the production or consumption of fossil fuels is also particularly troubling. If these misalignments are not tackled, it will make climate policies harder to implement. Despite rapid reductions in the cost of low-carbon technologies such as solar PV, there is insufficient progress on some other key technologies4, the absence of which could increase the cost of mitigation and affect Parties’ abilities to meet the Agreement’s goals.

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1 The OECD is centrally and actively engaged in the activities of the Carbon Pricing Leadership Coalition and Panel.
2 Article 3 of the Paris Agreement states, “The efforts of all Parties will represent a progression over time, while recognizing the need to support developing country Parties for the effective implementation of this Agreement.”
4 For example, carbon capture and storage (CCS).
5. Parties’ current Intended NDCs are, in aggregate, insufficient to deliver the very ambitious mitigation goals of the Paris Agreement and vary significantly in the nature of their commitments and clarity of supporting information. The dynamism and transparency mechanisms of the Paris Agreement will therefore be critical to achieving its long-term aims. The immediate priority within the United Nations Framework Convention on Climate Change (UNFCCC) for implementing the Paris Agreement is to finalise the rules and modalities for a number of key provisions, including those on transparency and assessing collective progress. At the same time, Parties must rapidly move forwards to effective implementation. Domestic policies will simultaneously need to deliver a transition to a low-emissions and climate-resilient economy, while also promoting inclusive growth and co-benefits along the way, e.g. from improved air quality and health by reducing short-lived climate pollutants (SLCPs). The structural transformation in question is massive and needs to be achieved within a few decades.

The role of the OECD in the post-COP21 landscape

6. The OECD has a strong international reputation for the quality and robustness of its analysis, based on its technical capacities and access to government and other data. The OECD-Climate Policy Initiative report on “Climate Finance in 2013-14 and the USD 100 billion Goal” is a good example of the OECD’s rigorous and transparent analysis supporting progress on one of the most sensitive issues in the COP21 negotiations. Other examples include the OECD’s work on fossil fuel subsidies and taxing energy use. The OECD also engages directly with Parties on technical policy issues within the UNFCCC process. The Climate Change Experts Group (CCXG), jointly hosted by the OECD and the IEA, is an element of this and is already supporting efforts to resolve outstanding methodological issues from the Paris Agreement, such as communicating progress on adaptation.

7. Its wider work in 2017-18 will give the OECD the opportunity to contribute to its fullest extent to national and international efforts to address climate change. The OECD will consider how it can best use its convening power to support like-minded countries to discuss and exchange knowledge and best practice in specialised areas, such as adaptation, where there is demand. It will also ensure that appropriate and effective approaches to transparency are made available to all Members and Partners to inform their own thinking as they develop the Paris Agreement’s mechanisms in these areas.

8. A key OECD role will be to advise on the implications of climate policy action for macroeconomic and structural policy settings, and how these policies interact both domestically and internationally, including on the development agenda. More detailed research is needed for countries to be fully able to take into account long-term consequences on the climate and the wider environment of their short- and medium-term economic policies. The richness of the OECD’s economic and policy expertise and data is complemented by that of the International Energy Agency (IEA), the Nuclear Energy Agency (NEA) and the International Transport Forum (ITF). The capacity of these organisations to work together on climate-related issues was demonstrated by the ground-breaking report, Aligning Policies for a Low-carbon Economy, released at last year’s Meeting of the Council at Ministerial Level. These organisations, working together, need to help Members and Partners address the insights of that report.

5 UNEP defines SLCPs as agents that have relatively short lifetime in the atmosphere — a few days to a few decades — and a warming influence on climate. The main short-lived climate pollutants are black carbon, methane and tropospheric ozone, which are the most important contributors to the human enhancement of the global greenhouse effect after CO2. These short-lived climate pollutants are also dangerous air pollutants, with various detrimental impacts on human health, agriculture and ecosystems. Other short-lived climate pollutants include some hydrofluorocarbons (HFCs).

6 Examples would include the Economic Surveys and the Environmental Performance Reviews.
Proposed OECD work in 2017-18 to support the implementation of the Paris Agreement

9. The Paris Agreement places equal political priority on adaptation (actions taken to help communities and ecosystems cope with changing climate) and mitigation (emissions reductions to reduce the scale of climate change). This is also reflected in the OECD proposals for future work on climate change set out below. These are currently still under discussion in a number of Committees across the OECD. The following should therefore be seen as initial proposals, not an agreed programme of work. The focus of the work will be OECD Members, but may also include analysis of Key Partners and other non-Members, which are in many cases more vulnerable to the effects of climate change.

Mitigation

10. The OECD could support Parties to implement their NDCs, building on its mitigation work and the analysis in two major OECD reports from 2015: Climate Change Mitigation: Policies and Progress, which looked at 44 OECD Members and Partners; and Aligning Policies for a Low-carbon Economy, to examine climate policy in the broader macroeconomic and policy context. In particular, the OECD could approach the work from two angles. Building on the existing OECD Core Set of environmental indicators and other indicator sets such as the green growth indicators, a first component would focus on creating a more detailed thematic set of climate-related indicators that provide information on the likely future trajectory of GHG emissions in the medium-term. This could be complemented by a second strand of work developing a “diagnostic toolkit” to enable individual countries to analyse how mitigation strategies, policies and regulatory approaches might most effectively be tailored to national circumstances. There would be a strong link to the proposed work on climate change mitigation, agriculture and land-use (para 19 below) and to the work of the Climate Change Experts Group to support Parties in their efforts to resolve the technical issues needed to make the Paris Agreement operational.

11. Some key policy questions relevant to Parties’ mid-century, long-term low greenhouse gas emission development strategies could be addressed through this work. For example: What factors would be most relevant to inform a Party’s decision on the balance of mitigation action across different economic sectors, GHGs and SLCPs and over time? What might be the economic implications of different choices of strategy, e.g. for jobs and competitiveness? A periodic update report of Parties and aggregate progress, perhaps every 2-3 years, could be timed to help inform future efforts. This work could also feed into, and be informed by, the ongoing Economic Surveys and Environmental Performance Reviews and would complement the OECD’s integrated modelling of economic and environmental outcomes at longer timescales.

12. Further development of the OECD’s analysis on the taxation of energy use, support measures for fossil fuels, and sector and economy-wide carbon prices, together with the OECD-IEA’s model-based analysis of energy-economy linkages could benefit this work. Drawing upon the OECD’s Trade in Value Added (TiVA) database, embedded carbon emissions in different segments of Global Value Chains (GVCs) could be examined in order to better understand patterns in consumption-based emissions. The

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7 With the IEA, ITF and NEA.
8 The climate work will make a connection where relevant to related areas of OECD work on development, green growth, the circular economy and trade policy.
9 Para 36 of the Decision.
10 At a minimum, the first chapter of the EPRs include a part on GHG emissions and progress towards targets. If a country choses climate change as a focus chapter, the EPR will also provide a more detailed analysis.
trade-related implications of NDCs and how trade could help countries achieve them (e.g. the liberalisation of trade in environmental goods and services) could form a distinctive OECD contribution. The OECD’s expertise on technology and innovation policy can support climate-change policy at multiple levels and across sectors.\textsuperscript{12}

**Adaptation, risk and resilience**

13. Countries are increasingly adopting national, strategic approaches to adaptation planning. Despite this, and the mounting evidence of climate impacts, current development patterns are frequently increasing exposure to climate-change impacts. The proposed work will focus on better understanding and managing climate risks in areas that will be critical for resilience. It would build on previous analysis of approaches to national planning, economic tools and monitoring and evaluation. Taking into account the uncertainty still surrounding climate impacts at the regional level, the OECD could support efforts in the area of adaptation and resilience through focusing on:

a. **Enhancing infrastructure’s resilience.** Many of the most significant climate risks for infrastructure are likely to stem from changes in the hydrological cycle and extreme weather. To what extent are infrastructure investment decisions taking proper account of system-wide vulnerability to extreme events and changing but uncertain climate patterns? This work could also draw on the key risks and vulnerabilities already identified in national climate risk assessments and adaptation strategies and would produce policy recommendations to support the development of resilient infrastructure. There would be a close link to parallel work on financing water infrastructure.

b. **Contingent liabilities from climate risks** arising from a range of explicit and implicit policy actions and incentives which – likely inadvertently – lead to increased exposure to damage from climate change. This project will provide analysis of the sources and scale of contingent liabilities (e.g. from the development of low-lying coastal zones) and examine what constitutes best practice in managing these risks and in measuring progress on adaptation. The OECD could also examine the feasibility of developing quantitative measures to capture the evolution over time of exposure (e.g. number of buildings in a flood plain), and perceived risks (e.g. observed prices of similar assets exposed to different levels of climate risk, level of insurance cover) in a limited number of pilot regions. This work could also shed light on the distributional impacts of climate change, by exploring how different segments of the population might be affected by particular potential climate impacts. This would build on the G7 initiative on climate risk insurance, and a current OECD project on integrating risk financing and transfer with climate change adaptation.

14. OECD work on climate and development has focused on good practice to integrate climate-risk management and adaptation into core development planning, policy and co-operation. In the next biennium, work could examine best practices in integrating ecosystem services (e.g. those provided by forests, watersheds, coastal zones, and farmland) into efforts to promote resilience and adaptation, strengthening governance and public institutions in developing countries for climate change adaptation, as well as understanding links between climate change and conflict, security, migration and the fragility of states.

\textsuperscript{12} Including on the role of innovation and systems innovation, in meeting the challenges of sustainability, achieving the circular economy, developing new environmental technologies and facilitating the emergence of a sustainable bio-economy.
Finance and investment

15. The OECD will continue to advance its quantitative work on measuring the effectiveness of different types of policies to support investment in the transition to a low-emissions and climate-resilient economy and how climate policies interact with the broader investment environment. This addresses directly the aim of the Paris Agreement to make financial flows consistent with this transition. The potential for financing instruments (e.g. green bonds) and domestic financial institutions (e.g. green investment banks) to mobilise private investment in low-emission, climate-resilient infrastructure will be a continuing theme. There will also be linkages to the mitigation work described above. Future work could also include examination of the financial industry and corporate disclosure in the face of climate change risks; the role of institutional investors and capital markets and the implications of financial regulations on green investment. In order to harness the OECD’s deep networks and policy expertise and analysis in finance, investment and the environment in an integrated, horizontal way, the establishment of a Centre on Green Finance, Investment and Policy is being considered. It would also contribute to deliver maximum external impact on policies and practices in support of the Sustainable Development Goals and the Paris Agreement.

16. Following a request from France, the current UNFCCC COP Presidency, the OECD is conducting work on the governance of institutional investments and the integration of Environmental, Social and Governance factors, which will involve an international stocktaking and analysis of industry practices and regulatory approaches that may extend into the next biennium.

17. Moreover, development-related work on climate finance could focus on three related areas:

   i. How to make the best use of official development finance to better catalyse private investment for low-carbon and climate resilient activities in developing countries, both by supporting enabling policy environments and building capacity, as well as through the use of innovative instruments to mobilise investment;

   ii. How to improve the effectiveness of development co-operation in climate action, including how climate change is integrated into decision making processes on development finance and investment, with a special focus on resilience and adaptation;

   iii. Improving the quality, coverage and ease of access to OECD Development Assistance Committee statistics on climate-related finance and thereby supporting transparency on support under the UNFCCC.\(^{14}\)

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\(^{13}\) Note that the Recommendation of the Council on Environmental Information \[C(98)67/FINAL\] “Recommends that Member Countries

1. Promote effective and periodic reporting by enterprises of appropriate and timely information on environmental implications of their activities, for example, on pollution emission levels, on use of natural resources, and on potential risks from hazardous activities and products, as well as information on environmental progress and achievements by enterprises;

2. Promote the dissemination of relevant information to enable the public to assess the environmental consequences of activities of enterprises and individuals to take effective preventive measures, e.g. in case of emergency;”.

\(^{14}\) This will create an updated DAC statistical system with a modernised statistical measure for Overseas Development Assistance (ODA) and a new measure of Total Official Support for Sustainable Development as well as increasingly comprehensive data collection on private finance amounts, mobilised through use of official development finance via bilateral and multilateral channels.
In related work, the OECD-hosted Research Collaborative on Tracking Private Climate Finance could focus on empirical work on the links between technical assistance, capacity building and the broader policy and enabling environment in mobilising private climate finance, both for adaptation and mitigation objectives.

**Climate change mitigation, agriculture and land-use**

The cumulative level of carbon dioxide ($CO_2$) emissions consistent with meeting the long-term temperature targets in the Paris Agreement is equivalent to perhaps 20-30 years of current emissions for a 2°C target. In achieving its aims, the Paris Agreement highlights the importance of conserving and enhancing sinks and reservoirs of GHGs and reducing emissions from deforestation and forest degradation. Ecosystems contain huge stocks of carbon, which if released as $CO_2$ or methane would significantly exacerbate the challenge of meeting long-term climate goals. Increasing pressure to convert land for agriculture will have significant implications for mitigation as well as for biodiversity and human health, as the recurring Indonesian forest fires demonstrate.\(^\text{15}\) Conversely, the agricultural sector may also have potential as an important carbon sink to support mitigation, including by storing carbon in agricultural soils, and as an important source of GHG emission reductions. The interplay between climate mitigation, agriculture and food security and ecosystems is therefore crucial going forward.\(^\text{16}\)

At the Meeting of the OECD Committee for Agriculture at Ministerial Level on 7-8 April 2016, Agriculture Ministers issued a joint declaration, which noted that integrated policies are required to improve agricultural productivity, foster sustainable use of natural resources, to promote improved economic and environmental performance and preservation of ecosystems, as well as enable effective climate-change adaptation and mitigation. The question of the synergies and consistency between policies designed to enhance economic and environmental (especially climate) performance in agriculture emerged as a key point in this Ministerial meeting. The OECD could consider analysing the potential for agriculture to contribute to GHG mitigation and address both policy design and implementation issues and the wider economic and competitiveness implications.

In collaboration with other organisations (e.g. the Global Environment Facility), the OECD could explore the potential for policies and incentives to: (i) reduce emissions from land-use change driven by the expansion of agricultural production to new areas; and (ii) increase land-use sinks, e.g. through afforestation, including in developed countries. The OECD could review the existing evidence on the effectiveness and efficiency of policies and incentives as well as examining the evidence on the wider economic and competitiveness implications. In linked work, the OECD could consider policies and practices that will support the improvement of the organic content and promote long-term carbon sequestration in agricultural soils. Work on the current and future potential of technology and innovations to produce a more sustainable bio-economy (understood as the full set of practices and uses of agricultural and forest products) could inform thinking on the feasibility of the long-term goals in the Paris Agreement.


\(^{16}\) There are also strong links to adaptation, mentioned under that heading.