OECD’s Gurría welcomes Stern Review into consequences of climate change

OECD Secretary-General Angel Gurría has welcomed the publication this week of the Stern Review to the UK government on the economic consequences of climate change. The report was compiled by Sir Nicholas Stern, former chief economist at the World Bank.

“The report is a necessary reminder that acting now is imperative to confront the many problems which will flow from climate change. I strongly endorse the major direction of the report that argues that the benefits of early action far outweigh the costs,” said Mr Gurría. He congratulated both Prime Minister Tony Blair and the Chancellor of the Exchequer Gordon Brown for commissioning the Study, as well as for sharing it with the world’s public opinion.

He added: “Many of the recommendations proposed by Sir Nicholas Stern are in line with propositions that the OECD has been putting to its member governments for many years, in particular, more market-based solutions to deal with carbon emissions.”

“I have already indicated to the UK government the OECD’s willingness to make further contributions to the detailed action programme needed to tackle the potentially devastating consequences of climate change.”

Note to editors: OECD work on climate change

Climate change is one of the greatest challenges we face – both in terms of its potential impacts on our societies and the earth, and in terms of the scale of the international co-operation that is needed to confront it. The OECD is working to support its member countries in the development and implementation of effective and least-cost policies to tackle climate change.

All countries have an interest in minimising the costs of reducing greenhouse gas emissions. A first step is to establish a “price” for carbon emissions. OECD work has found that by using more economically efficient environmental policy instruments – such as taxes and tradable pollution quotas – the same environmental targets could be reached at 25% less cost. Taxes and trading systems are being adopted in a number of countries – for example, Denmark, Norway and the UK have implemented carbon taxes; Norway and Japan have national CO2 emission trading systems; an EU-wide Emissions Trading Scheme started in 2005; and regional schemes are in place in the US and Australia. The international flexibility mechanisms under the Kyoto Protocol – namely the Clean Development Mechanism and Joint Implementation – also contribute to an international carbon market. The Secretariat of the United Nations Framework Convention on Climate Change, the OECD and the International Energy Agency are working together with countries to examine how these existing mechanisms can be strengthened.

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But a major barrier to the effective application of these policies, and their adoption in other countries, is a fear that they will negatively impact on industrial competitiveness. As a result, most countries with energy-related taxes in place provide significant reductions or even exemptions to these taxes for the most energy-intensive industries: the OECD and the European Environment Agency’s database of environmental policy instruments records over 1,150 exemptions and several hundred refund mechanisms or other tax provisions. OECD analysis has found that a number of other flanking measures could be used instead to address the competitiveness impacts of environmental taxes or other market-based instruments, without reducing the economic incentives to reduce emissions. These include: recycling back the revenues of the tax to the affected industry; pre-announcing and phasing-in taxes over an agreed timetable; co-ordinating taxes or internationally tradable permit schemes internationally to level the playing field; or applying border tax adjustments.

Through its peer review processes, the OECD continues to provide a forum for countries to share experiences and examine the effectiveness and efficiency of each country’s policies. Both the OECD Economic Surveys and the Environmental Performance Reviews have examined the policies in OECD member countries to address climate change, and provided country-specific recommendations on how they might be improved. A number of non-member countries are also reviewed through these processes. At the request of the Chinese government, the OECD is now in the process of undertaking a review of environmental performance in China, to be released in early 2007, including an examination of the country’s climate change performance. As China is the second largest emitter of CO₂ emissions worldwide, this provides a unique opportunity for China and OECD countries to discuss frankly together the policies and measures that can be used to address climate change.

At the same time, emissions of greenhouse gases to date have already “locked in” a certain amount of climate change, and concerted action will be needed to support adaptation to the resulting climate impacts and extreme weather events. OECD Environment and Development Ministers adopted in April 2006 an OECD “Declaration on Integrating Climate Change Adaptation in Development Co-operation”. This Declaration drew on OECD analysis which found that a significant portion of official aid flows are directed at climate-sensitive activities and potentially at risk from climate change. As follow-up, the OECD is working with countries on the co-ordination and sharing of good practices on integrating adaptation into development planning and assistance. Other work is examining progress on adaptation in domestic OECD contexts, and new work will focus on the economic aspects of adaptation.

OECD will continue to provide rigorous and timely analysis of the cost-effective policy approaches to tackle climate change and to integrate adaptation approaches across government policies.

For more information on the OECD’s work on climate change, see http://www.oecd.org/env/cc or contact the OECD’s Media Division at news.contact@oecd.org or tel. + 33 1 45 24 9700