Cost of tackling climate change should be shared more fairly, says OECD Secretary-General

Most of the action to address climate change will need to take place in developing countries, but developed countries should shoulder much of the cost, said OECD Secretary-General Angel Gurría today in a speech at the United Nations Climate Conference in Bali.

"We must find a way to share the burden of the costs of climate change action that takes into account the level of economic development of nations," he said. "We need to create a sound economic footing for the post-Kyoto framework."

Mr. Gurría said the policies needed to tackle climate change were already available, but needed to be implemented efficiently and effectively. The policy "toolkit" could rely heavily on market-based instruments, such as taxes or a global emission trading system, also known as a cap and trade system, complemented by regulations and incentives for innovation.

"By agreeing more ambitious caps, in the context of a global trading system, developed countries could carry a relatively greater financial responsibility than developing countries," he said. "And enabling trading in emission permits would encourage mitigation action to take place where it is cheapest and so keep the global costs low."

OECD analysis shows that the costs of limiting climate change are manageable: the cost of cutting greenhouse gas emissions significantly by 2050 to reach the more ambitious targets being discussed internationally would be equivalent to global GDP growth slowing by 0.1 percentage points per year through to 2050. If a harmonised global carbon tax was implemented, OECD GDP would fall by only 0.2% in 2030 and 1.1% in 2050 but in Brazil, Russia, India and China GDP would decline five times as much - 1.4% of GDP in 2030 and 5.5% in 2050.

This highlights the importance of having a system that shares the burden of the cost of action equitably. With a global cap and trade system, for example, the cost to Brazil, Russia, India and China could fall by more than half, given the increased responsibility for emission reductions taken up by developed nations. The overall global cost would remain the same.

He warned that with less efficient policies that, for example, exempted some of the most energy-intensive industries or excluded some countries from action, "it would not only become more difficult to achieve the more ambitious goals of emission reductions, but the costs of doing so would also go up significantly."

He urged countries that continued to subsidise the "good" solutions to climate change, rather than tax the "bad" ones, to think again.
"This is a very costly choice," he said, "because it tends to increase the costs of reducing greenhouse gas emissions. Subsidising a particular kind of good behaviour also risks locking in technologies that may later be considered inefficient. Taxing bad behaviour, on the other hand, provides a consistent incentive for increased efficiency and innovation."

"Our analysis suggests, for example, that current biofuels production is generally not economically viable in OECD countries without big subsidies, and the environmental benefits are uncertain and may be much smaller than anticipated."

Mr Gurría encouraged countries to continue working closely with the OECD on the economics of climate change and welcomed the invitation from finance ministers at their meeting to continue discussions at the OECD in the near future. The economics of climate change will be the subject of next year's OECD Ministerial Meeting on 4 and 5 June 2008, involving finance and economics ministers from OECD and other countries.

For further information, journalists are invited to contact Kumi Kitamori of the OECD's Environment directorate (tel. + 33 1 45 24 92 02) or the OECD's Media Division (tel: + 33 1 45 24 97 00).

Journalists at the UN Climate Change conference should contact Spencer Wilson (tel. + 33 618 292919) of the OECD's Media Division.

For more information on the OECD's work on the economic impact of climate change, visit the OECD website at www.oecd.org/env/cc and the page dealing with the OECD participation in UN climate change conference in Bali.