Chair's Summary

Reframing Climate and Competitiveness: Is there a Need for Co-operation on National Climate Change Policies?

31st Round Table on Sustainable Development
held 2-3 February 2015
OECD Headquarters, Paris

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On 2-3 February 2015, the OECD Round Table on Sustainable Development, with support from the European Climate Foundation, brought together government ministers and state secretaries, senior climate negotiators, private sector stakeholders with activities spanning from heavy industry to equipment manufacturers and consumer products, business associations and OECD and IEA experts to discuss the issue of whether co-operation on national climate change policies is needed.

Climate policy aims at driving change and creating new markets to serve the low-carbon transition. These markets will long remain vulnerable to policy decisions, which may be affected by international spill-overs. What forms of collaboration and co-ordination among policymakers could limit negative spill-overs and reinforce those that could facilitate the transition?

Participants were asked to focus on four questions:

1. How serious are international spill-overs in the markets affected by domestic climate policies? What practical concerns do they raise among policymakers and private sector stakeholders?

2. In what policy areas or sectors could transparency, and potentially co-operation, be most beneficial?

3. What would be the general conditions for a fruitful public-private effort in R&D on breakthrough low-carbon technologies?

4. An effective response to climate change will come through policy-driven markets, with an essential role for the private sector. How to structure possible discussions between policymakers and the private sector internationally?

A background document (here) was provided as basis for the discussion.

As more general background: today's climate policies are a poor reflection of what is needed and could happen in the future. Despite signs of global CO_2 emissions growth slowing down, global emissions grew faster in 2013 than ever before. Stronger policy interventions are needed to shift economies towards low-carbon. On the political level, the UNFCCC COP21 in Paris in December 2015 may deliver an unprecedented global agreement which could open avenues for broader policy co-ordination. The role of non-state actors may also grow in importance.

International spill-overs and climate policy – today and tomorrow

Low-carbon leakage

Several participants referred to existing spill-overs resulting from their own or other jurisdictions' domestic climate policy decisions. In the case of photovoltaic panels, for instance, a single region's effort led to significant cost reduction globally. While in hindsight this was a benefit for the global community, mass manufacturing did not occur where originally intended, and ensuing policy adjustments led to significant disruptions in the manufacturing sector.

The notion of 'low-carbon leakage' – as opposed to more traditional 'carbon leakage' – was mentioned in this context. Countries undertake low-carbon policies with an expectation of new domestic manufacturing markets, whereas manufacturing moves to regions with a competitive advantage. While this may be a more economical outcome overall – notwithstanding the carbon footprint of manufacturing in less climate-friendly regions and shipping technologies across long distances – it would contradict any industrial policy aspect of the low-carbon transition. It was argued that a purely economic view doesn't necessarily prevail: politics often play an important role when it comes to job creation or the perception of fairness. An example is the inclusion of aviation in the EU Emissions Trading System, strongly rejected by non-EU countries in spite of minimal cost implications.

Much learning has taken place on policy design for renewable energy support. Still, some participants contemplated differentiating the type of support provided to technologies according to their technical and commercial maturity. Further examination of this idea could lead to more harmonious technology and industry development internationally.

Negative spill-overs

Carbon emissions embodied in imports is another issue that is becoming increasingly harder to ignore. At the level of a nation's economy, decarbonisation can seem to occur primarily through structural changes away from industry towards high-value added services, without significant impacts on jobs, for instance. The question is whether this is not simply shifting carbon-intensive activities to other regions. Whether or not the shift is the result of ambitious climate policy 'here' and not 'there' becomes irrelevant from a climate protection standpoint, as long as global emissions continue to increase. One participant suggested that today's climate policies should be assessed against the simple observation that emissions are increasingly taking place and rising rapidly outside OECD regions.

Some participants pointed to spill-overs taking place through physical infrastructure such as electricity transmission – i.e. one country's domestic policy may have direct and immediate repercussions for its neighbours' activities.

Another aspect of climate policy spill-overs relates to trade policy. Some perceive a risk that climate policies that over-promote domestic sectors could lead to challenges under the World Trade Organization. There are already instances of such trade frictions, and more discussion about the role of various subsidies in climate policy and how they may be challenged. Some argued that the trade regime ought to be part of the 'end game' of international climate policy.

Others pointed out that international trade may be determined more by macro-economic policy (fiscal regimes, exchange rates, etc.) than by climate policy actions. Energy prices, another element of this picture, are also not uniquely determined by efforts to reduce CO_2 emissions. Defining a level playing field seems increasingly difficult with so many moving parts, but was nonetheless repeatedly mentioned throughout the meeting.

Some called for further certainty on policy signals. On the one hand, some policymakers objected that the private sector is accustomed to working under uncertainty. On the other, it was argued that a clear objective to decarbonise ought to be a solid basis for long-term policy objectives.

Both types of spill-overs (low-carbon leakage and its cost competition advantage, and standard carbon leakage) were seen as very serious for some participants, but manageable for others. It was also pointed out that we are still in a learning phase, as most countries have not yet engaged in the transition to a low-carbon economy. Furthermore, not all countries present are unanimous on their intentions to decarbonise, which is a fundamental problem. A universal policy signal does not yet exist, and domestic climate policy instruments lag even further behind.

Is climate policy co-ordination really necessary?

The right policy signals

The UNFCCC remains the only relevant forum for the global co-ordination of international climate policy, through the setting and monitoring of individual countries' greenhouse gas emissions objectives, among other aspects. However, it is neither meant nor equipped to co-ordinate the implementation or design of domestic climate policies (whether these are desirable or not).

Business and other non-state actors (including citizens and cities) could be clearer about what they need from a global agreement on climate change. By means of illustration, one participant recalled President John F. Kennedy's call for America to put a man on the moon by the end of the 1960s. This reflects what some believe is needed to tackle climate change: a sense of common purpose with clear technical challenges (e.g. a moon landing) and direct benefit from the accomplishment (a nation's reputation).

Would a clear mid-term vision of what technologies and improvements are needed be suffice? A few participants pointed out that climate policy remains ill-defined for most activities. They also expressed interest in developing a common goal, e.g. for the maximum energy consumption of buildings, which could become the benchmark of global efforts and mobilise value chains in the buildings sector. Such objectives could be a new form of sectoral approach – a notion developed in the run-up to the Copenhagen COP 15 conference – with a view to engaging GHG-intensive sectors on a global scale.

The idea of global carbon pricing, however idealistic it seems today, remains a powerful narrative. Several participants indicated the growing share of emissions covered by carbon pricing and cap-and-trade systems – with the prospect of a nation-wide ETS in China – while others pointed out the limited effectiveness of the instrument as experienced to date, in particular from the standpoint of driving technological breakthroughs.[1] Carbon pricing as a universal first best solution also competes against the idea of policy co-ordination on key sectors or technologies, a new type of industrial policy. The other dimension of the debate is the trade-off between front-running and generating a technological advantage in anticipation of a low-carbon world, and the cost of acting while others gain a temporary competitive advantage on international markets. Some participants thought that the green race had already started (the front-running argument), while others still worry about risks of carbon leakage (the competitive risk argument).

At a more micro-level, instruments exist that can foster the co-ordination of climate efforts, such as standards for the measurement of energy efficiency of equipment and appliances. Broad adoption of such standards facilitates the creation of global markets, leading to economies of scale, competition, and lower cost of low-carbon technologies. Participants did not, however, elaborate on what other international instruments and institutions could be used to drive progress.

Is the time right for sectoral approaches?

Sectoral approaches, a theme that the Round Table has discussed twice in the past decade, was mentioned in several instances, albeit with diverse meanings, including: sector-based market mechanisms; implying co-ordination through carbon pricing; sector-wide research and development; or straight technology transfer. Views on the roles of individual activities in the low-carbon transition have changed since the first sectoral approaches, which focussed on heavy industry. Businesses in energy- or carbon-intensive products consider them as possible solutions to the low-carbon transition,

[1] The IEA (2015) recalled later in the year that only a fraction of CO_2 emissions are currently covered by carbon pricing systems, while a much larger portion of fossil fuel consumption is still subsidised – i.e. faces a negative implicit price on emissions. (*Energy and Climate Change - World Energy Outlook Special Report*).

inside broader value chains and a more circular economy – e.g. the chemical sector can support low-carbon through lighter materials for cars. The question was raised, however, of whether a sector-by-sector focus could lead to more silo-thinking, when more systemic innovations may be part of the solution.

Some argued that the solution may be in the organisation of cross-boundary, multi-stakeholder discussions. For instance, when thinking about low-carbon transportation, one should think about mobility solutions and consider the broad set of transport externalities and the technical and organisational solutions that are emerging now (from alternative planning to telecommuting, car-sharing, etc.).

It was also argued that sectoral approaches, to be successful, ought to move beyond dialogues among companies at the vanguard of climate solutions to include the silent and less progressive companies in carbon-intensive sectors that continue developing markets without particular attention to the climate change agenda. Such a discussion could build on existing industry roadmaps consistent with the 2°C target. These roadmaps would rapidly indicate the most blatant policy gaps and allow a constructive discussion with policymakers.

The role(s) of government in climate: the comeback of industrial policy?

Governments can play multiple roles to engage the economy in the low-carbon transition: they implement policy instruments, set quantitative goals, support research, development and deployment, are direct investors in technology (through procurement), and act as guarantors to lower the cost of capital, to name just a few. These multiple roles are often cast under the notion of industrial policy (with negative connotations), but it should not be forgotten that governments have, in the past, generated much investment in infrastructure and continue to do so. Core climate policy instruments (carbon pricing, energy efficiency, etc.) are essential, but will work less well if governments continue to support high-carbon activities through their other ministries.[2] The infrastructure challenges of the low-carbon transition can only be addressed with dedicated policy signals.

One participant summarised this view as the need for a global governance to mainstream climate policy. Without this, climate action will continue to be a spoiler for other, non-climate ministries. The role of the World Trade Organization was mentioned in this context.

In R&D, public-private arrangements will necessarily be on technologies that are still far from commercialisation. Standardisation is also welcome to facilitate broader markets. R&D is not, however, always a candidate for collaborative efforts, as it is also the source of firms' competitive edge.

Ways forward?

Business can take stock of low-carbon deployment to date and ask: what more is needed? Where is government intervention required? All too often, governments develop policies with private sector consultations occurring at the tail-end of the process; likewise, private sector initiatives bring in governments in the latest phase. Closer collaboration would be useful earlier on.

There is now a dedicated effort by the World Business Council for Sustainable Development, the International Energy Agency and the Sustainable Development Solutions Network, in partnership with several governments, to formulate a more robust public-private effort for the deployment of low-carbon technologies. Successful precedents include the Cement Sustainable Initiative, a group of cement companies mobilised under the aegis of the WBCSD. The CSI set guidelines for the

[2] This point is explored in depth in the OECD/IEA/ITF/NEA (2015) report: *Aligning Policies for the Low-carbon Economy*. OECD Publishing. www.oecd.org/dac/aligning-policies-for-a-low-carbon-economy-9789264233294-en.htm.

measurement of greenhouse gases in the cement industry many years ago, and has recently helped India to develop its low-carbon cement technology roadmap.

On policy design and co-ordination

Participants mentioned the following dimensions of co-ordination of climate policy:

- A regional dimension that considers stakeholders and markets in a more restricted area.

- The development of business solutions that include the supply and demand side – understanding the increasing complexity of value chains, but also the innovation that comes with it. Technical-level discussions can help create trust between business and policymakers on actual solutions.

- The financing of research and development by public and private actors. Beyond, it is important not to forget the pre-industrialisation stage of the RD&D sequence – the proverbial "valley of death" for technology development.

The road to Paris and beyond

An agreement at Paris COP21 was seen as an essential anchor point for more engaged discussions on low-carbon technologies, policies, and further engagement of non-state actors, including business and local governments. A platform where business could make commitments was mentioned as a possible vehicle to support COP21.

What was not discussed and issues for future meetings

Some participants were of the view that disruptive international spill-overs from domestic climate policies were not an issue, in spite of actual trade disputes on solar PV, for instance. It may well be that mutual international learning on climate policy could lead to better management of spill-overs via 'soft' co-ordination. This might include a general exchange of information across governments on specific policy efforts. Alternatively, more ambitious and stringent domestic climate policies could lead to increased frictions, whether through low-carbon leakage or the more traditional carbon leakage. Heavy industry participants continued to express concern about the lack of a level playing field.

The issue of international spill-overs of climate policy has to be cast in the broader context. Today's efforts to reduce CO_2 emissions, measured at the global level, falls short of the 2°C objective. The IEA's Tracking Progress report shows how most activities with a role in the low-carbon transition are still lagging behind what is required to be on a 2°C pathway.[3] Evaluating the spill-overs of domestic policies and the pros and cons of co-ordination on the basis of today's experience may miss the point. Participants did not address this question, looking back more than forward. Consequently, beyond general calls for a more level playing field and some voicing of concerns about the pace of decarbonisation being too rapid, the possible benefits (or costs) of international policy collaboration or co-ordination were not addressed.

On a more positive note, there was a call for the OECD to continue its work on a 'new industrial policy' to support the decarbonisation of the economy, taking the measure of the climate change policy and technology challenge, and avoiding past mistakes in 'standard' industrial policy. There is also recognition that governments have many levers to encourage the low-carbon transition (infrastructure investment in transport and housing, public procurement and regulations).

[3] IEA (2015), Energy Technology Perspectives, 2015 Edition. www.iea.org.