



**ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT**

Intervention by

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Climate Change and the OECD

The effects of global warming are increasingly evident. Despite widespread uncertainty about its exact impacts, there is sufficient knowledge today to justify action to limit climate change. OECD governments committed to taking the lead in significantly reducing greenhouse gas emission, beginning with the United Nations Framework Convention on Climate Change in 1992. In 2001, they agreed in the *OECD Environmental Strategy for the First Decade of the 21st Century* to reaffirm their commitment to the Convention and, for most OECD countries, also to the Kyoto Protocol.

OECD governments are working together with other countries through the UNFCCC to limit the extent and pace of climate change in the coming decades. "No regrets" policies can and should be implemented immediately. But, given the potential scale of the risks associated with substantial and rapid climate change, more ambitious policies to ensure the transition to a low-emission global economy are also warranted. While policies aimed at climate mitigation are essential, countries are also starting to focus on policies to manage adaptation to some inevitable climate change.

The OECD is working with its Member governments to enhance understanding of the effectiveness, economic efficiency and distribution effects of different policies to address climate change, in support of the Convention. Policies need to be strengthened in the coming decade to set a course for a future that limits climate change and enhances the sustainability of our world economy. The solutions we seek are gradual – in order to allow for smooth transitions in business investment and consumer behaviour – and yet they must also be effective and timely so as to reduce the risk of severe damage from climate change.

Despite its critical role in policy decisions, the field of climate impact assessment is quite young. A recent OECD survey of the literature highlights many gaps in our knowledge about how climate change impacts and damage costs are likely to shift with different policy strategies. For example, the scientific community has a poor understanding of the value of ecosystem services that are at risk from climate change. As a result, they are usually left out of integrated assessment modelling of climate policies. The OECD is making a small contribution through its efforts to bring policymakers, economists and scientists together to consider interactions between impacts, adaptation and long-term mitigation. But much work remains to be done.

With respect to mitigation policies today, a price for carbon and other GHG emissions is already starting to emerge in OECD countries. More rapid uptake and development of clean technologies is expected to be part of the OECD market response, largely due to the incentives provided by emerging GHG emission trading systems and changes in taxes to reflect carbon content of fuels, among other policy reforms. What will be the effects of emerging markets for GHG emission reductions in the OECD and elsewhere? At a minimum, it will pave the way for some further emission growth in developing countries, without compromising long term climate protection objectives. Technology spillover effects from early mitigation in OECD countries may also lead to earlier and more effective access by developing countries to clean technologies via normal investment channels, such as foreign direct investment and other investment flows. Last but not least, the CDM is also poised to promote learning and experience on GHG-reducing investment opportunities amongst various partners. The OECD is working with its Member countries and others to strengthen the use of market mechanisms to limit climate change and contribute to sustainable economic development.

While a number of win-win or no regrets policy actions still need to be taken, there is also a need to provide incentives for deeper cuts in emissions over the longer term. Emerging markets for GHG reductions can provide price incentives for investments today that limit emissions, but they

depend on policy frameworks that grow in strength and breadth over time. Governments can also play a catalytic role in stimulating R&D on key technologies and in supporting infrastructure investments that are consistent with low- or no-emission options. Government policies can send a signal for future investments by putting a price on carbon and other greenhouse gases, and by guaranteeing markets for new technologies and innovations that will deliver significant long-term reductions.

In addition, policies are urgently needed to ensure smooth adaptation to climate change. Some impacts of human-induced climate change are observable today and these are likely to increase in coming years because of current levels of emissions. Unavoidable impacts include some sea level rise, reductions in glacier extent and snow cover, and shifts in seasonal water availability. Experience with and understanding of adaptation policies is growing, both in OECD and developing countries. But there is an increasing need to work together to assess progress and compare experiences on adaptation – an area in which the OECD will strengthen its work in the coming years.

Recent OECD work also indicates opportunities to improve policy coherence in a number of areas. For example, we are currently engaged in a major effort to identify synergies (and potential conflicts) between development assistance priorities of OECD donors and responses to climate change in developing countries. These studies range from looking at the impacts of glacier retreat and flooding in the Nepal Himalayas, to critical ecosystems such as the Bangladesh Sundarbans and Mount Kilimanjaro. They point to a need to address the risks posed by climate change in environmental conservation and development projects. While OECD analyses suggest that opportunities for synergies exist, they will not necessarily be exploited on their own. Taking advantage of them requires careful assessment and collaboration between climate change specialists and those working in other areas.

The OECD is working closely with its Member countries, and increasingly with a large number of developing country governments, to support implementation of the Convention and prepare for the implementation of the Kyoto Protocol. To this aim, the OECD provides objective policy assessment and reviews experience, in order to enhance learning and policy performance over time. Some of our specific analytical work includes:

- ⇒ working towards improved information on climate change impacts to support decisions on long-term climate policies;
- ⇒ critically reviewing priorities for adaptation policies alongside growing evidence about climate impacts in the coming decades in specific regional and national contexts;
- ⇒ reviewing experience with different forms of mitigation policy – including tradable permits, tax reforms, voluntary agreements and regulations – to encourage cost-effective emission reductions and energy efficiency investments across emitting sectors;
- ⇒ assessing policy coherence and opportunities to integrate climate change objectives into other mainstream economic development and sector policy areas; and
- ⇒ expanding modelling work to assess the economic effects of alternative policies and, increasingly, to look at employment, distributional, and other impacts on the social dimension of sustainability.

The OECD will also continue to provide a forum for dialogue and the sharing of experiences and analysis, both amongst OECD countries and also between OECD and non-member countries.