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The OECD's First Inclusive Forum on Carbon Mitigation Approaches: This will need to be far more nimble and conceptually inclusive than the OECD's approach to date to have global impact

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Introduction

On 8 February 2023, Mathias Cormann, Secretary-General of the OECD, hosted the OECD's first Inclusive Forum on Carbon Mitigation Approaches (IFCMA). As its name indicates and as many readers will be familiar with due to their experience with the OECD's Inclusive Framework on BEPs, ICFMA aims to provide a 'safe space' for participants to engage in a 'multilateral dialogue' on 'evidence-based' carbon mitigation ideas and practices with the aim of allowing countries to adopt measures that are tailored to their needs and circumstances, and also leading to some level of international policy coherence and co-ordination.

The OECD's publicly stated plan going forward is to collect and then 'produce comprehensive and systematic data, information, and tools to analyse the effects of mitigation policies and policy packages on emissions.' In her video testimonial, Janet Yellen (US Treasury Secretary) called this a 'technological and methodological exercise'.

One recurring theme that heads of state and ministers of finance and Treasury of select countries, including Han Duck-soo (Prime Minister of South Korea), Fumio Kishida (Prime Minister of Japan), Sri Mulyani Indrawati (Minister of Finance, Indonesia) and Janet Yellen (US Treasury Secretary) emphasized in their video testimonials is that the climate crisis is urgent, not one that any single nation can solve alone, and collaboration and co-ordination of independent action will be crucial. Sri Mulyani Indrawati stated that successfully engaging with the private sector is key.

The participants comprised 104 countries and 9 international organisations, including the International Monetary Fund (IMF), United Nations (UN), United Nations Framework Convention on Climate Change (UNFCC), World Bank and World Trade Organisation (WTO).

Background and context: Situating the IFCMA in existing literature

The first forum follows the UN's Conference of Parties (COP 27) in Sharm el Sheik, Egypt, on 1 November 2022, and the release of several landmark publications by the Intergovernmental Panel on Climate Change (IPCC) and OECD in 2021 and 2022. Two of those publications are of particular note and are worth emphasizing.

The IPCC's Working Group III published its contribution to the Sixth Assessment Report (AR6) 'Climate Change 2021: Mitigation of Climate Change' in April 2022. That report was the third in a suite: the first report, 'Climate Change 2021: The Physical Science Basis' (6 August 2021) covered the current 'physical science' knowledge of 'the climate system and climate change', and the second report, 'Climate Change 2022: Impacts, Adaptation and Vulnerability' (27 February 2022) set out the impact of climate change on 'ecosystems, biodiversity and human communities' globally and regionally, the possibilities for adaptation and the 'vulnerabilities' or risks that the impact of climate change and inability to adapt pose. A fourth report, 'Synthesis Report: Climate Change 2023', is due to be released by the end of March 2023, and it will assess the content of the three reports outlined above, be written in layperson terms, and have content for policy-makers and a more general audience.

IPCC's 'Climate Change 2021: Mitigation of Climate Change' report

The third report, 'Climate Change 2021: Mitigation of Climate Change', was a groundbreaking contribution as it put forward a range of 'mitigation options that reduce emissions or remove greenhouse gases from the atmosphere' and aimed to 'assess', or prompt countries to determine, which option, or combination of options, would be required to meet their net zero 'pledges' (page v). This is important because, as the OECD noted when positioning the IFCMA, 'as of 30 January 2023, 133 countries around the world, representing 91% of global GDP and covering around 83% of global emissions, have adopted net-zero carbon emissions targets.'

The 'Climate Change 2021: Mitigation of Climate Change' report is also novel in the context of the suite of AR6 reports and the IPCC's historical reports as it focused 'for the first time on the social and demand-side aspects of climate mitigation'. It outlined the enormous potential that such measures can have on the modelled emissions trajectories and baseline scenarios (page v; Summary for Policymakers, C.8, C.10), and observed that there is now a vast array of mitigation options (solar, wind, electrification of urban systems, urban green infrastructure, energy efficiency), the capacity of which has rapidly improved recently due to innovation, and 'they are supported' and able to be deployed 'by the general public' (Summary for Policymakers, 44, E1.1.1). The report also argued that 'climate governance is most effective' when it cuts across 'multiple policy domains', operates at both national and sub-national levels, and is implemented by a diverse range of actors (Summary for Policymakers, 46, E.3). In brief, this report emphasized, for the first time, the power of co-ordinated disaggregation in addressing the challenge posed.

The report also made the case that 'regulatory and economic instruments' could both contribute to emissions reduction and also help achieve 'other objectives' including 'stimulat[ing] innovation' (Summary for Policymakers, 46, E.4). This aligns with academic literature which has argued for innovation policy which 'enhances' global environmental systems.

OECD's 'Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action'

The second noteworthy report is the OECD's 'Pricing Greenhouse Gas Emissions: Turning Climate Targets into Climate Action' which was published in November 2022. That report covered 'explicit carbon prices, energy taxes and subsidies that lower pre-tax energy prices' between 2018 and 2021, and covered 71 countries.

What are the gaps?

As both the IPCC's 'Climate Change 2021: Mitigation of Climate Change' and OECD's 'Pricing

Greenhouse Gas Emissions' reports noted, there has been a growth in measures to address the impacts of climate change since the IPCC's previous assessment report (AR5) (Mitigation Report, B.5) and carbon prices increased in 47 out of 71 countries (Pricing Greenhouse Gas Emissions, 7). The increases were observable due to: the expansion of explicit carbon pricing measures, such as in Canada, China and Germany; the increase in permit prices in New Zealand, Canada and the United Kingdom, and changes to carbon taxes (Pricing Greenhouse Gas Emissions, 7). There is a large body of literature which considers explicit pricing mechanisms. There is also another already sizeable but growing body of literature on carbon border taxes, with the contributions having different orientations, as demonstrated by two recent contributions: the first of which argues that such mechanisms should credit a broader range of domestic measures, including ones that have 'implicit price effects' ('effective CBAM') rather than being limited to only explicit carbon prices, and the second which argues for greater equity for developing countries.

One area which is underexplored in both the OECD's 'Pricing Greenhouse Gas Emissions' report and existing literature is the full range of implicit carbon pricing options that are available. As stated above, the OECD's 'Pricing Greenhouse Gas Emissions' report stretches to energy taxes and some subsidies. But it does not include more indirect measures, such as a nation using the domestic tax system coupled with other domestic regulatory measures, to incentivize particular behaviour to lower the costs of generating and using green and renewable technology, and so adjust both demand and supply side dynamics to reach a new point of equilibrium. The world-leading example of using such measures, in particular use of the domestic tax system to deliver incentives, in practice is the United States of America after US Congress passed the Inflation Reduction Act (IRA) on 12 August 2022. Broadly, the IRA uses the co-ordinated disaggregation approach that the IPCC advocated for in its 'Climate Change 2021: Mitigation of Climate Change' report. With President Biden's appointment of Lael Brainard as the director of the National Economic Council and Richard Revesz as the administrator of the Office of Information and Regulatory Affairs in late February 2023, it is expected that the complex range of measures in the IRA will now be rapidly implemented.

For nations that are not able to pass an explicit carbon price for political reasons, or where policy-makers have decided that that approach will not allow net zero pledges to be met sufficiently quickly, indirect and implicit measures, such as are features of the US' IRA, will be key. In the Asia and Oceania regions, nations without an explicit carbon price and which are often not well represented in Northern Hemisphere discussions on this topic, include India, Saudi Arabia, Turkey and Thailand (which all appear in the World Bank's richest 10 Asian countries by GDP for 2023), as well as Australia, Malaysia, Hong Kong and the Philippines. There are very limited examples in these regions of nations that are moving towards explicit carbon prices at this time despite the global momentum. Indonesia is an exception, with its plan to move to a wide-ranging cap and trade scheme in 2025; but other nations, such as Thailand and the Philippines, which are only considering emissions trading schemes, appear to be more circumspect (Pricing Greenhouse Gas Emissions, 50).

The IPCC's history of publishing comprehensive and valuable reports is to be applauded but, as a model for the OECD, that approach is slow, particularly given the urgent timeframe that nations are now working towards, i.e. net zero commitments to achieve by 2030 and 2050.

The OECD's 'Pricing Greenhouse Gas Emissions' report was valuable, but it is now out of date due to developments in the US and the lack of coverage of implicit carbon pricing. The IFCMA will need to be more nimble and inclusive to make information on the type and range of measures,

such as are contained in the US' IRA, available to other participants, particularly those who do not currently have explicit carbon pricing. This should be a distinct focus going forward. This is a much more difficult and conceptually messier exercise, but it is extremely important. It will also require involvement of those with deep knowledge and expertise in domestic tax systems and relevant regulations.

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