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***Business at OECD (BIAC) comments on the paper
“Identifying and tracking climate change mitigation
strategies: A cluster-based assessment.”***

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Business at OECD (BIAC) comments on the paper “Identifying and tracking climate change mitigation strategies: A cluster-based assessment (ECO_CPE_WP1_2023_14)” (WP 1, October 23)

- The paper is an interesting and useful first cut in identifying different types and stages of climate policies in the OECD countries. The central results are plausible and well argued. The clustering exercise allows to study in more depth the impact of stringency in countries and key sectors on carbon mitigation and the public policy choices when moving from modest to ambitious policies (i.e. up from cluster 1 to 4). Moreover, the point is well taken that a multi-pronged approach to mitigation is usually appropriate, as different hurdles to mitigation have to be overcome. The grouping of policy instruments discussed in the paper is plausible yet incomplete.
- However, it is worth reiterating para 3 of the paper that the choice of instruments needs to be well designed and comparatively cost-effective. It is well known that particularly in the field of transportation or housing first-choice instruments are often not applied (such as strict carbon pricing) whereas second- or third-best instruments are widely used, with potentially high implicit carbon avoidance costs to companies and households (as final users). Also, in manufacturing, several overlapping instruments are used, in particular in cluster 3 and 4 countries which needs consideration; i.e. an overlap of pricing and non-market based standards. We are aware that there are other workstreams looking at policy instrumentation, though it needs to be taken into account that with increasing stringency there might also be the risk of an increasing over-lap of policies or, reverse, contradictions of instruments which may lead to inappropriate results (either too soft or too hard). Perhaps, going forward it would be an option to check, whether the use of instruments in key areas is also consistent with cost-effective mitigation policy requirements. There are some hints in the paper on the relationship of carbon pricing and feed-in tariff subsidies but there are other areas in which pricing tools, standards and other instruments are applied to the same mitigation area in no particularly coherent manner.
- In some specific areas additional research seems warranted, though. As to improve on parts of the paper it would be useful to broaden the range of policies that are taken into account. In the paper, agriculture is mentioned. Other examples include climate-targeted direct subsidies to manufacturing firms investing into decarbonization, through dedicated programmes at the national level, f.e. on steel, through various instruments such as carbon contracts for difference, other state-aid schemes, preferential public procurement, or financial support (promotional policy on equity or lending in such firms), and others. Also, several horizontal policies such as those targeting the expansion of the electricity grid or gas/hydrogen-ready pipelines, the production or use of hydrogen itself in the corporate sector (partly in the private household sector) or other types of targeted policies might be considered. Public investment in revamping infrastructure with the view of decarbonizing certain parts might be considered as well. There are a

number of policies affecting housing (in particular energy consumption for heating purposes) that might be integrated into the analysis if data are available. Also, one might check whether the hodge-podge of policies emerging on the promotion of clean tech, in particular in the US (IRA) and the EU (NZIA), should be part of the exercise.

- A specific consideration should be given to the rise of outright bans in cluster 4 strategies. When shifting from Cluster 3 to 4, such policies become much more prevalent while carbon pricing does not increase concomitantly, as shown in the paper. Standards become more relevant, though. Outright bans on coals or ICEs might require complex complementary policies, whether on regional development or new value chains and required raw materials, production processes and respective energy needs. It would be nice to have more evidence and an extra paragraph on what is included here and why the set of instruments of the first- and second-best nature were not applied to the case at hand, presuming that prohibitions and bans are a corner solution in mitigation strategies that might be required if, and only if, all other options are exhausted or not working effectively. It is not self-evident that policy processes exhibit this degree of self-restraint in those instances.
- Last, when moving up the ladder of cluster strategies in general or in particular sectors, issues of international consistency become more relevant, in particular if tradable goods and emission-intensive services (transport and ICT) are involved. As is well known, carbon leakage may occur in those instances, even among OECD countries with low or high policies on mitigation in place. This is an issue that may warrant a deeper thought, including a check on policies in place targeting this effort. Perhaps, it would make sense to check if there is need for a more transparent analysis of instruments that are specifically designed to take care of second-order effects of stringent mitigation strategies. Examples that come to mind are free allocations of emission rights in the ETS for certain sector, the CBAM of the EU and other instruments of similar nature. Plausibly, these instruments may gain a certain traction more likely in Cluster 3 or 4 countries as stringent mitigation policies need to be in place first.



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