Key Messages on
Building Back Better:
Designing and Implementing Sustainable and Inclusive Recovery Plans
March 2021

Green Recovery Plans

Business at OECD (BIAC) and its members urge governments to establish economic stimulus measures that help restart our businesses and sectors, especially where these have been hit hardest. Such measures should safeguard economic growth, jobs and incomes, and yield "double dividends" towards the achievement of important long-term environmental objectives where possible, particularly addressing climate change risk and a just transition, increasing resource efficiency, ensuring energy security and preventing biodiversity loss.

In the context of the most severe economic recession in almost a century, it should be an immediate priority for OECD governments to safeguard business liquidity, solvency and continuity, and not impose additional burden on business or consumers. As part of a holistic 'green recovery' package, governments should enact necessary fiscal policies to stimulate demand accompanied by structural reforms. As *Business at OECD* has highlighted[1], these should particularly include the following priorities:

- Existing burdens from taxes and regulations, including unnecessary tariff and non-tariff barriers, that prevent investment in and diffusion of environmental innovations should be scrutinized and eliminated.

- Incentivizing the development and deployment of environmental innovation, governments should provide support for general-purpose technologies and a diverse portfolio of technologies with environmental benefits.

- Investment in low-emission, energy-efficient and climate-resilient infrastructure should be encouraged in various sectors including energy2, water, telecommunications and transport, and particularly those sectors that have suffered from chronic underinvestment in OECD countries over the past decades.

- Competitive distortions from support measures should be minimized by ensuring such measures are designed in a transparent, targeted, temporary and non-discriminatory manner consistent with WTO rules.

- Public procurement should be a major driver for the scalability of environmentally-friendly products and services where possible, while ensuring that necessary public goods and services can be delivered in a timely and efficient manner without decreasing quality attributes.

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[1] *Business at OECD* Making a Green Recovery Work for Jobs, Income and Growth.
[2] Policies to increase the use of renewable energy such as hydro, solar, wind, hydrogen and others should be considered in particular.

- Encouraging sustainable finance through enabling frameworks, well-designed3 definitions and flexible taxonomies that are responsive and reflective of innovation should help foster transparency, long-termism and spur sustainable growth.

- Ensuring the workforce is prepared with the new skills profiles needed by employers should be a focus area for governments, with education and training aligned with the new in-demand jobs of a green sustainable recovery.

Preliminary Reflections on Carbon Pricing

As carbon pricing as a tool towards climate change mitigation gains attention in this debate[4], we emphasize that related policies harbor both risks as well as opportunities, which is why comprehensive analysis of their effects on our economies and societies must be carried out before taking any steps. Especially in the context of socio-economic impacts of the pandemic crisis, a clear assessment is needed of impacts on employers, business and consumers endeavoring to rebuild from the current economic downturn. Quick shots are to be avoided.

In principle, OECD governments should promote policies, which are holistic, market-oriented and foster international competition. By pricing the negative effects of emissions, well-designed carbon pricing frameworks aim to deliver the needed economic signal to agents across the value chain to decarbonize in a cost-efficient way, while ensuring a level playing field. To this end, the establishment of a coherent pricing system should be considered a long-term objective, while recognizing countries' unique economic, environment and energy circumstances.

More international co-operation on carbon pricing is needed going forward. As complementary trade measures are being considered to rebalance competitive disadvantages against third parties and address carbon leakage, the compliance with WTO rules of any such measures must be safeguarded. Given the collapse of global trade and investment caused by the spread of Covid-19, any initiatives in this regard must not risk further aggravating this situation.

Further, to ensure effective policy making, a comprehensive systems thinking approach is indispensable. To avoid double regulations, risks of overlapping economic incentive tools should be addressed, particularly when market mechanisms, such as the ETS, and energy taxation based on carbon footprint are combined to achieve the same goal[5].

Sector-specific framework conditions for pricing carbon – including price-sensitivities, willingness-to-pay, avoidance costs and risks of carbon leakage – vary significantly and require targeted approaches. With changing framework conditions, a step-by-step convergence of sectors and systems might be explored over time.

[3] *Business at OECD* Key Messages on Efforts to Develop Sustainable Finance Definitions and Taxonomies

[4] https://www.theguardian.com/business/2021/feb/17/oecd-chief-angel-gurria-environment-covid-price-carbon

[5] Amongst others, market mechanisms such as the ETS have the advantage of guaranteeing technological neutrality, but may often have high implementation costs. Taxation may have the advantage of simplicity of application, but present challenges in terms of the quantifying the carbon content of products coming from the various geopolitical areas of production. Furthermore, with environmental taxation based on carbon footprint, there is are inherent difficulties with determining the value of one ton of CO2.

In order to mitigate risks of economic counterincentives and social upheaval that may eventually impede climate ambitions, any steps related to carbon pricing should be announced early on to ensure that consumers can adjust to price signals without immediately depriving them of purchasing power. Consideration should be given to using carbon pricing revenues to further incentivize the development and deployment of decarbonisatoin measures, and counterbalance negative effects.

Given the magnitude of the climate challenge, carbon pricing in isolation is not an instrument that can mobilize sufficiently all investments needed to support low-emissions pathways, and other complementary investment-promoting instruments[6] and enabling frameworks need to be employed. An investment offensive needs attractive funding, appropriate risk-sharing and smart pricing that complement each other to step up deployment of climate-technologies to the market.

The governance of designing and implementing recovery plans

As the effectiveness and cost-efficiency of any recovery policy should be safeguarded, it is now more important than ever for the OECD to further its unique role at the international level, as a platform for holistic policy dialogue based on facts, quantifications and evidence.

As a coherent systems thinking approach is needed, the Organization should work across Committees to foster the dissemination of best-fit policies for a sustainable green recovery and continue to closely liaise with autonomous bodies within the OECD framework, particularly the International Energy Agency.

The OECD's constitutional advisory bodies, and other stakeholders as suitable, should be closely consulted. The business community stands ready to closely collaborate with OECD and government to design and implement policy responses to the Covid-19 pandemic that leverage growth and sustainable development.

In this regard, Business at OECD and its constituents are most appreciative of this opportunity to contribute to this meeting of the OECD Global Strategy Group.

[6] Encouraging the voluntary disclosure of carbon footprint should be given due consideration where practical as an important FDI quality indicator and ESG factor to align investments with the Paris Agreement goals.