



# Governments need to prioritize building climate and economic resilience

With current levels of global warming, scientists warn that some catastrophic climate systems “tipping points” are already dangerously close to being triggered. Governments and society must act fast to reduce emissions and adapt to already “baked in” climate impacts. Climate policies need to go beyond the sole aim to reduce emissions, and must also aim to be cost-effective, fair and equitable, politically tenable, compatible with health, social and fiscal policy and aligned with foreign policy concerns.

## Climate-related challenges

The COVID-19 pandemic has demonstrated the climate-related opportunities a crisis can bring, such as immense economic recovery spending and capacity for dramatic societal transformations within short time periods as witnessed during COVID-19 lockdowns and through energy-saving behavior during the recent energy crisis. They also bring climate-related challenges to light - misaligned recovery spending, locked-in fossil fuel use, and the disruptive effects of geopolitical tensions. The immense scale and speed of the transformation necessary to reach net zero will have profound implications on public revenues, economic structures and labor markets. If left unaddressed, these aspects could undermine and even derail climate policy ambition. In addition, potential future disruptions, such as the rapidly increasing use and capabilities of artificial intelligence, must be considered in the development of climate policies.

## Building climate and economic resilience

The OECD’s flagship initiative “Building Climate and Economic Resilience: Net Zero+” outlines a series of recommendations for a resilient transition to net-zero emissions while building resilience to the impacts of climate change itself. The initiative collates climate-relevant findings from across the OECD’s multidisciplinary expertise - for example on environment, economic and tax policy, financial and fiscal affairs, development, science and technology, and employment and social affairs - to provide cohesive recommendations for making the transition to net zero emissions resilient, and as well as building resilience to the impacts of climate change.

Drawing on a wide range of policy expertise across the OECD, in its first phase, the Net Zero+ initiative collated insights to develop concrete actions for governments to build climate and economic resilience:

Focus policy making on a systems level rather than individual components or outcomes. Systemic resilience implies anticipating future shocks, building buffers to absorb initial impacts, and ensuring that resources are available to invest in recovery efforts.

Do everything possible to limit global warming to 1.5°C with no overshoot. Faster reductions are essential and the shape of the pathway matters.

Ensure that crisis relief and economic stimulus spending are aligned with climate goals and sufficiently targeted. The massive amounts spent on crisis relief and economic recovery over the past few years was an opportunity to accelerate climate action, but more could have been done. We must do better to seize the climate-related opportunities that may come with future disruptions.

Get climate policy basics right, tailoring a mix of price-based and other instruments to regional, national and local circumstances, and greening of public governance. Resilient climate policies must be effective and appropriate to their context.

Mainstream climate change adaptation throughout national policy processes. Exploit synergies between mitigation and adaptation policy objectives while minimizing trade-offs. It’s time to get serious about mainstreaming adaptation into core policy thinking. Climate mitigation and adaptation actions should be leveraged in ways that simultaneously support both sets of policy objectives, for example through nature-based solutions.

Use strategic foresight and anticipating transition bottlenecks. Some obstacles are already clear - such as the cost of capital, critical materials supply, and re- and up-skilling needed for the transition. Foresight processes can tease out other bottlenecks and possible future disruptions and develop forward-looking strategies to deal with them.

The OECD’s modeling of the public finance implications of the net-zero transition shows widely heterogeneous effects across countries and time periods. Address the public finance implications of the net-zero transition through careful fiscal planning, assessing direct and indirect effects of policies, and climate-aligned tax instruments. Existing taxes on fossil fuels generate significant governments revenues. Reaching net zero means these and others will be lost as economic structures shift.



Innovation is essential to bring down the costs of emissions reductions and to reach hard-to-abate sectors. Accelerate innovation through a mission-oriented, outcome-based approach. Target support measures for early-stage innovation and research and development.

To ensure that the net-zero transition is publicly supported, governments must clearly communicate not only why policies are needed, but how they will be implemented and what impacts they may have on households. Carefully assess direct and indirect distributional impacts of climate policy. Communicate clear, accurate and easily accessible information to the public about how policies work. Managing the economic effects of climate policies on people is essential.

Better align financial system policies with climate mitigation and adaptation goals, including improved market practices, alignment of core investment policies, use of responsible business conduct tools, and harnessing the double role of the insurance sector as investor and insurance provider. Reaching net zero will require vast amounts of investment. There will be numerous economic opportunities, but financial markets and the private sector cannot rely on public spending to unlock these.

Their needs and perspectives must be given equal consideration. Recognize the interlink ages between climate and development transitions, drawing on all levels of development co-operation to converge on a global approach that aligns development and climate objectives. Developing countries are both the source of most future emissions and the most exposed to future impacts of climate change.

The net-zero transition will cause some jobs to be lost, but new jobs will emerge. Ensure reasonable labor market flexibility and mobility while promoting job quality and protecting workers. Identify skills needs and bottlenecks and prioritize up- or re-skilling. Helping workers shift between sectors, and ensuring they have the skills needed, is integral to an effective, fair and equitable transition.

However, recent global crises, and those to come, are an opportunity for governments to prioritize building climate and economic resilience - one that should not be missed ■

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*(Source: OECD Environment)*

Climate change impacts the rights to life, health, food, water, culture and to a clean, healthy and sustainable environment of present and future generations. Marginalized communities and Indigenous peoples are bearing the brunt of climate harm today, and this will only worsen with an increase in greenhouse gas emissions from the burning of more fossil fuels.

So, the time has come to reach a Climate Deal that will only be accessible to companies that decarbonize. Those that fail to decarbonize will not meet the standards required by the Climate Deal and the energy sector of the future. From oil to hydrogen, gas to biofuels, coal to nuclear, solar to wind, and buildings to transport, only companies that make clear commitments to decarbonization should benefit from regulatory incentives, financing, fiscal support for innovation, and beyond. This issue needs to be discussed and decided at the 28<sup>th</sup> UN Climate Change Conference (COP 28) in Dubai (UAE) from 30<sup>th</sup> November until 12<sup>th</sup> December 2023.

### **The world will continue relying on oil and gas production for decades to come**

The International Energy Agency (IEA) recently reported that by 2025, renewables will fuel 35% of global electricity generation, dethroning coal as the world's largest power source. In the US, solar power alone will account for over half of the new capacity in 2023. According to a major study published last year by the University of Exeter's Global Systems Institute, the world may have already passed a "global solar tipping point", where "solar energy gradually comes to dominate global electricity markets, even without additional climate policies".

At current exponential growth rates, solar, wind and batteries will supply over 80% of global electricity by the 2060s. Though impressive, the Intergovernmental Panel on Climate Change (IPCC) says this is not fast enough.

According to US Climate Envoy John Kerry, in 2018, the IPCC found that to keep global warming within the 1.5 degrees Celsius safe limit agreed upon by world governments in Paris eight years ago, we need to not only eliminate carbon emissions but start removing 5 billion tons a year of carbon dioxide from the atmosphere by 2050. So, while we need to accelerate the build-out of renewables faster than the current rate, with fossil fuels supplying about 78% of the world's energy needs and we'll continue relying on oil and gas production for decades to come. Therefore, it's imperative that fossil fuel industries adapt to the demands of decarbonization.

But for COP28 to deliver a new Global Climate Deal that incentivizes and compels the fossil fuel industry to decarbonize will require three things: