Asia-Pacific
Economic Cooperation

2024/FDM1/007
Session 4.1

OECD Work on Carbon Pricing

Purpose: Information
Submitted by: OECD

APEC PERU 2024

Finance and Central Bank Deputies' Meeting
Arequipa, Peru
23-24 February 2024

2024 APEC FINANCE AND CENTRAL BANK DEPUTIES' MEETING

OECD work on Carbon Pricing

23 February 2024

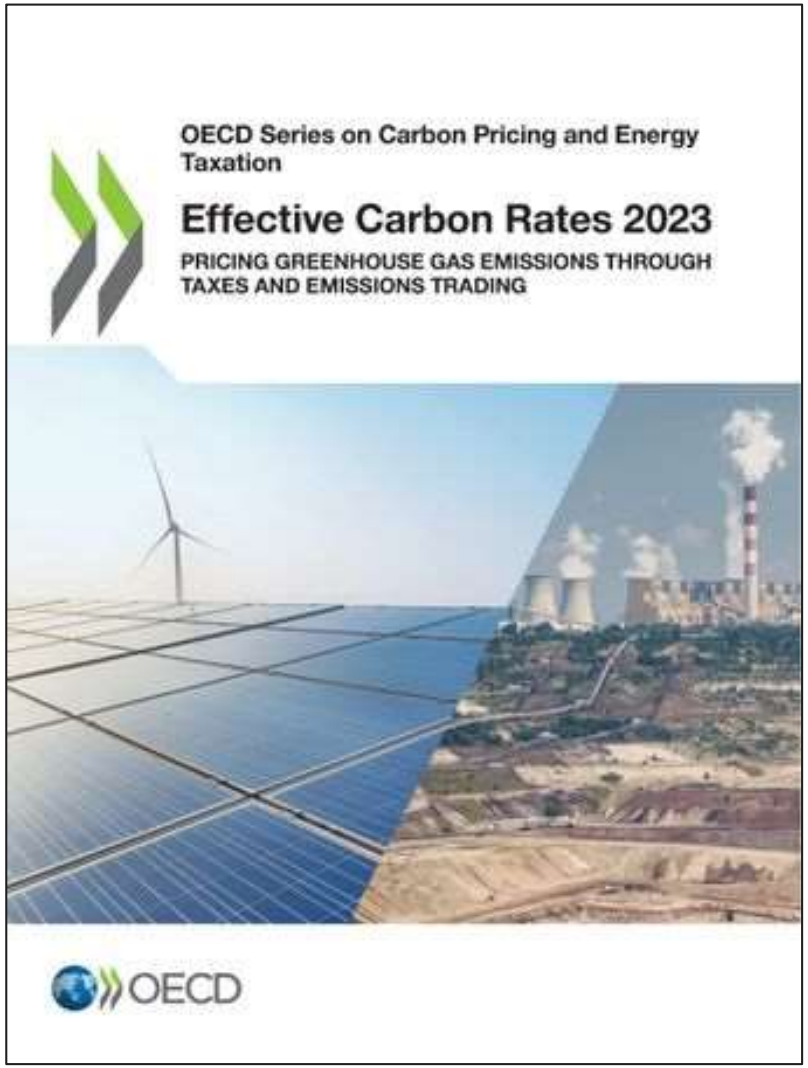
Flore-Anne Messy

Deputy Finance, OECD

OECD Effective Carbon Rates – a broad view of carbon pricing

OECD work on Carbon Pricing and Energy Taxation

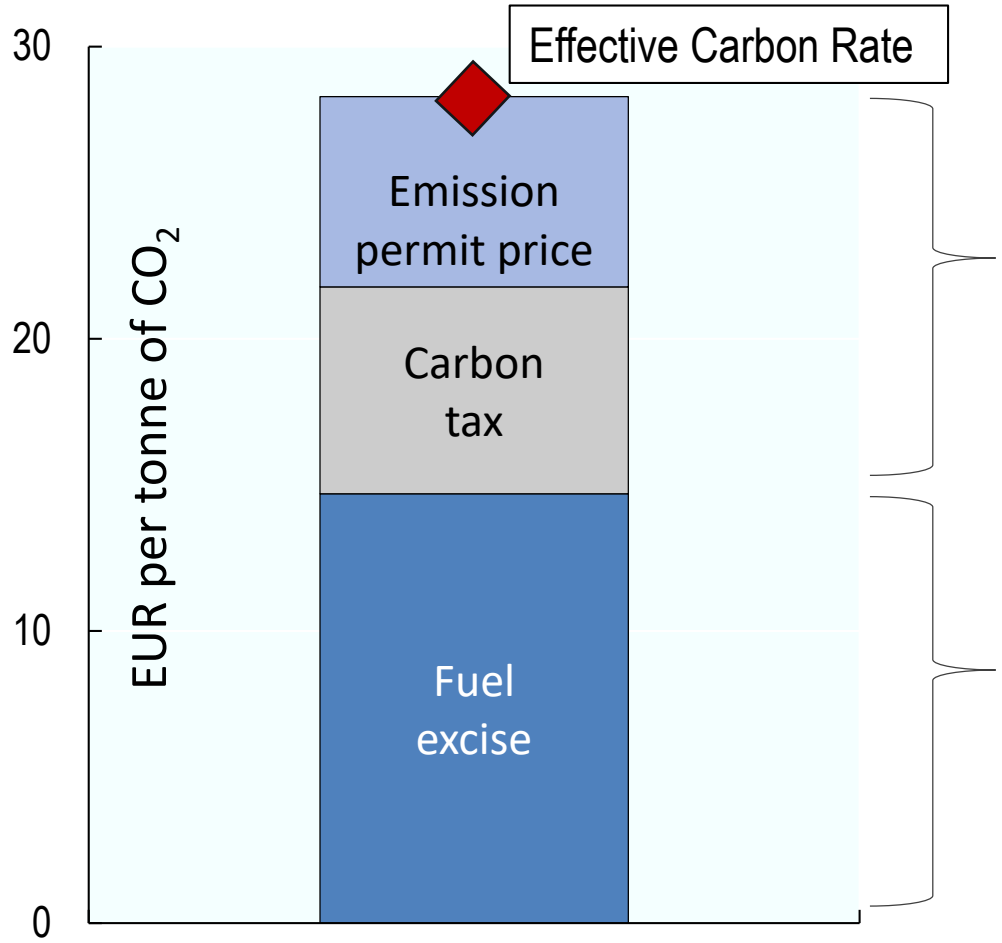
- *OECD Effective Carbon Rates measures* **carbon prices on greenhouse gas emissions**
  - More than 70 economies, approximately 80% of global greenhouse gas (GHG) emissions
  - Carbon prices resulting from
    - **carbon taxes and emissions trading systems** – *explicit* carbon pricing
    - **fuel excise taxes** – *implicit* carbon pricing
- *Most recent edition: OECD Effective Carbon Rates 2023* – 2021 prices across 72 economies



Effective Carbon Rates 2023 – Main Findings

- In 2021, 58% of the approximately 40 billion tonnes of GHG emissions were unpriced in the 72 economies covered in this report, with significant variation of coverage, prices and pricing instruments across sectors and economies.
  - About 16% of GHG emissions were priced at EUR 30 per tonne of CO2 or more, and 7% above EUR 60 per tonne of CO2.
  - The share of GHG emissions covered by carbon pricing varies across sectors, ranging from only about 4% of other GHG emissions being priced to around 93% of emissions priced in the road transport sector.
  - Carbon price signals mainly arise from fuel excise taxes, which cover more emissions and have higher rates than the two explicit carbon pricing instruments (carbon taxes and emissions trading systems).

The OECD Effective Carbon Rates (ECR)

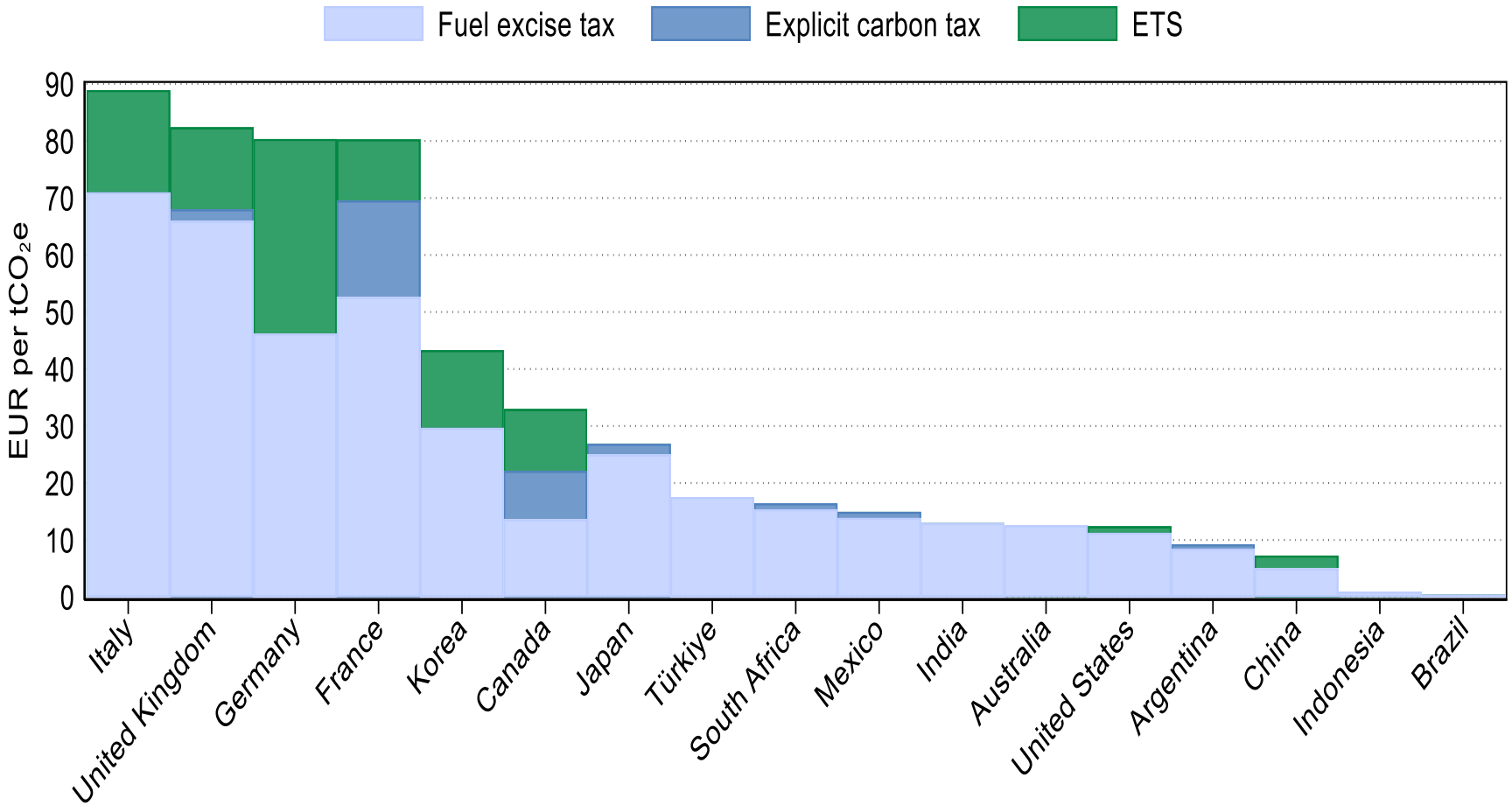


Database provides a breakdown of emissions and corresponding effective carbon rates for each economy by sector, subsector and fuel.

ETSs contribute significantly to carbon prices in a small number of economies with the highest ECRs

Average Effective Carbon Rates by economy, 2021

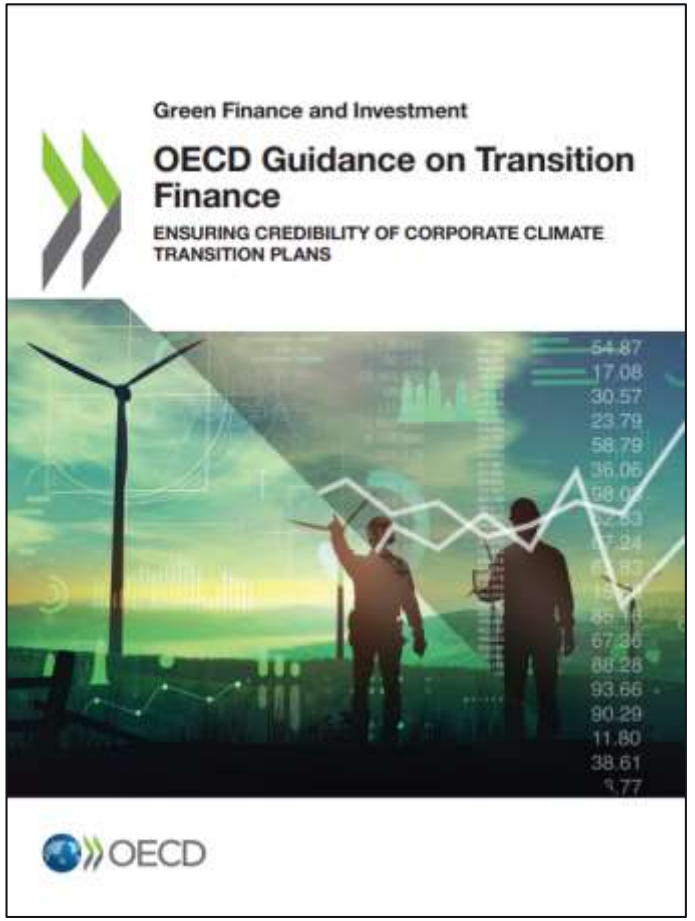
In selected G20 economies



Other relevant policy topics for sustainable finance

OECD Guidance on Transition Finance

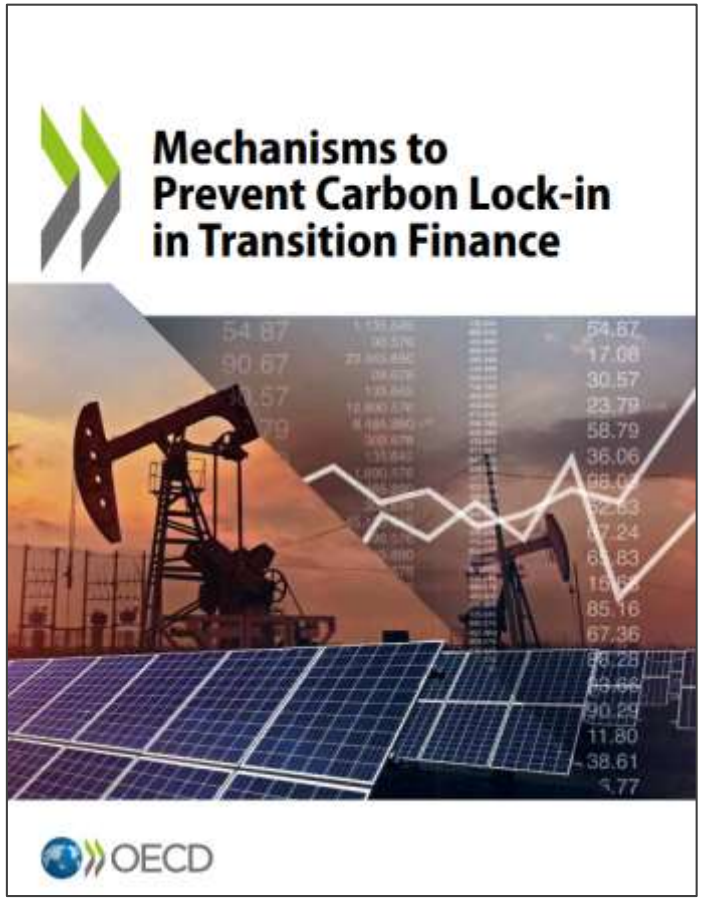
- The **2022 OECD Guidance on Transition Finance**:
  - Sets out concrete recommendations on 10 key elements of **credible corporate climate transition plans**;
  - Provides a comprehensive **overview of existing transition finance approaches**, identifying the **main challenges and solutions**;
  - Emphasises the need for greater **transparency**, **comparability and granularity** in corporate transition plans, and for **adequate environmental and social safeguards**;
  - Highlights the need for policymakers to take **stronger policy action on corporate transition planning**.



For more information, visit:
oe.cd/guidance-on-transition-finance

Mechanisms to prevent carbon lock-in in transition finance

- **Key findings**:
  - Existing approaches and policy frameworks for transition finance largely do not set **clear criteria or guidance** on how to prevent carbon lock-in.
  - Transition finance definitions can be strengthened by **taking a long-term approach in the assessment of feasibility**, which affects investment eligibility and carbon lock-in.
  - For assets where a fuel switch is needed to achieve alignment with the Paris temperature goal, **sunset clauses** and **flanking measures**, ensuring that the switch happens in a timely manner, can contribute to preventing carbon lock-in.
  - The development of **standards and policy frameworks for sustainability-linked instruments** is necessary to address emerging structural loopholes.



For more information, visit:
oe.cd/mechanisms-to-prevent-lock-in

The G20/OECD Principles of Corporate Governance

- **International standard for corporate governance**. Endorsed by G20 and FSB.

- New chapter VI of the G20/OECD Principles of Corporate Governance:
  - **Disclosure**
    - Concept of materiality.
    - **Internationally recognised standards** that facilitate comparability.
    - **Reliable metrics** if a company publicly sets a sustainability-related goal or target.
    - **External assurance** of sustainability-related disclosure.
  - **Board responsibilities**
    - **Consideration of sustainability** risks and opportunities.
  - **Shareholders and stakeholders**
    - **Dialogue** in companies' important decisions on sustainability.

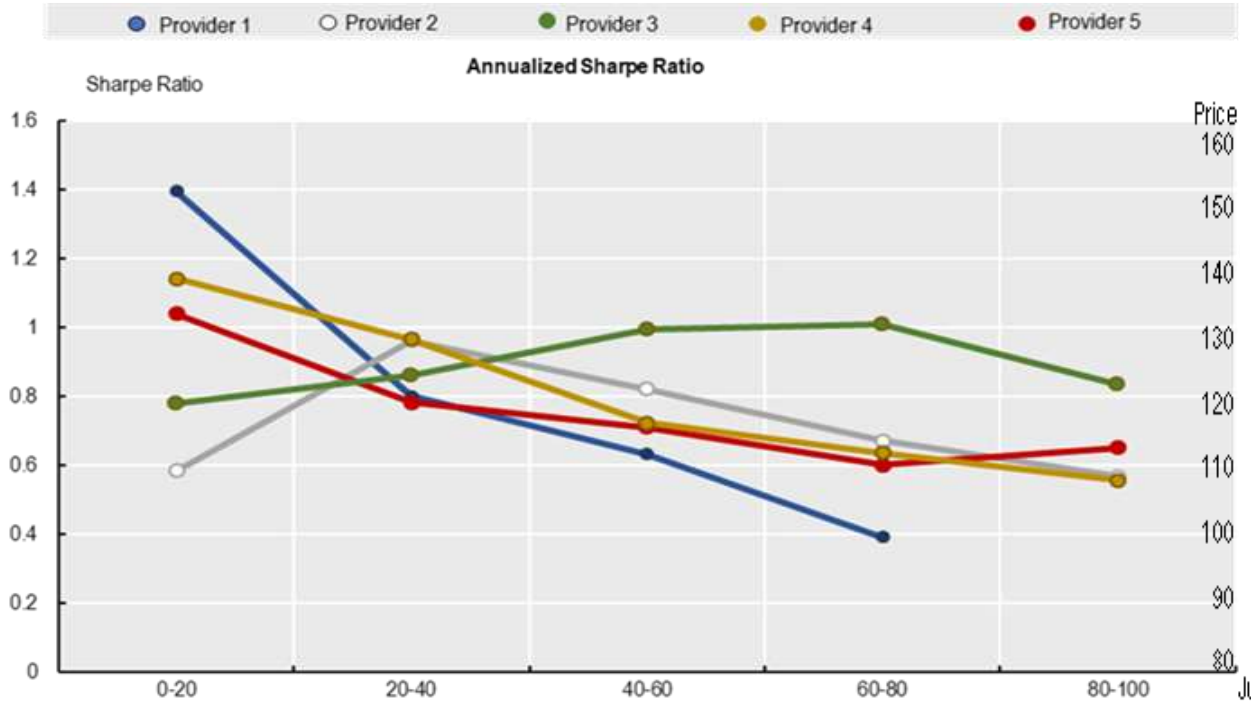
OECD research on ESG metrics and ratings

- Developed against the backdrop of **rapidly evolving ESG rating methodologies** and rating products.
- Developing a **mapping and classification of ESG metrics** to shed light on availability, consistency, and credibility of metric types across 9 major ESG rating providers.
- Deliverable under the **G20 SFWG Roadmap**.
- **Preliminary findings** show:
  1. ESG metrics seem to focus on efforts, not on effects.
  2. ESG rating products differ substantially in topic coverage as blind spots remain.
  3. ESG metrics do not measure what is most meaningful, but what is most convenient.

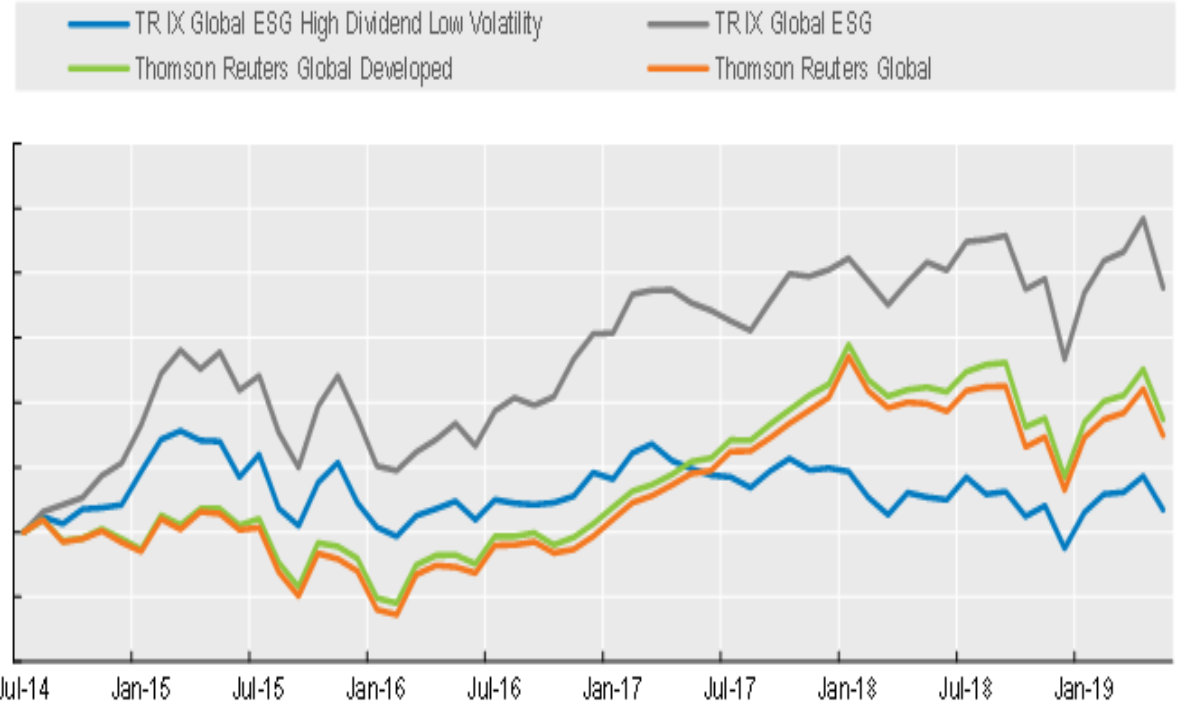
ESG performance by portfolio and fund returns is mixed

- Investment returns: Sharpe ratio of ESG-tilted portfolios and sustainability-rated investment funds suggest that high ESG collective investments did not perform consistently better than low ESG-rated firms

Sharpe ratios of portfolios by ESG scores (World, 2009-19)



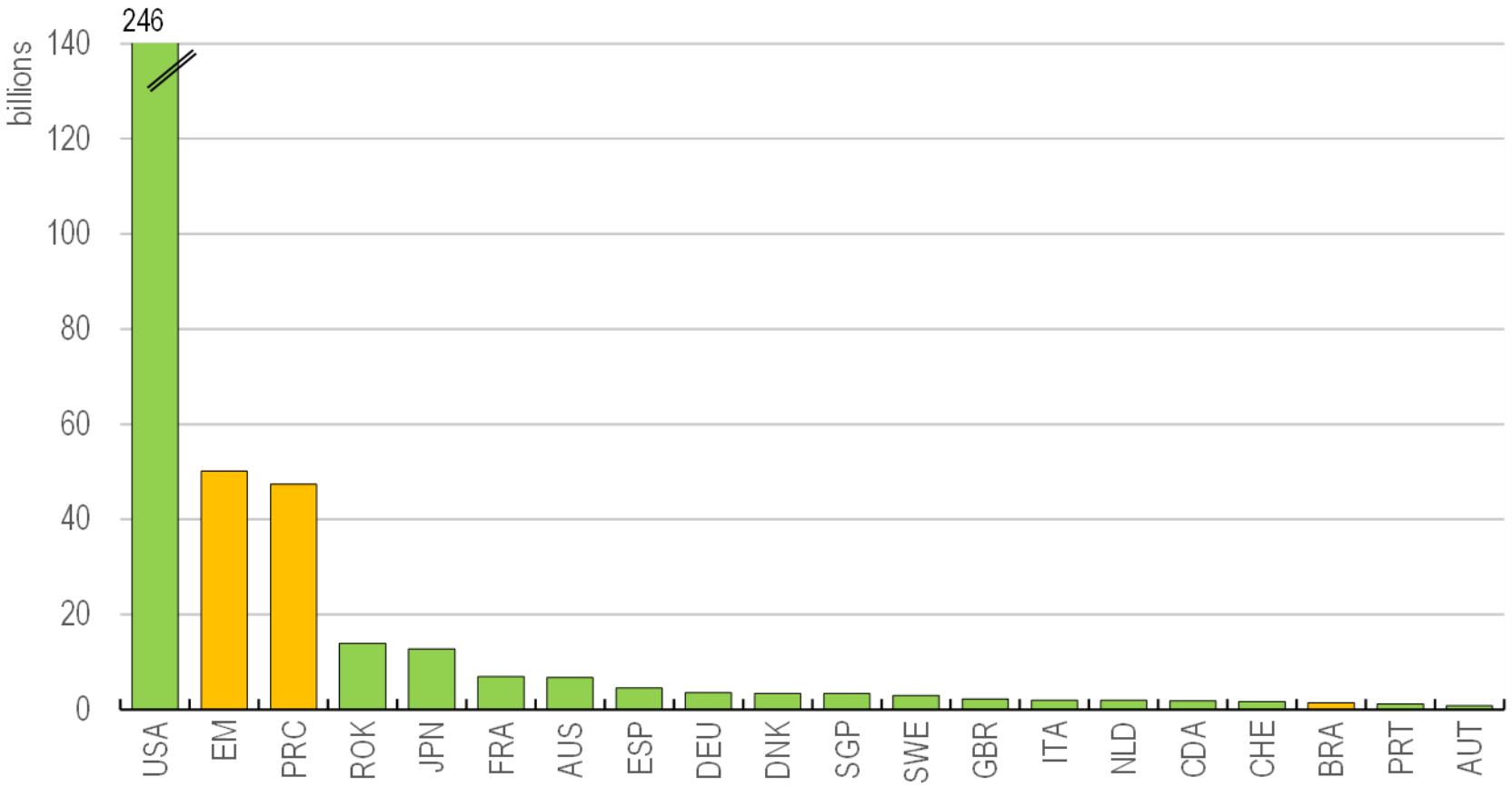
Minimum variance frontier and price index, base 100 (2014-2019)



Source: Bloomberg, Fama and French, MSCI, Refinitiv, OECD calculations

Challenges for EMDEs in attracting green investment flows

Market value of specialised green funds' positions in green companies* (bln USD) (2023Q1)



Note: Sample of 14000 "green" securities held by 1600 "green" funds.
Source: Morningstar, OECD calculations.

* Green companies are defined as companies with revenues in key sectors involved in climate transition, including renewable energy, transport, buildings, and energy efficiency

- There is significant potential for EMs to attract green investment, at a time when sustainable investing is booming.
- The US still accounts for the bulk of green investments, followed by PRC. Other EMs lag behind.
- Structural factors act as barriers to the greater allocation of green investment flows to EMs: e.g. institutional investors and indices are biased toward large listed companies.

Which economy characteristics can attract investment to green assets?

ABSENCE OF CONTROLS ON PORTFOLIO INFLOWS

OPENNESS AND ECONOMIC FREEDOM

SHARE OF RENEWABLE ENERGY GENERATION

SIZE OF RENEWABLE EXPORTS

Considered standard drivers of investment

Source: Morningstar, OECD calculations

International public climate finance needs to be reoriented to more effectively crowd-in private finance

CHALLENGE: public finance is not adequately geared towards private finance mobilisation:

- public finance does not reflect rapidly-shifting commercial dynamics of climate investments (e.g. reduced need for support for clean energy)
- enabling conditions for investment remain weak in many developing economies
- availability of bankable project pipelines is limited
- the international development architecture largely remains geared towards traditional modes of support

This requires a major reorientation of public finance:

1. Private finance mobilisation through blended finance - designed to crowd-in commercial investment - needs to be ramped up and become a central feature of development finance

2. Donors need to use their finance to create a bridge between the huge stocks of global capital and projects in developing markets, for example through project aggregation and securitization

3. **The multilateral architecture needs to be reimagined so that private finance mobilisation is a core objective, for example renewed MBD mandates**

Thank you!

Find out more about our work at:

https://www.oecd.org/daf/

@OECD_BizFin

Flore-Anne.Messy@oecd.org