

## Effective policy: The driver of results

### THE PARIS PUZZLE Effective Policy

This document is one piece of the Paris Puzzle – a series of papers intended to address what we see as key components of efforts to address climate change, and demonstrate our commitment to meeting the challenge. Find the other pieces at [www.ipieca.org](http://www.ipieca.org)



IPIECA supports and encourages the international community's efforts to address the risks of climate change and believes the oil and gas industry has a pivotal role to play. Managing these risks will require the participation of governments, the private sector, civil society and individuals in developing socially responsible, sustainable global policies.

#### EFFECTIVE CLIMATE POLICY

Effective climate policy would have the long-term objective of reducing the risk of serious climate change impacts to society and ecosystems, while recognizing that abundant, reliable and affordable energy is required to meet the needs of the world's growing population. Economic modelling and practical experience with clean air policies have shown that effective climate policies are those that:

1. Are science-based
2. Encourage global participation
3. Let markets drive the selection of solutions, while supporting the development of pre-commercial low carbon technologies
4. Recognize the long-term nature of addressing the risks of climate change

5. Provide long-term signals and market certainty
6. Are transparent to all stakeholders, while minimizing complexity and administrative costs
7. Address both mitigation and adaptation measures

#### MARKET MECHANISMS

Where governments choose to enact policy to address the risks of climate change, economic studies have found revenue-neutral market-based mechanisms, including carbon pricing, under the right circumstances, are more economically efficient than industry-specific regulation, technology mandates or performance standards<sup>1</sup>. For example, a Massachusetts Institute of Technology report, *Expectations for a New Climate Agreement*,<sup>2</sup> identifies a cost advantage to using a price mechanism vs. policies and measures; the average cost per tonne of CO<sub>2</sub>-equivalent reduced is lower for a price-based instrument than policies and measures in all four areas assessed (Australia-New Zealand, Canada, the EU and Mexico).

#### KEY MESSAGES

- IPIECA supports and encourages the international community's efforts to address the risks of climate change and believes the oil and gas industry has an essential part to play in meeting policy objectives.
- The long-term objective of climate policy should be to reduce the risk of serious impact to society and ecosystems, while recognizing the importance of abundant, reliable and accessible energy for the world's growing population.
- Effective policies to manage the risks of climate change will be those that are science-based, extend globally, are market-driven and provide policy certainty but flexibility as understanding develops.

#### Footnotes

<sup>1</sup> Aldy, J. E. and Stavins, R. N. (2011) *Using the Market to Address Climate Change: Insights from Theory and Experience*. NBER Working Paper No. 17488. Available at: <http://bit.ly/1EaG96r>

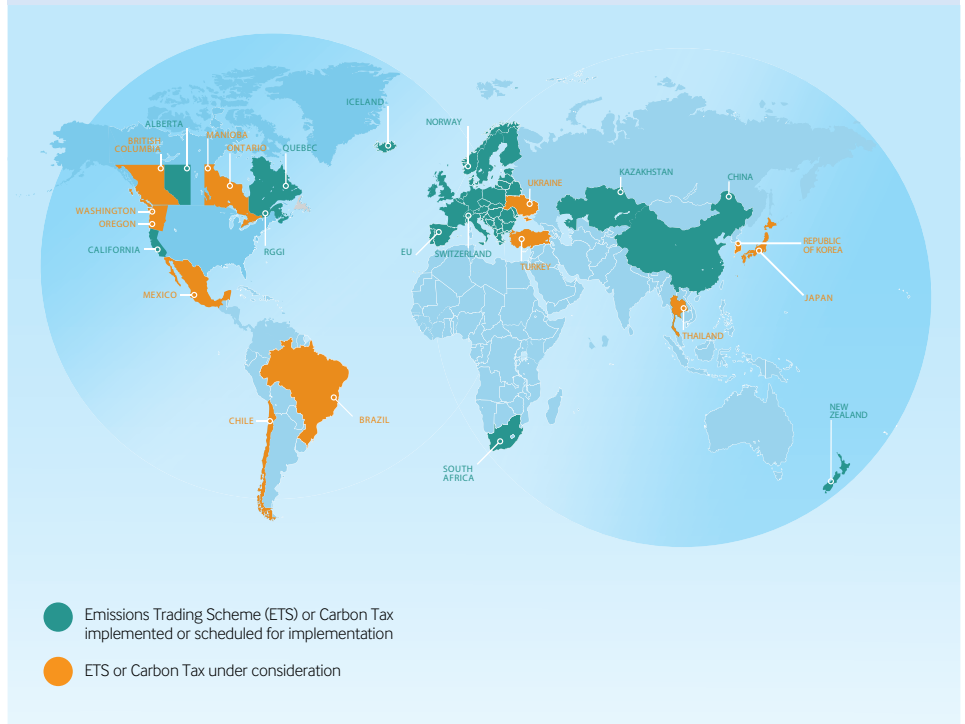
<sup>2</sup> Jacoby, H. D. and Chen, Y. -H. H. (2014) *Expectations for a New Climate Agreement*. MIT Joint Program on the Science and Policy of Global Change. Report Number: 264. Available at <http://bit.ly/1kEeaEH>

**WHAT ARE MARKET-BASED MECHANISMS?**

Market-based mechanisms are policy instruments that use markets, price and other economic variables to incentivise the reduction of negative environmental externalities, such as pollution. Examples include:

- Environmental taxes – create a tax for each unit of consumption or pollution. For example, a carbon tax on each tonne of CO<sub>2</sub> emitted.
- Emissions trading / tradable permit systems – create a market for emissions permits, which can be allocated or generated by emission reductions activity. Organizations are then free to buy and sell the permits in order to balance their individual quotas.

MARKET MECHANISMS AROUND THE WORLD



“THE POWER OF PARTNERSHIPS IS SOMETHING THAT I THINK WE CAN PROUDLY LOOK BACK ON OVER THE LAST FOUR DECADES AND SAY THAT IPIECA AND UNEP HAVE ON MANY OCCASIONS BEEN ABLE TO BRING TOGETHER ACTORS AND OUTLOOKS, AND RECOGNISE THE LEADERSHIP THAT IPIECA HAS PROVIDED.”

UNEP Executive Director Achim Steiner on 40 years of IPIECA

Whilst pricing carbon can also create challenges, including increasing energy costs to consumers, such mechanisms are nevertheless growing in use around the world. For those countries that choose to do so, schemes can be made more economically efficient by broadening their reach, for example by linking together national schemes.

For some time, IPIECA members have been participating in market-based mechanisms across the world, gaining practical hands-on experience in the use of these tools. IPIECA members welcome the opportunity to share their experiences to help inform the design of new market mechanisms and systems, to ensure stated goals and the implementation of such systems are aligned.

**INDUSTRY AND IPIECA ENGAGEMENT**

For industry to effectively play its role in emission reductions, it is important that mechanisms are used that do not distort competitiveness and enable companies to select more economically viable options for emission reductions. To address climate change risks, the industry is committed to continued stakeholder engagement to progress responsible policy solutions. IPIECA already engages with a range of stakeholders in the environmental and social communities and was formed as a principal channel of communication with the UN Environment Programme (UNEP). Engagement includes working constructively with policy makers to develop and implement measures on a range of social and environmental priorities.

For example, as a result of our work with UNEP on the Partnership for Clean Fuels and Vehicles, the phase-out of lead from gasoline was accelerated worldwide.

The industry is actively taking steps in advance of a policy framework being implemented. For example, where mechanisms do not exist, many members use internal shadow carbon<sup>3</sup> prices to inform their project investments and technology choices, increasing the robustness and resilience of their corporate strategy. The industry has also already taken significant steps to mitigate greenhouse gas emissions (GHG) from its own operations, as well as from the use of oil and gas energy sources<sup>4</sup>. In addition, the industry has taken steps to enhance the resilience of its facilities and supply chains to the impacts of climate change, enabling the world’s growing energy demand to be met far into the future.

**IPIECA encourages all governments to constructively participate in the negotiations aimed towards a new global agreement on climate change under the UN Framework Convention on Climate Change (UNFCCC), and to enable a fair, inclusive and cost-effective framework for mitigating GHG emissions and managing the risks of climate change.**

Footnotes  
<sup>3</sup> Shadow carbon price is a nominal price for carbon applied to represent potential future costs and risks.  
<sup>4</sup> The Paris Puzzle: Managing our emissions, IPIECA 2015

IPIECA is the global oil and gas industry association for environmental and social issues. It develops, shares and promotes good practices and knowledge to help the industry improve its environmental and social performance.