

Governing transitional change for climate neutrality – what can we learn from each other?

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Overview by WB secretariat: background on Principle 1

What does Paris mean ?

- Emissions; adaptation/resilience; financial alignment.
- Long runway; but systemic changes to economy. Fiscal & economy-wide policies needed.

How Coalition can help?

- Technical/informational: (a) share country experience; (b) conduct high-level analysis; (c) review findings, discuss next steps; (d) further technical work possible.
- High level convening: (a) Sherpas engage in the technical process; (b) brief Ministers for further action.

Coalition needs:

- Countries to lead and/or join working group; institutions for analytical/technical backup
- Agree on roadmap and schedule

A Framework for transition planning

Sitra analysed general literature and some countries' existing long-term transition strategies towards climate neutrality, based on which:

- Building a transition strategy is a complex task involving several different steps;
- There are different approaches to this, and the following represents one;
- This framework should be viewed as a tool to support discussion over the potential of transition planning and international cooperation.

- 1 Assessing the current state of GHG emissions
- 2 Defining key parameters of the problem and reframing it
- 3 Setting the target and interim targets
- 4 Identifying key challenges and bottlenecks
- 5 Assessing and deciding on policy instruments to deliver the goals
- 6 Monitoring, reporting and verifying
- 7 Governance

Step 4. Identifying key challenges and bottlenecks

Common challenges:

availability of data, access to and availability of clean technology, socioeconomic issues (e.g. distributional concerns), behavioural change, political issues (e.g finding political will).

Finance and economic challenges:

- Access to finance and ensuring that market functioning and incentives are aligned with desired goals are key issues;
- Challenges related to raising tax revenues, management of public funds, budgetary constraints, employment and productivity are key from economic point of view.

How to take these into consideration in the transition plans?

The UK CCC Net-Zero report has defined the following obstacles in reaching net-zero emissions:

Strengthening policymaking; Ensuring businesses respond; Engaging the public to act; Determining who pays; Providing the skills; Ensuring a just transition; Developing the infrastructure.

(UK CCC, Net Zero, 2019)

Step 5. Assessing and deciding on policy instruments

Policy instruments include:

- Market-based instruments (incl. removing harmful subsidies);
- Subsidies;
- Regulations, product labelling and other voluntary approaches.

An analytical **framework assessing the differences in abatement potential, cost-efficiency, ease of implementation, and economic, fiscal and social impacts** can help to evaluate options systematically.

Effective and appropriate policy instruments vary across sectors and activities and depend on market size, price elasticities, and human and institutional capacities.

Key role for finance ministries: promoting market-based instruments (particularly carbon taxes), phasing out harmful subsidies, aligning budget and investment programmes with climate targets, affirming financing.

The UK CCC Net-Zero report has suggested a mix of measures that would reduce UK emissions by around 95% from 1990 to 2050.

These include:

Resource and energy efficiency; Societal choices (e.g. diet); Electrification; Hydrogen; CCS; Changes in the use and farming of land

Costa Rica has introduced cross-cutting strategies to catalyse change. These include: Environmental institutional reform; Green tax reform; Finance and foreign direct investment strategy; Digitalisation strategy; Labour strategies for a just transition; Education and culture strategy for a fossil free future.

In Ireland, a Marginal Abatement Cost Curve (MACC) has been developed to provide a solid analytical foundation on the most cost-effective pathway to reduce emissions in line with Ireland's decarbonisation targets.

Finnish transition plans

- **Finland aims to be carbon neutral by 2035:** emission reduction of 70% compared to 1990 and maximisation of carbon sinks by 2035
- Various possible paths to climate neutrality and policy instruments identified by researchers
- Key challenges identified: socioeconomic impacts, behavioural changes, transport sector, technical options for heat production without burning, forests and land-use changes, peat use
- Transition plans and policy instruments in progress:
 - New Government program for 2019-2023 includes 74 references that could affect emissions or carbon sinks
 - Energy tax reform by 2020 and long-term ETR plan
 - Transport sector tax reform and other policies by 2021
 - Sectoral plans for each industry, coordination by the Ministry of Economic Affairs and Employment
 - Land-use sector climate strategy by 2021
 - Just transition major consideration in all plans

Example: ETR tax scenarios for Finland by Sitra

Tax increases	1. scenario	2. scenario	3. scenario
Price floor for ETS allowances	√		√
Strengthening CO2 component of current fuel taxes	√	√	
Emission-based flight tax for passengers		√	√
Emission-based flight tax for air freight		√	√
New consumption tax based on product's global GHG emissions (from 2025 onwards)		√	
Removal of the energy tax refund for energy intensive firms	√		√
Removal of the lower energy tax on peat	√	√	√
Removal of the lower energy tax on coal in CHP use	√	√	
Removal of the lower energy tax on diesel	√		√
Removal of the lower energy tax on light fuel oil	√	√	√
New resource use taxes (e.g. on non-metallic minerals and mining)			√
Tax on waste incineration			√
Tax on pesticides			√

What can we learn from each other?

Sitra and World Bank will write **a practical guide for policy makers** on the main lessons learned from existing long-term country strategies towards climate neutrality for the next Sherpa meeting in Feb 2020.

The analysis will focus on the key challenges and bottlenecks and assessment of policy instruments.

The research work will consist of:

- 1) Review of existing strategies in select countries, and analysis of transition challenges and opportunities;
- 2) Classifying the transition into broad categories;
- 3) Organizing an inventory of literature and examples to serve as a resource;
- 4) Conducting stakeholder consultations;
- 5) Writing a practical guide for policy makers.

Proposed countries to be included in the analyses:

- **Chile**
- **Costa Rica**
- **Ethiopia**
- **Fiji**
- **Finland**
- **Kenya**
- **Marshall Islands**
- **Mexico**
- **Netherlands**
- **Spain**
- **UK**
- **?**

Secretariat/Sitra proposed process and timing

- Working groups, institutions
- Initial phase by Feb 2020 (Abidjan Sherpa)
- Decide further actions and remaining timeline for 2020
- Meanwhile, London to prepare for ministerial statement at COP25

<p>Timeline Key</p> <ul style="list-style-type: none"> ▪ 2019 ○ 2020 	<p>Principle 1: Aligning with Paris Agreement</p> <p>⦿ Working Group: Finland, UK, Spain, Ethiopia, others</p> <p>Institutions: Sitra, WB, etc</p>
<p>Collating & Sharing Knowledge</p> 	<ul style="list-style-type: none"> ▪ Share examples of transition planning & strategies ▪ Conduct high-level analysis, e.g., key challenges, considerations for selecting pathway, good practice policies (2019 to early 2020) ▪ (Expand working group);
<p>Tools & guides</p> 	<ul style="list-style-type: none"> ○ Review findings, identify further studies & tools needed (1QCY2020) ○ Conduct follow-up work as needed; working with countries and institutions
<p>Strategies & Plans</p> 	<ul style="list-style-type: none"> ○ Review latest, sherpas discuss recommendations (mid – end CY2020) ○ Present to Finance Ministers for further action (end 2020) ○ (e.g. support countries wanting to set targets and track progress)



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