

# Foreword

Policy makers have long been conscious of the consequences of environmental degradation and the COVID-19 pandemic has further raised and renewed awareness of the inherent fragilities of our environment. Yet, their ambition to address environmental challenges such as climate change, pollution and biodiversity loss has often been held back by the perceived immediate costs of more stringent environmental policies on people and firms. Businesses and policy makers alike fear that differences in the stringency of environmental policies across countries would negatively affect the competitiveness of firms located in the most ambitious regions. Pollution-intensive production would shift towards countries or regions with less stringent regulations, altering the location of industrial production and the subsequent international trade and investment flows – and potentially curbing the environmental gains. These fears are particularly apparent in the case of climate change mitigation, where a large gap exists between globally stated ambitions – as laid out in the 2015 Paris Agreement – and the climate policies actually adopted around the world.

This report brings together unique analysis that sheds light on the above issues. It presents evidence from a decade of empirical research by the OECD on the impacts of environmental policies on firm performance, productivity, employment, trade and investment across countries. It provides novel insights for policy makers about the costs and benefits of environmental policies, both at the aggregate and micro levels.

Our analysis shows that implementing more stringent environmental policies has so far had little effect on overall economic performance, despite achieving clear environmental benefits. However, there are unavoidable localised impacts that can generate winners and losers across firms, industries and regions. To ensure a socially inclusive transition to a greener, low-carbon economy, it is critical to recognise the costs for some, and provide appropriate policy responses to mitigate these costs: environmental policies must be combined with policies that support negatively affected workers and facilitate the transformation of industries and regions. This can help cushion the adverse distributional effects, strengthen political support for these policies, and raise and widen ownership of the goal to tackle climate change.

The recovery from the pandemic provides a unique opportunity for governments to “build back better” and to steer the economy onto a trajectory of greener growth. Over 120 countries have already committed themselves to achieving carbon neutrality around the mid-21st century, but achieving such targets will require significantly more ambitious climate policies and transformative change in many economic activities. With all eyes now on COP26 in Glasgow this year, we encourage governments to look at this report for direction and support to reinforce their commitments and climate policy actions.



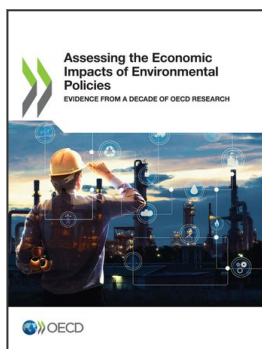
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