Getting public policies in line with climate goals

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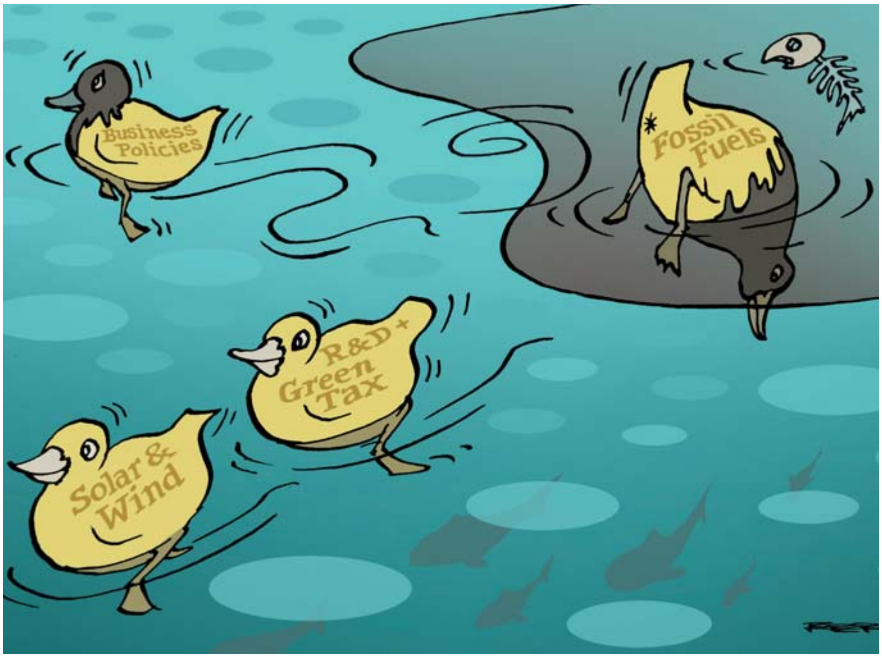

Policies that are not aligned with efforts to fight global warming risk hindering the transition to a low-carbon economy, and can worsen climate change. They should be addressed.

Solar and wind parks, energy-efficient building norms and regulations, green taxes, carbon markets, R&D in clean technology, mass transit and electric car programmes: these are just some of the many ambitious initiatives put in place around the world to fight back climate change.

But however well-designed and ambitious these efforts are, they will be in vain if attention is not paid to policy domains that are not within the strict climate portfolio, such as general taxation, urban planning, development aid, industrial processes, education and more. Misaligned policies–and there are far too many–could seriously harm the effectiveness of climate policy. Aligning them better would accelerate progress towards a global economy with net zero greenhouse gas emissions by the end of the century, which is required to keep global temperature increase below 2°C.

A joint report from OECD, International Energy Agency, International Transport Forum and OECD Nuclear Energy Agency, *Aligning Policies for a Low-Carbon Economy*, identifies the key inconsistencies and clarifies action on how to rectify them.

Arguably the most visible misalignment of all is to be found in the public-sector support for fossil fuels: OECD and major emerging economies still spend US$160-200 billion annually to spur the consumption and production of fossil fuels. Around 800 tax breaks and spending programmes lower the exploration and exploitation costs for oil and gas companies and reduce prices for consumers. No wonder fossil fuels still account for over 80% of total energy supply worldwide.

Another misalignment is tax provisions on company cars–nearly a fifth of the car fleet in OECD countries. These provisions encourage workers to use bigger cars, and more intensively than they otherwise would, and should be addressed to help reduce greenhouse emissions.

Taxes and tax expenditures on corporate income should also be looked at; a preliminary survey of tax provisions for investment in the G20 countries shows occasional biases in favour of energy-intensive activities that could be evened out.

Tax differentials for diesel and normal petrol (gasoline) also send the wrong signals. On a per litre basis, diesel emits more CO_2 and other local pollutants than gasoline, and yet almost all OECD countries tax diesel less at the pump. This damaging distortion should be removed, with taxes set appropriately to encourage less fossil fuel use.

Now is a good time to tackle such anomalies by boosting "green" taxes and curbing subsidies on fossil fuels. With energy prices low, this would have less impact on incomes, while tax revenues can be redistributed through cuts in other distortive taxes, including any that penalise low-carbon technologies.

But fossil fuels are not the only culprits. Some green industrial strategies are also misaligned: such is the case of the implementation of local-content requirements that frequently turn up in the clean energy sector. Some 21 countries have designed green industrial policies to favour domestic manufacturers through local-content requirements, notably in the wind- and solar-energy sectors. While creating jobs is an understandable policy concern and everyone wants to benefit from this new growth sector, vigilance is needed. According to *Aligning Policies for a Low-Carbon Economy*, local-content requirements hinder inflows of investment into these "knowledge-

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based" sectors, and risk increasing the cost of low-carbon solutions and hurting employment. Much low-carbon technology is still at an early a phase of development and needs open access to global value chains to avail itself of innovation and raw materials at affordable prices.

In the electricity sector, wholesale markets may be at odds with low-carbon systems. Electricity market liberalisation in the 1990s made electricity supply more efficient and helped to reduce costs.

> "Triggering investment in low-carbon electricity requires a new organisation of competition

However, the resulting wholesale markets do a poor job at triggering investment in new electricity generation capacity. Low-carbon electricity from wind, solar, nuclear or coal plants fitted to sequester CO_2 is also more capital intensive than from CO_2-emitting plants. Triggering investment in low-carbon electricity requires a new organisation of competition, or it simply won't happen at the needed scale.

Misalignments can also be found in development assistance policies. While OECD policy makers understand that developing countries stand to be the hardest hit from climate change and increased their efforts to support mitigation and adaptation projects in the past ten years, climate-related development assistance still accounts for less than a fifth of total official development assistance.

Aligning rules for business practice is important. Moving from voluntary to mandatory greenhouse gas emissions reporting, as the UK did in 2013 with quoted companies, goes in the right direction. For energy-intensive industries such as cement and concrete, policy makers could provide clear regulations to encourage burning waste and other substitutes as fuel for instance. Also, firms encouraged to share and recycle resources among themselves in a sort of industrial symbiosis can yield lower emissions, as cases in Australia, Denmark and Korea have shown.

Mobility policies also matter. The transport sector accounts for nearly a quarter of global CO_2 emissions and several countries have been establishing battery-charging infrastructures and introducing priority road lanes for clean vehicles, while offering rebate schemes on electric vehicle purchases. In cities in developing and emerging economies, where much of the infrastructure is still being built, urban expansion can be managed to limit the demand for energy-intensive mobility and promote sustainable transport systems. Sub-national governments are critical decision makers for urban transport planning, but a range of national policies still limits local climate action. In China, city governments rely on the sale of land for their budget, leading to urban sprawl.

As for agricultural policies, the OECD report sees room to break silos and look for closer alignment between climate mitigation, adaptation and food security goals. Despite concerted efforts by OECD countries since the 1990s to reduce the most environmentally harmful subsidies to agriculture, almost half of their agricultural subsidies are still in the form of input subsidies and price supports that can lead to more environmental harm and greenhouse gas emissions.

Governance vision

One key clash to avoid is within policy making itself, whether in government departments or between countries. For *Aligning Policies for a Low-Carbon Economy*, an ambitious effort to align policies requires: a clear vision with measurable targets; an action plan backed by experts; and a system for monitoring progress that spans electoral cycles, engages opposition parties and reaches across borders. Three questions should preoccupy policy makers, and domestic and international regulators: Is their investment framework aligned with the low-carbon transition, and free of conflicting incentives in competition, trade, tax and innovation policies? Is regulation conducive to long-term investment? And are climate goals mainstreamed in public spending and development policies?

This point is crucial, as government consumption and public procurement should clearly be aligned with climate policies. An OECD recommendation from 2002 already encourages green procurement policies, and today some 72% of OECD countries already have policies encouraging green procurement at the central government level. Non-OECD countries are starting too.

Promoting low-carbon economies and fighting climate change is not easy, demanding a break from fossil fuel-based arrangements that have lasted for over a century. Ensuring other policies are not in conflict can help smooth the way forward.

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