Preface

Addressing human-induced climate change is one of the most significant challenges to be undertaken by the international community. The problem has long been identified but emissions of greenhouse gases keep rising, and the urgency of action increases with every passing year. Protecting the earth's climate implies a transformational agenda that needs a resolute and enduring commitment. The IPCC Fifth Assessment Report tells us that we need to return global greenhouse gas emissions to a net zero level by the end of the century. That means a drastic departure from the continuous growth in emissions we have witnessed in recent years: global emissions have to peak in the coming decade in order to avoid a global temperature increase above 2°C.

More and more countries are implementing policies to reduce their emissions, including carbon pricing mechanisms and energy efficiency measures. Governments have also actively encouraged the research, development and deployment of low-carbon technologies. These new technologies are starting to make inroads into the share of fossil fuels, even if the latter still account for more than 80% of total energy supply globally. A well-balanced package of carbon pricing, energy efficiency measures and targeted support to low-carbon technologies ought to be at the core of climate mitigation policy. Their implementation needs broadening and deepening to redirect investment away from fossil fuels and towards a low-carbon energy mix.

In 2014, OECD Ministers encouraged our four organisations to work together to answer a fundamental question: are policy frameworks, in areas as diverse as investment, taxation, energy, labour, agriculture and others, well aligned with the pursuit of the transition to a low-carbon, climate-resilient economy? And if the answer is no, can they be better aligned and become new levers for the decarbonisation of the economy? Our joint work started from the observation that the world economy has grown for well over a century on the back of convenient fossil sources of energy, and that moving away from them is a formidable structural challenge. Coal, oil and natural gas have influenced energy systems, the organisation of our cities and transport networks, and how governments raise taxes. The regulatory wiring of our economies was designed for a world powered by fossil fuels long before we identified the impact of rising greenhouse gas emissions on the Earth's climate.

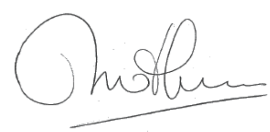
This report confirms that a number of policies are not well aligned with climate policy objectives and are in some cases in direct conflict. Fiscal systems contain a number of provisions that guide consumers and companies *towards* higher fossil energy consumption and production. The broad environment for investment is also not always conducive to investment in the long-term infrastructure needed to fight climate change. Corporate disclosures still lack transparency on companies' exposure to climate risks. Trade measures can also restrict access to low-carbon technologies, increasing the cost of the transition. The policy environment for innovation is not always conducive to the emergence of new technologies and business models.

We have also studied specific activities that are central to the decarbonisation challenge: electricity systems, where market design fails to provide signals for investment in the needed low-carbon, capital-intensive power generation technologies (such as solar, wind, nuclear, and power plants fitted with carbon capture and storage); urban mobility, where integration of land-use planning and sustainable transport systems remains difficult; and rural land use, where too many environmentally harmful subsidies remain, to name just a few examples. In these cases as well, policy frameworks can be revisited to ease the transition to low carbon and this report documents actual policy solutions in developed and developing countries alike.

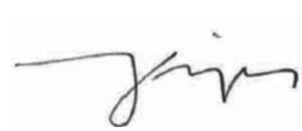
The sum effect of policy misalignments in an economy can significantly undermine the effectiveness of climate policy efforts. It is important that governments make their own diagnosis of policy frameworks that inadvertently hamper decarbonisation to see what reforms are warranted. All parts of governments, including those outside the usual climate policy portfolio, can contribute. In many cases, solving misalignments can deliver on other important policy objectives: more infrastructure investment, a more inclusive growth, higher energy security and a healthier environment.

Limiting global climate change to within safe boundaries is essential. Effective action requires a better alignment of policy frameworks with climate goals. Our joint report shows governments where they should start looking for more policy levers if they want to ease the transition to a low-carbon economy.

Angel Gurría
Secretary General, OECD



Maria van der Hoven
Executive Director, IEA



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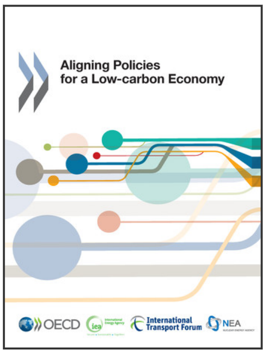

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