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# **ALIGNING POLICIES FOR THE TRANSITION TO A LOW-CARBON ECONOMY: RECONCILING ENVIRONMENTAL, SOCIAL AND ECONOMIC OBJECTIVES**

**An expert seminar organised by the OECD and Ministry of Finance,  
Government of Indonesia**

**4-5 November 2015  
Novotel Bogor Golf Resort and Convention Center  
Bogor, Indonesia**

## **OVERVIEW**

The Organisation of Economic Cooperation and Development (OECD) has been promoting the transition to a green and low-carbon economy in OECD countries and beyond. The organisation's Green Growth Strategy (Towards Green Growth, OECD 2011) outlines policy approaches needed for such transition. Greening the growth path of an economy depends on varying challenges and opportunities in terms of both the economic and political circumstances. Common considerations such as good economic policy lie at the heart of any strategy for green growth. Hence, a flexible and dynamic economy is best for growth to enable the transition to a greener growth path. The need to carefully design such policies with accompanying social measures can help reconcile environmental and social objectives. Therefore, a good understanding of the state of environmental policies and their economic impacts is crucial for stakeholders to come up with better green growth strategies.

In line with this goal, the OECD and the Ministry of Finance Indonesia (Fiscal Policy Agency) are pleased to hold an expert seminar on the topic: "Aligning Policies for the transition to a Low-carbon Economy: Reconciling the environmental, social and economic objectives" on 4-5 November 2015 in Bogor, Indonesia. This event brings together representatives from ASEAN line ministries, research organisations, and other key international organisations to share their knowledge and expertise on the topic. This event is supported by the OECD Knowledge Sharing Alliance.

## OBJECTIVES

The seminar focuses on four objectives:

- 1) To discuss the **findings of the work conducted by the OECD on policy alignment for a low carbon transition** (Aligning policies for a low-carbon economy, OECD, et. al. 2015) in order to provide policymakers and key stakeholders with a reference to help improve alignment and coherence between environmental and socio-economic policies.
- 2) To present and discuss the **results of the OECD's new Inventory of Support Measures for Fossil Fuels 2015**, which covers key emerging economies (Brazil, China, India, Indonesia, the Russian Federation, and South Africa) in addition to all 34 OECD countries.
- 3) To discuss the experience of **fossil fuel subsidy reform in ASEAN** to consider options for addressing both social and environmental goals. This will provide a platform for experts from ASEAN, OECD, and other selected partner countries to discuss the social aspects of fossil fuel subsidy to facilitate further reforms.
- 4) To exchange views and experiences on **measurement of environmental policies, including preliminary results of data collection and challenges faced**. References to cross-country and inter-temporal proxies that are used to quantify the effects of firm and industry-level growth includes OECD's Indicators of Environmental Policy Stringency (EPS) and Burdens on the Economy due to Environmental Policies (BEEP). EPS indicators have been recently extended to BRIICS, and possibly to other Southeast Asian countries.

## CONTEXT

This expert seminar is part of OECD's vision to promote the transition of its member countries and other economies towards greener and lower-carbon economies. This is sought by evaluating and designing regulatory and policy frameworks that aid in reconciling environmental and social objectives. This event will serve as a platform for mutual learning and an opportunity to strengthen co-operation on environmental policy monitoring between stakeholders across OECD, emerging, and developing countries.

## PATICIPANTS AND FORMAT

Participants include policymakers (finance/fiscal policy, planning, economy, social, and environmental ministries) and experts from Southeast Asian countries, OECD member countries and strategic partners that are active in the G20 work and the peer reviews on fossil fuel subsidy, and other countries that foresee a phase-out of fossil fuel subsidies as part of their future reforms.

The seminar is split into three sessions. Each session starts with a presentation to set the context of the discussion and is followed by a moderated panel discussion. At the end of each panel discussion, participants are encouraged to engage in a free and open dialogue centred on the elements for discussion. The first session focuses on the OECD's work on aligning policies for a low-carbon transition. The second session covers the second and third objectives on the background and application of the OECD's fossil-fuel support indicators, as well as case studies from key partner countries. Lastly, the third session tackles climate and environmental policy indicators that are being developed in the OECD

4 November 2015

## OPENING SESSION

### 9.00-9.30 OPENING REMARKS

*The objective and structure of the expert seminar will be outlined. The first day will be focused on presentations and discussions on policy alignment, including case studies from the OECD, emerging, and developing countries.*

- **Syurkani Ishak KASIM**, Director, Climate Finance and Multilateral Policy, Fiscal Policy Agency, Indonesia
- **Simon UPTON**, Director, Environment Directorate, OECD

## 1. ALIGNING POLICIES FOR A LOW-CARBON ECONOMY

### 9.30-10.30 A. LOW CARBON TRANSITION: POLICY ALIGNMENT CHALLENGES IN THE REGION

*This session will first present the findings of the OECD report to its Ministers on Aligning policies for a low-carbon economy, as an overarching framework to improve the coherence of environmental and socio-economic policies. The OECD and its partner organisations produced a first diagnosis of how existing policy frameworks may stand in the way of a sound transition to a low-carbon future. While the pace of transition will differ across regions, this work points out the need to engage Ministries with portfolios beyond environment.*

*The purpose of the session's discussion is to identify what may be specific 'alignment' concerns specific to the region – noting that subsidies to the production and consumption of fossil fuels, an example of misalignment, will be addressed in following sessions. Areas of interest include: long-term investment and finance, fiscal policy, innovation policy, international trade, and specific activities (electricity, urban mobility and rural land-use).*

09.30-09.35 **Moderator: Simon UPTON**, Director, Environment Directorate, OECD

09.35-10.05 Presentation:

- **Richard BARON**, Project Co-ordinator, *Aligning Policies for a Low-carbon Economy*, General Secretariat, OECD

Panel Discussion:

- **Venkatachalam ANBUMOZHI**, Senior Energy Economist, Economic Research Institute for ASEAN and East Asia (ERIA)
- **Gil BELTRAN**, Undersecretary, Policy Development and Management Services Group, Department of Finance, Philippines
- **Ladawan KUMPA**, Deputy Secretary General, Office of the National Economic and Social Development Board, Thailand
- **Ahmad Kamal WASIS**, Deputy Director, Environment and Natural Resource Economic Section, Economic Planning Unit, Prime Minister's Department, Malaysia

10.25-10.55 **Coffee Break**

## 10.55-12.00 OPEN DISCUSSION

### *Elements for Discussion:*

- *What institutional, regulatory, or policy barriers stand in the way of low-carbon infrastructure choices such as mass transport, renewable energy supply?*
- *A transition to a climate-resilient and low-carbon economy is not the priority for most Ministries. Are there government-wide processes to engage Ministries in a reflection on the low-carbon transition?*
- *What major challenges does climate policy represent to these Ministries' immediate goals?*
- *Coal-based power generation can become a liability in a low-carbon world. How are energy choices determined? Is cost-benefit analysis used in assessing choices, and are sustainable development goals such as lower CO<sub>2</sub> emissions included in the equation?*

## 12.00-13.30 Lunch

## 2. FOSSIL FUEL SUPPORT REFORM

### 13.30-15:00 REGIONAL EXPERIENCES ON FOSSIL FUEL SUPPORT REFORM

*Reforming or eliminating inefficient support for the consumption or production of fossil fuels can contribute to achieving economic and fiscal objectives, and help tackle environmental problems such as climate change or local air pollution. To further support reform efforts, OECD and IEA compile estimates of subsidies and other forms of support for fossil fuels in a large number of countries. The OECD's Inventory of Support Measures for Fossil fuels 2015 will be presented to highlight the size of such support in OECD countries and in Brazil, China, India, Indonesia, the Russian Federation, and South Africa. Panellists are invited to discuss the challenges and opportunities in supporting fuel subsidy reforms.*

*This session will also highlight the importance of well-designed inclusive green policies in helping governments to strengthen reform efforts to effectively deliver programs that maximize social and economic benefits.*

13.30-13.40

**Moderator: Stephanie LEE**, New Zealand Ambassador to ASEAN

13.40-14.20

### Presentation:

- **Jehan SAUVAGE**, Trade Policy Analyst, Natural Resources Policy Division, Trade and Agriculture Directorate, OECD

### Panel Discussion:

14.20-14.30

- **Shikha JHA**, Principal Economist, Economic Research and Regional Cooperation Department, Asian Development Bank

14.30-14.40

- **Arunabha GHOSH**, Chief Executive Officer, Council on Energy, Environment and Water, India

14.40-14.50

- **Ruengsak THITIRATSAKUL**, Deputy Executive Director, The Petroleum Institute of Thailand

14.50-15.00

- **Masato HAYASHIKAWA**, Advisor, Inclusive Growth and Knowledge

	Sharing Alliance, General Secretariat, OECD
<b>15:00-15.30</b>	<p><b>OPEN DISCUSSION</b></p> <p><i>Elements for Discussion:</i></p> <ul style="list-style-type: none"> <li>• <i>What are the policies to improve access to modern energy?</i></li> <li>• <i>How to ensure that reforms are credible and enduring, and that they are perceived as such by stakeholders? Can International processes such as APEC and the G20 serve as a commitment device, helping governments stay in the course of reform?</i></li> <li>• <i>How can governments embed subsidy reform within the broader context of a transition toward a low-carbon economy? How can one make subsidy reform part of a coherent strategy calling on different parts of the government?</i></li> <li>• <i>What have been the defining trends with regard to inclusiveness of environmental policies in ASEAN countries, and what have been the countries' responses?</i></li> </ul>
<b>15:30-15.50</b>	<b>Coffee break</b>
<b>15.50-17:00</b>	<b>LOCAL EXPERIENCE ON FOSSIL FUEL SUPPORT REFORM</b>
	<i>The experience of fuel fossil support reform in Indonesia is an interesting case of examining the challenges and opportunities of reconciling social, environmental, and economic linkages.</i>
15.50-16.00	<b>Moderator: Stephanie LEE</b> , New Zealand Ambassador to ASEAN
	<i>Panel Discussion:</i>
16.00-16.10	<ul style="list-style-type: none"> <li>• <b>J. Rizal PRIMANA</b>, Director for Energy, Mineral Resources and Mining, BAPPENAS</li> </ul>
16.10-16.20	<ul style="list-style-type: none"> <li>• <b>Erman Jaya KUSUMA</b>, Technical Expert for Non-Taxation Revenue, Director General of Budget, Indonesia Ministry of Finance</li> </ul>
16.20-16.30	<ul style="list-style-type: none"> <li>• <b>Olivier DURAND-LASSERVE</b>, Policy Analyst, Environment and Economy Integration Division, Environment Directorate, OECD and International Energy Agency (IEA)</li> </ul>
16.30-16.40	<ul style="list-style-type: none"> <li>• <b>Teguh DARTANTO</b>, Head, Poverty and Social Protection Research Group, Institute for Economic and Social Research, Indonesia</li> </ul>
16.40-16.50	<ul style="list-style-type: none"> <li>• <b>Arief Anshory YUSUF</b>, Researcher, Center for Economics and Development Studies, Indonesia</li> </ul>
16.50-17.00	<ul style="list-style-type: none"> <li>• <b>Lucky LONTOH</b>, Associate-Country Co-ordinator, International Institute for Sustainable Development (IISD) &amp; Global Subsidies Initiative (GSI), Indonesia</li> </ul>
<b>17.00-17.30</b>	<p><b>OPEN DISCUSSION</b></p> <p><i>Elements for Discussion:</i></p> <ul style="list-style-type: none"> <li>• <i>What lessons can be drawn from Indonesia's experience with subsidy reform for other countries in the region and beyond? What went well and what went wrong in Indonesia's case?</i></li> <li>• <i>Is there a risk to renew subsidies if oil prices rise? Have there been empirical assessments of the effects of the subsidy reforms on energy consumptions, GHG emissions, and local air pollution?</i></li> </ul>

	<ul style="list-style-type: none"> <li>• <i>What type of energy mix will be needed to ensure the future energy demand will be met and what types of technologies will be limited for a low-carbon mix?</i></li> <li>• <i>What are the redistribution mechanisms used to compensate populations for the phase-out of energy consumption subsidies in Indonesia? Did new institutional factors, such as the extension of social security coverage emerge and help to make the reforms politically feasible?</i></li> </ul>
17.30-18.00	<b>CONCLUSION</b>
	<ul style="list-style-type: none"> <li>• <b>Kumi KITAMORI</b>, Head of Division, Green Growth and Global Relations, Environment Directorate, OECD</li> </ul>
19:30	<b>DINNER HOSTED BY THE MINISTRY OF FINANCE, INDONESIA</b>
	<b>Venue:</b> Verandah Restaurant, Novotel Bogor

5 November 2015

### 3. ENVIRONMENTAL POLICIES AND ECONOMIC OUTCOMES – MEASURING ENVIRONMENTAL POLICIES AND THEIR IMPACTS

09.00-10.00	<b>A. PRESENTATION OF ENVIRONMENTAL POLICY STRINGENCY INDICATORS</b>
	<p><i>The objective of the second day is to highlight the importance of cross-country and over time measurement of the various aspects of environmental policies, in particular their stringency, flexibility and related barriers to entry and competition to assess their economic impacts and guide policy reforms. The applications include recent OECD work on productivity and trade impacts of environmental policies.</i></p>
09:00-09:10	<p><b>Moderator: Kurnya ROESAD</b>, Economist, Global Green Growth Institute, Indonesia</p>
09.10-09.30	<p><u>Presentation:</u></p> <ul style="list-style-type: none"> <li>• <b>Tomasz KOZLUK</b>, Senior Economist, Economics Department and Environment Directorate, OECD</li> </ul>
09.30-09.40	<p><u>Panel Discussion:</u></p> <ul style="list-style-type: none"> <li>• <b>Sri Hartini RACHMAD</b>, Senior Researcher, Analysis and Statistics Development Directorate, National Office of Statistics Indonesia</li> <li>• <b>YoungTae SEO</b>, Director, Environmental Division, Joint Secretariat for Economic Development, Indonesia and Republic of Korea</li> <li>• <b>Mahpud SUJAI</b>, Senior Researcher, Ministry of Finance, Indonesia</li> </ul>
09.40-09.50	
09.50-10.00	
10.00-11.00	<p><b>OPEN DISCUSSION</b></p> <p><i>Elements for Discussion:</i></p> <ul style="list-style-type: none"> <li>• <i>To what extent are fears of adverse economic impacts holding back the implementation of environmental policies? Can these fears be mitigated through good policy design?</i></li> <li>• <i>What are the key aspects of environmental policy design and</i></li> </ul>

	<p><i>implementation to keep in mind? How can we measure such aspects?</i></p> <ul style="list-style-type: none"> <li>• <i>What are the main challenges in measuring environmental policies in emerging economies? How important are enforcement issues and how can they be accounted for in the analysis of economic effects of policies?</i></li> </ul>
11.00-11.20	Coffee break
11.20-12.30	<p><b>OPEN DISCUSSION AND NEXT STEPS</b></p> <p><i>Based on the discussions, this session will provide participants with the platform to strengthen and co-ordinate future work and engagements on the economy and environment.</i></p> <p><i>Open discussion</i></p> <p><b>Moderator: Kumi KITAMORI</b>, Head of Division, Green Growth and Global Relations, Environment Directorate, OECD</p> <ul style="list-style-type: none"> <li>• <b>Alexander BÖHMER</b>, Head of Jakarta Office, Southeast Asia Regional Programme, Global Relations Secretariat, OECD</li> <li>• <b>Kurnya ROESAD</b>, Economist, Global Green Growth Institute, Indonesia</li> <li>• <b>Noriko HASE</b>, Expert, Japan International Cooperation Agency</li> <li>• <b>Other partner countries and organisations</b></li> </ul>
12.00-12.15	<p><i>Next steps</i></p> <ul style="list-style-type: none"> <li>• <b>Simon UPTON</b>, Director, Environment Directorate, OECD</li> </ul>
12.30-13.00	<p><b>CLOSING REMARKS</b></p> <ul style="list-style-type: none"> <li>• <b>Arif BAHARUDIN</b>, Executive Secretary, Fiscal Policy Agency, Indonesia</li> <li>• <b>Simon UPTON</b>, Director, Environment Directorate, OECD</li> </ul>
13.00-14.30	Lunch

## OECD-IEA-ITF-NEA (2015): ALIGNING POLICIES FOR A LOW-CARBON ECONOMY

More countries are adopting climate policies to reduce emissions, but misalignments in existing policy frameworks continue to create obstacles to the low-carbon transition. Policies and regulations across the economy continue to be hard-wired to fossil fuels and carbon-intensive activities. Not only have our economies locked-in carbon-intensive technologies and behaviours, they have also locked in carbon-friendly policies. Drawn together by the OECD in co-operation with the International Energy Agency, the International Transport Forum and the Nuclear Energy Agency, at the request of OECD Ministers in 2014, *Aligning Policies for a Low-carbon Economy* is a first-of-its-kind diagnosis of policy misalignments. It identifies possible policy solutions across investment, taxation, innovation and trade and adaptation policy, and policy governing activities such as electricity, urban mobility and land-use, all critical for the transition to a low-carbon economy by the end of this century.

Climate action is a matter for all ministries. An ambitious climate action plan and a better policy alignment require new approaches to policy-making across government. Ministers outside the climate policy portfolio need to identify important misalignments, to help governments pursue more robust, resilient and inclusive growth, while avoiding severe and irreversible climate change impacts.

<http://oe.cd/lowcarbon>

## INVENTORY OF SUPPORT MEASURES FOR FOSSIL FUELS

To help governments reform their fossil-fuel subsidies, the OECD produces and maintains an online [Inventory of Support Measures for Fossil Fuels](#), which systematically identifies, documents, and estimates the value of support arising from about 800 individual policies that encourage the production or consumption of fossil fuels. This unique source of information covers 40 countries, including all 34 OECD Members and a great number of sub-national jurisdictions in the case of federations (e.g. all Canadian provinces and 11 US states), as well as large emerging economies (Brazil, China, India, Indonesia, the Russian Federation, and South Africa).

In line with OECD work looking at support for the agriculture and fisheries sectors, the scope of the policies inventoried here is broad and differs from some conceptions of “subsidy”. The OECD Inventory includes both direct budgetary transfers and tax concessions that in some way provide a benefit or preference for fossil-fuel production or consumption, relative to alternatives. In that sense, the OECD Inventory promotes the transparency of public policies and government budgets, and a greater accountability about how public resources are used. Along with the Inventory, the companion OECD report describes the policy context, the data sources, and the methodology used, as well as providing summary results and policy recommendations ([OECD Companion to the Inventory of Support Measures for Fossil Fuels 2015](#)).

<http://oe.cd/fossil-fuels>

## RECONCILING GREEN GROWTH AND INCLUSIVE GROWTH OBJECTIVES

As a follow-up to the regional consultation on Inclusive Growth in Southeast Asia, this KSA-supported expert seminar will seek to engage Ministries and experts in the region and other representatives from countries, including those active in the G20 work on fossil fuel subsidies, on how to resolve a potential incoherence between countries’ green growth and climate goals and their other policies. It will also seek to identify where solutions can also deliver additional economic and social benefits. In particular, it will promote knowledge sharing between experts from Indonesia, the OECD and selected partner countries, especially from the ASEAN region,

on how social, fiscal and environmental benefits could be reaped from fossil fuel subsidy reforms, and thus gain public support.

The workshop will draw on the findings from the OECD's horizontal work, *Aligning Policies for a Low-carbon Economy*, which looked at cross-cutting policy domains (investment, taxation, innovation, trade and adaptation) and key sectors (power generation, urban mobility and rural land use), and will explore how they may apply to Southeast Asian countries' policy settings. The outcomes of this workshop will be a key contribution to the OECD Green Growth Programme. It will also contribute to the Inclusive Growth Initiative as a follow-up to the regional consultation on Inclusive Growth in Southeast Asia where participants called, among other things, for further discussion to address trade-offs and synergies between environmental and social objectives in a more systematic way.

## **ENVIRONMENTAL POLICIES AND ECONOMIC OUTCOMES - MEASURING ENVIRONMENTAL POLICIES AND THEIR IMPACTS**

Environmental policies address wellbeing and sustainability objectives, affecting firm and household behaviour. The effects on the economy are often heatedly debated, but poorly tested due to the lack of adequate policy data, in particular for developing countries. The OECD has developed two indicators measuring various aspects of environmental policies across countries – their stringency and the barriers to entry and competition related to them. A cross-country composite proxy of environmental policy stringency (EPS) combines information on a selection of policies primarily concerning upstream sectors (energy and transport) and shows that stringency has been increasing across OECD countries over the past two decades. The EPS indicator has been used in empirical work to gauge the impacts on productivity growth and is currently being extended to key developing countries. The extended indicators allow empirical insights on the influence of EPS on global trade patterns, and in particular global value chains.

Another recent OECD indicator provides evidence on the anti-competitive bias of some aspects of environmental policies and their implementation – a bias which can potentially hamper economic growth. The indicator of Burdens on the Economy due to Environmental Policies (BEEP) shows that barriers to entry and competition, and the consideration given to economic effects of environmental policies vary notably across countries, but that this variation is not related to the stringency of policies.

To support both economic growth and a better, cleaner environment, it is necessary to implement well-designed, flexible but stringent environmental policies. To understand better the interaction between environment policies and growth, there is a need to maintain and further extend the EPS and BEEP indicators to better reflect the changes in environmental policy stringency and design across countries and time.

<http://oe.cd/OQ>