

Economics and Environmental Policy Research Network

Research Symposium

February 27th – 28th, 2020

Session Notes for Parallel Session #2: Political Economy of Low Carbon Policy

1. State of Existing Research and Discussion Context

This session sought to explore low-carbon pricing options within Canada, as well as the opportunities and challenges of international Border Carbon Adjustments.

Key themes discussed in the session include:

- **Canadian opinions and knowledge on carbon pricing:**
 - **Context:** There is widespread support for cap-and-trade systems across Canada, but carbon taxes are more controversial.
 - **Challenges:**
 - Many Canadian politicians communicate about the negative costs of carbon taxes.
 - It is unclear whether rebates are influencing the support of carbon taxes.
 - Certain governments have aided populist arguments against carbon pricing.
 - **Opportunities:**
 - Advocates could do more to communicate the benefits of a carbon tax.
 - Political support for the carbon tax can be built by using green economic development, environmental earmarking (dedicating money from the tax to solving environmental issues), consumer benefits (providing consumers with more benefits), and public health benefits (the reduction in greenhouse gas pollutants can help convince people).
 - Explaining carbon price mechanisms can play an important role in generating support.
- **Green economy interaction:**
 - **Context:** The private sector will be an important actor when it comes to the interaction between public green economy policies and non-state green economy initiatives. Half of the decarbonization policies within Canada are federal and the majority target the energy sector.
 - **Opportunities:**
 - Municipal governments are moving slowly when it comes to green economy but are improving.
 - Small and Medium-Sized Enterprises are infrequently the beneficiaries of funding arrangements, and the different levels of government could be doing more to engage with these enterprises.
- **Border carbon adjustments:**
 - **Context:** Border carbon adjustments, or carbon tariffs, are carbon levies imposed on imported goods, and can be used in combination with carbon pricing. They allow for carbon pricing to be used with international trade. The European Union is considering implementing border carbon adjustment taxes.
 - **Challenges:**

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- Domestic industries don't like border carbon adjustments as it increases their costs, and domestic stakeholders oppose the adjustments because it makes industries more exposed to carbon pricing (e.g. for shipping materials in from other countries). For example, companies in California also own operations outside of the state (where there is no carbon price in place), and they ship products into California. With a border carbon adjustment, these shipments would be subject to California's carbon price.
- Domestic industries have historically preferred subsidies over border carbon adjustments, namely free allocation in cap-and-trade or output-based tax credits under carbon taxes. These subsidies have been overgenerous and domestic industries want to hold on to these benefits.
- There is a fear that these adjustments will cause retaliation by other countries.
- Border carbon adjustments are typically only considered if there are no other tools available.
- There is stakeholder opposition to these adjustments, as it increases both exposure and operating costs.
- Concerns about the legal aspects and complexity of border carbon adjustments have traditionally been overstated, with policymakers convinced that border carbon adjustments are practically feasible, at least for basic products, and can be designed in legally compliant ways. However, these aspects may be raised by opponents and used to reinforce their opposition to border carbon adjustments.
- Border carbon adjustments can weaken multilateral trust in the trade system.
- **Opportunities:**
 - Border carbon adjustments can protect the local industry, counter carbon leakage, and incentivize other jurisdictions to act on carbon emissions reductions.
 - Border carbon adjustments can help counter the free rider effect.
 - Countries have considered using border carbon adjustments before, but the conversation may be changing because there is a rising ambition for climate change mitigation.

2. Research Questions Identified

- **Can Canadians accurately pinpoint the level of government responsible for carbon pricing?**
- **Do Canadians know whether they received a (carbon tax related) rebate?**
- **Do Canadians know how much they received as their climate rebate?**
- **Did rebates change the amount of support for carbon taxation?**
- **Does learning about rebates change the level of support for the federal carbon tax?**
- **Do Canadians understand the carbon pricing system?**
- **How did the Ontario carbon pricing policy fail (politically)? What are the implications for future carbon pricing efforts?**

- **Why did the Ontario government take on green economic development and climate mitigation emphasis when developing this policy?**
- **How did the Ontario government make the carbon reduction policy more vulnerable to populist attacks?**
- **How much does the belief in climate change drive support for climate pricing?**
- **Do other revenue management approaches work better than household rebates? E.g. emissions reductions funds, general funds, etc. What about general funds that stay within the local community? Does it matter what these funds support if they are not being used for a rebate?**
- **Do people engage on climate change in local peer groups?**
- **What do results tell policymakers about the ability to increase carbon taxes?**
- **How can we alleviate the economic impacts of Border Carbon Adjustments for domestic industries?**
- **How can you achieve a net-zero target while maintaining economic well-being?**
- **What would happen if Canada were to impose a Border Carbon Adjustment on the USA?**
- **What is the potential role of Border Carbon Adjustments when it comes to expanding coalitions between countries that have positive climate policies? What are the possible retaliation aspects?**

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