The Political Economy of Carbon Pricing After the U.S. Exit from the Paris Agreement

BY TILAK K. DOSHI

Singapore will implement its first carbon tax from 2019 in a world where the Paris Agreement pull-out by President Trump has upended all basic assumptions about international climate change policy. Readers were recently informed that the Prime Minister's Office is commissioning a comprehensive study of carbon pricing in a number of countries and local jurisdictions in Asia, Europe and the U.S. (The Straits Times, August 13, 2018). The study's objective is to inform policy-makers and interested citizens about the impact of carbon taxes on the international competitiveness of energy-intensive industries, a pillar of Singapore's export sector. This policy concern is now amplified in vastly altered circumstances.

Over the past decade or so, an increasing number of governments as well as regional and local authorities around the world have been imposing carbon or greenhouse gas (GHG) pricing schemes. To date, 88 countries of those (over 190) that submitted their "nationally determined contributions" to the Paris Agreement in 2015 have stated that they are planning to use carbon pricing as a tool to meet their commitments.

According to the World Bank's most recent annual survey on carbon pricing, 51 carbon pricing initiatives have been, or will be, implemented. This consists of 25 emissions trading systems (which let markets set the price of emission allowances) mostly located in provincial jurisdictions, and 26 carbon tax schemes implemented mainly at the national level. The carbon prices in these different initiatives range widely, from US$1/tCO2e (tons of carbon dioxide equivalent, a measure of GHGs emitted) to US$130/tCO2e. In most cases, carbon prices are relatively modest, with 99% of the schemes below US$30/tCO2e and 85% below US$10/tCO2e. (Singapore's carbon tax will initially be $5/tCO2e from 2019 to 2023, possibly increased to between $10 and $15 per tonne of emissions by 2030.)

Yet, within the past few years, the burden of carbon pricing has come as a surprise to many a politician's cost at national, provincial and city levels. Energy prices have mounted, often at astonishing speed, in many countries and localities – from Germany to California, Australia to Canada -- that have been at the forefront of "de-carbonizing".

A general sequence of events seems to be at work. In voting constituencies where "green" policy support seems to offer a quick route to political office, campaign promises are followed up by office holders with exuberant support for renewable energy. These policies include aggressive subsidies and carbon pricing schemes as well as non-price measures such as technology-based regulations and mandates favouring renewable technologies such as solar and wind power and electric vehicles. Such technologies invariably cost more relative to existing market-based arrangements, otherwise they wouldn't have needed taxpayer support in the first place.

When green legislation drives up the price of heating, cooling, transport and electricity which directly impact the average household budget, the median voter promptly throws the politician -- who is quite correctly perceived to have caused the pain -- out of office. The argument that the pain was caused to avoid some far-off "expected" catastrophe holds little water for those of modest means. While proponents of carbon taxes and renewable energy might occupy the higher moral ground, what matters in many elections is the pocket-book.

For Singaporeans, perhaps the most proximate example of this sequence of events is provided by the Australian PM Malcolm Turnbull's humiliating backdown over his efforts to seal the country's Paris Agreement pledges with legislation. With the prospects of an open party revolt and a leadership challenge, Mr. Turnbull tried to compromise but to no avail. Ultimately, he was forced to turn over leadership to his party's conservative faction which called for higher investments in the country's coal sector as well as energy policies to lower Australians' electricity bills. Escalating electricity bills for households in South Australia and other states which retired coal plants with expensive renewable energy to support climate change goals have been among the leading election issues gripping state and national level politics for some time.

Turning to another Commonwealth country, at the other end of the world from Singapore, the first act of the new Ontario provincial government led by "Canada's version of Donald Trump", Doug Ford, was to "fight any efforts by the Federal government to impose a carbon tax on the people of Ontario in court". Several provinces are already on record in joining Ontario in challenging Federal legislation on energy policy and climate change, including Manitoba, Saskatchewan, New Brunswick and Prince Edward Island. Rising electricity prices, a collapse in foreign direct investment caused by policies to phase out coal and heavy oil, and delays in approvals for resource development infrastructure such as pipelines and ports have led to an aggressive pushback by the provinces against the Federal government's carbon tax and other initiatives to support the Paris Agreement.

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(continued on page 50)