Navigating the political economy of carbon pricing in developing countries

PMI Knowledge Forum 2023
Pricing carbon: A political economy challenge

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Enter Policy Agenda
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Adopt
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Momentum is building in developing countries

Status of carbon pricing instruments in developing countries

21 adopted


22 under consideration

Botswana, Brazil, Brunei Darussalam, Chile, Colombia, Cote d'Ivoire, Gabon, Indonesia, Indonesia, Jalisco, Malaysia, Morocco, Nigeria, Pakistan, Senegal, Serbia, Shenyang, Taiwan, Thailand, Turkey, Ukraine, Vietnam

Data: World Bank Carbon Pricing Dashboard (2022)
Carbon pricing seen as more effective but less feasible than other policy instruments
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- Political opposition
- Economic competitiveness
- Impacts on vulnerable groups
- Charges of “climate elitism”
- Dependence on carbon revenues
Policy champions need allies and opportunity

Policy champions (especially in government) are **essential** but **not sufficient**
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Emphasizing co-benefits broadens support
  Improve public health and local environmental issues
  Opportunity for international collaboration and leadership
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**Emphasizing co-benefits broadens support**
- Improve public health and local environmental issues
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**Preparatory policies create favorable conditions**
- Technology subsidies and mandates strengthen low-carbon interests
- Climate targets can make climate action seem inevitable
International pressure is mobilizing support

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The EU’s **Carbon Border Adjustment Mechanism** has provided significant impetus for trading partners to move forward on carbon pricing

*Especially motivating for exporters and multinational firms*
Low initial ambition can improve feasibility

Starting with a weak carbon price can ease initial resistance
  Few countries have started with a strong carbon price
  Detailed plans to strengthen over time can avoid a low-ambition trap
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- May be able to negotiate use of revenues

*Preferred uses: green infrastructure and/or vulnerable groups*
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  Detailed plans to strengthen over time can avoid a low-ambition trap
  May be able to negotiate use of revenues
  \textit{Preferred uses: green infrastructure and/or vulnerable groups}

Can \textbf{overcome remaining resistance} by
  Rallying public support in electoral and education campaigns (rare)
  Embedding the policy in larger, more popular reform packages
Successful implementation takes capacity and trust
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Intentionally **accounting for capacity limitations** can facilitate compliance
Simplified reporting procedures (e.g., default emissions values)
Repurposing existing infrastructure (e.g., air quality monitoring)
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An **iterative and participatory process** for developing rules helps
- Produce clearer and more detailed guidance
- Facilitates communication of responsibilities
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**Phased implementation** can build trust

- Pilot programs for help regulators and firms gain familiarity
- Gradually moving from more facilitative to more punitive enforcement
Consolidate and strengthen ambition over time

Effective carbon prices balance political insulation and adaptability
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Three strategies for updating carbon pricing
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- **Automatic** - according to pre-set rules
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Three strategies for updating carbon pricing
- **Discretionary** - as needed
- **Automatic** - according to pre-set rules
- **Hybrid discretionary** - require re-evaluation at regular intervals
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Three strategies for updating carbon pricing

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- **Automatic** - according to pre-set rules
- **Hybrid discretionary** - require re-evaluation at regular intervals

Also requires **cultivating an enduring coalition** in support of carbon pricing
Reflects policy feedbacks, market conditions, and external policies
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3) Spread of **environmental commitments among multinational firms**
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2) Complementary climate policies are in place more widely
3) Spread of environmental commitments among multinational firms
4) Policy actions by trading partners
5) Greater learning of carbon pricing’s technical and political aspects