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## STRENGTHENING CANADA'S GOVERNANCE FOUNDATION FOR DECARBONIZATION

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# Strengthening Canada's Governance Foundation for Decarbonization

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## Key Findings

- The main drivers for decarbonizing Canada's economy will likely emerge from places and events outside of the control of domestic policymakers: international capital and commodity markets, disruptive technologies, changing consumer demands, and catastrophic weather events
- Canadian policymakers must prepare now to build resilient and democratic institutions that can leverage these external forces, enhance the quality of life for Canadians, and improve Canada's economic competitiveness in the low-carbon economy
- The current institutional configuration has prioritized business-as-usual high-carbon development. Institutions and policy networks must be reoriented to privilege those actors advancing a prosperous, just and low-carbon transition
- To do that, attention must be paid to strengthening the capacity and independence of a democratic federal government, reducing the risk faced by business and political leaders, and fostering stable and diverse climate policy networks

## The Issue

Norway and Australia, along with Canada, are wealthy, liberal, democratic nations with advanced industrial economies and ought to be the most likely countries to lead the transition to a low-carbon future. However, these three countries are also globally significant fossil fuel exporters. Their respective economies thrive on the wealth generated from selling coal, oil and gas.

Despite these similarities, considerably different national climate mitigation policy has emerged from these countries. Norway developed an early, broad, diverse and durable suite of climate policies compared to Australia and Canada. The Nordic nation is an outlier: an early climate policy innovator that has steadily expanded its climate policies. A carbon tax on its oil and gas industry has been in place since 1991, and is now one of the highest in the world. A global leader in climate diplomacy, carbon offsetting and electric vehicle usage, Norway's climate policies have long been far ahead of other major fossil fuel-producing states. By contrast,

climate policy in Canada and Australia, in general, has developed late, had narrow sectoral coverage, used a limited variety of policy types, and has been highly volatile.

This working paper explores a) what caused this variation in climate policy, b) why responses from sympathetic governments were able to make headway and entrench policies in some cases but not others, and c) what Canada can do to ensure that future climate policy is more durable and ambitious.

## The Governance Foundations of Decarbonization

Behind the political history of climate policy development in Australia, Canada and Norway lie critical differences in how climate policy was developed and implemented. These differences reveal a path forward to reducing emissions in all of these countries and centre upon three key areas: state strength, elite risk perceptions, and policy network structure.

State strength, elite risk perceptions, and policy networks are key elements of the governance foundations of climate policy. They inform an analysis that considers the ideas, interests, and institutions behind the noisy bluster around climate policy debates. To be clear, there are other factors at work shaping policy. However, for Australia, Canada and Norway, the components discussed here are instrumental to understanding the variety in their climate policies and shed light on the reforms necessary to hasten a just, low-carbon transition.

### State Strength

State strength is synonymous with sociologist Michael Mann's concept of state infrastructural power, namely the "institutional capacity of a central state [...] to penetrate its territories and logistically implement decisions."<sup>1</sup> Building on this definition, Soifer describes three core dimensions of state strength: territorial reach, autonomy, and bureaucratic capacity.<sup>2</sup> Territorial reach is the constitutional and legislative ability of the national governments to implement climate policy. Autonomy refers to the "the ability of the state to implement official goals, over the actual or potential opposition of powerful social groups," in particular, major industrial emitters and business associations.<sup>3</sup> Bureaucratic capacity refers to the professionalization and institutionalization of state bureaucracies to analyze and implement policy, raise revenue, and deliver public goods and services.<sup>4</sup> These three facets of state strength are important elements in explaining climate change governance because they shape elite risk perceptions, policy network structure and resultant climate policy.<sup>5</sup>

### Risk Perceptions

Risks are frequently in the eye of the beholder. Risk perception, therefore, is crucial to understanding engagement on environmental issues amongst the elites in a society.<sup>6</sup> Risk perceptions are social constructions. How people view the risks associated with climate change is informed not only by objective, technical estimates of real risk but also by biases which are

shaped by the intersection of cultural worldview, political ideology, race and gender, among other factors.<sup>7,8</sup> How elites perceive the risk from climate change policy is, in part, a function of the strength of a state and how the state frames climate action.

Elites in business, government, and politics are crucial actors in climate policymaking. They have the power to frame policy ambition, and legitimize or delegitimize particular actors or perspectives. Of course, the views of the public or marginalized groups such as environmental groups, Indigenous organizations, or labour unions ought to be considered. However, the past thirty years have consistently shown that in Canada elites are the gatekeepers and must actively choose to be open to these ‘outsiders’. Strong states can reduce elite risk perceptions of climate policy by demonstrating that the state has the power to address elite concerns. When elites are not threatened they are more amenable to policy networks that are open, diverse and stable.

### **Policy Networks**

Risk perceptions shape policy networks. Policy networks are where the heavy lifting of policymaking takes place. Here, economic and political actors, government departments, labour unions, and civil society organizations engage one another to influence resultant policy. These networks can be closed or open to new members and can be highly stable or volatile. Those networks that are open and stable, tend to result in climate policy that is early, broad, diverse and durable. In turn, this kind of climate policy is far more capable of catalyzing domestic emission reductions.

### **Summary**

At the heart of the governance foundation of effective climate policy lies state strength. A strong state can assuage elite concerns, restructure policy networks and create ambitious climate policy. In so doing, a semi-autonomous state can also reinforce its democratic commitment and deepen its legitimacy. It is less likely to conflate narrow sectoral interests with the broader public interest and can reform the policymaking process to empower voices that constructively present solutions. Of course, climate policy is not simply the product of domestic politics. International factors, such as the influence of major trading partners, also shape domestic policy decisions. A high level comparison of the governance foundations of Canada, Australia, and Norway can be found in Table 1.

Norway, a relatively strong state, has the territorial reach, autonomy from powerful interest groups, and bureaucratic capacity that Australia and Canada lacked. The Nordic country’s main trading partner is the EU, an ostensible climate policy leader. Consequently, Norway could calm elite concerns over the political risk from climate policy, and open and stabilize its climate policy networks. The result: Norway was able to lead early and create broad, diverse and durable climate policies.

Canada and especially Australia are relatively weak states with major trading partners that

are known as climate policy laggards. The national governments of Australia and Canada lacked the reach and capacity of the Norwegian government. As a result, these two states could not placate elite concerns on even timorous climate policy. Policy networks were unstable and often constricted. The resultant national climate policy was late, narrow, and volatile.

**Table 1: State Strength, Elite Risk Perceptions, Policy Networks, and Climate Policy in Norway, Canada, and Australia.**

	STATE STRENGTH				RISK PERCEPTIONS		
	Overall	Territorial Reach	Autonomy from non-state actors	Bureaucratic capacity	Overall	Policy Certainty	Policy Stability
Norway	Semi-autonomous strong state	High	Moderate	High	Low	High	High
Canada	Semi-autonomous weak state	Low	Moderate	Low	High	Low	Low
Australia	Weak state	Low	Low	Low	High	Low	Low

	POLICY NETWORKS		CLIMATE POLICY			
	Network Openness	Member Stability	Timing	Scope	Means	Durability
Norway	Open	High	Early	Broad	Diverse	High
Canada	Variable	Low	Late	Narrow	Limited	Low
Australia	Variable	Low	Late	Narrow	Limited	Low

Despite this national variation, all three countries have struggled to reduce total greenhouse gas emissions. Between 1990 and 2016, emissions rose in Norway by 3 per cent, rose in Canada by 17 per cent and rose in Australia by 31 per cent.<sup>9</sup> Of course, this struggle is the result of many factors, not simply climate policy effectiveness or those factors within the control of a national government. Regardless, there is still significant room for improvement in how climate policy making takes place, which could increase the likelihood of absolute emission reductions and a just transition for impacted workers and communities.

## Policy Implications and Recommendations

Given the limited time we have to solve or brace for the climate crisis and the enduring challenge to substantively reduce national emissions, a new approach to climate policy is needed. In many countries, the climate policy debate is all too frequently lost in the technical details. These sophisticated policies may reduce emissions-intensity but they have not reduced absolute emissions – even in countries like Norway. Without more attention to the foundational political barriers to decarbonization, new climate policies will likely remain unsuccessful.

Looking at the experiences of Australia, Canada and Norway can give us key insights into how governance foundations can be strengthened in Canada. In particular, state strength, risk perceptions and policy networks can be re-envisioned to better prepare Canada for disruptive

decarbonization. No singular recommendation is sufficient to realize transformative domestic emission reductions, but they are all necessary. They also hold promise to improve the governance of a host of policy areas, beyond climate change.

## **Strengthening a Green and Democratic Federal Government**

State strength is not static. Canada's weak state status can be improved. Strategic interventions could take place to grow the federal government's capacity, leverage territorial reach, and increase autonomy from non-state actors. A stronger, renewed, and more democratic federal government can, in turn, allay the concerns of powerful elites and help to open and stabilize climate policy networks.

### **Growing Bureaucratic Capacity**

Enhancing the capacity of the bureaucracy could help to reduce the likelihood of the government defending the interests of powerful industrial emitters over the public interest, and it could redress the imbalance of information between the state and major emitters, which often makes it difficult for the government to judge the accuracy of claims that climate policy will erode industrial competitiveness. Three key actions can help accomplish this:

#### **1) Flexibility in hiring to attract and retain high-skilled employees**

Outside of Norway, government officials noted the difficulty in enlisting the country's top talent. Government salaries often cannot compete with the lucrative private sector. These specialized skills can sometimes only be accessed via private sector consultancies. This is not only expensive but also limits the ability for these skills to be retained within the bureaucracy. Instead, the government could improve its ability to hire people with valuable experience from the private sector, labour unions, environmental groups or indigenous organizations. Increasing public sector salaries could be one avenue. Promoting more mid and late-career hiring within the bureaucracy or allowing bureaucrats to leave for extended secondments could also help to increase bureaucratic capacity.

#### **2) Hire and promote those from more diverse professional backgrounds**

In Canada, economists have been at the forefront of leading climate policy discussions. These economists have approached and framed climate policy discussions in ways that ill-considered many fundamental social and political barriers to successful policy implementation (*e.g.*, carbon pricing, wind energy in Ontario). The skills and recommendations of economists are essential to good climate policy-making, but need to be complemented by other bases of knowledge and worldviews. By hiring more non-economists and promoting them to positions of climate policy influence, the federal government will be better equipped to consider the seemingly irrational reactions to rational economic approaches to climate policymaking.<sup>10</sup>

#### **3) Strengthen government-based energy and climate policy analytics**

Beyond reforming human resources practices, part of improving bureaucratic capacity is increasing the policy analytical capacity of governments.<sup>11</sup> In Australia and Canada, it is not uncommon for the state to outsource analytical work to third-party consultants or have major emitters pay a significant portion. This enables industry and the state to justify status quo development even during early stages of policy development. Further, the federated status of both of these countries and the division of responsibilities among levels of government makes consistent data collection more challenging than in Norway, where a single national government gathers and analyses this data. Canada's 2019 federal budget allocated resources for Statistics Canada to create a virtual Canadian Centre for Energy Information. This is an excellent example of how to improve bureaucratic capacity, and provide Canadians with balanced and trusted data on Canada's energy system.

### **Extending Territorial Reach**

Federalism, especially in Canada, has been cited as a reason for ineffective climate policy. A constitutional division of power across different levels of government can facilitate venue shifting, where political actors shop or shift ideas to different institutional locations to achieve a favorable outcome, and divide and rule tactics. Thankfully, the solution need not be as drastic and difficult as constitutional reform. These four recommendations work within Canada's existing constitution while improving the federal government's ability to enact climate policy.

#### **1) Improving emissions oversight of a national power grid**

The development of Canada's electricity generation and power grids has traditionally been left to subnational governments. As a result, electricity markets are highly balkanized and have far greater grid connections with the United States than with adjacent provinces. Constitutionally, Ottawa has the authority to manage interprovincial trade, including electricity, and to manage pollution that can cross provincial and national boundaries. The federal government could examine the emission reduction potential, as well as prospective cost and reliability efficiencies by having a national power grid managed by the federal government.

#### **2) Redistribute more benefits directly to citizens**

Allowing provinces to manage the lion's share of climate policy is the traditional path of least resistance and also least emissions reductions. Subnational governments, especially those dependent on large industrial emitters, can seek to block the redistribution of benefits to low-emitting citizens while directing subsidies to large polluters. By having household-directed climate policies at the national level, the federal government can encourage citizens regardless of where they live, to reduce emissions. This was most recently seen by the Trudeau Government decision in November 2018 to provide a climate dividend to low and middle-income households to offset the costs of a federal carbon tax. The 2019 federal budget also gave electric vehicle or energy efficiency incentives directly to voters and municipalities, as opposed to provinces. These actions ideally grow the number of supporters for these policies so that they are less likely to

be repealed.

### **3) Manage the decline of the fossil fuel industry**

Canada should plan for a managed decline of the fossil fuel industry. Without state intervention, external shocks (e.g., market volatilities and disruptive technologies) to Canada's high-cost, high-carbon oil and gas industry will likely result in extreme economic hardship for oil and gas-dependent communities, as well as governments and investors that are reliant on income from this traditionally profitable sector. To lessen the hardship and ensure that the companies producing oil and gas are the most competitive and profitable, the state can facilitate a managed decline of the industry over the next thirty years. This can be accomplished through phasing out targeted state support and restricting the supply of fossil fuel, among other methods.

Scaling back state support of the fossil fuel industry can be accomplished by eliminating fossil fuel production and consumption subsidies, reducing industry access to export developments banks and federally-backed political risk insurance, and requiring industry to pay for reclamation costs as they occur. Canada, including public pension funds, should divest from all direct ownership of fossil fuel companies or related infrastructure. This will re-balance the risks away from the state—and by extension its citizens—and towards fossil fuel companies and their investors.

As the state ceases to promote the fossil fuel industry, it can also deliberately wind down the use and export of fossil fuels. Canada's federal government has the right to issue import and export permits for fossil fuels. While state-directed changes in fossil fuel supply is ostensibly a strong departure from existing policies, it is not unheard of. Alberta is currently using production quotas to limit the amount of oil on the market with the aim of lifting the market price through reduced supply. Using quotas could enable domestic fossil fuel producers to potentially receive a higher price but also accomplish the desired public goal of accelerating domestic emission reductions. Of course, federal assistance would be needed for location-relevant worker training and economic diversification for communities dependent on fossil fuel extraction.

### **4) Increase state financial interest in low-carbon technologies**

The same dynamic of path dependence that has made it difficult to transition away from fossil fuel use can be used to accelerate the transition. By leveraging the state's risk-bearing capacity and the perennial need to sustain and grow fiscal revenue, Canada can make similar interventions with pollution-free industries as they have with pollution-generating industries. For example, this can be done through holding equity in renewable energy companies or electric vehicle manufacturing facilities. Like Norway, public pension funds could be directed to increase investments in clean energy technologies or non-emitting sectors.

## **Improving Autonomy from Non-State Actors**



There are many ways to increase autonomy from non-state actors, particularly powerful industrial polluters. These four recommendations focus on rebalancing the playing field towards those interested in hastening a just transition to a low carbon society.

### **1) Electoral Reform**

The majority of Canadians have long been in favour of stronger climate policy. Yet, those views are not often reflected in the policies of a majority government. Proportional representation, as Norway and many other countries have experienced, can lead to stable coalition governments that could advance relatively ambitious climate policies that aligned with the public. More broadly, electoral reform holds the potential to deepen democracy and help to rebuild the legitimacy of formal political institutions.

### **2) Clear, Stable and Just Low-carbon Transition Plan**

Developing a clear, stable and just plan for a decarbonized future is key to withstanding attempts to derail progress by major emitters and their allies. Clarity and stability enable a compass bearing to be set and decreases the uncertainty for the private and public sectors. A procedurally and distributionally-just plan makes it more likely that citizens, including those who are most vulnerable from climate change and from a transition away from fossil fuels, will have a fair say in the plan's development and the distribution of benefits and burdens.

### **3) Isolate and Decarbonize Fossil Fuel Revenues**

To wean the state off its dependence on sustained or growing fossil fuel-related revenues and reduce its risk exposure, Canada can gradually isolate the associated income from taxes, royalties, leases, or dividends, in a fund that does not invest in companies that are major fossil fuel extractors. A fixed portion of the revenues of this fund could be used by the state treasury but this portion would not be contingent upon the price or domestic extraction rate of fossil fuels. This action would follow the lead of Norway, whose trillion-dollar sovereign wealth fund is in the process of decarbonizing its investments.

### **4) Empower Civil Society and Indigenous Organizations**

Historically, the interests of the private sector, particularly major industrial polluters, have dominated climate policy deliberations. Privileging civil society and indigenous organizations would likely result in more effective and ambitious climate policies. Of course, that is not saying private sector voices are not valued. Rather, industry's views need to be placed alongside many other voices that represent a broader and more enduring array of interests.

## **Reducing Elite Risk Perceptions**

Strengthening the state could reduce the concerns of elites regarding the political risks of climate policy. In particular, framing climate policy as certain and stable could help allay elite concerns.

### **1) Promoting decarbonization as inevitable and beneficial**

Climate policy certainty can be fostered by state and non-state actors framing domestic decarbonization as inevitable and beneficial, as opposed to unpredictable and onerous. This approach provides clear guidance on future changes to climate policy (*e.g.*, a fixed, long-term schedule of carbon price increases or periodic policy reviews) and state ambition (*e.g.*, a low-carbon transition plan). This promotion can be done through increasing public awareness of existing and emerging best practices in reducing emissions, domestically and internationally. By increasing the frequency and the volume of the drumbeat that the world is moving towards a decarbonized future, climate action will become normalized and will likely be perceived by business and political elites as a less risky endeavour.

### **2) Striving for a broader consensus on climate policy**

While a societal consensus on climate policy may seem increasingly out of reach in Canada, it remains a linchpin for reducing elite risk perceptions. Socialized health care is not a risky policy for Canadian elites because no major segment of society disagrees with its importance. While not always possible, striving for a consensus on climate policy among political parties, subnational governments, indigenous organizations and civil society helps to avoid the climate policy retrenchment and polarization seen in Australia. Efforts in Canada such as the Pan-Canadian Framework on Clean Growth and Climate Change are potential harbingers of an emerging consensus. Electoral reform and the following policy network recommendations could also help grow a climate policy consensus.

## **Democratizing Policy Networks**

The structure of policy networks is heavily influenced by elite risk perceptions but it can also be intentionally shaped by the state. Indeed, the state can aid in opening policy networks and encouraging member stability without constraining the views of network members. By formalizing and resourcing policy networks, the dominant views of major industrial emitters can be re-balanced with the rest of society. In doing so, this reform can help democratize climate policymaking and increase the legitimacy of both the process and the resultant policy.

### **1) Create and maintain permanent and independent stakeholder bodies**

Major emitters and other private sector actors often have the resources to fund a durable network of industry and business associations to collectively advance their interest. This has not been the case for environmental groups and other civil society actors in Canada. If these civil society umbrella organizations do exist they are often poorly resourced and tend to appear only during certain policy windows. By facilitating the creation of permanent consultative bodies, resourcing these institutions and protecting their independence, the federal government can stabilize policy networks, ensure these networks remain open to new members, and increase the likelihood that the government is receiving high quality and representative policy advice from a

broader section of society. In the past, the Canadian Environmental Network played this role.

## **2) Establish proportional caucuses within multistakeholder advisory bodies**

As climate policy is developed and implemented, governments sometimes maintain multistakeholder advisory bodies. However, due to the great discrepancy in the financial resources between private and non-profit sector, it is not uncommon for industry representatives, particularly from major emitters, to greatly outnumber representatives from other relevant groups, such as environmental groups or Indigenous organizations. Establishing a proportional caucus would help to keep the influence of major industrial emitters in check with the broader interests of civil society.

## **3) Build mutual understanding within multistakeholder advisory bodies**

Industry and government interviewees often noted the lack of technical expertise of environmental and Indigenous representatives in multistakeholder bodies. Re-envisioning these bodies as sites to build mutual understanding and trust could make these bodies more useful to all parties. Non-industry members could improve their technical understanding and industry members could better appreciate the knowledge, values and insights of non-industry members.

# **Conclusion**

To be clear, many of the forces pushing Canada towards decarbonization are beyond the control of its citizens and political and business leaders. International capital and commodity markets, disruptive technologies, changing consumer demands, and catastrophic weather events will be strong drivers for climate policy in Canada.

Rather than delaying transformative climate policy and passively reacting to these events, Canadian policymakers can start to build resilient and democratic governance foundations that can leverage these external forces, enhance the quality of life for Canadians, and improve Canada's economic competitiveness in a decarbonized global economy. Further, these reforms can help to restore public trust and legitimacy of political institutions and enable concerned Canadians to engage and influence climate policymaking. The federal government and the policymaking process can be reoriented to privilege those actors advancing a prosperous, just and low-carbon transition. To do that, attention must be paid to strengthening the capacity and independence of a democratic government, reducing the risk faced by those who have benefitted from the current system, and fostering stable and diverse climate policy networks.

# **Appendix**

This working paper was authored by Nathan Lemphers. PhD Candidate, Department of Political Science, University of Toronto; Pierre Elliot Trudeau Foundation Scholar; and Pre-Doctoral Fellow at the Smart Prosperity Institute. This policy brief is based on his doctoral research, which compares national climate policy governance in Canada, Norway and Australia

from 1988 to 2018. Interviews with 124 senior officials from the private sector, national governments, environmental groups, labour unions, indigenous organizations, academia and journalists, as well as primary document analysis, informed this research.

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