

The Emission Trading System:
Transfer of the EU ETS to Canada.

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Summary

This study aimed to investigate which of the theories, logic of appropriateness or logic of consequence, provide greater explanatory leverage for a policy transfer based on the case of the ETS transfer from the EU to Canada. The congruence analysis was utilized in order to reveal which of the theories provide a better explanation. The logic of appropriateness was operationalized through the party political ideology while the logic of consequence was analyzed through the interest group preferences.

The investigation revealed that neither of the theories provides a comprehensive explanation for the policy transfer. First, although the analysis of political parties in Canada illustrates that the transfer did not occur, it was revealed that the ideologies in receiving countries play a role in policy adoption. More precisely, the left-wing ideologies are more receptive to new environmental policies. The examination of the interest group's preferences also confirmed that the policy transfer did not occur. At the same time, the results showed that the more likely the new environmental policies appeal to the interest groups, the more likely that the policy will be adopted.

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List of Abbreviations

BCA - Border Carbon Adjustment

BP - British Petroleum

CAN - Climate Action Network

CAPP - Canadian Association of Petroleum Producers

CBAM - Carbon Border Adjustment Mechanism

ECR - European Conservatives and Reformists Party

ELDR - European Liberal Democrat and Reform Party

EPP - European People's Party

ETS - Emission Trading System

EU - European Union

GGPPA - Greenhouse Gas Pollution Pricing Act

GHG - Greenhouse gas

Green/EFA - Green/European Free Alliance

NDP - New Democratic Party

NGO - Non-governmental organization

OBPS - Output-based Pricing System

PES - Party of European Democrats

U.S.A - United States of America

U.K - United Kingdom

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1. Introduction

Climate change is one of the biggest challenges for societies, businesses and governments that influence each aspect of people's lives. The consequences of climate change are "not only physical but also economic and social" (Mason, 2015). Food insecurity, poverty and unemployment are among the numerous examples of the problems caused by the environmental problems (Safonov, 2019). Even minor changes in climate can lead to unbearable consequences for the present and future generations. Human activity, in its turn, is the main cause of climate change, and, at the same time, people are the solution to this challenge (OECD, 2022). However, due to the unprecedented scale of the problem, measures need to be taken not only at individual but also at business and government levels. In 2015, only 100 companies worldwide were accountable for 71% of the greenhouse gas (GHG) emissions which are the main source of climate change (Riley, 2017). In order to cope with the increasing emission at industrial level, governments throughout the globe introduce various measures ranging from regulations to technologies (IPCC, 2022). Emission Trading Systems (ETS) is one of the instruments in the government toolkit that "internalizes the societal cost of GHG emissions", thereby encouraging firms and companies to become sustainable (IETA, 2021). The ETS was first introduced in the European Union (EU) in 2005 (European Commission, 2020). In 2022, 46 jurisdictions already have a carbon pricing system at national level which indicates slow but steady diffusion of the ETS across countries (World Bank, 2022).

1.1 Problem Statement and Research Question

Climate change policies transfer in general and transfer of ETS specifically received considerable attention from scholars in recent years. The majority of the studies investigated the external factors that facilitate or hinder the policy transfer processes. At the same time, the internal factors were largely ignored. Although some studies acknowledge that internal factors such as the financial resources and networks have an effect on policy learning, these studies are not based on the investigation of policy transfer between specific countries and therefore provide an overview of general patterns of policy transfer across many countries (Schoenefeld et al., 2022). Consequently, there is a lack of research examining internal factors that influence the transfer of policies based on the specific cases. The literature gap underpins the choice of the

theories for the study. This research will be based on the theories developed by March and Olsen, namely the logic of consequences, which stresses the importance of rationality and the logic of appropriateness which upholds the role of identities and values (March & Olsen, 1998). The theories, which were mainly used to interpret the state behavior in the international arena, were recently applied to study of factors influencing the policy transfer in the climate field by Torney. Similar to other studies, Torney examined the transfer of various climate policies across many countries rather than the transfer between two jurisdictions (Torney, 2018). Thus, lack of the research investigating internal factors and relative freshness of given theories in the policy transfer field presents an interesting case. Combining the literature gap and new application of existing theories, this study will aim to test which of these two logics provide a better explanation of policy transfer based on the case of ETS.

Although many studies regarding the transfer of environmental policies focus on developing countries, the focus of this study is developed countries since these countries are on the list of top emitters. The policy transfer will be examined based on the transfer of the ETS from the EU, ETS pioneer, to Canada, which recently introduced ETS at the federal level. Therefore, this study will aim to answer the following *research question*:

“Which theory - logic of appropriateness or logic of consequence - provides the better explanation for the transfer of the Emission Trading System from the EU to Canada?”

1.2 Relevance

The research questions have two dimensions of relevance: theoretical and social. While theoretical relevance relates to the contributions to scientific discourse by enhancing understanding of particular phenomena, social relevance is related to the contributions to the wider society (Lehnert et al., 2007).

1.2.1 Social Relevance

According to the definition provided by Lehnert and associates, socially relevant research “furthers the understanding of social or political phenomena that affects many people’s lives” (Lehnert et al., 2007, p.27).

As already mentioned, climate change is one of the biggest challenges for both present and future generations that touches every corner of the world. At the same time, developed countries lead climate change mitigation and adaptation through their innovative approaches to climate change (Glachant, 2020). The more effective these innovations are across the developed states the more likely that other countries will seek to adopt similar approaches to the climate change problems. Thorough examination of the climate change responses in developed countries will assist both developed and developing countries, which are lacking technical, administrative, and financial capabilities to tackle the problem effectively and efficiently. Therefore, the findings of this research can shed light on the factors that facilitate the policy transfer thereby assisting policymakers around the world. Moreover, an increasing number of jurisdictions with ETS indicate that more and more countries are expected to learn from each other in the future which once more points to the necessity to test the role of internal factors in policy transfer. More precisely, the investigation of internal factors that explain the policy transfer across developed countries can serve as an indication of whether the policy adoption will occur in other countries.

1.2.2 Theoretical Relevance

The theoretical relevance is defined as contributions that enhance “analytical leverage of political or social phenomena” (Lehnert et al., 2007,p.23). This study is considered theoretically relevant for two reasons.

First, the study applied “the theoretical framework to a relatively new empirical domain” (Lehnert et al., 2007, p.25). The most common theories applied to the study of policy transfer are the learning, coercion and economic competition theories. For example, Boyd used competition and learning theories in order to examine which factors led to the adoption of climate change policies from the U.S to Canada (Boyd, 2017). As mentioned previously, the theories selected for this research, the logic of consequence and the logic of appropriateness, are relatively new in the policy transfer field. Besides Torney’s research, the literature applying the given theoretical framework to study policy transfer or policy learning is lacking. Therefore, this study will aim to

reveal whether two mentioned logics can provide a valid explanation for environmental policy transfer.

As a consequence of applying the theoretical framework to a relatively unstudied field, the research is theoretically relevant as it will test “so far untested theoretical hypotheses” (Lehnert et al., 2007,p.24). According to Lehnert and associates, the examination of untested hypotheses contributes to scientific discourse regardless of whether the hypotheses are confirmed or rejected (Lehnert et al., 2007,p.24). Acceptance of hypotheses lead to the theoretical refinement while the their rejection “allows us to reject empirically not confirmed hypotheses” (Lehnert et al., 2007,p.24).

1.3 Background

The ETS is a widely-recognized tool for fighting climate change. The system aims at reducing GHG emissions in a cost-effective way by creating markets in which firms that find it expensive to abate can purchase emission allowances from other firms that can minimize their emissions at a lower cost (OECD, 2022). In other words, if one company emits above the amount set by the framework, it can buy emission allowances from another company which emits below the allowed maximum. The ETS functions either through the cap-and-trade or baseline-and-credit principles (OECD, 2022). Under the cap-and-trade principle, the absolute emission limit is determined, and the emission permits are distributed based on the aggregate emission level (OECD, 2022). Under the baseline-and-credit system, on the other hand, emission levels are determined for each activity based on the “historical emissions or from a performance standard that specifies the permitted ratio of emissions to output” (Buckley et al., 2004, p.2).

The ETS was introduced in the EU in 2005 (European Commission, 2020). Alongside being the first system, the EU emission trading regime is also the largest in the world arena, covering more than 11,000 companies (European Commission, 2016). Echoing the example of the EU, many other countries have already adopted or are considering the introduction of the ETS. For example, Canada, China, Japan, New Zealand, South Korea, and Switzerland have already established the system at national or subnational levels (European Commission, 2022).

One of the first countries to adopt the ETS at provincial level was Canada. In 2007, the Federal Government released the “Turning the Corner” action plan that set mandatory targets for GHG emissions reduction (IEA, 2017). The action plan set a basis for further government programs

and regulations to combat climate change (Government of Canada, 2013). As a part of this action plan, the government also introduced the Regulatory Framework for Air Emissions where the emission trading mechanism was first mentioned (Government of Canada, 2007). Consequently, the general framework gave a start to ETS introduction at provincial levels. In 2007, Alberta passed the Technology Innovation and Emissions Reduction regulation establishing baseline-and-credit ETS (World Bank, 2022). Following Alberta, the province of Quebec implemented the trading system, in 2013. The only province where the ETS was introduced before 2007 is Ontario (Government of Ontario, 2022). However the coverage of its local ETS was limited to nitrogen oxide and sulphur dioxide only (Prairie Climate Center, 2018).

In 2016, after signing the Paris Agreement, the federal government released the Pan-Canadian Framework on Clean Growth and Climate Change (OECD, 2021). The given framework stressed the importance of cooperation between the federal and the provincial levels (Government of Canada, 2017). In order to advance the objectives of the Pan-Canadian Framework, the Greenhouse Gas Polluting Pricing Act (GGPPA), or the backstop program, was passed in 2018 (Government of Canada, 2018). For the first time, the regulatory act established a federal carbon charge and the emission trading system, the Output-Based Pricing System (OBPS) (Government of Canada, 2018). OBPS functions as a regular emission trading system, where the firms that emit below the baseline receive the “surplus credits”, which can be traded in the emission market. The backstop program provided flexibility to provinces by allowing them to set their own ETS (Government of Canada, 2021). However, if the ETS is absent or does not meet the federal requirements, the OBPS is applied to those territories. After the regulatory changes, more and more provinces started to implement the ETS to reduce their GHG emissions. Some provinces, such as Manitoba and Nova Scotia opted for the provincial ETS while other provinces, such as New Brunswick applied federal backstop (World Bank, 2018).

2. Literature Review

2.1 Policy Transfer

Many public policies have spread across the globe influencing the lives of billions of people. These policies include and are not limited to education standards, free-market policies and environmental regulations. Policy learning, policy transfer and policy diffusion are the common terms that describe the spread of public policies. Many academics point to the advantages and less often to disadvantages brought by the policy learning processes to developing and developed countries (Garret et al., 2006). Although the perceived benefits and costs of policy learning are crucial for understanding the countries' motivation to engage in the policy diffusion or transfer, it is also important to analyze other factors that lead to the policy learning.

Before examining the scientific discourse in the given field, it is necessary to define the central concepts. Policy transfer can be described as a process in which “knowledge about policies, administrative arrangements, institutions and ideas in one political setting (past or present) is used in development of policies, administrative arrangements, institutions and ideas in another political setting” (Dolowitz & Marsh, 2000, p. 5). The policy diffusion concept emphasizes the dependence of the government decisions or choices in one country on the government decisions and choices in other countries (Garret et al., 2006). Policy learning in its turn can be understood in terms of “lessons that are drawn” from the previous experience (Dunlop & Radaelli, 2013, p. 60). Moyson and associates (2017) provide the categorization of the approaches to policy learning. They argue that learning can occur on the micro, meso and macro levels. While the micro-level approach focuses on individual learning and the meso-level approach builds upon organizational learning, the macro-level approach refers to the learning across the systems, in other words across the governments. The learning processes at the latter level can also be termed policy diffusion or policy transfer, which implies that the concepts defined earlier can be used interchangeably (Moyson, et al, 2017).

In order to understand why governments engage in policy learning, the forms of policy transfer should be examined (Wasserfallen, 2019). One of the earliest studies conducted in this field differentiates among three types of policy transfers: voluntary transfer, direct coercive transfer, and indirect coercive transfer (Dolowitz & Marsh, 1996). It was revealed that voluntary policy

transfer can be observed in the cases of perceived policy failure (Dolowitz & Marsh, 1996, p.346). Authors also claim that the “uncertainty about the cause of problems, the effects of previous decisions or the future causes actors to search for policies they can borrow” (Dolowitz & Marsh, 2000, p.347). In fact, policy failure is not the only factor that induces governments to borrow the policies. Public dissatisfaction with existing policies, new policy agenda or new political strategy caused by the political changes within a country can also motivate governments to engage in voluntary policy transfers (Evans, 2009). Direct coercive transfers occur when one country forces other countries to adopt certain policies. The cases when international organizations or supra-national institutions rather than the countries force the implementation of the policies are more common. For example, the World Bank and the IMF condition their aid on the implementation of specific economic policies. Indirect coercive transfer emphasizes the idea of interdependence. Economic, political, and technological interdependence pushes the countries which are lagging behind to adopt similar policies. Unlike voluntary transfers, the second and third types of transfer processes are more common for developing countries (Evans, 2009).

Another study in the field of policy learning focuses on theories to explain the reasons behind the policy transfers. Simmons and associates (2007) identified four theories that explain the diffusion of policies across countries. First, the constructivism theory emphasizes the power of norms and ideas in policy diffusion. The authors bring examples from the education and human rights field. They illustrate that these policies were adopted by the majority of developing countries not when they were politically and economically ready for the changes but rather when education and human rights became global norms. In contrast to constructivism, learning theory implies that the countries will borrow policies out of rational convictions. If governments believe that the policies in other countries produced positive results, they will be more likely to transfer these policies (Elkins & Simmons, 2005). Coercion theory, in its turn, builds upon the classification provided by Dolowitz and Marsh described above. Lastly, the economic competition theory elaborates on the idea that competition for scarce financial resources forces countries to adopt policies that they would not consider otherwise.

Alongside the general classification and theoretical explanations, many authors focus on specific factors that account for the policy change as a result of the policy transfer. For example, Wasserfallen and Geraldi (2019) analyzed the political influence over policy learning. It was identified that lesson-drawing is a highly politicized process, where governments tend to focus

on the experience of the governments dominated by parties with similar ideologies and ignore the results of the policies adopted by opposing parties (Wasserfallen & Geraldi,2019). Sugiyama, in addition to ideological influence, also examined the role of political self-interest and socialized norms in the policy diffusion based on the social sector reforms in Brazil (Sugiyama, 2008). It was revealed that the political ideology and social networks had a significant influence on the policy diffusion while the political incentives could not provide an explanation for the diffusion. The article also emphasized the importance of analyzing the role of both internal and external factors in policy transfer .

2.2 Climate Change and Policy Transfer

Regarding the climate change policies specifically, some scholars focused on the general diffusion of climate policies across countries. Schoenefeld and associates (2022) investigated the drivers and barriers, motivations, mechanisms, outputs and outcomes of policy diffusion. The study provided an overview of the factors that have an impact on policy diffusion rather than the thorough examination of each factor. It was revealed that there are four main factors that facilitate the policy transfer: interests, rights and duties, ideologies and recognition. Besides the investigation of these four factors, the research also outlines some other factors that influence the policy transfer. For example, lobbying by environmental interest groups affects policy transfer since successful lobbying by those groups can induce governments to adopt climate-friendly policies (Schoenefeld et al., 2022, p.3). In conclusion, authors reveal that the majority of factors are understudied thereby emphasizing the need to investigate them. Concerning more precise recommendations, authors urge researchers to focus on the role of ideologies in the policy transfer.

Other scholars focused specifically on the transfer of the EU climate policies to the rest of the world. For example, Torney, studied the factors that explain the followership in the climate change governance on the EU example (Torney, 2018). Rather than studying the internal factors that facilitate the policy transfer, the author focused on more general factors explaining the policy adoption in the international context. The research analyzed a wide range of policies including the transfer of the ETS from the EU to China. Analysis of factors that facilitates the policy transfer was conducted through the explanatory framework developed by March and

Olsen whereby the logic of consequence and logic of appropriateness were used to explain the policy transfer. In fact, the theory was previously utilized for interpretation of state behavior in the international arena rather than the policy transfer. Thus, Torney can be considered as a pioneer who applied this framework for the analysis of the policy transfer from the EU to other countries. According to March and Olsen's theory, the logic of consequences sees "political order as arising from negotiation among rational actors pursuing personal preferences or interests in circumstances in which there may be gains to coordinated action" whereas under the logic of appropriateness "the pursuit of purpose is associated with identities more than with interests" (March & Olsen, 1998, p.949,951). Torney's analysis revealed that both logics have significant impact on policy transfer. However, as mentioned previously, the study involved investigation of many different policies and their transfer to various countries. Thus, the studies examining the application of theory developed by March and Olsen on transfer of specific policies between two jurisdictions are lacking.

Regarding environmental policies in Canada, some studies focused on the policy transfer from the U.S rather than the EU. For instance, Boyd studied the transfer of carbon pricing from the U.S to Canadian provinces (Boyd, 2017). He agrees that learning theory and competition are valid explanations for a policy transfer but he emphasizes that to "develop a full explanation of policy adoption, domestic circumstances must be examined" (Boyd, 2017, p.551). His analysis was based on the three "I" framework which incorporates the following local elements that are necessary for the analysis of policy transfer: ideas, interests and institutions.. The author outlines that ideas correspond to the values, beliefs and policy framing (Boyd, 2017,552). However, interests are interpreted only through political and economic perspective. In contrast to Boyd, Torney specifies that alongside political and economic interests interest group preferences also play a role in policy transfer (Torney, 2018). In conclusion, Boyd's study revealed that values or ideas play a greater role in policy transfer.

Overall, the literature examined in this section indicates that there is a lack of studies analyzing the internal factors in the transfer of environmental policies. Although some scholars research the internal factors, they do not base their analysis on specific cases. Lastly, the literature applying the two logics theories to the policy transfer field is relatively recent and therefore requires further investigation.

3. Theoretical Framework

In order to limit and select the most decisive internal factors, we refer to the theory developed by March and Olsen. Scholars argue that government actions are motivated by two logics, the logic of expected consequences, and the logic of appropriateness (March & Olsen, 1998). Although many external factors have been a focus of the scholarly investigation, the internal factors were not thoroughly examined. Thus, the choice of the theoretical framework is justified by the studies of Torney and Boyd. While Torney proved the two logics to be valid explanations for policy transfer based on the analysis of external factors, Boyd revealed that interests, which correspond to the logic of consequences and ideas, corresponding to the logic of appropriateness are among the most important factors facilitating the policy transfer (Boyd, 2017; Torney, 2018).

3.1 Logic of Appropriateness

The logic of appropriateness emphasizes the role of shared beliefs that influence policy adoption. Under this logic, governments “act in accordance with rules and practices that are socially constructed, publicly known, anticipated, and accepted” (March & Olsen, 1998, p.952). Thus, countries adopt those policies that assist them in “the realization of their internalized values and identities” (Schoenefeld et al., 2022, p.6). Values and identities in one country are largely shaped by its relationship with the outside world. According to this framework, governments that share similar ideological convictions are more likely to learn from each other’s experiences (Schoenefeld et al., 2022, p.6). The assumption is based on the fact that governments dominated by similar ideologies share similar values and beliefs. Consequently, the policy transfer process is less likely to be hindered by the political leadership in the receiving countries. In order to reveal whether the transfer of the policies depends on ideologies, it is necessary to examine the ideologies of the sender and receiver countries. In the subsequent sections, first, the ideologies will be explained and further, the relationship between the types of ideologies and policy transfer will be defined.

3.1.1 Ideology

People tend to see the world through the ‘lens’ of their deeply embedded values and beliefs (Heywood, 2017, p.40). The system of ideas, beliefs, values and opinions that provides a perspective on the social and political world can be grouped under a single title - ideology (Gerring, 1997, p.). According to Heywood (2017), ideology is a “more or less coherent set of ideas that provides the basis for organized political action whether this is intended to preserve, modify or overthrow the existing system of power” (p.10). Ideologies can be said to navigate people within the existing social environment (Heywood, 2017, p.11). The coherent set of ideas and beliefs provide society with the benchmarks that assist people in assessing reality and comparing it against their vision of what is appropriate and desirable. If the present social settings do not correspond to the societies’ definition of adequacy, ideologies push the public toward desired alternatives, thereby facilitating political change. In other words, ideologies :

“ (a) offer an account of the existing order, usually in the form of a “world-view”;

(b) advance a model of the desired future, a vision of the “good society”;

(c) explain how political change can and should be brought about - how to get from (a) to (b)”

(Heywood, 2017, p.10)

3.1.2 Political Ideologies and Policy Transfer

Regarding the type of ideologies, liberalism, conservatism, socialism, anarchism, communism, feminism and green ideology are among the most common examples of political ideologies (Heywood, 2017). Despite the numerous types, ideologies are “internally complex, intermixed and overlapping” (Alexander, 2015, p.981). Heywood (2017) classifies ideologies into “thick’ and thin” ideologies (p.67). Liberalism, socialism and conservatism are considered “thick” ideologies since they are grounded on an extensive set of values, beliefs and ideas. Feminism or green ideologies, on the other hand, belong to the “thin” category, due to the fact that they often incorporate the features of the “thick” ideological traditions. For example, green ideology is mainly grounded in liberal elements.

Liberalism, as a “thick” ideology, upholds the primacy of individuals who are rational actors, minimal state intervention, rule of law, liberty and freedom (Heywood, 2017). According to the

ideology, the state should not intervene in the life of individuals except for cases when state interference is required for the sake of public order and the protection of individual rights.

In contrast to liberalism, conservatism is based on the ideas of tradition, authority, hierarchy and society as a whole rather than individuals (Heywood, 2017). Due to reliance on traditions, conservatism is critical of the changes that are believed to disrupt the existing social order. Thus, representatives of the given ideology are more likely to support the status quo.

Socialism, another thick ideology, revolves around the ideas of community, cooperation, and equality (Heywood, 2017, p.284). Under the given ideology, societies are based on the principle of equality. Equality, in its turn, can only be ensured by the state. Thus, socialists view the state as an instrument that distributes wealth and maintains a planned economic system (Heywood, 2017, p.307).

As ideologies play a guiding role for wider society, it is also a useful instrument for governments, more precisely for political parties representing the governments, which use ideologies to locate themselves in the political realm (Budge, 1994). In other words, political parties are guided by ideological goals which means that government priorities are largely shaped by the beliefs and values of political parties, especially the dominating parties. In order to simplify the linkage between the political parties and their preferences in policy transfer, the discussed political ideologies and the parties representing them can be divided into two groups: left-wing parties, upholding the liberal views and “welcoming changes”, and right-wing parties, which are resistant to changes and are more aligned with conservative thinking (Heywood, 2017, p.71). Consequently, while socialist and liberal parties belong to left-wing parties, the conservative parties are located on the right-wing of the political spectrum.

It is generally considered that the division of political parties along the ideological line has a significant impact on policy adoption and reforms (Maggetti & Trein, 2021, p.82). First, political parties have different predispositions towards policy transfer in general. For example, unlike the left parties, the right-wing parties are less likely to introduce ambitious policy changes which indicates that right-wing parties are more likely to adopt only particular aspects of policies (Maggetti & Trein, 2021, p.83). Regardless of the general preferences toward the policy change, different political parties have different positions on the adoption of specific policies. Concerning the parties' positions on the adoption of the climate change policies, center-left parties, namely the liberal and green parties, are more likely to support the adoption of new environmental

regulations (Maggetti & Trein, 2021, p.82). In contrast to the left-wing parties, conservative parties are less pro-environmental. As they are the main supporters of the business interests, they advocate weakening green regulations (Chang et al., 2015, p.1182). From this flows that the left-wing parties favor the transfer of policies which are environment-friendly while the right-wing parties support the transfer of policies concerning the business interest.

The *first hypothesis* can be derived from the given theoretical framework: *According to the logic of appropriateness, the transfer of ETS depends on the ideologies in the receiving country. The more similar the ideologies the more likely Canada is to adopt the ETS from the EU.*

3.2 Logic of Consequences

According to the logic of consequences, governments evaluate the expected outcomes or consequences of a particular policy before adopting it (March & Olsen, 1998, p.949). The country will act in favor of policy if it is on the list of government priorities. Government priorities, in their turn, are determined by the domestically derived interests which are largely shaped by the preferences of interest groups (Schoenefeld et al., 2022). Consequently, the central element of the logic of consequence are the interest group preferences. An important aspect of the logic of consequence is the fact that the government is less likely to introduce policy changes if existing policies satisfy domestic interests (Dolowitz & Marsh, 1996, p.347). In other words, the government will adopt new policies only in the case when current policies are not in line with the preferences of the interest groups. Therefore, to understand what facilitates the transfer of the policy across countries, it is necessary to examine the domestic interest groups' preferences.

3.2.1 Definition of interest groups

Conceptual clarity is a prerequisite for successful empirical investigation (Schoenefeld, 2021, p. 586). First, it is important to define what the interest groups are. According to some scholars, "interest group" is a broad term that embraces a wide range of groups and organizations such as trade unions, churches and corporations (Jordan et al., 2004, p.201). Other scholars prefer a more precise definition. Jordan and associates (2004) define an interest group as an entity that aims to influence policy processes and outcomes. Additionally, the authors emphasize the

difference between interest groups and policy participants, which are both parts of the broader concept of the pressure group. Policy participants, or stakeholders, are the individual corporations or organizations that strive to affect the policy process (Jordan et al., 2004, p.205). Business corporations such as British Petroleum (BP), or universities can be considered as examples of policy participants. Although they share the functional aspect with the interest groups by attempting to shape the policy outcomes, individual companies or organizations intervene in the policy processes on their own behalf and when issues on the government agenda have a direct impact on them (Schoenefeld, 2021). Interest groups on the other hand are “the *groups* of individuals and companies that seek to influence the policy outcomes” (Schoenefeld, 2021, p.588). Although Jordan and associates agree on the given definition they also acknowledge that there is an exception to the general definition whereby “policy-centered organizations” such as think-tanks should also fall in the category of interest groups (Jordan et al., 2004, p.206). Their inclusion in the interest group category is underpinned by the fact that they do not intervene in policy processes only when these policies have a direct impact on them.

3.2.2 Interest Group Classification

Classification of interest groups is crucial for understanding the interest groups’ preferences. Public and private interest groups are two broad categories of interest groups (Klüver & Saurugger, 2013). Private interest groups represent the interests of specific segments of society and thus, are also referred to as *sectional groups* by some scholars (Klüver & Saurugger, 2013, p.188). One of the defining features of private interest groups is a clearly defined and narrow constituency which implies that the cost and benefits of a specific policy are distributed among the members of that interest group (Klüver & Saurugger, 2013). An example of an interest group that serves private interests would be the farmers’ or business interest groups.

Public interest groups, or *cause groups*, represent the diffuse interests of the general public (Klüver & Saurugger, 2013). Due to the fact that they promote general interests, the cost and benefits of the policies are distributed among all members of society. In other words, the policy outcomes have an impact not only on the members of the interest groups but also on the wider society (Klüver & Saurugger, 2013, p.189). Interest groups representing general public concerns

such as environment, education or human rights are considered examples of public interest groups.

3.2.3 Interest Group Preferences

Interest group preferences have a significant impact on policy outcomes. While many studies focus on the interest group influence, the determinants of the interest group preferences are largely underexamined. Dür agrees that it is challenging to define the interest group preferences and many scholars take them for granted (Dür, 2008, p.567). In fact, in some cases, interest groups have clear-cut inclinations which are easy to determine. For example, export-oriented manufacturers are more likely to support trade liberalization, while import-oriented businesses are more likely to advocate protectionist policies (Dür, 2008, p.568). The division between environment and business groups' preferences can be done on a similar basis. If environment groups prefer tighter environmental regulations, business groups, on the other hand, are against stricter regulations due to increased financial obligations. However, policies are usually highly complex and interest groups' positions towards particular policies are not always straightforward.

According to Tsebelis (2005), rational actors' preferences are also influenced by the cost and benefits, or the implications, of the policy changes. It implies that interest group preferences are influenced not only by mere policy inclinations but also by strategic considerations. Skodvin and associates (2010) provide a similar explanation for the interest group preferences based on the example of climate change policy adoption. Scholars argue that industry groups may have contrasting preferences toward the same policy due to their strategic calculations. For instance, in the ETS case, more energy-intensive industries are considered to be against the ETS due to dual costs - direct cost from ETS and increased cost of electricity as a result of emission trading. In addition, the authors specify that environment groups are more likely to have permanent positions while business groups are more likely to change their positions depending on the issues at stake (Skodvin et al., 2010,p.860). Concentrated costs and diffuse benefits of the environmental policies are considered one of the main reasons for a divergent positioning of interest groups.

Overall, the strategic inclinations of interest groups imply that environment groups are necessarily in favor of all environment regulations, and business groups are not necessarily against all green policies.

Based on the given theoretical framework, the *second hypothesis* can be formulated as follows: *According to the logic of consequence, the transfer of ETS depends on the Canadian domestic interests. The more likely the EU ETS to appeal to interest groups preferences, the more likely Canada is to adopt the ETS from the EU.*

4. Research Design and Methods

4.1 Selection of Research Design: Congruence Analysis

Haverland and Blatter (2012) emphasize three types of explanatory small-N research designs: co-variational analysis (COV), causal process-tracing (CPT) and congruence analysis (CON).

COV is concerned with studying the effects of the independent variable on the dependent variable of interest, in other words, the goal of the co-variational research design is to assess whether “the certain factor makes a difference” (Haverland & Blatter, 2012, p.33).

Unlike COV, causal process-tracing design is based on the assumption that a particular outcome is the result of the interplay of multiple factors (Haverland & Blatter, 2012, p.80). Instead of focusing on the investigation of the effect of one factor, studies with the given research design examine how different factors lead to a certain result, which means that CPT research questions are concerned not only with defining which factors contributed to the outcome but also how they shaped this outcome.

In contrast to COV and CPT, the congruence analysis aims to test the explanatory leverage of theories. CON is based on the assumption that theories are not only utilized in the academic discourse but are also means of interpreting reality (Haverland & Blatter, 2012). Thus, the approach examines whether theories can provide an account for the political and social phenomena (Haverland & Blatter, 2012, p.148). Although authors define congruence analysis as a “small-N research design in which the researcher uses case studies to provide empirical evidence for the explanatory relevance or relative strength of one theoretical approach in comparison to other theoretical approaches”, the given research design is not always based on the competing theories (Haverland & Blatter, 2012, p.144). In fact, there are two subtypes of congruence analysis: 1) *competing theory approach* and 2) *complementary theory approach* (Haverland & Blatter, 2012, p.145). Under the former approach, the study aims to examine which of the theories provides a better explanation for the empirical observations. It is based on the assumption that different theories provide different explanations of the empirical realm. The latter approach, on the other hand, assumes that one theory can provide only a partial explanation of reality, which means that comprehensive explanations can only be provided through the combination of two or more theories.

Unlike the COV and CPT research designs, congruence analysis emphasizes the importance of theory selection over case selection (Haverland & Blatter, 2012). Although case selection is essential for the empirical analysis, the theory selection should precede the case selection in the congruence analysis due to the fact that this type of research design aims to enrich theoretical discourse in the first place.

Congruence analysis was selected for this study for several reasons. First, studies that apply the CON approach contribute to both theoretical debate and society by justifying the relevance of theories used in the research and “shedding light on important social or political events” (Haverland & Blatter, 2012, p.197). Second, congruence analysis enhances the internal validity of the study in cases when the propositions derived from theories accurately reflect the nature of those theories (Haverland & Blatter, 2012). The findings of the research conducted under the congruence analysis are hard to generalize. However, unlike the CPT, external generalization is possible since the empirical results can be used “for the debate on the relevance of theoretical approaches in the broader scientific discourse” (Haverland & Blatter, 2012, p.32)

4.2 Structure of Congruence Analysis

As the previous section elaborated on the available research designs including the congruence analysis, this section will discuss the structure of the congruence analysis.

The first step under the congruence analysis is theory and case selection (Haverland & Blatter, 2012) Two theories were chosen for this study: logic of consequence and logic of appropriateness. The given theories were selected to study the factors behind policy transfer based on the case of the ETS transfer from the EU to Canada. The selected theories correspond to the competitive-theory approach since the former theory emphasizes interest groups’ preferences as an important factor influencing the policy transfer while the latter theory argues that the political ideology plays a greater role in the policy adoption.

After the specification of theories, the next crucial step in the congruence analysis is the formulation of propositions as they “guide the collection of empirical information” (Haverland & Blatter, 2012, p.179). The formulated propositions are based on the core assumptions of the logic of appropriateness and logic of consequence and aim to investigate which of the independent variables, namely the interest group preferences and political ideologies, better explain the policy transfer, the dependent variable of the study. The propositions encompass “specific empirical

expressions of abstract concepts” whereby the logic of consequence is analyzed through the interest group preferences and the logic of appropriateness through the political ideology (Haverland & Blatter, 2012, p.179).

After the specification of theories and formulation of propositions, the analysis and discussion section will shed light on the information related to each proposition. The first part will provide an overview of the design elements of the ETS in both the EU and Canada. The comparison of the two systems will reveal whether the transfer occurred in the first place. In order to test the first hypothesis, first, the next sections will analyze the political parties and their position on the emission trading scheme in Canada. Second, the ideological composition of the EU institutions by the time ETS was introduced will be investigated. Further, the second hypothesis will be examined through the analysis of the interest groups’ preferences on the ETS in Canada. Lastly, comparison of the propositions against the empirical observations is expected to reveal if the policy transfer occurred and if yes, which of the theories has greater explanatory leverage.

4.3 Theory and Case Selection

As the main purpose of the congruence analysis is to contribute to scientific discourse, the theory selection is the most important element of this research (Haverland & Blatter, 2012). As mentioned previously, the competing theories selected for this study, logic of appropriateness and logic of consequence, were developed by March and Olsen who argued that these two logics provide the basis for the state behavior in the international arena (March & Olsen, 1998). Although the framework was used to interpret state behavior, Torney used a similar theoretical framework to study the “the leader-follower relationship” between the EU and other states (Torney, 2018). The given research will utilize the similar framework to examine which of the explanatory frameworks provide a better interpretation of the policy transfer. Thus, rather than testing the dominant theories in the field, the research focuses on theoretical innovations. More precisely, the study will aim to contribute to scientific discourse through investigation of less prominent theories in the policy transfer area.

The case selection was motivated by the fact that Canada introduced ETS recently. While there are many studies examining the transfer of ETS from the EU to China and Australia, for example, Canadian ETS remained largely unstudied. Considering that the majority of countries

that established ETS adopted it from the EU, the research will aim to test the hypothesis through the analysis of the ETS in Canada.

4.4 Research Methods

Qualitative research can be conducted via a variety of methods. Ethnography or participant observation, qualitative interviewing, focus groups, discourse and conversation analysis, and analysis of texts and documents, or desk research, are among the most common types associated with the qualitative studies (Bryman, 2012, p.383). This study will be conducted through desk research.

4.4.1 Desk Research

This research will be mainly based on the investigation of the laws, regulations, reports, press-releases, official statements and news articles. The reports related to Canada are accessible at the databases of the federal government's official website and the official websites of the relevant ministries. Documents related to the EU will be sourced from EUR-lex, an official website of EU law, and the official websites of the Council, the European Parliament and the Commission. Political parties and their positions will be examined based on their election platforms, parliamentary debates and federal media outlets. For the analysis of the interest groups and their preferences the official reports and news articles will be analyzed.

Although the author acknowledges that documentation similar to all other sources is subject to some weaknesses such as limited access and reporting bias, it is one of the widely used methods for case studies (Yin, 2009,p.86). Moreover, stability and broad coverage of the information flowing from documentation sources often act as countervailing power (Yin, 2009, p.86).

4.4.2 Validity and Reliability

The internal and external validity and reliability of the study will be discussed in this section. First, the study is considered internally valid if “there is a good match between researchers’ observations and the theoretical ideas they develop” (Bryman, 2012,p.390) In congruence analysis, this match is achieved through two types of controls: horizontal and vertical controls (Haverland & Blatter, 2012). According to the vertical controls, the concrete predictions must be

derived from more or less abstract theories and further compared to the empirical findings (Haverland & Blatter, 2012, p.146). Horizontal controls, on the other hand, ensure that theories selected for the analysis have a solid ground to be selected among other theories in scientific discourse since they provide a valid explanation of causal relationships. Additionally, the selection of more than one theory strengthens the internal validity of the congruence analysis which is the case in this study (Haverland & Blatter, 2012).

Next, the external validity, or transferability, relates to the extent to which empirical results can be generalized (Bryman, 2012, p.390). In small-N research, the transferability is relatively constrained since these studies are conducted in order to reveal whether the selected factors play a role in specific contexts (Bryman, 2012). Therefore, the external validity of the given research is low. At the same time, diversity of sources used for the analysis enhances the external validity of this study.

Lastly, reliability refers to “the degree to which a study can be replicated” (Bryman, 2012, p.390). Considering that the analysis is mainly based on the investigation of official documents, laws, regulations and official statements, the results of the given study can be easily reproduced. Thus, the research has a high reliability.

5. Analysis: Case of ETS Transfer from the EU to Canada

In order to answer the research question “*Which theory - logic of appropriateness or logic of consequence - provides the better explanation for the transfer of the Emission Trading System from the EU to Canada?*”, the empirical analysis will be divided into three parts. Firstly, the ETS design elements in the EU and Canada will be discussed. The comparison of the design elements will allow us to understand if the policy transfer occurred in the first place. Next, as the logic of appropriateness is operationalized through the party political ideologies, Canadian political parties and their preferences toward OBPS will be examined. The EU institutions and their positions on ETS will be also discussed in this section. The last section will focus on the interest groups and their positions on the OBPS to test the hypothesis related to the logic of consequences. The positions of political parties and interest groups on the OBPS will be analyzed through the lens of the design elements to reveal if the similar design elements were transferred from the EU. The referral to the EU in official documents or public statements will indicate that the policy was adopted from the EU.

5.1 ETS Design

This section will focus on the main design elements of the emission trading regimes in the EU and Canada. More precisely, the following ETS elements will be analyzed: timetable, sectoral coverage, methodology for distributing emission allowances, opt-outs, opt-ins and pooling mechanisms, procedures for monitoring and verification and compliance mechanisms (Pew Center on Global Climate Policy, 2005). In addition to the main design elements the price and systems linking the ETS to the imports will be reviewed.

5.1.1 ETS in the EU

The European Union’s emission trading scheme is the first and the largest emission trading initiative in the world which aims to reduce GHG emissions in a “cost-effective and economically efficient manner” (European Commission, 2015, p.4). The system operates under the cap-and-trade principle according to which the total allowed amount of emissions is set.

Rather than establishing separate emission caps for each firm, the EU ETS establishes an EU-wide emission cap (European Commission, n.d). In line with the cap-and-trade principle, the allowances are distributed based on the overall level of the GHG that are allowed to be emitted. In general, the way allowances function can be illustrated by the following example: if one firm emits less than established maximum, it can sell the remaining amount of emissions in the form of allowances to other firms which emit more than they are allowed according to the ETS regulations. More detailed information about the allowances and how they are distributed will be provided further in this section.

First, the *timeline* for the emission trading scheme will be discussed. The ETS was introduced in 2005 with its implementation divided into four phases: the first phase lasted from 2005 till 2007, the pilot period, the second phase from 2008 till 2012, the third phase covered the period from 2013 to 2020 and the last, the fourth phase, started in 2021 (European Commission, 2020). Each consequent phase differs from the previous period in the intensity and severity of regulations. For example, in the first phase, only carbon dioxide emissions were covered by the ETS (European Commission, 2020). The types of emissions governed by the emission trading scheme increased further over the course of the second and third phases. In addition to the type of the emissions, the way allowances were distributed also changed from 2005 (European Commission, 2020). If initially, allowances were distributed freely among the industry participants, already in the third period, auctioning became the main mechanism for allowance allocation. The changes in each phase demonstrate the incremental progress of the ETS.

Second important element of the emission trading scheme is the *sector coverage*. Initially, the EU ETS included energy-intensive industry, such as oil and gas industry, mineral industry, production and processing of ferrous materials, pulp, paper and board (The establishment of the scheme for greenhouse gas emission allowances trading, Directive 2003/87/EC). In 2012 the aviation sector also started to be regulated by the emission trading regime (European Commission, 2021). Moreover, during the third phase, “aluminum, carbon capture and storage, petrochemicals and other chemicals” became ETS-regulated sectors (European Commission, 2015, p.20). Based on the recent Commission’s proposal the EU ETS is also expected to cover maritime transport, buildings and road transport (European Commission, 2021a).

Since emission allowances constitute the essence of the ETS, the *mechanisms for the distribution* of these allowances should not be overlooked. As mentioned previously, during the first and the

second phases a fixed amount of the emission allowances was distributed for free. However, starting from 2013, the third implementation period, the auctioning replaced free allocation with few exceptions. First, new installations can still receive the allowances free of charge and second, industry and heating sectors subject to carbon leakage are also eligible for free emission allowances (European Commission, 2015, p.24). To sum up, free allocation of allowances which prevailed in phases 1 and 2, was replaced by auctioning. How allocation works can be illustrated by the following example: if factory B emits more than can be covered by its freely allocated allowances, it can refer to company A to buy emission allowances or the firm can purchase the allowances in the auction. In other words, if allowances allocated in the first two periods are not sufficient to cover the existing level of emissions, companies can buy allowances either from other companies or through auctions which determine the market price of those allowances.

Next important design elements of the emission trading scheme are *opt-in and pooling regulations and mechanisms*. The EU emissions trading scheme is not voluntary, which means that emitters from the Member States and countries which are part of the European Economic Area Agreements, Iceland, Liechtenstein and Norway, are required to comply with the ETS regulations (Newbery, 2012). In addition to this provision, Member States have an opportunity to include other sectors in ETS (Pew Center on Global Climate Policy, 2005). However, this can be done only if valid monitoring mechanisms are available for those sectors.

Article 28 of the EU ETS Directive also emphasizes the pooling mechanisms as one of the important aspects of the emission trading regime which is available for all participating countries (The establishment of the scheme for greenhouse gas emission allowances trading, Directive 2003/87/EC). Under the given mechanism, companies can work together, or in other words share their emissions, in order to meet industry-wide emission objectives.

Alongside the opt-in and pooling regulations, the possibility to *opt-out* plays a significant role in the functioning of the ETS. Moreover, the opt-out regulations shed a light on the opt-in regulations since the EU ETS allows only small enterprises which find it costly to reduce their emissions to opt-out. More precisely, according to the EU Law, Member States can only exclude the facilities that emit less than 25,000 tonnes of emissions per year (The establishment of the scheme for greenhouse gas emission allowances trading, Regulation 421/2014). It indicates that all the facilities emitting above 25,000 tonnes per year automatically fall under the emission trading scheme. Regarding the opt-out regulations exclusively, in addition to small emitters,

hospitals are also granted the possibility to opt-out (Ricardo Energy & Environment, 2015). Alongside the opt-out provisions, the EU ETS specifies free allocation of allowances for electricity generation in some of the Member States with the purpose of “diversification of energy mix and modernization of energy production” (European Commission, n.d.-a)

Next design elements, *monitoring, reporting and verification*, form the ETS compliance cycle (European Commission, 2022a). All the processes within the compliance cycle must be performed in accordance with EU-wide regulations and guidelines (Pew Center on Global Climate Policy, 2005). Each year, installations deliver the emissions reports which have to be validated by the EU-accredited independent verifier (The verification of data and on the accreditation of verifiers pursuant to Directive 2003/87/EC, Regulation 2018/2067, 2018). Besides the information about emission levels, installations are also required to submit information about the emission allowances which were sold or purchased during a year (European Commission, 2021b). Information about the allowances is recorded in the Union Registry which is a centralized EU-level electronic database.

Non-compliance with ETS regulations can lead to either penalties or prosecution. Installations that fail to disclose excess emissions are required to pay €100 for each tonne of undisclosed carbon dioxide emissions (European Commission, 2020).

Finally, *the price and the system linking the ETS to the imports* will be discussed. The price for a tonne of emissions is not set by the EU. The emission allowances under the cap-and-trade system are traded according to the market mechanisms which means that the price is determined by the demand and supply of the allowances (European Commission, 2021c). For illustration purposes, In February 2022, the price of allowances reached its maximum since 2005 and constituted almost €97 (≈\$101) (Chestney et al., 2022).

In relation to the system linking the ETS to the imports, the EU introduced Carbon Border Adjustment Mechanism (CBAM). Although it is a separate system, CBAM “functions in parallel with the ETS, to mirror and complement its functioning on imported goods” (European Council, 2022). CBAM covers cement, aluminum, fertilizers, electric energy production, iron and steel industries (European Council, 2022).

5.1.2 ETS in Canada

The OBPS is the Canadian version of the ETS implemented at the federal level (Government of Canada, 2022). Unlike the EU ETS, the OBPS operates under the baseline-and-credit principle where the maximum level of emission for each activity is set (Government of Canada, 2022a). Consequently, the system does not operate based on the maximum country-wide emission levels. The limit is calculated according to “the emissions-intensity standard, or output-based standard”, for each sectoral activity (Environment and Climate Change Canada, 2021). The system applies to all the provinces that do not have local emission trading systems in place. Thus, the OBPS currently functions in Manitoba, Prince Edward Island, Yukon, Nunavut, and Saskatchewan (Government of Canada, 2022b). In general, the system operates in the following way: if one facility, or company, emits above its limit, it has to purchase the “offset credits” either from the Federal Government or other companies. If it emits below its maximum, then the company can keep the “surplus credits” for future use or sell them to other firms (Environment and Climate Change Canada, 2021).

Similar to the previous section, first the *timeframe* of the system will be discussed. The OBPS is part of the Pan-Canadian Framework on Clean Growth and Climate Change which covers the period from 2018 till 2022 (Environment and Climate Change Canada, 2021a). Consequently, the emission trading scheme was introduced in 2019 based on the provisions of the Pan-Canadian Framework. The first implementation phase of the OBPS is expected to last till 2023 since from 2023 onward the emission trading scheme will be guided by the updated Pan-Canadian Approach (Government of Canada, 2021a). Unlike the EU ETS the first implementation period covers a four-year period. However the government set up an interim evaluation of the system which divides the first implementation phase into 2 two-year periods (Environment and Climate Change Canada, 2021a). Although not explicitly mentioned, the first stage of implementation can be considered as a pilot phase since during this period the OBPS was not fully operationalized. Only in May and June 2022, the federal government passed supporting regulations concerning the OBPS operationalization such as the Federal Greenhouse Gas Offset System and Output-Based Pricing System Proceeds Fund (Government of Canada, 2022c; Government of Canada, 2022d). The second implementation period is expected to last from 2023 till 2030 as mentioned in the updated Pan-Canadian Approach (Government of Canada, 2021a). In the updated version, the Government of Canada mentions the cap-and-trade

system as one of the possible schemes for emission trading alongside the federal backstop, OBPS. At the same time, the emissions of provinces operating according to the cap-and-trade principle will be measured according to the OBPS principles. In other words, the government will measure whether emission reduction of provinces utilizing cap-and-trade principle is more or equals the emission reduction would they use OBPS. In case, emissions are not reduced to the sufficient level, the cap-and-trade principle is considered not valid. Overall, if we ignore the pilot phase in the EU, the duration of the first and second implementation periods in Canada coincide with the duration of the second and third implementation periods in the EU.

In relation to *sector coverage*, already under the existing framework, the Canadian OBPS covers an extensive number of sectors and industries. More precisely, the emission trading scheme is applicable for energy-intensive industries, or oil and gas production, mineral processing, pulp and paper, chemicals, pharmaceuticals, iron and steel, mining and ore processing, lime and nitrogen fertilizers, food processing, automotive industries, electricity generation and cement (IETA, 2021). The sector coverage under the OBPS is to some extent similar to the sectors covered by the EU ETS. At the same time, the OBPS has a more extensive coverage. For example, pharmaceuticals are not part of the EU ETS. Moreover, unlike the EU ETS, air, marine, rail and road carriers are subject to the fuel charges, or carbon tax rather than carbon pricing (Greenhouse Gas Pollution Pricing, SC 2018, C. 12, s. 186, 2018).

Although the mechanism for emission allowances is an essential component of the cap-and-trade systems, the baseline-and-credit system does not encompass the allocation mechanisms. If under the cap-and-trade system firms are allowed to emit based on allowances that are allocated to them, under OBPS facilities' emission levels depend on the baseline that is set for industrial activities (Government of Canada, 2022a). As mentioned in the previous section, facilities emitting below their baseline, can either bank the credits for future or sell them to other facilities. The absence of allocation mechanisms which stems from the differences in the principles according to which ETS operates constitute one of the crucial differences between the emission trading schemes in the EU and Canada.

Other important elements of the emission trading regime are *opt-in and pooling* regulations. In general, the OBPS as the EU ETS is not voluntary and as mentioned previously, the system must be applied to provinces that do not have local systems in place. According to the existing regulations, facilities that emit more than 50,000 tonnes of carbon dioxide equivalent per year are

considered to be part of the emission trading scheme (Government of Canada, 2022e). In addition, there are voluntary opt-in provisions for firms which emit at least 10,000 tonnes of carbon dioxide per year and which fall into the category of OBPS-covered sectors (Environment and Climate Change Canada, 2021). Regarding the pooling mechanism of Canadian OBPS, firms can amalgamate and report the emissions as one entity if the registration of each firm is in accordance with the regulations governing the emission trading regime (Greenhouse Gas Pollution Pricing, SC 2018, C. 12, s. 186, 2018). Although the opt-in regulations are more burdensome in the EU, the pooling mechanisms are similar.

Unlike opt-in and pooling mechanisms, *opt-out* regulations are not explicitly covered by OBPS. The GGPPA is composed of two parts, the emission trading scheme and the fuel charge as means for emission reduction (Greenhouse Gas Pollution Pricing, SC 2018, C. 12, s. 186, 2018). While the emission trading regime covers large emitters with a certain level of emissions, small emitters are covered by fuel charge. Thus, all facilities emitting below 50,000 tonnes of emission per year have the possibility to opt-out. In general, air, marine and rail transportations have the possibility to opt-out as well as the farms and fisheries in case the fuel is used only for the machinery and vessels that are utilized in their operations (Greenhouse Gas Pollution Pricing, SC 2018, C. 12, s. 186, 2018). Moreover, hospitals, schools, universities and natural gas distribution pipelines are not covered by the OBPS (Government of Canada, 2018a). From opt-out regulations perspective, the system is similar to the EU ETS only in regards to hospitals which are excluded from both schemes. Although both OBPS and ETS exclude small emitters the threshold differs in two countries. While facilities emitting below 50,000 have the possibility to opt-out in Canada, in the EU only installations emitting below 25,000 are excluded.

Next, the OBPS *monitoring and verification* mechanisms will be covered. Facilities are required to submit the reports that are prepared in accordance with OBPS guidelines on a yearly basis (Government of Canada, 2022a). The reports that are submitted to relevant Ministries must be verified by an accredited third party (Environment and Climate Change Canada, 2019). According to the Act amending the GGPPA, facility's reports cannot be verified by the same third party for more than six consecutive years in order to ensure impartiality and independence of the verifiers (Environment and Climate Change Canada, 2019). All the reports are submitted to the Environment and Climate Change Canada's Single Window System which is an integrated federal database for OBPS reports (Government of Canada, 2022). In addition to tracking the

submission of reports, the Single Window System also monitors whether all facilities covered by the emission trading scheme are registered. Overall, the monitoring and verification is similar to the EU ETS provisions since under both systems firms have to submit annual reports verified by accredited third parties. Moreover, the Canadian Single Window System is similar to the Union Registry database.

Failure to register or failure to submit the annual reports are regulated by non-compliance provisions. If a company fails to register the penalty is \$2000. In case, facility fails to report the emissions, it is required to pay 1% of the total amount that had to be paid at the reporting date. (Greenhouse Gas Pollution Pricing, SC 2018, C. 12, s. 186). Moreover, failure to comply with regulations is considered an offense, thus it can result in fine ranging from \$2000 till \$40,000 or “imprisonment not exceeding 12 months”, or both (Greenhouse Gas Pollution Pricing, SC 2018, C. 12, s. 186). In fact, the EU penalties are far more severe in comparison with the Canadian penalties. Therefore, the systems are different in respect to the non-compliance provisions.

Lastly, *the price and the systems linking the emission trading scheme to imports* will be discussed. Unlike in the EU, the price is set by the federal government in Canada. Initially, the price was set at \$20 per tonne of the emissions (Government of Canada, 2021b). At the same time, the Canadian government increases the price each year. In the first implementation period, the prices increased by \$10 each year (Government of Canada, 2021b). Starting from 2022, prices will increase by \$15 per year with the aim of reaching \$170 per tonne of emissions by 2030 (Government of Canada, 2021b). Alongside the difference in the principles according to which the emission trading schemes operate in the EU and Canada, the methods for setting carbon price constitute the second major difference in the systems.

Regarding the external linkage of the OBPS, in 2020 the federal government proposed to introduce Border Carbon Adjustment (BCA) in order to reduce the risk of carbon leakage and ensure the competitiveness of the domestic companies (Government of Canada, 2021c). Although the system has not been adopted yet, public consultations were finalized in February 2022 (Government of Canada, 2022f). The sectors that are expected to be covered by BCA are “steel, cement, aluminum, and other emissions-intensive industries” (Liberal Party of Canada, n.d.) In fact, the system itself and the sectors covered by it are identical to the EU CBAM.

5.1.3 Discussion of Findings

The comparison of the ETS design elements is summarized in *Table 1*. As seen from the table, out of 9 design elements, only 3 elements are similar in the two jurisdictions, namely, the pooling mechanism, verification and compliance regulations and the systems related to the external linkage of the ETS. First, both the EU and Canada allow companies to pool their emissions for effective GHG emissions reduction. Second, in both jurisdictions, the facilities are required to submit annual reports specifying the facilities' emission levels which must be verified by an accredited third party. Third, although Canada is still in the process of the development of BCA, the system is identical to the EU CBAM. The partially similar design elements are the timeframe and the sector coverage. Canada's first implementation period was set to cover the period from 2019 to 2023. Considering that there was no explicit pilot phase for the OBPS implementation, the first implementation phase in Canada coincides with the second implementation period in the EU. Moreover, the duration of the second implementation period of the OBPS, 2023-2030, coincides with the duration of the third implementation period of the EU ETS, 2013-2020. Therefore, the timeframe is similar only in case we ignore the pilot phase of the EU emission trading scheme. Another partially similar design element are the sectors covered by emission trading schemes. In fact, both the EU and Canada included similar sectors under the ETS. However, Canada has a more extensive list of sectors under the OBPS. For example, food processing and pharmaceuticals are not covered by the EU ETS. Therefore, the sectors are not fully similar in the two jurisdictions. Other design elements are different in the EU and Canada. The price element constitutes one of the major differences between two systems which results from the difference in the principles according to which systems function. Under the EU cap-and-trade system the prices are set by the interplay of the demand and supply forces, whereas in Canada the prices are set by the federal government. Regarding other distinctive features of the ETS, opt-in and opt-out regulations and penalties are far more severe in the EU. For illustration, in Canada, installations emitting twice as much as the facilities under the EU ETS are considered "covered facilities" under the OBPS. Additionally, the OBPS penalties are significantly lower than the EU ETS penalties. Overall, from the policy transfer perspective only similar elements can be subject to the policy transfer.

Table 1.

Overview of the ETS Design Elements in the EU and Canada.

<i>Design Elements</i>	<i>EU</i>	<i>Canada</i>
Timeframe	First implementation period - 2005-2007 Second implementation period - 2008-2012 Third implementation period - 2013-2020 Fourth implementation period - 2021 and beyond	First implementation period - 2019-2023 Second implementation period - 2023-2030
Sectors	Energy-intensive industry, mineral industry, production and processing of ferrous materials, pulp, paper and board, aluminum, carbon capture and storage, petrochemicals and other chemicals, aviation	Oil and gas production, mineral processing, pulp and paper, chemicals, pharmaceuticals, iron and steel, mining and ore processing, lime and nitrogen fertilizers, food processing, automotive industries, electricity generation and cement
Opt-in regulations	Facilities emitting above 25,000 tonnes of emissions	Facilities emitting above 50,000 tonnes of emissions
Pooling mechanism	Pooling available	Pooling available
Opt-out regulations	Facilities emitting below 25,000 tonnes of emission and hospitals	Facilities emitting below 50,000 tonnes of emission and hospitals, schools, universities and natural gas distribution pipelines
Verification and compliance	Annual Reports verified by accredited third party	Annual Reports verified by accredited third party
Penalties	€100 per tonne of emissions	1% of the total amount
Price	Market-based mechanism	Government-set prices
External Linkage	Carbon Border Adjustment Mechanism	Border Carbon Adjustment

5.2 Political Parties and ETS

As the design elements were already examined, this section will focus on the analysis of Canada's political system, federal parties and their positions on the OBPS through the design elements' perspective. For the full fledged analysis of Hypothesis 1 which states that “the transfer of ETS depends on the ideologies in the receiving country. The more similar the ideologies the more likely Canada is to adopt the ETS from the EU”, the EU institutions and their positions on the ETS will be also examined in this section.

5.2.1 Political Parties and Ideology

Canada is a parliamentary democracy where the legislative branch is composed of the Monarch, the Senate and the House of Commons (House of Commons Canada, n.d). The Senate is an upper chamber and represents the interests of regions (Senate of Canada, n.d.). Although the House of Commons is a lower chamber, it is considered to prevail over the Senate since it represents the interests of the population (Parliament of Canada, 2022). Executive branch of the country is formed by the party that holds a majority in the Parliament and is composed of the Prime Minister and the Cabinet (House of Commons Canada, n.d). The Prime Minister is the leader of the majority party and as the Cabinet is formed by the Prime Minister, ministers are usually the members of that leading party. Considering that political parties have their influence in both executive and legislative branches of the government, they play an essential role in shaping a country's political agenda.

Canada has a diversified party system with 21 registered federal political parties (Elections Canada, 2022). Liberal Party of Canada, Conservative Party of Canada, Green Party of Canada, New Democratic Party, and Bloc Quebecois are five major federal parties represented in the Parliament (Christian & Jansen, 2020).

By the time when first emission trading scheme was introduced at the provincial levels, the House of Commons was dominated by Conservative Party. Conservative Party could form the minority government in the Federal Elections of 2008 and already in the 2011 elections, the party formed the majority government (Lansford, 2019, p. 265). Under the conservative government, Canada took controversial steps toward combating climate change. In 2011, Canada withdrew from Kyoto Protocol, the largest agreement in the climate field during that period, and in the

coming years, the government decreased and eliminated essential environmental regulations, including the elimination of environmental screening for industries such as oil and gas industries (Financial Post, 2013; The Guardian, 2011).

The next federal elections in 2015, 2019 and 2021 were not as successful for the Conservative Party. The Liberal Party of Canada managed to secure the leading position in the Parliament in three consecutive elections (Elections Canada, 2021). Under the Liberal government, Canada experienced significant sustainability-related changes in the political landscape. In 2016 alone, the country ratified the Paris Agreements and introduced the Pan Canadian Framework on Climate Change and Clean Growth which gave a start to the majority of the existing environmental programs (Government of Canada, 2016; OECD, 2021).

During the last elections, in 2021, the Liberal party could not reach the majority (House of Commons, 2021). To secure the majority, liberals referred to another major federal party, the New Democratic Party (NDP), in order to cooperate on the number of issues at stake, including climate change (Zimonjic, 2022). The NDP, which is a social-democratic party, put forward ambitious climate change plans for years. One of the examples is the Climate Change Accountability Act which was initiated by the leader of the NDP, Jack Layton, and constitutes one of the cornerstones of the existing climate change initiatives in Canada (Whitehorn, 2019; New Democratic Party, 2021).

Unlike the Conservative and Liberal parties, the NDP, the Green Party and Bloc Quebecois could not secure the majority in federal elections from the date of their establishment (Lansford, 2019). Consequently, they share the least number of seats in the Parliament. In relation to the environment and climate change, both the Green Party and Bloc Quebecois have “environmental roots”. While the Green Party upholds the idea of environment and economic sustainability, Bloc Quebecois, which is a socialist democratic party, was established by the former environment minister in the 1990s (Lansford, 2019). Thus, environment and climate change are high on the agenda for both parties. However, due to the limited number of seats in the Parliament, the parties could not exert significant influence on the climate change regulations in Canada..

5.2.2 Party Position on OBPS in Canada

This section will analyze the positions of the major federal parties on OBPS. Considering that the first implementation phase functions as a pilot period and some of the regulations regarding the

operationalization of the emission trading scheme were adopted after 2019, the positions of the parties on the OBPS after 2019 will be also analyzed.

When the OBPS was introduced at the federal level in 2019, the House of Commons was dominated by the Liberal Party with 185 seats, followed by the Conservative Party with 106 seats and New Democratic Party, Bloc Quebecois and the Green Party with 43, 10 and 2 seats respectively (House of Commons, 2015). The composition of the Parliament was not altered significantly during the election in 2019 and 2021. While the Liberal and Conservative parties had the most seats as a result of elections in 2021, the NDP, Green Party and Bloc Quebecois shared 59 seats in total (House of Commons, 2021).

First, the position of the Liberal Party of Canada on the emission trading scheme will be analyzed. The draft GGPPA, including the OBPS, was introduced by the Liberal Party in 2018 (Prime Minister of Canada, 2018). Liberals justified the system by the successful examples of emission trading in the provinces such as British Columbia. In the discussion of the GGPPA, Jonathan Wilkinson emphasized that British Columbia could significantly reduce emissions while stimulating economic growth in the region (Wilkinson, 2018). Thus, the introduction of the emission trading scheme at the federal level is more likely to yield similar results. Interestingly, the emission trading system that was proposed by the Liberal Party initially was a cap-and-trade system rather than a baseline-and-credit emission scheme (Liberal Party of Canada, 2019). Although the OBPS functions according to the baseline-and-credit system, the regulations that were introduced for the provinces with local ETS outline the cap-and-trade system as the only system that is allowed to be established at the provincial level (Government of Canada, 2021b).

The first design element, the *timeframe*, was the least disputed issue since, alongside the Liberal Party, other federal parties also agreed to set the first timeframe till 2023 in order to have an opportunity to measure the results (Liberal Party of Canada, 2019). The next implementation period will focus on achieving the climate change target through OBPS by 2030. Considering that all parties refer to 2030 as a target year, it is reasonable to argue that the timeframe was agreed upon among the parties.

In relation to the *price*, the Liberal Party under the leadership of Justin Trudeau set the price of \$20 per tonne of carbon dioxide which is expected to increase by \$10 each year and reach \$130 per tonne of carbon dioxide emissions in 2030 (Liberal Party of Canada, 2019). Already in 2021,

the Party proposed a new target of reaching \$170 per tonne of emissions by 2030 (Zimonjic, 2021).

Although the EU is not mentioned explicitly, some members of the Liberal party outline that it is important to follow the trends in the world arena since by 2018, already 67 jurisdictions had carbon pricing in place (Lightbound, 2018). Out of these countries, 27 countries, or 40% of all countries with ETS, are the EU Member States.

Moreover, according to the 2021 election platform, the Liberal Party intends to extend the carbon pricing, or OBPS, to *imports*. Liberals plan to introduce the Carbon Border Adjustment Mechanism “similar to the European Union’s approach” (Liberal Party of Canada, 2021, p.41). The sequence of measures suggested by the Liberal Party mirrors the EU’s approach, where CBAM was also initiated to complement the emission trading scheme. Additionally, the sectors that are expected to be covered by Canadian CBAM are similar to sectors covered by EU CBAM.

Conservative Party, unlike the Liberal Party of Canada, was not in favor of the emission trading scheme. The Party proposed a different system under which firms that emit above the allowed maximum are required to invest in green technologies (Tasker, 2019). Although conservatives referred to the OBPS as a carbon tax, the Supreme Court’s ruling specified that the system is not functioning according to the taxation principles and therefore, the OBPS should be referred to as a carbon pricing system (Supreme Court of Canada, 2021).

Regarding *the sectors* covered by the carbon pricing system, the most sensitive sector for the Conservative party was farmers. They were radically against including farmers in the scheme (Bergen, 2018). Unlike other issues where liberal and conservative parties’ interests overlapped, liberals shared their views on this issue. However, the partys’ preferences did not coincide in regard to fisheries. Unlike conservatives, the Liberal party supported the inclusion of fisheries in the OBPS (Forrest, 2018). Despite the difference in the preferences, final regulations included fisheries as a sector that is eligible for the exemption certificate.

The price for OBPS was one of the most controversial issues under the GGPPA. Conservatives proposed a price of \$20 per tonne of emission which would increase to a maximum of \$50 per tonne of carbon dioxide (Bulowski, 2021). Although the Conservative Party stuck to the \$50 in the 2021 elections, its plan for combating climate change emphasizes that the Party is considering raising the price for industrial emissions to \$170 but only in case other jurisdictions

set a similar price (Conservative Party of Canada, 2021). More precisely, conservatives argue that the price of \$170 should be reviewed till 2023 since it should be tied to Canada's major trading partners, namely the EU and the U.S (Conservative Party of Canada, 2021). Considering that the U.S does not have federal ETS, the prices are expected to be monitored against the prices of the EU ETS. Thus, while conservatives plan to collaborate with the U.S to assist them in setting carbon pricing standards, cooperation with the EU will assist Canada in designing the emission trading scheme which adheres to the global standards.

The *opt-in regulations* were also on the agenda of the Party. If liberals proposed to include the facilities that emit more than 50,000 tonnes of emissions per year, conservatives put forward the threshold of 40,000 tonnes of emissions per year (Connolly, 2019). As it was mentioned previously, the Conservative Party did not support the OBPS and proposed a different system. Thus, the amount of 40,000 was suggested for the system designed by the Conservative Party rather than OBPS .

Similar to the Liberal Party, the Conservative Party supported the introduction of the BCA. However, in 2021 election platform, the party proposed to tie the system to the U.S rather than EU CBAM (Conservative Party of Canada, 2021)

Unlike the Conservative Party, *the NDP* supported the federal emission trading scheme. The Party also put forward the idea that the federal carbon pricing system should provide minimum standards for the provinces that already have emission trading schemes and design new models for the provinces that do not have any carbon pricing initiatives in place (Blaikie, 2018). Despite the fact that almost all members were in favor of the initiative, they did not agree with the Liberal government's plan. According to the party, the liberal government's proposal for emission reduction is not ambitious for reaching the targets by 2030. In its election platform, the NDP mentions that it will continue with the existing carbon pricing in case the party wins the majority in the Parliament (New Democratic Party, 2021). However, the Party would introduce more stringent regulations in order to ensure that companies do not use offset credits to escape from its climate responsibilities (New Democratic Party, 2021).

In relation to *sector coverage*, the Party proposed to first cover the heavy industry and introduce stricter regulations for the energy-intensive industries (CBC, 2019). In fact, the proposed sector coverage is similar to the Liberal Party's proposal.

The NDP also shared a similar position on the *price and opt-in regulations* with the Liberal Party. The members of the Party suggested keeping the threshold for opt-in at 50,000 tonnes (Connolly, 2019). Regarding the price, the NDP proposed to set a price at \$50 per tonne of emissions which would gradually increase by 2030 (Connolly, 2019). At the same time, the amount by which the price was suggested to increase was not specified.

In the 2019 election platform, the NDP also raised an issue regarding *compliance and the carbon border adjustment scheme*. The Party proposed to introduce mandatory external audits for annual reports that are regarded under the OBPS (Farand, 2019). Additionally, the NDP was pushing for the CBA system during the elections in 2019 and 2021 since the carbon pricing would be ineffective if it is not extended to imports (Winter, 2021).

Although the NDP referred to *the price, sector coverage, compliance and carbon border adjustment system*, some media outlets point to the fact that the Party's proposal was vague and did not put forward any specific recommendations (Clean Prosperity, 2021)

Similar to the New Democratic Party, *the Green Party* was also in favor of an output-based pricing system for the provinces that do not have their ETS. However, some members of the Green Party argued that more ambitious plans for carbon pricing should be developed (May, 2018). Green Party's 2021 election platform is referring to the EU-pledged ambitions of reaching a 55% reduction in GHG emissions by 2030 in comparison with 1990 emission levels thereby emphasizing the need to enhance Canada's targets in line with the targets of its peers (Green Party, 2021).

Regarding the *pricing*, the Green Party supported the initial *price* that was set at \$20. At the same time, they proposed to increase the price by \$10 until Canada reaches net-zero emissions (Connolly, 2019). In their recent election platform, they suggest even more ambitious targets by increasing the price by \$25 each year (Green Party, 2021).

Another aspect of the Green Party's plan is concerned with the expansion of the OBPS *sector coverage*. The Green Party proposed to include both small and large emitters into the OBPS which means that the party supports increasing coverage of the system (Connolly, 2019). Although not explicitly mentioned, including smaller emitters concerns both the expansion of the covered sectors and the reduction of the threshold for *opt-in regulations* since small and medium sized enterprises emit significantly less than large businesses. Alongside this proposal, the Party

also put forward an idea to incorporate international aviation and shipping into the OBPS-covered sectors (Green Party, 2021).

Unlike other parties, the Green Party also raised an issue about *penalties*. The Party was not in favor of the penalties proposed by the Liberal Party and put forward an idea to make penalties for industrial emitters, which exceed threshold, far more severe (CUTRIC, 2019).

The Green Party was also in favor of Carbon Border Adjustment and included the establishment of *the system linking the OBPS to the imports* in their election platform in 2021 (Clean Energy Canada, 2021)

Bloc Quebecois followed the patterns of the NDP and the Green Party. Although the Party supports the OBPS, it does not consider the Liberal Party's plan to be effective in terms of achieving the climate change goals (CBC, 2019). In fact, Bloc Quebecois was one of the first parties to support emission trading. In its 2011 election platform the Party proposed to introduce the cap-and-trade system in all provinces (Demerse, 2011). Despite the detailed analysis of the targets and strong commitment to carbon trading, the Party's plan for carbon pricing was not detailed in terms of design elements (Demerse, 2011). For example, Bloc Quebecois did not mention the *timeframe* for the proposed emission trading scheme. One of its recent election platforms is also lacking the details. Again, despite the support for the system, Bloc Quebecois did not mention the details of the emission trading scheme such as *the sectors* that should be covered by the emission trading. Additionally, the Party did not reveal its position regarding the *opt-in and opt-out regulations*. At the same time, the members of the Party were more specific in relation to price. They proposed to set a *price* of \$30 per tonne of emissions and raise it to \$200 per tonne of emitted carbon dioxide by 2030 (CBC, 2019). Already in its 2021 election platform, Bloc Quebecois proposed to modify the system through "green equalization" according to which the burden of the carbon pricing would fall on more polluting provinces (Bloc Quebecois, 2021).

5.2.3 EU Institutions and ETS

The analysis of the party political ideologies in Canada is not sufficient to confirm or reject the first hypothesis. Thus, the dominating ideologies in the EU by the time when ETS was established need to be investigated as well. Thus, this section will examine the EU institutions, their composition and position on the Directive 2003/87/ec establishing the ETS.

5.2.3.1 EU Institutions

The EU is a political and economic union comprising 27 Member States (Publications Office of the European Union, 2020). The institutional architecture of the Union is complex and consists of 7 main institutions: Council of the European Council and the European Council, European Commission, European Parliament, European Court of Justice, European Central Bank and European Court of Auditors (Hix & Høyland, 2011, p.8-9). Among these institutions, the Council of the European Council, European Commission and European Parliament are directly involved in the law-making and policy execution. The European Commission is an executive body mainly responsible for policy initiation and implementation (European Commission, n.d.-b). The Council of the European Union, also referred to as the Council of Ministers or the Council, is simultaneously a decision-making and executive body (Hix & Høyland, 2011, p.8). As an executive body, it deals with the Common Foreign and Security Policy, and as a legislative branch of the Union, the Council adopts the law (Lelieveldt & Princen, 2015, p.55-56). Regarding its organization, the ministers in the Council are headed by the Presidency, which “rotates every six months between the Member States” (Hix & Høyland, 2011, p.8). The European Parliament is vested with legislative power. The Parliament consists of 705 members which are elected from the national parties every five years (European Parliament, n.d.). Consequently, they are represented according to their ideological inclinations rather than nationality (Lelieveldt & Princen, 2015, p.61). Members with similar political affiliation sit in one political group.

Considering that this study focuses on the decision-making rather than implementation of the policies, the positions of the legislative bodies, namely the Parliament, which represents the interests of EU citizens, and the Council representing the interests of the Member States, will be analyzed in the next section.

5.2.3.2 EU Institutions and their positions on ETS

When the emission trading scheme was proposed in the EU, the European Parliament was dominated by the center-right European People's Party and European Democrats, EPP-ED (European Parliament, 1999). After the EPP-ED, the Party with almost 30% of seats was the left-wing Party of European Socialists, PES. (European Parliament, 1999). Although the Parliament was dominated by the right-wing party, the majority of the remaining seats were allocated among the left-wing parties, namely the ELDR, European Liberal Democrat and Reform Party, The Left, former GUE/NGL, and Greens/EFA. (European Parliament, 1999).

Only during the first reading in 2002, the European Parliament made 73 amendments to the Commission's proposal (Scheme for greenhouse gas emission allowance trading within the Community; Document A5-0303/2002, 2002). The amendments revealed that the Parliament supported more flexible ETS. For example, it supported voluntary opt-in and opt-out regulations in case the facilities have some systems in place that ensure the reduction of GHG (Scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC; Document A5-0303/2002, 2002). Moreover, the Parliament proposed to allow the Member State with existing emission trading schemes to stick to their systems rather than adjusting it to the EU ETS. The suggested threshold of 50,000 tonnes also indicates the support for less challenging ETS by the European Parliament. (Scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC; Document A5-0303/2002, 2002).

As mentioned previously, the Council is composed of the ministers from all Member States. Thus, the discussion of the ETS in the Council took place among the ministers from relevant fields. When the ETS was proposed by the Commission, there were 15 Member States in the EU (European Union, 2009). Consequently, the discussion of the ETS in the Council involved 15 ministers. Considering that the ministers are the key players in the given institution, the ideological inclinations of the ministers should be identified to reveal the general ideological preferences of the Council. In parliamentary systems, the ideological preferences of the ministers can be identified through the dominant parties in the Parliament since the Prime Minister and the Cabinet are appointed from the leading party. In the presidential and semi-presidential system, the cabinet is formed by the President who is not necessarily a member of the leading party, therefore the political affiliation of the head of state provides a hint on the ideological

preferences of the cabinet. Among these countries only France has a semi-presidential system while the other 14 Member States are parliamentary democracies. Therefore, for the identification of ideologies in the latter countries, the leading parties should be determined and for France, defining the party to which the President belongs is sufficient.

When the proposal was made, 9 out of 15 Member States were dominated by the center-left parties which signals the liberal ideological inclinations of the Council. Only France, Italy, Luxembourg, Denmark, Ireland and Spain were governed by the center-right parties. In fact, the domination of the liberal ideology in the Council was reflected in the Council's preferences.

Unlike the Parliament, the Council agreed on the Commission's proposal to establish the ETS (Scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC; 2001/0245 (COD), 2003). Out of 73 amendments made by the Parliament during the first reading, the Council agreed only on 20 of these amendments (Scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC; 2001/0245 (COD), 2003). The Council did not agree on voluntary opt-in and opt-out regulations and pushed for a more ambitious and rigorous emission trading scheme.

Overall, the final decision was closer to the proposals and amendments made by the Council rather than the Parliament. It indicates that the left-wing ideologies were more supportive of integrated and ambitious ETS since the Parliament, which was dominated by right-wing parties, was in favor of more relaxed regulations.

5.2.4 Discussion of Findings

This section will elaborate on the implications of the analysis. First, this chapter analyzed the positions of five federal parties through the lens of the ETS design elements. *Table 2* illustrates that the parties did not have clearly defined positions on all components of the OBPS. Interestingly, while the parties had specific preferences regarding the price, opt-in and opt-out regulations, most of the parties did not have preferences regarding the similar elements of the emission trading schemes, except for the system linking the OBPS to the imports. The Liberal and the Green parties were the main proponents of the BCA. Moreover, they proposed the BCA design which mirrors the EU approach to the carbon border adjustment. However, unlike the Green Party, the Liberal Party explicitly referred to the EU CBAM in its 2019 and 2021 election

platforms. The Conservative Party was also in favor of the BCA. Nevertheless, the Party proposed to refer to the carbon border adjustment regulation in the USA rather than the EU. Other components of the OBPS that are identical in both the EU and Canada, namely the compliance and pooling mechanisms were not discussed among the federal parties.

In contrast to the similar elements, divergent features of the emission trading schemes were the most discussed issues among the federal parties. Additionally, in some cases parties referred to the EU in the discussion of the contrasting elements such as prices. At the same time, the referral was made to propose the linkage between the two systems rather than proposing the similar system. For example, the Conservative party proposed to tie the prices under the OBPS to the prices at the EU.

The Green Party presents an interesting case since it preferred measures that are more aligned with the existing EU ETS systems rather than OBPS. For instance, the members of the Green Party viewed the penalties proposed by the Liberal party as ineffective and proposed higher prices for non-compliance. Moreover, they suggested decreasing the threshold of 50,000 tonnes in order to increase the effectiveness of the OBPS. In parallel with recommendations concerning the penalties and opt-in and opt-out regulations, one of the most important proposals was the inclusion of international aviation and marine transport into the sectors covered by the emission trading scheme. The latter recommendation reflects the EU approach to the ETS. At the same time, the Party does not refer to the EU in its proposals.

Although the Liberal and Green parties' opinion did not coincide concerning the severity of measures, both parties supported the establishment of the OBPS. Unlike the left-wing parties, the right-wing parties, namely the Conservative Party and Bloc Quebecois were less supportive of the OBPS. In the case of Bloc Quebecois, despite the fact that it was one of the first parties to propose the cap-and-trade system in 2011, it held a neutral position on the OBPS which can be deduced from the absence of the concrete recommendations regarding the design elements. The Conservative Party was against the OBPS and proposed a completely different system.

Table 2

Political Parties in Canada and their Positions on OBPS Design Elements.

	Liberal Party	Conservative Party	NDP	Green Party	Bloc Quebecois
Timeframe	2019-2023 2023-2030	2019-2023 2023-2030	2019-2023 2023-2030	2019-2023 2023-2030	2019-2023 2023-2030
Sectors	All sectors under the proposed OBPS	Against inclusion of farmers and fisheries	All sectors under the proposed OBPS	Expanding the proposed sectors to aviation and shipping	-
Opt-in regulations	Facilities emitting above 50,000 tonnes per year	Facilities emitting above 40,000 tonnes per year	Facilities emitting above 50,000 tonnes per year	Facilities emitting below 50,000 tonnes per year	
Pooling mechanism	-	-	-	-	-
Opt-out regulations	-	-	-	-	-
Verification and compliance	-	-	Mandatory external audits	-	-
Penalties	-	-	-	More severe penalties	-
Price	\$170 per tonne till 2030	50\$ per tonne till 2030	\$170 per tonne till 2030	\$285 per tonne till 2030	\$200 per tonne till 2030
External Linkage	BCA	BCA	BCA	BCA	-

The similar conclusions can be observed from the analysis of the EU legislative bodies, the European Parliament and the Council. The Parliament, which was dominated by the conservative group, EPP-ED, at the time when the ETS directive was adopted, was in favor of a more flexible system. Unlike in the Parliament, liberal ideology prevailed in the Council. The liberal

ideological inclinations were reflected in the Council's position toward the ETS. The Council was in favor of integrated and more ambitious ETS.

Overall, based on the analysis of the political parties in Canada it is reasonable to claim that Hypothesis 1 is partially accepted. The hypothesis states that *“According to the logic of appropriateness, the transfer of ETS depends on the ideologies in the receiving country. The more similar the ideologies the more likely Canada is to adopt the ETS from the EU”*. Considering that only three elements are similar across the two jurisdictions and the parties did not discuss these components and did not refer to the EU in the discussion of other elements, the transfer did not occur. From this perspective, the hypothesis is rejected. However, the analysis revealed that the left-wing parties are more likely to support the emission trading scheme. In the EU, the Council was dominated by the left-wing ministers who could push for their preferences in the scheme and in Canada, the Parliament was led by the Liberal Party by the time the emission trading schemes were introduced in these jurisdictions. It indicates that the more similar the ideologies, in this case, the left ideologies, the more likely the country is to adopt the ETS. The partial acceptance of the first hypothesis is also backed by the fact that the OBPS, like the EU ETS, is an emission trading scheme, which simply functions according to the different principles. Although the federal parties in Canada did not refer to the EU in the design elements, some of the parties justified the introduction of the OBPS by the existence of the ETS in many jurisdictions including the EU. It indicates that the system was adapted to the local context at the federal level, since the provinces with the existing emission trading schemes are required to have cap-and-trade systems rather than the baseline-and-credit system envisioned by the OBPS.

5.3 Interest Groups and ETS

The following sections will provide an overview of the business and environment interest groups in Canada and will analyze the positions of the selected interest groups on the OBPS. The analysis of interest groups' preferences will be conducted in order to test *hypothesis 2* which states that “the transfer of ETS depends on the Canadian domestic interests. The more likely the EU ETS to appeal to interest groups preferences the more likely Canada is to adopt the ETS from the EU”.

5.3.1 Interest Groups in Canada

Almost 20,000 recognized interest groups exist in Canada (Canadian Abilities Foundation, 2021). By the end of the last century, more and more interest groups defending the environment and promoting sustainability started to play a vital role in the country's political environment (Hummel, 2022). Among several major environmental groups that operate at the federal level, Climate Action Network Canada (CAN) receives special attention due to its large membership and active involvement in policy-making (Patterson, 2014). As a representative of more than 100 organizations operating in the climate field, CAN aims to “advance practical policies and front-line solutions to manage our carbon pollution and address the front-line impacts of climate change, through sustainable development that leaves no one behind” (CAN, n.d.). Although CAN serves as a unified voice of its members both in the international and national arena, some of the members are also active individually.

Environmental Defense, a member of the CAN, is one of the most active interest groups in the field, with more than 250,000 members who strive for a “climate safe, toxic-free and healthy environment” (Environmental Defense, n.d.). The interest group is actively involved in policy-making through its frequent policy analysis of environmental policies (Environmental Defense & Conservation Council of New Brunswick, 2021). Its advocacy achievements at both provincial and federal levels are regularly articulated in its reports (Environmental Defense, 2018).

Another interest group that is part of the CAN but at the same time is successful in influencing federal policy-making is the Pembina Institute. The organization positions itself as a non-profit

think tank with the mission “to advance a prosperous clean energy future for Canada through credible policy solutions that support communities, the economy and a safe climate” (Pembina Institute, n.d). Due to the fact that the Institute is a member of CAN and the majority of its work is concerned with the environment, the Pembina Institute can be classified as a public interest, or more precisely, the environmental interest group. Moreover, collaboration with renewable energy, health and environmental NGOs and associations to advance their interests to the federal level underpins such classification (Pembina Institute, 2022).

When it comes to business or industry groups, the most active interest groups are the Canadian Association of Petroleum Producers (CAPP) and Electricity Canada.

CAPP represents the interests of the businesses operating in the oil and gas industry (CAPP, 2022). It is one of the biggest associations in the field since its members produce almost 80% of Canadian oil and gas (CAPP, n.d). Although CAPP recognizes the necessity of incorporating environmental values in the companies’ operations, the interest group articulates the importance of oil and gas in the Canadian economy by supporting energy projects and policies (CAPP, 2018). For example, the Association is a major supporter of one of the most controversial policies in Canada’s political landscape, namely the expansion of oil and gas pipelines (CAPP, 2022a).

Electricity Canada is another major association representing the interests of 42 companies operating in the energy-intensive field (Electricity Canada, n.d). Electricity Canada positions itself as “a voice of the evolving and innovative electricity business in Canada” (Electricity Canada, 2021). In recent years, it also incorporated the concept of sustainability into its mission. Among Electricity Canada’s success stories is the adoption of the Smart Renewables and Electrification Pathways Program by the Federal Government in 2021, which gave a start to the electrification programs in Canada (Electricity Canada, 2021a).

5.3.2 Interest Groups’ Position on OBPS in Canada

This section will examine the positions of the selected interest groups on emission trading in Canada. For a similar reason as in the section about the political parties, the positions of the most interest groups on the emission trading scheme was revealed after 2019. Therefore, the interest groups’ preferences after 2019 will be also examined.

Almost all environmental groups supported carbon pricing. CAN was also among the interest groups that were in favor of OBPS. In the assessment report published in 2021, the interest group emphasized carbon pricing as one of the most important tools to fight climate change (CAN, 2021). At the same time, it did not regard federal requirements under the OBPS to be sufficient for reaching the desired level of emission reduction (CAN, 2021). Since the report was published at the time when OBPS regulations under GGPPA were already adopted, the CAN put forward some recommendations to increase the effectiveness of the system.

First, regarding *the sectors* covered by the emission trading, the Network suggests introducing more rigorous regulations, especially concerning the large emitters, including the emitters which are “trade-exposed” (CAN, 2021, p. 12). This recommendation also concerns *opt-in regulations* since by suggesting to expand the sectors, the interest group implicitly refers to the threshold for OBPS eligibility which is currently set at 50,000 tonnes of the emissions per year. The CAN was also concerned that the current carbon pricing policies do not cover the emissions from the air, road and marine transport (CAN, 2021, p.13).

Second, the interest group outlines the importance of doubling or even tripling *the price* per tonne of emissions by 2030 (CAN, 2021). Consequently, instead of reaching \$170 per tonne of emissions, the interest group expects the price to be in a range between \$340-\$510. The CAN motivates this recommendation by the fact that without raising the price, it will be impossible to achieve the targets by 2030.

As a member of CAN, Environmental Defense was also in favor of carbon pricing. However, unlike the CAN the given interest group had a more specific position in relation to the emission trading scheme. In 2021, the interest group assessed the effectiveness of OBPS (Environmental Defense & Conservation Council of New Brunswick, 2021). The assessment report was prepared together with the Conservation Council of New Brunswick, a non-profit environmental organization, and submitted to the Ministry of Environment and Climate Change Canada. Alongside the evaluation, the report articulates the position of Environmental Defense on carbon pricing. Although the members of Environmental Defense supported the OBPS, they shared the position of the CAN on the insufficiency of existing measures (Environmental Defense & Conservation Council of New Brunswick, 2021). First, regarding the *opt-in regulations*, they propose to introduce more stringent regulations for steel, cement, and chemical industries since these are the “truly-emission intensive” sectors (Environmental Defense & Conservation Council

of New Brunswick, 2021, p.2). Regarding the *sector coverage*, the interest groups recommend excluding the electricity sector from carbon pricing. As electrification plays a vital role in the transition to renewable energy, the interest group suggests treating this sector as a “strategic national asset” and removing it from the carbon pricing system (Environmental Defense & Conservation Council of New Brunswick, 2021). In addition, since the majority of current regulations are concerned with carbon dioxide emissions only, Environmental Defense recommends developing regulations that cover all industrial emissions.

One of the most essential contributions provided by the assessment is the recommendation to adjust the emission trading scheme to the design of the ETS in California rather than the EU ETS considering that Quebec’s cap-and-trade system is already connected with the cap-and-trade program of California (Environmental Defense & Conservation Council of New Brunswick, 2021).

Similar to the CAN and Environmental Defense, Pembina Institute was one of the advocates of the OBPS. The Institute’s position on carbon pricing was first released in 2008 when the conservative government published its climate change plan encompassing the emission trading system (Pembina Institute, 2008). Although the Pembina Institute does not refer to the EU ETS in its report, the proposed measures mirror the emission trading scheme in the EU. Unlike the liberal government’s proposal to establish a baseline-and-credit system, the interest group advocated the cap-and-trade system (Pembina Institute, 2008, p.1). Moreover, the report suggests allocating the allowances free of charge and introducing auctioning over time which is another design element reflecting the EU ETS. The major difference between the recommendations made in 2008 and the existing system is related to the prices. In 2008, the Pembina Institute recommended a price of \$50 in 2015 and a minimum of \$75 per tonne of emissions in 2020 which is significantly higher than the prices set under the GPPAA (Pembina Institute, 2008). When the plan for the existing system was released by the liberal government, the institute also published a report advocating some changes to the proposed OBPS. Overall, the report emphasized the necessity of the OBPS for meeting Canada’s climate change objectives. The Pembina Institute justified the introduction of the OBPS by the examples of the carbon pricing systems in some U.S cities and the EU (Pembina Institute, 2017, p.5). Regarding the recommendations, first, the interest group suggested increasing *the sector coverage* under emission trading and making it as broad as possible (Pembina Institute, 2017). Second, the

Institute proposed to consider the system more carefully to ensure that the carbon pricing does not create an additional burden for society. Although the organization did not specify the exact *prices* in their report, it explicitly outlined the need to increase prices till 2030 (Pembina Institute, 2017, p.15). The Pembina Institute is also one of the few interest groups which mentioned the importance of the stringent *compliance regulations* since the effectiveness of the system can only be assessed through regular and proper compliance mechanisms.

Unlike environmental groups, business or industry associations did not have a unified position on the OBPS. The first business group selected for the analysis, the CAPP, was not in favor of the proposed measures although it was not publicly announced. In 2020, the Association provided the Federal government with a list of actions that were necessary for Canada's recovery from COVID-19 (Environmental Defense, 2020). According to the document, the CAPP recommends the government to suspend all activities envisioned under the GGPPA. The document also articulates the interest group's position on the *prices* established by OBPS regulations. The members of the CAPP suggest setting a price of \$30 per tonne of emission instead of \$50. Moreover, the Association is against incremental price increase till 2030 (Environmental Defense, 2020). The CAPP recommends considering price increase only after the economy is fully recovered. Interest group members justify their position by the fact that the cost will increase not only for industry but for the public as well. Although the document was released by the environmental group as a leaked document, the negative predisposition of the CAPP towards the carbon pricing was justified by the letters referred to the CAPP by British Petroleum (BP) and Royal Dutch Shell. BP responded to the measures proposed by the CAPP by urging it to align its position on carbon pricing with the positions of BP and other companies and organizations (BP Canada, 2020). BP did not support the recommendations to suspend activities under the GGPPA and specifically the proposal to leave the prices at the 2020 level. Shell also urged the CAPP to support carbon pricing as it is one of the most effective tools to fight climate change (Bakx, 2019). Moreover, Shell explicitly emphasizes that the Association should align its position on carbon pricing by publicly supporting the new system. The letters provide evidence for the CAPP's negative position on carbon pricing.

In previous years, CAPP raised another topic whereby the Association would support the introduction of carbon pricing only in case the government would support oil and gas pipelines (Linnitt et al., 2017). It can be considered that the liberal government and the CAPP reached a

deal since the government could pass the GGPPA and the oil and gas industries receive government support in pipelines and oil sand projects (Government of Canada, 2021d).

Similar to environmental interest groups, the CAPP is not referring to the EU in their publications and news releases. Some media outlets compare CAPP's approach to climate policy in general and emission trading specifically to the Trump Administration's approach to these issues (Hislop, 2018). The inclination toward the U.S approach rather than the EU's is explicitly mentioned in their annual climate reports (CAPP, 2018).

Electricity Canada, the former Canadian Electricity Association, is another major interest group which has a stake in carbon pricing since electricity is a highly energy-intensive field. In its response to the introduction of OBPS, Electricity Canada was concerned about the inadequate consultation with interest groups prior to the submission of draft legislation to the House of Commons (Electricity Canada, 2018). While Electricity Canada supported the OBPS, it did not agree on the new systems' *coverage*. More precisely, the interest group considered that electricity should be excluded from the OBPS for two reasons. First, it would increase prices for households and second, electricity is vital in the transition to renewable energy (Electricity Canada, 2018). Before the regulation was adopted, Electricity Canada advocated the exclusion of at least "diesel-fired electricity generation" from the OBPS (Electricity Canada, 2018). However, in the final regulations, the electricity, including the diesel-fired electricity generation, did not fall under the exemption category (Electricity Canada, 2019).

Despite the fact that electricity is covered by the emission trading scheme, Electricity Canada's annual reports outline that the government introduced financial support for the modernization of the electricity sector (Electricity Canada, 2018a). The interest group does not refer to the EU in its reports. However, the approach is similar to the EU ETS since the EU loosened the regulations concerning emissions from modernization of the electricity sector.

Furthermore, the report acknowledges that existing regulations that cover the electricity sector are burdensome and the more regulations are in place the higher the compliance costs. In this section, Electricity Canada suggests establishing oversight agencies similar to Germany and Denmark in order to assess the effectiveness and the costs of new policies for households, companies and government (Electricity Canada, 2018a).

In a similar report published in 2022, the Electricity Canada again refers to the EU by emphasizing the role of government involvement which helps to maintain adequate price levels,

thereby pointing to the need to exclude the electricity sector from the OBPS (Electricity Canada, 2022).

5.3.3 Discussion of Findings

This section will elaborate on the implications of the analysis of the interest groups positions on OBPS.

Generally, almost all interest groups had specific positions towards the OBPS. At the same time, neither of the interest groups had detailed preferences in relation to all design elements. Similar to the political parties, the most debatable issues were the prices and sector coverage. However, even in the discussion of these elements of the OBPS they rarely refer to the EU.

Regarding the preferences of each camp of the interest groups specifically, the environmental interest groups had a more consistent position on the OBPS. All of the groups had a positive perception of the emission trading scheme. However, they did not completely agree with the proposed measures and recommended setting more ambitious targets and measures for GHG emission reduction. Some of the recommendations were similar to the design elements under the EU ETS. For example, the CAN proposed to include aviation in the OBPS. Moreover, most of the environmental interest groups were in favor of the cap-and-trade system. Nevertheless, they did not refer to the EU in their recommendations. On the other hand, the Environmental Defense proposed linking the emission trading scheme to the existing system in California rather than the EU cap-and-trade system. Similar to the political parties, the environmental interest groups referred to the EU mostly as a general justification for the introduction of the emission trading scheme in Canada.

Unlike the environmental groups, business groups had ambiguous positions towards the OBPS. Although all business groups recognized the need to reduce emissions to combat climate change, they did not agree on some of the provisions, which were directly linked to the constituencies they represent. For instance, Electricity Canada did not agree on the inclusion of the electricity sector while the CAPP did not support the prices. As analysis revealed, one of the possible reasons for their latter support of the OBPS lies in the tradeoff between the government and these business groups. Government support for oil and gas pipelines expansion and financial support for electricity sector modernizations left both the CAPP and Electricity Canada satisfied with the

existing system. Similar to environmental interest groups, they do not refer to the EU in their preferences. If almost all environmental groups had recommendations which are to some extent aligned to the EU ETS design components, industry groups did not propose any specific measures similar to the European emission trading scheme. In fact, business groups, more precisely the CAPP were more inclined towards the U.S approach rather than the EU's.

Overall, the majority of the interest groups were in favor of the OBPS. However, none of the interest groups referred to the EU in their positions. Therefore, Hypothesis 2: *According to the logic of consequence, the transfer of ETS depends on Canadian domestic interests. The more likely the EU ETS to appeal to interest groups preferences the more likely Canada is to adopt the ETS from the EU* is only partially accepted. Although the OBPS appealed to the Canadian interest groups and some of the recommendations were in line with the EU ETS, they did not refer to the EU in their proposals. In fact, their frequent referral to the U.S indicates the importance of geographical proximity in the policy transfer.

6. Conclusion

This study aimed to investigate which of the theories, logic of appropriateness or logic of consequence, provide greater explanatory leverage for a policy transfer based on the case of the ETS transfer from the EU to Canada. The congruence analysis was utilized in order to reveal which of the theories provide a better explanation. The logic of appropriateness was operationalized through the party political ideology while the logic of consequence was analyzed through the interest group preferences.

The empirical analysis revealed that Hypothesis 1 *“According to the logic of appropriateness, the transfer of ETS depends on the ideologies in the receiving country. The more similar the ideologies the more likely Canada is to adopt the ETS from the EU”* is partially rejected. It is rejected due to the fact that only three similar elements were found across the emission trading schemes in the EU and Canada and the political parties did not refer to the EU in the discussion of these elements. Although the federal parties in Canada referred to the EU occasionally, the referral was made to justify the introduction of the local ETS in Canada. At the same time, if we refer to the first part of the hypothesis which states that the transfer depends on the ideologies in the receiving country, the hypothesis is accepted. Both jurisdictions were dominated by the left-wing parties by the time when ETS was introduced. It indicates that ideologies played a role in the transfer of the OBPS, which, similar to the EU ETS, is an emission trading scheme. Consequently, the left ideologies are more receptive to the ETS regardless of the principles according to which they function.

The second hypothesis of the study *“According to the logic of consequence, the transfer of ETS depends on Canadian domestic interests. The more likely the EU ETS to appeal to interest groups’ preferences the more likely Canada is to adopt the ETS from the EU”* is also partially rejected. Although some of the recommendations were aligned with the design elements in the EU ETS, interest groups did not refer to the EU in their proposals. Instead of referring to the EU, some interest groups referred frequently to the emission trading scheme in the U.S. At the same time, the interest groups supported the OBPS. The system appealed to both environmental groups, which pushed for a more ambitious system in future, and the business groups. Therefore, it can be concluded that interest groups’ preferences played a role in the adoption of OBPS.

The empirical findings should be considered in the context of some limitations. The first limitation is related to the methodology. This study is mainly based on the analysis of primary sources, namely the documents, parliamentary debates and official statements. Although these sources provide accurate and up to date information, sometimes documents are incomplete and do not fully cover the information that is considered under the analysis. For example, the positions of the political parties on the similar ETS elements were not covered by the analyzed sources. Therefore, in light of the given limitation, one of the recommendations would be to expand this study with interviews with the members of political parties and interest groups in Canada. Interviews can provide an insight into the design elements which were not discussed in the primary sources and, therefore, such study can reveal different results. The next limitation is associated with the terms utilized in this study. More precisely, some political parties and interest groups referred to the OBPS as a carbon tax before 2021 which created another obstacle in the data collection process. Only after the Supreme Court's ruling specifying that the OBPS is carbon pricing rather than a carbon tax, the proper terms started to be utilized in the documents and media releases. The last limitation is related to the lack of previous studies about the transfer of the EU ETS to other jurisdictions.

Regarding the prospects for future research, it would be recommended to study whether geographical proximity affects the policy transfer considering the frequent referral to the U.S ETS by both political parties and interest groups. The majority of studies focus on the motivations of the states to engage in policy transfer while ignoring the possible influence the geographical location can have on a policy transfer. Iterated comparison of the OBPS with the ETS in the U.S states signals the need to investigate this gap. Further, it would be recommended to study the transfer of the EU ETS to Canadian provinces since almost all provinces which are not in the scope of the OBPS, have cap-and-trade systems in place. Therefore, it would be reasonable to study if the EU ETS affected the provincial level rather than the federal level. Lastly, future research can focus on the transfer of the EU ETS to other countries in order to reveal whether the liberal ideology is more receptive to the emission trading schemes regardless of the principles according to which they function. Such a study would strengthen the empirical results of the given research. Moreover, researching the transfer of the EU ETS to other countries may reveal other factors influencing the policy transfer process.

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