

# Intelligence MEMOS



From: Marcel Boyer and Christian Gollier  
To: Climate Change Warriors  
Date: April 11, 2025  
Re: **CANADA AND THE EU: HOW TO SALVAGE INTERNATIONAL COMMITMENTS TO REDUCE GREENHOUSE GAS EMISSIONS**

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Confronting climate change requires a restoration of a sense of solidarity and responsibility in our complex world.

Energy sobriety, in both consumption and production, is part of the solution. The problem is that those engaged in decarbonization efforts have to make costly adjustments, whereas the benefits of these efforts accrue to humanity as a whole.

The temptation is then great for all of us to benefit from others' efforts without making any ourselves. This is the Trumpian climate strategy: America First! Obtaining benefits for the American people without incurring costs.

This free-rider behaviour erodes the environmental motivation of others. The US withdrawal from large multilateral institutions, both as an active participant and as their largest funder, poses enormous challenges for other countries that now must learn to live together without American leadership. Carbon pricing is one such challenge; international trade is another.

Canadian politicians have recently moved to abolish their economically effective carbon pricing mechanisms. Because of a challenging political environment, it may make sense to adopt second-best, less efficient, and more expensive alternative policies such as price controls (a zero carbon price is a form of price control as are rent control, food price control, etc.), direct controls of production activities and investments, etc.

We can opt for more expensive policies to reduce greenhouse gas emissions. Those would make us poorer, and we seem headed down that path. We cannot lose sight, however, of the global commons and the need for mutually beneficial multilateral agreements on the preferred, more efficient, and less expensive policies that economists have advocated for decades.

Carbon pricing remains the unloved face of climate policy in both Canada and Europe, with politicians preferring micro-policies, such as bans on internal combustion engines, as well as subsidies for electric cars, heat pumps and home insulation. This approach is ineffective, solves little, is very costly, and increases inequalities. But it allows some leaders to pose and be applauded at subsidized project announcement ceremonies, and avoid the fate identified by Jean-Claude Juncker, former President of the European Commission, who once declared, "We all know what needs to be done, but we don't know how to get re-elected once we've done it."

Economics is essential to developing sound environmental policies. In many cases, economists are credible and convincing defenders of the environment, serving as leading experts on the efficiency of social institutions and instruments of production, consumption, public policy, investment, and environmental protection.

Our ecological problems often stem from our refusal to place a value on our ecosystems, which encourages users of environmental resources to overuse them. For well over 30 years, economists have agreed that the most effective tool for reducing greenhouse gas emissions is a significant price, tax, or levy on carbon emissions. By addressing a well-known market failure, a carbon price or tax sends a powerful signal that can steer economies toward a low-carbon future through technological innovation, energy efficiency, and the development of green infrastructure.

There would be no need for numerous regulations, moralistic bans, and pet projects. Nor would it be necessary to impose ill-defined ESG measures and constraints on businesses, a practice that can consume management resources without generating value added measurable benefits. On the contrary, thanks to a proper carbon price, the power of competitive markets, which, under competitive prices, are favourable to growth and the environment, is harnessed to guide the behavior of all players – consumers, producers, innovators, and investors. Harnessing such an environmental policy would generate benefits by “decluttering” the current pancake of climate regulations, thereby improving regulatory clarity, attracting investment, and being, in the end, less costly to taxpayers.

Canada and the European Union share a strong commitment to reducing CO2 emissions. In the current geopolitical chaos, a coalition of these economic powers would make their climate policies more credible, more effective, and more robust in the face of attacks from nations that refuse to respect the climate. By harmonizing their carbon emission policies, both carbon pricing and emission cap and trade systems, they would be able to achieve their climate objectives at a lower cost. To promote social acceptance, governments must better inform their citizens about the benefits of effective environmental policies. For instance, carbon pricing should be fiscally neutral, with all revenues generated being redistributed to citizens, thereby protecting low-income groups while maintaining incentives for sobriety and decarbonization.

But one major obstacle to such a coalition of the willing is the free-riding strategy pursued by the United States and others. To prevent such free-riders to benefit unduly from unfair competition, we recommend implementing a border carbon adjustment mechanism to establish a level playing field for international trade.

Still, however, Canada and the EU have a unique opportunity to reinitiate a virtuous circle of international cooperation and make meaningful contributions to reducing carbon emissions during a period of trade turmoil and withdrawal from multilateral institutions.

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