A Carbon Price By Another Name May Seem Sweeter: Consumers Prefer Upstream Offsets to Equivalent Downstream Taxes

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In three studies examining U.S. consumer preferences in the airline industry, we find that consumers respond significantly more favorably to "upstream" offsets than to other frames such as "downstream" taxes. Furthermore, these framing differences are moderated by political ideology, such that Republicans show a particular distaste for downstream taxes.

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EXTENDED ABSTRACT

How do consumers react to regulations on carbon emissions? Increasing the cost of carbon intensive activities such as flying should influence consumer choices, but does it matter how these costs are labeled? Previous literature shows that costs labeled as “taxes” are more odious to consumers than other equivalent financial costs, and this is particularly true for political conservatives (Hardisty & Weber, 2010; Sussman & Olivola, 2011). In this paper, we explore a novel dimension of carbon price labeling: whether the regulation is described as an “upstream” charge on the production and importation of fossil fuels or a “downstream” charge on goods and services, and how this “upstream” vs “downstream” labeling interacts with other frames.

According to conventional economic theory, entities regulated upstream will pass the carbon price through to consumers, assuming there is no way to scrub out or remove the emissions from the fossil fuel. Similarly, if consumers facing a downstream carbon price respond by reducing their demand, producers will then see the same reduction in profits as if they had faced the carbon price upstream and correspondingly passed on the cost to consumers.

Carbon regulation raises the price of carbon producing activities to make them less economically appealing, so as to induce emitters to find better, cheaper, faster ways of cutting emissions. Carbon regulation also sends a message to consumers that society thinks these activities are bad (similar to a “sin tax” for cigarettes), inducing consumers to voluntarily reduce their carbon emissions or choose environmentally friendly options. This latter purpose, sometimes called the communication of “injunctive norms,” has been found to be important for decreasing energy usage in residential homes in California (Shultz et al., 2007). Depending on whether and how it is communicated, moving carbon regulation upstream may hide this injunctive norm from consumers, and thus decrease the effectiveness of the regulation for changing consumer behavior.

On the flip side, some countries or states may be looking to make carbon regulation more attractive to consumers. For example, one country may implement a carbon price for air travel (in and out of that country), while a neighboring country does not. In this case, consumers would face a choice between paying carbon fee when traveling to one country but not the other. The country that implements the carbon regulation may want to maintain consumer demand for air travel to the country, and therefore look for the frame that is most appealing (or least unappealing).

These issues are especially relevant in the context of policies recently adopted by the International Civil Aviation Organization (ICAO), the UN specialized agency for the sector, one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions. The sector produces emissions on par with a top-ten emitting nation and is one of the largest and fastest growing contributors to global greenhouse gas emissions.

Across three studies, consumers were more likely to choose a flight with a carbon price when the additional price was described as a “carbon offset for aviation fuel production and import” than when it was described using other frames, such as a “carbon tax for aviation travel”. Notably, this upstream offset frame was popular enough among consumers that it counteracted the expected preference to avoid the $14 additional cost of the fee.

REFERENCES