Paris after Trump: Carbon Tariffs Reloaded: Discussion

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“Paris after Trump: Carbon Tariffs Reloaded”
Discussion

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Background to CarbonTariffs

- Basic problem: free riding of non-coalition countries in presence of global public bad

- Policy prescription: in presence of emissions tax, coalition countries should adopt carbon tariffs targeted at trade in carbon-intensive products

- Hoel (1996): import tariffs/export subsidies negatively affect terms of trade of non-coalition countries, thereby reducing leakage

- Differential emissions pricing if trade policies not allowed
Earlier Results

- Böhringer et al. (2014): evaluate impact of differential emissions taxes, separating out terms-of-trade and leakage effects – uniform tax remains valid
  
  **Clever decomposition method**

- Böhringer et al. (2016): examine strategic impact of carbon tariffs in Nash game – induces cooperation from non-coalition countries (China, Russia)
  
  **Adds to literature on cooperation over climate change**

- Böhringer et al. (2016): carbon tariffs reduce emissions, but not very cost-effective, and burden of reducing emissions shifted to developing countries
  
  **Use of non-utilitarian social welfare functions interesting**
Current Paper

- Uses CGE methodology to evaluate retaliatory carbon tariffs by coalition members against US if it withdraws from Paris Agreement
- Also evaluates escalation of trade war between Paris coalition and US
- Key result: US lower welfare loss from trade war than if it commits to Paris Agreement
- Coalition welfare losses higher than for US in trade war
Comments

- If assumption of competition is dropped, what is potential for rent-shifting and other welfare effects (Conrad, 1993)?
- What if carbon tariffs are designed to meet WTO/GATT rules on border tax adjustments for domestic excise taxes?
- How are carbon tariffs a credible threat to non-coalition countries in Nash game?
- If carbon tariffs are due to lobbying by import-competing/energy-intensive industries, how do they fit into Grossman-Helpman (1994) setting?
- What defines optimal tariff when US retaliates?
- Why does US lose so little from escalating trade war?