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Paris after Trump: Carbon Tariffs Reloaded: Discussion

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Selected Paper prepared for presentation at the International Agricultural Trade Research Consortium's (IATRC's) 2016 Annual Meeting: Climate Change and International Agricultural Trade in the Aftermath of COP21, December 11-13, 2016, Scottsdale, AZ.

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“Paris after Trump: Carbon Tariffs Reloaded” Discussion

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IATRC Theme Day

**December 11, 2016
Scottsdale, AZ**



Background to Carbon Tariffs

- **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?