

Discussion:
Bernard Hoekman
**“Trade and Climate Change Policies:
Multilateral vs. Plurilateral Cooperation”**

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**“Trade and Environmental Policies:
Synergies and Rivalries”**

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Summary of Paper

- **Key focus** - interaction between trade and environmental policy, taking account of jointness of outcomes:
 - Trade and trade policy affect environmental outcomes
 - Environmental policy affects trade outcomes
 - Trade and environmental policy interact
- **Paper divides into discussion of policy choices:**
 - Unilateral/non-cooperative
 - Plurilateral - PTAs, issue/sectoral-specific cooperation
 - Multilateral - WTO, UNFSS/Kyoto/Paris
- **Fundamental issue(s):**
 - Unilateralism → plurilateralism → governance of OPAs
 - OPA use of trade policies to support environmental policy
 - Need to go beyond trade barriers as penalty default

Observations

- **Important advances in quantitative research on trade and environment relationship – see Copeland, Shapiro, and Taylor**
- **Law and policy literature has expended much effort thinking about relationship between MEAs and GATT/WTO without much clarity, e.g., see discussion of BTAs**
- **Tariff structure/tariff escalation and carbon content of imports makes application of non-distorting BTAs even more challenging**
- **Cooperation on trade policies needs to go beyond tariffs/BTAs to cover subsidies and technical regulations**
- **Still appears to be bifurcation between environmental economics and trade community over trade policy choices**
- **Lack of progress in WTO on trade and environment issues indicative of broader problem in institution: not well-designed to deal with deep integration/behind border issues**

Questions

- How fundamental is it for WTO to revisit rules on subsidies and CVDs – i.e., should we remind ourselves of principle of targeting market failures at source (Bhagwati and Ramaswami, 1963)?
- Drawing on Antràs and Staiger (2012), if firms in GVCs are setting private environmental requirements for supply of intermediate inputs, how might that impact trade policy choices in OPAs?
- If “competitiveness” issues matter more than leakage, following De Loecker *et al.* (2016), how much might horizontal competition and vertical market structure matter in sectors when setting BTAs?
- Baldwin (2016) has suggested world trade governance is heading towards a “two-pillar” system – how does that affect the means by which OPAs are governed?

Summary and Overall Thoughts on IATRC Theme Day

- Three great presentations on diverse but connected topics that contributed to an excellent theme day – so thanks to Fabio!!
- (1) Cruz and Rossi-Hansberg: geography really matters in thinking about impact of climate change on welfare, and interesting result that migration matters more than trade in terms of adaptation
 - Lack of action on trade driven by there being no sectoral breakdown, but also because climate change impact is spatial and gravity matters
 - Costinot *et al.* (2016) also find trade is less important than production adjustment when examining agriculture. Is adaptation to climate change being modeled correctly? (Gouel and Laborde, 2021)
 - If carbon taxes flatten the temperature curve, abatement technology innovation really matters – what are the available policy instruments to address this if there are market failures?

Summary and Overall Thoughts on IATRC Theme Day

- (2) Shapiro: strong institutions lead to comparative advantage in clean industries, i.e., weak institutions make countries poor and polluted
- Interaction between institutions and level of development seem to jointly determine poor countries are polluters, reinforcing pollution haven hypothesis – but moving along EKC is also constrained by lack of institutions
- How much will lack of institutions in poor countries affect their ability to adapt to climate change?
- If institutions and governance matter, how will locations that benefit from climate change address immigration pressures or will the “drawbridge” get pulled even further up?

Summary and Overall Thoughts on IATRC Theme Day

- (3) Hoekman: given plurilateral approach, OPA governance matters, and important to move away from trade policy as default penalty
- If innovation and abatement technology is critical for reduction in as opposed to delay of damage from carbon emissions, does this further emphasize need to reform WTO approach to subsidies?
- What can be learned from earlier agreements such as the Montreal Protocol on CFCs? For example, US put in place a prototypical domestic tax cum BTA which also accounted for CFC content in imports – never challenged at WTO
- Do not forget what we have learned about moving to destination-based taxation systems when thinking about carbon taxes/BTAs (Lockwood *et al.* 1994) – i.e., BTAs include export rebates
- Failure of WTO to address environment and trade issue should be seen in broader context of sidelining of AB, i.e., should move back from *stare decisis* to legislative remand, i.e., members need to negotiate new rules for 21st Century trading environment