

Options for Climate Change

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Roadmap

- ① Understanding the measures and its political consequences
 - The Problem: Tragedy of the Commons
 - Cap and trade (CAT)
 - Border tax adjustments (BAT)
 - Green subsidies
- ② Why cooperate? Why institutionalize?
- ③ Uniqueness of Environmental Cooperation
 - Comparison with trade liberalization
 - Comparison with nuclear disarmament

What is the problem?

- What kind of problems do states have?

	Excludable	Non-excludable
Rival	Pure private goods	Renewable resources with open-access
Non-rival	Club goods	Pure public goods

Table : Types of goods

- How to make people cooperate for provision of public goods?
 - 1 Incentivize actors by creating exclusionary or private incentives
 - 2 Monitor and punish actors

Environmental protection of various kinds (pollution, fisheries) is challenged by problem of the commons!

Market or Government? CAT, BTA, or Subsidies?



Cap-and-trade, Border Tax Adjustments, or Green Subsidies?

It's not just Market v. Government

Losers and Winners of CAT

- Cap-and-trade?
 - 1 Regulators designate the total quantity of emissions (Cap)
 - 2 Legislature decides which industries will be subjected to it (Cap)
 - 3 Sources could trade allowances (Trade)

Who gains? Legislators? or Regulators?

Who loses?

It's not just Market v. Government

Losers and Winners of CAT

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Who gains? Legislators? or Regulators?

Who loses? Small firms using carbon-dependent technology can't afford to lobby or buy allowances

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Losers and Winners of BTA

- Border Tax Adjustments?

- 1 Raise carbon prices by adopting carbon taxes
- 2 Domestic firms-competitive disadvantage
- 3 To level the playing field, importing countries impose taxes at the borders on carbon intensive goods from other countries

Who gains? **Government revenue - Trade officials**

Who loses?

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Who gains? **Government revenue - Trade officials**

Who loses? **Consumers of foreign carbon products (?), Importers of carbon goods when foreign exporters pull out of market due to BTA**

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Losers and Winners of Green Subsidies

- Grant subsidies to exporters or producers of green goods (Who defines green goods)

Who gains? Legislators - Possibility for lobbying, Bureaucrats with expertise on green technology, Producers of green goods that could substitute carbon goods

Who loses?

It's not just Market v. Government

Losers and Winners of Green Subsidies

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Who gains? Legislators - Possibility for lobbying, Bureaucrats with expertise on green technology, Producers of green goods that could substitute carbon goods

Who loses? Carbon goods producers if they are taxed more to pay for green subsidies, if not taxpayers: depends on who pays for subsidies

Why cooperate? Why institutionalize? (Pair-share)

Why do states have to cooperate to protect environment or reduce carbon dioxide emissions? Can't they do it unilaterally?

Why cooperate? Why institutionalize? (Pair-share)

Why do states have to cooperate to protect environment or reduce carbon dioxide emissions? Can't they do it unilaterally?

Do we need an institution or codified rules for environmental cooperation? Why is an institutional solution better (or worse) than ad hoc diplomacy?

Environmental protection vs. Nuclear disarmament

- Do you think that “Less is more?” for environmental cooperation?
 - Does the same logic hold for nuclear disarmament?
- ★ Domestic actors: Collective action problems for opposition

Environmental protection vs. Nuclear disarmament

- Do you think that “Less is more?” for environmental cooperation?
 - Does the same logic hold for nuclear disarmament?
- ★ Domestic actors: Collective action problems for opposition
- ★ Uncertainty about the state of the world (flexibility) v. Uncertainty about behavior of others (delegation + dispute settlement but no discussion on precision)

Environmental protection vs. Trade liberalization

- Trade: regulated in a unified legal framework
- Environment: multiple regimes under the UNFCCC
 - ★ Distribution of interests weighted by power:
Did the US and Europe have common interests?
 - ★ Types of uncertainty? In the GATT, states knew that MFN leads to an increase of trade vs. states don't have pre-existing norm or experiences about environmental institutions.
 - ★ Sequence of linkage? Were they facing multiple different problems at the same time?

Building an Institution

- Your goal is to make a multilateral agreement for reduction of carbon dioxide emissions
- You should be able to justify your decision based on at least **two** of the requirements suggested in Keohane and Victor (2011)
 - Coherence, Accountability, Determinacy, Sustainability, Epistemic quality, and Fairness
- Make four decisions with your partner
 - Choice of forum: Stand-alone institution or Nesting in extant institutions (e.g. WTO, World Bank, IMF, UNFCCC, or regional forums)
 - Precision: Bright-line rules or not? Politically feasible?
 - Obligations: Binding or hortatory?
 - Delegation: Who should monitor compliance, gather information, and enforce rules?

Note that if you choose to NEST it in existing institutions, options for the rest might become different (e.g. WTO → More precise, obligatory)

Evaluation



- Coherence: Is your agreement compatible with other sets of rules?
- Accountability: If enforcers overstep, how could we hold them accountable?
- Determinacy: How confident could one be about the success of this institution? What are its past records of success?
- Sustainability: Is it durable?
- Epistemic quality: Are the rules internally consistent? Is it consistent with scientific knowledge?
- Fairness: Is it fair for underdeveloped countries?