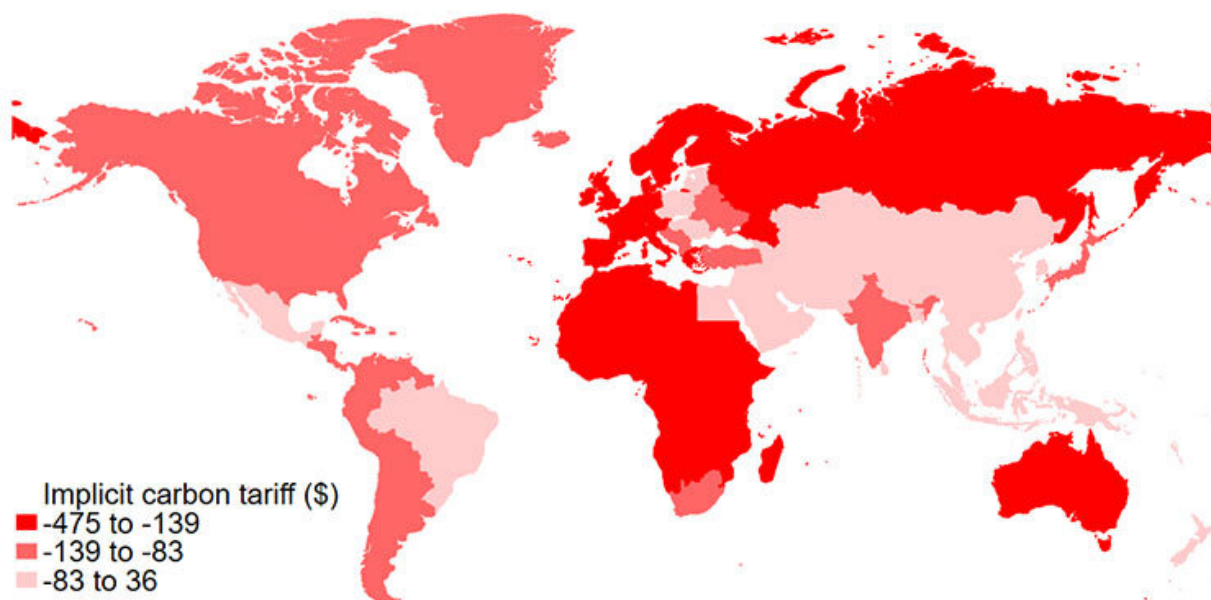


Forget carbon tariffs: Existing trade policies give dirty industries a boost

May 5 2020, by Kara Manke



The approximate “carbon tariff,” or difference between tariffs on low-emitting and high-emitting industries, calculated for various countries around the world. Note that many countries that are considered to have strong environmental protections, such as those in the E.U., also have some of the strongest “environmental biases” in their trade policies, with significantly lower tariffs for dirty industries than for clean industries. Credit: UC Berkeley graphic by Joe Shapiro

In the United States and around the globe, products produced by "dirty" or high-carbon-emitting industries are facing significantly lower import

taxes than their cleaner counterparts, finds a new paper from the University of California, Berkeley.

Fixing this "environmental bias" in trade policy could significantly lower global carbon emissions, while having little impact on overall global income, argues study author Joe Shapiro, an associate professor of economics and of agriculture and resource economics at UC Berkeley.

"It's rare to find a systematic pattern that happens in many countries with broadly similar magnitude, but that's what happens here," said Shapiro. "This suggests that when countries go negotiate their trade policies, there is scope for that to have important large effects on the environment."

The analysis was published online May 4 as part of the UC Berkeley's Energy Institute Working Paper Series.

The finding comes at a time when many politicians—including 2020 presidential candidate Joe Biden—have proposed implementing higher import taxes, otherwise known as carbon tariffs, on goods produced by dirty industries.

Instead, existing trade policy grants what is essentially an \$85 to \$120 subsidy to polluting industries per ton of carbon dioxide produced, the study found.

"If you took two arbitrary bundles of goods that showed up in some port around the world, if one of those bundles of goods emitted one additional ton of carbon dioxide to produce, those dirtier goods would face an average of approximately \$85 to \$120 less in tariffs and in non-[tariff](#) barrier obstacles," Shapiro said.

That number is startling, given that many economists estimate that the global "social cost" of carbon emissions—and therefore, the optimal tax

on carbon emissions—to be \$40 or \$50 per ton of carbon dioxide produced.

The significant discrepancy between tariffs on dirty and clean industries is likely due to a factor that economists like to call "upstreamness," Shapiro found.

Raw goods, like steel and aluminum, are used as precursors to [consumer goods](#), like automobiles and cell phones, and therefore are considered more "upstream" than the end products. The production of upstream [raw materials](#) is usually more fossil-fuel intensive than that for their downstream counterparts, which often include "clean" inputs, like software or design.

Powerful lobbying groups, like those representing automobile or technology industries, often push politicians to keep tariffs on raw goods low—so these industries have cheaper access to materials—while advocating for high tariffs on their own products, to protect their consumer bases.

While higher tariffs on dirty industries may impact consumer prices, they are also "one of the few environmental policies I am aware of which appeals to environmentalists and to polluting industries," Shapiro said.

"Some [environmental policies](#) increase the cost of producing pollution-intensive goods, and so pollution-intensive industries lobby against them," Shapiro said. "This is an environmental [policy](#) that protects the dirty industries, so they may lobby for it, and it has the potential to decrease [carbon](#) emissions."

More information: The Environmental Bias of Trade Policy (Energy Institute Working Paper Series): haas.berkeley.edu/wp-content/uploads/WP305.pdf

Provided by University of California - Berkeley

Citation: Forget carbon tariffs: Existing trade policies give dirty industries a boost (2020, May 5)
retrieved 16 July 2024 from <https://phys.org/news/2020-05-carbon-tariffs-policies-dirty-industries.html>

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