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Green lobbies and transboundary pollution in large open economies

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Abstract

We employ a common agency model of policy making to examine how green lobbies affect the determination of trade and environmental policies in two large countries that are linked by trade flows and transboundary pollution. We show that the impact of green lobbying on environmental policy outcomes depends crucially on the prevailing trade regime—cooperative or non-cooperative—on whether environmental agencies act in a unilateral or coordinated manner, and on the size of the emission leakages and transboundary spillovers. Under free trade, a unilateral increase in pollution taxes reduces domestic emissions at the cost of increased foreign emissions; in this case, if the emission leakages and the associated transboundary spillovers are large enough, green lobbying can create a bias towards lower pollution taxes.

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1. Introduction

This paper examines how the presence of green lobbies may affect the determination of trade and environmental policies in large countries linked by trade flows and transboundary pollution.

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It is widely recognized that, in the presence of transboundary pollution, uncoordinated environmental regulation at the national level is associated with market failures and that economic efficiency requires international policy cooperation. In the absence of cooperation, there is a presumption that, by exerting political pressure in favor of higher domestic pollution taxes, green lobbies might act as a partial remedy.¹

In this paper, we argue that, when countries are large and environmental emissions spill over to trading partners, the presumption that green lobbying must lead to the adoption of stricter environmental policy is potentially misleading. This is because an increase in pollution taxes by a large country shifts the terms of trade in favor of trading partners, leading to an increase in their emissions. If the effect of domestic policies on foreign emissions (“emission leakages”), and the associated transboundary spillovers are large enough, unilateral efforts to reduce pollution by taxing domestic producers might actually increase environmental degradation and thus be opposed by green lobbies. Since the environmental policy leakage can be eliminated either through the use of import tariffs or through environmental policy coordination, the impact of green lobbying on the environmental policy outcome will also depend crucially on whether or not governments are bound by a free trade agreement and on whether they act in a unilateral or cooperative manner.

The possibility of emission leakages has received attention in various empirical studies on transboundary pollution, which have come to conflicting conclusions about the magnitude of such trade-related environmental effects. Some simulation-based studies find that unilateral actions to curb CO₂ emissions would have relatively small adverse effects on other countries’ emissions.² Other studies find that the emission leakages could be significant.³ The reasons behind these

¹In recent years, green lobbies have significantly grown in size. For example, in 1998 in the United States the Environmental Defense Fund had 151 permanent staff and an annual budget of \$23 m, Greenpeace (US) had 250 and \$12 m, and the Natural Resource Defense Council 165 and \$18 m. Green lobbies have also become increasingly important political actors: as well as exercising pressure on national governments and supra-national institutions such as the World Bank, the World Trade Organization and the EU (Charter and Deléage, 1998), they are active participants in all major international trade and environmental negotiations. For example, at the Kyoto Conference on greenhouse emissions in December 1997, several green NGOs were represented (Greenpeace alone sent an 18-strong delegation). They “had considerable influence on the negotiations (and) served as sounding-board to assess how proposals would be received at home” (*Financial Times*, December 11, 1997). More recently, influential environmental groups such as Friends of the Earth launched a fierce campaign against the new round of GATT/WTO negotiations in Seattle (*The Economist*, December 11, 1999).

²This is the conclusion reached, for example, by Olivera-Martins et al. (1992) and by a study of the Clinton Administration (1998) on the effects of the Kyoto Protocol. For a discussion, see Barret (1998).

³For example, Bernstein et al. (1999) find that, for every 100 tons of carbon abated by the Annex I countries of the Kyoto Protocol, emissions in the other countries could rise by 5–10 tons. Significant leakage effects are also predicted by Nordhaus and Boyer (1998) and Manne and Richels (1998). An earlier study by IPCC (1996) finds that pollution leakages could be more substantial.

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