# The Environmental Bias of Trade Policy

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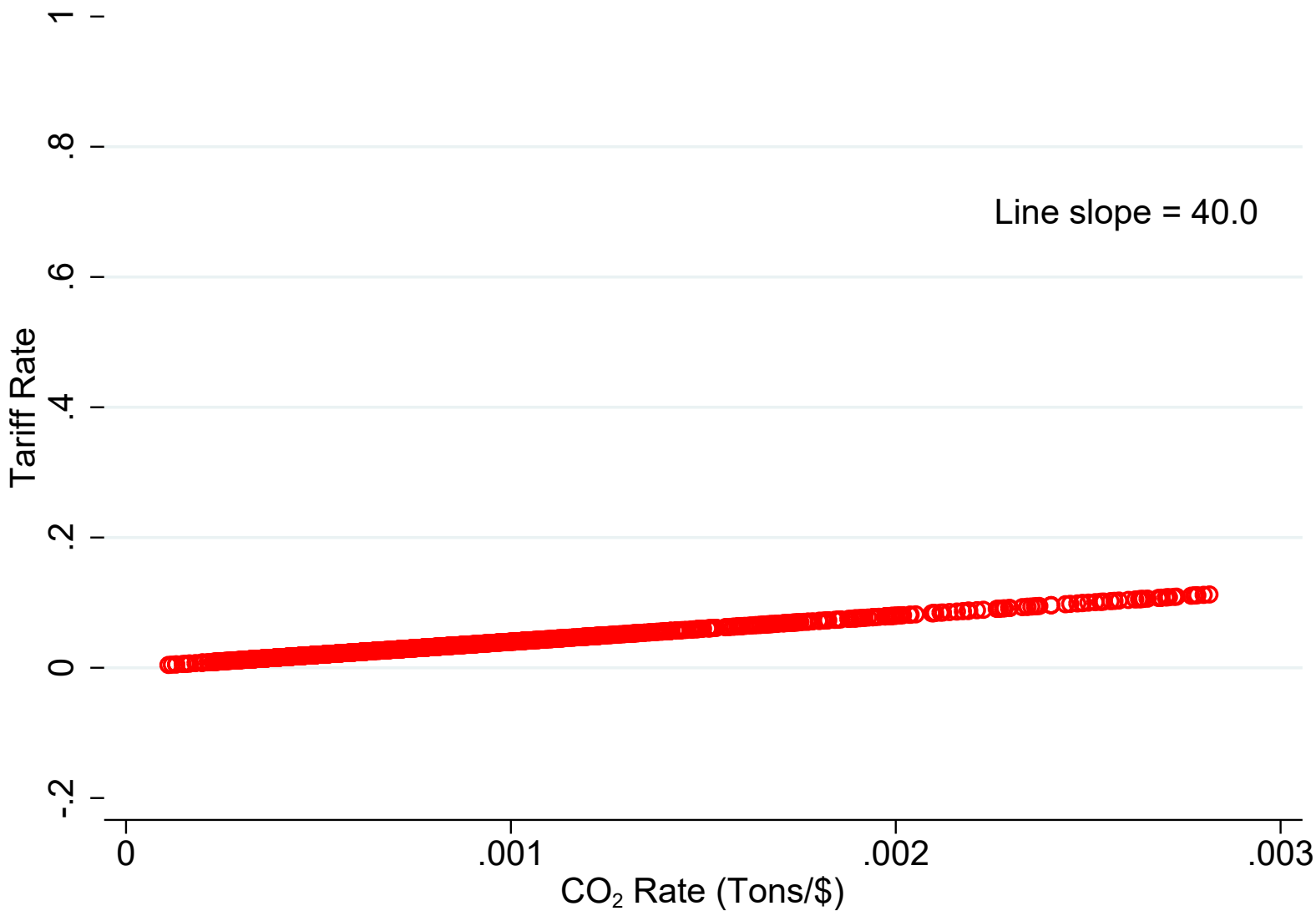
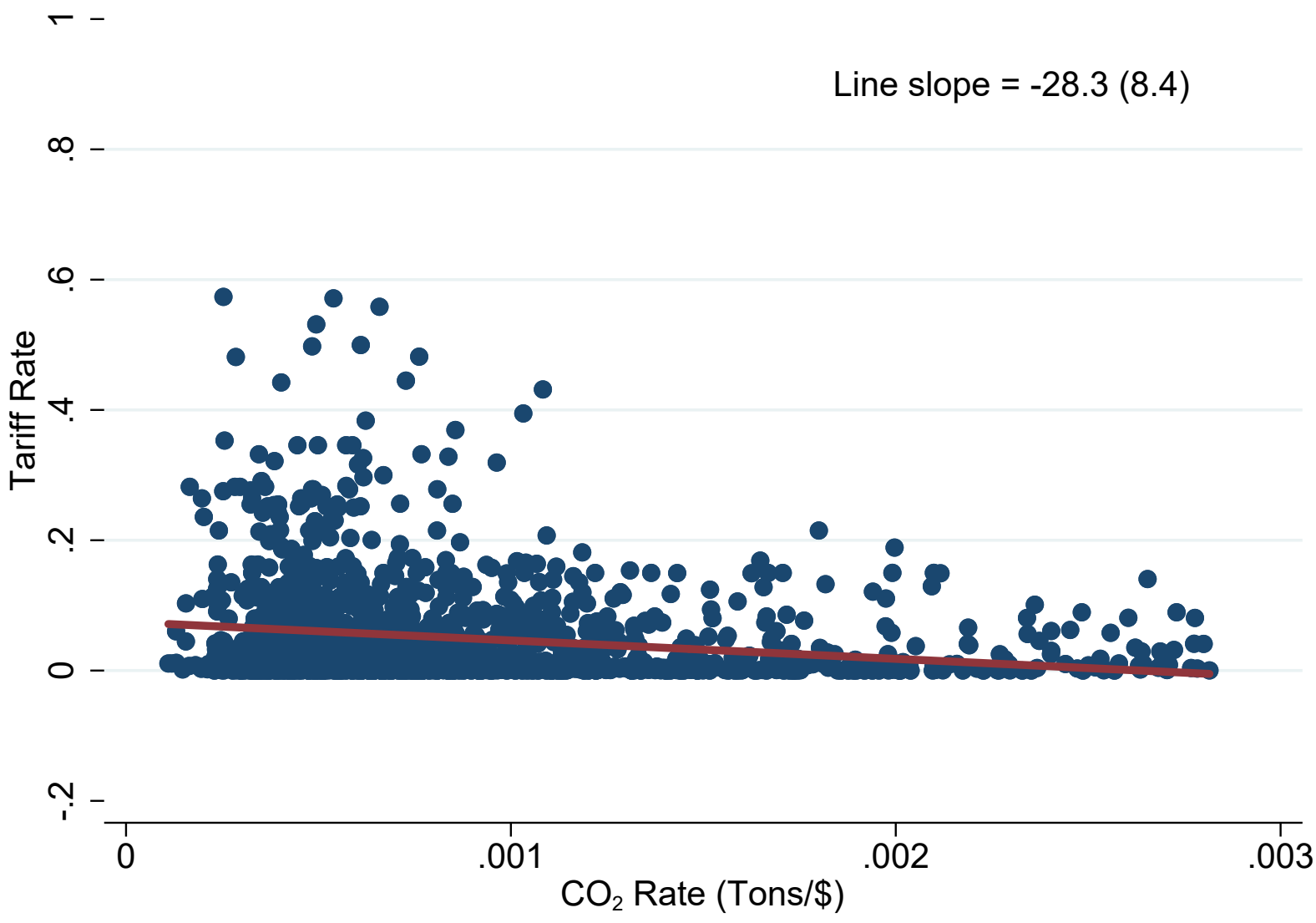
# Hypothetical Carbon Border Adjustment with $40/Ton Carbon Tax



# Results: Actual Global Tariffs Versus Carbon Intensity




Graph with weights

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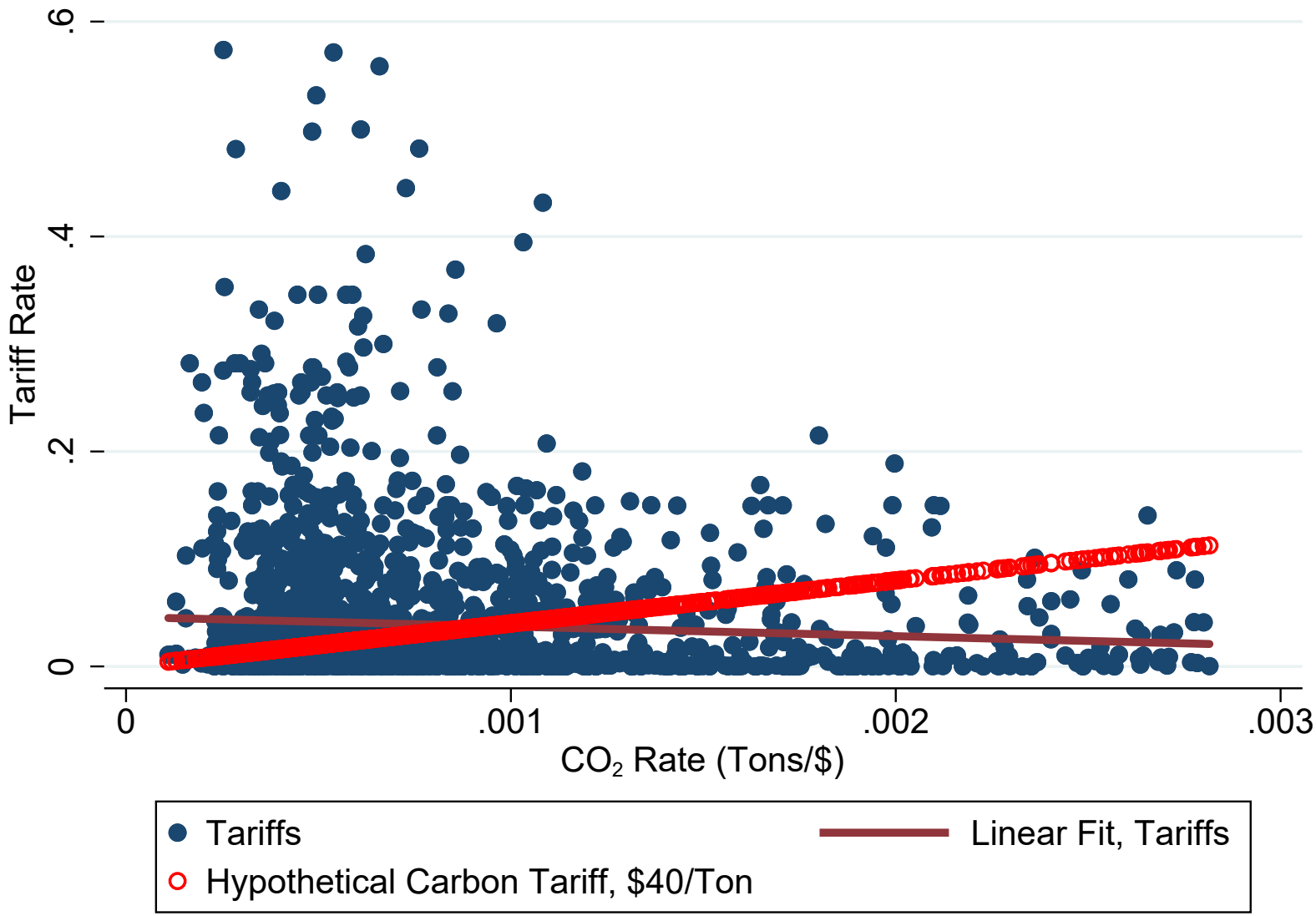
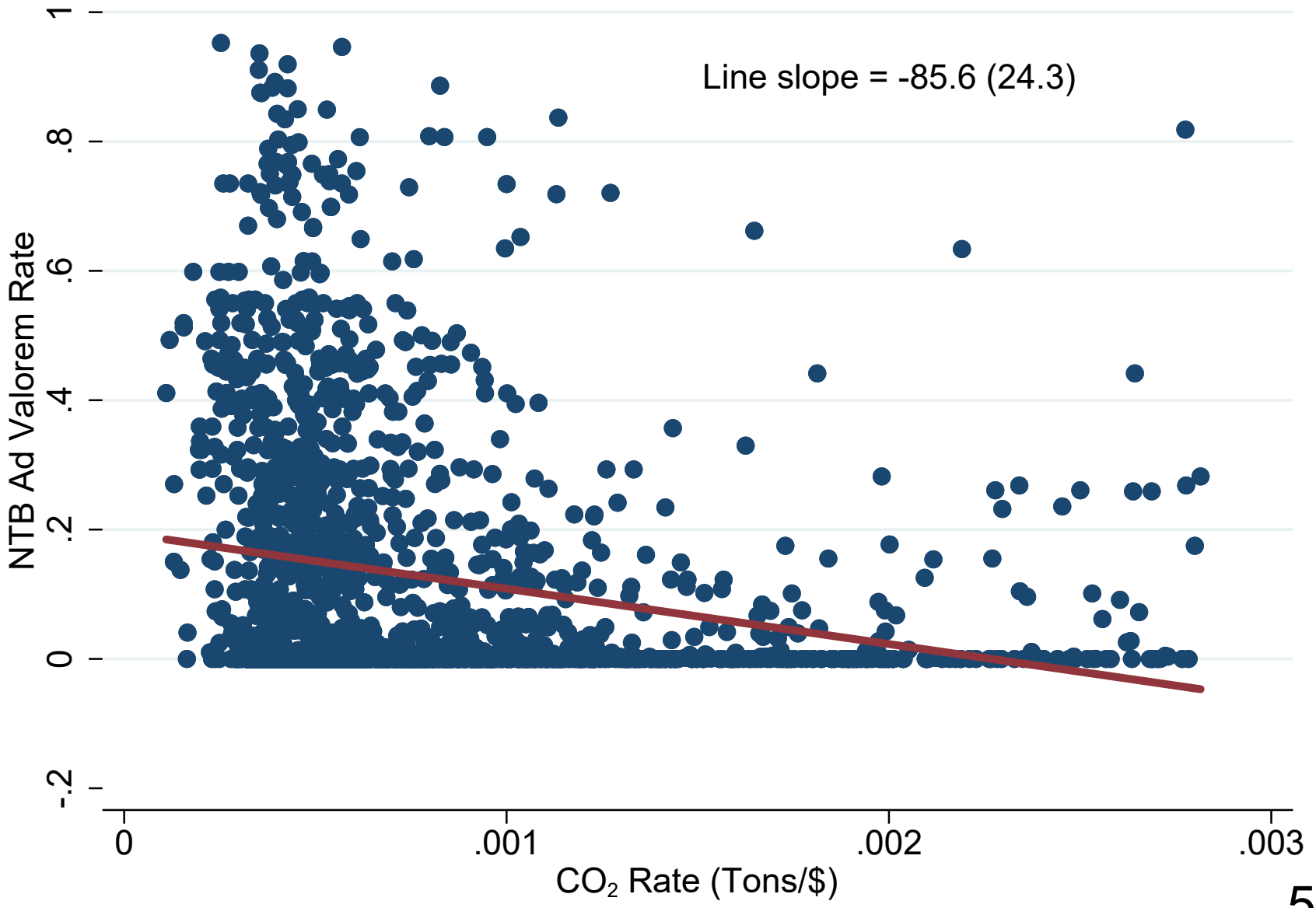
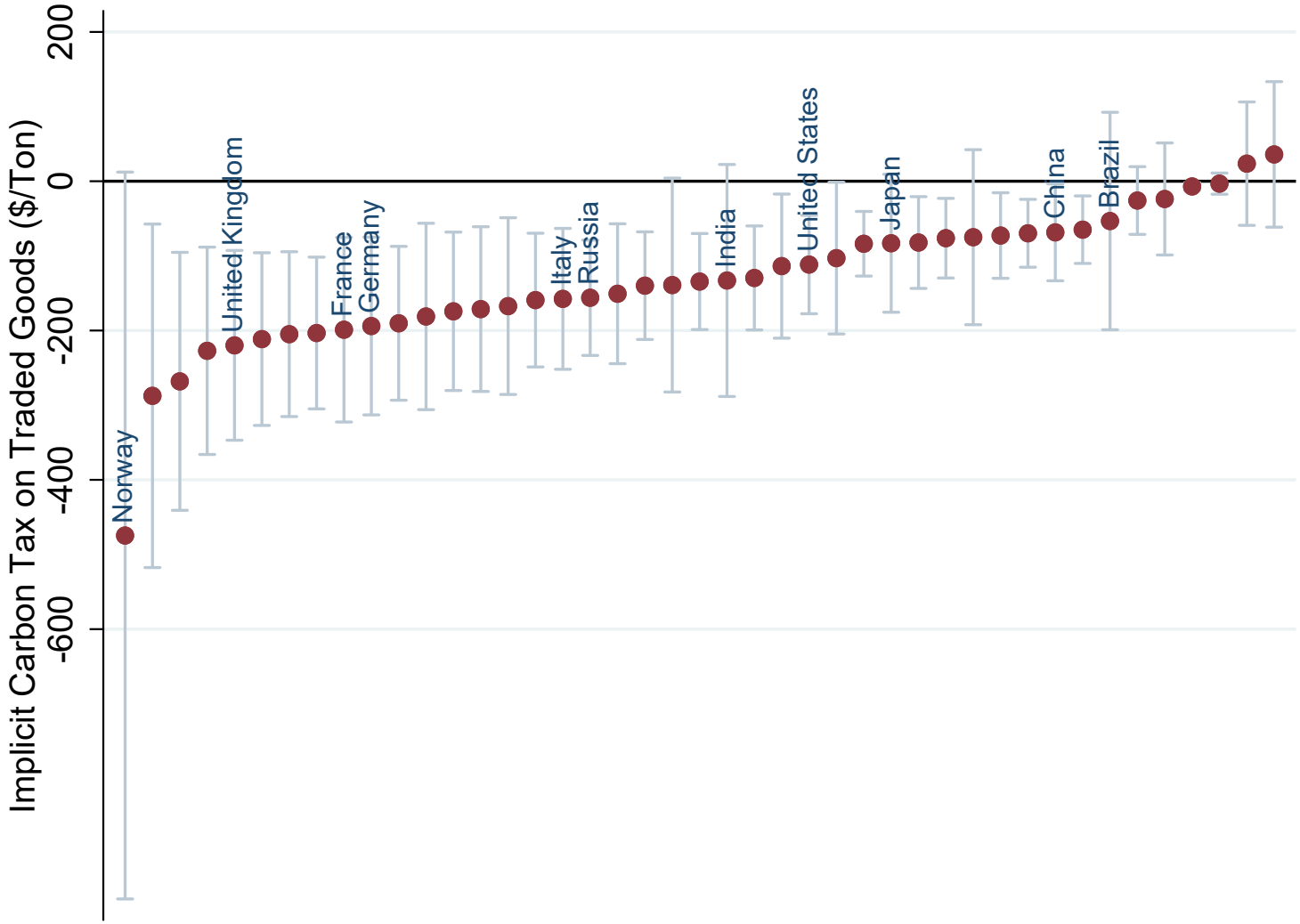


# Results: Carbon Taxes Implicit in Global Non-Tariff Barriers



# Results: Total Implicit Carbon Taxes, by Country

$t_s = \alpha_j E_s + \varepsilon_s$



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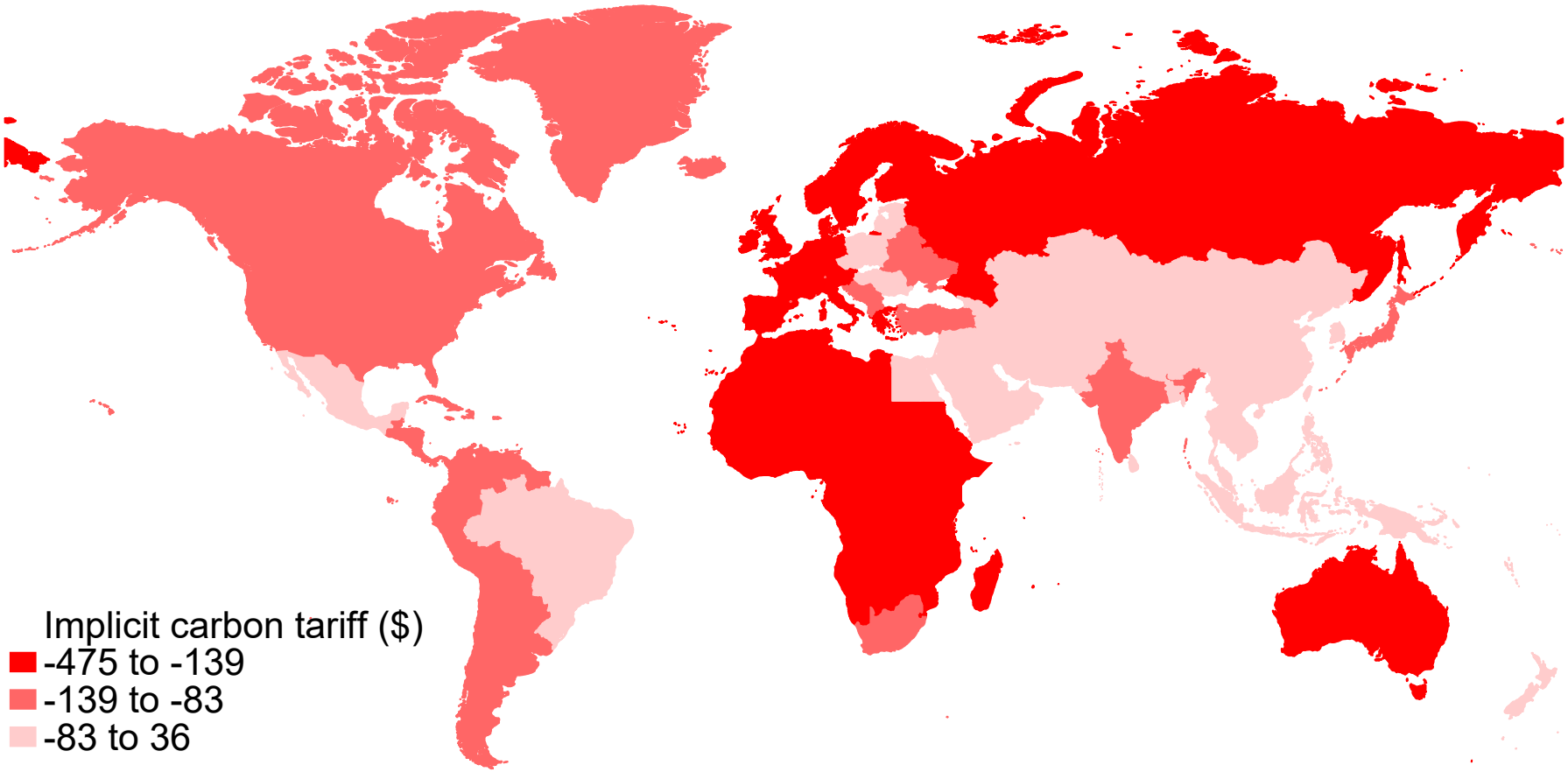
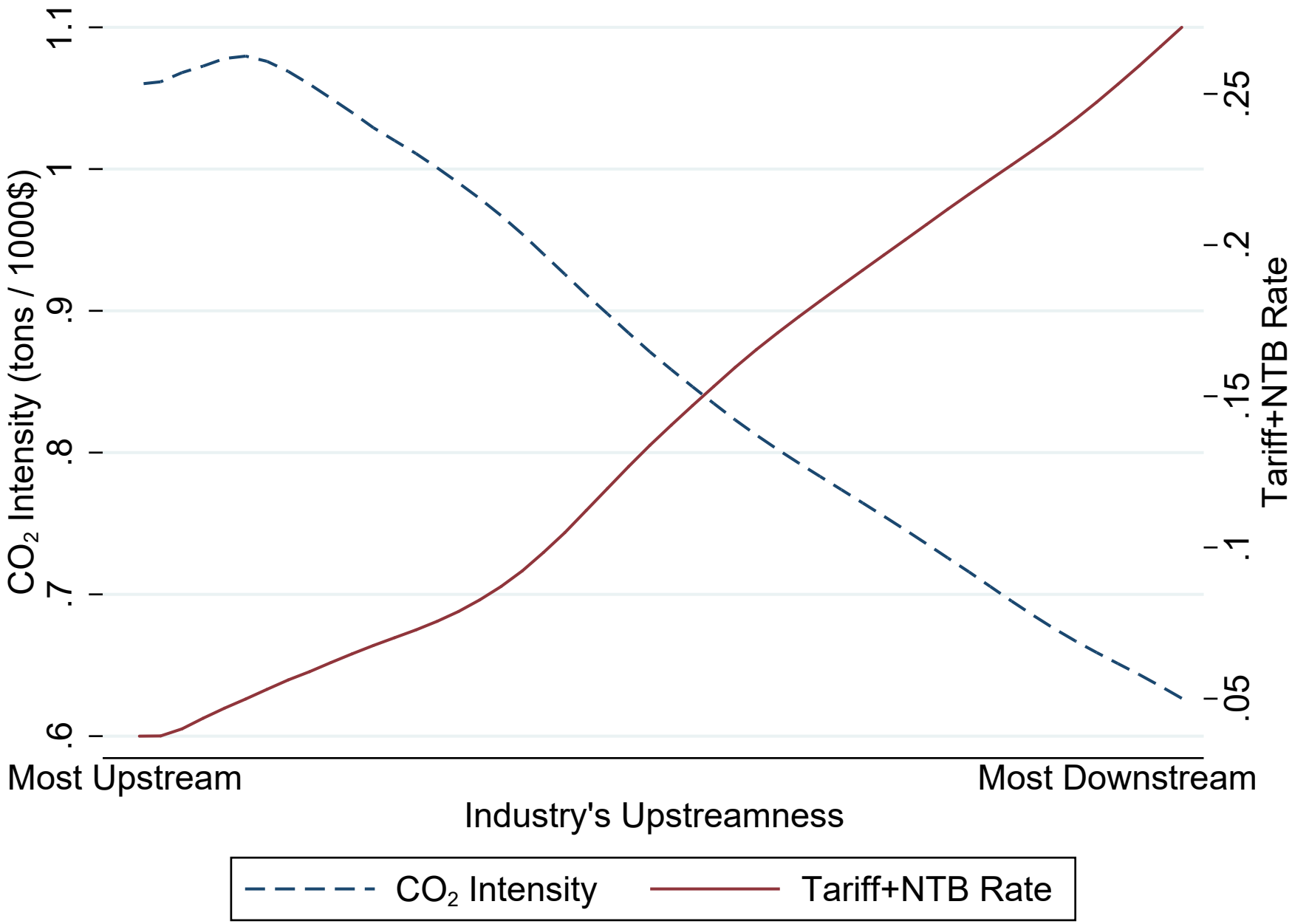
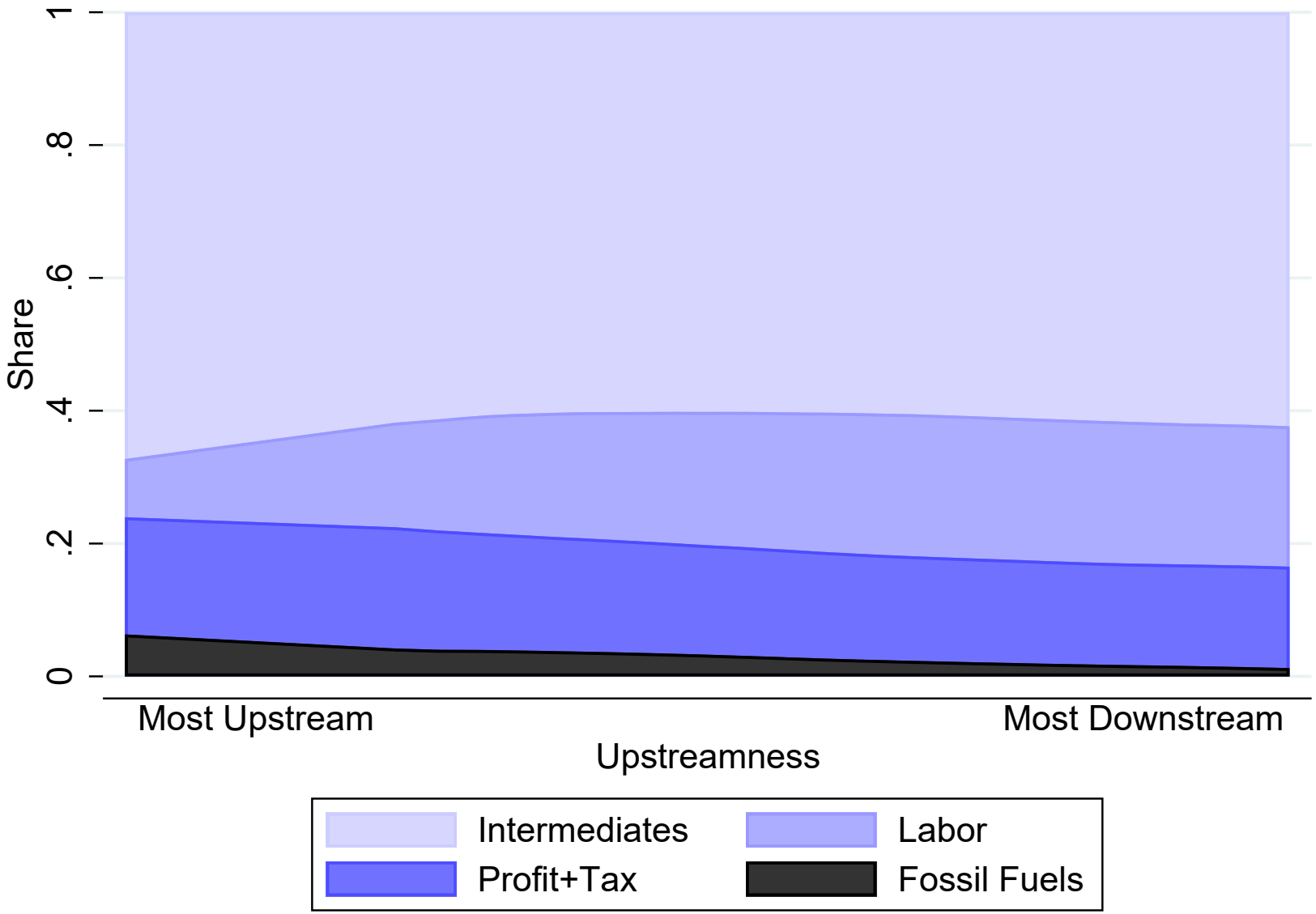


# Political Economy Explanations



# Explanations: Why are upstream industries dirtier?

**Cost shares versus upstreamness, by U.S. industry**



# Conclusions

- Existing trade policy implicitly subsidizes $CO_2$ emissions
  - EU: trade policy is encouraging leakage, not preventing it
  - Aggregate subsidy to climate change $>$ \$500 billion/year
  - Policy reforms could decrease global $CO_2$, increase global GDP
- Main explanation: downstream industries have higher tariffs, lower $CO_2$ intensity
- Consequences
  - Trade policy negotiations consider climate change consequences of tariff escalation?