



Workshop:

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ABSTRACT

Measures to Enhance the Effectiveness of International Climate Agreements: The Case of Border Tax Adjustments

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Unilateral or sub-global actions on climate change are not very effective but global action is not stable due to strong free-rider incentives. These incentives arise because of emissions leakage by non-signatories and the loss of competitiveness by treaty signatories due to higher environmental standards. We study a policy instrument which has been recently proposed to tackle free-riding: border tax adjustments (BTAs). We use a simple strategic trade model which captures consumers' taste for variety to analyze the conditions when BTAs are able to level the playing field and lead to large stable environmental treaties. We show they are particularly successful provided treaties remain of the open membership type and do not serve the interests of few countries who may prefer an exclusive membership rule.

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