

ECON 442: Quantitative Trade Models

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Trade and the Environment

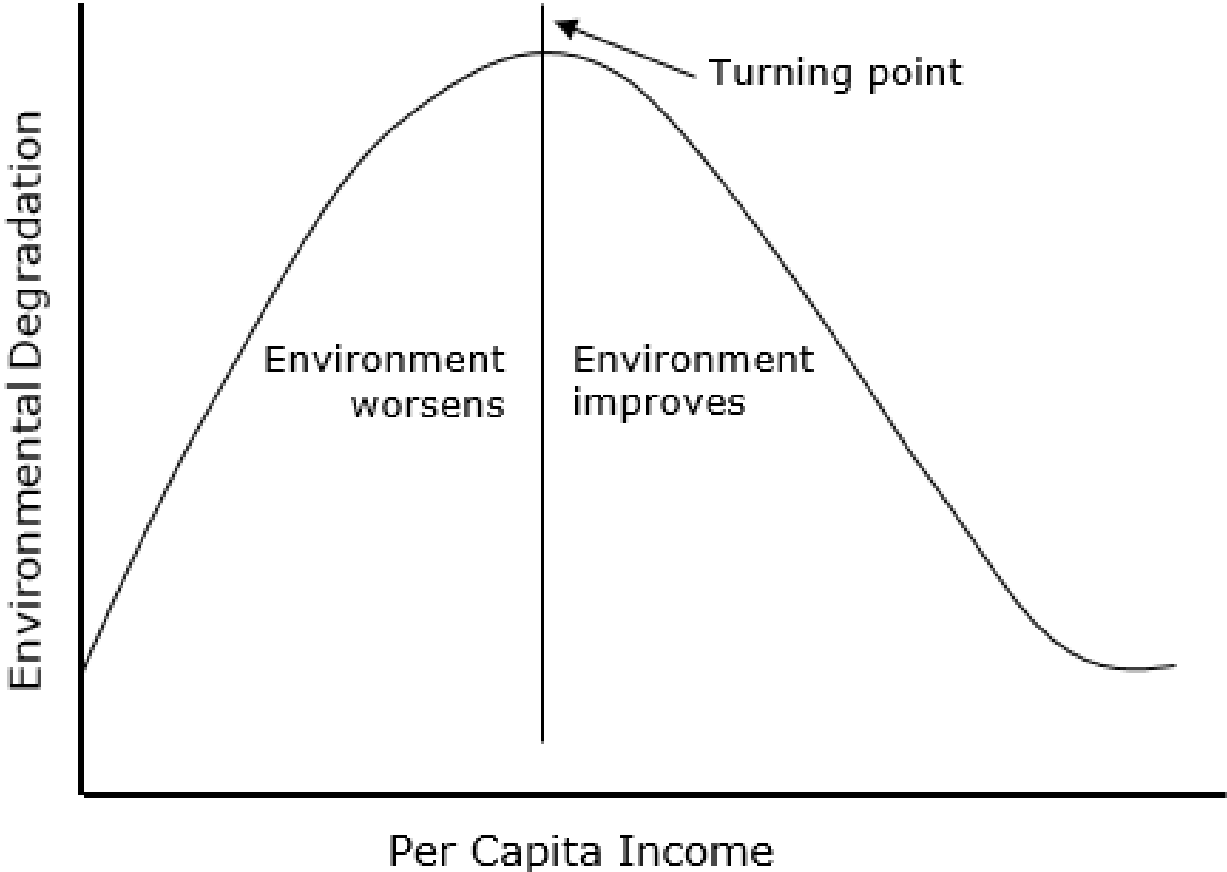
Does international trade help or harm the environment?

- Still an open question

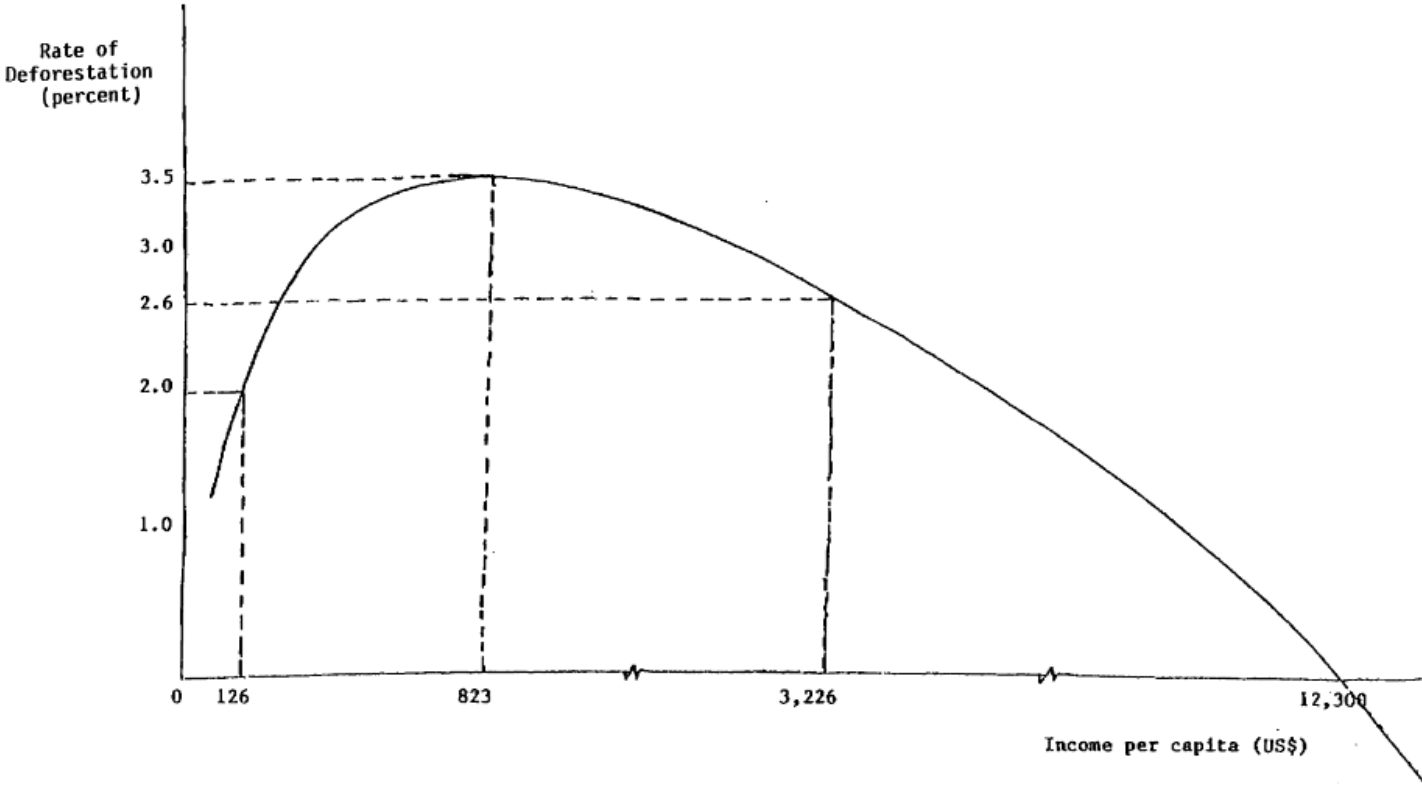
Potential Benefits

- Trade may help development; potential to benefit from an Environmental Kuznets Curve
- Evidence that Exporters pollute less than non-Exporters: Holladay (2015)
- Evidence that more open countries have less local air pollution: Frankel and Rose (2005)
- Trade linkages may encourage countries to sign Multilateral Environmental Agreements: Prakash and Potoski (2006)

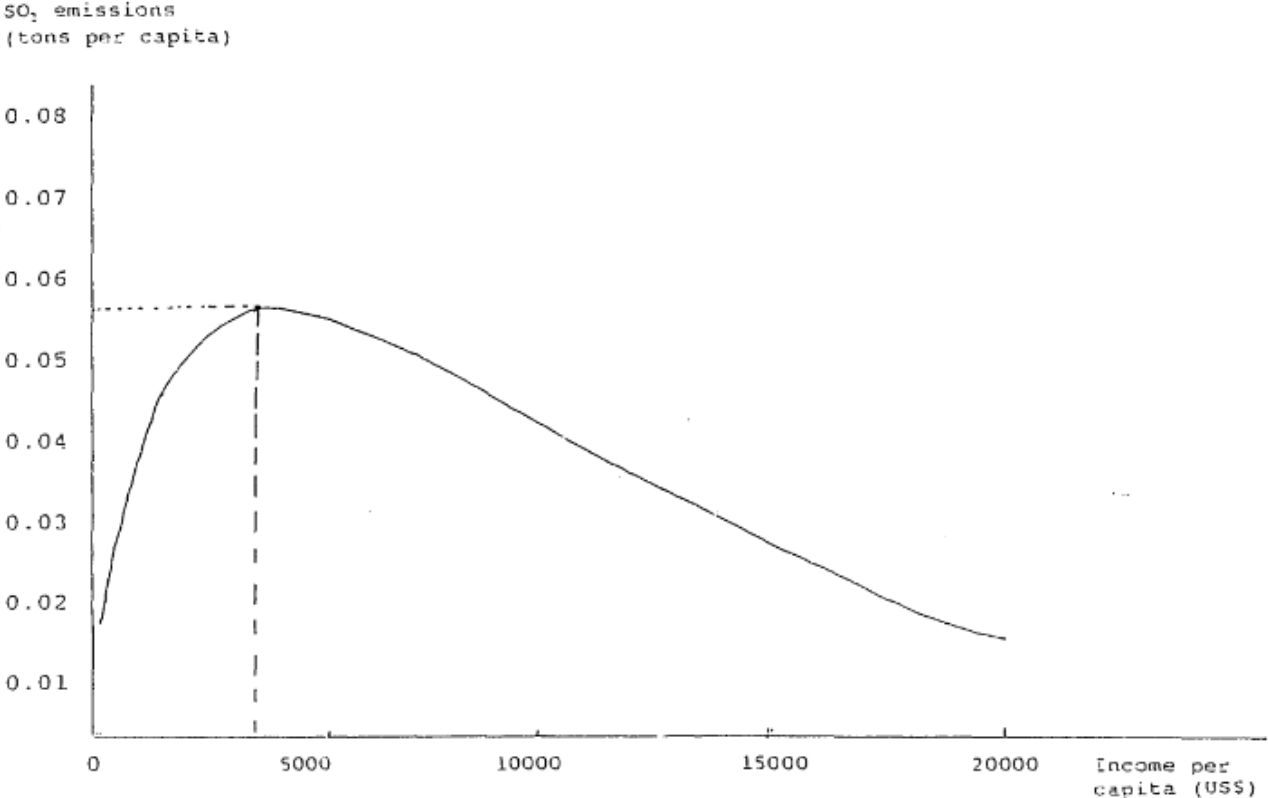
Environmental Kuznets Curve



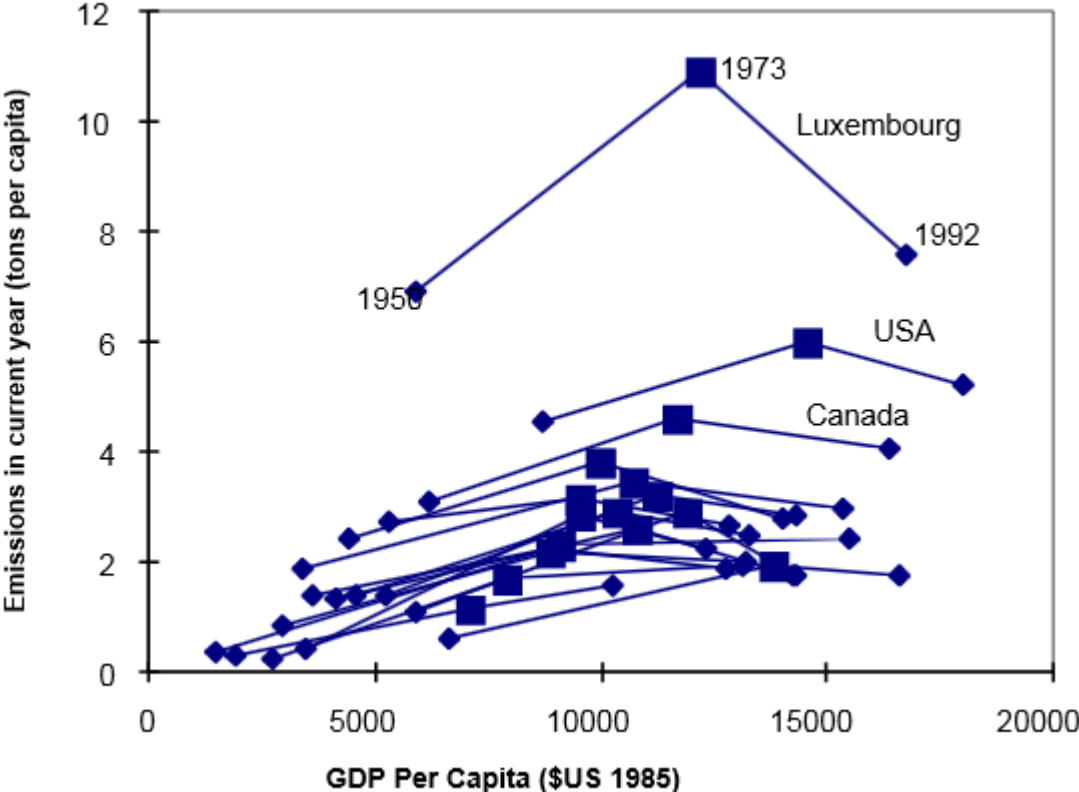
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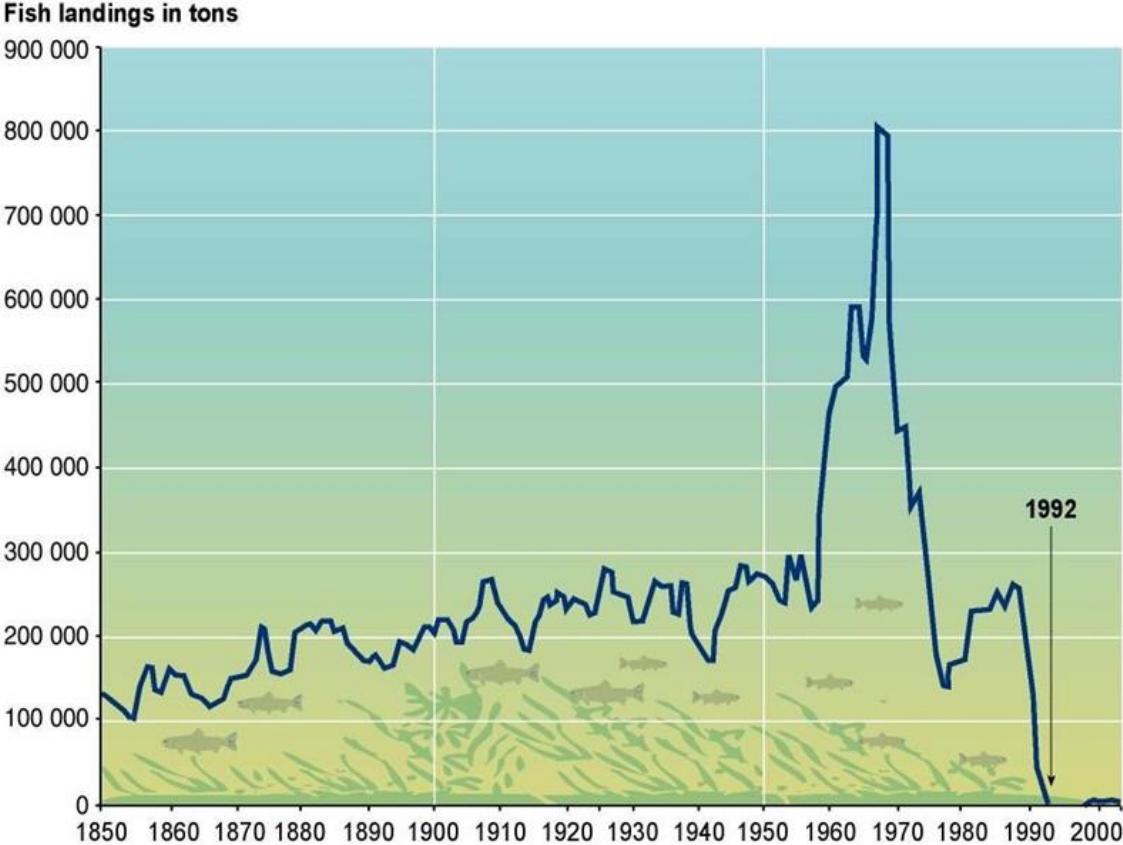
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Potential Costs

- Worries about “race-to-the-bottom”; companies may relocate to avoid environmental regulations
- WTO may limit ability of countries to enforce environmental-based import bans, absent MEAs
- Trade increases size of largest firms; political economy concerns due to lobbying
- Expanded markets and ill-defined property rights may lead to tragedy of the commons
- Environmental impact of shipping: Invasive Species, Pollution, Collisions with Marine Life

Tragedy of the Commons: Overfishing



Source: Millennium Ecosystem Assessment

Examples of Environmental GATT/WTO Cases

Case: U.S. Banned imports of Tuna from Mexico, due to lack of Dolphin-Safe Nets

Key Questions:

- Can one country tell another what its environmental regulations should be?
- Do trade rules permit action against **methods** used to produce goods, or only goods themselves?

Ruling:

- GATT ruled that U.S. could not take trade action with goal of imposing laws on foreign country.
- Can't ban imports due to process of fishing. Could ban if issue with quality/content of the tuna.
- Ruling was never adopted. Mexico and U.S. resolved issue outside of GATT; Dolphin-Safe Tuna Labeling effectively removed U.S. demand for Tuna not fished with Dolphin-Safe Nets.

Examples of Environmental GATT/WTO Cases

Case: U.S. Banned imports of Shrimp from several countries, due to Sea Turtle endangerment

Key Differences from Tuna Case:

- Sea Turtles are listed as an endangered species

Ruling:

- WTO ruled that countries **can** adopt measures to protect endangered species
- However, U.S. provided assistance to other countries to transition to Turtle-Safe harvesting.
- This assistance was ruled as discrimination. Therefore, U.S. could not enforce ban without providing same assistance to countries currently facing ban.
- U.S. provided transition assistance; enforced guidelines. Malaysia appealed and was denied.

Examples of Environmental GATT/WTO Cases

Case: E.U. Banned imports of Asbestos containing products from Canada

Key Questions:

- Canada challenged not all Asbestos containing products had been found to be harmful.
- What is the burden of proof for bans on Environmental

Ruling:

- WTO ruled in favor of E.U. upholding ban
- Countries can ban imports if there are health concerns about the product, even if hasn't been proven for all versions of the product

Examples of Environmental GATT/WTO Cases

Case: E.U. Banned imports of GMO agricultural products from United States

Key Differences from Asbestos Case:

- No scientific evidence that GMO food is harmful for consumption

Ruling:

- WTO ruled in favor of U.S., requiring E.U. to drop ban
- Ruled that environmental and health concerns must have basis in scientific risk assessments
- In practice, labeling requirements and consumer concerns limit import demand