

Law, Economics and Politics of International Trade

(Economics 164/Law 306/Political Science 216)

Profs. Goldstein, Staiger & Sykes

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PAPER TOPIC

General Instructions

The paper is due at noon on March 17th. No late papers will be accepted. Papers must be turned into Helen Lee or David Wu. Maximum length is 12 pages, double spaced, 12 point font, 1" margins. Papers should be well written, properly cited and spell checked. Support your findings with case law, empirical evidence and theoretical arguments, the primary source of which should be lectures and readings from the course. In composing your answer, you may discuss your ideas with others, but you must write your paper yourself. Please sign and date the cover page attesting to having followed Stanford's Honor Code.

Background

In its discussion of the possible limits placed on global warming policy by the WTO, *Public Citizen's* blog on globalization and trade, *Eyes on Trade*, had this to say in a January 30, 2008 posting:

"There is little doubt that government will play THE leading role in stopping further global warming - no other institution in society has the police power or administrative economies of scale to make it happen, regardless of the specific combination of mechanisms to be used..."

"Well, ... every global warming bill in Congress - elements of which are reflected in the [Presidential] candidates' plans as well - violates WTO rules. Among the possible WTO violations: energy efficiency regulations and standards, government-administered eco-labeling..., public procurement of climate-friendly goods and services, and possibly even emissions trading or auctioning - long seen as one of the most market-friendly ways of addressing global climate change. This is mostly because of the challenge in finding a way to require domestic manufacturers to comply with costly reforms while importers importing from less-regulated countries don't have to comply.

"As a response, most proposals...require some sort of provision that importers also buy into the carbon allowances. How could this provision, which seems just common sense, unravel the whole governmental response to global warming?"

Assignment: Let us suppose that the U.S. Congress is considering a new carbon-tax regime that requires the purchaser of every final good produced and sold for consumption in the United States to purchase a “carbon allowance,” i.e., to pay a tax based on the carbon emissions associated with that good’s production. The tax rate per unit of carbon emissions will be established by the Congress. The Environmental Protection Agency (EPA) will be required to collect the data for the computation of the carbon emissions level associated with the production of each product, including that associated with the production of intermediate inputs. It is anticipated that producers of products who use cleaner technologies will be able to present evidence of that fact to the EPA in order to lower their tax rate.

You are to focus on the provision of the regime that deals with the treatment of imports, and to consider two possible versions of this provision, Provision A and Provision B described below. Your paper should evaluate the merits of each of these provisions from the perspective of WTO-legality, economic rationality and political feasibility.

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Provision A: “The *Empty Provision.*”

Under this provision, U.S. importers do not need to purchase carbon allowances in order to import foreign products (i.e., they need pay no special fee or tax based on the carbon emissions associated with the production of the imported foreign-produced good).

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Provision B: “The *Equal Treatment Provision.*”

Under this provision, U.S. importers must purchase carbon allowances for imported foreign-produced goods (i.e., they must pay a special tax based on the carbon emissions associated with the imported foreign-produced good’s production).

In particular, to ensure that U.S. firms are not disadvantaged by the carbon-tax regime relative to their foreign competitors, all importers of final goods for consumption in the United States will be required under this provision to pay an “equalization tax” at the time of importation, in addition to any ordinary tariff or other customs charges. The tax rate on each imported good will also be determined by the EPA based on its best estimate of the carbon emissions associated with the production of the product, and using the same tax rate per unit of emissions that is applied to domestic goods. EPA is encouraged to obtain data on actual carbon emissions associated with each taxable imported product, but because the logistics of that task may prove difficult or impossible, EPA is authorized to base the tax on imported goods on the average tax rate paid by “comparable” domestic goods. Importers may claim a credit against the tax for any “carbon tax payment” to a foreign government made by the importer or any other party in the chain of distribution to a foreign government. No other credits or offsets are allowed.

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