

Topics in International and Environmental Economics - MIEPP Seminar - Johannes Gutenberg University Mainz

Winter 2023/24

Chair of International Finance, Prof. Philip Sauré

Preliminary version - subject to slight changes

Seminar Description

This is a hands-on seminar where students collaborate on a joint seminar project. The project aims to provide a theory-based empirical assessment of the potential effectiveness and loopholes of the carbon border adjustment mechanism (CBAM). The idea behind the CBAM is the following.

Countries with stringent environmental policies run the risk of losing competitiveness in certain (emission-intensive) industries due to the additional domestic costs of regulation. To avoid relocation and offshoring of the affected industries, countries may combine environmental policies with import tariffs on products of the affected industries, thereby compensating for the cost increases and “levelling the playing field”. One of the most prominent examples of this approach is the EU’s Emissions Trading System (EU ETS, a CO₂ emission fee) and its CBAM. While the EU ETS may create a cost advantage for firms operating in countries with lax environmental regulations, the CBAM may rebalance the cost differential induced by the EU ETS. The CBAM, which officially entered into force in May 2023 and will be phased in starting October 2023, could be undermined by transshipment, however. Specifically, goods produced in countries with lax environmental regulations could be exported to the EU via third countries, thus circumventing the CBAM.

The seminar’s set of projects shall assess the likelihood of transshipment to occur based on past comparable episodes. In the process of the seminar, each student will be assigned a specific task, e.g., in-depth reviews of a specific part of the literature, methodological work, design of empirical strategies, separate parts of the data analysis. These tasks will be individually evaluated. Ideally, the output of each of these tasks will combine to a common paper that assesses the likelihood of transshipment under CBAM.

Prerequisites

No single course from the master program is required. However, sound knowledge of basic trade theory as well as standard econometric tools (panel estimations, instrumental variable estimations) are prerequisites for attending the seminar.

Organization

All meetings of the seminar are currently scheduled to take place in person. In the introductory meeting, we will discuss further organizational issues including formal requirements of the seminar paper.

Important Dates

(to be confirmed) **Introductory meeting:** Thursday, October 31, 2023, 10:15 am to 11:45 am

Hand-in List of Topic Preferences: Thursday, November 7, 2023, noon

Assignments: Monday, November 10, 2023, noon

Presentations: Tuesday, January 16, 2024, starting 8.30am

Hand-in Term Paper: Tuesday, February 6, 2024, noon

Background literature:

- Head, Keith, and Thierry Mayer. “Gravity equations: Workhorse, toolkit, and cookbook.” Handbook of international economics. Vol. 4. Elsevier, 2014. 131-195.
- Cherniwchan, Jevan, Brian R. Copeland, and M. Scott Taylor. “Trade and the environment: New methods, measurements, and results.” Annual Review of Economics 9 (2017): 59-85.
- Anderson, James E., and Eric Van Wincoop (2003) “Gravity with gravitas: a solution to the border puzzle.” American economic review 93.1, 170-192.
- Silva, JMC Santos, and Silvana Tenreyro (2006) “The log of gravity.” The Review of Economics and statistics 88.4, 641-658
- Kortum, Samuel, and David Weisbach (2017) “The design of border adjustments for carbon prices.” National Tax Journal, 70.2, 421-446.
- Rotunno, Lorenzo, Pierre-Louis Vézina, and Zheng Wang (2013) “The rise and fall of (Chinese) African apparel exports.” Journal of Development Economics 105, 152-163.