

## International spillovers and carbon pricing Policies

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**Abstract** Globally coordinated climate action has resulted in sub-optimal emissions reductions and unilateral (second-best) climate policies have so far provided the bulk of emissions reductions. This paper argues that the development of new unilateral carbon pricing policies was fostered by international signalling and technological spillover effects. The strength of both effects hinges, for each jurisdiction, on trade relations with other CO<sub>2</sub>-abating jurisdictions. We provide a stylised theoretical discussion in support of our proposition and investigate it using data on a panel of 121 national jurisdictions over the period 1990-2014. Results show a strong positive association between import-weighted exposure to CO<sub>2</sub>-pricing partners and domestic environmental policy. The analysis also supports the technological spillover channel: trade-weighted installed capacity of wind and solar energy seems to prompt implementation of and more stringent carbon pricing policies.

**Keywords** international spillovers, trade, carbon pricing

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