

Comments on:

Trade, Emissions and Environmental Spillovers:  
Issue linkages  
in Regional Trade Agreements

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## Main research questions

- The broader, implicit policy question is: does **linking trade with environment policies** lead to better environmental outcomes? Or even in a more general level: Does it pay to use trade policy for “**non-economic**” objectives?
- They use as a case study the emissions of **ozone depleting substances (ODS)** controlled under the **Montreal Protocol** (1987, and its amendments thereafter).
- Their main hypothesis: the use of **ODS-clauses in reciprocal, preferential agreements (RTAs)** has made a significant contribution to the success of the Montreal Protocol. Why? Because **RTA's enforcement mechanisms are stiffer trade penalties** (beyond ODS-related goods) **and are more functional**.

## Their findings

- **Participation linkage** – RTAs with or without ODS clauses are associated with quicker ratification, particular the former, but doesn't seem to work for all amendments (Montreal 1997, Beijing 1999).
- **Enforcement linkage** – Non-ODS RTAs increase ODS emissions, but do not undermine compliance (cuts “overcompliance”). ODS-RTAs, in turn, either mitigate or reverse this effect (again, not for all amendments). DSMs don't seem to have an effect.
- **Leakage** – RTAs decrease leakage to unregulated ODS substances, but only in amendments that have been ratified (CFC-to-HCFC).

## Overall impression

- Very well-timed, relevant, cleverly and carefully executed! We are all in a desperate search successful treaties that can **reconcile trade and environmental objectives**
- Trade ministers and trade policy all over the developing world are under heavy pressure to **play a role in mitigating the growing climate and environmental crisis**, not least by minimizing trade's carbon footprint.
- The paper's finding suggest that **RTAs can play a significant role, by adding environmental chapters.**
- But **how far we can take these conclusions (external validity).** Particularly in the broader **CO<sub>2</sub> context**, given risks of capture by specific interests, exacerbated by the asymmetry of power in North-South RTAs and the current populist backlash against trade.

## Concerns/questions/suggestions: Methodology

- The **Cox proportional hazard model** seems to be a good choice for the participation linkage since timing matters, but at what cost?
- As with other non-linear models, the use of (country) **fixed effects in this case can lead to incidental “parameter bias.”** But then you are exposed to omitted variables. Wouldn't a linear probability model make sense as robustness check?
- A similar issue might be relevant for the **event study**. It is not quite clear to me, and perhaps for the (below) average reader, **why year-fixed effects could not be used and what are the implications of not using them.** A **placebo exercise**, with a fake treatment would be also helpful here.

## Concerns/questions/suggestions: Heterogeneity (1)

- RTAs –The argument that RTAs can strengthen the enforcement mechanism makes sense for **North-South RTAs, which can help developing countries with weak institutions and that can hardly afford monitoring and enforcement mechanisms**. Breaking the RTA dummy into NS, NN and SS RTAs would be interesting to test this hypothesis and qualify the policy implications.

## Concerns/questions/suggestions: Heterogeneity (2)

- **ODS clauses** – Not all ODS clauses are born equal. **DS differences are considered in the analysis**, even though the results are often counter-intuitive, suggesting they do not matter (table 4). **The explanation seems to contradict at least one of the justifications/hypothesis why RTAs help with enforcement.**
- **Non-DS ODS clauses** – Even these clauses are likely to have considerable heterogeneity across RTAs. For instance, the Chile-Central America Agreement. Their ODS clause **does not make the RTA conditional on accession or ratification, nor includes non-ODS goods**. It doesn't seem to add much in terms of enforcement.

3. In the event of incompatibility between this Agreement and the specific commercial obligations contained in:

(a) the Convention on International Trade in Endangered Species of Wild Flora and Fauna, concluded in Washington on 3 March 1973, as amended on 22 June 1979;

(b) **the Montreal Protocol on Substances that Deplete the Ozone Layer, concluded on 16 September 1987, as amended by 29 June 1990; or**

(c) the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and their Disposal, concluded on 22 March 1989;

**these obligations shall prevail to the extent of the inconsistency provided that, where a Party has the choice between equally effective and reasonably available means of fulfilling such obligations, it chooses the one that presents the least degree of inconsistency with the other provisions of this Agreement.**

# Concerns/questions/suggestions: Relevance & channels

## Relevance

- The paper offer some interesting estimates in CO<sub>2e</sub> about the impact of RTAs on overcompliance , **but what about their contribution to the overall reduction in ODS emissions since the Montreal protocol?**

## Channels

- There is not much in the paper about the channels through which the effects travel. It would be particularly interesting to look at **the role of trade flows**. In particular, **what happened to the South ODS-related exports to the North since the Protocol inception? Did RTAs make a difference? Was it a scale or composition effect**. A gravity model with bilateral trade data on ODS-related goods could be useful.



Thank you!