

Comments on: Economics of Demand-Side and Supply-Side Climate Policies

Paper by Ryan Kellogg (Chicago)

Comments by Catherine Wolfram (MIT)

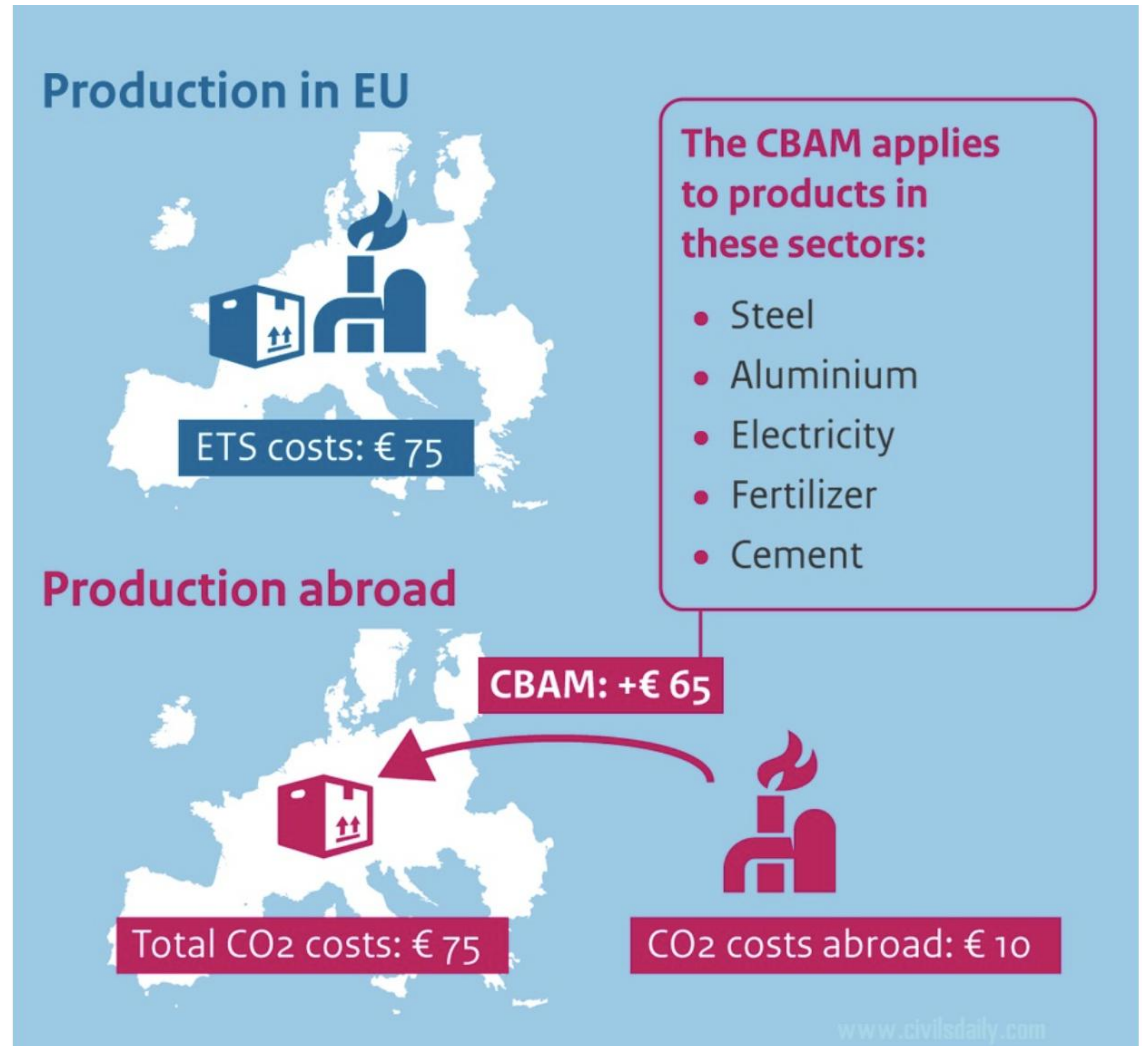
Plan

- Assumptions about the Rest of World
 - Dynamic: policymakers don't respond
 - Static: no existing climate policies
- Grab bag

Other policymakers don't respond

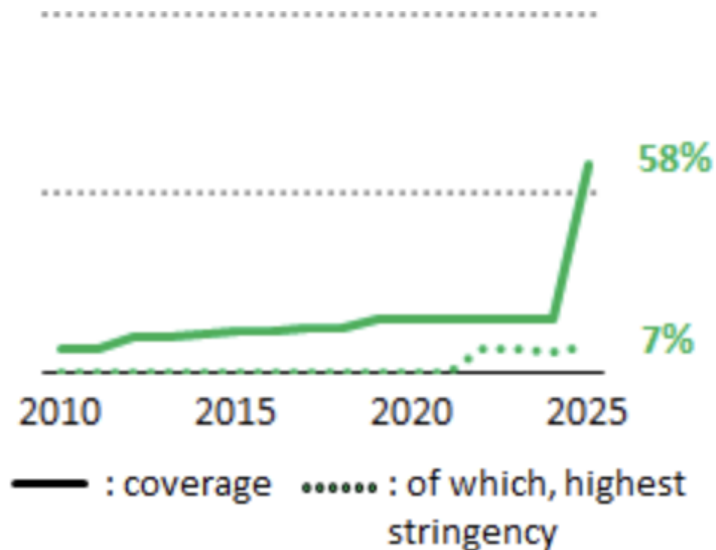
- In Kellogg's framework, a country's policies impact emissions outside their own borders through several mechanisms:
 - Classic leakage
 - Fossil fuel prices
- Not by influencing other country's *policies*
- He acknowledges this, but...

The EU CBAM is an important violation of that assumption



Carbon pricing is proliferating globally

Industry emissions covered by a carbon price



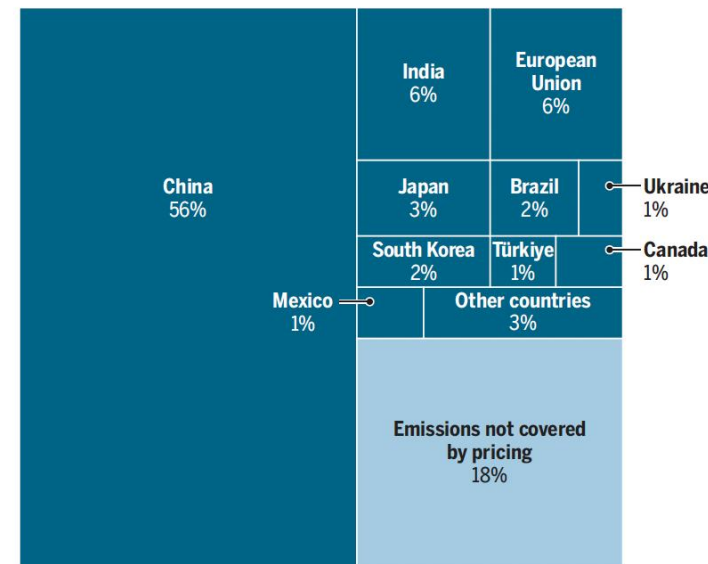
Source: IEA (2026)

Policies coming online

2026: India, Vietnam, Japan

Expected: Türkiye, Brazil

CBAM industry emissions covered by a carbon price, existing & planned



Source: Wolfram et al. (2026)

Evidence of CBAM's role

Turkey launches carbon market to keep carbon-tax money at home

The Turkish carbon pricing is designed not simply as a tax but as a mechanism through which Turkey can raise money domestically and use it to support decarbonisation

EUalive.net with agencies | August 28, 2026 | ⌚ 11:05

China Formally Expands Carbon Market To Heavy Industries, Targets Emissions Reduction

by Vasil Velez · March 28, 2025 · ⌚ 2 minute read



Leveraging the rise in carbon pricing

American Economic Review 2015, 105(4): 1339–1370
<http://dx.doi.org/10.1257/aer.15000001>

Climate Clubs: Overcoming Free-riding in International Climate Policy[†]

By WILLIAM NORDHAUS*

Notwithstanding great progress in scientific and economic understanding of climate change, it has proven difficult to forge international agreements because of free-riding, as seen in the defunct Kyoto Protocol. This study examines the club as a model for international climate policy. Based on economic theory and empirical modeling, it finds that without sanctions against non-participants there are no stable coalitions other than those with minimal abatement. By contrast, a regime with small trade penalties on non-participants, a Climate Club, can induce a large stable coalition with high levels of abatement. (JEL Q54, Q58, K32, K33)



Global Climate Policy Project
at Harvard and MIT

Flagship
Report

Building a Climate Coalition: Aligning Carbon Pricing, Trade, and Development



Open Coalition on Compliance Carbon Markets



Members



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Global Edition
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• From the Press

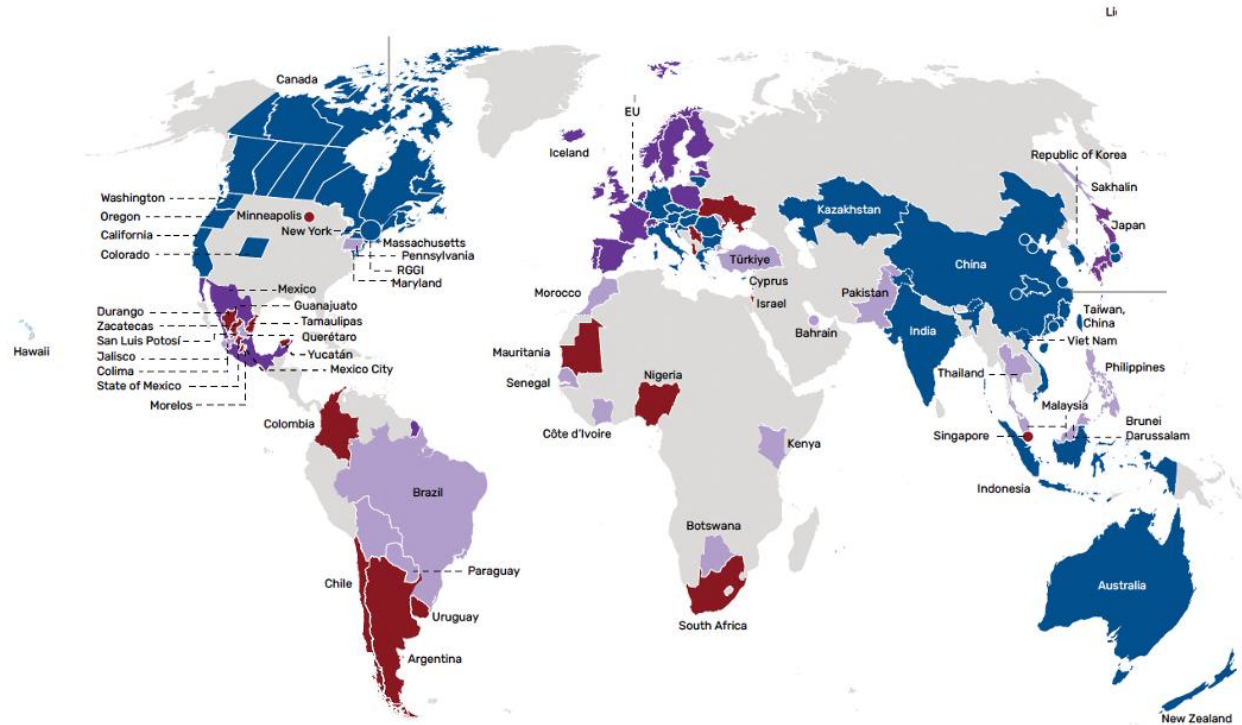
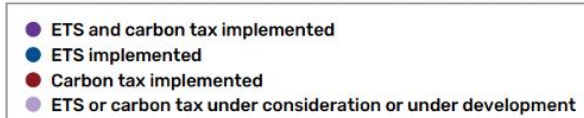
Major step toward market

China Daily | Updated: 2026-05-26
Norway

- 42% of global
- More countries
- LICs as observers



Carbon pricing around the world

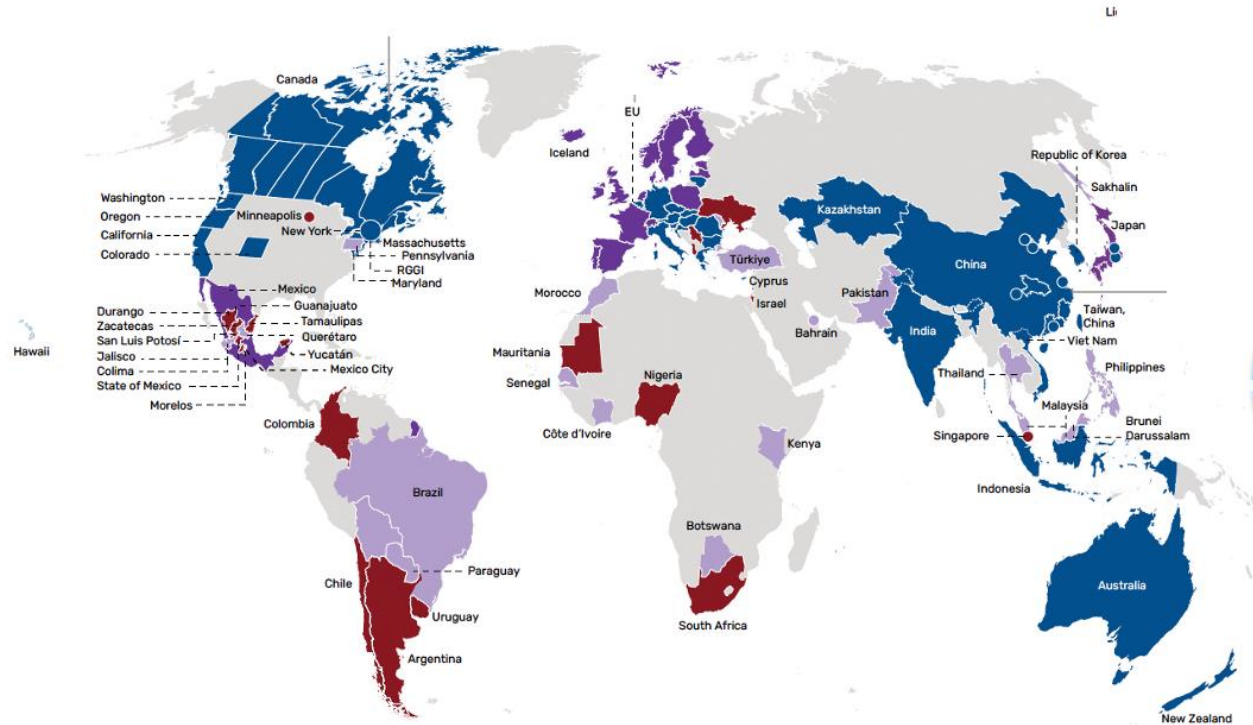
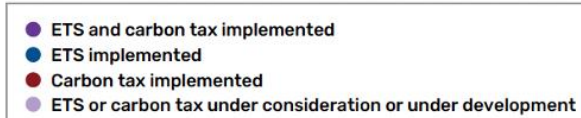


Source: World Bank (2026)

Suggestions for Kellogg

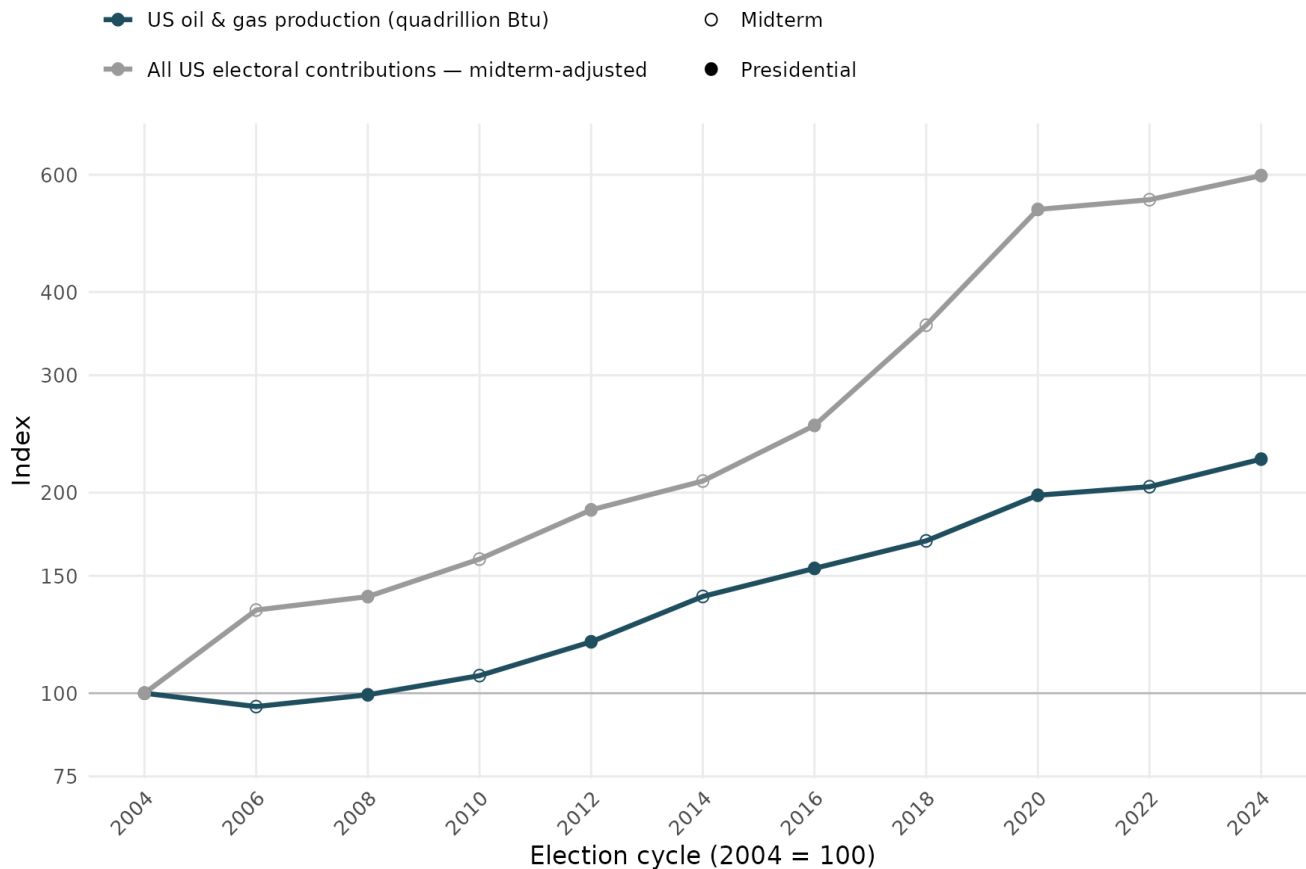
- If other countries have bindings caps, this changes the conclusions about leakage
 - What happens to Table 2 with binding caps abroad?
- Note that most other carbon pricing regimes start as intensity standards, but China (30% of global emissions) plans to shift to a hard cap before 2030

American exceptionalism?

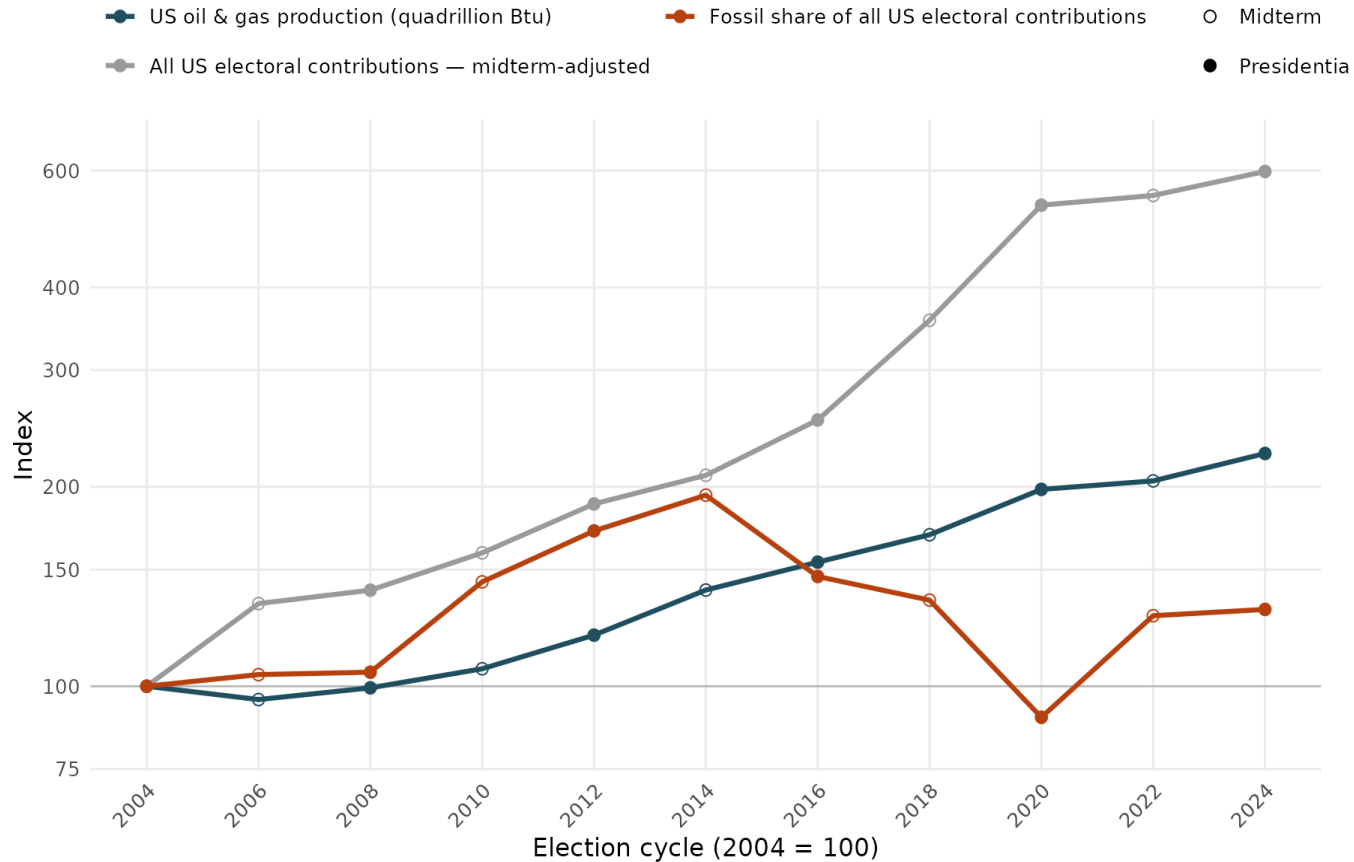


Source: World Bank (2026)

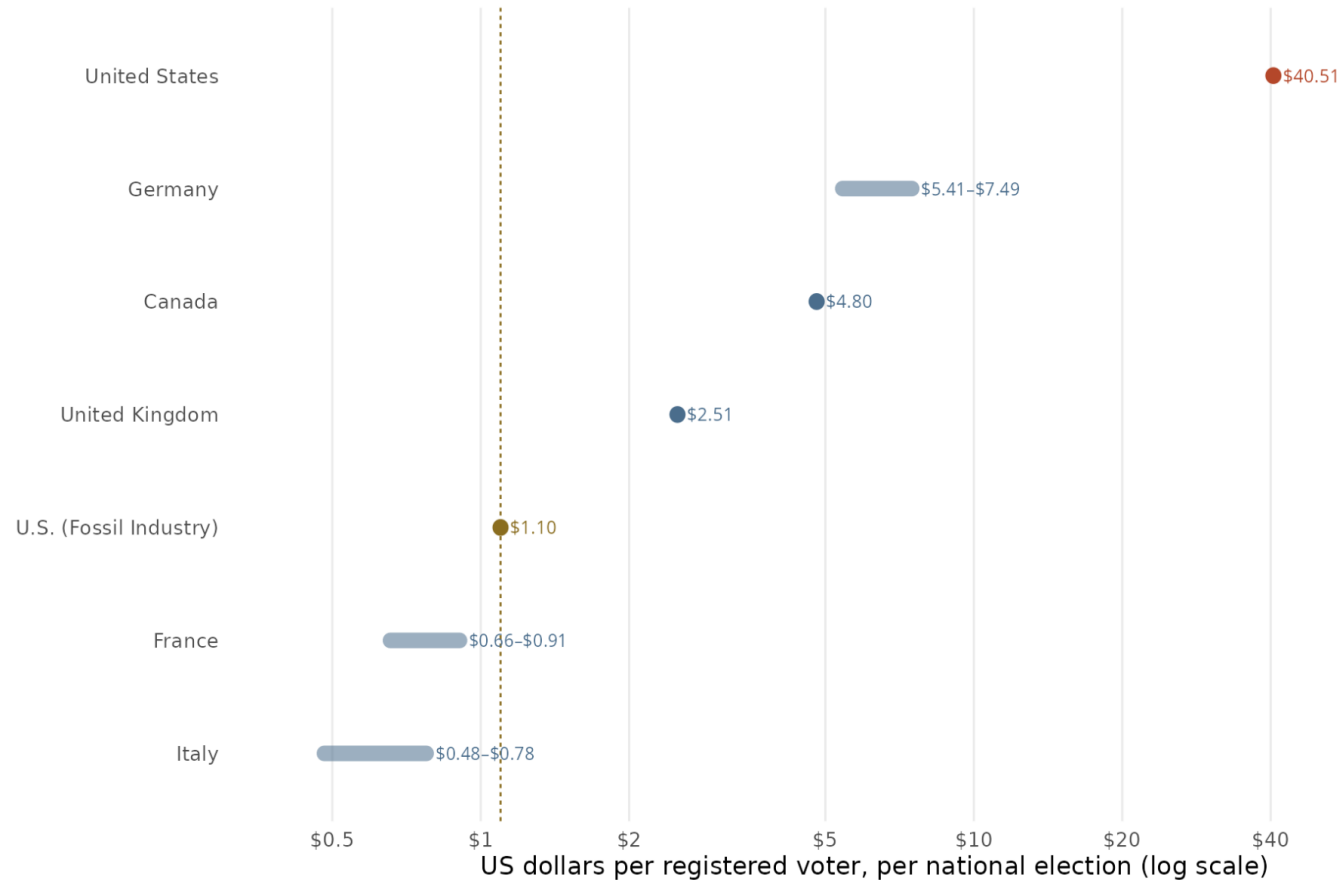
Why might the U.S. be different? Oil & gas



Why might the U.S. be different? Oil & gas



Why might the U.S. be different? Campaign finance



Frame for U.S. climate policy going forward?

- Do no harm
- Recognize role as largest oil and gas producer in the world
 - Extraction tax helps reduce fossil fuel consumption abroad
 - ... doesn't systematically harm lower-income countries
 - ... hyper-localized harm in the U.S.

Fiscal benefits of extraction vs. consumption tax

Table 4
Adjusted Fiscal Impacts between 2026 and 2035 across Scenarios

Scenario	Estimated Fiscal Impact (\$B)
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5-Fee	+\$590
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Source: Bistline et al. (2025)

Table 5
Additional Carbon Fee Revenues from Border Adjustments

	Volume			Carbon Fee Revenues (\$ billions)	
	Units	2023	2035	2035	2026–2035
Panel A. Fossil Fuel Exports					
Natural gas (LNG and pipeline)	Tcf	7.9	13.6	49	202
Crude oil	MMb/d	3.3	3.4	30	139
Refined petroleum products	MMb/d	6.5	8.2	68	311
Coal	MMst	85.4	115.5	19	92
Revenue loss from export rebate				166	745

- Extraction tax more than doubles fiscal revenues
- Could depress fiscal revenues elsewhere
- Beware geopolitical costs!

Grab bag

- Carbon capture and sequestration changes the calculus
- Highlight the additional benefits to combining clean energy subsidies with carbon pricing
- Clean energy subsidies seem like an inefficient way to reduce electricity prices