



## FSR Climate Annual Conference 2020

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### Session on Environmental Taxation

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*International production chains and the pollution offshoring hypothesis: an empirical investigation*

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#### **ABSTRACT**

*An extensive literature has analysed the impact of heterogeneous environmental policy stringency on the location of industrial firms - the well-known pollution haven hypothesis. However, most empirical studies only consider the relocation of a whole activity while only a subset of the production chain might be relocated - the so-called pollution offshoring hypothesis. We introduce a simple empirical approach to test this hypothesis using mergers and acquisitions data, a measure of sectoral linkages based on input-output tables and an index score of environmental policy stringency. Our results support the impact of increased environmental policy stringency on firms' decisions to invest abroad. Further, we find that transactions where the target firm operates in a sector upstream of the acquirer are twice as sensitive to environmental policy stringency as strictly horizontal transactions. This preliminary evidence is consistent with the pollution offshoring hypothesis.*