

[DOI: 10.20472/IAC.2016.022.063](https://doi.org/10.20472/IAC.2016.022.063)

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## **ARE THE CENTRAL EAST EUROPEAN COUNTRIES POLLUTION HAVENS?**

### **Abstract:**

The aim of the paper is to investigate the relationship between environmental stringency and export flows in EU countries and to determine whether the recent accessions of the CEECs into the EU and the subsequent changes in the regulatory framework of new members have affected intra-EU trade flows.

Two main hypotheses are tested. First, we test whether the stringency of a country's environmental regulations results in pollution havens or, on the contrary it results in better export performance. Second, we test whether the results differ by industry (dirty versus clean) and by EU membership tenure (old versus new EU member countries).

An augmented gravity model is estimated using panel data for 21 European countries during the period 1999-2008 for the full sample and also separately for the CEECS and the old EU members. We find that while exporters' environmental tax expenditure differences are positively correlated with bilateral net exports of clean industries, the effect of environmental stringency differences on net exports of dirty industries is not significant when all the industries are treated as a homogeneous group. However, when heterogeneity across specific industries and between two groups of countries is considered, the results differ. We find that while for old-EU countries higher differences in environmental revenues between partner countries are associated with lower net exports of dirty goods for four major-polluter industries, namely for iron and steel, non-ferrous metals, metal manufactures, metal manufactures and petroleum products, this happens only for two industries when CEEs are considered as exporters (petroleum products and fertilizers). Thus our results show weak support for the pollution haven hypothesis for some dirty industries, mainly for net exports from Western EU countries to the rest. Instead, we find support for the "Porter hypothesis" for trade in clean goods.

### **Keywords:**

Pollution Haven Hypothesis, Porter hypothesis, European Union, Trade Flows

**JEL Classification:** F14