

# Rewiring Supply Chains Through Uncoordinated Climate Policy\*

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## Abstract

We show that climate transition risks can significantly disrupt global supply chain networks. Using the California cap-and-trade program, we find that suppliers subject to the regulation are significantly more likely to lose customer relationships than otherwise similar peers. The effects are especially pronounced among suppliers facing intense competitive pressure and producing standardized inputs, where switching costs are lower. These suppliers also suffer persistent declines in revenues, assets, and investment. The resulting supply chain rewiring, driven by uncoordinated climate policies, is consistent with carbon leakage: customers sourcing away from cap-and-trade regions increase their overall supply chain carbon footprint.

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