

Making the Global Green Transition Happen: Bridging EU–US Differences in Trade-related Sustainability Approaches

by Irene Paviotti and Lucia Martin Moran

The extreme climate events of 2023 summer¹ made the climate crisis all the clearer, further highlighting the urgency of a deep rethink of the dominant economic model towards more sustainable practices. Against this backdrop, two of the historically most important CO₂ emitters, the United States and the EU,² have started discussing sustainability in their bilateral dialogues, as illustrated by the EU–US Trade and Technology Council (TTC) and the recently launched Transatlantic Initiative on Sustainable Trade (TIST).

Within the TTC, the European Commission and the US Administration have tried to go beyond pre-existing

disagreements on trade issues to achieve concrete results based on shared principles. When it comes to sustainability, however, the EU and the US still seem to be moving on slightly different tracks, with EU legislation being arguably more developed than the US', and lower reliance on incentives that might be deemed protectionist. How does this misalignment affect TIST's chances of success, especially with regard to jointly promoting the green transition beyond EU and US borders, and how could it be addressed?

The TTC and TIST amidst trade tensions

The TTC was launched in June 2021 to coordinate the EU's and US' approaches on key strategic issues and to reinforce transatlantic trade and economic relations.³ While so far most attention

¹ Noah Berman and Sabine Baumgartner, "The Weather of Summer 2023 Was the Most Extreme Yet", in *CFR Articles*, 18 September 2023, <https://www.cfr.org/node/247907>.

² Hannah Ritchie, Max Roser and Pablo Rosado, "Annual CO₂ Emissions", in *OurWorldinData*, 2022, https://ourworldindata.org/grapher/annual-co2-emissions-per-country?country=OWID_WRL~OWID_EU27~USA~CHN.

³ European Commission, *EU-US Launch Trade and Technology Council to Lead Values-based Global Digital Transformation*, 15 June 2021, <https://ec.europa.eu/commission/presscorner/>

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has gone into aligning technology standards (especially on artificial intelligence) and building a common position towards economic coercion,⁴ the TTC has also actively worked to foster the green transition through sustainable trade relations, notably through the Working Group 10 on Global Trade Challenges.⁵

In the past two years, however, collaboration on the green transition has not always been easy.⁶ In August 2022, the Biden administration adopted the Inflation Reduction Act (IRA), which was touted as “the biggest legislative climate investment in US history”.⁷ The act includes nearly 370 billion US dollars in tax incentives, grants and loan guarantees to accelerate the growth of the US clean energy sector and support eco-friendly consumer choices. Tax

detail/en/ip_21_2990.

⁴ European Commission, *Joint Statement EU-US Trade and Technology Council of 31 May 2023 in Lulea, Sweden*, https://ec.europa.eu/commission/presscorner/detail/en/statement_23_2992.

⁵ European Commission, *EU-U.S. Joint Statement of the Trade and Technology Council*, Paris-Saclay, 16 May 2022, <https://www.consilium.europa.eu/media/56726/eu-u-s-joint-statement-of-the-trade-and-technology-council.pdf>.

⁶ It is worth remembering that transatlantic trade tensions do predate the creation of the Trade and Technology Council – the Trump administration, for example, introduced tariffs on a wide range of EU products, aluminium and steel being the most contentious items. For an overview, see Marianne Schneider-Petsinger, “US–EU Trade Relations in the Trump Era. Which Way Forward?”, in *Chatham House Research Papers*, March 2019, <https://www.chathamhouse.org/node/23004>.

⁷ Nilsen Ella, “Clean Energy Package Would Be Biggest Legislative Climate Investment in US History”, in *CNN*, 28 July 2022, <https://edition.cnn.com/2022/07/28/politics/climate-deal-joe-manchin/index.html>.

reductions and incentives are provided for manufacturers of solar panels, wind turbines and processors of rare earth minerals and batteries, as well as heavy manufacturing industries that reduce their carbon emissions. Bonus credits are given if components are “Made in America”, that is, manufactured or assembled in North America or countries that are part of a free trade agreement with the US.⁸

While a testament to the US commitment to the green transition, the IRA was seen on the other side of the Atlantic as a threat to the EU’s competitiveness, potentially pushing Europe-based multinationals to relocate their green investments and production to the US.⁹ In a seeming response to the IRA, in February 2023, the Commission announced a Green Deal Industrial Plan, which aims to support the development of net-zero technologies through open trade, among others. In fact, the plan emphasises global cooperation, fair trade and open trade agreements as a tool to actively promote the green transition.¹⁰ Coupled with the lack of direct reference to local content requirements or other discriminatory measures, the Green Deal Industrial Plan stands in stark contrast with the IRA, suggesting a different approach to achieving similar environmental goals

⁸ Melissa Barbanell, “A Brief Summary of the Climate and Energy Provisions of the IRA of 2022”, in *WRI Updates*, 28 October 2022, <https://www.wri.org/node/102614>.

⁹ Philip Blenkinsop, “Fears of European Industry Exodus to U.S. May Be Overdone”, in *Reuters*, 3 March 2023, <http://reut.rs/3ZHLEGV>.

¹⁰ European Commission, *A Green Deal Industrial Plan for the Net-Zero Age* (COM/2023/62), 1 February 2023, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52023DC0062>.

through trade. While the US seems to rely on economic incentives (subsidies) to promote the development of its green industry, the EU seems to prefer using legislative ones (binding regulations) to boost its competitiveness while upholding its core value of free trade.

To overcome these differences and prevent the IRA from jeopardising the entire TTC, an ad-hoc Task Force was created in October 2022.¹¹ More recently, the aforementioned TIST was announced at the third TTC Ministerial in December 2022. Its goal is to “promote a more integrated and resilient transatlantic marketplace that will help accelerate the transition to a climate neutral and circular economy”. Alongside a mutual commitment to greater policy transparency and alignment, as well as fair trade practices, TIST also sets out to advance “a global path for the green transition” as one of its pillars. To this end, the EU and the US aim to promote trade-related environmental and labour objectives both by bringing a common position to multilateral fora and by supporting trade partners in achieving those goals.¹² Transatlantic differences, however, are evident in this regard too, raising questions about how this chapter of TIST will be successfully implemented.

¹¹ European Commission, *Launch of the US-EU Task Force on the Inflation Reduction Act*, 26 October 2022, https://ec.europa.eu/commission/presscorner/detail/en/statement_22_6402.

¹² European Commission, *Joint Statement EU-US Trade and Technology Council of 31 May 2023*, cit.

Sustainability in trade: Different levels of commitment?

Aligning US and EU approaches to sustainability in trade implies the incorporation of environmental and labour standards into the respective free trade agreements with partner countries. The trade and environment nexus has been discussed within the World Trade Organisation (WTO) since GATT times, culminating in the multilateral environmental agreements (MEAs) that were negotiated during the Doha Round.¹³ Even before that, the US had included trade-related environmental clauses in its free trade agreements in 1994 with NAFTA.¹⁴ Similarly, in 2011, the EU introduced a Trade and Sustainable Development (TSD) chapter in its free trade agreements. Both the US and European provisions emphasise the importance of adhering to and implementing International Labour Organisation (ILO) standards and other MEAs that each party has ratified, as well as effectively enforcing them.¹⁵

Nonetheless, while both the EU and the US recognise the importance of environmental and social sustainability in their trade agreements, they seem to

¹³ WTO website: *Trade and Environment*, https://www.wto.org/english/tratop_e/envir_e/envir_e.htm.

¹⁴ Richard K. Lattanzio and Christopher A. Casey, “Environmental Provisions in Free Trade Agreements (FTAs)”, in *CRS In Focus*, No. 10166 (1 September 2023), <https://crsreports.congress.gov/product/pdf/IF/IF10166>.

¹⁵ European Commission, *Commission Unveils New Approach to Trade Agreements to Promote Green and Just Growth*, 22 June 2022, https://ec.europa.eu/commission/presscorner/detail/en/ip_22_3921.

show a different level of commitment to the sustainability agenda from a broader trade policy perspective. The 2021 EU trade policy explicitly puts sustainability at the centre, giving equal relevance to the implications of its sustainability agenda for its trading partners and its own trade goals. The US Department of Commerce 2022–2026 Strategic Plan does include a strategic goal to “address the climate crisis through mitigation, adaptation, and resilience efforts”, but its dimension seems to be rather domestic in scope.¹⁶

More generally, the EU and the US have different reputations in the sustainability field. Taking climate action as a proxy, surveys have shown that the EU is perceived as a climate leader, the US as a follower.¹⁷ True, the Biden administration has stepped up its commitment to the global climate agenda, as exemplified by the 2021 Executive Order on Tackling the Climate Crisis at Home and Abroad, coupled with the International Climate Finance Plan, which emphasise cooperation with partner countries for their climate adaptation.¹⁸ Nevertheless, these efforts

are quantitatively difficult to compare with the array of EU legislative tools and policies to tackle the climate crisis abroad too. The 2019 Green Deal has a specific external dimension,¹⁹ which though smaller than other components, has been increasingly developed over the past three years in its trade dimension, as attested for example by the Regulation on deforestation-free products,²⁰ the corporate sustainability due diligence Directive²¹ and the Carbon Border Adjustment Mechanism.²² It is thus easy to understand why the EU was among the initiators of the Coalition of Trade Ministers on Climate, while the US joined later with other interested countries.²³

briefing-room/statements-releases/2021/04/22/executive-summary-u-s-international-climate-finance-plan.

¹⁹ European Commission, *The European Green Deal* (COM/2019/640), 11 December 2019, <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52019DC0640>.

²⁰ European Parliament and Council of the European Union, *Regulation (EU) 2023/1115 of 31 May 2023 on the Making Available on the Union Market and the Export from the Union of Certain Commodities and Products Associated with Deforestation and Forest Degradation*, <http://data.europa.eu/eli/reg/2023/1115/oj>.

²¹ European Commission website: *Corporate Sustainability Due Diligence*, https://commission.europa.eu/node/5442_en. The proposal for this Directive is currently being discussed in the European Parliament.

²² European Parliament and Council of the European Union, *Regulation (EU) 2023/956 of 10 May 2023 Establishing a Carbon Border Adjustment Mechanism*, <http://data.europa.eu/eli/reg/2023/956/oj>.

²³ European Commission, *Trade and Climate: EU and Partner Countries Launch the ‘Coalition of Trade Ministers on Climate’*, 19 January 2023, https://ec.europa.eu/commission/presscorner/detail/en/ip_23_248. The TIST work plan includes this multilateral forum among those where the EU and the US agreed to cooperate to foster the green transition globally.

¹⁶ US Department of Commerce, *Strategic Plan 2022-2026*, 28 March 2022, p. 40, <https://www.commerce.gov/about/strategic-plan>.

¹⁷ Sebastian Oberthür and Claire Dupont, “The European Union’s International Climate Leadership: Towards a Grand Climate Strategy?”, in *Journal of European Public Policy*, Vol. 28, No. 7, (2021), p. 1095-1114, <https://doi.org/10.1080/13501763.2021.1918218>.

¹⁸ White House, *Executive Order on Tackling the Climate Crisis at Home and Abroad*, 27 January 2021, <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/27/executive-order-on-tackling-the-climate-crisis-at-home-and-abroad>; White House, *U.S. International Finance Climate Plan*, 22 April 2021, <https://www.whitehouse.gov/>

Although the respective level of commitment may certainly change in the future, these fundamentally different approaches to sustainability might complicate the ambition of EU–US trade cooperation to make the green transition global, as enshrined in TIST.

How to break the impasse?

As European Commission officials have stated on multiple occasions, the goal of the TTC is to collaborate on actionable items, based on the shared principles that underlie the EU–US partnership. In this spirit, it should be possible to put the above differences in trade policy in the background, and capitalise on the key commonality: the environmental and labour provisions that both the EU and the US have integrated in their free trade agreements. One of the points of the TIST work programme focuses indeed on “deepen[ing] cooperation to support partner governments’ implementation of labor and environmental provisions in EU and US respective trade agreements with those partners”.²⁴ With such implementation likely lying with partner countries’ legislative and policymaking power, however, translating those policies into practice may be a challenging feat. A key enabling role may thus be played by those policies that cover partnerships with third countries beyond trade, such as development policy.

In this regard, the EU and the US can find greater alignment, though the scale of their efforts slightly differs.

²⁴ European Commission, *Joint Statement EU-US Trade and Technology Council of 31 May 2023*, cit.

Both the EU and US international development departments are already active in supporting partner countries in the environmental sustainability sphere. The EU Green Deal’s external dimension is being implemented by the Directorate-General for International Partnerships (DG INTPA) too, which runs programmes aiming to preserve forests, wildlife and biodiversity, among others.²⁵ Similarly, the US Agency for International Development (USAID) follows a 2022–2030 Climate Strategy to guide its ecosystem management and climate mitigation efforts,²⁶ as well as working on forest protection as per the 2021 Presidential Plan to Conserve Forests.²⁷

Beyond these separate initiatives, the EU and the US have jointly discussed sustainable supply chains and labour in the TTC, especially through the Trade and Labour Dialogue (TALD). Moreover, they are part of several broader sustainability initiatives and fora that set the framework for action, such as the G7 and G20. To ensure the transatlantic partnership makes an actual dent in the global path towards the green transition, the EU and the US could launch a joint initiative, within or outside TIST, that complements their current efforts in the sustainability

²⁵ European Commission DG International Partnerships website: *Climate, Environment and Energy*, https://international-partnerships.ec.europa.eu/node/746_en.

²⁶ USAID, *USAID Climate Strategy 2022-2030*, 21 April 2022, <https://www.usaid.gov/policy/climate-strategy>.

²⁷ White House, *Plan to Conserve Global Forests: Critical Carbon Sinks*, January 2021, https://www.whitehouse.gov/wp-content/uploads/2021/11/Plan_to_Conserve_Global_Forests_final.pdf.

sphere, bridging the existing gap. For example, one way to ensure that trading partners do not destroy forests to build their economy could be to strengthen those partners' capacity to track the products they export to the EU and the US – a complex effort in itself, but necessary to comply with the EU and US sustainable trade legislation.²⁸ By addressing some of the immediate obstacles in partner countries' compliance with this type of legislation, the EU and the US could truly make strides in advancing the global green transition, and their trade alignment would finally show.

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²⁸ Jen-Yi Chen, "Responsible Sourcing and Supply Chain Traceability", in *International Journal of Production Economics*, Vol. 248 (June 2022), Article 108462, DOI 10.1016/j.ijpe.2022.108462.

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