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The European Green Deal Brings Opportunities and Challenges for U.S.-EU Cooperation

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Addressing climate change is seen by new European Commission President Ursula Von der Leyen as "this generation's defining task." To deliver on what she has deemed her commission's "first priority," she has proposed a European Green Deal to combine economic growth with reducing the European Union's net emissions of greenhouse gases to zero in 2050. This Green Deal includes a roadmap of 47 key actions that would touch on virtually every aspect of the EU's economy, as well as the life of its citizens, to accomplish a transition away from fossil fuels.

Leaving aside the enormous challenges ahead in transforming European society, the EU's emissions account for only about 9 percent of global emissions. Therefore Europe, by itself, can only make a relatively small contribution to putting the planet on a sustainable path toward climate neutrality.

Aside from the EU setting a positive example for the world, the European Commission foresees an international strategy of carrots and sticks to "be an effective advocate for addressing climate change." The components of this approach include research and development, diplomacy, economic support to developing countries, and trade policy.

Trade and the Green Deal

Trade policy in particular is highlighted by the European Commission to support the EU's "ecological transition." It notes, correctly, that if its

> international partners do not share the same ambition (on climate) as the EU, there is a risk of carbon leakage, either because production is transferred from the EU to other countries with lower ambition for emission reduction, or because EU products are replaced by more carbon-intensive imports. If this risk materialises, there will be no reduction in global emissions, and this will frustrate the efforts of the EU and its industries to meet the global climate objectives of the Paris Agreement.

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The European Commission proposes two main avenues for addressing the carbon-leakage question, both of which are potentially problematic for transatlantic relations. In recent trade agreements the EU already asked for a commitment by its partners to ratify and implement the Paris Agreement on Climate Change and pledged to make respecting it an essential element in all future comprehensive trade agreements it negotiates. The United States is withdrawing from the Paris Agreement, however—a decision that will take effect in November.

At the World Economic Forum in Davos in January, President Donald Trump and Von der Leyen discussed a new trade agreement, but neither side said anything in public regarding how climate change might be addressed in that context. Brussels could argue that whatever agreement it reaches with Washington is not "comprehensive" and therefore does not fall under its policy. This might be seen as undermining EU policy, but there does not appear to be a good alternative given the Trump administration's position on climate change.

The other likely problematic issue for transatlantic trade is the European Commission's proposal to develop a "carbon border adjustment" (CBA) mechanism. This would reduce the risk of carbon leakage—for example, a business transferring production to another country with laxer emission constraints—as the Green Deal forces European industry to lower its emissions. The CBA is most likely to take the form of a tariff meant to add a carbon price to products imported into the EU to level the playing field between domestic producers facing costly climate measures and foreign producers facing less stringent requirements.

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The European Commission has proposed a CBA for selected sectors. These have not been further defined so far, but steel, cement, and chemicals are considered possible targets, and perhaps energy imports, too. It has also pledged to design the CBA "to comply with World Trade Organization rules and other international obligations of the EU." There is much debate as to whether this is possible but designing such a mechanism to accurately reflect the carbon content of imports would be complicated. In addition, such a measure would require all EU members to agree, which is another major hurdle.

It is almost certain that the Trump administration would strongly oppose any CBA that it felt impacted U.S. exports to the EU. Given Trump's propensity to threaten tariffs against those he believes are treating the United States unfairly, a transatlantic trade row could easily ensue. Perhaps fortuitously, under the Green Deal roadmap consideration, a CBA would not occur until 2021—that is, after this year's presidential election—when a new and more climate-friendly administration may be in place.

Cooperation, not another Trade Row

Ideally the EU and the United States would use the launch of the European Green Deal to enhance their already strong cooperation on the technologies essential to decarbonization. This win-win approach should not be a heavy lift as they already work jointly on energy efficiency, hydrogen, carbon capture, battery storage, alternative transportation fuels, electric-grid resilience, and cybersecurity. Deeper cooperation in these areas would also serve to bolster transatlantic efforts in the clean-energy competition with China, helping U.S. and

European businesses and workers. What the EU and United State should avoid is opening another trade clash. With aviation subsidies and digital taxation still unresolved and Trump regularly raising the prospect of tariffs on U.S. auto imports from Europe, they should focus on this positive item.

The Trump administration and the new European Commission could also join forces to promote a lower-carbon energy future for India, where energy demand is expected to double over the next 20 years. The increase in India's emissions by 2050 could easily offset the EU achieving its Green Deal goal of zero net emissions by then. India would welcome the support. While the EU should be applauded for its willingness to set a positive example on climate change with its Green Deal, it must help others to follow.