"Greening" Over the Transatlantic Divide – Domestic Constraints and the Possibility of Renewed Cooperation

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Transatlantic cooperation on energy and climate issues has fallen short over the past four years as a result of contradictory U.S. and E.U. approaches, which have served to create a huge strain on the transatlantic alliance. With President Biden's victory, Europe's highest officials have expressed new optimism and set out to propose a new E.U.-U.S. agenda for global change based on "a shared transatlantic commitment to a net-zero emissions pathway by 2050" and pointing to green trade, technology, and taxation as areas of improvement in bilateral relations. The 11-page draft of policy proposals includes an appeal for the E.U. and the United States to bury the hatchet on persistent sources of transatlantic tension, such as Europe's push for greater taxation of U.S. tech giants. The draft communication also reflects a bid by the E.U. to put forward its own set of priorities, rather than patiently waiting for the new Biden administration to kick off.

Both Washington and Brussels are now talking about linking trade and climate agendas. Unilateral climate action (like carbon taxes) by either side might spark a transatlantic trade war. But if the E.U. and U.S. coordinate their approaches, they could help to raise global environmental standards — without giving a boost to protectionism in the process. There are similar opportunities and risks in technology policy. There is now a strong feeling on both sides of the Atlantic that the big tech firms require more stringent regulation. Tackling any of these will be a formidable challenge. While president-elect Biden wants to reverse Donald Trump's decision to abandon key forums for global cooperation and traditional U.S.-E.U. alliances, that doesn't mean the two powers' priorities will magically fall back into alignment.

With transatlantic ties between Washington and Brussels under strain on issues including multilateral trade and the Paris Agreement, Ursula von der Leyen and the European Commission (EC) have shown themselves willing to work towards a renewed partnership. Proposed areas for cooperation include emissions trading, carbon pricing, and the planned E.U. carbon border adjustment mechanism, which has been framed as a project that could bring others into a "carbon free trade zone," fostering a low-carbon economy and limiting market share by countries that do not curtail energy-intensive industries. The EC is now calling for a joint E.U.-U.S. "Trade and Climate initiative" within the World Trade Organization (WTO). Most significantly, the EC is finalizing a taxonomy to define green assets, thus creating "the world's first classification system for sustainable economic activities." In sum, von der Leyen has called for re-engagement in sustainable finance regulations including renewable energy, grid-scale energy storage, batteries and clean hydrogen, as well as carbon capture, utilization and storage.

The paper also highlights the potential obstacles to closer E.U.-U.S. cooperation posed by disagreements both between the transatlantic powers and within the European bloc. Big Tech remains a possible flashpoint and a complicating factor in any joint stance against Beijing. Moreover, while the ESG sector could benefit from the new administration, many U.S. financiers may have strong reservations about a mechanism forcing tough climate change regulation to the fore, with the potential to reduce the value of assets linked to extractive industry. As the Financial Times reports, one problem is that the EU sustainable finance taxonomy is trying to impose crude binary definitions of "green" and "brown" investments on a corporate world in evolution whose colors are still a pastiche.

E.U.'s 'Green Deal' vs America's Environmental Policy

The E.U. has a long-standing track record in tackling climate change with strong leadership in international climate diplomacy. Nevertheless, the E.U.'s centralized approach is based on regulatory enforcement and supported by a spirit of conformity. It may be no coincidence that Europe has produced so few of the great new companies of the world over the last half century and that Europe's digital regulation remains a bone of contention with the U.S. Despite these weaknesses, the determination of the EC to act on climate is very clear. Indeed, amid the coronavirus pandemic and despite skepticism from certain member states, climate action has remained at the core of E.U. policymaking. While the E.U. hails its "Green Deal" as a key to the continent's growth strategy, the Biden administration could face an uphill battle to enact its environmental goals domestically as policymakers still perceive a trade-off between the environment and the economy.

Biden put clean energy at the heart of plans to reboot the U.S. economy, pledging to spend $2 trillion over four years on everything from solar panel installations to doubling the country's offshore wind capacity. The president has also promised to rejoin the Paris climate deal on his first day of office and said the country's economy would reach net-zero emissions "no later than 2050". John Kerry's appointment to serve as Biden's climate envoy puts climate concerns at the very pinnacle of White House priorities. Biden's decision to name two staunch environmentalists, Jennifer Granholm and Gina McCarthy, to the top climate and energy jobs further underscores the Biden-Harris administration's deep commitment to climate action. That said, Biden may have to seek compromises with Republicans in Congress or rely on executive powers and earlier legislation to advance his clean-energy agenda. Driven by business interests, U.S. policy-makers will need to play catch-up to E.U. peers already committed to reviving their post-COVID economies with a Green Deal.

Domestic Politics and the Transatlantic Relationship

Domestic politics is a key driver affecting the likelihood of successful climate agreements among states (or blocs) at the international level. Policy-makers will continue to play an important role in conditioning domestic steps to climate change on both sides of the Atlantic. This is more relevant on the U.S. side, however. President Biden will face key political and structural constraints that will challenge his capacity to implement his ambitious climate agenda, as Democrats barely control the Senate. This means that Biden's key appointees will have to try to implement his environmental agenda with a mix of legislative compromises, regulatory changes and executive actions. In some areas where independent regulatory agencies can take action, such as setting tougher ESG standards, Biden will be able to take action without Congress. The appointment of Kerry — long seen as an optimistic centrist who likes to build alliances and work cooperatively — could help the new administration pursue wholesale change in the U.S. approach to climate and energy.

On the other hand, some progressives have been critical of the president's stance on fracking, which he does not plan to ban, and his reluctance to endorse the progressive wing of the party's Green New Deal proposal. Beyond these political constraints, the Biden administration will also face a fragmented U.S. regulatory and energy landscape. The U.S. energy system is far less integrated than the E.U.'s. On the one hand, several states, including Texas, a large and deregulated market traditionally friendly to the oil and gas industry, have delivered surprising results in their use of renewables. Counter to the conventional narrative, US states have actually increased government support for clean energy research and innovation even during the presidency of Donald Trump, out-performing the EU in some years. On the other hand, the lack of a federal climate agenda and coordinated actions has clearly limited what can be achieved at the state and local level.

Under a split U.S. Senate and a conservative judiciary, Europeans must focus their effort on longer-term cooperation centered on innovation and joint competitiveness in the global economy. Keeping in mind policies where Biden can forge compromise in the legislature and where efficient E.U.-U.S. cooperation can continue under future administrations, this paper proposes areas representing significant opportunities for improved transatlantic relations.

China

The "once-in-a-generation" opportunity to forge a new global alliance contains a detailed pitch to meet the "strategic challenge" posed by China. In a world where competitiveness between great powers creates a world of tensions, the E.U. advocates a "green level playing field" and deeper cooperation with other innovation-oriented countries so that "the efforts we demand of our businesses to lower their carbon emissions and change their practices are not all thwarted by campaigns from countries like China […]" Both the EU and the United States are thinking about new critical-mineral security strategies. This could be an area where transatlantic cooperation can prosper.

However, proceeding without China on any climate agreement is also not an option. For instance, the EU idea to work together with the US to push for international carbon taxes will have to include a plan on how to deal with opposition to the idea from China. With China's recent announcement that it will aim for a carbon-neutral economy by 2060, there is potential for joint climate action.

Climate Conditionality in Trade Agreements

A coordinated push on carbon pricing and carbon taxes — which involve setting limits on emissions by countries or industries and trading quotas or taxing the excess — would mark a dramatic shift in the U.S.-E.U. relationship over climate change. This will, however, require a nearly fantastical degree of bi-partisan agreement in the United States, especially if the E.U. and the United States were to cooperate to establish a carbon border adjustment mechanism that would be WTO-compatible.

This would involve tackling issues of free-riding while making sure that U.S. and European industries are not undercut by competitors exporting cheaper products based on low-cost, high-carbon energy inputs that are not tightly regulated in their own markets. If the transatlantic partners can agree among themselves and then bring others into a "carbon free trade zone," a considerable part of the global economy could become subject to such new trade rules fostering a low-carbon economy.

R&D

Research and innovation are vital to deliver climate neutrality. Biden wants to set-up a new U.S. research agency dedicated to climate in line with his pledge to elevate climate to a top priority within the White House superstructure. Since the issue touches innovation and not regulation, cooperation on raising competitiveness through clean energy is the only field where the European Union is certain to be able to work with the United States even under a potential future Republican president. A common innovation agenda may include new opportunities for joint research and investments supporting talent development through visa policies and exchange programs, promoting compatible standards, and enhancing data-sharing opportunities.

Cooperating on common standards

A key sector that could benefit from Biden's victory is environmental, social and governance (ESG) investing where a transatlantic split has opened up under the Trump administration. A joint transatlantic agenda should seek to shape regulatory cooperation in the financial sector, including setting ESG standards in the mining industry, energy storage, green finance, green energy patents, and addressing some of the key points of conflict in recent relations.

Phasing Out Coal

Any serious E.U.-U.S. agenda on climate action must include the end of E.U. and U.S. support to coal at home and abroad. Transatlantic cooperation on green transition can include investing in offshore wind, liquefied natural gas, battery technologies and hydrogen power. Washington and the EU should now jointly engage China as part of a trilateral climate dialogue while at the same time setting out clear redlines and not shying away from criticizing Beijing on issues like its investment in new coal power plants.