Transatlantic Trade and Climate

A Strategic Roadmap for 2024

By Emily Benson

The transatlantic alliance witnessed a dynamic year in 2023 that saw continued efforts to support Ukraine, a more assertive EU approach to engagement with China, and ongoing efforts to secure trade and climate deals that would lay the foundations for a transatlantic green marketplace. Despite constant diplomatic engagement and earnest efforts on both sides of the Atlantic to advance a common agenda, these efforts produced lackluster outcomes that potentially portend greater difficulties in standing up a transatlantic green marketplace. Heading into 2024, the Biden administration and von der Leyen commission should prioritize four key policy points:

1. avoid an “emissions-only” approach to climate and trade policy;
2. work to de-risk supply chains, while deconflicting where possible;
3. facilitate policy interoperability despite philosophical differences in approaches; and
4. commit to an international forum for designing and implementing climate and trade rules.

These policies are relatively low risk but high reward and offer the transatlantic alliance the opportunity to build the foundations of future climate policy. Pursuing these four steps in 2024 will advance meaningful climate action heading into major elections and will further bolster climate talks in other groupings, such as the G7, G20, and the UN Climate Change Conference (COP29).

Avoid Focusing Solely on Emissions-Based Climate Policies

There is peril in focusing solely on emissions-based policies since a host of other problems, such as pollution and deforestation, can also significantly accelerate the effects of climate change. There is a growing recognition of the utility of nature-preserving policies in climate change mitigation efforts. UN secretary general António Guterres urged countries to do more to protect nature in a March 2023 speech, saying “it’s time to end the relentless—and senseless—war on nature.”
The 2023 EU regulation on deforestation seeks to use trade tools to prevent biodiversity loss. The objectives of this regulation are to incentivize the consumption of deforestation-free products, reduce global emissions, and protect global forests. In November 2023, Representative Earl Blumenauer (D-OR), a member of the House Ways and Means Committee, which oversees trade policies, reintroduced legislation to prevent “the importation of products made wholly or in part of certain commodities produced on land undergoing illegal deforestation, and for other purposes.” Scientists estimate that 10 percent of global emissions result from deforestation. To date, however, trade tools intended to curb deforestation have related overwhelmingly to commodities, such as palm oil, which has gained notoriety for its destruction of rainforests in countries such as Indonesia.

The European Union and United States should consider applying this type of tool to other protected areas and other traded items. Wetlands, for example, function as coastal sponges that can reduce the effects of flooding and provide a buffer for coastal communities. Protecting coastal wetlands thus offers tremendous benefits at low costs. However, these ecosystems are increasingly imperiled by industrial production. In South Korea, for example, semiconductor facilities pour wastewater into streams, altering the natural ecosystem. Certified “nature-positive” products could help encourage companies to build facilities in environmentally safer areas and take additional measures to reduce pollution and protect biodiversity.

Another creative trade tool to protect nature is the use of a “rebutable presumption.” The use of a rebuttable presumption made headlines in the United States when Congress passed the Uyghur Forced Labor Prevention Act in 2021, which places a burden on importers to demonstrate affirmatively that products were not made with forced labor. In December 2023, the House Select Committee on Competition with the Chinese Communist Party produced a bipartisan report aimed at “resetting” the U.S. economic relationship with China. One report recommendation included expanding the use of a rebuttable presumption to cover illegal, unreported, and unregulated fishing (IUU fishing). This policy would force seafood importers to demonstrate that their products were not obtained via IUU fishing.

The application of a rebuttable presumption to IUU fishing represents a novel way to enact policies aimed at preventing overfishing, which have emanated in part from the World Trade Organization (WTO). One of the major successes of the WTO’s 12th Ministerial Conference in 2022 was the conclusion of an Agreement on Fisheries Subsidies. Domestically enforcing a rebuttable presumption could protect marine ecosystems, reduce the importation of products that harm biodiversity, and over the long term disincentivize additional subsidies that encourage overfishing. The European Union and United States should explore jointly expanding these trade restrictions to protect biodiversity.

The application of a rebuttable presumption to IUU fishing represents a novel way to enact policies aimed at preventing overfishing, which have emanated in part from the World Trade Organization.
De-risk Green Supply Chains by Identifying Vulnerabilities

In addition to expanding domestic trade toolkits to combat climate change, the European Union and United States should work in close concert to advance their respective de-risking agendas. Chinese graphite restrictions announced in October 2023 during the EU-U.S. leaders’ summit at the White House highlighted systemic vulnerability to supply chain disruptions that are integral to the green transition. Following the graphite restriction announcement, partner countries have made remarkably little progress on standing up alternative processing facilities and securing developing economy buy-in during this process.

Yet, de-risking will incur significant costs. De-risking centers around the idea that efficiency should no longer remain the dominant driver of supply chain and trade policy. If the European Union and United States de-risk simultaneously without deconflicting and without sufficiently coordinating, they risk incurring greater costs and losing strategic ground to competitors.

The parties have already made significant progress identifying critical supply chains and advancing supply chain diversification initiatives at the bilateral level. A December 2022 U.S.-EU Trade and Technology Council (TTC) statement called for jointly combating non-market economic practices and enhancing supply chain resiliency. The statement noted, “we will continue building a shared understanding of China’s economic and industrial directives and other non-market policies and practices, and develop coordinated action to foster supply chain diversification, build resilience to economic coercion, and reduce dependencies.”

If the European Union and United States de-risk simultaneously without deconflicting and without sufficiently coordinating, they risk incurring greater costs and losing strategic ground to competitors.

In the first half of 2024 and before the sixth ministerial meeting of the TTC, the European Union and United States should employ advanced artificial intelligence (AI) programs to identify risk exposure in green supply chains. These advanced AI tools can provide data-rich, real-time mapping capabilities that show risk exposure, geopolitical influence in sourcing countries, and overall trade flows. Leveraging these tech stacks will enable the European Union and United States to jointly assess risk exposure and to determine next steps for supply chain cooperation. Some of these tech stacks, however, only include data at the four-digit Harmonized Tariff Schedule code level, whereas the parties will require more granular information to make significant headway identifying supply chain vulnerabilities.

This “Data Mapping for Green Risk” initiative should produce a highly detailed risk assessment for green supply chains ahead of the sixth TTC ministerial. Assuming the European Union and United States have overlapping equities on specific green supply chains—for example, obtaining commodities used in electric vehicles—but differing equities elsewhere, real-time data analysis will facilitate deeper cooperation mitigating vulnerabilities and building more resilient supply chains. Assuming the TTC convenes in April 2024 in Belgium, these findings could inform ongoing economic security and supply chain work occurring under the Italian G7 presidency and the 2025 Canadian presidency.
In addition to identifying vulnerabilities, the European Union and United States should work with trusted third countries to build more resilient supply chains. Norway, for example, already occupies a spot as the third-largest single-country supplier of five critical minerals—cobalt, graphite, lithium, manganese, and nickel—to the United States. Norway is an even more critical supplier of cobalt, accounting for 31 percent of total U.S. imports in 2022, making it the primary source of cobalt for the United States. Yet, Norway has not been afforded a trusted trading partner status akin to what the United States has granted Japan under its bilateral critical minerals agreement. Securing green supply chains will require more than a bilateral effort, and countries such as Norway are well positioned to deepen their engagement in the de-risking agenda.

Standardize Interoperability among Climate Approaches

The European Union and United States often maintain similar end goals when it comes to using trade as a tool for combating climate change. Both parties desire green growth, and both are pursuing de-risking agendas. Where equities diverge, the parties should still work to ensure that their policies support and reinforce each other’s economic engagement strategies, particularly middle-power countries. This is particularly true when it comes to border carbon adjustments.

A proposal introduced by Senator Sheldon Whitehouse (D-RI), the Clean Competition Act, is mostly aligned with the EU approach since it includes a price on carbon. (For a comprehensive comparison of recent U.S. carbon border adjustment proposals, the World Resources Institute has published this helpful overview.) In general, taxation in the United States remains a politically charged topic, and corporate interests and consumers alike tend to regard a federal emissions trading system as another form of taxation. Senator Bill Cassidy (R-LA)’s Foreign Pollution Fee Act of 2023 does not include a domestic price on carbon and would therefore invite significant blowback within the WTO system. In applying a border adjustment to comparatively more carbon-intensive imports, this bill would allow the United States an additional unilateral tool for protecting the domestic economy from foreign competitors.

The pursuit of border carbon adjustments in foreign jurisdictions, such as the European Union and United Kingdom, could levy sufficient external pressure on the United States to produce something that resembles a carbon border adjustment. However, another complicating factor, as negotiations for the Global Arrangement on Sustainable Steel and Aluminum have demonstrated, is that the United States remains significantly behind in its ability to calculate the emissions intensity of various products. The U.S. Trade Representative has ordered the International Trade Commission (ITC) to conduct a comprehensive study of emissions accounting, but those results will not be public until 2025. It is unlikely that a congressional proposal would become law absent these ITC findings, meaning the timeline for implementing a carbon border adjustment—if one can survive the political process in Congress—remains improbable in the near future.

Another problem likely to surface in the U.S. context is that the United States prefers an approach based on emissions intensity averages. In some ways, this absolves the most carbon-intensive producers (which happen to be located in politically important states such as Pennsylvania) from having to take meaningful action, while allowing them to hide behind the decarbonization efforts of others. This could lead to political problems and trade disputes over time but has not yet become a pronounced issue.
Commit to a Forum

Under the leadership of WTO director-general Ngozi Okonjo-Iweala, the WTO has reasserted itself as a leading voice on climate change mitigation efforts. This year’s COP28 climate meeting in Dubai hosted the first ever “Trade Day,” indicating deeper concentricity among what have historically been separate agendas. The WTO already maintains credibility in myriad areas key to advancing climate change objectives, such as broad buy-in from Global South countries, institutional efforts to facilitate green growth, the broad enforceability of trade rules, and the emerging consensus on the need to reform subsidy rules. Other WTO benefits include dedicated committees—such as the Committee on Technical Barriers to Trade and the Committee on Trade and Environment—that can provide valuable guidance on trade and climate guardrails.

Brussels and Washington should thus capitalize on this institutional momentum and double down on elevating the WTO as the appropriate forum for crafting rules for the nexus of trade and climate governance. Specifically, the European Union and United States should join other like-minded partners in pushing to reform the Agreement on Subsidies and Countervailing Measures and the Agreement on Agriculture to minimize environmental harm and incentivize the trade of green goods and services. The parties should also adopt the guidelines that law scholars Elena Cima and Daniel Esty propose in their Sustainable/Trade Distorting Subsidies Matrix, as outlined in the Villars Framework. This approach seeks broader permissions for trade-distorting measures with a positive sustainability impact, while prohibiting trade-distorting measures with deleterious environmental effects.

Figure 1: Sustainable/Trade Distorting Subsidies Matrix


The Villars Framework outlines that if the trade effects of subsidies “are not significantly distortive,” they would be “subject to the subsidizing state sustaining the burden of proof that the global sustainable
development harms of the subsidy are not disproportionate in relation to the expected benefits.” Prohibited subsidies “would be countervailable until they are phased out.” It is difficult to envision one country, particularly an energy-poor country, countervailing fossil fuels since the result would entail higher costs or the producer simply selling elsewhere. However, the world trading system is significantly behind in reimagining “traffic-light” subsidies for the era of climate change. Without significant reform that disincentivizes traditional support for fossil fuels, the global community is unlikely to make significant progress decarbonizing.

The 13th Ministerial Conference of the WTO in Abu Dhabi at the end of February provides the transatlantic alliance, together with like-minded countries, the opportunity to reaffirm its commitment to the trading system and to reinvigorate its approach to climate change mitigation. Moreover, the WTO system houses a broad array of ambitious climate initiatives, such as the Trade and Environmental Sustainability Structured Discussions, and plurilateral negotiations such as the Agreement on Climate Change, Trade and Sustainability, which could prove more agile in advancing climate talks than consensus-based decisionmaking. Perhaps the most significant benefit of leveraging the WTO for climate discussions is the inherent ability of trade and economics to serve as an inducement for policy change that goes beyond ministerial statements. This is arguably less true for other comparable international organizations such as the United Nations or Organization for Economic Cooperation and Development. Participating countries may decide that a single forum is insufficient over time. The European Union and United States should leverage other initiatives, including green trade talks within the TTC and climate and energy commitments under the G7, to reaffirm the work of the WTO.

The European Union and United States should leverage other initiatives, including green trade talks within the TTC and climate and energy commitments under the G7, to reaffirm the work of the WTO.

Takeaways and Recommendations

The slow pace of transatlantic progress on trade and climate in 2023 underscores the profound differences that persist between EU and U.S. approaches to using trade to combat climate change. In 2024, the European Union and United States should prioritize the following:

1. **Avoid emissions-only climate and trade policy**: Avoid sole focus on emissions-based climate policies, accounting for biodiversity protection and exploring ways to expand rebuttable presumptions to discourage nature-harming trade, while incentivizing green trade.

2. **De-risk and de-conflict supply chain initiatives**: Both parties need to work closely at de-risking supply chains that are critical to the green transition. However, the parties should exercise de-risking with caution since the agenda invites higher costs, reduced efficiencies, and a higher likelihood of retaliation from strategic competitors.

3. **Facilitate policy interoperability**: Standardize interoperability on big-picture policies while acknowledging different approaches. The need to recognize different policy approaches requires
flexibility on both sides of the Atlantic, as demonstrated by local content requirements in the Inflation Reduction Act and the European Union’s carbon border adjustment mechanism.

4. **Commit to a forum and use other initiatives to bolster it:** The parties should work to reinvigorate the WTO. Whether dealing with rebuttable presumptions in commodities trading or evaluating more systemic approaches to fossil fuel subsidy reform, the WTO is currently the only international organization capable of housing these talks.

Achieving these policies will be fraught, but it is not impossible. The United States increasingly regards China as a threat rather than a customer. Moreover, the United States lags significantly behind the European Union in its ability to calculate the emissions intensity of production methods. The United States also faces a precarious political balance that makes major compromises on trade and climate significantly more complicated and less likely.

The European Union and United States align, however, on their broad desire to use climate to spur green growth, combat overcapacity, and accelerate decarbonization. Both parties are also increasingly confronted with the need to de-risk, but also the elevated potential of foreign retaliation, which could in turn impact green supply chains. The parties thus need to identify supply chain vulnerabilities, deconflict where necessary, and conclude concrete deals that encourage the consumption of greener products, but also facilitate the movement of supply chains to jurisdictions where risk is less pronounced. ■

**Emily Benson** is the director of the Project on Trade and Technology and senior fellow with the Scholl Chair in International Business at the Center for Strategic and International Studies in Washington, D.C.

The author would like to thank Catharine Mouradian for her helpful research assistance.

This report was made possible by the European Climate Foundation.

This report is produced by the Center for Strategic and International Studies (CSIS), a private, tax-exempt institution focusing on international public policy issues. Its research is nonpartisan and nonproprietary. CSIS does not take specific policy positions. Accordingly, all views, positions, and conclusions expressed in this publication should be understood to be solely those of the author(s).

© 2024 by the Center for Strategic and International Studies. All rights reserved.