

Center for Strategic and International Studies

Online Event

““Toward a Climate-Driven Trade Agenda””

RECORDING DATE:

Friday, March 5, 2021 at 11:00 a.m. EST

FEATURING:

Congressman Earl Blumenauer,

U.S. Representative (D-Ore.);

Chairman, House Ways and Means Subcommittee on Trade

David Victor,

Professor, UC San Diego; Center for Global Transformation Endowed Chair in Innovation and Public Policy and Co-director, Laboratory on International Law and Regulation

Warren Maruyama,

Partner,

Hogan Lovells

CSIS EXPERTS:

William Alan Reinsch,

*Senior Adviser and Scholl Chair in International Business,
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Sarah Ladislaw,

*Senior Vice President; Director and Senior Fellow, Energy Security and Climate Change Program,
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Transcript By

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William Alan
Reinsch:

Well, let's get started. I think the rush of attendees is continuing, but it's slowed down just a little bit. And rather than keep all of you that are on waiting, let's begin.

It's a real privilege to do this today. It's an important issue. Those of you that follow CSIS know that we've been writing about it. And one of the things that we focused on thanks to Sarah Ladislaw, the head of our energy and climate program, is the intersection between climate policy and trade policy. We now have an administration that is very much seized with a more aggressive approach on climate than we've seen for the last four years.

So things are going to happen. And one of the things that we realized early was that climate people and trade people don't always travel in the same circles and they don't always speak the same language. We both have languages of acronyms. And, you know, for trade people it's numbers. It's 301, it's 201, it's 232. The environmentalists have COP-26 and they have UNFCCC – too many Cs – FCCC – three Cs, I think. I don't speak that language.

And one of the things we're trying to do at CSIS is get the two sides together, if you will, to have a dialogue, to figure out how we can move forward on climate in a way that reinforces trade, and how to make sure that the trade rules are facilitators and not obstacles to dealing more effectively with climate change.

And fortunately we have a keynote at our event, someone who's been able to straddle both sides of the debate, which is rare in this town, and that's Representative Earl Blumenauer, who is the chair of the Trade Subcommittee of the House Ways and Means Committee. That also is spokesman for environmental issues for a long time. And I don't think you can see the bicycle on his lapel from here, but he's well-known for it. And there he goes. And I think is, you know, well-known as an environmental leader in Congress, as well as the chair of the Trade Subcommittee.

So he's in a unique position to comment on how we think things are going to move forward. So we're going to start with him. And he's going to make some remarks. And then he'll join the panel and we'll have a conversation with the panel, and then we'll get to participant questions after that. And you know how to do that. The signup sheet for the event told you how to submit your questions. And they'll all be sent on to me. And we'll ask as many as we can, but there will not be enough time to get to everybody.

So with that, I'll turn it over to Congressman Blumenauer. Go ahead.

Representative
Earl Blumenauer

Well, thank you, Bill. Thanks for the opportunity to be part of this conversation. Thanks for the good work that you folks do, CSIS, and for

(D-OR):

your counsel over the years to help me understand some of the intricacies. You may not speak the same language, but I like the language you speak. It's clear and direct and extraordinarily helpful.

The last five years we've witnessed a major – I think, a major trade reset. I mean, think Trump, Bernie Sanders, Hillary; some ambiguity about where Vice President Biden was in the campaign. We've watched that the consensus moving towards the Trans-Pacific Partnership kind of evaporated and positions changed. They hardened. And we had sort of a chaotic situation with Donald Trump and drive-by tariffs and certain things that were just nonsensical. And we sort of had one approach to try and solve problems.

We were able, with Ambassador Lighthizer, I think, to make some significant progress with NAFTA 2.0. That was something that was a priority for me to be able to see if we can bring people together to solve problems and see if we can deal with differences. I can't tell you how many hours I spent talking to everything that looked like a caucus, any three people in the House, but it worked. We actually had a majority of Democrats support this trade agreement; a consensus on enforcement, some real progress on environmental issues. And I think it sets the stage for where we go from here.

I think that the president is recalibrating through climate laws and looking at things through the lens of climate and the American worker. If you listen to Katherine Tai, our late chief trade counsel, she laid that out. And I think that that's – I think that's an appropriate lens, which helps us make some real progress.

It's an opportunity, for example, to start taking action, set the table, as you've referenced in your report, dealing with the ripening of the issue dealing with subsidies for fisheries. That's been languishing, but the case is clear. There's a keen interest for trading partners to see if we can get our arms around that. And I think there's an opportunity to use that as a springboard.

China remains to be a conundrum. We're sort of inextricably linked with them. We can't live with them; we can't live without them. They've made huge progress in the low-carbon future. But they continue to be a really difficult case in terms of slave labor, which we're going to be spending time on in the subcommittee, that's just beyond tomatoes and cotton. It's the abuse of the WTO process, procurement. They're still a developing economy. Give me a break – the use of their state-owned enterprises and a bottomless pool of subsidized investment.

America can't deal with these challenges alone. Luckily, we do have partners that are poised to be cooperative. We share the interests in terms particularly with the EU; climate, labor standards. I think there's progress

possible in digital trade, where we again have many similar issues, and a relationship with China.

I think that there are business and trade solutions to the climate crisis that we face now. And I can't tell you how excited I am to work with Ambassador Tai, who demonstrated a facility to be able to communicate, think big picture. She will be a tireless champion of the administration's policies.

The team dealing with climate is very strong. Gina McCarthy we've worked with in the prior administration. She's tasked internally; Secretary Kerry. I've enjoyed conversations with both of them already. And having somebody with Kerry's stature and experience, I think, bodes well.

What happens in this space over the next 20 years is going to tell the truth about whether or not we're going to be able to survive life as we know it. And what's going to happen with the next 46 months of this Biden administration is going to tell the story. But I think in the next four months we're going to set the stage for the climate and trade program while we're fighting the COVID crisis and trying to resuscitate the economy.

I could not be more pleased with the work you've done with your blueprint. I anticipate that there's a lot of opportunities working with you and our subcommittee.

Clearly, the notion of reviewing the TPA and domestic trade law, your specific recommendations there.

I love the notion of just establishing a climate-driven agenda with the European Union. We've had preliminary conversations with them and we will be having more.

Dealing with APEC trade discussions later this year to try and jumpstart some things, perhaps, with the fish subsidies. I like the notion of just cutting to the chase and negotiate a climate waiver. It's to enact how we meet our Paris responsibilities, which the administration mercifully joined the first day they were in office.

And clearly, secure critical – the supply chains for rare-earth minerals. We all have a stake in that. We've been dancing around it. We've refused to make the sort of investment that might be necessary to compete with the Chinese. And clearly, the world trade agenda is wanting in that case.

I think what, Bill, you and David have done with this report is a great blueprint. I'm looking forward to working with you on it, and I'm looking forward to the conversation here today as part of an area where there will be substantive progress with this administration. Joe Biden campaigned on it. He started organizing instantly. He's got a great team in place, and I

think they're willing to make some tough stands. And we, at least initially, look like we're going to bring through some resources. There are some opportunities here, I think, even potentially on a bipartisan basis. I look forward to working with some of the areas that you've outlined because I think it gives us a point of departure that's very constructive, and I appreciate it.

Mr. Reinsch: Well, thank you very much. That's really good opening remarks that also set the table.

Let me introduce the panel. David Victor has one of the longest titles I've ever seen. He's a professor at the University of California San Diego, Center for Global – Center for Global Transformation and the endowed chair in innovation and public policy; and also, co-director of the Laboratory on International Law and Regulation.

Warren Maruyama has a much shorter partner. He's a partner at Hogan Lovells, a national law firm. Also, former general counsel at the Office of U.S. Trade Representative and well-known to the many trade wonks that are on this meeting.

So we now have three of you because the congressman's joining the panel. Let me start out with kind of the cosmic question that sort of underlines all of this: Are we really – is there really an inevitable clash here between the rules – the trade rules and good climate policy, or is there a path to get where – get where Congressman Blumenauer says we want to go? I'm just – and if there is a path – well, I guess, talk to us a little bit about what that is. We need to get a little bit more specific. So, if – David, do you want to go first?

David Victor: Sure. Well, thank you, Bill. And thank you, Congressman. It's really terrific to be with everyone here at CSIS via Zoom.

I think there's not an inevitable clash. You can imagine a world where we're strategic about this and we're careful and cooler heads prevail. That maybe is a world that doesn't exist, but it's not inevitable that we're going to have a clash. There is going to be a connection, though. There's no way that if we get really serious about the climate problem we're not going to have to deal with trade effects because a lot of actions on climate are expensive. They affect competitiveness, especially in energy-intensive and export-oriented industries. And so that's going to drive the big attention on the trade agenda. That's what's going on in Europe with all the talk about border carbon adjustments in Europe, and it's now, I think, getting real – real threats and now, potentially, real action.

And the last thing I would say about this is I think the way forward is to recognize that both the trade agenda and the climate agenda have a kind of chaotic policy right now where you've got fragmentation of global

institutions and lots of other pressures on them. And so both are working now in smaller groups to try and really make progress, and it's in those smaller groups we're going to work out things like what are reasonable trade measures and also, I would say, investment measures, and how to put them into practice to keep them not discriminatory. The U.S.-European relationship's going to be vitally important here because it's hard to imagine us working this out carefully with any other partner except the Europeans.

Mr. Reinsch: I want to get back to Europe.

But, Warren, why don't you open as well?

Warren Maruyama: Yeah. And thanks, Bill and Sarah, for organizing this thing. I'm a big birdwatcher, and my birding magazines are – right now are full of articles about the impact of climate change on bird populations. So this event is very timely from both a professional and a personal perspective.

And it's an honor to be on the panel with Chairman Blumenauer, who's been a leader on the trade issues. I've still got scars from my time at USTR on the May 10th agreement, but we eventually did work out a template for moving forward with the labor and environmental issues. I'd agree very much with David that the short answer is climate change and trade don't really clash. There's no inherent conflict, and to the extent there is some limited conflict it depends on what type of climate change mechanism that you're talking about.

So there's nothing in the World Trade Organization or any of our trade agreements that prevents a government from taking whatever steps it wants to do to control carbon emissions through a nondiscriminatory, regulatory cap-and-trade or carbon tax scheme. The trade problem, as David said, comes with respect to border measures, where some types of carbon control regimes are much easier to square with WHO rules than others. So if you restrict carbon emissions through a tax, a regulatory, or trade scheme, it's going to drive up the cost of energy and disadvantage energy-intensive U.S. industries.

And some of these industries are also trade intensive, in that they either face stiff import competition or they're big exporters, or in some cases they're both. So any sort of carbon regime that drives up the price of energy is going to put some big U.S. industries at a competitive disadvantage. And here we're talking about things like steel, aluminum, chemicals, paper, cement, fertilizers, and there's a longer list. So these are big politically potent industries that represent a lot of manufacturing jobs.

So just about every carbon regimes involves – or, a politically viable carbon regime – involves some sort of border measure to make sure that imports from other countries don't have an equivalent – that don't have an

equivalent carbon regime don't get an unfair competitive advantage, and also to ensure that U.S. exporters don't become uncompetitive because of their higher energy costs and start getting crowded out of foreign markets.

It's also important for any carbon regime to prevent leakage, so we don't inadvertently create incentives for U.S. companies to move energy-intensive production overseas, costing U.S. jobs, or for production of certain, you know, globally traded products or commodities to shift to countries that are laggards in measures to reduce carbon. So that's where the trade problem comes in, because it means doing something to level the playing field with imports and make sure our big exporters don't get killed.

Mr. Reinsch: Well, that's a big challenge. Congressman, do you want to weigh in, or have you already weighed in?

Rep. Blumenauer: Well, let me just say that I think there are opportunities here to be able to harmonize those objectives. Warren was talking about a number of very energy-intense industries. But those, for example, are heavily involved with our infrastructure agenda, which is a high priority of the administration. There is a commitment by the administration and Congress to have a low-carbon future, to rebuild and renew – rebuild and renew greener, things that we can do in terms of the manufacturing process – low-carbon concrete.

I think there are opportunities here for us to be able to reach a reasonable accord and be able to transition into these things. There are – there will be winners and losers, but we're going to be spending, I think, a lot of money on infrastructure. And getting the trade equation right is going to create a lot of value if we're able to help focus where that value is created and how it moves. And I do think that there are similar interests with the European Union in particular that we – it's in both our interests to be able to work this through. So I don't minimize the problems. I lived through our cap-and-trade adventure – (laughs) – 10 years ago in the Obama administration. But I think there are enough moving pieces here, and enough developments have taken place, that we can see this low-carbon future and a way to harmonize those things going forward.

Mr. Reinsch: You mentioned the EU. And I'm glad you did because David mentioned them as well. And obviously this is – you know, this is a global commons problem. It's going to demand global solutions. The EU is well down the road to sorting out what it wants to do and we're not. We've had four years of denial, basically, about the policy. So I think we start behind. Does that make any difference? Are we going to end up simply doing the same thing they're doing, or how do you see that negotiation developing? Any of you.

David.

Mr. Victor:

Well, let me just start there and say the EU has become the reliable leader on climate internationally. And we're sometimes there and we're sometimes not there. And the credibility of the country, our country, has gone down. And that's a problem for us and so on.

I guess I want to underscore that they are well down the road of acting on this. They don't really know all the pieces. And I think that's going to be crucial for how we think about the trade agenda evolving.

So take, for example, the European Green Deal. It's a huge infrastructure investment, including big bets on new industries like hydrogen as a potential strategy for cutting emissions; all very encouraging, but they've got to build up these industries. And I think that's where the trade and investment agenda is going to come in, because they want to advance various industries. They have their own version of our infrastructure bills and they're going to be pushing them along with procurement and so on. And that's where the messy concerns about trade and investment effects will arise as to what's legitimate, what's not legitimate.

There's no question, exactly as Warren said, that the trade law and trade arrangements make this quite – it's – one can imagine strategies that are completely compatible with the trade regime. But then, in a world of low trust, you look at a government procurement program that's designed to advance low-carbon steel, and are we seeing something that's distortionary or not distortionary? And that's – those are the kinds of stresses that I think are going to come into the trade regime.

I guess one other thing about Europe that I think is important for us to keep in mind is there's talk this summer about developing and implementing a border-adjustment regime originating in Europe. Already they've been using threats very effectively. They've – one European diplomat called it negotiating with a loaded gun on the table. I mean, you know, they've got to watch out for the "Pulp Fiction" moment where the gun goes off and you've got a cleanup problem. But that strategy has really motivated a lot of action.

Look at what's happening in airlines on emission reductions. There's no way the global airline and equipment manufacturers would be doing what they're at least trying to do on emission reductions without that threat of loss of access to the European market there. So they know that the threats already, quite apart from implementation, have had a big impact. And that's a big part of their playbook.

Mr. Reinsch:

I think that's – I think they've discovered the first-mover advantage when it comes to regulation in a host of areas. We've got other papers on digital trade where we've noticed the same thing.

Either of the other two want to add anything? Warren –

Rep. Blumenauer: I have found their materials really very helpful. We've had some great conversations with them. I think we ought to run to catch up. They are moving forward. I think they can help incent some things here. I don't find that a problem. I think it might help call the question here where the people are not going to be able to continue dragging their feet.

There will be some dislocation, to say the very least. But I've found, in initial conversations with them, there is a keen interest in making sure that the United States is a partner here, not being on the sideline, not doing stupid things to them. And I think they are finding the reaction to the Biden administration refreshing, working with people like Secretary Kerry, with Ambassador Tai. I think there's room here for us to make some progress fairly rapidly.

Mr. Reinsch: Warren?

Mr. Maruyama: Yeah. Well, I think I would agree very much with the congressman. The ideal solution here would be if movements toward a carbon regime could be harmonized between some of the major actors, because if it isn't and the EU is the first mover and goes ahead with a border tax, we're going to find taxes being imposed on U.S. goods and services. And the airlines episode a couple of years ago, I think, would be just the sort of opening salvo in all of that.

But you're going to have other countries that are going to be vulnerable to EU border measures or border taxes as well – the Chinese, the Indians, any country that doesn't have a climate regime. So unless it can be sort of synchronized, as the congressman said, you've got a prescription for trade conflict.

Mr. Reinsch: And where is the – oh, David, go ahead.

Mr. Victor: Can I just comment? As an analyst, I agree completely with what's just been said. (Laughs.)

And then as a political scientist – well, I guess this is a version of analysis – I'm very concerned that there's no scenario in the real world whereby things are really synchronized because the Europeans are going to remain way out in front of us. And then – and you look at that, at the carbon – actual carbon prices – the difference between, you know, the California price and the European Emissions Trading Scheme price, where the prices are going up – and then you look beyond prices at what's really doing the work almost everywhere in the world – which is not markets; it's regulation and industrial policy – the effective difference in the cost of effort is huge. And so the Europeans had this kind of moment of clarity of seeing that even as they imagine what the Biden administration could do as they come into – come into office, that there's still going to be a big disconnect between

what's going on in Europe and what's going on here. And maybe that's just going to be tolerated, but I'm just worried that politically that can't be tolerated. The bigger the differences get, the more the Europeans lead.

Mr. Reinsch: Well, that's where I was going. Let me ask one more question, then I'm going to turn it over to Sarah to run the show for a while.

Where is the venue for resolving the issues that the three of you have just been talking about? You know, we can have a bilateral discussion with the EU fine, but what does that say about China, about India, about developing economies? Do we do this in COP? Do we do this as – sort of as an environmental exercise? Do we do it in the WTO? Do we do it somewhere else in the U.N.? What's the – what's the appropriate venue for trying to produce what is essentially a solution to a global problem?

Mr. Victor: I can take something off the table, which is the COP. (Laughs.)

Mr. Reinsch: (Laughs.) OK.

Mr. Victor: The Conference of the Parties, just to get the language right. The Conference of the Parties is a global consensus-oriented organization. They couldn't agree that today is Friday. So we can't expect these issues to be resolved except with kind of pablum statements about avoiding conflict and stuff like that.

I think this is an area where the – where the climate world has a lot to learn from the trade world, where these hard things are worked out at least initially in smaller groups, very careful attention to exactly what the impacts are on trade measures. The whole tariffication discussion for decades in trade is relevant here in climate because of the need to convert industrial policy and regulatory measures into, in effect, price equivalents. And so there's all this work that the trade world has done that the climate world, frankly, hasn't even begun to approach. And so I think it's going to be done in these smaller groups that are more trade- and investment-oriented than climate-oriented.

Mr. Reinsch: Let's keep in mind, you know, in New Zealand it's not Friday, so maybe even reaching agreement on the day is not that easy.

I'm sorry, go ahead. Who's going to talk? Warren?

Mr. Maruyama: This is Warren. I'm glad to see David say such nice things about the trade world, but I think it's the trade world of 25 years ago because we've become just as dysfunctional as a lot of other international organizations. And the – you know, I was there in July of 2008 when the Doha Round basically crashed, and at this point I think the WTO would have similar problems reaching agreement on just about anything – and particularly something as contentious as border measures.

Mr. Reinsch: OK.

Sarah, I turn it over to you.

Sarah Ladislaw: Great. Well, thank you. This has been a fascinating conversation so far. I'm always glad when trade people let me into their world because there's a lot of interesting intersections here.

I wanted to pick up on something, though, which is – and maybe kind of throw a premise out on the table, which is not that there's a conflict inherently in environmental goods and trade-oriented goods or outcomes, but instead that the trade world and the climate world are suffering from the same issue, which is a drive towards more protectionist measures, right, a drive towards being able to unearth more ambitious climate policy by virtue of yielding more domestic political benefits and economic benefits, which is leading a lot of the most ambitious climate policies we're seeing today to be both focused on greenhouse gas emissions reduction but also making sure that domestic manufacturing and jobs and things like that are the result of this climate policy.

And so, in my mind, that exacerbates some of the potential for trade conflict that we've been talking about. And I have some real questions, but how that – those conflicts may manifest themselves. Similar to the question that Bill just asked about what would be the venue for resolving them, I'm kind of interested in where they might come from. So we've talked a little bit about CBAM and Europe and the United States, but what about something like supply-chain reviews, right? What about this big push that the administration has just launched on trying to think about supply chains and, you know, how to create resilient supply chains in some industries that are going to be critically important for the energy sector? Do any of you see this sort of focus on supply chains or industrial policy as being an area where climate and energy – excuse me – climate and trade could experience more conflicts? Happy to go to whoever'd like to answer that.

David.

Mr. Victor: Well, I'm also interested in what the others say. But I think yes. I don't know if it's going to be this particular executive order on – simply because it's more of a study order. It's just go find out and tell me in 100 days. But they'll do that. If it comes back similar to the way the Trump administration's executive order was on interconnected devices to the grid, for example, where that was read by some firms as being highly, highly restrictive to imported products, in particular Chinese products, that had, you know, any kind of electronic equipment in them – which I think is everything these days – then we're going to see, you know, more – it'll look to some people like drive-by trade disputes, but it'll be, I think, the same thing over again.

And I really appreciate Warren's comment trade of 25 years ago. It might be that the people who did trade and climate 25 years ago should actually get back together and work out what – kind of dispute by dispute or problem or problem would be some remedies for tamping things down. And I think the will to do that is there on the bilateral side – EU-U.S. It's there on the U.S.-China side, driven partly by concern about what the Europeans are going to do. More loaded guns are sitting no more tables bouncing around. And so it's there, but it's very hard to get a lot of traction on that given all the other stuff that's broiling in politics these days.

Rep. Blumenauer: Therein I think is an opportunity. I mean, there are so many – (background noise) – Big Ben in the background here. I apologize.

Ms. Ladislaw: It's very nice.

Rep. Blumenauer: Kind of get the flavor of international context. There are so many elements that are at work here where there is a common interest in going forward. I mean, ultimately, we have made a commitment to reduce carbon. And Chinese, Europeans, they're moving in different directions, but we are a part of a common cause. And we understand that this is an ultimate existential threat that we face. What we're going to do with things like digital trade, there's a lot of money on the table in terms of international tax regimes.

I just think that there are enough moving pieces that we can't – if we get down to the specifics – and I really appreciated what you did with the report, Bill, talking about, well, let's launch in as we redefine what Trade Promotion Authority will be for trade today – although, candidly, we've got a number of people who were part of this 20 and 25 years ago who are part of it now. And I think they're in a position to help us sort this through. People understand that we are in fact running out of time. There is an urgency. Markets are moving. We can't stop the innovation. We wouldn't want to. There's a vulnerability dealing with supply chains, with rare earth minerals, and so forth.

We're either going to reach an accord or we're going to move forward with alternatives, but I don't think the status quo is something that will hold, and people screwing around for the next 20 years on the next failed round of international trade. I mean, what we're going to do with agricultural issues. I mean, this is another critical area dealing with climate emissions. And there are, in fact, solutions that will help productivity, will help farmers in America and in other countries around the world. Having a low-carbon agriculture future actually is more productive and is an essential part of whether we're going to solve the climate conundrum.

And I just think that there are people that are willing to step forward and be dealing with some of these larger issues. Now, I may be naïve. I know a

number of you have scars that I don't have in terms of being in the trenches with the knives out. But I think we've never seen an array of circumstances that are like we've seen now. And events are moving forward and are not going to wait for cumbersome reset with the WTO or other mechanisms.

Ms. Ladislaw: Very well said. Warren.

Mr. Maruyama: You know, I don't see an inherent conflict between supply chains and our, you know, trade obligations. Certainly a supply-chain resiliency program could go in a protectionist direction but, you know, President Biden's executive order on buy America was fully consistent with our government procurement agreement and free trade agreements. You know, a lot of the supply chain issue was about China, which is its own separate set of issues. And it's not necessarily about protectionism at all.

You know, if I could just take this in a slightly different direction, I think the real problem for climate is – and for border measures – is not really protectionism or anything like that. It's whether it's possible in this country to reach a domestic consensus on what sort of climate regime we want. And, you know, Bill and I first met too long ago but, you know, it was in the 1980s when the World War II generation was running the Congress. And, you know, you had people who could come together across the aisle to reach agreements on tough issues. And we seem to have lost that. If you do reach a consensus on a – to do something on climate change, there are ways of structuring border measures that are fully WTO consistently and basically make the trade problem go away.

Ms. Ladislaw: It's a great point. And I want to, you know, focus on the fact that we've brought up China a number of times in this last, you know, series of responses. One of the things that I'm curious about is what you think the engagement will be like, needs to be like, in the context of dealing with China. You know, we spend a lot of time thinking about that in the climate world. You spend a lot of time thinking about that in the trade world.

One of the – you know, the energy program at CSIS just recently put out a report about clean energy supply chains. Echoes much of what was in Bill's report, that the history of trade remedies in the clean energy space largely have to do with the fact that China, you know, subsidizes very aggressively and protects its own domestic industries in order to grow them. And these are the major clean energy industries in the world, right? They dominate clean energy supply chains at present.

And so, you know, it – you can't help by say to yourself: Well, if all countries around the world are now premising a lot of their clean energy and climate policies around this idea that they too can be competitive clean energy leaders, if they want to look at records of success in that space China is the one that has done the best job of that so far. So how are we going to engage with China on these issues when so much of our trade discussion with them

is sort of combatting the state-led capitalism model, and so much of our energy discussion and climate discussion is about getting on the same page to essentially achieve a lot of what, you know, China has been able to achieve?

David.

Mr. Victor: Well, I guess some of this is going to be very familiar, because it's going to be like all the other industries where there's been an industrial promotion led by the Chinese, and then we've been concerned about excess subsidy, and we talk about it, and we work hard in small groups on that, and so on. So some of that's going to be familiar. I think the good news is that the team around John Kerry and, more generally, in the administration knows all the key players in China very well, from Jianhua all the way down. And so it'll be hard for them to kind of put the team back together again just like 2014 all over again in that bilateral agreement that had such a big impact on framing what was possible in Paris.

But I think we know how to work on these problems individually. My bigger concern is that you – it's not just – first of all, it's not just China. You see, for example, batteries – subsidization to the death between Korea and China right now, which is now reverberating back inside the executive order and other concerns about supply chains for batteries here in the United States. And so it's a more complicated deal to put together. It's a deal that – or, deals. Lots of deals that have been put together under conditions of lots of – lots of suspicion. And I'm not sure how easy it's going to be to actually hold them together.

And then we also need to be really strategic because we can't put – we can put lots of things on the agenda. We have to figure out what part of the Chinese relationship we really care about most with regard to climate. And right now, I think actually higher on that list is BRI – Belt and Road Initiative reform, and the concerns about subsidy of coal and other things that, when you just do out the math, have just a much, much bigger impact on emissions over the long term. So I would put BRI topics at the top of the agenda, at least initially, even at the expense of some of those others. But whether that can hold together politically in the United States, I don't know.

Ms. Ladislav: Warren or Congressman Blumenauer?

Rep. Blumenauer: Warren, do you want to?

Ms. Maruyama: Yeah. Well, first of all, a lot of the concerns that we have about China and its SOEs and excess capacity and subsidies and industrial policies are, I think, widely shared around the world. So that's one aspect of President Biden's foreign policy and trade policy about working with allies that I think has really got some – a high degree of promise.

You know, if everyone tries to copy China, you know, the Chinese industrial policies, as David just said, the one product is they may lead in producing some technology but then you end up with a humongous excess-capacity problem in things like steel, aluminum, solar panels, optical fiber. So if everyone tries to be like China, you know, you have a(n) excess-capacity problem in spades.

And you know, I think, you know, the Biden administration has been talking about confronting China on some things and working with them on others, and you always see climate and pandemics listed as the things that we can work with them on. You know, just – I don't follow these issues on Chinese climate policy, but my understanding has been their economy remains heavily coal-dependent. And so I think the idea of talking them into some far-reaching climate commitments is something that I'm sort of skeptical about, but maybe that's because I'm a trade person and I've been dealing with China for a long time.

Rep. Blumenauer: I don't know that it's so much an issue in my mind of talking them into something. I mean, the Chinese for 4,000 years have been pretty focused on what's important for China. I know when we were – we had a series of meetings over a decade ago where they were lining out and we saw what they were doing in wind and solar. I think the key is twofold.

Number one is that there are countries that share out interests and actually, if not American leadership, deeply appreciate our partnership and involvement. And it includes Korea and Japan, where there's an opportunity for us to be able to deal with shared interests like supply chains with rare-earth minerals. They don't want to be held hostage any more than we do. Part of it is the United States has to make investments. We didn't make investments in terms of where – rare-earth minerals. We haven't made the investment in being able to bring some of the American innovations. What we saw in China 10 years ago were American innovations that the Chinese dove in, invested, brought to scale in a pretty ruthless but effective fashion.

We need to have an industrial policy. We need to be investing in our own infrastructure. We need to be a little more ruthless in terms of our government procurement. I mean, my lord, the – we're fighting with the Post Office now investing two-thirds – in two-thirds-of-a-million of the last generation vehicles. We ought to be able to harness that and move forward. We can't be stupid about it. But I think there's an awareness that this is entirely within our capacity. And it is entirely consistent with Joe Biden supporting American industry, American jobs, American innovation, and I think there's a lot of interest on the part of the private sector in the United States for being more active and engaged.

But we have to get in the game. We have shortchanged investments in our infrastructure, our research and development, and we haven't followed

through in terms of protecting our own interests. And I think that's got to stop.

Ms. Ladislaw: Thank you.

I know we have lots of questions coming through, and so I want to make sure we have time for that so I can turn it back to Bill. But I really did want to just ask David one very quick question. You've done a lot of work on sectoral arrangements and thinking about the value of innovation on a sector basis, and I'm just wondering how you think this approach that I think is personally quite likely the Kerry team is going to be looking at, which is trying to really amplify innovation and deployment of clean-energy infrastructure through sectoral arrangements, do you think that that's going to be trade-compliant or potentially a venue for working out some of these agreements on how to deal with trade issues?

Mr. Victor: I think it's exactly the venue to work out these agreements. I think these – these issues. I think these issues are too complex, shrouded in risk and theater, to do them generally. They have to work on them sector by sector.

The good thing about this is this is exactly the theory of change the British government is advancing as they host COP-26 with the campaigns. And there's all these sectors where if you change facts on the ground, you're going to change the politics. The area where my team at Brookings has been doing the most work is around – is around the capital markets. And if, as is now starting to happen, as they move more capital and see more risks, especially risks associated with the physical impacts of climate change, that's irreversible and that helps solve some of the problems the country has right now, which is of credibility. We can plan all we want, but the next person who – by executive order can reverse a lot of stuff. But if you do – if you implement policies that change facts on the ground in sectors, in key markets, that's much more irreversible. And that's, I think, the key strategic move that we need to make, and fortuitously is also going to make it easier to work out some of these difficult trade issues.

Ms. Ladislaw: Great.

Bill?

Mr. Reinsch: OK. Thank you very much. Good exchange.

We've got a number of audience questions. Let me say a number of them, I think, have already been answered by the comments that the panelists have already made, so I'm not going to ask them to repeat themselves on some of these issues. But there are some other ones that raise a couple of new issues.

The first one is for Congressman Blumenauer. If the administration comes to a conclusion of what sort of carbon-adjustment mechanism they would like to harmonize with the EU, what is the mechanism for getting it into place? Can legislation be passed, in light of the – you know, the narrow majorities on both sides and the filibuster? Is Section 232 a better option?

Rep. Blumenauer: Legislation is going to be a challenge this Congress, make no mistake about it. And in part there's a problem that there's – these are areas, ironically, where there should not be as deep a division in terms of partisanship or philosophy. A lot of these things are pretty straightforward. But there's virtually no trust on Capitol Hill right now, and it's hard to describe the chasm that we're going to be facing.

David's point about facts on the ground, what happens with capital markets, I mean, I think there are forces at work that are going to be generating the momentum for us – that are going to be able to have a broader range of people who are not perceived as being narrow political actors but see that they have an interest in being able to move this policy forward, that they have an interest in terms of a low-carbon future where we're investing in infrastructure, we're investing in research, that we are standing up for American rights not with drive-by tariffs but with a more rational approach. I think there's an opportunity through the mechanisms we have for trade this year. We're moving forward with GSP. We will, ultimately, do something with, I think, the administration on a revised Trade Promotion Authority that will give a dimension to what we're talking about.

And when we get to specifics, I think they're actually less of a problem, and that there are ways to harness forces moving forward. I think it's – I just see these opportunities where people are actually doing things that are changing the facts on the ground where the politicians, I think, will be more inclined to run to catch up, and that don't have to be – if we start with the partisan divisions, we're in trouble. If we start with trying to adjust to the facts on the ground and bring people together, I think we'll have more progress.

Mr. Reinsch: OK.

We've got a couple – a number of regional questions and I'm going to consolidate them in the interest of time. And they're about Canada and Japan. And the questions are, essentially, what role do you see both of those countries playing in this debate, and particularly in advancing our trade agenda? And what – how should we relate to Canada and Japan in trying to kind of move this issue forward?

Mr. Victor: Well, I guess – they're very different. And this goes –

Mr. Reinsch: Well, they were separate questions. I'm putting them together.

Mr. Victor: No, no, no, I appreciate the separate questions. And the – but this goes exactly to what the congressman was just saying, which is we’re going to have to get good at having a strategy that sometimes builds on the strengths of each of the relationships.

So in the Japanese case, the most important thing, I think, is going to be to engage with the industrial parts of the Japanese economy around hydrogen, advanced steel, a few other areas where the Japanese really are world leaders. And you see it in the patent data and you see it in the interest, and also in the industrial promotion.

In the Canadian case, we’ve got to find a broader engagement with Canada because the two economies are so tightly interconnected. And the Canadians are going through the same experience right now that we’re going through, trying to figure out where they actually have advantage.

There are a handful of areas, like carbon capture and storage, where I think they have skills and we have skills, and we can really scale things up. But we’re going to have to work almost on a country-by-country basis or region-by-region basis on what are the places where we have something to gain from each other and then anchor the facts on the ground around that, lest we find the whole effort, you know, generate a lot of trade and investment conflicts. And so I think we’re going to have to be very focused in that regard.

Rep. Blumenauer: My thought is dealing – for example, illegal logging. We’re able to harness the forces of the market with a minimum of government regulation. We’ve seen about a 40 percent reduction in illegal logging in an area that has been historically very difficult. We’ve got rogue actors – Indonesia, Brazil, the Chinese being bad actors. But by harnessing reasonable, thoughtful regulations, actually enforcing them, we’ve been able to have a pretty profound impact.

And I think employing that same sort of tactic going forward, using our markets, using common areas of agreement and challenge, like with the Canadians, there are, I think, a number of areas where we can make more rapid progress item by item, harnessing the market, dealing with investment, and having a somewhat lighter touch in terms of regulation, but nonetheless meeting our obligations.

Mr. Reinsch: Warren?

Mr. Maruyama: Yeah. You know, I think – I doubt – you know, I’m a trade person, not a climate person or an environmental person. But, you know, it seems to me that Japan and Canada are not really our core problems. And again, my understanding is that some of this is the divide between the developed countries, which have generally taken steps to bring down carbon, and the developing countries, who are rapidly industrializing, and they count for a

bigger share of emissions and were let out of climate obligations under the original Kyoto protocol; India, China being the most conspicuous examples.

But since climate change and CO2 are a global problem in the atmosphere, you really do need some sort of a global agreement to bring it down. Otherwise, whatever we do in concert with Japan and Canada could get sort of blown away by what's happening in China and India. So I think that's the core negotiating challenge unless something is changed dramatically where China and India are now leading on this issue.

Mr. Reinsch: The further questions that I want to pursue; first, Congressman Blumenauer talked a little bit about markets and innovation. And we have kind of an interesting question on that. Will overinvestment, if there is any, will overinvestment on green and climate technologies lead to overvaluation of stocks of renewable-energy equities?

David, that might be a good one for you.

Mr. Victor: Well, I mean, I guess, to paraphrase somebody else in a different context, it means – it depends on what you mean by the word over. But, you know, Tesla – (laughs) – Tesla's more valuable than all the auto industry combined. So is that excess valuation? Is that frothiness, kind of GameStop-worthy? I think we don't know. And that's the nature of this challenge. And so I'm sure there's going to be overvaluation and adjustments and things like that.

I'm overall less worried about the risk of overinvestment in green technology and more concerned that the lack of credibility in a lot of governments' policies will lead to underinvestment. And I think, just to what Warren was saying, the world has not changed completely since Kyoto, but a lot has changed.

And one of the striking changes, for example, is the net-zero pledge by the Chinese government, net-zero by 2060. And it's not just kind of one of these vacuous pledges that a government makes. It's actually a pledge that now you're going to see in the five-year plans and all kinds of other investments. And maybe they won't quite be net-zero by 2060; that's a long way off. But there's a really profound change starting to happen, and the change in the investment is most rapid in the places where policy is most credible. And so that's my big concern.

Rep. Blumenauer: I'm not worried about overinvestment in innovation and research and technology. To the contrary, I think that there's a lot of running room. Part of what I hope is that the federal government itself does a better job of harnessing its own tools and resources. We could spend the rest of the hour talking about the Department of Defense, the largest consumer of energy in the world, and what can happen there if we redirect those resources in a way that is sustainable and compatible with both our economy and our

strategic interests. The agriculture sector is huge, and there's tremendous opportunities to be able to make it more productive while we significantly reduce carbon emissions.

I think that there are opportunities to be able to redirect this in a way that we can accelerate that production. Our friend Hal Harvey suggests that we spend less on energy research than on potato chips. I mean, this is something that is long overdue and will have a tremendous return on investment, I think.

Mr. Reinsch: Well, let's move to more of a political and economic question. Would the U.S. consider implementing an economy-wide price on carbon? Is there an appetite in Congress for that? And I guess, related, is that a necessary element of making progress on all the other things that we've been talking about?

Rep. Blumenauer: Not at this time. It's not something that's going to happen. We're going to be dealing with regulation. We're going to be dealing with incentives. We're going to be dealing with partnerships with other countries, with industries. This is going to be – I think ultimately we will have a price on carbon. But we're going to have to deal with the things we're talking about here today in terms of innovation, trade agreements and what not, before we get to carbon pricing. Sadly, it's not possible, given the political climate that we have, for the next few years.

Mr. Maruyama: You know, if we can't reach a domestic political consensus through the Congress on a carbon regime, our trade problems escalate dramatically, because, you know, from a trade perspective, the simplest way to do this would be a carbon tax, just because under the existing WTO rules – so you don't have to negotiate in the COP, you don't have to negotiate in the WTO – you can do border adjustments. You can impose an additional fee on imports and you can rebate the tax on your exports. So it's neutral and a level playing field.

But all of that is tied to whether we have a domestic regime, so we're treating imports, exports, and our domestic products the same. So if you don't have a domestic regime and we go out and try and put restrictions on imports or we try and subsidize our exports, then we've got major WTO problems.

Mr. Victor: I agree with what Warren has said. (Laughs.) The ideal strategy is a carbon tax and it makes the trade problem easier. I think, shockingly, the politics won't line up with what the trade lawyers need. And I think, therefore, what Congressman Blumenauer said is correct, which is – and let me put it more sharply – I think the visions right now of an economy-wide carbon tax that's at a level high enough to be meaningful are the world of magical thinking. And I prefer the world of real thinking, and it's going to be a world of regulation and industrial policy and infrastructure and on and on

and on. It's going to be messy. It's going to raise the odds of trade and investment conflicts. But it's the real world. And we ought to focus on the real world rather than some imaginary world.

Mr. Reinsch: OK, let me ask one more question, and then I'll give each of you a chance for a final word or two. Earlier in the session we talked about China. And one of the questions that came up, which was an interesting one, is we've got a whole spectrum of issues with China. There are a bunch of trade issues that are not environment-related. There are environment issues. There are human-rights issues. There are also national-security issues, as all of you well know.

How do – how do you expect the Biden administration to balance and prioritize those things? Do you see the climate issue being at the top of the president's list when he engages with Xi Jinping, or do you think it's going to be farther down – farther down the list?

Mr. Victor: It'll be high on the list. I don't know if it'll always be on top because, as you know, when heads of state engage with each other events put things at the top of the list. And also human rights is going to be a big deal. But climate is going to be way up there. This administration has put climate at the center of the campaign. From the primary to the general, and in the people that have been appointed early on, and the people who continue to be appointed, and the quality of those people. So it's extraordinary. And it will be right up there. And in the Chinese case, we'll keep it up there. And there are going to be other governments where we probably won't keep it up there, because there are other things that dominate, like the U.S.-Mexico relationship. But for China, it's got to be there.

Mr. Reinsch: Anybody else?

Rep. Blumenauer: I'm convinced that there is going to be high on the agenda of this administration and, frankly, with the American people. I am impressed with how much infrastructure is in place right now with nongovernmental organizations, with the discussions that have taken place with the Chinese government at the highest levels.

There's Big Ben again. I apologize.

There's some degree of awareness and interaction and common interest. I think we will separate them. We will deal with human rights. We're going to look the other way given gross abuses with the Uighurs. We're going to stand up for our own interests in terms of what abuses Chinese have taken in sort of traditional trade venues.

I think we cannot isolate these things. There are a number of them that we need to work on in terms of commercial opportunities, in terms of human rights, in terms of technology. And I think we continue to work on them,

and I think the Biden administration will do that. They have a wide range of things that they're concerned with. They've got a team that is knowledgeable. And there are lots of connections with people who are committed to a low-carbon future. And I just think they will – we will – we will actually be benefitted by being able to have discrete actions in a number of areas where we share interests with other allies. So it's not us alone, but we're mobilizing other forces, other voices, other innovation to try and keep up a steady pressure.

But we cannot do this on a hit and miss basis. We can't be incoherent, as the Trump administration was. Patience has not been our virtue, and we've been reluctant to make long-term investments, which I think is ill-advised. And I think the Biden administration will have a more comprehensive approach. And I think they will measure some success.

Mr. Reinsch: Thank you for that. That's a good concluding overview. Warren, do you want to make a final comment, and then I'll go to David and Sarah?

Mr. Maruyama: Just that, you know, dealing with China is always challenging. I don't pretend to be a Biden insider, although I voted for him. And you know, I think it's pretty clear that climate will be at the top of the agenda. You know, one of the reasons why people like the president, the vice president, and Katherine Tai get paid the big bucks is they got to sort out U.S. priorities and structure them as to achieve them. So hopefully that can happen. I think one of the other things that was heartening about the president is he talked about being a unifier and working on a bipartisan basis with the Congress. And I really do think that at the end of the day, whether we could get to some sort of domestic consensus on climate is key to all the trade issues, and probably on climate itself. And to my endangered birds. So thank you very much.

Mr. Reinsch: (Laughs.) David, final word?

Mr. Victor: Well, I just want to say Warren's birds have played a really important role in climate science because it's one of the early incontrovertible pieces of evidence that the climate was changing, that the migratory patterns were changing by weeks. So thank you to your birds, Warren.

The – I think the good news in all this is that the reason we're focusing on what in a granular way industrial policy and infrastructure policy, and so on, means for trade conflicts is that we're getting serious about the problem. So that's good and encouraging. I do think the administration is very mobilized and focused on this issue. But I think what the congressman said early on about legislation's essentially off the table is really important. We're going to have to double down our effort to identify things that we can offer to other countries to make progress on climate that other countries actually believe. And I think we have not really done that seriously yet. Early days of the administration. But the amount of skepticism I'm hearing

around the world about whether what we do is credible is very high right now.

Mr. Reinsch: Sarah, any final words?

Ms. Ladislaw: Yeah. Thanks very much for this discussion. I think it was really great. You know, just to put a finer point on things, I think both the trade and the climate worlds will be realms of chaotic policy. And it's chaotic policy that if we're going to meet the global targets of net zero by 2050 and start moving at the rate and pace that is required for that, it could be very fast and very furious between here and there. And so if we are getting serious, I think that there's just a lot of potential for unintended consequences, though very necessary in order to do what we need to do on the climate. So that's why we're spending so much time hanging out with Bill and his colleagues. And that's why we're doing this across CSIS as a broad initiative, to make sure that climate is embedded in all areas of foreign policy. So very happy to be part of the discussion today. Thanks, Bill.

Mr. Reinsch: And that's why we have additional work planned going forward, which we will let all of you know about as it emerges. And to the audience, which there were more than 300, thank you very much for joining. It's appreciated. We couldn't answer all the questions. There were one or two that were highly technical of a legal nature, which I'm going to dump on Warren and for him to answer or not as he wishes. And for the rest of you, we'll hope to find another opportunity to do that.

So with that, thank you very much. Thank you to the congressman. Thank you to the panelists for some very insightful comments. And so, with that, goodbye.

(END)