

**Transatlantic
Climate Statecraft:
Building a
Sustainable
Global
Economic
Order**

Geoeconomics
and A Sustainable
Global Order:

**Transatlantic
Policy
Perspectives**



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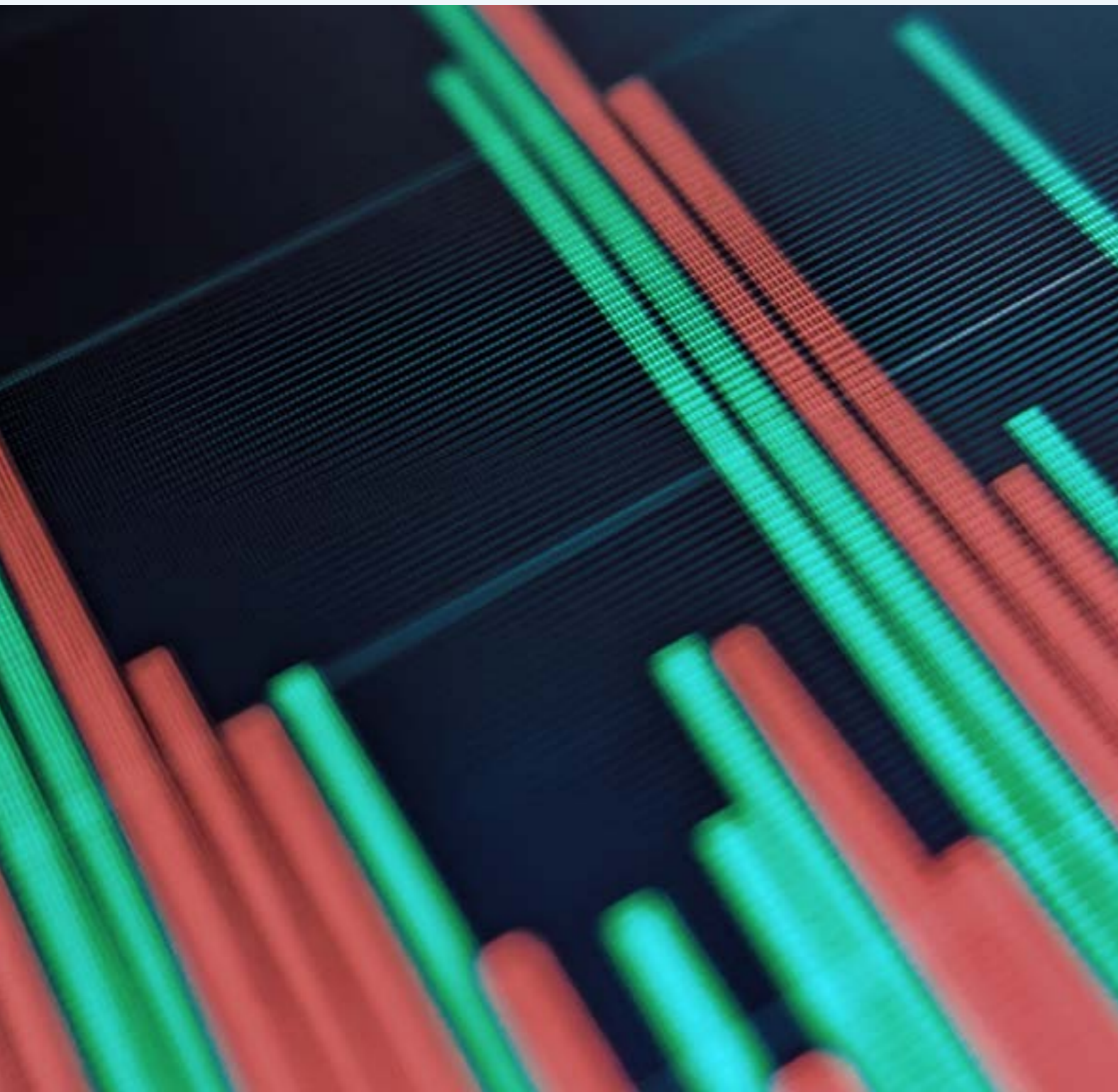
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Introduction



The United States, Germany, and the rest of the European Union face a global economic order that has been profoundly — and likely irreversibly — affected by a confluence of existential problems. The world is faced with a “polycrisis” moment — a combination of disparate crises that interact in such a way that “the whole is even more overwhelming than the sum of the parts.” These include China’s state-capitalist system and military buildup, the accelerating effects of climate change, and a World Trade Organization (WTO) that in many ways is not suited to confront today’s challenges including a growing confluence of national security and trade policy, systemic efforts to reshuffle supply chains, and increasingly large government support of green industrial policies to accelerate decarbonization. The United States and its allies, including the European Union, must construct systems that can attack these challenges while maintaining the free and open global order they helped create. In attempting to take on multiple crises at the same time, however, they may undermine efforts to address all of them. Moreover, the global political economy is currently struggling with institutions that are in many ways unable to sort through this confluence of problems, leaving countries to act unilaterally or plurilaterally with their allies. The unsuitability of international institutions to today’s environment is particularly acute when it comes to climate change. Despite rhetorical [alignment on climate and trade](#), distinct differences in the European and American approaches also complicate the ability of the parties to craft more durable global governance.

Furthermore, the domestic politics of the energy transition may be changing, with elections looming on both sides of the Atlantic. In Europe, rising energy costs and growing [political backlash](#) against regula-

tion could imperil the EU green agenda. Both in the European Parliament and among the EU governments, the majority support for more environmental regulation is [waning](#). The European Union will thus need to ensure that its green trade policy maximizes efficiencies, keeps costs low where possible, and that it offsets unintended consequences. On the U.S. side, however, it is possible that the distribution of Inflation Reduction Act (IRA) funds to [states](#) such as Arizona, Georgia, Kansas, and Tennessee (where post-IRA green job growth is strongest), could lead to an increase in acceptance of green policies. It is therefore possible that in a few years, opinion and enthusiasm for climate change mitigation policies will grow in the United States while either holding steady or decreasing in the European Union. Ideally, European and U.S. sentiments about the urgency of climate change would converge, leading to deeper cooperation and policy convergence on both sides of the Atlantic.

To bring about deeper cooperation, the United States and European Union will need to reconcile four major policy differences: 1) how to de-risk and whether de-risking should be country-agnostic; 2) whether economic security is national security; 3) whether tariff reductions and market access concessions are useful in accelerating decarbonization; and 4) how to engage with the private sector in this new geopolitical era. This paper evaluates these differences by examining several trade and economic policy initiatives, which shed light on both the state-of-play of transatlantic climate and trade cooperation and what today’s negotiations portend for future cooperation. Overall, the global economy is struggling with institutions that are in many ways unable to confront the concentric problems of climate change, national security, and trade rules.



Climate Change: A Multi-Systems Failure

Since 1970, global emissions have increased roughly **90 percent**, while biodiversity has witnessed an average decline of **69 percent**. The world is not only going to surpass its 1.5 °C threshold but is set to nearly **double it** by the end of the century. During the summer of 2023, the ocean hit its **highest-ever recorded temperature**, and an ice sheet the size of **Argentina** disappeared from the Antarctic in a historically anomalous event that has surprised scientists. As it currently stands, no single institution seems capable of rising to the occasion to solve climate change. The United Nations, which has played little more than a convening role for countries to discuss the impacts of climate change, has not been effective in bringing countries to lower their emissions on a timeline that would prevent widespread collapse.

The WTO will inevitably be at the center of climate policy disputes over issues like permissible subsidies and complaints about discriminatory or protectionist actions taken in the name of climate change mitigation, but it continues to battle institutional paralysis. Its consensus-based system has made reaching agreement on anything of consequence more difficult, and its inoperable dispute settlement mechanism has eroded discipline in the system. One exception is the 12th Ministerial Conference in 2022, which produced a historic **Agreement on Fisheries Subsidies**.

Skeptics of the agreement note that the arrangement's main achievement was to ban something already illegal — that is, **illegal, unreported, and unregulated (IUU)** fishing, but it nonetheless is an important indicator that the organization still has some life left in it. Member countries have also pursued far-reaching environmental **trade arrangements**, such as the New Zealand-led **Agreement on Climate Change, Trade and Sustainability (ACCTS)** or the **Trade and Environmental Sustainability Structured Discussions (TESSD)**.

The WTO is also suffering from a credibility crisis because the rules do not provide sufficient clarity on which subsidies are permissible, particularly in the climate change context. **Article XX** of the General Agreement on Tariffs and Trade (GATT) provides broad exemptions for the protection of human, plant, and animal life and the conservation of exhaustible natural resources, although complex questions persist about which types of subsidies should be permitted under the rules. It is also fairly clear that the local content requirements included in the U.S. IRA are not consistent with the United States' WTO obligations. Also, it is more likely that the European Union's carbon border adjustment mechanism would be permitted if the EU can establish it is tied to an equivalent domestic regulatory system.

International Institutional Failure Encourages Unilateral Alternatives

Failure to reach consequential binding agreements on climate and trade at the international level has led countries to pursue unilateral alternatives. In the United States, the Biden administration has pursued an “all of government” approach to combat climate change. The hallmark of that policy is the [Inflation Reduction Act](#). The administration’s industrial policies on climate change total nearly \$880 billion to be deployed over the next decade. The package also includes robust domestic production incentives, such as the controversial [electric vehicle tax credit](#), which the European Union claims violates WTO rules. The law stipulates that in order to receive the full \$7,500 tax credit, batteries must increasingly be made with a certain percentage of critical minerals processed in the United States or in partner countries with whom the United States has a free trade agreement. It also stipulates that qualifying battery components must meet an escalating requirement that they be manufactured or assembled in North America, reaching 100 percent in 2029. This is largely a strategy aimed at “de-risking” from China in the face of China’s growing weaponization of its trade policy.

In the European Union, where fiscal space — and the lack of a fiscal union — is more limited, the bloc has instead pursued a set of policies aimed at regulating large emitters in hard-to-abate sectors. The European Union’s [Carbon Border Adjustment Mechanism](#) (CBAM) — a tariff on imports in certain emissions-intensive sectors that is tied to

its domestic emissions trading scheme — in many ways encapsulates the forward-leaning regulatory preferences of the European Union. The United States, however, views the EU policy as discriminatory since it would subject imports to an emissions-based tariff scheme. The Europeans defend the CBAM by pointing out that EU firms are already subject to steep regulatory mechanisms domestically, including the emissions trading system (ETS), thereby already constituting a similar cost.

One framework through which the United States and European Union have sought mutual progress on their climate agenda is the Trade and Technology Council (TTC). The TTC maintains a working group dedicated to climate technology. Results have been mixed, although in May 2023 the TTC produced a comprehensive standards agreement on electric vehicle (EV) charging stations that could produce trade-liberalizing benefits over the long run. Launched at the third TTC Ministerial meeting, the [Transatlantic Initiative on Sustainable Trade](#) (TIST) is a more surgical sub-pillar of TTC Working Group 2. The TIST focuses on promoting an integrated and resilient market for clean technology and green goods. [Deliverables](#) of the TIST work program, announced at the fourth TTC meeting in May 2023, include measures to align green standards, public procurement rules to facilitate the deployment of green goods, and efforts to improve supply chain transparency and traceability.

Confronting China: National Security as Economic Security

Another complicating factor is that the United States increasingly views China as a [threat rather than a major customer](#). This belief manifests in a new approach to trade in which economic security and national security are increasingly conflated. This is evident in the CHIPS and Science Act [guardrails](#) that aim to restrict high-tech flows to China, incentives packages like the IRA that seek to diversify away from countries of concern, and a broader use of [investment restrictions and export controls](#). While recent European [economic security](#) policies, such as the June 2023 EU Economic Security Strategy and Germany’s July Strategy on China, represent a shift toward U.S. thinking on China, these strategies await further concrete action, including private sector mobilization.

Despite these differences, the European Union and the United States share several commonalities that make deeper climate and trade cooperation possible. Both sides of the Atlantic realize that the threat of retaliation, or trade [weaponization](#) — a lesson hard learned after the Russian invasion of Ukraine—remains omnipresent. In a March 2023 speech, European Commission President Ursula Von der Leyen explained that the European Union is pursuing a policy of “de-risking” rather than decoupling with respect to China. The Biden administration is pursuing a similar approach through its [“friend-shoring”](#) agenda that seeks to encourage the movement of supply chains to countries that do not pose an immediate national security threat.

When it comes to de-risking, both parties acknowledge that costs will rise, and efficiencies will decrease. U.S. Treasury Secretary Janet Yellen hinted at this problem in an April 2023 speech, [cautioning](#), “Even though these policies may have economic impacts, they are driven by straightforward national security considerations. We will not compromise on these concerns, even when they force trade-offs with our economic interests.” However, in an increasingly risk-averse geopolitical environment, diversification offers clear benefits.

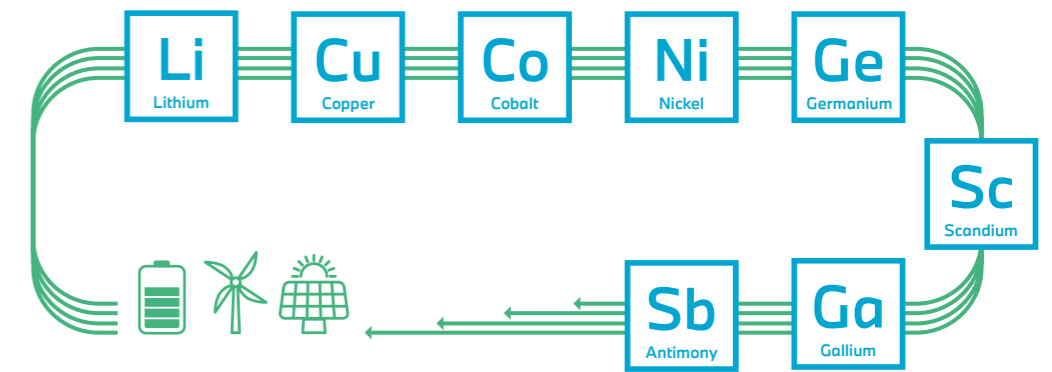
While the United States and European Union focus on securing agreements to facilitate their own green transitions, third countries, including developing economies with less fiscal latitude, have been left out of these efforts and agreements. This means that the transatlantic alliance must contend with an increasingly [multipolar](#) reality in which countries such as Brazil, India, and Indonesia play more prominent roles in international policymaking. With initiatives such as the expanded BRICS, the transatlantic alliance will need a strategy to win more friends. Integrating climate goals into trade policies in a sustainable and fair way is a major challenge, but it offers an additional path for deeper transatlantic cooperation to realize the potential benefits of friend-shoring.

Securing Supply Chains: Critical Minerals

Building more resilient supply chains will also be key during the green transition. Resilient critical mineral supply chains are an integral component in the tools and technologies to decarbonize, such as wind turbines and EVs. The deployment of clean energy technologies is driving a significant increase in demand for critical minerals. The demand for key energy transition minerals such as copper, lithium, cobalt, and nickel **doubled** over the past five years, reaching \$320 billion in 2022.

A potential vulnerability in the U.S. and EU pursuit of climate change mitigation policies is that their supply chains are exposed to domestic decisions in a foreign jurisdiction — China. A **report** from Rice University's Baker Institute for Public Policy estimates that China controls around 60 percent of the world's production in minerals considered crucial

for the global energy transition such as cobalt, lithium, rare earths, and other critical minerals. Europe is 98 percent dependent on China for its "heavy" rare earth elements (REEs), which are **critical** in the manufacturing of EV motors, wind power generation, hydrogen storage, and advanced batteries. The German Institute for Economic Research **estimates** that Germany is 100 percent dependent on foreign suppliers for 21 out of 27 critical raw materials. Over 85 percent of Germany's scandium and antimony, used in battery production and surface coating, are **imported** from China. China also **supplies** upwards of 55 percent of Germany's raw gallium, an integral component in chip fabrication. On the U.S. side, the United States **imports** more than 80 percent of its REEs from non-domestic suppliers. China is the largest **source** of imports for 26 of the 50 minerals currently classified as critical by the United States.



The European Union and United States have significant, untapped, mineral deposits of their own. For lithium, Spain could increase its production, and the Upper Rhine Rift region in Germany has large deposits that could be **accessed** if modern methods permit miners to overcome earthquake danger in the region. Sweden, Finland, and Portugal will most **likely** see the opening of new strategic mineral mines, although they are likely to be subject to legal barriers, permitting rules, and production licenses. A graphite mine in Sweden took **ten years** to come into operation, a reminder that mines do not suddenly open when demand spikes. Finland is one of the biggest players in strategic mineral production in the European Union and is home to significant cobalt deposits. However, it has **amended** its mining laws to give local residents greater control over new mining, which could limit access to the country's nickel and cobalt supplies. In Portugal, Europe's top lithium producer, which accounts for 11 percent of the global market, the government has granted several permits but there is significant local **opposition** to new mining. From a processing perspective, Estonia **currently** has the only rare-earth processing facility in Europe.

The existence of reserves, but lack of processing capacity, highlights an uncomfortable truth for transatlantic partners: that mining critical minerals

itself is a dirty business and that scaling up inputs for the green transition will not always be environmentally friendly. Furthermore, production has been concentrated in China because it offers a cost-effective and efficient alternative to standing up production facilities in the European Union and United States. However, as the recently announced Chinese **restrictions** on gallium and germanium highlight, over-concentration in a foreign market can create profound supply chain disruptions.

It will therefore be vital that the United States and European Union work in concert to build resilient green supply chains where possible. One way the parties are working together to do that is through bilateral partnerships on critical minerals. The United States has recently concluded one such **agreement with Japan**, mostly as an exemption for Japan that allows it to qualify for the EV tax credit but that contains no new mining or market access provisions. While the U.S.-Japan arrangement is far from an FTA — somewhat a moot point since the U.S. and Japan already have an FTA — the European Union is hopeful it can obtain a similar deal that would result in a more flexible application of IRA provisions. In July 2023, the European Union Council **formally authorized** negotiations with the United States for a EU-U.S. Critical Minerals Agreement.



GASSA: A New Consensus or New Framing for Old Disputes?

The Biden administration's "all of government" approach to dealing with climate change, U.S.-China tensions, and the emerging supremacy of economic security over trade policy has manifested in a new agenda. National Security Advisor Jake Sullivan articulated this agenda in an [April 2023 speech](#), which hinted at the emergence of a "New Washington Consensus" that deprioritizes [neoliberal](#) trade rules in favor of policies to reduce dependencies, minimize risk

exposure, and enhance supply chain diversification and resiliency. During this speech, Sullivan repeatedly touted the [Global Arrangement on Sustainable Steel and Aluminum](#) (GASSA) negotiation as encapsulating the new agenda since it aims to achieve three objectives— incentivizing decarbonization, combating Chinese overcapacity, and reducing tariffs on allied imports. Successfully concluding GASSA would help achieve those objectives and at the same time demon-

strate the ability of the United States and European Union to cooperate on critical issues.

GASSA has its origins in the Trump administration's application of a 25 percent tariff on steel and a 10 percent tariff on aluminum in 2018 under Section 232 of the Trade Expansion Act of 1962. This move [resulted](#) in a 50 percent premium over European prices on these imported commodities from the European Union. German producers [represented](#) the largest European source of U.S. steel imports at 3.9 percent and the single largest source of stainless products shipped to the United States at 30.3 percent, suffering the largest economic cost from these measures.

In 2021 the European Union and United States reached an [agreement](#) that replaced tariffs with a tariff rate quote (TRQ) system that allowed a certain amount of imports to enter into the United States free of Section 232 duties. In exchange, the European Union [suspended](#) \$3.6 billion in retaliatory tariffs. That agreement, however, is temporary and is due to expire at the end of October 2023. The EU has pursued a permanent solution, GASSA, which would promote decarbonization in the steel and aluminum industries and removal of the Trump tariffs because it views the Section 232 tariffs as fundamentally violating WTO rules, an opinion the WTO shares and [published](#) in December 2022.

For the European Union, GASSA is a helpful vehicle that could provide tariff relief on what the EU regards as an unjustified and illegal action. The European Union proposal seeks binding commitments to decarbonize, alignment with the CBAM, and the removal of Trump-era tariffs. The U.S. GASSA proposal would usher in a [tiered system of tariffs](#) based on the carbon intensity of traded goods, coupled with criteria to exclude non-market excess capacity from coun-

tries like China. Another U.S. goal is for the European Union to recognize its non-price-based approach to carbon accounting as it relates to the CBAM. It would also be a helpful [conduit](#) for an agreed-upon means of levying tariffs on Chinese steel and aluminum exports, which it would justify in part based on their relatively higher carbon intensity.

The focus on tariff reduction — an effort at a "return to normal" in the transatlantic economic relationship — highlights the climate credibility problem of the arrangement. Absent an agreement on carbon accounting methodologies — in other words, a common definition of "green" steel and aluminum — it will be more difficult for the parties to argue that the GASSA is a "green" deal as opposed to a response to Chinese overcapacity. If the parties are able to reach an agreement that would bring them closer together on carbon methodologies, this could potentially open the door for deeper discussions on U.S. conformity with the CBAM. GASSA would promote cooperation on reducing emissions in the steel and aluminum sectors while [penalizing](#) countries whose products are more carbon-intensive, hopefully providing an incentive to adopt greener manufacturing technology in order to join the agreement and avoid additional tariffs. However, the United States and European Union alone cannot achieve significant change. To be effective, participation in the agreement should include other heavy emitters, such as Turkey, India, Russia, and China. At present, that is very unlikely.

Failure to meet the October deadline could result in the resumption of Section 232 duties and possible EU retaliatory measures. However, given the weight this agreement carries in demonstrating transatlantic resolve and the Biden administration's desire to achieve multiple outcomes through one sectoral arrangement, both parties maintain a strong incentive to conclude at least a minimally satisfactory agreement by the deadline.

Recommendations

EU and U.S. agreements to continue negotiating are better than nothing, but there are limited grounds for optimism that these efforts will produce concrete outcomes. GASSA is the best hope, and the parties are under pressure to reach an arrangement by the end of October.

GASSA, along with other trade and climate initiatives, contains several lessons for reaching more concrete climate and trade outcomes.



TALK LESS AND AGREE MORE

On trade and economic issues, transatlantic talks have a long history of not going anywhere. However, the urgency of climate change makes this time distinct in history, and both parties should act urgently to avert catastrophe. In short, the transatlantic alliance has to do better, and both parties will need to be flexible in order to produce swift, comprehensive results.

SET DEADLINES

As GASSA demonstrates, deadlines can be helpful. The parties designed the TTC as a consultative dialogue to exist in perpetuity, which reduces the burden of having to produce concrete outcomes at each meeting since the parties can kick the can down the road on thornier issues. Agreeing on deadlines can force both parties to maintain dialogues as a priority amid competing agenda items and spur them to make real progress.

TARIFF REDUCTIONS CAN FORCE ACTION

Tariffs can serve as both sticks and carrots to achieve desired outcomes. In either case, the action is “tangible,” as opposed to hortatory.

COMMON CARBON ACCOUNTING METHODOLOGIES CAN HAVE TRADE-LIBERALIZING EFFECTS

A harmonized methodology for measuring [embodied emissions](#) of goods can produce trade-liberalizing effects over time, as CSIS has frequently argued. Reaching an agreement on how to measure — and verify — the emissions content of goods would mitigate many of the foundational problems that have restrained progress in CBAM and GASSA discussions, thereby unlocking the potential for more fruitful progress moving forward. An agreement on carbon accounting methodologies would also add climate credibility to the GASSA and ensuing climate and trade initiatives.



FLEXIBILITY IS AN ASSET

Failure to reach a GASSA agreement may mean the return of tariffs. A better outcome would be for both sides to demonstrate flexibility and make concessions. This could begin by mutually recognizing that different approaches need to exist for domestic political and legal reasons in both constituencies. The United States would have to stop trying to leverage GASSA to obtain an exemption from the CBAM, which the European Union views as legally impossible, and the United States would have to more aggressively pursue efforts to decarbonize its own steel and aluminum sectors. In turn, the European Union would need to stop complaining about the U.S. use of incentives as a decarbonization instrument and accept a non-price-based regulatory approach on carbon. The United States would also have to accept the CBAM construct and commit to an outcome that is WTO-compliant.

JOINTLY ADDRESS THE CHINA CHALLENGE

The European Union and the United States have succeeded in elevating their complaints about China. Chinese overcapacity has hurt U.S. and EU industries in sectors like steel and aluminum but also solar panels, and there are mounting concerns that Chinese EV overcapacity will harm the European Union and United States automobile producers. One answer

may be to pour transatlantic R&D funds into forward-looking green tech, enabling the European Union and the United States to gain a first-mover advantage over emerging climate tech. Climate change is an "all hands on deck emergency," and it is clear that we need to scale up new and future technological solutions.

DO NOT UNDERESTIMATE THE ALLIANCE

The transatlantic economic alliance has a tremendous ability to send market signals to other countries with carbon-intensive exports. Together, the European Union and the United States can usher in a new era that incentivizes the exchange of green goods and services, while penalizing carbon-intensive overcapacity. Bilateral efforts now may seem limited, but they may ultimately serve as the scaffolding for a new architecture.

Conclusion

The confluence of competing pressures — a ticking climate clock, economic security as national security, and a lack of consensus on trade policy — calls into question the suitability of the post-war institutions for today's environment. Given the nature of these profound shifts, it is unlikely that a "return to normal" is imminent. Moreover, partner countries have learned difficult lessons about the weaponization of trade in the wake of the Russian invasion of Ukraine and are reluctant to continue exposure to trade disruptions, particularly in critical minerals, which are integral to ensuring the renewable energy transition. This increased infusion of geopolitical risk considerations into global economic engagement means that institutional needs to confront security, supply chain, and climate problems will only increase. What this new era portends for the transatlantic alliance remains to be seen.

As the above issues demonstrate, there are persistent differences and also fundamental commonalities in transatlantic approaches to trade and climate. Whereas the United States has eschewed traditional free trade agreements in favor of alternative economic arrangements, the European Union is still working to affirm the importance of the multilateral trading rules. Another key difference is the U.S. belief that China has shifted into new territory and that China has become a threat rather than a customer. While the European Union is currently engaged in a major reassessment of its geopolitical risk exposure in its bilateral trade relationship with China, the EU and U.S. stances remain significantly different, as GASSA negotiations demonstrate.

In terms of commonalities, both the European Union and United States are motivated to combat climate change and to accelerate decarbonization efforts. They must also simultaneously confront Chinese overcapacity and a global system that may be buckling under the stress of today's geoeconomic conditions. Another prominent feature of both the EU and U.S. agendas is the growing presence of economic security issues. This has manifested in joint pursuits of derisking policies on both sides of the Atlantic. At the same time, transatlantic capitals are also left to confront the risks of Chinese retaliation for transatlantic trade tools that China could regard as discriminatory.

While the European Union has long been a leader in combating climate change and continues to lead in terms of affirming institutions such as the WTO, the United States has continued to set the geopolitical agenda and is creating new notions of economic security. Economic security is likely to feature prominently in future U.S. presidential administrations, although climate security may face serious constraints under different political leadership. The European Union may balk at the price tags on certain U.S. industrial policy measures, but the European Union should not take for granted that the United States will be able to produce meaningful climate legislation.

The United States would benefit from more explicitly recognizing what it is asking of its allies. It is true that the Russian invasion of Ukraine ignited a new approach to economic engagement throughout the European Union



and most notably in Germany. However, the ongoing U.S. pursuit of additional trade restrictions, as encapsulated in its expanded use of industrial policy, local content requirements, and export restrictions, constitutes a reimagining of the global system that the United States helped build with its European allies. It has much more work to do if it expects Europe to follow the same path. Reaching agreement on a common approach to Russia after its invasion of Ukraine was possible because of the perceived threat to Europe. Reaching agreement on the more distant threat (to Europe) of China remains challenging, although Chinese overcapacity of green technologies like EVs could result in greater transatlantic unity on combating excess production.

At the same time, failing to make progress has substantial costs. It is axiomatic in politics that the longer one waits to address a problem, the fewer choices there are and the more they cost. If we cannot negotiate tariff reductions or provide market access concessions, we risk making products more expensive over time, potentially imperiling the swift and affordable deployment of renewable energy products, such as solar panels. The United States currently retains adequate fiscal space to provide domestic support for these industries that would in part offset costs, but close allies face slowing growth, and third countries in the Global South are not able to match these investments. In short, the United States needs to provide additional measures—such as market access provisions or tariff reductions—for partners that will help alleviate the burden of some of these costs.

Overall, the failure of the WTO and other multilateral institutions to confront climate and trade issues has led to the proliferation of alternatives. These alternatives range from major spending packages with local content requirements — such as the IRA — to bilateral bids to secure critical mineral supply chains. Moreover, while these alternatives might offer additional agility in concluding agreements, they come with pronounced risks. The WTO will inevitably house many climate and trade discussions in the coming years, for example on subsidies and border adjustments, but the WTO remains under increasing pressure to demonstrate its suitability to today's problems.

Abandoning the world trading rules could mean that both transatlantic parties would need to contend with higher costs and reduced efficiencies. Questions about suitability are further compounded by the relative inability of the current system to confront national security issues. Additional clarity on rules and norms as they relate to both climate change and national security would give the WTO a boost of credibility in a global environment with so many unknowns. Globalization—and the institutions designed to facilitate it—is currently under tremendous stress from multiple factors. Partners such as the European Union and United States must act urgently to reinvigorate the institutions they have built. The alternative is to create new mechanisms that can better confront today's problems, but time is running out.

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