

**Toward a Sustainable  
Global Economy:**

# The Potential and Limits of a Climate Club and other Plurilateral Initiatives





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## Introduction

Climate change, loss of biodiversity, pandemics, widening economic inequalities and poverty, high debt and shrinking fiscal space, financial system instability, wars, and an increasingly conflictual geopolitical and geoeconomic environment — the world is struggling with an array of severe, long-term, systemic challenges that constitute a true “global polycrisis.”<sup>1</sup> Given the severity of the situation, business as usual is not the way forward. Rather, a rethinking is neces-

sary to put the global economy on a more sustainable path — an economy which “provides a good quality of life for people, stays within the limits of the planet and helps keep global warming well below the 2°C threshold.”<sup>2</sup> Three pillars of sustainability and their interconnectedness thus have to be regarded: environmental, social, and economic.

The United States and the EU are key actors in the transition of the global

economy. The transatlantic partners not only share many of the same challenges and goals in this transition (e.g. sustainable and resilient supply chains, climate change mitigation and adaptation, fight against human rights violations); they are economic super powers and share a historic responsibility to the planet and its people. The green transition is thus one of the top priorities on the agendas of the presidency of Joe Biden and the European Commission under President Ursula von der Leyen. “The United States seeks a more secure, more prosperous, more equitable world for all people because we know our future is bound to yours. (...) no nation can meet the challenges of today alone,” U.S. President Biden underlined in his speech before the 78th Session of the United Nations General Assembly in late September 2023.<sup>3</sup> Addressing the conference “Beyond Growth” in the European Parliament on May 15, 2023, President of the European Commission Ursula von der Leyen argued: “Economic growth is not an end in itself and it must not destroy its own foundations. Growth must serve people and future generations. (...) only a sustainable economy can be a strong economy. Only a sustainable economy has the resources to invest in a healthier and in a fairer tomorrow.”<sup>4</sup>

Consequently, the green transition is high on the agenda of the U.S.-EU Trade and Technology Council (TTC), through which the transatlantic partners launched the Clean Energy Incentives Dialogue and the Transatlantic Initiative on Sustainable Trade. Unilateral or bilateral initiatives, however, will not be sufficient. The transatlantic partners are therefore cooperating in various plurilateral and multilateral institutions as well as clubs on climate change issues. Given these initiatives, the question arises: How promising are existing plurilateral initiatives to drive forward the transition of the global economy? And what role do the EU and the United States play in them?

This study will take a closer look at the following initiatives: The Climate Club of the G7, the G20, the Structured Discussions of the World Trade Organization (WTO), and the Indo-Pacific Economic Framework for Prosperity (IPEF). Both the United States and the EU are members of most of these initiatives. So far, the United States has not taken part in the WTO’s Fossil Fuel Subsidy Reform Initiative, and the EU is not a member of IPEF. As the EU-U.S. Global Arrangement on Sustainable Steel and Aluminum has not come into being yet, it will not be analyzed in this study. While the G20 differs from the other selected plurilaterals (longer in existence, more institutionalized, more formal, much broader topics coverage), it is included in this study because of its importance for cooperation between the Global North and the Global South. There are other plurilateral intergovernmental initiatives that would be worth studying, of which neither the United States nor the EU are currently members.<sup>5</sup> One of them is the Agreement on Climate Change, Trade and Sustainability (ACCTS).<sup>6</sup> Individual EU member states and the United States also take part in some plurilateral public-private partnership initiatives.<sup>7</sup>

In the following, each of the selected initiatives will be briefly described before analyzing the member and interest constellation with a closer focus on the United States and the EU. Subsequently, two questions will be answered: How well does the initiative address the interplay between the three dimensions of sustainability? How legitimate and effective is the initiative? As such, a focus will be placed on membership and openness. Effectiveness is to be understood as the degree to which a plurilateral initiative is successful in producing a desired result. A word of caution is in order here: many of these initiatives have not been fully implemented yet. Thus, their evaluation is a work in progress. The paper ends with some recommendations to the transatlantic partners.

<sup>3</sup> The White House, Remarks by President Biden Before the 78th Session of the United Nations General Assembly, September 19, 2023, <https://www.whitehouse.gov/briefing-room/speeches-remarks/2023/09/19/remarks-by-president-biden-before-the-78th-session-of-the-united-nations-general-assembly-new-york-ny> (accessed October 8, 2023).

<sup>4</sup> European Commission, President von der Leyen at the ‘Beyond Growth’ Conference, Economic Growth Must Serve People and Future Generations, May 15, 2023, [https://ec.europa.eu/commission/presscorner/detail/en/oc\\_23\\_2790](https://ec.europa.eu/commission/presscorner/detail/en/oc_23_2790) (accessed October 8, 2023).

<sup>5</sup> See also: Marian Feist, New Alliances. Plurilateral Initiatives as a Mode of Cooperation in International Climate Politics, SWP 2023, <https://www.swp-berlin.org/publikation/plurilateral-initiatives-as-a-mode-of-cooperation-in-international-climate-politics> (accessed October 18, 2023).

<sup>6</sup> The initiative of New Zealand with Costa Rica, Fiji, Iceland, Norway, and Switzerland focuses on trade-related issues that have the potential to address climate change: the liberalization of tariffs on environmental goods and services, the definition of disciplines to eliminate harmful fossil fuel subsidies, and the development of high integrity eco-labels.

<sup>7</sup> These include, for example, the Industrial Deep Decarbonisation Initiative (IDDI) within the United Nations Industrial Development Organisation context, which is a global coalition of public and private organizations who are working to stimulate demand for low carbon industrial materials. Another initiative is the Climate and Clean Air Coalition under the UN Environment Program. The Clean Energy Ministerial is yet another plurilateral initiative. The initiatives, sometimes also called ‘minilateralisms’, differ in their purpose and ambition. Louis Mourier differentiated between two formats: 1. Political dialogue forums, which aim at the exchange of information and the sharing of best practices, and 2. implementation clubs, which aim at promoting specific, rather limited, climate projects. Louis Mourier, The Second Generation of Climate Minilateralism, KAS Auslandsinformationen, March 16, 2020, <https://www.kas.de/de/web/auslandsinformationen/artikel/detail/-/content/the-second-generation-of-climate-minilateralism> (accessed October 18, 2023).

<sup>1</sup> Kate Whiting, This is Why ‘Polycrisis’ is a Useful Way of Looking at the World Right Now, World Economic Forum, March 7, 2023, <https://www.weforum.org/agenda/2023/03/polycrisis-adam-tooze-historian-explains/> (accessed November 17, 2023).

<sup>2</sup> WWF, Together, Sustainable Economies. We Build a Sustainable Future, [https://www.wwf.eu/what\\_we\\_do/sustainable-economies](https://www.wwf.eu/what_we_do/sustainable-economies) (accessed October 25, 2023).



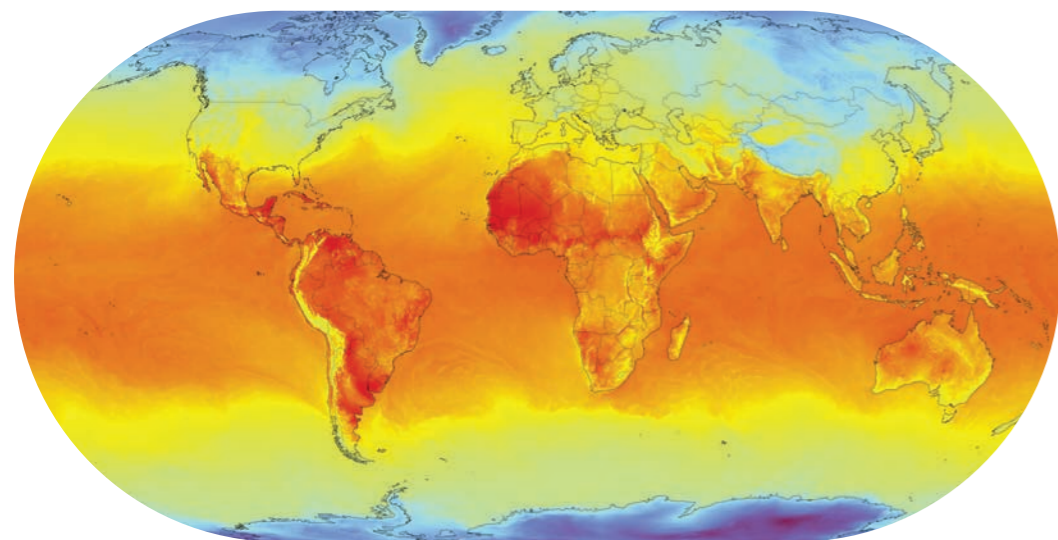
# Facing Sustainability Goals Amid the Polycrisis

The transition toward a more sustainable global economy will be neither cheap nor easy. However, the costs of inaction would be even higher. 2022 was the sixth-warmest year on record; the ten warmest years in the historical record have all occurred since 2010.<sup>8</sup> Within the Paris Climate Agreement, the signatory countries committed to hold “the increase in the global average temperature to well below 2 degrees C above pre-industrial levels” and pursue efforts “to limit the temperature increase to 1.5 degrees C above pre-industrial levels.” Leading scientists expect that the goal to limit global warming to 1.5 degrees C will be missed.

To achieve carbon neutrality by 2050, the world has to cut greenhouse gas emissions by at least a quarter before the end of this decade. The world's six largest greenhouse gas (GHG) emitters in 2022 were China, the United States, India,

the EU27, Russia, and Brazil. Together, they account for 61.6 percent of global GHG emissions.<sup>9</sup> This makes a plurilateral initiative among them highly relevant.

Stepping up efforts to protect the climate will impose short-term economic costs. However, the International Monetary Fund (IMF) has found that these are dwarfed by the costs of climate change.<sup>10</sup> This can be illustrated by the costs of extreme weather events which are likely to increase in frequency and intensity due to climate change. 2023 was characterized by a particularly devastating heat wave in the United States, large parts of Europe, and China. The insurance company Allianz estimated that this heatwave cost the world 0.6 percent of GDP.<sup>11</sup> A 2021 study by the University College London finds that most economic models of climate change may have substantially underestimated the costs of continued warming as they do



<sup>8</sup> Rebecca Lindsey and Luann Dahlma, Climate Change: Global Temperature, NOAA, January 28, 2023, <https://www.climate.gov/news-features/understanding-climate/climate-change-global-temperature> (accessed October 18, 2023).

<sup>9</sup> Emissions Database for Global Atmospheric Research, GHG Emissions of All World Countries, 2023 Report, 2023, [https://edgar.jrc.ec.europa.eu/report\\_2023](https://edgar.jrc.ec.europa.eu/report_2023) (accessed October 12, 2023).

<sup>10</sup> Benjamin Carton and Jean-Marc Natal, Further Delaying Climate Policies Will Hurt Economic Growth, October 5, 2022, <https://www.imf.org/en/Blogs/Articles/2022/10/05/further-delaying-climate-policies-will-hurt-economic-growth> (accessed October 12, 2023).

<sup>11</sup> Ludovic Subran, Jasmin Gröschl, Markus Zimmer, and Global Boiling: Heatwave May Have Cost 0.6pp of GDP, Allianz Research, August 4, 2023, [https://www.allianz.com/en/economic\\_research/publications/specials\\_fmo/global-heatwave-implications.html](https://www.allianz.com/en/economic_research/publications/specials_fmo/global-heatwave-implications.html) (accessed October 12, 2023).

not sufficiently take into account the long-term costs on economic growth. The authors estimate that global GDP could be 37 percent lower in 2100 than it would be without the impacts of warming when taking the effects of climate change on economic growth into account.<sup>12</sup>

Climate change also accelerates the loss in biodiversity. According to the United Nations, over half of global GDP is dependent on nature.<sup>13</sup> The Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services (IPBES) found in 2019 that around one million animal and plant species are now threatened with extinction, many within decades.<sup>14</sup> In 2021, the World Bank estimated that the collapse of select ecosystem services provided by nature could lead to a decline in global GDP of 2.7 trillion U.S. dollars annually by 2030.<sup>15</sup> There are countless other environmental challenges, one of them being plastic waste in rivers and oceans. According to the World Economic Forum, plastic waste in oceans amounts to 75 to 199 million tons.<sup>16</sup> A study by Deloitte concluded in 2019 that plastic waste in rivers and oceans led to costs between 6-19 billion U.S. dollars to key economic sectors for 87 coastal countries in 2018 alone, deriving from cleanup costs and

lost income for the fisheries and aquaculture and tourism industries.<sup>17</sup>

Climate change and environmental degradation have severe socio-economic implications. They impact global food security, damage jobs, and harm human health and well-being. They hit poor and marginalized groups the most. According to the World Bank, climate change is deeply intertwined with global patterns of inequality.<sup>18</sup> However, the environmental crisis is not the only crisis the world is currently facing which threatens decades of development progress and poverty reduction. Many countries are still struggling with the consequences of the COVID-19 pandemic as well as other infectious diseases. Malnutrition and food insecurity are on the rise. According to a UNDP analysis of 111 countries, 1.2 billion people (equivalent to 19.1 percent of the population of the analyzed countries) lived in acute multidimensional poverty in 2022.<sup>19</sup> Before the COVID-19 pandemic, the number of people living in extreme poverty had been steadily decreasing for almost 25 years. Since the start of the pandemic, between 75 and 95 million more people live in extreme poverty.<sup>20</sup> The COVID-19 pandemic has set back the reduction of poverty by three to ten years.<sup>21</sup>

<sup>12</sup> Jarmo S. Kikstra, Paul Waidelich, James Rising, Dmitry Yumashev, Chris Hope, and Chris M. Brierley, The Social Cost of Carbon Dioxide under Climate-economy Feedbacks and Temperature Variability, Environmental Research Letters, Volume 16, Number 9, September 2021, <https://iopscience.iop.org/article/10.1088/1748-9326/ac1d0b> (accessed October 12, 2023).

<sup>13</sup> UN, Biodiversity – Our Strongest Natural Defense against Climate Change, <https://www.un.org/en/climatechange/science/climate-issues/biodiversity> (accessed October 12, 2023).

<sup>14</sup> IPBES, Global Assessment Report on Biodiversity and Ecosystem Services of the Intergovernmental Science-Policy Platform on Biodiversity and Ecosystem Services, 2019. E. S. Brondizio, J. Settele, S. Diaz, and H. T. Ngo (editors), IPBES Secretariat, Bonn, Germany.

<sup>15</sup> World Bank, Protecting Nature Could Avert Global Economic Losses of \$2.7 Trillion Per Year, July 1, 2021, <https://www.worldbank.org/en/news/press-release/2021/07/01/protecting-nature-could-avert-global-economic-losses-of-usd2-7-trillion-per-year> (accessed October 12, 2023).

<sup>16</sup> Faith Wakefield, Top 25 Recycling Facts and Statistics for 2022, June 22, 2022, <https://www.weforum.org/agenda/2022/06/recycling-global-statistics-facts-plastic-paper/> (accessed October 12, 2023).

<sup>17</sup> Vincent Viol et al., The Price Tag of Plastic Pollution. An Economic Assessment of River Plastic, Deloitte, 2019, via: <https://www2.deloitte.com/dk/da/pages/strategy/articles/the-price-tag-of-plastic-pollution.html> (accessed October 12, 2023).

<sup>18</sup> World Bank, Social Dimensions of Climate Change, <https://www.worldbank.org/en/topic/social-dimensions-of-climate-change> (accessed October 16, 2023).

<sup>19</sup> UNDP, Global Multidimensional Poverty Index 2022, Unpacking Deprivation Bundles to Reduce Multidimensional Poverty, UNDP Human Development Reports, New York, United Nations Development Programme, 2022, <https://hdr.undp.org/system/files/documents/hdp-document/2022mpireporten.pdf> (accessed October 12, 2023).

<sup>20</sup> World Bank, Poverty, International Bank for Reconstruction and Development / The World Bank, September 14, 2022, <https://www.worldbank.org/en/topic/poverty/overview> (accessed October 12, 2023).

<sup>21</sup> Current Affairs, "India Lifted 415 million out of Poverty in 15 Years: UN," Adda 24/7, <https://currentaffairs.adda247.com/india-lifted-415-million-out-of-poverty-in-15-years-un/> (accessed October 12, 2023).



# Key Aspects of a Sustainable Global Economy

To respond to the above-described polycrisis, new visions for the global economy are necessary, which address the ecological, social, and economic dimensions of sustainability.

## 1. Environmental Dimension:

Facing the threat of climate change and loss in biodiversity, a sustainable environmentally-friendly global economy should reduce ecological footprints while still enabling opportunities for broader growth and prosperity. As such, the UN calls for improved resource efficiency to “decouple economic growth from environmental degradation,” recognizing that current material and emissions footprints far exceed what the planet can sustain.<sup>22</sup> Similarly, the European Environmental Agency emphasizes that shifting production and consumption systems can help the world to “live within the limits of the planet” and relieve environmental and climate pressures.<sup>23</sup>

## 2. Social Dimension:

The social dimensions of a sustainable global economy are grounded in inclusive global growth, which should reduce social inequalities and improve access to opportunity. The UN highlights the “inequality of opportunities” as a major barrier to rising living standards and access to high-quality social goods such as education, health care, and public safety.<sup>24</sup> Creating a stronger link between economic growth and positive social outcomes involves a range of issues, such as labor rights, equal pay for women and men, youth employment pathways, and opportunities for people with disabilities. In addition, the UN identifies negative social aspects to address, including child labor, human trafficking, and modern slavery.<sup>25</sup>

## 3. Economic Dimension:

Beyond the ecological and social dimensions, a sustainable global economy should involve economic transformations that enhance stable, long-term growth. For all economies, supply chain security, diversity, and resilience are critical to avoiding price shocks and unexpected shifts in investment cycles. In the longer term, the UN considers productivity through diversified and innovative economies a healthier alternative to depending primarily on resource extraction.<sup>26</sup> To that end, the UN articulates the need for robust institutions that facilitate investments in research and development, infrastructure, and human capital which allow economies to transcend barriers to development. For mature economies, this should involve a shift from short-term profit-seeking to long-term investments; in emerging markets, stable investment flows paired with good governance practices can promote sustainable, long-term growth.<sup>27</sup> This should also encourage an energy efficient economy and the promotion of economic models based on the circular economy.



<sup>22</sup> UN, Four Steps Towards a More Sustainable Global Economy, Department of Economic and Social Affairs: <https://www.un.org/en/desa/four-steps-towards-more-sustainable-global-economy> (accessed October 4, 2023).

<sup>23</sup> EU, Sustainability, European Environment Agency, August 16, 2023, <https://www.eea.europa.eu/en/topics/at-a-glance/sustainability> (accessed October 4, 2023).

<sup>24</sup> UN, Four Steps (see footnote 21).

<sup>25</sup> Ibid.

<sup>26</sup> UN, Promote Inclusive and Sustainable Economic Growth, Employment and Decent Work for All, Sustainable Development Goals: <https://www.un.org/sustainabledevelopment/economic-growth/> (accessed October 4, 2023).

<sup>27</sup> UN, Four Steps (see footnote 21).





## Plurilateral Initiatives: A Silver Bullet against Multilateral Deadlock?

### The G7 and the Climate Club

Recent G7 summits have served as platforms for launching new major plurilateral initiatives. During the 2022 German G7 presidency, Chancellor Olaf Scholz led the establishment of the G7 Climate Club as a companion to ongoing national and international climate initiatives. Designed to “support the effective implementation of the Paris Agreement by accelerating climate action and increasing ambition,” the Climate Club intends to improve coordination, transparency, and support for emissions reduction policies.<sup>28</sup> The G7 aims for a full launch of the Climate Club by the time of the COP28 climate change conference in November 2023.

The group’s roots lie in a “club theory,” which overcomes the “free rider problem” (countries that benefit from public goods without paying for their provision) of international agreements by setting emissions-reduction standards within the club and then penalizing non-compliant countries outside of the club. In this way, a club incentivizes global emissions reductions and shields countries that impose costly emissions-reduction policies from losing global competitiveness, especially in industrial and other export-oriented sectors.<sup>29</sup> Since its formal launch in December 2022, the G7 Climate Club

has added fourteen countries and the EU. Membership consists of the full G7 (Canada, France, Germany, Italy, Japan, the United Kingdom, the United States, and the EU) as well as Australia, Argentina, Chile, Colombia, Indonesia, Luxembourg, and the Netherlands.<sup>30</sup> So far, no African country has joined the Club.

At present, the Climate Club is advancing along three pillars, which will be facilitated by an interim secretariat established by the OECD and IEA. The pillars consist of: 1) advancing climate change mitigation policies by improving transparency and reporting mechanisms to counter carbon leakage; 2) decarbonizing industries in connection with the Industrial Decarbonisation Agenda, the Hydrogen Action Pact, and the Breakthrough Agenda; 3) boosting international cooperation and carbon reduction ambitions through the Just Energy Transition Partnerships (JETPs) that provide financial, tech transfer, and technical capacity support to developing countries.<sup>31</sup> Operating in tandem with other international climate agreements such as the Paris Agreement or the Convention on Biodiversity, the Climate Club aims to spur green industrial policies across the globe. Currently, the Club does not include labor regulations or other social

<sup>28</sup> G7 Germany, G7 Statement on Climate Club, Elmau, Germany, June 28, 2022, <https://www.g7germany.de/resource/blob/974430/2057926/2a7cd9f10213a481924492942dd660a1/2022-06-28-g7-climate-club-data.pdf> (accessed October 4, 2023).

<sup>29</sup> William Nordhaus, Climate Clubs: Overcoming Free-riding in International Climate Policy, *American Economic Review* 2015, 105(4): 1339-1370, April 2015, <https://ycsg.yale.edu/sites/default/files/files/nordhaus-climate-clubs.pdf> (accessed October 4, 2023).

<sup>30</sup> Climate Council, Australia Joins Global Climate Club: Time to Match Commitments with Action, July 11, 2023, <https://www.climatecouncil.org.au/resources/australia-joins-global-climate-club-time-to-match-commitments-with-action/> (accessed October 4, 2023).

<sup>31</sup> G7 Germany, G7 Statement on Climate Club, Elmau, Germany, June 28, 2022, <https://www.g7germany.de/resource/blob/974430/2057926/2a7cd9f10213a481924492942dd660a1/2022-06-28-g7-climate-club-data.pdf> (accessed October 4, 2023).



factors of a sustainable global economy. Overall, determining the price of carbon as well as the equivalence of climate policies will be one of the biggest challenges for the Climate Club.

## The Role of the EU and the United States in the Climate Club

The EU (especially Germany) is a strong proponent of the Climate Club.<sup>32</sup> It sees the Club as a way to incorporate the G7 members and developing countries into its Carbon Border Adjustment Mechanism (CBAM). Planned to be fully in force by 2026, CBAM requires importers of certain products to determine the direct and indirect emissions that occurred in the production process. In addition, they will be obliged to purchase CBAM certificates if the carbon price paid in the country of production is lower than the price of carbon certificates in the EU emissions trading system.<sup>33</sup> This is intended to compensate for an unfair competitive disadvantage and set an incentive for producers to invest in cleaner technologies. The United States also supports the Climate Club. However, it does not have a country-wide CO<sub>2</sub> emission trading system.

The negotiations for the Global Arrangement on Sustainable Steel and Aluminum (GASSA) highlight some of the differences between the EU and the United States. In 2018, then-U.S. President Donald Trump had imposed tariffs on steel and aluminum, based on national security concerns (Section 232 of the Trade Expansion Act of 1962). In late October 2021, the EU and the United States agreed on a compromise: the United States temporarily suspended the tariffs while a steel and aluminum tariff rate quota was introduced. In addition, the transatlantic partners agreed to negotiate a global arrangement on sustainable steel and aluminum to address carbon intensity and global over-

capacity. The deadline for these negotiations was end of October 2023. The talks were launched in October 2022. Since then, the United States government has tabled different proposals, according to publicly available sources. In an earlier proposal, members of the Arrangement would be subject to a zero-baseline tariff, plus an additional tariff based on carbon-intensity (average of all industries, not on an individual company-level). In contrast, non-members would face a higher baseline tariff and an additional tariff based on carbon-intensity of their industries. Using the country average carbon-intensity is to prevent the export of steel with low carbon-intensity while higher carbon-intensity steel is used for domestic consumption. In another proposal, the United States suggested that GASSA members set certain emission standards and impose tariffs on countries which did not meet them. The United States also wants members to commit to not contribute to excess global capacity and to limit activities by state-owned enterprises. The EU has been skeptical of this approach as it wants to underpin the Arrangement with an assessment of carbon prices. It also warns that the U.S. approach would not be compatible with WTO rules.<sup>34</sup> At the EU-U.S. Summit in late October 2023, the EU and the United States failed to agree on a compromise; the deadline for finalizing the talks was thus extended until the end of 2023.<sup>35</sup>

## How well does the Climate Club address all three aspects of sustainability?

The initiative focuses mostly on the environmental and economic aspects of sustainability, with a clear focus on climate protection. Other aspects of the environment such as biodiversity are not mentioned. The social dimension is only briefly referenced within the third pillar of the Climate Club: "Boosting international ambition through partnerships and

<sup>32</sup> Gregor Erbach and Chiara Scalomandré, G7 Climate Club, European Parliamentary Research Service, March 2023, [https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/739385/EPRS\\_ATA\(2023\)739385\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2023/739385/EPRS_ATA(2023)739385_EN.pdf) (accessed October 4, 2023).

<sup>33</sup> *Ibid.*

<sup>34</sup> Charlotte Unger, A Limping Coalition of the Willing: Why is Transatlantic Cooperation on Clean Steel Lagging Behind? RIFS Blog, September 18, 2023, <https://www.rifs-potsdam.de/en/blog/2023/09/limping-coalition-willing-why-transatlantic-cooperation-clean-steel-lagging-behind> (accessed October 4, 2023); Bernd Janzen, Sarah Sprinkle, and Hannes Sigurgeirsson, What's Causing EU-US Impasse On Steel And Aluminum, August 3, 2023, <https://www.jdsupra.com/legalnews/what-s-causing-eu-us-impasse-on-steel-4522365/> (accessed October 4, 2023).

<sup>35</sup> Euan Sadden and Justine Coyne, EU, US Fail to Secure Deal on Steel, Aluminum Sustainability; Extend Deadline to Year-end, S&P Global, October 21, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/metals/102123-eu-us-fail-to-secure-deal-on-steel-aluminum-sustainability-extend-deadline-to-year-end> (accessed November 4, 2023).

cooperation to encourage and facilitate climate action and unlock socio-economic benefits of climate cooperation and to promote just energy transition." In this context, the G7 referenced the Just Energy Transition Partnerships (JETPs). The JETPs, which emerged during the UK G7 presidency in 2021, are partnerships between a group of donor countries, the International Partner Group (IPG), and a recipient country. So far, four JETPs have been concluded with South Africa, Indonesia, Vietnam, and Senegal. Their goals include: accelerating the energy transition; contributing to sustainable development and the emergence of an alternative, clean economy, and fostering a just transition for workers and communities. However, criticism is voiced that they focused too exclusively on the power sector, while other sectors such as transportation or land use played a subordinate role. Furthermore, the JETPs did not spell out what the "just" dimension means and how the partnerships can contribute to it.<sup>36</sup>

## How legitimate and effective is the Climate Club?

The Climate Club is not yet implemented. Nonetheless, its setup, membership, and goals allow for a first evaluation. The G7 Leaders' Communiqué describes the project as "an open and cooperative international Climate Club" for all countries committed to the Paris Agreement and Glasgow Climate Pact.<sup>37</sup> However, not every country has immediate access; rather, certain conditions have to be met. Advantages are offered to members, not to non-members. It is this exclusivity which is to incentivize cooperation for those countries that have not yet sufficiently implemented their climate mitigation commitments. On the other hand, the exclusivity could lead to opposition by non-members and feed into an already worsening geopolitical environment. Thus, the Club will have to balance the benefits

of expansion — especially greater economic heft and larger markets for members to access — with the need to find consensus on emissions targets, trade barriers for non-members, and transparency and accountability mechanisms. It remains to be seen whether the Club will succeed in this challenging task.

How effective the Club will be will also greatly depend on who will join. The G7 countries represent just under 10 percent of the world's population, generate 31 percent of global economic output, and are responsible for 21 percent of all CO<sub>2</sub> emissions.<sup>38</sup> Therefore, the G7 is the right place to start. However, it cannot end here. If the big greenhouse gas emitters are not members of the Club, it could result in further carbon leakage and a fragmentation of the global economy. So far, the initiative has not been met with great enthusiasm among the emerging economies. Given the geopolitical environment, there is little to no chance that China will join the Club. While India has announced general interest,<sup>39</sup> it also voiced skepticism and advocated for a broader G20 initiative during its G20 presidency. India underlines the importance of the principle of "Common But Differentiated Responsibilities" (CBDR), enshrined in the Rio Declaration at the first Rio Earth Summit in 1992, which acknowledges different capabilities and differing responsibilities of individual countries in addressing climate change. Brazil and South Africa are equally cautious about the G7 Climate Club. Both fear that the Club's implementation could entail a decline in export revenues.

In addition, its effectiveness will depend on concrete commitments, monitoring mechanisms, as well as sanctioning instruments in terms of non-compliance. As no public information is available yet, an evaluation is currently not possible.

<sup>36</sup> Michael Jakob and Leon Martini, How Can the G7 and G20 Improve Just Energy Transition Partnerships? Taking stock of Just Energy Transition Partnerships (JETP), Ecologic Institute, June 2023, <https://www.ecologic.eu/sites/default/files/publication/2023/30018-Policy-brief-improve-just-energy-transition-partnerships.pdf> (accessed October 4, 2023).

<sup>37</sup> G7 Germany, G7 Leaders' Communiqué – Executive Summary, Elmou, Germany, June 28, 2022, <https://www.g7germany.de/resource/blob/974430/2057928/315842-ed9de069fa1be82dab18dabb2/2022-06-28-leaders-communiqué-executive-summary.pdf?download=1> (accessed October 4, 2023).

<sup>38</sup> Statistisches Bundesamt, G7 in Zahlen, [https://www.destatis.de/DE/Themen/Laender-Regionen/Internationales/Thema/allgemeines-regionales/G7\\_inhalt.html](https://www.destatis.de/DE/Themen/Laender-Regionen/Internationales/Thema/allgemeines-regionales/G7_inhalt.html) (accessed October 4, 2023).

<sup>39</sup> Current Affairs, India Considers Joining G7-Piloted 'Climate Club' to Boost Climate Action, Addo 24/7, May 8, 2023, <https://currentaffairs.addo247.com/india-considers-joining-g7-piloted-climate-club-to-boost-climate-action/> (accessed October 4, 2023).



## The G20

The G20 is a plurilateral initiative among twenty leading global economies that declared themselves to be the premier forum for international economic cooperation after their upgrade to a leaders' level summit during the global financial crisis. Starting with a coordinated response to solve the global financial and economic crisis, the G20 soon broadened its agenda to all three pillars of sustainability: environmental, social, and economic.

With regard to climate change, this relates mostly to climate finance, mitigation, and clean energy transition. The inclusion of these topics dates back to the engagement of Mexico, South Korea, France, and the United States, who wanted these topics on the G20 agenda, as they considered the UN Framework Convention on Climate Change (UNFCCC) process to be ineffective. In contrast, China and India demanded that these topics should stay with the UN process. The G20 is not a negotiating forum for the UNFCCC process; however, during the individual presidencies, the G20 countries tried to support the upcoming COPs in their communiqués.<sup>40</sup>

During the latest Indian presidency, the G20 Environment and Climate Ministers in July 2023 reemphasized the importance of achieving the objec-

tives of the three Rio Conventions to address "environmental crises and challenges including climate change, biodiversity loss, pollution, desertification, deforestation, water quality/availability/accessibility, land and ocean degradation..."<sup>41</sup> In addition, the G20 as a group also addresses the issues of inclusive growth and social equality.

The G20 countries also agreed to expand the financial capacities of multilateral development banks (MDBs) to enhance sustainability worldwide. The planned "hybrid capital" provides the World Bank and others with leverage to raise more funds on the market and could unlock additional 200 billion U.S. dollars over the next decade. According to the G20, these additional resources should be used to reduce poverty and combat climate change through projects such as the protection of the rainforest to the construction of wind and solar parks.<sup>42</sup>

The G20 also initiated a plurilateral initiative in December 2016, the so-called Global Forum on Steel Excess Capacity. The Forum, which includes all G20 member states as well as interested OECD members (altogether thirty-three countries), wanted to enhance transparency as well as monitor and address the global steel excess capacity. Initially, the Forum was a success, where members

<sup>40</sup> Charlotte Unger and Sonja Thielges, *Preparing the Playing Field: Climate Club Governance of the G20, Climate and Clean Air Coalition, and Under2 Coalition*, Springer, August 16, 2023, <https://link.springer.com/article/10.1007/s10584-021-03189-8> (accessed October 16, 2023).

<sup>41</sup> G20, *G20 Environment and Climate Ministers' Meeting, Chennai, India, Outcome Document and Chair's Summary*, July 28, 2023, [https://www.g20.org/content/dam/gttwenty/gttwenty\\_new/document/ECMM%20Outcome%20document%20and%20Chair%20Summary%20\(July%2028\)%20FINAL.pdf](https://www.g20.org/content/dam/gttwenty/gttwenty_new/document/ECMM%20Outcome%20document%20and%20Chair%20Summary%20(July%2028)%20FINAL.pdf) (accessed September 26, 2023).

<sup>42</sup> The White House, *Press Gaggle by Secretary of the Treasury Janet Yellen Ahead of the G20 Summit in India*, New Delhi, India, September 8, 2023, <https://www.whitehouse.gov/briefing-room/press-briefings/2023/09/08/press-gaggle-by-secretary-of-the-treasury-janet-yellen-ahead-of-the-g20-summit-in-india-new-delhi-india/> (accessed September 26, 2023); Manfred Schöfer, "Mit der Eisenbahn von Indien nach Europa," *In: Frankfurter Allgemeine Zeitung*, September 10, 2023, <https://www.faz.net/aktuell/wirtschaft/g-20-gipfel-startschuss-fuer-infrastrukturoffensive-19164317.html> (accessed October 13, 2023).



shared information to enable them to identify and track the underlying causes of steel overcapacity and to define concrete actions. However, in 2019, China, India, and Saudi Arabia started to disengage from the Forum, leaving it in limbo.<sup>43</sup>

There have also been discussions about broadening the G7 Climate Club to important G20 CO2 emitters. However, the G20 countries have very diverse attitudes toward climate and energy policy. Some members are less committed to the Paris Agreement and less willing to act. Thus, a G20 Club is currently very unlikely.<sup>44</sup>

The G20 consists of a variety of member states with various levels

of development. They include the G7 members plus Australia, as well as the majority of the "BRICS plus" members like China, Brazil, India, Saudi Arabia, and Turkey. At the latest G20 summit in New Delhi, the African Union (AU) was added as a new member. The G20 countries are very heterogeneous with regard to their economic power, political systems, and national interests. Even though they all subscribe to the topic of sustainability, the members are far apart in their interests, mirroring global fault lines. Increased tensions on issues such as the Russian full-scale invasion of Ukraine and the subsequent EU-U.S. sanctions against Russia pose new challenges for transatlantic leaders, who must navigate conflicting priorities among G20 members.

<sup>43</sup> European Commission, *Global Forum on Steel Excess Capacity: European Union Calls for G20 to Address the Excess Capacity*, October 26, 2020, [https://policy.trade.ec.europa.eu/news/global-forum-steel-excess-capacity-eu-calls-g20-address-excess-capacity-2020-10-26\\_en](https://policy.trade.ec.europa.eu/news/global-forum-steel-excess-capacity-eu-calls-g20-address-excess-capacity-2020-10-26_en) (accessed October 13, 2023).

<sup>44</sup> Charlotte Unger and Sonja Thielges, *Benefits and Challenges of Expanding the G7 Climate Club to a G20 Climate Club*, T20 Policy Briefs, June 15, 2023, <https://www.orfonline.org/research/benefits-and-challenges-of-expanding-the-g7-climate-club-to-a-g20-climate-club/> (accessed October 16, 2023).



## The Role of the EU and the United States in the G20

First upgraded to a leader-level summit at the 2008 G20 in Washington, DC, the G20 has served as a central platform for exchanges between the major industrialized and developing countries. Though early G20 meetings focused largely on financial issues, the EU and the United States have more recently advanced agendas on issues such as climate change, sustainable development, and upholding the rules-based international order.

In recent years, the EU and United States have used G20 meetings to launch major partnerships with developing countries. In the lead up to the 2022 G20 summit in Bali, the United States co-led an effort to provide Indonesia with 20 billion U.S. dollars through the Just Energy Transition Partnership (JETP) financing mechanism.<sup>45</sup> At the last G20 in India, the United States and EU launched the India-Middle East-Europe Economic Corridor (IMEC) along with India, Israel, Saudi Arabia, the United Arab Emirates, France, Germany, and Italy. The ambitious project aims to improve economic integration throughout the region through rail and port infrastructure, electric and data communications cables, and hydrogen pipelines.<sup>46</sup> Though many details have not yet been revealed, the project could help the EU and the United States show they are invested in developing countries' progress, offer a tangible alternative to Chinese financing mechanisms, and enable — through new market access and investment opportunities in the region — opportunities for supply chain de-risking and diversification.

Beyond specific initiatives, the EU and the United States have closely coordinated their efforts to shape global discussions through the G20. At the 2022 and 2023 G20 summits, U.S. and EU leaders made support for Ukraine a

major part of their agendas when they attempted to persuade countries to condemn the Russian full-scale invasion. The diplomatic investment made by Western officials makes clear the importance the United States and EU assign to the G20 as a mechanism to focus global attention and reinforce standards of international behavior.

Although the EU and the United States frequently share objectives in the G20, they sometimes pursue independent agendas. During the Trump presidency, EU foreign policy chief Josep Borrell contrasted the United States' disengagement in the G20 with EU efforts to "make multilateralism great again."<sup>47</sup> The differences became most apparent in the negotiations on climate protection during the German G20 presidency in 2017. The final leaders' communiqué reflected a strong dissent between the United States and the other nineteen members. Taking note of the decision of the United States to withdraw from the Paris Agreement, the other nineteen members committed to the Paris Accord: "The leaders of the other G20 members state that the Paris Agreement is irreversible" and "we reaffirm our strong commitment to the Paris Agreement." While the Biden administration has reversed Trump's decision to leave the Paris Agreement, uncertainty remains about the future course and predictability of U.S. policy.

## How well does the G20 address all three aspects of sustainability?

The G20 has a broad agenda and deals with all three dimensions of sustainability — environmental, social, and economic. This is also reflected in the preamble of the final communiqué in 2023, which stresses: "Just energy transitions can improve jobs and livelihoods, and strengthen economic resilience. We affirm that no country should have to

<sup>45</sup> David Lawder and Valerie Volcovici, "U.S., Japan and Partners Mobilise \$20 Billion to Move Indonesia Away from Coal," in: Reuters, November 15, 2022: <https://www.reuters.com/business/cop/us-japan-partners-mobilise-20-bln-move-indonesia-away-coal-power-2022-11-15/> (accessed October 18, 2023).

<sup>46</sup> Murali Krishnan, "India-Middle East-Europe Economic Corridor to Counter China?" in: DW, September 13, 2023, <https://www.dw.com/en/can-new-india-europe-middle-east-corridor-counter-china/a-66799232> (accessed October 18, 2023).

<sup>47</sup> Georgi Gotev, "Borrell Dreams of 'Making Multilateralism Great Again,'" in: EURACTIV, December 14, 2020, <https://www.euractiv.com/section/global-europe/news/borrell-dreams-of-making-multilateralism-great-again/> (accessed October 18, 2023).

choose between fighting poverty and fighting for our planet. We will pursue development models that implement sustainable, inclusive, and just transitions globally, while leaving no one behind."<sup>48</sup>

With regard to the environmental aspect of sustainability, the G20 — besides supporting the work done in the context of the UNFCCC — stresses the importance of implementing clean and sustainable energy transitions and enhancing the need for climate financing. Topics relating to the social aspect of sustainability deal with (among others) inclusive, equitable, high-quality education and skills training or the social empowerment of women and girls. With regard to economic sustainability, the G20 emphasizes the support of "reliable, diversified, sustainable and responsible supply chains for energy transitions, including for critical minerals and materials benefited at source, semi-conductors, and technologies." All aspects of sustainability are covered; however, they are still regarded as separate subjects, despite the overarching objective of implementing all UN Sustainable Development Goals (SDGs).

## How legitimate and effective is the G20?

The G20 justifies its legitimacy on the basis of its economic weight: members account for 85 percent of global GDP, over 75 percent of global trade, and about two-thirds of the world population. However, the composition of the group does not follow any criteria, which dampens the overall legitimacy. Apart from the accession of the AU, the group is not open to new members. This is why the G20 also relies on output legitimacy, which is largely based on its effectiveness. The G20 has a mixed record with regard to climate action. At the latest G20 Summit in Delhi in September 2023, the G20 leaders pledged to "leverage the

G20's convening power and its collective resolve to fully and effectively implement the 2030 Agenda and accelerate progress toward the SDGs." They also agreed on a Green Development Pact for a Sustainable Future, including efforts to mainstream Lifestyles for Sustainable Development, design a circular economy world, and implement clean, sustainable, just, affordable, and inclusive energy transitions.<sup>49</sup> The leaders also agreed to triple the renewable energy capacity globally by 2030. However, they did not reach a deal on phasing out fossil fuels. In contrast, according to the International Institute for Sustainable Development (IISD), the public money of the G20 countries flowing into coal, oil, and gas reached a record of 1.4 trillion U.S. dollars in 2022, even though leaders agreed to phase out "inefficient" fossil fuel subsidies at the COP26 climate summit in Glasgow.<sup>50</sup> While some progress has been achieved, climate finance also remains a sticky issue.

<sup>48</sup> G20 New Delhi Leaders' Declaration, New Delhi, India, September 9-10, 2023, [https://www.g20.org/content/dam/gtwenty/gtwenty\\_new/document/G20-New-Delhi-Leaders-Declaration.pdf](https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf) (accessed October 16, 2023).

<sup>49</sup> G20 New Delhi Leaders' Declaration, New Delhi, India, September 9-10, 2023, [https://www.g20.org/content/dam/gtwenty/gtwenty\\_new/document/G20-New-Delhi-Leaders-Declaration.pdf](https://www.g20.org/content/dam/gtwenty/gtwenty_new/document/G20-New-Delhi-Leaders-Declaration.pdf) (accessed October 4, 2023).

<sup>50</sup> "G20 Poured More Than \$1tn into Fossil Fuel Subsidies Despite Cop26 Pledges – Report," in: The Guardian, August 23, 2023: <https://www.theguardian.com/environment/2023/aug/23/g20-poured-more-than-1tn-on-fossil-fuel-subsidies-despite-cop26-pledges-report> (accessed October 4, 2023).



## Plurilateral WTO Initiatives

Climate change and sustainability issues are not explicitly part of WTO agreements. However, the goals of sustainable development and environmental protection were already stated in the preamble of the Marrakech Agreement (1994) and as such are important for the WTO.<sup>51</sup> Initial progress at the WTO was made in November 2020 with the adoption of three WTO Ministerial Declarations on Trade and Sustainability, which were supported by various WTO members. These plurilateral discussions are a first step to anchor environmental protection and sustainability issues in the WTO. The EU—unlike the United States—is active in all three initiatives.

### (1) WTO Trade and Environmental Sustainability Structured Discussions (TESSD)

In November 2020, fifty WTO members initiated the “Structured Talks on Trade

and Environmental Sustainability” (TESSD) to increase the work on trade and sustainability. These structured discussions are de facto an alternative to the WTO Committee on Trade and Environment (CTE), where many discussions on climate and sustainability were not possible due to opposition by some WTO member states. India for example sees the UNFCCC as the main forum for climate related topics.

Two years later, in February 2022, the TESSD work plan was adopted, which calls for the establishment of four working groups on (1) environmental goods and services, (2) trade-related climate action, (3) circular economy (circularity), and (4) subsidies. The idea is to facilitate in-depth discussions on these topics and to reach concrete outcomes at a later stage.<sup>52</sup> In July 2023, on the basis of these working groups, the TESSD members discussed possible outcomes for the 13th Ministerial Conference (MC13) on environmentally sustainable trade. These possible outcomes include:

- an analytical summary on goods and services that are important for the solar,



<sup>51</sup> WTO, Marrakech Agreement Establishing the World Trade Organization, [https://www.wto.org/english/docs\\_e/legal\\_e/04-wto\\_e.htm](https://www.wto.org/english/docs_e/legal_e/04-wto_e.htm) (accessed October 4, 2023).

<sup>52</sup> WTO, Trade and Environmental Sustainability Structured Discussions, Overview, [https://www.wto.org/english/tratop\\_e/tessd\\_e/tessd\\_overview\\_in\\_three\\_pages.pdf](https://www.wto.org/english/tratop_e/tessd_e/tessd_overview_in_three_pages.pdf) (accessed October 2, 2023).

wind, and hydro energy sectors, including their trade barriers, concerns for developing countries, and approaches on how to facilitate trade in these areas;

- an outline of member practices in the development of trade-related climate measures, including transparency and consultation mechanisms, impact assessments, and guiding principles;
- a mapping of the trade aspects of the circular economy along the lifecycle of products; and
- a compilation of member experiences with subsidy design.<sup>53</sup>

The TESSD membership has risen to seventy-five, with Barbados joining most recently in July 2023. The coordinators of the initiative are Canada and Costa Rica. Members are quite diverse, including industrialized countries and regions (like the EU, EU member states, the United States, Australia, and Japan), emerging market economies (Brazil, China, Turkey),<sup>54</sup> developing countries (Gambia, Chad), as well as small island developing states (SIDs) (like Fiji and Vanuatu).<sup>55</sup> TESSD is not only open for interested WTO members but also for external stakeholders. This includes the private sector, civil society, international organizations, and academia. On the positive side, the initiative is quite broad, showing a growing interest in sustainability issues across all groups of countries and stakeholders. On the negative side, members' interests and values differ considerably, making decisions a challenge.

### How well does the TESSD address all three aspects of sustainability?

The TESSD discussions directly address the environmental aspects of sustainability. These relate to all four working groups on environmental goods and services, trade-related climate action, circular economy, and subsidies. The social dimension of sustainability,

which aims to create inclusive societies and to reduce inequality, is only indirectly affected: The improvement of the dissemination of climate-friendly technology also has an impact on socioeconomic inequality and increased access to resources. The International Labor Organization has found that investments in clean technology create more job opportunities than fossil fuel investments. Because of higher wage shares, they improve the aggregate income of workers.<sup>56</sup> Economic sustainability is addressed through the responsible management of resources, including the goal of a circular economy.

### How legitimate and effective is the TESSD?

The structured discussions are open to all WTO member states and therefore count as open plurilaterals. In addition, all TESSD members account for 85 percent of world trade, making the group legitimate based on their economic weight.

Even though TESSD is an active initiative, it is not sufficiently clear where the initiative is going in terms of direct action. The upcoming Ministerial Meeting, which is going to take place in Abu Dhabi, United Arab Emirates from February 26-29, 2024, is an opportunity for WTO members to decide on more concrete actions. One obvious step would be the resumption of the negotiations on the Environmental Goods Agreement (EGA). Given the diverse interests and the difficulties to define environmental goods, this is, however, not very likely.

<sup>53</sup> WTO, Members Discuss Possible TESSD Outcomes for Delivery at MC13, July 11, 2023, [https://www.wto.org/english/news\\_e/news23\\_e/tessd\\_11jul23\\_e.htm](https://www.wto.org/english/news_e/news23_e/tessd_11jul23_e.htm) (accessed October 2, 2023).

<sup>54</sup> India is missing in all of these initiatives due to its principled opposition to plurilateral agreements.

<sup>55</sup> WTO, Trade and Environmental Sustainability, [https://www.wto.org/english/tratop\\_e/tessd\\_e/tessd\\_e.htm](https://www.wto.org/english/tratop_e/tessd_e/tessd_e.htm) (accessed September 26, 2023).

<sup>56</sup> ILO, Achieving a Just Transition Towards Environmentally Sustainable Economies and Societies for all, International Labour Conference, 111th Session, 2023, [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meetingdocument/wcms\\_876568.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_876568.pdf) (accessed November 17, 2023).



## (2) WTO Informal Dialogue on Plastics Pollution and Sustainable Plastics Trade (IDP)

The plurilateral dialogue on Plastics Pollution and Sustainable Plastics Trade (IDP) was launched in December 2020 because many WTO members wanted to address the rising environmental costs of plastic pollution in a more coordinated way. The goal of this initiative is to map the entire life cycle of the plastic value chain, identify hidden trade flows of embedded plastics, and make progress on plastic reduction and the circular economy. The aim is to complement the work of the CTE. In February 2022, the IDP Action Plan was published, including among others the following topics: improving transparency, monitoring trade trends, promoting best practices, strengthening policy coherence, reviewing opportunities for collective approaches, and assessing technical assistance needs.<sup>57</sup>

In May 2023, the coordinators introduced a draft vision, which also includes potential outcomes for MC13. The draft presents shared principles and priorities for collective action to address the challenge of plastic pollution. These principles include enhanced cooperation with other international organizations. They also address the challenges that many WTO members, especially SIDs face. In addition, they aim to establish transparency and to engage openly with relevant stakeholders. The priorities relate to a closer collaboration with the World Customs Organization to ensure more effective monitoring and regulation of plastics trade. Other priorities deal with the adoption of sustainable and effective non-plastic substitutes, alternatives and re-use systems, and the facilitation of access to technologies for environ-

mentally sound waste management. Furthermore, there is also the possibility to establish a series of annexes, which will offer trade policy options from which the participating members can “voluntarily select and implement.”<sup>58</sup>

The initiative includes seventy-six WTO members. The co-coordinators are Australia, Barbados, China, Ecuador, Fiji, and Morocco, which already present a range of industrialized, newly industrialized, and developing countries, including Fiji as a SID. The same variety applies to the overall membership of the initiative, including the EU, EU member states, the United States, Mexico, developing countries (like Thailand), and other SIDs such as Samoa, Tonga, and Vanuatu. There is an overarching interest in the topic which is not hampered by existing fault lines among BRICS and G7 countries. Similar to TESSD, the inclusion of the private sector and civil society has been important in identifying problems and finding possible solutions across the life cycle of plastics. In general, the problem of plastics is a unifying issue.



<sup>57</sup> WTO, Plastics Pollution and Environmentally Sustainable Plastics Trade, [https://www.wto.org/english/tratop\\_e/ppesp\\_e/ppesp\\_e.htm](https://www.wto.org/english/tratop_e/ppesp_e/ppesp_e.htm) (accessed September 26, 2023).

<sup>58</sup> WTO, Plastics Pollution Dialogue Unveils Elements of Potential Outcome for MC13, March 25, 2023, [https://www.wto.org/english/news\\_e/news23\\_e/ppesp\\_25may23\\_e.htm](https://www.wto.org/english/news_e/news23_e/ppesp_25may23_e.htm) (accessed September 28, 2023).



### How well does the IDP address all three aspects of sustainability?

The IDP discussions relate to environmental sustainability, as they aim to protect the environment through a reduction of plastics pollution. Social sustainability relates to inclusive societies and long-term well-being for all people while preserving social cohesion. Similar to TESSD, this factor is only addressed indirectly. Factors that influence economic sustainability include responsible resource management, which also falls under this initiative. As such, the focus is on environmental sustainability, which has an impact on economic sustainability as well.<sup>59</sup>

### How legitimate and effective is the IDP?

The IDP comprises 46 percent of WTO membership. The discussions and dialogue take place among members of the group, which is open at all times to other WTO members. The group also

only takes decisions for themselves. Therefore, the legitimacy of the group is given, despite views by India, whose government claims that Multilateral Environmental Agreements (MEA) of the UN are the only appropriate fora for such talks.<sup>60</sup>

The effectiveness of the initiative is somewhat more debatable. On the positive side, the initiative — together with TSSD and the fossil fuel initiative — started long-overdue discussions on trade and the environment, which have not been possible under the CTE. However, these discussions need to be translated into real action. This might change with the possible deliverables for MC13.

Another option would be for member countries to simply undertake unilateral action to address plastics pollution. The aggregate unilateral concessions could help immediately, without waiting for a multilateral consensus. The proposed annexes are an important way forward toward more effectiveness.

<sup>59</sup> Enel Group, The 3 pillars of Sustainability: Environmental, Social and Economic, June 15, 2023, <https://www.enel.com/company/stories/articles/2023/06/three-pillars-sustainability> (accessed September 28, 2023).

<sup>60</sup> Kirtika Suneja, India Keeping Tabs on WTO Pact for Plastic Pollution, July 21, 2023, [https://economictimes.indiatimes.com/news/india/india-keeping-tabs-on-wto-pact-for-plastic-pollution/articleshow/101999480.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](https://economictimes.indiatimes.com/news/india/india-keeping-tabs-on-wto-pact-for-plastic-pollution/articleshow/101999480.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst) (accessed September 28, 2023).





### (3) WTO Fossil Fuel Subsidy Reform (FFSR)

The Fossil Fuel Subsidy Reform (FFSR) aims to rationalize and phase out inefficient fossil fuel subsidies and encourages WTO members to share information and experiences to advance discussions in the WTO. This includes increased transparency and reporting goals to better evaluate the trade and resource effects of fossil fuel subsidies. The initiative also takes into consideration that the fossil fuel phase-out needs to minimize negative consequences for development.<sup>61</sup>

The initiative is currently co-sponsored by forty-eight WTO members and

coordinated by New Zealand. Members include mainly the EU and EU member states, Chile, Colombia, as well as SIDs like Fiji and Vanuatu. The United States and large emerging market economies like China, Brazil, and Turkey are missing in this group.<sup>62</sup>

Subsidies in general are a sensitive issue at the WTO, and the discussions on fossil fuel subsidies have a direct impact on governments' energy policies. In addition, for BRICS countries, government revenues from fossil fuels play an important role. As such, the group composition leans heavily toward European countries and SIDs, the latter because they are dramatically affected by climate change.

<sup>61</sup> WTO Plurilaterals, Fossil Fuel Subsidy Reform (FFSR), [https://wtoplurilaterals.info/plural\\_initiative/fossil-fuel-subsidy-reform-ffsr/](https://wtoplurilaterals.info/plural_initiative/fossil-fuel-subsidy-reform-ffsr/) (accessed October 2, 2023).

<sup>62</sup> WTO, Fossil Fuel Subsidy Reform, [https://www.wto.org/english/tratop\\_e/envir\\_e/fossil\\_fuel\\_e.htm](https://www.wto.org/english/tratop_e/envir_e/fossil_fuel_e.htm) (accessed September 26, 2023).

### How well does the FFSR address all three aspects of sustainability?

Similar to the above-described WTO initiatives, the discussions focus on the environmental aspects of sustainability, as they try to discourage economic models that involve unsustainable consumption and support the use of energy from renewable sources. This is also in line with SDG 12, which intends to ensure sustainable consumption and production patterns. Again, the social dimension of sustainability, which aims to create inclusive societies and reduce inequality, is only indirectly affected. The development of sustainable production patterns also has an impact on socioeconomic inequality and increased access to resources. The third dimension, economic sustainability, is directly addressed by aiming to enhance the responsible management of resources.<sup>63</sup>

### How legitimate and effective is the FFSR?

The discussions on fossil fuel subsidies are only led by a subgroup of members (forty-eight out of 164), which include mainly the EU, European member states, Chile, New Zealand, and SIDs. The group is not representative and largely focused on the EU. However, as these are just initial discussions, the initiative should be seen as a starting point for future talks on subsidies. The group still remains open to all WTO member states.

With regard to effectiveness, the discussions have, so far, not led to concrete outcomes. On the contrary, Russia's war against Ukraine has led to a new, albeit temporary, support of fossil fuel subsidies by the EU and its member states. Therefore, even though the talks are important to find common approaches, the effectiveness so far has not been high.

### The role of the EU and the United States in the plurilateral WTO initiatives

While the EU is very engaged in all three plurilateral initiatives, the United States is more hesitant. It joined the TESSD discussions a year later (November 4, 2021) and the IDP in March 2023, more than two years after its creation. The United States still has not joined the initiative on fossil fuel subsidies and is unlikely to do so in the foreseeable future. The United States is quite active in identifying how trade can affect climate change and continues to support a trade facilitation approach to the circular economy and sustainable materials management. However, despite their engagement in 2016 on the negotiations of an Environmental Goods Agreement, the United States has been hesitant about the initiation of new negotiations on this issue, while the EU would be quite supportive of such an approach. In the present geoeconomic environment, the United States is likely to regard a lowering of tariffs for green goods as an opportunity for China.

<sup>63</sup> Enel Group, The 3 Pillars of Sustainability: Environmental, Social and Economic, June 15, 2023, <https://www.enel.com/company/stories/articles/2023/06/three-pillars-sustainability> (accessed September 28, 2023).



## Indo-Pacific Economic Framework for Prosperity (IPEF)

Launched by U.S. President Joe Biden in 2022, the Indo-Pacific Economic Framework for Prosperity (IPEF) is an economic initiative with fourteen participating nations in the Indo-Pacific region. Member nations include Australia, Brunei, Fiji, India, Indonesia, Japan, Malaysia, New Zealand, Philippines, Singapore, South Korea, Thailand, the United States, and Vietnam. The IPEF is designed to facilitate cooperation around four pillars titled Pillar I: Connected Economy (trade), Pillar II: Resilient Economy (supply chains), Pillar III: Clean Economy (clean energy and decarbonization), and Pillar IV: Fair Economy (taxes and anti-corruption). Because the agreement is limited in scope by U.S. unwillingness to offer market access, it is focused on information and best practices sharing, business matchmaking,

securing and diversifying supply chains, and protecting labor rights.<sup>64</sup>

Since its inception, the IPEF negotiations have proceeded quickly. Ministerial meetings have occurred on a bi-monthly basis, with the most recent meeting held in Kuala Lumpur, Malaysia, in mid-October 2023.<sup>65</sup> The partners announced an IPEF Supply Chain Agreement in May 2023, and negotiations on Pillar II (supply chains) have been concluded, while Pillars I, III, and IV are still under discussion.<sup>66</sup> Pillar I (trade) negotiations are expected to announce final provisions on technical assistance, investor forums, skill building, and capacity building in November 2023, while critical minerals and digital economy issues will remain on the agenda for 2024.<sup>67</sup>

<sup>64</sup> Arasasingham, Aidan, et al., Unpacking the Indo-Pacific Economic Framework Launch," Center for Strategic and International Studies, May 23, 2022, <https://www.csis.org/analysis/unpacking-indo-pacific-economic-framework-launch> (accessed October 11, 2023).

<sup>65</sup> U.S. Department of Commerce, "United States to Participate in Sixth Indo-Pacific Economic Framework for Prosperity (IPEF) Negotiating Round in Kuala Lumpur," October 4, 2023, <https://www.commerce.gov/news/press-releases/2023/10/united-states-participate-sixth-indo-pacific-economic-framework#:~:text=On%20May%2027%2C%20the%20IPEF,Chain%20Agreement%20under%20Pillar%20II> (accessed October 12, 2023).

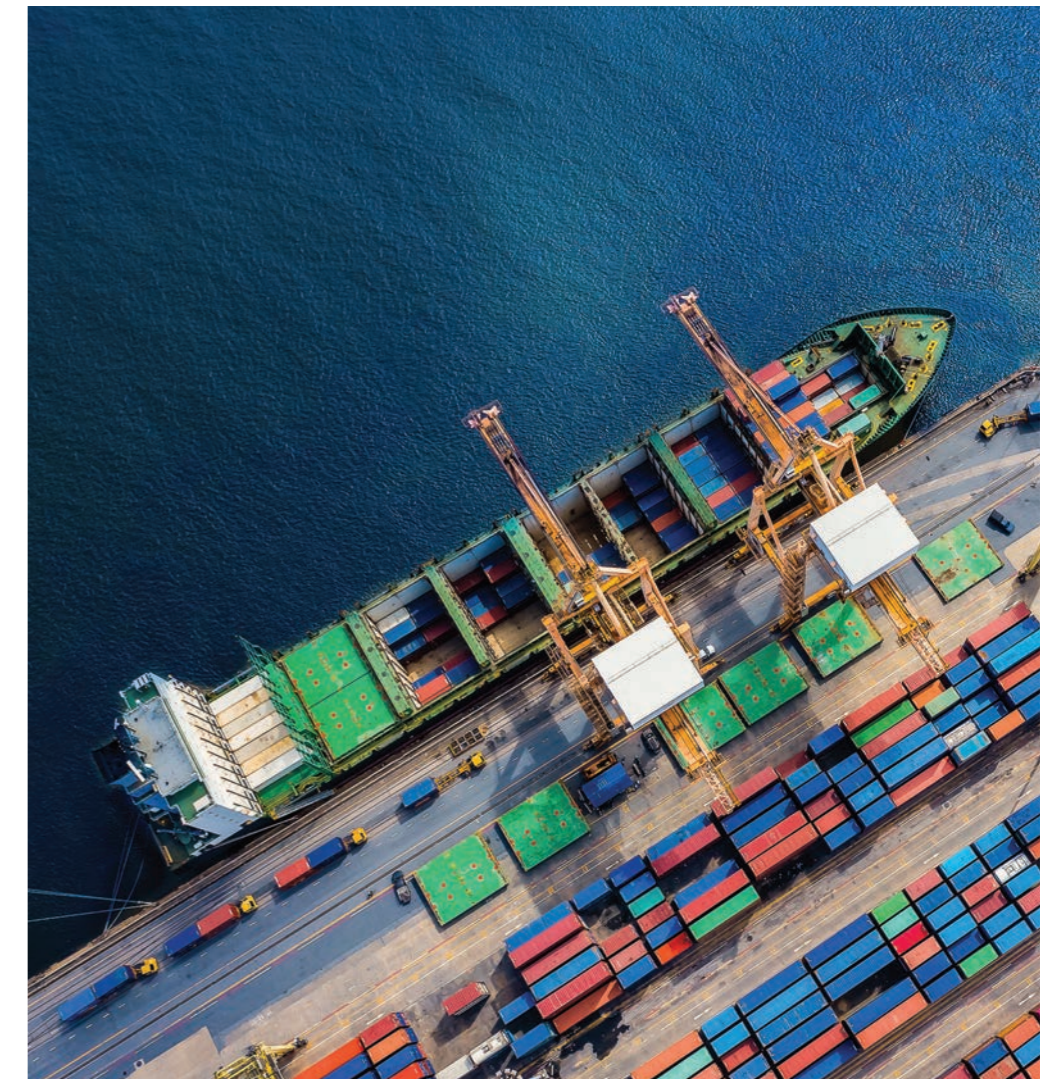
<sup>66</sup> U.S. Department of Commerce, "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement," May 27, 2023, <https://www.commerce.gov/news/press-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain> (accessed October 11, 2023).

<sup>67</sup> Ari Hawkins, "Xi Meets U.S. Senators as APEC Summit Looms," in: POLITICO, October 10, 2023, <https://www.politico.com/newsletters/weekly-trade/2023/10/10/xi-meets-u-s-senators-as-apec-summit-looms-00120641> (accessed October 11, 2023).

Fourteen countries have now joined the IPEF negotiations, more than the twelve that participated in the Trans-Pacific Partnership (TPP) talks. Negotiations have proceeded speedily because countries can join "a la carte" for some pillars and not others, though they must abide by all elements of the pillars they join. Most participants have joined all four pillars, apart from India, which has said it is still considering joining Pillar I (trade).<sup>68</sup> As a result, participants expect negotiations to take approximately eighteen months in total, far faster than the negotiations for the TPP (negotiations took six years) or the Regional Comprehensive Economic Partnership (RCEP)'s ten years.<sup>69</sup> Negotiators intend to conclude negotiations before the 2024 U.S. presidential election.<sup>70</sup>

## The Role of the United States

The United States views IPEF as a platform to reassert its economic engagement and balance Chinese economic influence in the Indo-Pacific. Since withdrawing from the TPP in 2017, the United States has been on the sidelines of regional trade deals. IPEF is mentioned four times in the October 2022 National Security Strategy<sup>71</sup> of the United States and was initially managed by the White House's National Security Council and National Economic Council.<sup>72</sup> Still, the U.S. interest is not limited to security. President Biden has also identified priorities including trade facilitation, digital tech standards, decarbonization and clean energy, infrastructure, and labor standards.



<sup>68</sup> Amiti Sen, "India Weighing Option of Joining Trade Pillar of Indo-Pacific Economic Framework," in: The Hindu Business Line, August 12, 2023, <https://www.thehindubusinessline.com/economy/india-weighting-option-of-joining-trade-pillar-of-indo-pacific-economic-framework/article67187741.ece> (accessed October 11, 2023).

<sup>69</sup> Aidan Arasasingham, "The US' Regional Economic Pillar: the Current State of IPEF," in: "The EU Indo-Pacific Bid," Filippo Fosulo e.d., Italian Institute for International Political Studies, 69, May 2023, <https://www.ispionline.it/wpcontent/uploads/2023/05/ISPI-Report2023-EUs-Indo-Pacific-Bid-web-3.pdf> (accessed October 12, 2023).

<sup>70</sup> Ibid.

<sup>71</sup> White House, "National Security Strategy," October 12, 2022, <https://www.whitehouse.gov/wp-content/uploads/2022/11/8-November-Combined-PDF-for-Upload.pdf> (accessed October 12, 2023).

<sup>72</sup> Arasasingham, Aidan, "The US' Regional Economic Pillar: the Current State of IPEF," in: "The EU Indo-Pacific Bid," Italian Institute for International Political Studies, 60, May 2023, <https://www.ispionline.it/wpcontent/uploads/2023/05/ISPI-Report2023-EUs-Indo-Pacific-Bid-web-3.pdf> (accessed October 12, 2023).



The lack of U.S. market access is an irritant to a majority of countries, who are suspicious that the United States is primarily advancing a political agenda at the expense of real economic integration. For nations with an interest in preserving ties with China, the IPEF's centrality to the China strategy of the United States presents a challenge. On this point, there exists some tension between U.S. political objectives and the economic agendas of other participating countries, an issue that led to Taiwan's exclusion from the negotiations, despite its intention to join.<sup>73</sup> Adding to these hesitations are concerns that the United States will disengage after the 2024 presidential election, recalling the demise of TPP after President Trump's election. This will also endanger the future of the Transatlantic Trade and Technology Council (TTC) with the EU.

Developing economies have a significant stake in provisions to boost investment and facilitate trade. South and Southeast Asian developing countries are keen to work with the United States to "friendshore" their supply chains away from China. These countries hope to attract U.S. financial support for infrastructure construction and the energy transition, possibly in exchange for increasing their ambitions under the Paris Agreement. In a demonstration of U.S. commitment, Commerce Secretary Gina Raimondo announced 300 million U.S. dollars in public funds and 900 million U.S. dollars in private capital for sustainable infrastructure projects in countries including IPEF partners at the IPEF ministerial meeting on June 29, 2023.<sup>74</sup> Besides accessing public financing, IPEF presents an opportunity to attract investment through regulatory alignments, especially for the majority of IPEF countries that do not have a bilateral tax treaty with the United States.<sup>75</sup>

## How well does IPEF address all three aspects of sustainability?

IPEF touches on all three aspects of sustainability within its different pillars. Pillar I (trade) by itself encompasses multiple elements of sustainability, containing sub-elements that address environment, labor, and economic competitiveness. If successful, Pillar I could facilitate new manufacturing supply chains in Southeast Asia that would have significant implications for regional growth, including the potential to climb the value chain from resource extraction to value-added manufacturing.

Pillar III (decarbonization) has already delivered U.S. commitments for clean energy financing, while Pillar II (supply chain) has established new institutions to reduce price shocks and support stable investment flows. These financing measures could provide another option to supplement existing Indo-Pacific multilateral development institutions.

Regarding labor issues, Pillar II's labor complaint mechanism could facilitate more productive exchanges that improve working conditions in global supply chains. If this mechanism supports a more socially equitable distribution of the benefits of economic integration, it would be essential to maintaining political support for future trade initiatives.

Finally, Pillar IV takes aim at corruption, addressing the "elephant in the room" of many discussions around labor, environmental, and financing issues. Combined with its tax component, Pillar IV could enhance investment flows to developing economies, supporting capital-intensive infrastructure projects and industrial transformations that are essential to regional prosperity as well as global emissions reduction.

<sup>73</sup> Arosasingham, Aidan et al., "Unpacking the Indo-Pacific Economic Framework Launch," Center for Strategic and International Studies, May 23, 2022, <https://www.csis.org/analysis/unpacking-indo-pacific-economic-frameworklaunch> (accessed October 11, 2023).

<sup>74</sup> U.S. International Development Finance Corporation, "DFC's Approval of \$300 Million Financing for Sustainable Infrastructure Projects to Include Countries Party to IPEF," June 29, 2023, <https://www.dfc.gov/media/presreleases/dfcs-approval-300-million-financing-sustainable-infrastructure-projects> (accessed October 11, 2023).

<sup>75</sup> U.S. Internal Revenue Service, "United States Income Tax Treaties – A to Z," September 12, 2023, <https://www.irs.gov/businesses/international-businesses/united-states-income-tax-treaties-a-to-z> (accessed October 12, 2023).

## How legitimate and effective is IPEF?

IPEF is not a traditional trade agreement with market access obligations; it is less binding and does not feature the same enforcement mechanisms. It also allows for a lot of flexibility regarding which topics individual countries want to focus on.

So far, the most concrete progress has been made on Pillar II (supply chain), reflecting significant consensus on supply chain vulnerabilities across major Indo-Pacific economies. At the IPEF ministerial meeting on May 27, 2023, in Detroit, Michigan, all fourteen IPEF partners announced a Supply Chain Agreement that established three supply chain-focused bodies.<sup>76</sup> First, the Supply Chain Council would work with critical sectors and key goods identified by IPEF partners as critical for national security, public health, or economic activity to assemble experts and propose options for supply chain diversification. Second, the Supply Chain Crisis Response Network serves as an emergency communications channel to share information and enable joint crisis management during a supply chain disruption, as well as operate crisis simulations for IPEF members. Third, the IPEF Labor Rights Advisory Board would

be tasked with identifying labor rights concerns, promoting best practices, and establishing national-level complaint mechanisms with government, worker, and employer representatives.<sup>77</sup>

Overall, much of the agenda touches on sensitive issues for countries' domestic politics. This is especially challenging for Pillar I (trade) and its seven sub-issues: labor, environment, digital, agriculture, regulations, competition, and trade facilitation. Though countries can opt in and out of the pillars, IPEF requires full compliance with a pillar's subcomponents. Vast differences between more and less developed IPEF members' economies, regulatory environments, and domestic politics could make unanimity difficult. Pillar IV (taxes and anti-corruption) also presents various challenges, with the IPEF countries ranging from "very clean" to "highly corrupt" in Transparency International's Corruption Perceptions Index.<sup>78</sup>

Lastly, many specifics of how and when the agreement will be implemented remain unknown. There are also many questions regarding compliance monitoring, dispute settlement, and enforcement. It is not yet clear how non-compliance will be determined and what will happen in this case.

<sup>76</sup> U.S. Department of Commerce, "Substantial Conclusion of Negotiations on Landmark IPEF Supply Chain Agreement," Office of Public Affairs, May 27, 2023, <https://www.commerce.gov/news/pres-releases/2023/05/substantial-conclusion-negotiations-landmark-ipef-supply-chain> (accessed October 12, 2023).

<sup>77</sup> Ibid.

<sup>78</sup> Transparency International, "Corruption Perceptions Index 2022," January 2023, [https://images.transparencycdn.org/images/Report\\_CPI2022\\_English.pdf](https://images.transparencycdn.org/images/Report_CPI2022_English.pdf) (accessed October 12, 2023).



# Recommendations: The Way Forward



Many multilateral agreements and institutions are in crisis mode: Over the last decade, multilateral decision-making has become increasingly difficult, rules have not been modernized, compliance is on a downward trend, and enforcement is lacking effectiveness, leaving many agreements unfit to deal with the challenges of the twenty-first century. This has motivated the EU and the United States to increasingly pursue an additional path: plurilateral agreements. This study focused on those plurilateral agreements relevant to a transformation of the global economy toward a more sustainable path in which the EU and/or

the United States have taken a leadership role.

These above-described initiatives come in different forms. Some, like the Structured Discussions of the WTO, are embedded in a multilateral organization; others, like the Climate Club, are stand-alone initiatives with a more exclusive character. As most of the initiatives are currently only in their implementation phase, it is too early for a final judgment on their legitimacy and effectiveness. Nonetheless, some preliminary lessons can be drawn to inform the transatlantic partners.

## 1. GETTING TRANSATLANTIC COOPERATION ON SUSTAINABILITY RIGHT

With the election of Joe Biden, a window of opportunity opened for deeper transatlantic cooperation to address the many challenges the world is facing and to advance the transformation of the global economy to a more sustainable path. Over the last three years, the EU and the United States set in motion several new institutions and initiatives, among them the TTC, the Clean Energy Incentives Dialogue, the Transatlantic Initiative on Sustainable Trade, and the Trade and Labor Dialogue. At the same time, this should not obscure the fact that big differences remain between the transatlantic partners in how to address climate change and other sustainability issues. Two of these issues are how to price CO<sub>2</sub> emissions and how to regulate the economy. The U.S. Inflation Reduction Act also underlined differences regarding the willingness to implement policies with strong local content and buy national requirements. Differences also remain regarding international agreements, their binding character, and enforceability.

- If the transatlantic partners want to put the global economy on a more sustainable path, they need to overcome the above-described differences. Otherwise, bilateral as well as plurilateral initiatives could easily get bogged down in transatlantic conflict. In addition, the window of opportunity could soon close again with the upcoming presidential elections in the United States in November 2024. Therefore, the time to advance cooperation on sustainability is now. The transatlantic partners should agree on how to measure the CO<sub>2</sub> content of energy-intensive products, how to price CO<sub>2</sub>, and/or how to determine the equivalence of national regulations in the area of sustainability. They also need to decide on how to deal with countries that do not meet the high standards of the EU and the United States. This includes the difficult question of how to align enforcement mechanisms with existing trade defense instruments (anti-dumping and anti-subsidy measures) as well as trade regimes (foremost the WTO).

- To effectively address the climate and environmental crises as well as their social impacts, bilateral initiatives are not enough. Taking the leadership role in many plurilateral initiatives, the transatlantic partners should work together to ensure that these are inclusive, development-friendly, and reach their full potential for transforming the global economy.



## 2. FINDING THE RIGHT BALANCE BETWEEN EXCLUSIVENESS AND OPENNESS

There is no “one model” for plurilateral initiatives. They differ regarding their level of ambition, the degree of exclusivity and openness, how legally binding and enforceable they are, and their membership. However, they all face similar difficult questions. Thus, plurilateral agreements are often discriminatory in nature as they differentiate between members and non-members. Regarding the Climate Club, this is also desired: The benefits for members are to become an incentive for non-members to change their climate policies. The members agree to observe stringent climate policy targets and conditions while imposing sanctions on non-members to prevent free riding. But this is a thin line to walk. An exclusive Climate Club could easily become divisive and advance the fragmentation of the global economy if not managed well. It could also lead to counter-Clubs with less ambitious goals and contradictory policies.

- Structured Discussions of the WTO: In general, open plurilaterals within an international organization such as the WTO are preferable to highly exclusive Club formats. As is the case with all three structured discussions, these plurilaterals should be based on most favored nation (MFN), be inclusive and transparent, and allow for special and differential treatment (based on the approach of the Trade Facilitation

Agreement). These plurilaterals should be development-focused and capable of offering an incremental step-by-step framework for participation. They should include support and capacity development where required.

- Stand-alone plurilaterals: But this does not work in all cases. In cases of more exclusive clubs such as the G7 Climate Club, members need to make sure that the hurdles for accession are not too high, are clearly defined, and transparent. Thus, without the big emerging economies, the Climate Club would likely not fulfill its ambitions regarding CO2 emissions. At the same time, the level of ambition should remain high. Clubs should be designed in a way that strongly advance the transformation of the global economy. As such, the obligations and responsibilities of members need to be clearly defined. At the same time, they should feature financing and capacity building instruments for less developed members. As these Clubs discriminate between members and non-members and in some cases feature a sanctioning mechanism towards non-members, extra care needs to be taken that they are compatible with international law and existing multilateral institutions. They should be designed in a way to advance multilateral accords, not undermine them.

## 3. WALKING THE THIN LINE BETWEEN INFORMALITY/FLEXIBILITY AND INSTITUTIONAL SET-UPS

The attractiveness of plurilateral agreements for many countries lies in their less formal, more flexible, and less legally binding character. Decision-making is less formalized, and there is less of a fixed institutional setup. Some do not have a standing secretariat or permanent staff. Some plurilaterals, such as IPEF, allow members to sign up to different parts of the initiative. On the plus side, plurilateral agreements can thus be more responsive to the immediate needs and capacities of their members. On the negative side, this could also lead to uncertainties, fragmentation, pick-and-choose, and friction losses.

- WTO Structured Discussions: Plurilateral agreements integrated into an existing multilateral regime, which allows them to utilize some or even all mechanisms for transparency, communication, etc., are more desirable than stand-alone agreements and Clubs. This is the case for the WTO’s structured discussions. While this is a great asset, the plurilateral initiatives need to be careful not to overuse the resources of the WTO as this might lead to criticism and opposition by WTO members who are not part of the plurilateral initiative.

- Stand-alone plurilaterals: To ensure continuity, transparency, and accountability, a standing secretariat and permanent staff would be advisable as also envisioned by the Climate Club. To ensure ownership by members, rotating chairmanships could be implemented—similar to the G7. Layered rights and obligations or, as in the case of IPEF, the possibility to sign up to different parts of the agreement, could facilitate the accession of members. However, overly fragmented approaches should be avoided.



#### 4. FINDING THE RIGHT MIX OF SOFT STANDARDS AND HARD LEGAL ENFORCEABILITY

Ambitious and legally binding multilateral agreements are politically challenging to establish. Plurilateral accords are often not legally binding, and they often do not feature a formal dispute settlement and enforcement mechanism.

- **WTO Structured Discussions:** The discussions so far rely on soft standards and possible deliverables for MC13, which are still under discussion. They also include the aim of more information sharing, monitoring, etc. Once these discussions become more concrete, they should be able to draw on the dispute settlement process of the WTO and the Multi-Party Interim Appeal Arbitration Arrangement (MPIA). Developing countries should, however, be granted grace periods during which they are exempted from the application of the Dispute Settlement Understanding. In addition, mechanisms should be considered to support effective implementation, such as monitoring, notifications, and implementation reports. Furthermore, plurilateral agreements should establish an early warning mechanism as well as an expert group to assess implementation difficulties.

- **Stand-alone plurilaterals:** Again, a formalized approach as in the WTO is not possible in all cases. Nonetheless, these initiatives should also feature accountability and enforcement mechanisms. Rights and obligations of members must be spelled out precisely; members need to know how non-compliance will be determined and what will happen in case of non-compliance with obligations. Plurilaterals should thus establish mechanisms for monitoring and notifications, as well as for non-compliance sanctioning. The establishment of an early warning mechanism would also be advisable.

#### 5. BETTER ADDRESSING ALL THREE PILLARS OF SUSTAINABILITY

Plurilateral agreements differ regarding their coverage. Many of them are single-issue initiatives with a topic- or sector-specific focus. Most often, they do not address all three pillars of sustainability in equal measure. Most environmental initiatives are lacking on the social dimension of sustainability. The most far-reaching in this respect is IPEF's supply chain agreement.

- When designing and implementing a plurilateral initiative, the three pillars of sustainability and how they interact should be taken into consideration. A much greater focus needs to be placed on the social dimension of sustainability. This also relates to the G7 Climate Club. In the future, the clubs should also be expanded to other aspects of sustainability, including social factors of a sustainable global economy like labor regulations, and possibly even subsidies provisions.

- When designing financing instruments to advance the green transition, mechanisms should be built in to also address social transformation processes. In addition, capacity building needs to play a bigger role in almost all described-above plurilateral agreements.

#### 6. NOT GIVING UP ON MULTILATERALISM: PURSUING PLURILATERALS AS AN ADDITIONAL NOT SUBSTITUTIONAL PATH

- Multilateral agreements offer, in general, a multitude of benefits over plurilateral approaches. They are based on important principles such as non-discrimination, transparency, and openness. To deal with today's threats and challenges like climate change and environmental degradation, as well as global health crises, human rights violations, global poverty, and inequality — to name just a few — multilateral agreements and institutions would be the best way forward. Given the current geopolitical environment and the deadlock in many multilateral institutions, however, plurilaterals can be a viable option to advance policies toward a more sustainable global economy among coalitions of the willing. If done right, these approaches could gain enough traction to be multilateralized down the road. To ensure that plurilaterals do not undermine multilateral approaches and do not lead to further fragmentation of the multilateral architecture, they should be purpose- and not only opportunity-driven. Furthermore, formal links should be established between them and the respective multilateral regime.



## 7. CONCRETE NEXT STEPS

Bearing in mind that many of the initiatives are still in the early stages, it makes sense to think about how to advance them and in what sequence to accelerate the way to a sustainable global economy through plurilaterals.

- **WTO Structured Discussions:** The structured discussions are an important way forward to anchor sustainability issues at the WTO. More and more countries from various economic backgrounds realize that the issues of trade and climate are connected and that trade can contribute to solving the climate crisis. An important signal would be for the United States to join all existing WTO initiatives (including fossil fuel subsidies) and to engage to reach concrete outcomes for MC13. As was mentioned before: Plastics could be a unifying issue, which might lead to concrete actions. As an early harvest, this might lead to a snowball effect for further plurilateral action. If progress is too slow, both partners could also revert to "concerted multilateralism": Unilaterally implement the goals of the structured discussions to enhance environmental sustainability.

- **WTO new plurilateral initiatives:** The transatlantic partners should start in-depth discussions on the possibility of resuming the negotiations on a plurilateral environmental goods agreement, which had stalled at the WTO in 2016. The topic is also part of a TESSD working group. This time, the list should be shorter and focus on issues that can

mitigate climate on an industrial scale. In addition, both should include environmental services in the negotiations. Here, they can build up on their previous efforts (and work done in the IPEF).

Another initiative at the WTO level could be plurilateral discussions on green subsidies. This relates to agricultural as well as industrial subsidies (and fossil fuel subsidies), which need to be reconsidered in light of the climate crisis. Here, it could make sense to start discussions on a reform of the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement), based on the subsidies' provisions from the WTO Agreement on Agriculture. Countries could define green, blue, and amber boxes in relation to climate change.

- **Stand-alone plurilaterals:** Before initiating new clubs, it makes sense to connect existing initiatives (like the G7 Climate Club) with present environmental agreements. The first step should be to support the OECD in defining a carbon price mechanism and/or evaluating the equivalence of national regulations. On this basis, it would be much easier to promote a Climate Club. In addition, the transatlantic partners need to consider what to offer large emerging market economies in return for agreeing to cut back carbon emissions in the context of the Climate Club. A connection to climate financing and possibly narrowly defined technology transfer could be an option.



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