

Transatlantic Climate Statecraft and Global Economic Order



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**PART I:**

A Pluralist International Economic Landscape

After World War II the United States, several European countries, and other liberal democracies promoted a vision of international economic relations that was deeply influenced by the consequences of the failed policies of the 1920s and 30s. In place of the nationalism and protectionism that characterized much of that period, the United States and its partners developed a framework for global economic order, one that stressed the primacy of multilateralism, openness, and rules. This commitment took concrete shape in institutions like the World Bank, the International Monetary Fund, and the General Agreement on Tariffs and Trade (GATT) and its successor the World Trade Organization (WTO) that have universal or near-universal membership, have aimed to

advance greater international economic integration, and are grounded in international law.

This nearly 100-year cycle of destructive Realpolitik followed by idealist multilateralism is now mutating into a new global economic order whose contours are still being defined. One of the key drivers of this evolution is climate change. Within the next few years, the primacy of the multilateral trading system will be challenged by the imperative of combating this unprecedented planetary emergency. To manage that scenario, the principal stakeholders in the current system must begin charting a new path toward a future international climate order that guarantees both legitimacy and effectiveness.

Institutionalism and Experimentation

The narrative of the post-war period that puts the institutionalism of the World Bank, the IMF, and the WTO at its center is only part of the story. From the start, the rules of the GATT and then the WTO (Article XXIV) have also allowed for bilateral or regional agreements below the multilateral level if they fulfill certain criteria, and those arrangements should also be seen as contributing to the post-war economic order.

The most striking demonstration of this phenomenon is the European Union (EU), which began as the six-member Common Market in 1957 and has expanded to an economic superpower comprising twenty-seven states. Two more recent examples of this experimentalist approach are the North American Free Trade Agreement (NAFTA) signed by the United States, Canada, and Mexico in 1992¹ and the 2018 Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) among eleven countries.² The Transatlantic Trade and Investment Partnership (TTIP) launched by the United States and the European Union in 2013 would have been the largest such free trade agreement (FTA) had it not come to a halt in 2016 owing to differences over agriculture, government procurement, and investment.

WTO rules also permit plurilateral agreements among a coalition of its members on a given sectoral trade issue such as the 1994 Government Procurement Agreement³, the 1996 Information Technology Agreement⁴, the Environmental Goods Agreement whose negotiations stalled in 2016, or the ongoing talks aimed at achieving an agreement on electronic commerce. These agreements, sometimes known as “Joint Statement Initiatives,” can be either exclusive or open depending on whether they grant benefits only to WTO mem-

bers participating in them directly or also to non-participants on a most-favored-nation (MFN, or equal treatment) basis. The Information Technology Agreement is an open plurilateral while the Government Procurement Agreement is an exclusive one.

Not only was a certain diversity of method tolerated or even encouraged by and within the principal post-war institution responsible for creating rules for trade policy. The GATT and then the WTO were never the only fora that contributed to this new cooperative international economic framework. The Organisation for Economic Cooperation and Development (OECD) — which emerged from the earlier Organisation for European Economic Cooperation that managed Marshall Plan aid—has also played a key role in developing principles on issues like bribery and corruption, international investment, and more recently artificial intelligence and carbon accounting.

The International Energy Agency (IEA), founded in 1974 after the first oil crisis, is one of the first examples of cooperation among like-minded countries that incorporated a geoeconomic perspective in its work by aiming to ensure that an economic and commercial tool (energy policy) would support the national security goals of its members. The G7, inaugurated in 1975 by German Chancellor Helmut Schmidt and French President Valéry Giscard d'Estaing (and which includes the EU as a member), has evolved from a focus on macroeconomic issues like exchange rates and current account balances to geoeconomic coordination, most recently demonstrated in the group's decisions to withdraw MFN treatment in the WTO from Russia (providing the policy space for the imposition of tariffs) and to agree a price cap on its oil exports after the country invaded Ukraine in February 2022.

¹ NAFTA was updated in 2018 and is now known as the United States-Mexico-Canada-Agreement.

² Originally conceived as the Trans-Pacific Partnership with twelve countries, the United States withdrew from the agreement in 2017.

³ WTO: Agreement on Government Procurement, https://www.wto.org/english/tratop_e/gproc_e/gp_gpa_e.htm

⁴ WTO: Information Technology Agreement, https://www.wto.org/english/tratop_e/inftec_e/inftec_e.htm

Multilateralism and the Question of Ends and Means

In light of this pluralist approach that the United States and its European partners have relied on to advance their prosperity in the post-war economic order, it is worth asking whether multilateralism should be viewed as a kind of steady-state object of policy or rather one means to serve transatlantic interests. Given the fact that multilateralism was the main (but not the only) driver of the liberal economic order for most of the post-World War II era, it is understandable that it could be seen as the overriding goal of policy.

But an equally strong case can be made that multilateralism was one of several methods that served a more important objective: a global economic order that reflected and advanced the liberal values⁵ of its leading proponents. These values — a balance between the imperative of stability and the desire for human progress; openness to innovation and exchange; the rule of law; high standards for workers, consumers, and the environment; the primacy of the individual over the state, and fairly regulated competition—should not be negotiable. Yet multilateralism is not the sole avenue available to guarantee that they will thrive. On the one hand, had the bilateral Transatlantic Trade and Investment Partnership between the United States and the EU succeeded, it would have been a major step forward for a high-standard global economy. On the other hand, the

inability of the WTO to counter certain nonmarket economic practices of its member states — for example, its 2011 ruling on subsidies by Chinese state-owned enterprises⁶ — illustrates the challenges faced by multilateralism in promoting liberal values.

Despite the limits to multilateralism that have emerged in recent years, the Uruguay Round of trade negotiations that led to the creation of the WTO in 1994 was a major achievement in post-war global economic governance given its innovation of a legally binding dispute settlement system, and the WTO remains a key provider of international economic order today. But with a more diverse and more contentious global economy — one where China and its state capitalist economic model challenge liberal values and other countries such as India, Brazil, and Indonesia are asserting their interests more forcefully — it is natural that a less institutionalist, less monolithic approach to creating rules and norms for the global economy is already gaining traction. A pragmatic conception of policymaking that first seeks to build cooperation among like-minded economies is not necessarily a sign of a retreat from the task of promoting global economic order; it can instead be a rational response to changes in the dynamics of the external environment in which policymaking must operate.

⁵ RASHISH, P. S. (2019): Between Nationalism and Multilateralism: A Renewed Approach for Transatlantic Economic Engagement, AICGS, <https://aicgs.org/wp-content/uploads/2019/09/IB-59-Rashish-Nationalism.pdf>

⁶ WTO: United States — Definitive Anti-Dumping and Countervailing Duties on Certain Products from China, https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds379_e.htm

A Geoeconomic Approach to Statecraft

Under the banner of either the friend-shoring or derisking of their international trade relationships, the United States and the European Union have now had four meetings of their Trade and Technology Council, a non-binding but important avenue for aligning transatlantic objectives in the global economy that was inaugurated in 2021. A year later, the United States and thirteen countries in Asia launched the Indo-Pacific Economic Forum, and both the United States and the EU are pursuing stronger links with emerging and poorer countries through finance and investment-based initiatives like Build Back Better World and Global Gateway, respectively.

This shift from a more single-minded institutional strategy to one that includes ad hoc, issue-based, and flexible coalitions reflects a broader evolution in thinking about the purpose of international trade and economic policy. New concerns like the resilience and security of supply chains, how to govern the use of artificial intelligence, and the increasing urgency to combat climate change have led to a reconsideration of the aims of policy. In a global order undergoing such mutation, economic efficiency will remain a key concern of transatlantic economic statecraft, but it will need to share the spotlight with other priorities like national security and sustainability.

To succeed in shaping this new global economic order, the United States, the EU, and other economies that share their values and interests —

but also less like-minded ones that may respond to both the right incentives and inclusive rules — will need a common vision of the international economy of the future, a spirit of experimentation on the road to that goal, as well as an agility in managing short-term frictions during a period of transformation that will inevitably arise even among countries with broadly shared outlooks.

Beyond the longer-term question of institutions, agreements, and norms, there is already evidence that trade flows are being redirected⁷ to countries that share similar geopolitical interests, even if globalization — the exchange of goods, services, and capital across national borders — is not in retreat overall. From an economic efficiency perspective, it would be justified to describe this phenomenon as a case of geoeconomic fragmentation⁸, since the reshuffling of supply chains that it involves may indeed redistribute economic growth in the short term. However, if national security and values concerns are added to the equation, a better term for these changes is “rebalancing.” Whether it is reducing asymmetric dependencies such as raw materials monopolies that could potentially be leveraged by a competitor or adversary or pursuing trade policies that combat climate change through decarbonization, a more geoeconomic approach to policymaking that integrates efficiency, security, and values is likely to be the most effective path to a sustainable economic order.

⁷ WTO (2023): World Trade Report 2023, https://www.wto.org/english/res_e/booksp_e/wtr23_e/wtr23_e.pdf

⁸ Aiyar, S., Chen, J., Ebeke, C. H., Garcia-Saltos, R., Gudmundsson, T., Ilyina, A., Kangur, A., Kunaratskul, T., Rodriguez, S. L., Ruta, M., Schulze, T., Soderberg, G. and Trevino, J. P. (2023): Geoeconomic Fragmentation and the Future of Multilateralism, IMF, <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2023/01/11/Geo-Economic-Fragmentation-and-the-Future-of-Multilateralism-527266>



An International Climate Order

Within this emerging, more diffuse form of globalization, one issue stands out: climate change. It is a planetary emergency that will require years to overcome. As a result, any reform to the structure and rules of the international economic order over the next five to ten years should ensure that it also becomes an international climate order. Given continued rising temperatures⁹, the status quo will not guarantee success; the question is what can and should be preserved from the established economic order and what innovations are necessary. In this process, the issue of sequencing will be key: when to emphasize the strengthening and reform of existing institutions and agreements, and when to invest in new and emerging venues for cooperation and rules-making.

⁹ The Washington Post (2024): The 1.5-degree climate goal is out of reach. Here's what to do now, <https://www.washingtonpost.com/opinions/2024/01/18/climate-change-target-missing-global-action/>

¹⁰ WTO (2022): World Trade Report 2022, https://www.wto.org/english/res_e/publications_e/wtr22_e.htm

While countries may have differing or even opposing national security agendas, all are affected by climate change (if not all equally). The UN International Framework Convention on Climate Change (UNFCCC) is an important multilateral process to combat global warming, but its commitments rely on the moral force of leadership, the example set by best practices, and the competitive dynamic of peer pressure since they remain voluntary. One noteworthy step taken at the Conference of Parties in the United Arab Emirates (COP 28) at the end of 2023 was the decision for the first time to devote a full day to discussions about the role of trade in promoting climate goals. By doing so, the UNFCCC has in effect broadened its consideration of how to achieve the objectives of the 2016 Paris Agreement to include trade policy measures like tariffs, standards, and subsidies.

The World Trade Organization, for its part, has recently stepped up its efforts to make trade policy a force for climate progress. One such initiative was the launching of the “Structured Discussions on Trade and Environmental Sustainability” (TESSD) in November 2020. The TESSD aims to make the WTO’s work on trade and the environment more responsive to the climate crisis, to promote sustainable global value chains, and to ensure that any future reform of WTO rules — including those governing fossil fuel subsidies — places a strong emphasis on climate goals. Additionally, in 2022, the WTO devoted its annual World Trade Report¹⁰ to the issue of climate change and international trade.

But the WTO faces several challenges in playing the role of fulcrum in a future international economic order that is also by necessity an international climate order.

Ambiguous Rules, Uncertain Reform

First of all, there is an inherent ambiguity in WTO rules regarding the nexus of trade and climate policies. Article XX (general exceptions) states that “nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures... necessary to protect human, animal or plant life or health” or “relating to the conservation of exhaustible natural resources if such measures are made effective in conjunction with restrictions on domestic production or consumption.” That language would seem to provide the policy space for countries to use measures that may impact trade or economic growth in the short term as long as they promote climate goals.

But Article XX also begins with a non-discrimination caveat: “Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade...”

So far, although the WTO has ruled on broader environmental issues,¹¹ no matter relating to climate policies strictly defined has been brought before the WTO dispute settlement system. Barring a reform to its rules, it is thus uncertain how the WTO would adjudicate a case that could serve to resolve the tensions inherent in Article XX. The prospects for reform, however, are also uncertain given the differing perspectives of its members even with regard to a global public good like combatting climate change. Some of these divergences relate to the interpretation of the UNFCCC’s language about “common but differentiated responsibilities” for climate action based on a country’s particular situation.

¹¹ The 1996 shrimp-turtle case and the 2008 tuna-dolphin case — both involving U.S. use of legislation to protect marine life and ultimately found in Washington’s favor — are the two most prominent examples.



Destressing the Multilateral Trading System

This reality, however, begs the question of whether it would be advisable from the perspective of creating a future international climate order to ask the WTO under its current rules to play the role of sole arbiter of trade policy’s legitimacy as a force for a greener planet. To take two examples, both the U.S. Inflation Reduction Act (IRA) passed in 2022 and the EU Carbon Border Adjustment Mechanism (CBAM) that was introduced in 2023 could be seen as violating WTO rules in different ways and to different degrees.

The IRA’s language laying out how a consumer can qualify for an electric vehicle tax credit includes local content provisions that appear to be inconsistent with WTO Article III on national treatment on internal taxation and regulation. And although the EU has been scrupulous about designing its CBAM to conform to WTO rules, it may be open to

a complaint about its adherence to the non-discrimination principle in both Article I (most-favored-nation) and Article III. This is not a hypothetical concern: India has already indicated that it may challenge the CBAM¹² in the WTO dispute settlement system.

Were a WTO panel to rule against the IRA, the CBAM, or both, it is worth asking who would suffer a greater loss of legitimacy. Would it be the United States or the EU, who are trying to combat the existential threat of climate change through trade policy, or rather the WTO that was deeming such actions illegal? If the goal is to reform today’s international economic order so that tomorrow it also becomes an international climate order, it should not be in the U.S. or EU interest for the WTO to suffer a reputational loss on this very issue.

¹² Arora, N. and Kumar, M. (2023): India plans to challenge EU carbon tax at WTO, Reuters, <https://www.reuters.com/world/india/india-plans-challenge-eu-carbon-tax-wto-sources-2023-05-16>



PART II:

A Strategy for a Sustainable Global Economic Order

Any approach to building a reformed global economic order that places the imperative to protect the climate at its center needs to start with the World Trade Organization, since no other institution at the moment has the wide membership (164 countries), the policy achievements (the dispute settlement system, several plurilateral agreements, a record of work on environmental issues), and the legal

basis to command the attention and instill the commitment of the leading economies. Yet, because of the tensions arising from the diversity of the WTO's membership, the ambiguity of its rules, and the uncertain path to reform, it cannot end there. There may be no "Planet B," but the planet requires a Plan B for global economic order.

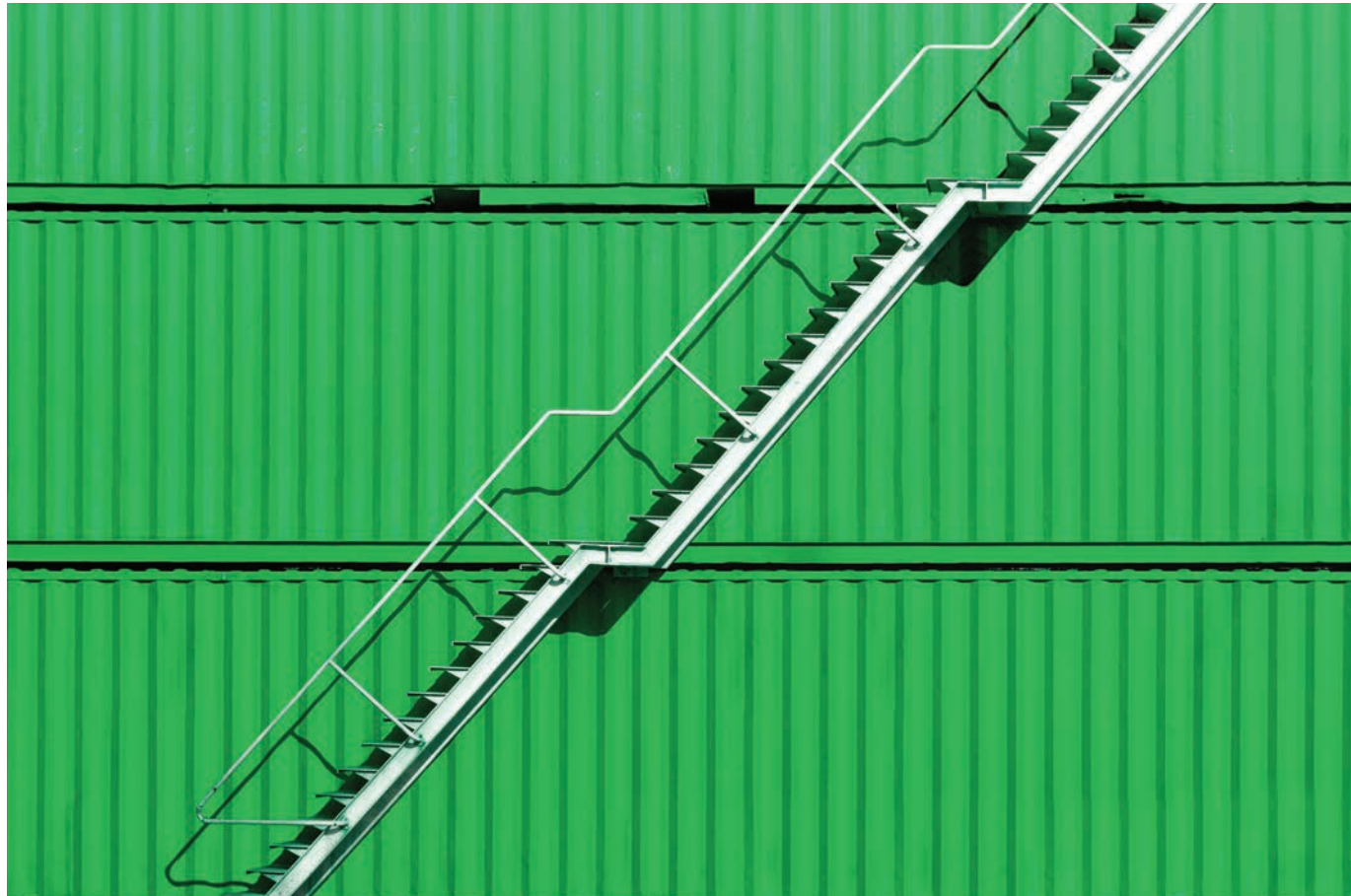
There are three ways that the United States, the European Union, and other economies with similar interests can make good use of the WTO in the short to medium term as they seek to integrate climate objectives into the international economic order.

First, given the concerns outlined above about a potential negative decision by the dispute settlement system on the U.S. IRA, the EU CBAM, or another national climate policy measure, the United States, the EU, and a group of like-minded countries (what is sometimes known as "G7 plus") should agree to and advocate for a moratorium on bringing any new cases before the WTO that link trade and climate policy. Such a step would help to destress the multilateral trading system at a time when it faces a challenging agenda before and after its February 2024 Ministerial Conference (MC13).

Second, this same G7 plus constellation of countries should pursue a concerted effort to reform the WTO's rules so that they become more climate friendly. Resolving the ambiguity surrounding the issue of discrimination in Article XX environmental exceptions would be one significant step; so would creating more room for green subsidies and penalizing those for fossil fuels. These moves would help provide the leeway for governments both individually and collectively to experiment with new trade policy tools to promote decarbonization. They may also improve the likelihood that the dispute system's Appellate Body—now lacking the quorum necessary to hear cases—could again become operational. While it is not the only issue at stake in dispute settlement reform (the use of the Article XXI national security exception, subsidies, and the role of state-owned enterprises are others), progress on climate could help to change its dynamics.

Third, at a later date when there may be greater clarity on rules and a more favorable political climate, a transatlantic push to restart the Environmental Goods Agreement would provide an avenue for trade liberalization to advance climate objectives. This step could be paired with the launch of negotiations toward an Environmental Services Agreement, which would be particularly beneficial to the U.S. and European economies.

Beyond Multilateralism? A Plan B for Global Economic Order



Given the constraints facing a WTO-centric approach, however, the time is ripe to conceive a Plan B for building an international climate order that draws — to various degrees — on unilateral (or what the EU would call “autonomous”), bilateral, and plurilateral measures that would go beyond but also work in parallel¹³ to multilateralism. While it should not be ex-

cluded that the WTO will one day become the principal agent for managing a new climate order, it is important to remember the paradox that the most direct road is often not the shortest way to reach a desired destination. There will be a benefit to exploring alternative paths that may at first look like detours from multilateralism but that could in the end lead back to it.

¹³ Rashish, P. S. (2023): Bidenomics Is Still Incomplete, Foreign Policy, <https://foreignpolicy.com/2023/07/12/bidenomics-is-still-incomplete/>

Unilateral or Autonomous Measures: The IRA-CBAM Incompatibility

When it comes to unilateral or autonomous trade measures that can promote climate goals, the U.S. IRA and the EU CBAM are two of the most prominent. They are both effective examples of climate action, but can they contribute in a concerted way to a new international climate order? The IRA is a subsidies-based approach to decarbonization that contains certain local content provisions that may constrain trade. Yet the United States has already signed a Critical Minerals Agreement (CMA) with Japan and is negotiating one with the EU to open the IRA's rules on consumer tax credits for electric vehicles to these large and close partner economies in a way that will benefit the climate.¹⁴ The United States and the EU also launched a Clean Energy Incentives Dialogue¹⁵ in 2023 as part of their Trade and Technology Council with the goal of coordinating climate-related subsidies in the IRA and the European Green Deal. Both of these steps demonstrate the value of using national frameworks as long as they remain open to alignment with key partners.

The goal of the EU CBAM is to incentivize trading partners to decarbonize in the six areas of economic activity that it covers (cement, iron and steel, aluminum, fertilizers, electricity, and hydrogen) and to provide a level playing field for EU firms. Under the CBAM, goods imported to the EU in these six sectors will have to demonstrate that they are governed by similar restrictions on carbon intensity as those imposed on EU production via its Emissions Trading System. If not, they

will be required to buy emissions trading certificates — which would effectively operate like a tariff — or be barred from the EU single market.

While the IRA and the CBAM are useful elements on the road to a new global economic order with climate at its center, they also have limitations. Neither of these unilateral/autonomous efforts — subsidies-based ones like the IRA or those starting from a domestic carbon price like the CBAM — will be sufficient on its own to forge the common rules and bring together the critical mass of countries for the effectiveness and legitimacy a new climate order will require.

Now, it is true that several countries or sub-federal regions have a carbon tax or emissions trading system, and some are considering a CBAM.¹⁶ In principle, that would suggest the EU CBAM could be the germ of a future global approach to decarbonization. However, one shortcoming of the CBAM is that none of the revenues it will generate from taxing imports are earmarked to help poorer countries, who will face serious adjustment costs to scale up to less carbon-intensive production. Without such a financing vehicle it will be difficult to rally countries outside the nucleus of the richest economies to a future international climate order. It is also true that a collection of disjointed border measures without a set of rules to govern them would almost certainly lead to inconsistencies in their application and political tensions among the countries involved.

¹⁴ Indonesia and the Philippines have also expressed interest in reaching a CMA with the United States.

¹⁵ The White House (2023): U.S.-EU Joint Statement of the Trade and Technology Council, <https://www.whitehouse.gov/briefing-room/statements-releases/2023/05/31/u-s-eu-joint-statement-of-the-trade-and-technology-council-2>

¹⁶ For example, California and a group of U.S. Northeastern states each maintain an emissions trading system, while Canada is weighing the implementation of border carbon adjustments.

Bilateral Approaches: The Lesson of GASSA

When it comes to bilateral efforts, the most significant example to date is the negotiations between the United States and the EU toward a Global Arrangement on Sustainable Steel and Aluminum¹⁷ (GASSA). The aim of GASSA is the free trade of steel and aluminum across the Atlantic accompanied by joint measures to limit or block the imports of products that are both unfairly subsidized and more carbon-intensive than equivalent U.S. and European metals. Once such an agreement is reached, the Biden administration would permanently remove the tariffs placed by President Trump on steel and aluminum from the EU in 2018 under the authority of the national security exception in Section 232 of the 1962 Trade Expansion Act. At the moment, tariffs on the EU have been only provisionally removed and a tariff-rate quota is in place that subjects EU exporters to various reporting requirements and could lead to quantitative restrictions when those exports reach a prescribed level.

The failure of the United States and the EU to reach agreement on GASSA at their summit in Washington in October 2023 points to the limits of bilateral approaches as the basis for an international climate order. One reason for the inability to conclude the deal lies with the differing U.S. and EU starting points where trade and climate policies intersect. The EU's CBAM is a price-plus-tariff approach while the U.S. IRA is based on incentives (subsidies). While Washington has no existing mechanism that links tariffs with carbon intensity the way that GASSA would, Brussels has just launched its CBAM which does exactly that. It is unclear how the EU could maintain the integrity of its CBAM that includes iron and steel while entering into a second regime governed by GASSA that also covers steel imports. At the same time, it is unrealistic to expect other countries to simply adopt the EU CBAM given that their domestic political and economic realities will be different.

¹⁷ United States Trade Representative (2021): Fact Sheet: U.S. – EU Arrangements on Global Steel and Aluminum Excess Capacity and Carbon Intensity, <https://ustr.gov/about-us/policy-offices/press-office/fact-sheets/2021/october/fact-sheet-us-eu-arrangements-global-steel-and-aluminum-excess-capacity-and-carbon-intensity>



Plurilateralism: The Climate Consortium

The challenges facing the WTO as well as the constraints on unilateral/autonomous and bilateral measures to serve as the building blocks of a future international climate order suggest that a "Climate Consortium" — a binding plurilateral or coalition of the willing approach to the governance of trade and climate policy — will be most likely to achieve desired outcomes. A Climate Consortium is inspired by the idea put forward by Nobel Prize laureate William Nordhaus in a 2015 paper¹⁸ called "Climate Clubs: Overcoming Free-riding in International Climate Policy." It shares certain features with the more recent version of a climate club put forward by the German government during its G7 presidency in 2022 and launched at COP 28 in Dubai in 2023¹⁹ but also goes beyond it in important ways.

to solve, there needs to be a framework that encompasses a wide variety of tools and a diversity of economies. The consortium can and should have the ambition to include at least 40-50 countries at the start from several geographies and economic conditions. It should begin its mandate with an inventory of policy options in a range of areas including a carbon price, subsidies, tariffs, carbon-intensity standards, regulations, and — crucially — financial aid to poorer countries. Without an obligatory mechanism for financial flows to such countries to help with their decarbonization efforts, the Climate Consortium could be seen as a way to protect richer countries from trade competition—particularly if it draws upon tariffs—and would deprive it of the legitimacy that a more inclusive membership can provide²⁰.

The advantage of a Climate Consortium lies in three important areas.

First, as the challenge of building an international climate order is too large for any single policy approach or single country

Second, a Climate Consortium needs to be able to set rules for its members. Whether the legal framework for this function is an agreement (like the GATT) or an organization (like the WTO) is not of central importance; what counts is that the countries participating in it will have a way to measure performance

¹⁸ Nordhaus, W. (2015): Climate Clubs: Overcoming Free-riding in International Climate Policy, <https://pubs.aeaweb.org/doi/pdfplus/10.1257/aer.15000001>

¹⁹ The Climate Club: <https://climate-club.org>

²⁰ The German climate club concept, which is managed by a joint OECD-IEA secretariat, does not have such a financing mechanism.

and manage its governance. While its members should be able to choose from a menu of policy options to promote a low-carbon future, all participating countries will have to commit to binding and enforceable outcomes in the most carbon-intensive industrial sectors. Countries that do not maintain the consortium's high standards for decarbonization would have their membership suspended.

Finally — and most controversially — under the appropriate conditions and at the right time, a Climate Consortium needs to include the ambition to develop a common external tariff on non-members (as Nordhaus proposed) that do not meet its decarbonization objectives.²¹ Such an idea would at present almost certainly be contrary to WTO rules unless the consortium also became a customs union, which may not be practicable given it is unlikely (at least at the start) to cover “substantially all the trade” among its members that those rules would require.

The issue of WTO compatibility is why sequencing is so important when it comes to a Climate Consortium. A common external tariff should be the last step, to be used only if parallel efforts to reform the WTO so it provides greater policy space for climate action do not bear fruit within a three-to-five-year period. Respect for WTO rules is important; however, given the challenges to their reform, considerable damage to the climate could occur before progress is achieved. Before the decade is out, many leading economies could be forced to choose between protecting the climate and adhering to multilateral trade rules. If that time comes, a Climate Consortium—preferably enlarged to 100 or more countries who will have seen the benefit of meeting its criteria—could at least temporarily provide an alternate forum for governing trade and climate policies and achieving an international economic order that is also a climate order.

²¹ The climate club managed by the OECD and IEA also lacks a tariff option.

Conclusion: Climate and Security

When the General Agreement on Tariffs and Trade was founded in 1948 to create rules for world trade and to oversee its development, it had a modest but diverse membership of twenty-three countries. The signatories included Australia, Brazil, Chile, France, India, and the United States. By 1994, when the Marrakesh Agreement was signed, its successor the World Trade Organization counted 128 members from across the globe.

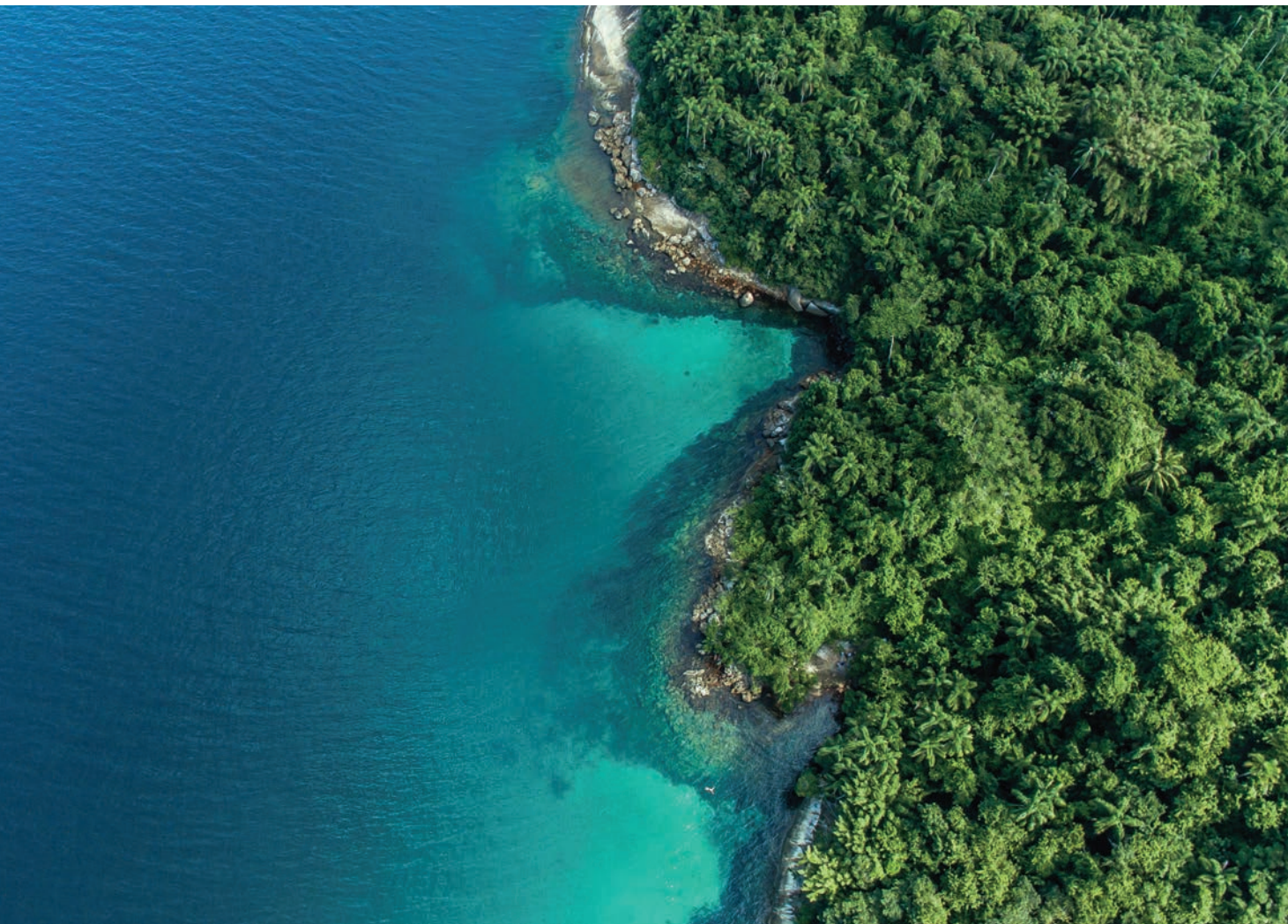
While historical parallels can be treacherous, the way the GATT started from a coalition of the willing interested in liberalizing trade and grew to become the main instrument of global economic governance as the WTO has lessons for today. This is particularly true as in the late 1940s the GATT was a second-best idea that replaced the much more ambitious concept²² of an “International Trade Organization” outlined in the Havana Charter, but which failed to gain unanimous support. Rather than being deterred by the failure of its institutional ambitions, this group of like-minded countries rallied together in a spirit of experimentation to respond to the crisis of a devastated post-war global economy and moved forward with the GATT.

Thankfully, the global economy faces no such calamity today, but the

world does need an innovative strategy to combat the planetary emergency of climate change. While a Climate Consortium is not a panacea, it does present the most realistic avenue for balancing the legitimacy that an inclusive approach provides with the effectiveness of like-minded membership. But it should not crowd out other promising avenues for using trade policy to reach the goal of net-zero carbon emissions by 2050 set out in the UNFCCC Paris Agreement. Competition is healthy, and several ongoing unilateral/autonomous and bilateral efforts can also serve climate objectives. The World Trade Organization, while in need of reform, remains the guardian of the current liberal economic order. The members of a Climate Consortium should sequence its development so that time and resources can be devoted to modernizing WTO rules so they unambiguously create the policy space for governments to pursue climate action.

Climate change is not only a threat to economic prosperity and public health but also to global peace and stability given the heightened risks of conflict over natural resources that it could engender. A binding, high-standard, and inclusive Climate Consortium can help to promote a more orderly and secure world for the 21st century.

²² WTO(1948): Final Act of the United Nations Conference on Trade and Employment, https://www.wto.org/english/docs_e/legal_e/havana_e.pdf



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