



NDC ASPECTS

Avenues for International Cooperation

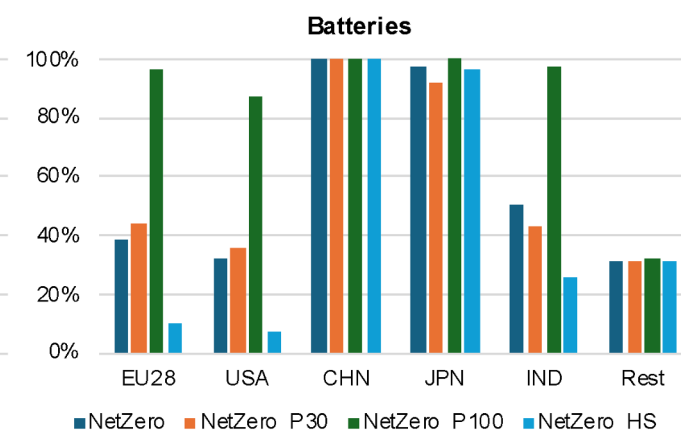
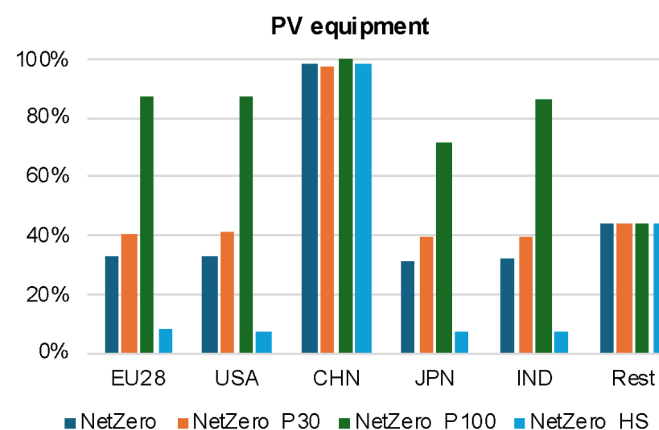
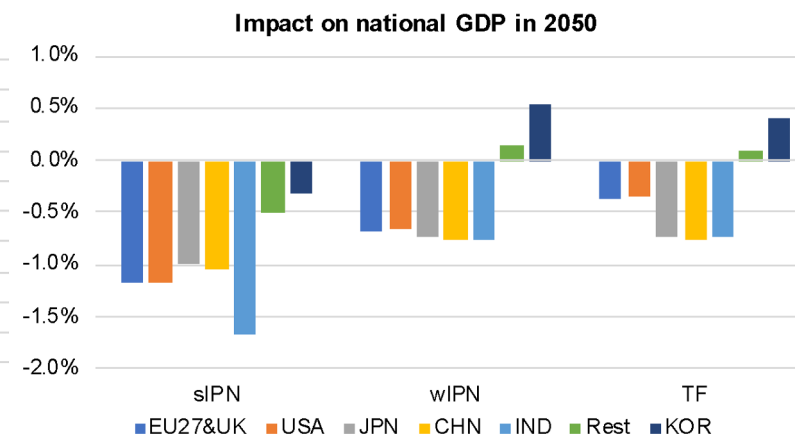
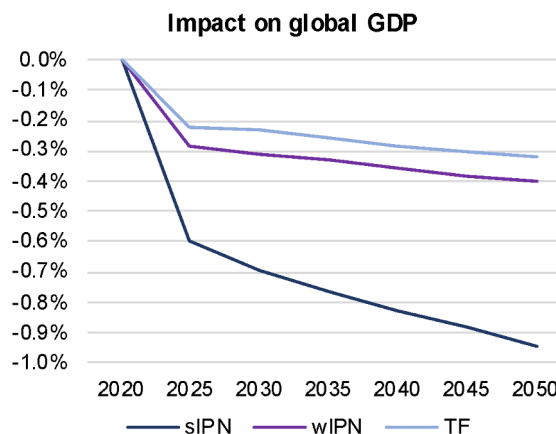


A Race at all Costs? The Economic and Environmental Effects of Industrial Policy Nationalism

We are entering a **new era of industrial geopolitics** with industrial policy nationalism becoming increasingly normalized.

- Scenario: Tariffs on imports of clean energy technologies and some raw materials among key rivals. Revenues are used to subsidise domestic clean energy industries.
- Strong Industrial Policy Nationalism (global tariffs) is very costly. It **doubles the cost of climate action for the EU!**
- Weak Industrial Policy Nationalism (tariffs among rivals) has barely any effect.
- Industrial Policy Nationalism barely works!

Prudent industrial policy should seek global collaboration over rivalry. **We need a technology race against the climate and not against each other!**



Towards Minilateral Climate Governance? Analysing Climate Club Design Options through the Lens of CBDR-RC

While climate clubs arguably represent a way of moving climate policy forward, do they respect the principle of CBDR-RC?

→ Main takeaway: **climate club *design* matters**

- ◆ Membership
- ◆ Benefits of participation
- ◆ Legal character
- ◆ Compliance & enforcement

→ **G7 Climate Club**: generally does not raise CBDR-RC implications, due to its 'softer' nature and open membership

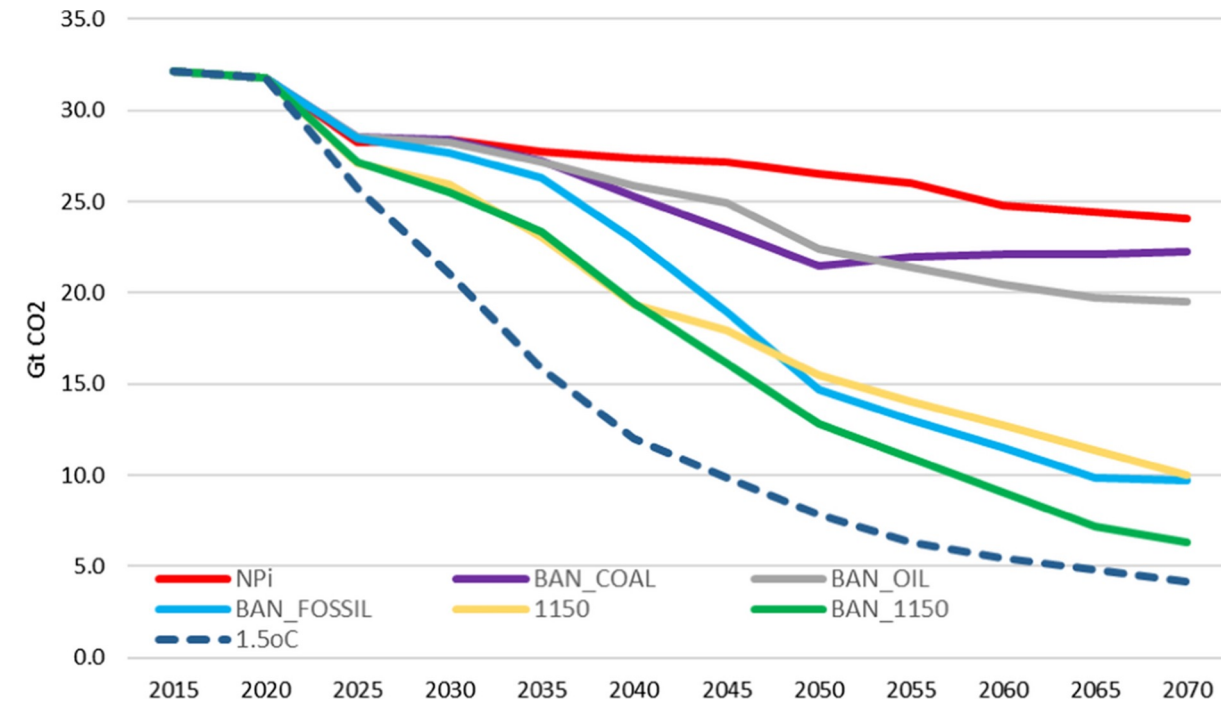
→ **Clean Energy Ministerial**: strictly exclusive club of the 'world's elites', that marginalises developing countries/most vulnerable

→ **EU-US GASSA**: raises several CBDR-RC tensions (membership criteria, binding/uniform obligations & sanctions, and lack of support)

While certain design options can be problematic from a CBDR-RC perspective, drawing from existing club-like arrangements provides inspiration to embed differentiation in future climate clubs.

Prospects for International Cooperation on Restricting Fossil Fuel Supply

- Restricting fossil fuel supply is necessary to achieve Paris temperature goal
- International cooperation can help to avoid leakage effects of unilateral supply-side climate policies, and support developing countries in transition
- Cooperation can be in the form of a club or a full-fledged treaty
- An international supply-side coalition, implemented alongside strong demand-side measures, can support the achievement of Paris temperature goal, limit negative impacts on global GDP and speed up transition towards a renewables-based energy system



Role of the EU in a changing world: Modes of cooperation along different policy avenues

Goal and approaches of international cooperation crucially depend on the policies pursued in the EU:

- **Green Economic Liberalism:** emphasis on diffusion of carbon pricing instruments, keeping trade open, market-compatible instruments. Mixed record in terms of cooperation through international fora and diplomacy - but CBAM as a needed boost.
- **Green Industrial Policy:** hottest game in town, driven by developments in USA, China and elsewhere. EU response has been timid: lack of funding, but also lack of directionality and preparedness to take strategic choices.
- **Directed Transition:** limited scope for cooperation. “Brussels effect” exists, but is eroded by the shrinking role of the EU in global markets. Cooperation on fossil phase-out established for coal, less so for other fuels or fossil-based technologies.
- **Sufficiency and Degrowth:** not firmly anchored in the EU, even less appeal internationally - mostly at sub-national / local level.



What is needed for the EU to stay in the game? The most pressing need is for the EU to ramp up its industrial policy efforts:

1. Ensure sufficient funding.
2. Agree on an EU-wide harmonised approach.
3. Give clear directions for the technologies, infrastructure and market frameworks needed.
4. Design industrial policy that remains in conformity with WTO rules.

For CBAM: late, but not too late support CBAM with more climate diplomacy, direct CBAM revenues to international climate finance.