EUROPEAN COUNCIL ON FOREIGN RELATIONS
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POLICY BRIEF

CLIMATE OF COOPERATION: HOW THE EU CAN HELP DELIVER A GREEN GRAND BARGAIN

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October 2021

SUMMARY

- The global transition away from carbon will fundamentally alter the EU's dependencies on energy, raw materials, and new technologies.
- The bloc needs to manage these dependencies while maintaining the fragile consensus between member states on the European Green Deal and fulfilling its ambitions for global climate leadership.
- The EU should help deliver a green grand bargain by making use of all its sources of economic, multilateral, and soft power.
- The bloc should reframe the international debate on energy security to focus on clean energy resources and efficiency, engaging in the market reforms needed to incentivise this shift.
- The EU should make every effort to reassure countries in the global south that the green transition will not leave them behind.
- The Global Gateway provides a strong framework for doing this – as would an EU Co-innovation and Green Tech Diffusion Fund.
- The EU also needs to place European sovereignty at the centre of its internal narrative on the European Green Deal. This could help win support for the agreement from member states that are concerned about the economic and social effects of the green transition.

Introduction

After a summer of climate-related disasters and record-high temperatures, world leaders will sit down in Glasgow in early November to decide how to implement the Paris Agreement on climate change. The 26th Conference of the Parties to the United Nations Framework Convention on Climate Change (COP26) will take place as it becomes clearer than ever that humans are responsible for almost all observed global warming. A recent report by the Intergovernmental Panel on Climate Change (IPCC) describes evidence for this as "unequivocal", emphasising that countries will need to act rapidly and decisively to curtail global emissions if they are to limit average global warming to the Paris Agreement target of 1.5°C above pre-industrial levels.

The green transition presents a series of opportunities and risks for Europe. As several authors at the European Council on Foreign Relations and Bruegel argued earlier this year, the transition to renewable energy and other efforts to eliminate carbon emissions are likely to increase the European Union's dependence on networked technologies and raw materials, even as the bloc weans itself off expensive oil and gas imports, particularly those from Russia. The EU needs a strategy to manage this change in a way that maintains the fragile consensus on the European Green Deal between EU member states, and that fulfils its ambitions for global climate leadership.

The EU's relatively minor direct contribution to carbon emissions, at roughly 8 per cent of the global total, means that the decarbonisation of its own economy will have a minimal impact on climate change by itself. While there are several social, economic, and political reasons why it may still be desirable for Europe to go it alone, EU institutions need to look outward if they are to guide a transition to net zero. Engagement with the world's largest emitters is essential. But it is at least equally important to use the European Commission's Global Gateway initiative (its new connectivity investment strategy) to reinforce the external dimension of the Green Deal – and to thereby build partnership-based, pragmatic economic transformation strategies with the global south. In this way, the EU could allocate its resources and expertise, and show its commitment, to providing a genuine alternative to Chinese investments through the Belt and Road Initiative. Unless the EU ramps up these efforts significantly, its efforts to construct a green grand bargain beyond the large emitters' club will be fragile, and will continue to encounter the familiar issues that have plagued international climate negotiations since the second Earth Summit, held in Rio in 1992.

The EU's proposed carbon border adjustment mechanism (CBAM) risks undermining these efforts, particularly in Africa – which is home to many countries that produce an insignificant proportion of global emissions and bear little historical responsibility for climate change, but whose leading

industries will suffer as a consequence of the measure. The EU needs to increase its financial and political support for these countries' green transitions. If it fails to do so, the bloc's relations with the African Union are likely to deteriorate further, and African countries will not realise their vast potential to contribute to global climate efforts or implement their own green transitions.

This paper draws on a series of closed-door workshops that ECFR held in 2021, as well as research, to explore the EU's climate relationships with the United States, Russia, Indo-Pacific states, African countries, and Turkey. These meetings involved policymakers who focus on climate and foreign affairs, as well as analysts and observers on both sides of each relationship. The paper explores the foreign policy risks of, and pressure points for, EU climate policy across the themes of diplomacy, trade, technology, development, and emissions regulation.

In this context, the most effective climate roles that the EU can play are in decarbonising Europe's economies and acting as the 'midwife' of a green grand bargain on climate. Complementing the United States' re-engagement with climate issues under its current administration, the EU should interact with key countries and regions on substantive policies to shape the transition away from carbon. The bloc should make use of all its existing tools, and should create some new ones, to accelerate the global transition away from greenhouse gases. This paper outlines the strategies and tactics that the EU can pursue not just at COP26 but, even more importantly, beyond the conference and independently of the short-term outcomes of the negotiations that will take place there.

The new face of EU climate diplomacy

In the run-up to COP26, international efforts to translate climate ambition into climate action are more intense, broad-based, and urgent than they were in Madrid in November 2019, the last time the global community met to discuss these issues. There has been a marked increase in the ambition of national climate commitments since the onset of the covid-19 pandemic. This is due to factors such as the Biden administration's renewal of US efforts to address climate change after the absenteeism of the Trump years; commitments to net-zero emissions by large countries such as China, Japan, South Korea, Indonesia, and Canada; and the EU's announcement of the European Green Deal. These developments have shown the rest of the international community that an increasing number of global economic and political players are pushing climate to the top of their domestic and foreign policy agendas. More than 130 countries have now set, or are formally considering, net-zero targets.

Many countries that were formerly resistant to climate commitments are also beginning to make serious pledges. Depending on the case, these changes are linked to a mixture of multilateral pressure and Western diplomacy, increasingly clear economic risks and opportunities, the experience of the

pandemic, or the effects of increasingly frequent and visible climate disasters (from wildfires in Canada and Turkey to floods in Germany and China). At the UN General Assembly in September 2021, President Xi Jinping pledged that China would stop funding new coal plants abroad – a significant proportion of which it had already cancelled or suspended, partly due to the pandemic. The announcement came a year after China's commitment that its national emissions would peak before 2030, and its commitment to achieve carbon neutrality by 2060. These developments may indicate that China increasingly recognises the urgency of climate issues, as well as its own economic and geopolitical interest in implementing the green transition domestically and abroad. Rolling blackouts in China in October 2021 highlighted the economic imperative and structural challenges of reducing the country's dependence on coal. Nevertheless, Xi is not expected to attend COP26.

Turkey also made new promises at the UN General Assembly – with President Recep Tayyip Erdogan finally promising to ratify the Paris Agreement ahead of COP26, and to set a date to achieve carbon neutrality, provisionally 2053. Ankara ratified the agreement in October, having received some additional incentives to do so from a coalition that included EU member states and the European Bank for Reconstruction and Development (EBRD), among others. With high inflation threatening the stability of its economy, Turkey is particularly concerned about CBAM's impact on its ability to export to European markets. As a result, Ankara is keen to talk about partnership with the EU to support its transition away from carbon. Turkish leaders recognise that demonstrating a commitment to the Paris Agreement is a necessary first step towards this.

Russia is also highly wary of the European Green Deal in general, and CBAM in particular. The Kremlin faces limited domestic political pressure to address climate change and still broadly views such efforts as "something from the West" – as one participant in a September 2021 ECFR roundtable put it. Accordingly, the Kremlin increasingly sees the accelerating climate movement as a threat to Russia's economic model. Russian leaders are suspicious about the motivations behind the European Green Deal; they perceive the EU as attempting to grasp an economic opportunity through first-mover advantage, using green commitments as a façade for its self-interest. While this may be true in some quarters, the EU's internal divisions mean that European climate action will only succeed if it is in individual member states' economic and diplomatic interests to pursue the green transition. Still, even Moscow's climate rhetoric has changed, with President Vladimir Putin acknowledging in summer 2021 that melting permafrost and wildfires in Siberia are linked to global warming. Powerful proponents of economic modernisation in Russia argue that the country will need to increase its climate transition efforts if it is to protect its competitiveness in a world moving away from carbon dependence.

Yet if there are reasons to hope that world leaders will make further climate commitments at COP26,

one cannot have the same expectations that the summit will produce the clear pathways for the emissions reductions in the next decade recommended by the IPCC's recent review of the science. Given that its own contribution to global emissions is relatively small, the EU will need to play a vital facilitation role at COP26 and beyond if its own commitments are to make a difference to climate outcomes. The EU has an opportunity to push other powers to implement the commitments they make at the summit. This could accelerate progress towards both a genuine green grand bargain – the beginnings of which first emerged as a diplomatic compromise in Paris six years ago – and a comprehensive long-term strategy for transforming the global economy. Both efforts are necessary if global net zero is to become a realistic possibility.

What will make the difference at and after COP26 is a 'doer' – a power that is willing to drive the global effort to rebalance climate power. The EU has an opportunity to take on this role during the international community's 2021-2023 stocktake of progress towards fulfilling its climate commitments, and the development of the next round of nationally determined contributions, in 2025. The EU has the profile, gravitas, and experience needed to take on this role. Further along in green transition than many others, the bloc can lead by example to some extent, and can share and market its experiences. The EU is a powerful advanced economy and export market, a major donor, a regulatory superpower, and an essential source of expertise in intellectual property and infrastructure that can help other powers implement the green transition. Significantly, the EU also has the requisite diplomatic relationships to tackle other global challenges, such as the recovery from the health and economic effects of the pandemic. This provides the bloc with a broader view of the framework of a green grand bargain, as well as the capacity to influence these areas of cooperation. As such, the EU may be – in cooperation with others – a more effective locus of activity in implementing this bargain than the siloed COP process has been.

Why should the EU take on this role? Green leadership, once fraught with overwhelming risks and uncertainties, is an increasingly attractive option from an economic, social, and geopolitical standpoint. With its announcement of the European Green Deal in 2019 and a subsequent policy package in 2021, "Fit for 55", the EU became the first global player to lay out concrete plans to reduce its net greenhouse gas emissions by at least 55 per cent compared to 1990 levels by 2030. The bloc is, therefore, positioning itself to significantly benefit from the carbon transition through global trade.

To become a stronger and more credible global presence on climate, the EU will need to make a greater effort to phase out the use of coal in some of its member states, shore up its energy security through clean sources and greater efficiency, and – perhaps most crucially – trail and facilitate workable 'just transition' policies. Currently, other powers have legitimate reasons to question whether the EU is serious or honest about its ambitions for climate leadership. European citizens and

EU member states are concerned about the social distribution of the costs and benefits of the carbon transition; European companies are engaged in intensive lobbying to ensure they remain competitive in clean industries; and there is a lack of clarity on how Europe will source the large-scale clean energy imports that are likely to be critical to decarbonisation.

By acknowledging these challenges, the EU could begin a more constructive dialogue with petrostates, carbon-intensive exporters, and future clean energy exporters. For example, the bloc could explore how Russia could benefit from the growing global need for emissions-free hydrogen, and how Turkey could tap into its potential for wind and solar energy through investments at home and abroad. This difference in tone could also set the EU's efforts apart from, and complement, US climate diplomacy, which has yet to deliver significant results. Private sector participation on both sides of the dialogue could make the conversation all the more productive.

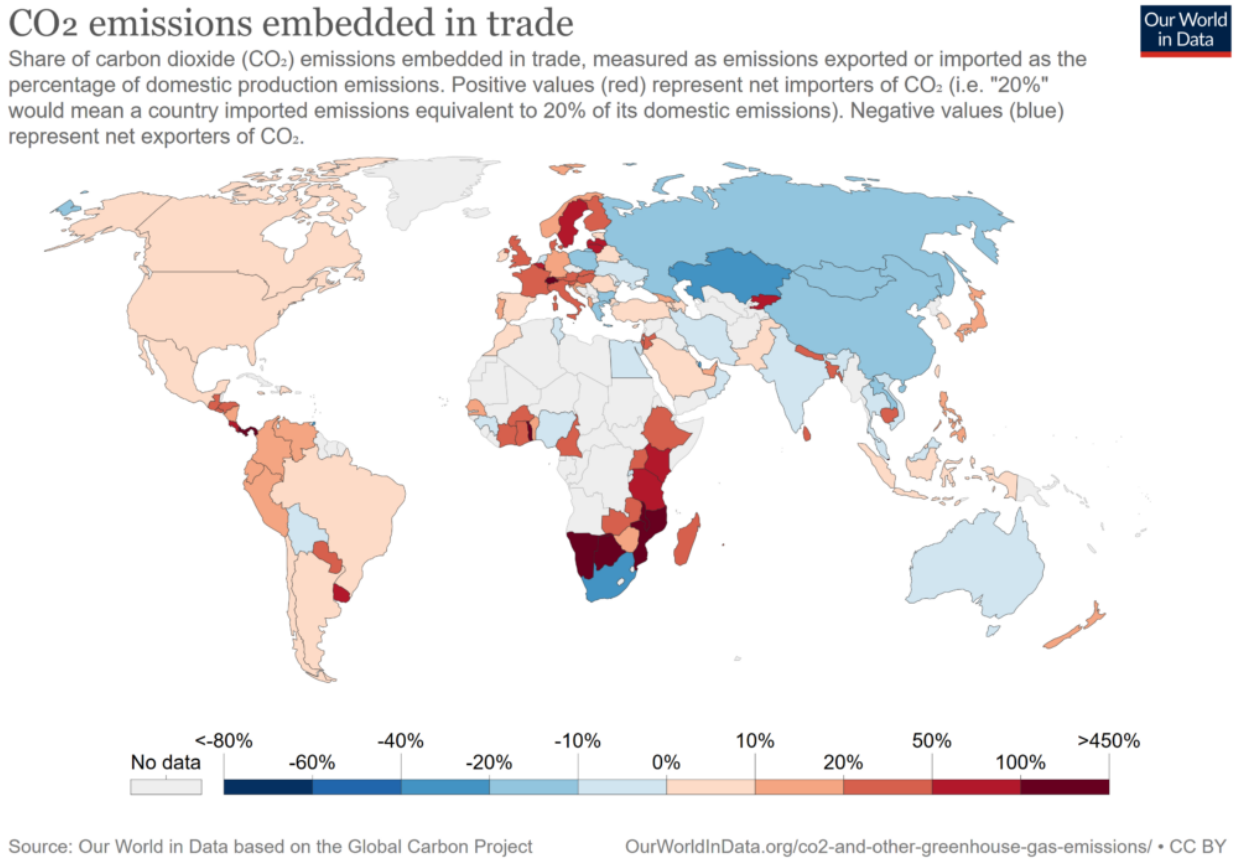
Sustainable trade

Emissions embedded in trade

The global trade network is complex and continues to grow. Around one-quarter of finished goods are traded across borders. And an estimated 30 per cent of the value of those goods is generated from imported materials. The covid-19 pandemic may be reconfiguring supply chains but is unlikely to arrest the long-term trend of expansion and intensification of global trade.

This global interconnectedness has major implications for climate politics. As wealthy Western countries have steadily greened their economies and introduced regulations for protecting their citizens from localised pollution, they have outsourced some polluting activities and corresponding carbon emissions to countries in which these constraints do not apply. The global picture is more nuanced but, as Figure 1 shows, a significant proportion of emissions in most EU member states are embedded in imports. The carbon content of goods purchased by European firms and consumers is emitted in the economies in which climate diplomacy is most crucial. Major net exporters of carbon-intensive goods include both countries in the EU's neighbourhood (Russia, Ukraine, the Balkans, Kazakhstan) and others further afield (China, India, Australia, South Africa). China dominates global carbon exports: overall, Global Carbon Project data suggest that the EU imported 541m tonnes of CO_2 in 2018, while China alone exported 1 billion tonnes.

Figure 1: CO2 emissions embedded in trade (net emission imports as a percentage of domestic production emissions) in 2018



The Emissions Trading System (ETS) the EU introduced a decade ago is starting to produce CO_2 prices capable of affecting decision-making and investment for natural gas plants, and potentially doing so beyond the power sector (although it remains too low to force a short-term switch to zero-carbon fuels in some of the sectors covered by CBAM, notably steel and cement). Futures prices have risen from an average of €5-10 per tonne of CO_2 equivalent during 2013-2017 to around €20 during 2019-2020, to just below €60 in October 2021. (These prices are still not applied universally, and high-emitting companies in several sectors are still allocated free emissions permits – meaning that the actual carbon price they face is much lower than it otherwise would be.)

Carbon leakage and CBAM

The rise in ETS prices has accompanied growing concern over the relocation of industries to more permissive jurisdictions – a phenomenon sometimes referred to as 'carbon leakage'. This is one reason why the EU has signalled it will continue to grant free emissions permits to most high-

polluting European companies. Accordingly, the carbon price they effectively pay is much lower than the headline ETS price suggests. The EU has described the need to prevent carbon leakage as the basis for CBAM, despite a lack of evidence that convincingly supports this claim. Under CBAM, goods that are not subject to the ETS price will be taxed according to their carbon content at the EU's border. The system is designed to prevent EU producers from having to compete on price with firms that are insulated from carbon pricing.

CBAM is also designed to drive demand for green products. The measure has been described as "discriminatory" by Brazil, India, South Africa, and China – all producers from which the EU imports substantial amounts of aluminium, steel, and electricity. These producers argue that the EU's free allocation of emissions permits to European companies contravenes World Trade Organization (WTO) rules by taxing imported carbon while continuing to subsidise domestic carbon.

Assuming these objections will not persuade the EU to retreat from the Commission's proposals, the grace period embedded in CBAM (up to 2025) should allow these economies time to adjust to carbon pricing, and most likely accelerate a decarbonisation process that would have been almost inevitable. Nor is the EU likely to grant concessions to these large emerging economies, given that doing so would significantly reduce the impact of CBAM. Governments in target countries may, therefore, be persuaded to introduce robust domestic carbon taxation as a means of preventing the EU from capturing 'their' carbon pricing revenues.

Cooperation on carbon pricing

Regardless of whether the EU implements CBAM in a form that has a marked effect on carbon emissions, the measure could undermine the EU's climate leadership if it mismanages diplomacy around carbon taxation – particularly given the 'one nation, one vote' system in operation at COP26 and other multilateral forums. The bloc should pay particular attention to states that are vulnerable to the effects of CBAM. But EU diplomats and policymakers should bear in mind that CBAM will have succeeded if it promotes the adoption of carbon pricing or equivalent regimes outside Europe to the extent that it becomes largely irrelevant.

In pursuing this goal, the EU should build on its trade partnerships with major emitters by helping them not only develop systems for reporting and verifying the carbon content of exports but also design domestic standards or carbon trading or tax systems that are equivalent, or even superior, to the ETS, which would prevent them from facing CBAM charges. China's national ETS is differently structured and far less stringent than the EU's, but it provides a good institutional starting point. Russia is reportedly exploring options for a national carbon pricing regime, having calculated that

CBAM could affect more than $7 billion of exports – much more if the measure covers natural gas. However, the proliferation of carbon pricing has the potential to generate trade concerns and disputes. To mitigate this risk, the EU can make use of existing platforms such as the International Carbon Action Partnership and the Partnership for Market Readiness, which facilitates information exchange and provides technical support for preparation and implementation of carbon market instruments.

Similarly important is capacity building for scaling up the decarbonisation of heavy industry (regardless of whether it is accompanied by a carbon pricing regime). This requires the EU to invest in early-stage industrial decarbonisation technologies such as electrification and efficiency measures, and to build supply chains for the production of zero-carbon fuels in areas where such measures are unviable. To support these efforts, member states should consider increasing their commitments to the industrial decarbonisation fund within the World Bank's Climate Investment Fund, or setting up a similar initiative in the European Investment Bank (EIB). The EU should support either move with public technical assistance and grant support targeting industrial transformation. In determining how and where to allocate this support, the bloc could strengthen existing sector-based industry alliances – perhaps by taking a similar approach to the United Kingdom's Race to Zero coalition, or by working with European industrial and financial firms to drive the transition within hard-to-abate sectors (such as cement, steel, petrochemicals, heavy transport, shipping, and aviation).

Green finance and growth

If the EU is to remain credible, it may also need to take a more active role in regulating the activity of European financial and other companies that resist European climate policy goals. The latest Banking on Climate Change report finds that EU-based banks provided $635 billion in financing for the dirtiest forms of fossil fuel extraction and development between 2016 and 2020. Most European public banks, notably the EBRD and the EIB, have either ended fossil fuel financing or limited it to exceptional cases, increased their support for regions that are reliant on fossil fuels, and increased their focus on policies that support the green transition. But the bloc's regulation of private finance remains out of step with its climate ambitions.

A 'reverse CBAM' for financial institutions operating in the EU may provide one way to address this problem. Given that it is difficult and expensive to remove or replace infrastructure once it has been built, the EU could restrict European financing for high-carbon or other polluting projects ex ante. The bloc could do so by taxing investors at the same level that it would tax the products resulting from their investments – essentially collecting CBAM revenues further up the supply chain. For existing projects, EU public finance bodies could trial concessional financial mechanisms to replace revenues

from expensive dirty assets with those from cheaper clean ones. And they could use the savings to compensate for the early retirement of dirty assets and invest in additional renewable capacity – through 'coal for solar swaps', for instance.

Ultimately, measures such as CBAM will only be WTO-compliant if the border price accounts for free emissions allowances provided to companies within the EU. And they will only be effective if that price is high enough to drive investment in zero-carbon production beyond the EU's borders – which faces barriers ranging from fossil fuel subsidies, inadequate policy frameworks, and infrastructure deficits to a lack of access to finance and technology, and prohibitively high costs of capital where financing is available.

Green development and the global south

The global south is normally defined as countries outside the Organisation for Economic Co-operation and Development (OECD), excluding Russia, South Korea, and Chile. Within this group, carbon emissions have risen substantially in recent years, with India and China alone now contributing 60 per cent of the global total. However, China's meteoric economic rise, relatively advanced stage of development, and singularly important role in mitigating global emissions means that Europe will need to adopt an approach that addresses the country as a unique case. There are stark inequalities between the remaining states in the global south, with the 120 least-emitting countries collectively accounting for just 22 per cent of emissions.

These considerations create two related challenges for European climate diplomacy. The first challenge is in convincing today's major emitters to adopt climate policy goals of similar ambition to the EU's. These 'priority' states include China, India, Iran, Saudi Arabia, Mexico, Indonesia, Brazil, South Africa, and Turkey.

The second relates to the 120 countries that account for less than one-quarter of global emissions. For these states, climate diplomacy has historically centred on adaptation and compensation for loss and damages. Both of these areas are undoubtedly critical, but they are essentially exercises in damage limitation and, to an extent, an artefact of international climate negotiations. It is clear that the – still unmet – $100 billion per year in climate funding that wealthy countries have pledged to the global south is nowhere near enough to meet its investment and resilience needs. It is in this context of stale and outdated political commitments that EU climate policy can and should make a difference.

Nevertheless, the EU faces the Herculean task of making climate-first development an attractive option for low-emitting countries in the global south. These states face a swathe of urgent

development challenges such as an overreliance on commodity-based growth (which is linked to European states' colonial legacies), rapid population growth, and limited access to basic services – all of which have been compounded by the effects of the pandemic. The generally lopsided nature of resource extraction contracts between African states and European energy companies is just one example of this. Another is Western countries' historical role in driving climate change and its effects, including extreme weather, heightened risks of fire and drought, and sea level rises – which are likely to threaten the existence of numerous low-lying areas (including entire Pacific and Caribbean states) within the coming decades.

To successfully engage with these two distinct audiences in the global south, the EU will require a unified strategy. Many countries in the global south, particularly the most vulnerable African states, sense that EU leaders do not understand their concerns and are unprepared to establish a set of genuine partnerships that both address climate threats and help them capitalise on the opportunities of the green transition.

Negative side-effects of the European Green Deal

The policy measures the EU adopts under the European Green Deal have global ramifications, in both their direct economic consequences and as demonstrations of possible climate policy routes for the rest of the world to emulate or counter. Exports to the European market are affected by the EU's proposed measures to extend the ETS to international industries (notably aviation and shipping), accelerate the deployment of renewable energy, modernise building stock, and ban the sale of cars that run on fossil fuels by the mid-2030s. The impact on demand for raw materials, manufactured goods, and services will be felt across the globe. The European Green Deal will likely lead to losses and deteriorating trade balances among producers of materials and products that are at risk of becoming outdated and do not have the capacity to quickly diversify into green markets. It is hard to predict the combined effects of these factors on individual countries.

CBAM is one part of the policy package with a more foreseeable economic impact on the EU's trading partners. Africa may not be the intended target of CBAM given that it accounts for less than 5 per cent of global emissions, but the continent is home to almost all the countries that are most exposed to the measure: Mozambique, Guinea, Sierra Leone, Ghana, and Cameroon for aluminium; Zambia and Zimbabwe for steel; Morocco for electricity; and Algeria and Egypt for fertiliser. These states have limited fiscal headroom and face multiple development and pandemic-related challenges. As such, it is understandable that they perceive CBAM, and the EU's refusal to grant exemptions to the least developed countries, as a threat – even if, in practice, CBAM will simply accelerate an almost inevitable transition. Moreover, the EU's proposed use of punitive default assumptions – for cases in

which it cannot measure the carbon intensity of imports – is likely to punish African exporters that have relatively low-carbon production compared to EU firms but limited reporting infrastructure. These exporters are also unable to compete with their European counterparts on subsidies for research, development, and innovation in green and digital technology – due to their home countries' fiscal constraints and a limited inability to attract private investment.

These concerns could undermine the EU's climate leadership, deepen mistrust between the bloc and countries in the global south, and sabotage efforts to achieve the Paris Agreement's 1.5°C or even 2°C targets. Nevertheless, the negative short-term effects of CBAM on low-income countries could provide the EU with diplomatic cover (vis-à-vis its domestic audience) to facilitate, through a significant increase in investment, the green transition in their economies, including by supporting the people who are most at risk from the phase-out of fossil fuels. For example, Berlin has for several years engaged with Pretoria on the restructuring and phase-out of the South African coal industry. The EU should broaden these efforts beyond major African emitters, in recognition of the fact that many of the most vulnerable countries across the globe produce relatively little carbon but lack the financial resources, infrastructure, and expertise to replace industries reliant on fossil fuels with the broad-based economic development offered by green investment. The EU should redistribute revenues from CBAM to low-income countries that are affected by the measures, while increasing its efforts to break down barriers to green investment in the global south.

Advantages of green development

The threats of climate change aside, the shift to net-zero economies is a development opportunity for low-income countries. And it is one that could benefit the EU as a major energy importer that seeks sustainable alternatives to oil and gas imports. Russia remains Europe's largest supplier of both commodities.

The global south is not a bystander in green development but a potentially crucial source of energy in a post-carbon world economy. There are significant differences between low-income countries in their potential to develop renewable energy industries, partly due to their varying access to certain minerals. However, if the EU wants to decarbonise the high-carbon industries that are vital to its economy – such as aviation, shipping, steel, cement, and fertiliser – it will need to draw to a significant extent on zero-carbon electricity and fuels produced beyond its borders.

In recent years, there has been an astonishing fall in the cost of solar- and wind-generated electricity, and signs of a similar decline in the cost of complementary technologies such as battery storage and electrolysers. This means that green development is already attractive for many countries in the global

south – even those that face structural and financial barriers to investment. The EU can play a central role in breaking down these barriers through technical support (such as through the reform of subsidies that prevent renewables from gaining a foothold) and the promotion of sustainable investment. By increasing low-income countries' capacity to generate clean electricity and its derivatives, the bloc can reduce their long-term electricity costs, and help them create jobs, avoid pollution-related deaths, and diversify their exports.

It is in the EU's interest for these countries to make the leap to implementing digitally networked clean energy production systems, as this would contribute to the decarbonisation of the energy systems of Europe and other major consumers of fossil fuels. Climate policy is strategically important for these countries' economies. If the European Green Deal is to promote global climate action in compliance with the Paris Agreement, the EU will need to take a much stronger, clearer position on the benefits of clean development for economies in the global south – and to help them seize the corresponding opportunities.

Competition with non-EU investment

The EU's attempts to guide the developing world into a low-carbon era are complemented by its member states' bilateral agreements with third countries – such as Germany's partnership with Morocco on the development and production of green hydrogen. But, to persuade countries in the global south to engage in green development, the EU will need to outbid other sources of investment. The most prominent of these sources is China's Belt and Road Initiative, which is the largest infrastructure development project in history and covers more than 130 countries, including some EU member states. Xi's announcement that China will no longer build coal plants abroad may not apply to approved plants or prevent Chinese financing of future carbon-intensive projects.

Moreover, the private sector will not wait for the EU to move before seeking opportunities to green supply chains and acquire raw materials from countries in the global south. But the European Green Deal can prevent firms from exploiting these resources in ways that hamper development. To ensure this happens, the EU needs a much more coherent, strategic approach to green development in countries in the global south – one that is fully integrated into its foreign policy and trade agendas. This approach should be based on the mutual benefits of replacing extractive and agricultural industries with a green development paradigm that diversifies sources of economic growth and democratises the benefits of high-growth, high-wage industries beyond established political elites.

Green tech partnerships and the Global Gateway

The rapid development and deployment of a wide range of zero-carbon technologies and supporting infrastructure are crucial to climate change mitigation. As discussed, this is particularly true in the global south. Rich countries will only impede global development if they monopolise the intellectual property rights of green technology while applying carbon border adjustments. In contrast, swift and effective deployment of such technologies in most parts of the world would strengthen efforts to mitigate climate change.

As part of its role as a 'midwife' of a green grand bargain, the EU may need to incur the development costs of some technologies. The bloc should accelerate its green transition in a manner that meets its own infrastructure needs, and should establish its position as a major exporter of green goods and services. Renewable energy generation has become much cheaper than most international observers expected, partly because of large-scale early investments by leading markets such as Germany's, harnessed and accelerated by a shift towards production in China. The EU has a key role in the development of green energy technologies including renewables (not least offshore wind); energy efficiency; flexible and resilient electrical grids; long- and short-term storage; green hydrogen and ammonia; carbon capture and utilisation; direct air capture; and low-carbon transport, including electric vehicles, shared urban mobility, and zero-emissions shipping and air travel. These and other technologies are central to industrial transitions in hard-to-abate sectors.

The EU should combine ambitious climate policies with research, development, and industrial policies that encourage the development of low-carbon technologies. Although there is fierce global competition over these technologies, European companies still play leading roles in areas such as the wind power industry, as well as hydrogen and electrical grid technologies (including electric vehicle charging technology). To help deliver a green grand bargain, the EU needs to intensify cooperation with other powers on: research and development; cross-boundary demonstration projects (such as electrical grids that are heavily reliant on renewable energy production); the standardisation of products, testing, and safety procedures; and common methodologies for calculating carbon footprints.

The EU should provide more policy advice to its international partners in areas such as innovation, regulation, methods to scale up technologies, and the design of green financial markets. In this context, the bloc should consider the mutual benefits of engaging with other environmental issues such as air and water pollution, as well as waste. And it should account for the need for closer cooperation on energy market reforms, as shown by the recent rise in energy prices. One option could

be for the EU to work with the OECD and the International Energy Agency on best practice in energy market regulation, in light of new challenges such as increasing use of weather-dependent renewable sources.

The EU should accelerate the production of solar and wind power, along with other forms of renewable energy, in the global south. This will require investment in infrastructure and the kind of decentralised green tech solutions that are important for energy access and security – through, for example, technology transfers to African nations. It is important to not only focus on large projects: European start-ups can also play a crucial role in adapting modular technologies to developing countries.

The EU and its member states are already active in multilateral energy cooperation, including Mission Innovation and the International Solar Alliance. But they should also bring more countries into these groupings, support demand for low-carbon tech, and scale up bilateral cooperation projects such as the EU-India Clean Energy and Climate Partnership.

In the run-up to COP26, climate diplomacy by the EU, the US, and the UK has been effective in pushing for commitments to phase out the financing of new coal plants. They need to continue this campaign while helping countries such as China, Indonesia, Vietnam, Turkey, and South Africa find efficient alternatives to their existing plans for coal plants, such as improvements to electrical grids that facilitate increased use of solar and wind power. Western support for the new alliance to end oil and gas extraction is also important. Meanwhile, the EIB and the EBRD could set a positive example for other development banks through their efforts to end the financing of fossil fuel projects. The EU should support the recently launched global pledge on reducing methane leakage with increased financial and technical assistance.

The EU needs to cooperate with partners such as the US, Japan, and South Korea on building markets for green products to draw in investment, especially in heavy transport, agriculture, and heavy industry. The EU should reinforce such sectoral commitments, which are emerging as part of the COP26 process, by cooperating with other countries in areas including product standards; economic incentives for private investment (such as those under Contracts for Difference schemes); public procurement for the rapid introduction of low-carbon steel and aluminium; and zero-emissions vehicles for long-range heavy transport. The German government's recent proposal for an open climate club could be an important step in this direction. The EU should use its trade agreements more strategically in this regard, including in areas such as regulatory cooperation and sustainability chapters, and should increase its cooperation with Asian countries through the Asia-Europe Meeting and the Association of Southeast Asian Nations. Such alliances can accelerate investment and cost

reductions in key technologies.

The EU and China

China will continue to develop and produce low-cost green technologies such as electric vehicles. In a time of increasing geopolitical tensions, the EU needs both to engage and to compete with China in climate action (as explained in a recent ECFR report). This cooperation can cover issues such as methods for calculating carbon footprints and defining sustainable activities. The EU should compete to balance China's influence in Africa and Latin America, and to provide developing countries with more paths towards climate neutrality. In some areas, such as control of electrical grids, national security concerns will shape the EU's approach to China.

The EU and the US

Relations between the EU and the US are crucial to developing green technologies, and to preventing Chinese dominance of markets for these technologies. The Transatlantic Green Technology Alliance needs to rapidly start operating with sufficient commitment from both sides. Long-term transatlantic agreements on, for example, research and development can also play a role in this, as can progressive US states such as California. Joint legally binding commitments to create markets for green products could help reduce the risk of a rapid turnaround in the United States' climate policy after its 2024 presidential election.

However, science and technology cooperation is not only about reducing emissions from energy, industry, and transport. For instance, a global permafrost coalition could facilitate joint climate monitoring and action. It is also important to help countries understand the role of sinks for carbon dioxide such as forests and efforts to reduce agricultural emissions, as well as to cooperate to improve the accuracy of weather forecasts.

Tensions over tech ownership and subsidies

The EU is not the only power that is developing green industrial policies. To develop low-carbon production and other key technologies for the green transition, the bloc should engage in greater cooperation on innovation and standards with strategic partners such as the US, Canada, Japan, and South Korea.

However, some elements of the EU's new industrial policy could complicate a green grand bargain unless it reaches an agreement with its partners on issues such as subsidies. As discussed, the bloc will need to account for the consequences of this policy for the global south.

The EU's leading role in the development of green tech could also increase tensions with other parts of the world. For example, European companies are at the forefront of a global innovation race to improve low-carbon steel production. However, neighbours of the EU such as Ukraine cannot match the support it provides to knowledge transfers and public innovation in this industry. Accordingly, the EU should make sure that first movers do not unjustly monopolise breakthrough technologies developed with public support. Therefore, the EU's green grand bargain with countries in its neighbourhood and the global south should facilitate investment in cooperative innovation programmes.

Current cooperation between Japan and India could provide inspiration for this, as could proposals for a Global Hydrogen Alliance. The EU could also work with, for example, India to develop green technologies suited to third countries in the global south. To make this possible, the EU could create a Co-innovation and Green Tech Diffusion Fund, financed partly through the Global Europe programme and ETS and CBAM income. The bloc could break the deadlock in multilateral negotiations on green technology transfers by taking a more constructive approach at the WTO on issues such as intellectual property rights. The EU should build policies for resilient supply chains on partnerships with friendly countries, partly to avoid accusations of protectionism. Internally, the EU and its member states will need to substantially increase their investment in human and economic resources for green innovation networks with key countries.

Connectivity and low-carbon infrastructure

As discussed, European infrastructure investment and alternatives to the Belt and Road Initiative are crucial to efforts to combat climate change. For this reason, the EU's Global Gateway is welcome.

Initiatives such as the EU-India Connectivity Partnership have potential, as does the EU's push for the

implementation of the G7's Build Back Better World project. But, for the Global Gateway approach to achieve its aims, the EU will need to strengthen its financial commitments and quickly implement the Council of the European Union's July 2021 connectivity conclusions.

According to the Council and the European Parliament, climate action should account for 30 per cent of the budget of the Global Europe Neighbourhood, Development, and International Cooperation Instrument (NDICI-Global Europe) under the new Multiannual Financial Framework. It is imperative that the EU allocate these funds efficiently and avoid repeating its mistakes in the area. For example, the bloc needs to establish clear criteria on what counts as climate action and to continuously assess how its money is being spent. Good programming will be essential. EU delegations need to ensure that policies are coherent across the Global Europe programme, and to engage more in the strategic development of green transitions – not only at the project level. Member states should support this effort by increasing their climate financing and general official development assistance.

In addition, the EU should use public guarantees to de-risk private investment in low-carbon technologies and climate adaption in places such as Africa. It is crucial for the bloc to make good use of the European Fund for Sustainable Development Plus, including through greater transparency and coherence in supporting the UN Sustainable Development Goals.

But this will not be enough in itself. China exerts a great deal of influence on other countries through its state banks. In Europe, the EIB has taken important steps towards becoming a "climate bank". It is already expanding its project portfolio to more countries in the global south – and will have new opportunities to do so through NDICI-Global Europe. By increasing the bank's capital, EU member states would strengthen their influence in other parts of the world in a manner that would help them counterbalance China. Another option is for them to pool some of the International Monetary Fund's new special drawing rights through the EIB, in addition to national contributions to developing countries and multilateral funds within the fund.

Global standards and cooperation with the countries in the EU's neighbourhood

The EU will increase its global influence by moving ahead with its climate agenda. Climate and environmental action has already amplified the bloc's voice in world and increased its soft power. By using its large internal market, the EU can set international standards and thereby reinforce these trends. Many new initiatives under the European Green Deal will help the bloc do so. But, as discussed, the EU needs to pay greater heed to how such initiatives affect other parts of the world, and

to design diplomatic strategies for promoting its standards. The CBAM process shows that there is room for improvement in this. The EU should apply the lessons of that process to areas including car emissions regulations, sustainable finance, certification schemes for green hydrogen, the ETS, and methods for reducing methane emissions.

The EU and its member states should also become more active in global cooperation on safety standards for fuels such as green hydrogen, and should encourage more countries to join initiatives such as Mission Innovation. After COP26, the EU will need to maintain the momentum of international climate action during Germany's 2022 presidency of the G7, focusing on issues such as green industrial transitions, the phase-out of coal, and low-carbon transport. Transatlantic cooperation can play an important role in this, through measures such as a strong climate agenda for the new EU-US Trade and Technology Council. And the EU needs to use its alliances to change the ways in which the International Maritime Organization and International Civil Aviation Organization address climate issues.

Europe needs to strengthen its resilience against threats that climate change poses to the financial sector and economies more broadly, such as capital flight from sectors that are dependant on fossil fuels. At the same time, the EU should try to set global standards by further developing the green taxonomy for sustainable investments, and should promote global cooperation on interoperability with other standards by encouraging more governments to participate in the nascent International Platform on Sustainable Finance. The EU could also cooperate with third countries on joint assessments of the climate-related risks of stranded assets. This could involve the European Central Bank. Such cooperation on green finance could be yet another important part of a green grand bargain.

Environmental organisations and think-tanks around the world have played important roles both in lobbying for stricter standards and in providing technical advice to policymakers. However, corruption in state administrations and companies is a significant obstacle to these efforts. To help third countries implement effective climate standards, the EU will need to strengthen efforts to counter corruption. This is especially apparent in the EU's neighbourhood, where the prospects of accession and of association agreements have already had a great influence. But these considerations should become a more significant element of EU foreign and security policy (and be reflected in, inter alia, budget increases for such efforts). The EU should also continue to condemn the oppression of peaceful activists and independent media organisations that publicise governments' failure to take sufficient action on climate issues.

Cooperation in the EU's neighbourhood

Close economic and cultural links, shared ecosystems, and cross-border pollution bind the EU to countries in its neighbourhood, including Ukraine, Turkey, and states in North Africa and the Western Balkans. The UK, Norway, and Switzerland are key partners in dealing with these issues. The adoption of EU legislation in neighbouring countries improves the environment and reinforces the bloc's internal market. And joint policies give the EU more clout in international negotiations. The EU's relations with Russia are also crucial to climate policy.

In the UK's case, diplomatic tensions with the EU over a wide range of Brexit-related issues hinder collaboration on energy, climate, and green technology. The sides should try to insulate these critical areas of their relationship – in which cooperation is mutually beneficial – from the fallout of Brexit.

As discussed, the climate transition will have wide-ranging effects on countries in the EU's neighbourhood that currently export fossil fuels and products from carbon-intensive industries. To help deliver a green grand bargain, the EU should support climate transitions in neighbouring countries using instruments such as pre-accession programmes, association agreements, and NDICI-Global Europe funding. The EU should distribute unallocated NDICI-Global Europe resources according to countries' progress towards climate goals, thereby reinforcing these programmes. The EIB could enhance these efforts by, for example, financing more low-carbon projects in Turkey. The EU needs to scale up cooperation with its partners on renewable energy and energy efficiency, to accelerate the green transition in industries such as steel and cement. There is a risk that many companies in countries neighbouring the EU will lose access to European supply chains and finance under stricter green criteria.

As a result, it is especially important for the EU to develop a green external dimension to its new industrial policy. For example, as part of its ecosystem approach of developing industrial strengths and addressing weaknesses in different sectors, the EU should actively help companies in the neighbourhood integrate into EU supply chains. Connectivity is another important area of a green grand bargain. The EU should provide more investment in connectivity between the EU and the electrical grids of third countries, clearly linking this to the phase-out of coal-based power production. The standards of the EU's electricity market, such as network codes, are an important source of soft power. And, as shown by high global energy prices, the bloc should consider how it can use market reforms to reduce its dependence on powers such as Russia.

The EU should encourage regional cooperation on renewable energy. For example, as many parts of

Russia have great potential to produce such energy, European investment in this area could contribute to just economic development than that in oil and gas extraction. This could involve increased cooperation in the Arctic and the Barents Sea regions on low-carbon transitions in energy, transport, and industry. The bloc should consider promoting contact between European and Russian cities and regions.

Many climate measures also improve air and water quality. The same is true for environmental protection measures such as the circular economy and the treatment of waste, which reduce emissions of greenhouse gases. Through the development and financing of more coherent climate and environmental cooperation with neighbouring countries, Europe can generate public support for climate measures that do not provide visible immediate benefits. Such a coherent strategy requires, inter alia, better coordination between the relevant departments of the European Commission. A green grand bargain will require both coordination within the EU and incentives and disincentives in bilateral relationships.

The EU and the Western Balkans

Non-EU countries in the Western Balkans have a close relationship with the EU and are adapting to the acquis communautaire. Pre-accession instruments and other EU funds provide them with financing, including for climate-related projects. These countries are also part of the Energy Community and are integrating into the EU electricity market. They are now making investments to improve their electrical grid connections (including through the Trans-Balkan Corridor). However, they still have much to do to implement their green transitions. The EU should help them manage the social aspects of the transition and the effects of CBAM, building on the recently endorsed Economic and Investment Plan for the Western Balkans and Green Agenda for the Western Balkans. The EU should, for example, consider including industrial transitions as flagship projects in its financial support for these countries. Green bonds and help in de-risking investments are other important parts of EU support for these states. But countries such as Serbia and Bosnia-Herzegovina will need to shelve their plans for new coal plants and begin to phase out existing ones. Western Balkans countries also need to introduce carbon pricing, including through early accession to the ETS.

The EU and Turkey

It is in the EU's strategic interest to support Turkey's pro-Western business community and develop its promising renewables sector, such as by providing access to capital for green projects. As Turkey is a critical energy exporter to several member states, the EU could develop a common renewable energy area by helping the country build up its hydroelectric, wind, and solar power, and by committing to import Turkish renewable energy in the coming years. The bloc should also cooperate with Ankara on carbon pricing and green finance, including a green taxonomy.

This new approach would not resolve broader disputes between the sides over issues such as human rights, but it would improve rules-based engagement between them and, accordingly, other areas of their relationship. One such area is tensions in the eastern Mediterranean. This would be especially true if the EU took the lead in convincing Mediterranean member states to start developing green energy policies to reduce their dependency on hydrocarbons, which could slow the race for energy resources in the region.

The EU and Ukraine

Ukraine has a huge opportunity to reduce both its emissions and its vulnerability to Russian pressure. The country could do so by improving its energy efficiency, supporting the production of renewable energy, and synchronising with the European electrical grid. The EU should strengthen its climate and energy cooperation with Ukraine, including through additional financial commitments and instruments for de-risking green investment. European capacity-building and other support for the green transition in Ukraine would reduce CBAM's negative economic impact on the Ukrainian steel and cement industries.

The EU and Russia

Like nuclear proliferation, climate change is a problem that all European countries face and that they need to work with Russia to address. The EU has acknowledged this in statements such as that from the European Council in June 2021, which called for "selective engagement" on issues such as climate and the environment. And Russia cannot afford to ignore changes in its most important market: energy. The EU needs to critically review Russia's recent statements on its increased climate ambitions and link climate cooperation with the country to developments in other areas. The bloc could take the following steps towards this:

- Dialogue on CBAM, carbon pricing, and other legislative climate measures, such as product standards.
- Scientific cooperation on areas such as forests, the Arctic, industrial transitions, and socioeconomic issues.
- A permafrost coalition.
- Guidelines for sustainable finance, including a green taxonomy.
- Bilateral or multilateral cooperation on low-carbon industrial transitions in areas such as steel, aluminium, other metals, and cement.
- Expert support for development of Russian environmental legislation.
- The promotion of renewable energy and energy efficiency.
- Cooperation on green hydrogen standards and infrastructure.
- Efforts to reduce methane emissions.

The EU and Russia could also intensify their climate cooperation in bodies such as the OSCE, UN Economic Commission for Europe, and the Arctic Council. For example, they could improve electricity connections between Russia and EU countries such as Finland, and could establish a joint surveillance system for permafrost through the Arctic Council and the EU Northern Dimension. However, so long as the Kremlin has strong links to the

oil and gas sector – and continues to engage in large-scale corruption and frequent repression of the media and civil society – it will be difficult to achieve significant progress in these areas.

The EU and North Africa

Renewable energy production and green hydrogen exports provide new opportunities for countries such as Algeria, Morocco, and Egypt – despite CBAM's potentially negative effects on their economies. By improving cooperation with these countries through the Southern Partnership and bilateral relations, the EU and its member states can offset the negative social effects of reduced fossil-fuel exports. The EU's proposed Economic and Investment Plan for the Southern Neighbours should focus on the green transition. The EU can help manage the negative effects of climate change on low-lying areas such as the Nile Delta, and can support industrial transformations and climate adaptation in North African countries, including Egypt (which will host COP27 and has an urgent need to modernise its heavy industry).

Climate multilateralism

Multilateralism is the final aspect of the EU's toolkit for climate action. Cooperation with and through international institutions is in the EU's DNA. And the bloc commits significant diplomatic resources to protecting its interests through the multilateral system. Given that an effective rules-based international system is essential to the EU's ability to protect its interests, the bloc needs to engage in climate multilateralism for at least two main reasons. The EU's primary goal at COP26 is to raise global climate ambitions, and to ensure that there is at least a possibility of capping global warming at 1.5°C. However, the bloc's secondary goal at the conference is to arrest the decline of multilateralism – to demonstrate that – on climate, if nothing else – the international architecture can sustain a global consensus despite the significant differences between major powers.

To achieve this, the EU needs to push like-minded states at COP26 to adopt highly visible measures in line with a green grand bargain. As discussed, a robust climate financing package should be part of

this. In the wake of the CBAM proposal, it will be particularly important for the bloc to show a willingness to listen, and to address long-standing points of contention with developing countries, such as loss and damage, investment needs, and Article 6 of the Paris Agreement (governing carbon markets under the Sustainable Development Mechanism).

But the EU should be realistic about what it can achieve at COP26. It is unlikely that the conference will result in an agreement strong enough to limit global warming to 1.5°C. Therefore, it will be vital for the EU to develop a narrative about sustained progress towards climate goals – and to agree on concrete action to support this – if it is to prevent the emergence of a political environment characterised by a sense of failure and defeatism. The EU will also have an important role to play in deploying clean technologies at speed and scale as an example to others. There is now a fragile global consensus on the need for strategic action on emissions and climate resilience, and growing international agreement on the need to achieve net-zero emissions by mid-century. Yet political shifts in the coming years – such as those that could result from the 2024 US presidential election, as well as future climate and multilateral conferences – could easily undermine this. The EU will need to sustain its climate action for decades to come. As part of its attempts to fulfil its climate commitments and demonstrate global climate leadership, the bloc should create an inter-institutional expert task-force for climate action.

The EU's efforts to shape the post-COP26 political environment should also focus on its relationship with the UK, to ensure that the country remains actively engaged with multilateral climate issues through common projects. This could involve partnership with the UK on some of the initiatives it has driven during its presidency of COP26 – such as the creation of Getting to Zero coalitions, which could be anchored in EU institutions. Member states could work with the European Commission to create stronger public-private partnerships to drive the green transition in industries such as cement, steel, plastics, aluminium, shipping, aviation, and heavy transport. This could involve the UK, given the close bilateral ties between the country and EU states in many of these sectors.

The EU should be open to Germany's proposed climate club, which could help reduce disillusionment with the climate agenda after COP26 by coordinating the efforts of a group of states that committed to ambitious climate goals. This could draw on several recent proposals, including a 2021 non-paper from the German government, and the revival of the Major Economies Forum on Energy and Climate in the US. These initiatives include some principles that are essential to the EU – such as remaining open to any new members that increase their level of ambition (which addresses the risk of deeper divisions between rich and poor countries); ensuring that such efforts reinforce the Paris Agreement rather than compete with it; and considering a broad set of tools, policies, and investments beyond carbon pricing.

Coalitions of the willing in the EU have shown how limited cooperation formats can spur progress on a range of divisive issues. Fear of missing out on the political and economic benefits of climate action could be a powerful tool in persuading other powers and recalcitrant member states to go along. The EU has taken the initiative by setting out how it plans to implement the European Green Deal under the Fit for 55 package, and has faced significant pushback from its partners as a result. As such, the bloc has seen that, on climate issues, there are first-mover disadvantages as well as advantages. An open climate club could afford the EU some protection in reinforcing member states' resolve to implement its climate agenda.

Ultimately, given the extent of the economic transformation required to transition away from carbon, the global climate architecture cannot consist only of the Paris Agreement. The G20, the G7, and bilateral relationships will all have significant roles too. As a multilateral player, the EU will need to weave the thread of climate ambition through and between these forums, ensuring that they reinforce one another. Close cooperation through a transatlantic dialogue will be a key part of this – allowing the EU and the US to communicate a joint message that is hard for other powers to ignore. But – for now, at least – the EU has a more transparent plan for implementing the green transition than the US does, and is trialling new tools that push others to adapt, such as CBAM.

In this way, the EU is leading by example, giving it political clout that the US currently lacks. There is some concern in member state capitals about the extent of the US commitment to climate action, regardless of the outcome of the country's next presidential election. Therefore, the EU should try to bind the US into climate action through dialogue on areas in which developed nations have shared interests. One element of this could be attempting to shift the focus of the transatlantic dialogue on energy security away from hydrocarbons and towards clean energy sources and energy efficiency.

Institutional capacity could limit the EU's climate diplomacy. Although there have been some good efforts and success stories in this area, effective European engagement across various multilateral

formats will require greater reinforcement and collaboration between EU entities. This includes coordination between EU institutions in Brussels and member state capitals, as well as on the ground in third countries between EU delegations and national embassies, to ensure that climate diplomacy is a core part of the promotion of national and European interests abroad. The EU should increase the number of personnel it dedicates to implementing a green grand bargain within ministries of foreign affairs and the European External Action Service, and should ensure that European diplomats who work on climate issues understand the economics of green development.

In addition, member states could establish task-forces to address climate challenges – as could EU institutions – to ensure that a green grand bargain receives support from all relevant departments, including those responsible for energy, the environment, finance, trade, agriculture, transport, and development. If EU climate leadership is to come into its own after COP26, it cannot ignore these questions of institutional capacity and coordination.

Conclusion and recommendations

Only a year ago, before the 2020 US presidential election, the idea of building a green grand bargain on climate would have seemed impossible. The weight of US re-engagement with the climate agenda under President Joe Biden has been crucial in persuading other global players to make a constructive contribution to COP26. There may have been a global shift towards recognition of the need to end countries' reliance on fossil fuels. But this will not be enough in itself to create an agreement at the conference on how to switch to alternative sources of energy. Such an agreement will have to come from the realities of inter-state relations in a world that has begun the transition away from carbon.

This is where the EU should come into its own, as the midwife of a green grand bargain. The bloc is not yet a geopolitical force equal to the US – one that can credibly threaten to use all aspects of its economic power to reinforce its negotiating position at COP26. The divisions and disjointedness within the EU are well known to not just the leaders of its institutions but also the governments of third countries.

European climate power will have to come from a capacity to enact change at a more practical level, through the EU's interactions with countries of all kinds. The bloc should use its trade tools and the power of its market to push its partners away from carbon-intensive production. It should make a greater investment in the development of green tech, to ensure that it is not only China that shapes this aspect of a global green revolution. The EU should also provide green financing and leverage private sector investment to help the developing world benefit from this revolution. And the bloc should boost the development of the renewable energy sector by reframing the concept of energy

security to centre on clean energy and efficiency, and by analysing the energy market reforms that would support this effort.

In a world in which the transition away from carbon is almost inevitable, climate action is a question of European sovereignty. Effective climate action is in the interests of Europeans as much as people in any other region. The EU will need to manage the new dependencies it develops as it attempts to protect its energy security with clean sources of power, and to build the green tech it requires to transform its economy. The bloc should acknowledge the reality that climate action is not just about doing the right thing, but also about protecting European interests. This could help win support for climate action from EU member states that are concerned about the speed and intensity of the green transition.

The EU needs to develop a narrative that explains why a lack of climate action poses far bigger risks. And, in discussions with third countries about how to build new partnerships to manage the green transition, the EU should be honest about its motivations for climate action. This would be a helpful change in tone away from its perceived efforts to lecture the global south about the need to take difficult steps.

The EU also needs to apply lessons from other aspects of European sovereignty, by developing a capacity to withstand coercion by opponents of climate action. Despite the international backlash against CBAM, the bloc should stand firm on the proposed measure (which is already more limited than many climate campaigners hoped). The EU should also work to establish fair carbon pricing mechanisms in coordination with the countries most vulnerable to CBAM's effects. By creating carbon conditionality in trade, the EU can shape the global discussion on carbon pricing.

If the European Green Deal is a success, other countries will follow the EU's example – even if they are dissatisfied with the agreement's direct effects on them. To avoid political disputes and help deliver a green grand bargain, the EU needs to learn from the backlash against CBAM. This will require the bloc to analyse its climate measures' effects on its partners, and to develop strategies for dialogue with them, before announcing new proposals.

Europe also needs to show its commitment to climate action by implementing the European Green Deal in a socially just manner. Having announced its Fit for 55 package, the bloc should show that it can manage the political consequences of the resulting societal change. But the EU also needs to change its international reputation for hypocrisy on climate issues – which comes from the huge gap between the rhetoric of European leaders and the reality of European investments in carbon-intensive projects outside the EU. One way to do so is to ban European investment in projects that are out of line with Europe's commitments under the Paris Agreement.

The EU should increase its investment in co-innovation programmes and ensure that green technologies developed with public support are available to those that do not own their intellectual property. To this end, the EU could create a Co-innovation and Green Tech Diffusion Fund, financed partly through the Global Europe programme and partly by income from the ETS and CBAM. The EU could break the deadlock in multilateral negotiations on green technology transfers by taking a more constructive approach to intellectual property rights at the WTO.

The EU should intensify cooperation with countries in its neighbourhood on renewable energy and energy efficiency, to accelerate the green transition in industries such as steel and cement. Many companies in neighbouring countries could lose access to European supply chains and finance under stricter green criteria. For this reason, it is especially important for the EU to develop an external dimension to its green industrial policy, and to help businesses in its neighbourhood become part of the EU ecosystem approach.

The EU's climate leadership strategy should pay special attention to its relationship with the global south. Green development provides real opportunities to low-income countries, but it remains unclear whether they will receive the support they need to capitalise on them. Therefore, the EU should help these states deal with the combined effects of CBAM, global green development, and climate change by increasing its investment in and dialogue with the most vulnerable among them. The bloc should formulate a sectoral climate and development strategy for Africa – one that focuses on the swift adoption of digital technologies and the creation of the infrastructure essential to African countries' domestic and export markets.

Finance is crucial to the climate transition and the EU's green power. Member states should not only use the substantial resources allocated to climate through NDICI-Global Europe, but should increase the climate capital of the EIB. This would give the Global Gateway a sound financial basis to present a compelling alternative to the Belt and Road Initiative in Africa and elsewhere, and to accelerate the transformations in digital and clean energy infrastructure in countries such as India. Member states should also pool some special drawing rights through the EIB.

Ultimately, the EU should continue to support the UK's COP26 presidency, the COP secretariat, and major powers such as the US by publicly discussing the need for climate action. But Europe will only become a true climate leader if it helps deliver a green grand bargain that makes full use of its economic, multilateral, and soft power.

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Acknowledgements

This paper would not have been possible without Jenny Söderström's careful and tireless work in developing and managing the workshops that generated much of the material included here, and in managing the partnerships around them. The authors are also very grateful to all those who participated in these discussions and shared their perspectives. Thanks also go to ECFR colleagues Rafael Loss and Theodore Murphy for their thoughtful comments on drafts of this paper, as well as to members of the wider network including Tomas Anker Christensen, Linda Kalcher, and Julian Popov for providing important insights on the text. Chris Raggett's editing has greatly improved the text, and Swantje Green and Andreas Bock's support in developing the outreach around this project has been invaluable. The authors highly appreciate the support from the European Climate Foundation and the Calouste Gulbenkian Foundation for their work on climate geopolitics.

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 ISBN: 978-1-914572-21-0. Published by the European Council on Foreign Relations (ECFR), 4th Floor, Tennyson House, 159-165 Great Portland Street, London W1W 5PA, United Kingdom.