Think
new things
Make
new connections

Terms of Reference

Climate and security trade-offs: Transatlantic industrial and trade policies in the green transition

7th-8th November 2024, with departures on the 9th November

Summary

As leading global economies make bets on economic growth in low-carbon industries and the transition to a net-zero future, the nexus between climate priorities and those for trade and economic security are creating both frictions and new areas of opportunity. The erosion of long-established trade norms, policies and institutions has coincided with a renewed interest on both sides of the Atlantic in the use of industrial policy and other once-disfavoured tools such as tariffs and border measures to promote decarbonization, create jobs, secure supply chains, and strengthen national security. The urgency of climate change has been a key driver of this shift, but by no means the exclusive one. In the United States, strategic competition with China, the economic revival of regions suffering from post-industrial decline, and anxieties over supply chain fragility have also been major factors. In the United Kingdom and Europe, by contrast, there has been greater emphasis on energy costs, derisking from Russia, and a broader decline in global competitiveness.

The emergence of what U.S. National Security Advisor Jake Sullivan has called “the New Washington Consensus” raises many questions about the future of transatlantic cooperation around trade and climate. For example: Can Washington, London, and Brussels transcend sharply divergent regulatory systems and decarbonization approaches to expand the global marketplace for low-carbon goods and technologies? How will different risk appetites for supply chain relationships with China shape partnerships around critical minerals and next-generation climate technologies? How can advanced economies help ensure that the Global South is not disadvantaged by their industrial policies and shares equitably in the benefits of the net zero transition?

With a transatlantic focus, the aim of this conference is to accelerate understanding of the way evolving trade dynamics and green transition agendas are converging in geopolitics, and the responses of political, governmental and business sectors. Decision making on economic and trade policy, national security, development and

DITCHLEY

international diplomacy is now central to climate policies. It also provides crucial context for domestic industrial strategies and private sector investment.

COP29, which directly follows this conference, will highlight debates about how to mobilise climate finance. It will also likely see a recurrence of tensions over trade-related climate measures, such as the EU Carbon Border Adjustment Mechanism, as occurred at COP28. Finding opportunities for economic alignment and investment could strengthen relations between developed and developing economies in ways that might reduce tension and contribute to functional geopolitics.

This conference will bring together business leaders and decision-makers on economic policy, geopolitics, diplomacy and national security from the UK, US and Europe, as well as selected countries globally. It will examine the trade-offs between different policy priorities (economic security, national security and the green transition) and the opportunities that accrue by their intersection. The conference will consider:

- Global trade as it relates to energy transitions.
- Opportunities to expand clean energy supply chains across developed and developing economies.
- Both the risks of slowing climate action and the opportunities for innovation that arise from strategic competition between the US and China.
- The opportunities for the UK, both in accelerating the green transition at home and collaborating with partners in the US, EU and across the world.
- How to manage domestic industrial strategies and coordinate industrial strategies with allies.

Working Groups:

Working Group A: Managing geopolitical risk in strategic competition over green technology and trade

This working group will consider the geopolitical risks as a result of uncertainty over global energy supplies and growing needs, as well as the impact of China's dominance in renewable energy sectors. What does this current geopolitical environment mean for investment and trade in clean energy technologies? Where are the opportunities for collaboration to address these risks, and what forms of competition will be most productive in furthering a green transition?

Are there inherent contradictions in bringing together the objectives of economic prosperity, national security and climate change action or can these diverse objectives be mutually reinforcing?

For example, if our priority is economic prosperity, could security be a precondition for sustainable growth, given that increasing geopolitical risks may increase uncertainty and reduce investment? Alternatively, if our priority is climate change action, will competition undermine the global effort to reduce carbon emissions, or create greater domestic policy space for decarbonization? If national security is our priority, will the United States and China's investment in clean energy technologies to secure a geopolitical advantage be a positive or a negative development? Is there an opportunity for climate ambitions to latch onto this sense of momentum, and use it to further ambitions for an energy transition and emissions reduction? Can there be an effective marriage of economic nationalism and decarbonization? Is the EU is also beginning to view investment in green technology and decarbonization through a global competitiveness lens, justifying departures from free market orthodoxy?

What is the risk created by industrial policies aimed at catalysing a green transition if they can only be implemented only by the richer nations? Are subsidies, at scale sufficient to make clean energy industries globally competitive, only available to wealthy (USA, Europe, etc.) or very large (China, India) economies. What does that mean for the competitiveness of the rest of the world? Is there a way to allow smaller economies to avoid making a choice between US, European, and Chinese clean energy supply technology and investment?

Ultimately, this working group seeks to explore both the trade-offs to be made and the opportunities for collaboration and the scenarios that may play out in the medium and long term.

Working Group B: Climate and trade mechanisms

How can decision-makers effectively navigate emerging tensions between trade and climate policies and leverage trade relationships to drive emissions reductions? What institutions and partnerships are best suited to these aims, and how can they be designed to ensure a just transition and fair deal for the Global South?

Can trade liberalisation and climate change regulation complement one another, or are they fundamentally at odds? If it is true that WTO rules are not well-adapted to addressing non-market economic practices, above all those of China, does that mean the EU should follow the US in moving beyond WTO rules, even at the risk of trade fragmentation? Is there is an unavoidable dilemma between WTO rules and EU-US-UK co-operation, or is there room for more creative collaboration than has been seen to date, such as cooperation around standards rather than tariffs? If this is the case, what can be done to raise environmental standards globally? Are some existing trade instruments paving the way, i.e. the UK-EU TCA, the EU CBAM, and the Singapore-Australia Clean Economy Agreement?

Could renewed emphasis (e.g. by the US & China) on emission controls stimulate innovation and change market operations in the form of CBAMs? Can international applications of carbon pricing mechanisms steer capital towards green technologies and further R&D? However, what would happen to economic security priorities if China switches to cleaner manufacturing allowing them to comply with proposed American and European CBAMs?

What are the long-term consequences of trade fragmentation? Is it possible to create a ‘small-yard, high fence’ for just some trading areas and not all? What agreements do we have that guarantee Chinese retaliation to these trade barriers will stay within the ‘small yard’? Is it possible to avoid the escalation of trade fragmentation, given that China has benefited so greatly from the existing system of free trade? Further, what might be the effects of climate impacts on trade patterns that were established during a period of climate stability?

Ultimately this group seeks to explore how effective our existing international institutions are, and who for? If we are willing to loosen commitments to free trade, how will this affect the US, UK, EU and emerging markets in the long term, and what are the spillovers into national security and our climate ambitions?

Working Group C: Navigating industrial strategies and private sector investment

Cooperation over industrial strategy and private sector engagement offers both risk and opportunity. Is there an opportunity for a shared understanding or alignment around industrial policy across the US, EU and UK and in ways that explicitly develop beneficial opportunities for private sector investment, including in emerging market economies? Is there any opportunity for transatlantic ‘economic statecraft’, as outlined in the Draghi Report, *‘EU Competitiveness: Looking Ahead’*, or creative measures such as shared national wealth funds.

Industrial policy is seen as undeveloped at the European level, where the focus has traditionally been on constraining state aid. If there has been a shift from neo-liberal free trade to state directed industrial policy, what are the longer-term implications of this policy for domestic and international economies? What bodies exist, or should exist for coordinating industrial strategies or private sector investment across allied countries?

In terms of risk, how should the private sector manage geopolitical risk and the threat that climate change presents, and what are its responsibilities and opportunities in doing so, especially in areas of energy and national security. What lessons can the private sector learn from the German gas industry’s close relationship with Russian partners in lead up to the 2022 Russian invasion of Ukraine and the resultant German energy crisis, or our relationships with China in the telecommunications sector? What are the implications of the current state of private sector investments for economic and national security in five to ten years’ time, and what may some unintended outcomes be?