The EU's Path to Global Leadership in Decarbonisation

by Jarosław Pietras

Summary

The EU faces the challenge of balancing sustainability and competitiveness as it seeks to lead global decarbonisation efforts. To achieve these goals, the Union must carry out a profound economic transformation, invest significantly in new technologies and harmonise environmental priorities with economic growth. As a global leader in climate policy, the EU must confront competition from economies with less ambitious climate actions. As the Union implements climate measures, their stringency seriously impacts the competitiveness of European industries. Therefore, providing greater clarity about obligations and simplifying compliance rules are vital for the EU's own enterprises and those in other countries.

For the EU to influence others, particularly in the Global South, it must demonstrate that its own strategies are successful. This would involve tangible proof that its measures deliver positive outcomes for climate, the environment and the economy. Without clear results, global economic partners may oppose the EU's approach. This includes the Carbon Border Adjustment Mechanism, which aims to prevent carbon leakage. The EU must pursue active climate diplomacy, offering technical assistance and financial support, and engaging in international trade reforms, such as greening the World Trade Organization. Success in these efforts will position the EU as a global leader in sustainability and economic transformation.

Keywords Decarbonisation– Sustainability – Carbon Border Adjustment Mechanism (CBAM) – WTO – Climate diplomacy

Introduction

The urgency of preventing climate change and seeking to decarbonise economic processes cannot be overstated. The Intergovernmental Panel on Climate Change has consistently warned that limiting global warming to 1.5°C above pre-industrial levels requires a drastic reduction in greenhouse gas emissions. The EU has responded to this challenge with the European Green Deal, a comprehensive strategy to make Europe the first climate-neutral continent by 2050. This ambitious plan sets the stage for the EU to lead by example, demonstrating that economic growth and environmental sustainability need not be mutually exclusive, but can be mutually reinforcing. This is no easy task, as the EU faces the challenge of maintaining the global competitiveness of its economy as a whole and its industries in particular. This was well documented in Mario Draghi's recent report on European competitiveness.[1] It is becoming clear that the only way to ensure that the EU can drive global decarbonisation while maintaining its competitiveness is through an active trade policy coordinated with the EU's domestic economic policies. The EU has long been an advocate of open, rules-based trade and must now use this position to promote sustainable practices around the world. Greening trade involves ensuring that trade agreements and policies encourage low-carbon technologies, reduce carbon footprints and support the global transition to a sustainable economy. It also means that trade rules and the World Trade Organization (WTO) system must be able to take climate and sustainability issues into account and make them widely accepted.

[1] European Commission, *The Future of European Competitiveness: Part A – A Competitiveness Strategy for Europe* (Brussels, 2024).

Balancing policies of sustainability and competitiveness

The EU has been very active for years in the climate negotiations leading up to the Paris Agreement on climate change. It has become clear that progress on climate targets will not be achieved unless it is accompanied by consistent efforts by all emitters in both developed and developing countries. While the EU has made significant progress in reducing its own emissions, global climate targets cannot be achieved without the active participation of other large emitters, including emerging economies, which are expected to account for the majority of future emissions growth. The EU should seek to ensure that the Paris Agreement targets are met through the actions of all the parties and that other countries increase their nationally determined contributions over time. In this context, the EU's own climate commitments are crucial to maintaining its credibility as a global leader. The EU's commitment to reducing greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels and to achieve net-zero emissions by 2050 sets a high standard for others.

The EU, undertaking ambitious measures in climate policy, confronts international trade competition from economies with modest climate actions. In the long run, as the EU implements more and more stringent climate policies, such a situation could seriously impact the competitiveness of European industries. To achieve global climate goals, other countries should be incentivised to take significant steps to mitigate climate change.

A central pillar of the EU's strategy to green international trade is the introduction of the Carbon Border Adjustment Mechanism (CBAM). This mechanism seeks to level the playing field for European industries by imposing a carbon price on imports from countries with less stringent climate policies. By doing so, CBAM aims to prevent carbon leakage—when companies move production to countries with laxer environmental regulations—and tries to ensure that European industries are not disadvantaged by their commitment to sustainability.[2] Furthermore, there is hope that CBAM will encourage other countries to adopt similar carbon pricing mechanisms, thus driving global efforts to reduce emissions. However, the success of CBAM depends on careful implementation and international cooperation.[3] The EU must engage in dialogue with its trading partners to ensure that CBAM is seen not as protectionism but as a necessary step toward global climate action.

Another pillar affecting EU trade relations is legislation requiring the greening of its supply chains, particularly in sectors that are heavily reliant on imported raw materials and components. By setting sustainability standards for imports and promoting the use of recycled materials, the EU tries to reduce the carbon footprint of its own industries and encourage global suppliers to adopt more sustainable practices. Additionally, it is done via trade agreements which include provisions that promote environmental protection and ensure that partner countries commit to implementing international environmental agreements, such as the Paris Agreement. However, that this measure is not anchored in international agreements, even being fully legitimised, provokes negative reactions from countries and companies coping with compliance. Like CBAM, it requires significant documentation and paperwork, involving additional costs in export and import transactions.

An additional piece of similar legislation tries to prevent deforestation in other countries by requiring proof that in the process of production, regardless of the region and the supplier, there is no negative impact on existing forests. As it does with the requirements in the area of supply chains, it obliges EU importers to ensure documentation covering production sites beyond the EU territory. It extends obligations to producers and suppliers, particularly of developing countries, to provide detailed and credible proof of the lack of negative impact of production on the condition of the forests involved. Other legislation heads in the same direction,

[2] J. Pietras, *Navigating the Carbon Border Adjustment Mechanism: The Dangers of Non-compliance and Circumvention* (Brussels, Wilfried Martens Centre for European Studies, 2022).

[3] S. Weko et al., *The Global Impacts of an EU Carbon Border Adjustment Mechanism*, IASS Policy Brief no. 6/2020 (Potsdam, 2020).

such as the taxonomy indicating which investments conform to the requirements of sustainability.[4] Because international trade rules do not cover such measures, and the EU is merely permitted to have the taxonomy in place, the impact on trade might be significant.

The need to integrate sustainability with the WTO

All of these measures affecting exporters to the Union put a significant burden on those trading with the EU. While convincingly justified, they are not yet fully integrated within international trade rules. Very often they are seen as contradicting the principles on which the trading rules are based. They might be challenged as not fully conforming to the most basic principles enshrined in the WTO system. China and India have already made formal claims in the WTO Dispute Settlement system that CBAM is not compliant with some WTO provisions. Other countries may join in. Even if it is unlikely that these claims will lead to any meaningful outcome, the situation attests to the growing concerns that there is no agreement on climate-motivated trade measures.

Some EU trading partners, especially originating in the Global South, protest the unilateralism of the EU approach, which adopts measures without engaging in a comprehensive agreement on how they are constructed and implemented to minimise their negative impact without compromising the aims of these measures. The multitude of EU environmental and climate policies results in an aggravated impact in countries of the Global South still coping with the need to ensure economic growth and the enhancement of capacity while implementing the complex requirements for their industry.[5] The poorer countries also face a disproportionately excessive administrative burden on their institutions in coping with formal requirements and are not prepared financially to provide sufficient support to help the institutions complete required paperwork.

The paradox lies in the combination of the undisputed justification of climate change mitigation and the contested trade burdens on the EU. These measures fall within the scope of trade rules but are not explicitly covered by existing multilateral trade agreements. It is not only exporting countries that complain, but also EU companies and importers, especially small ones. For them, the cost of compliance is often more burdensome than the actual CBAM payments. To alleviate legitimate concerns, the EU should engage in building a common understanding of implementation requirements. For example, there are many different approaches to calculating emissions, including those developed by the International Organization for Standardization. These methods lead to substantially different results. To avoid inconsistencies, CBAM refers to the European approach. This creates problems for many manufacturers around the world, who may have to use different methods depending on who they trade with. It calls for negotiations to begin to establish the most widely accepted approach possible.

There are many similar practical issues related to the requirements for providing internationally accepted data for due diligence on the sustainability of supply chains or deforestation.[6] There is also an issue of the verification methods and how they are applied in practice. To minimise the negative reactions of trading partners and engage them in shaping global climate instruments, the EU should try hard to find solutions via dialogue and negotiations with its trading partners. The effectiveness and acceptability of the EU measures depend on the scale of involvement of other countries to create a set of rules covering these types of issues.

[4] It is necessary to consider the trade impact of several pieces of EU legislation besides the CBAM Regulation. These include, *inter alia*, the Corporate Sustainability Reporting Directive; the Taxonomy Regulation, notably with its 'do no significant harm' assessment; the Sustainable Finance Disclosure Regulation; the Corporate Sustainability Due Diligence Directive; the Eco-design for Sustainable Products Regulation; the Industrial Emissions Directive; the Emissions Trading System; and also REACH.

[5] It should be taken into account that the perception of climate actions and other environmental measures taken by the EU and particularly their impact might be considered as a prolongation of the long-lasting policies of exploitation of the Global South. See, for example, M. Lang, M. A. Manahan and B. Bringel (eds.), *The Geopolitics of Green Colonialism: Global Justice and Ecosocial Transitions* (London: Pluto Press, 2024).

[6] B. Li et al., *Unpacking the EU Deforestation Regulation's Legal Production Requirement*, World Resources Institute (June 2024).

Therefore, the EU should promote the reform of the WTO aiming at the unequivocal inclusion of green measures in trading rules.[7] Elements to be considered in such a reform include the facilitation of trade in green products, focused on eliminating tariffs and other trade barriers, as well as the greening of international trade in services, and particularly low-carbon international transport, resulting in the reduction of the climate footprint related to international trade. In particular, the sustainability aspect in global value chains can help to identify problems which should be considered when reforming the WTO.

International agreement is also needed on another aspect of climate and environment policies having an impact on trade. The EU and many other countries use subsidies to accelerate decarbonisation and green transformation. The amounts in question are large, and their potential collision with trade rules is imminent. It is not only the issue of their size but also the conditions, circumstances and terms of their application. The EU has relaxed its policy in relation to green subsidies, which means that other countries could follow suit, weakening the subsidies' contribution to the green transformation and distorting their impact on trade.

Reforming the WTO along such lines would help to create a global green marketplace, which could be based on common environmental standards, methods of verification of emissions, subsidies and the development of climate-friendly technologies, and embedding circularity concepts into international trade. The creation of such a green global marketplace should be a guiding principle of the reform of the WTO. Tackling these issues in the WTO would help to alleviate some of the negative perceptions of the EU climate measures. But agreeing on them internationally would also be welcomed by European companies. It must be remembered that many formal, technical and practical difficulties in the implementation of CBAM—due diligence in supply chains, deforestation legislation and so on—pose significant problems not only for exporters in other countries but also the EU's own trading companies. Small and medium-sized companies, in particular, have great difficulty overcoming the complexities of compliance.[8] For them, the costs of compliance often outweigh the climate benefits many times over. Greater clarity and simplification would facilitate the unobtrusive implementation of sustainability legislation in the EU. Thus, it would contribute to maintaining the competitiveness of European companies.

EU international decarbonisation actions and diplomacy

For the EU to lead the global decarbonisation effort, it must engage in proactive climate diplomacy, building alliances and fostering international cooperation on climate action. This involves not only advocating for stronger climate commitments from other countries but also providing the necessary support to help them achieve these commitments. This requires climate diplomacy to become more intense and concrete. It can involve offering preferential trade terms to countries that meet certain environmental criteria or providing financial assistance for green initiatives in partner countries.

The EU should engage with all other countries through climate diplomacy, offering technical assistance, technology transfer and financial support to help them transition to low-carbon economies. This engagement should be based on mutual benefit, with the EU helping emerging economies develop their green industries, which in turn can create new markets for European products and services.

Achieving global leadership in decarbonisation will require unprecedented levels of investment in green technologies, infrastructure and innovation. The EU must mobilise both public and private finance to support sustainable

7 The EU is already strongly engaged in the debates concerning WTO reforms. See European Commission, *Reforming the WTO. Towards a Sustainable and Effective Multilateral System* (Brussels, 2021). But the EU should be clearer on including its own climate measures in trading rules to avoid the criticism of green unilateralism.

8 T. Delille, V. Giovannini and G. Messent, 'EU CBAM Reporting Obligations and Obligated Entities: Understanding the Complexity of a New System', Squire Patton Boggs (Washington, DC, 2024).

development, ensuring that the transition to a low-carbon economy is inclusive and equitable. The European Green Deal Investment Plan, which aims to mobilise at least €1 trillion in sustainable investments over the next decade, is a step in the right direction. Private sector investment should be complemented by public funding, with financial instruments tailored to support the commercialisation of innovative solutions. Mechanisms such as Carbon Contracts for Difference can help de-risk investments in emerging technologies by providing price stability, encouraging companies to invest in low-carbon solutions. However, this will require robust governance mechanisms to ensure that funds are allocated efficiently, and that they deliver measurable climate benefits while avoiding any weakening of EU competitiveness or distortion of international trade. The EU's Global Gateway initiative, which aims to mobilise €300 billion in investments for sustainable infrastructure worldwide, can play a crucial role in this effort. The Union's industrial strategy should prioritise investments in key technologies where Europe has a competitive advantage or strategic interest. By helping developing countries build sustainable infrastructure, the EU can promote global climate action while also creating new opportunities for European businesses.

The European Investment Bank has positioned itself as the EU's climate bank, with a commitment to align all its activities with the goals of the Paris Agreement by 2021. The bank can play a crucial role in financing the green transition by providing low-interest loans, guarantees and other financial instruments to support renewable energy projects, energy efficiency improvements and sustainable infrastructure development. Additionally, the European Investment Bank should focus on de-risking private sector investments in green technologies, encouraging more private capital to flow into sustainable projects.

The private sector is indispensable in financing the green transition. The EU must create a conducive environment for private investment in sustainable development through clear regulatory frameworks, incentives and the establishment of green finance standards. Moreover, the EU should support the development of green bonds and other financial products that allow investors to fund climate-friendly projects. The green transformation in Europe, as well as globally, requires large additional financial resources.

Conclusion

The EU has long been a key player in international climate negotiations, and it must continue to push for more ambitious global climate action. The EU's pledge to reduce greenhouse gas emissions by at least 55% by 2030 compared to 1990 levels, and to achieve net-zero emissions by 2050, sets a high standard for others to follow. But the EU should also be able to demonstrate that this ambition can be beneficial to economic prosperity and growth.

The EU's industrial sectors, particularly those that are energy-intensive, will need to undergo significant transformation to align with the Green Deal's goals. This includes the adoption of near-zero emissions technologies in steel, cement and chemicals production, as well as the electrification of industrial processes. The EU should ensure that European manufacturers remain competitive in the global markets for low-carbon products.

The EU has a unique opportunity to lead the global decarbonisation effort, setting the standard for how economies can transition to sustainability while maintaining competitiveness. By reforming WTO and greening trade rules, agreeing on green subsidies and the financing of sustainable development, and engaging in proactive climate diplomacy, the EU can drive global climate action and create new economic opportunities for its industries. However, achieving these goals will require a comprehensive, coordinated approach that involves all levels of government, the private sector and civil society. The EU's leadership on climate change is not just about meeting emissions targets; it is about demonstrating that sustainable policies are necessary for prosperity. The key to success lies in the EU's ability to integrate its climate goals with broader economic and strategic interests, demonstrating that environmental leadership and economic prosperity can go hand in hand.

	Programme 1	Programme 2	Programme 3
	Greening of international trade between the EU and its trading partners	**Ensuring international cooperation on climate and intensifying climate diplomacy**	**Mobilising private finance to leverage sustainable development aid**
Project 1	Engage in WTO negotiations to facilitate trade in green goods and services. Support the reform of WTO rules that would make them indisputably consistent with climate objectives. Revitalise the Dispute Settlement Body.	Fully apply Europe's normative—soft—power to promote international climate actions through dedicated coordination between EU Representations and EU members' embassies. Create synergy between hard and soft external policy instruments in use by the EU Commission and the European External Action Service.	Ensure sustainable and environmentally responsible conduct from European companies investing abroad via the implementation of the Corporate Sustainability Due Diligence Directive. Strengthen cooperation on critical raw materials through targeted use of EU development funds.
Project 2	Urgently initiate measures to promote European export of products affected by CBAM. Review and analyse compliance requirements for involved companies. Use the 'CBAM international effect' on trading partners by enhancing relations with countries introducing a carbon price.	Facilitate the development of the G7 Climate Club with the positive agenda of cooperation in climate actions between club members. Initiate dialogue and negotiations to prevent the labelling of EU climate policies as 'green unilateralism'.	Finance the international just transition with available resources from European development assistance. Blend EU official development aid with private financial sources to ensure additional financing.
Project 3	Expand the networks of the EU free trade agreements with likeminded countries.	Find common ground in European climate diplomacy facing the divergent climate actions of the US, China, India and others by initiating comparisons of decarbonisation outcomes, and negotiate common standards and methodologies for measuring carbon emissions.	Green European development aid by focusing on the European Fund for Sustainable Development Plus. Make sure that the Global Gateway includes major climate components supported by EU funds.

Bibliography

Delille, T., Giovannini, V. and Messent, G., 'EU CBAM Reporting Obligations and Obligated Entities: Understanding the Complexity of a New System', Squire Patton Boggs (Washington, DC, 2024), accessed at https://www.squirepattonboggs.com/en/insights/publications/2024/09/eu-cbam-reporting-obligations-and-obligated-entities-understanding-the-complexity-of-a-new-system on 8 October 2024.

European Commission, *Reforming the WTO Towards a Sustainable and Effective Multilateral Trading System* (2021), accessed at https://knowledge4policy.ec.europa.eu/publication/reforming-wto-towards-sustainable-effective-multilateral-trading-system_en on 8 October 2024.

European Commission, *The Future of European Competitiveness: Part A – A Competitiveness Strategy for Europe* (2024), accessed at https://commission.europa.eu/document/download/97e481fd-2dc3-412d-be4c-f152a8232961_en?filename=The%20future%20of%20Europeaan%20competitiveness%20_%20A%20competitiveness%20strategy%20for%20Europe.pdf on 8 October 2024.

Lang, M., Manahan, M. A. and Bringel, B. (eds.), *The Geopolitics of Green Colonialism: Global Justice and Ecosocial Transitions* (London: Pluto Press, 2024).

Li, B. et al., *Unpacking the EU Deforestation Regulation's Legal Production Requirement*, World Resources Institute (June 2024), accessed at https://www.wri.org/technical-perspectives/eu-deforestation-regulation-legal-production-requirement on 8 October 2024.

Pietras, J., *Navigating the Carbon Border Adjustment Mechanism: The Dangers of Non-Compliance and Circumvention* (Brussels, Wilfried Martens Centre for European Studies, 2022), accessed at https://www.martenscentre.eu/publication/navigating-the-carbon-border-adjustment-mechanism-the-dangers-of-non-compliance-and-circumvention/ on 8 October 2024.

Weko, S. et al., *The Global Impacts of an EU Carbon Border Adjustment Mechanism*, IASS Policy Brief no. 6/2020 (Potsdam, 2020), accessed at https://www.rifs-potsdam.de/sites/default/files/2020-12/Policy_Brief_Carbon_Border_Adjustment_Mechanism.pdf on 8 October 2024.