

*Improving economic policy*

---



# Reconciling climate and innovation policies with international cooperation

Discussion of Bown and Clausing, “How to cooperate when the United States, EU and China have very different climate and trade policies”, and Veugelers, “Innovations for an Open Strategic Autonomy Clean Energy Industrial Policy”

---

**PIIE Conference on the Macroeconomic Implications of  
Climate Action**  
**Jeromin Zettelmeyer**

**bruegel.org**

# Praise



*Chad Bown & Kim Clausing, "How to cooperate ..."*

1. Great comparative summary of climate policies in US, EU, China
2. Careful analysis of the cross-border spillovers of these policies
3. Super-useful summary of how these policies may or may not conflict with WTO rules
4. Clear analysis of need for/limitations of WTO reform to address climate-related trade tensions.
5. Sensible suggestions for plurilateral agreements to limit trade damage linked to climate action.

*Reinhilde Veugelers, "Innovations ..."*

1. Great comparative summary of green innovation and energy policies in US, EU, China and beyond
2. State-of-the art principle for how green innovation policy should be conducted
3. Critical review of the performance of actual policies with respect to green innovation
4. Useful ideas for improving international collaboration.

*Common theme:* national climate/innovation policies have both positive and negative spillovers.

Need to ensure that the latter do not derail (1) international trade; (2) collaboration on climate action



# Chad's and Kim's narrative



1. Divergent approaches to fighting climate change in the US, EU and China are generating (trade) tensions that could be very costly to global prosperity
2. The WTO is not able to resolve these tensions, both by design, and because it is dysfunctional
3. WTO reform is needed, but do not expect too much from it.
4. To reduce conflict, need plurilateral agreements that set limits (“guardrails”) to:
  - Trade-harmful policies: export restrictions (verboten), subsidies (no domestic content restrictions), CBAMs (non-discriminatory)
  - Responses/retaliation to those policies (no escalation, automatic termination).

## An alternative (complementary?) narrative



1. There is no intrinsic reason why climate policy heterogeneity should lead to trade tensions.
2. The trade tension-creating elements of policy in the US, EU and China are not about climate policy at all. They reflect other motivations.
3. To reduce conflict, need to understand these climate-extrinsic motivations, and either fight them, or address them in ways that are as collaboration-friendly as possible.

# Claim 1: Climate policy heterogeneity need not imply trade tensions



<b>Climate policy</b>	<b>Impact on competitiveness of domestic firms</b>
Carbon price	Adverse (non-discriminatory CBAM can partly, but not fully offset adverse effect)
Energy efficiency subsidies	None
Green consumption subsidies (e.g. EVs)	None
Clean energy subsidies (feed-in tariffs or investment subsidies)	None/depends on: <ul style="list-style-type: none"><li>• How fiscal cost is recouped</li><li>• How impact on energy costs</li><li>• Effects on domestic vs. international suppliers</li></ul>
Green innovation subsidies	None/minor/depends on: <ul style="list-style-type: none"><li>• Extent of subsidy versus extent of innovation externality</li></ul>



## Claim 2: Policies that produce trade tensions generally have non-climate motives



Body

Policy	Potential motive		
	Climate?	Security?	Economic nationalism?
Domestic content requirement	No	Yes	Yes
Domestic assembly requirement	No	Possibly	Yes
Domestic self-sufficiency target	No	Possibly	Yes
Clean tech manufacturing subsidies	Possibly (but unlikely)	Not really	Yes

# Policy implications

1. Most of Chad & Kim's recommendations (WTO reform, plurilateral agreements) continue to apply.
  - Would mitigate discriminatory policy *whatever its motive*.
2. Case for reform of WTO subsidies regime becomes a bit weaker.
  - Prohibited subsidies (linked to local content) should remain prohibited.
  - Legitimate climate subsidies ("actionable") can be designed to avoid harming trade.
3. Need to confront (non-climate related) motives for discrimination. This requires:
  - a. Finding policies that reconcile security and trade openness.
  - b. Resisting most forms of economic nationalism/protectionism
    - Important question: is economic nationalism ever justified *in advanced countries*?
  - c. Addressing concerns that trigger economic nationalism with other means (Wolf, 2023)