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The G7's "Climate Club", Border Carbon Adjustments, and Australia

Professor Peter Draper

Jean Monnet Chair in Trade and the Environment



Overview

The EU as driver

The G7's Climate Club framework

A climate club pilot? The EU-US Global Sustainable Steel and Aluminium deal

Political economy considerations

Issues for Australian policy makers

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The image shows the European Union flag, a blue field with twelve yellow stars, waving in the wind. It is positioned in front of a modern building with a glass and metal facade. The flag is attached to a tall, silver flagpole. The building's facade is composed of many rectangular windows and metal frames, creating a grid-like pattern. The text "The EU as driver" is overlaid in white, bold, sans-serif font in the center of the image.

The EU as driver

The Climate Club is Driven by EU concerns

The EU sees itself as a global climate mitigation leader

Its carbon price was the 5th highest in early 2023

- After Uruguay, Switzerland, Liechtenstein, and Sweden
- The US does not have a carbon price although some states do
- China and Japan - very low
- India does not have one either

Prompting 'carbon leakage' concerns

And a corresponding desire to externalise its regulatory preferences (the "Brussels Effect")



Source: World Bank [Carbon Pricing Dashboard](#)

- ETS implemented or scheduled for implementation
- Carbon tax implemented or scheduled for implementation
- ETS or carbon tax under consideration
- ETS and carbon tax implemented or scheduled
- ETS implemented or scheduled, ETS or carbon tax under con...
- Carbon tax implemented or scheduled, ETS under considera...

The share of GHG emissions covered by emissions trading systems has increased significantly

Share of GHG emissions with a positive carbon price, in %, 2018-2021 evolution by instrument for 71 countries



Percentages are rounded to the first decimal place.

Source: OECD (2022), [Pricing Greenhouse Gas Emissions: Turning climate targets into climate action](#) - Created with [Datayrapper](#)

The EU's CBAM

In its first phase, the CBAM will focus on goods most at risk of carbon leakage:



Importers to report direct and indirect emissions

From 1 October 2023

Pay cost of purchasing certificates from 2026

Price based on weekly average price of EU ETS allowances

If the importer can prove that a carbon price was paid when producing the good, that amount can be deducted

CBAM will initially be applied to direct emissions

Indirect emissions in cement and fertiliser sectors to be phased-in

Embedded emissions methodology to be worked out in interim phase

In the implementation period

Free allocations to be phased out, 2026-2034

Sector expansion to take place from 2030

UK, Japan, Malaysia, USA, Canada and Australia contemplating their own BCAs



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The G7's Climate Club framework



The G7's Climate Club (1)

Sponsored by Germany & launched December 2022

- Based on “Club theory” (Buchanan, 1965) applied to environment (Nordhaus, 2015)
- Purpose is to overcome free-riding problem vis a vis collective action
 - *Interpretation: The Paris Agreement is not delivering sufficient, and sufficiently balanced, ambition*
- By developing a global carbon-pricing framework (at least that is the EU's objective)

Structure

- Pillar 1: Advance GHG mitigation policies (carbon leakage focus; joint measurement approaches)
- Pillar 2: Decarbonise hard to abate industries (initially iron and steel; cement)
- Pillar 3: Boost international climate cooperation and partnership
- Interim Secretariat in the OECD and IEA



The G7's Climate Club (2)



Clean Energy Economy Action Plan (Hiroshima May 20 2023)

- Transparency and coordination of policies to maximize incentives' impact
- Emissions reductions through trade policies (embedded emissions accounting; carbon leakage)
- Promote resilient global supply chains (clean energy manufacturing; reduce strategic vulnerabilities including in critical minerals; embed due diligence; finance mobilisation)
- Promote clean energy technologies
- Promote trade and investment in clean energy goods and services
- Support global partners
- Full launch by COP28 (November 2023)



A photograph of the United States Capitol building in Washington, D.C. The image shows the iconic dome and the neoclassical facade with its columns and steps. The sky is filled with dramatic, white and grey clouds. The text is overlaid on the center of the image.

A climate club pilot?

The EU-US Global Sustainable Steel and Aluminium deal

A Climate Club Pilot?

Common tariffs calculation method

- Does not adjust for members' domestic abatement costs
- Border tax based on exceeding domestic benchmarks
- No allowance for domestic or trading partners' regulatory or actual carbon costs

Application to club members' trade

- Four preferential tariff tiers
- Determined by either industry average emissions intensity or highest product emission intensity, in importing country

Application to non-club members' trade

- Four external tariff levels
- Baseline: highest proposed GSA members tariff level
- Markup: One of 4 emissions intensity ranges
- Same determination as for GSA members' tariffs

Not a carbon adjustment mechanism per se

US Proposals for the US-EU Global Arrangement on Sustainable Steel and Aluminium

Club membership criteria

- Average embedded product emissions
- Contribution to “non-market excess capacity” (China...)
- Minimum procurement of low emissions steel and aluminium

Dealing with non-market excess capacity

- GSA members should employ standard trade defence instruments
- Binding transparency obligations and code of conduct for subsidies best practice design
- Green box to exempt certain environmental subsidies
- Retrofit existing subsidies legislation to ensure WTO ASCM conformity

Additional commitments

- Governments to procure agreed % of low carbon products
- Cooperation to enhance low carbon R&D
- Members commit to supporting LDCs' decarbonization commitments
- The US should permanently remove S232 steel and aluminium tariffs

A Climate Club Pilot? EU Proposals for the US-EU Global Steel and Aluminium Arrangement

Club membership criteria

- Primacy to the CBAM
- Members can adopt own policies provided they conform to international law
- Binding commitments for domestic sectoral decarbonisation (2030/40/50)
- Embedded product emissions should not be x% higher than an average of US/EU emissions intensities



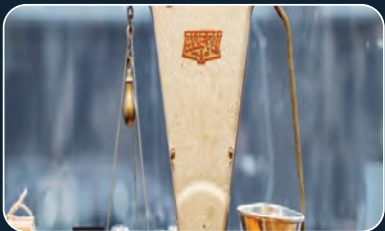
Political economy considerations

Some systemic challenges



Measurement problem

- Absence of common embedded emissions accounting standards means application of dubious “default intensities”
- Developing countries’ capacities to properly measure GHG emissions at the levels required



Equivalence problem

- Exemptions for “equivalent contributions”?
- The Paris Agreement specifically allows for non-price measures



Level playing field problem

- While taxing imports the EU and US are massively subsidising domestic producers
- While the EU club may be more like an “alliance”, the US proposal is highly discriminatory and exclusive

Some systemic challenges



Legal problems?

- WTO jurisprudence suggests potential for challenges, e.g “production process methods”
- Places the already stressed WTO dispute settlement system under more strain
- Carbon leakage elevated to level of a principle, application of which violates the Paris Agreement’s NDCs anchoring



Geo-economics problem

- Effectively negates the principle of “Common but Differentiated Responsibilities - and Respective Capabilities” at the heart of the UNFCCC process
- By compelling developing countries to adopt G7 norms, e.g. carbon pricing in the EU’s CBAM
- And invites “copy-cat” responses thereby undermining the Paris Agreement as well as the WTO’s DSM

“Club” or “Alliance”? 3 Typologies (Falkner et. al, 2021)



Normative: Shared, generally high ambition, goals and open-membership

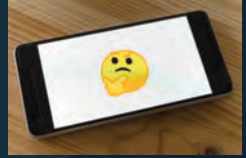


Bargaining: Outcomes focused but only the most significant players



Transformational: Shared ambition and norms; aim to change others' incentive structures (Nordhaus model)





Australian policy makers have a lot to consider as they design our BCA

Systemic issues loom large

- Are we undermining the Paris Agreement?
 - If so, with what implications for our regional partnerships, especially the “Pacific family”
- Will it be WTO compatible?
 - If not, will our standing as guardian of the “rules-based order” suffer?
- Offset by “rather in the tent than outside”?

The technical design is challenging

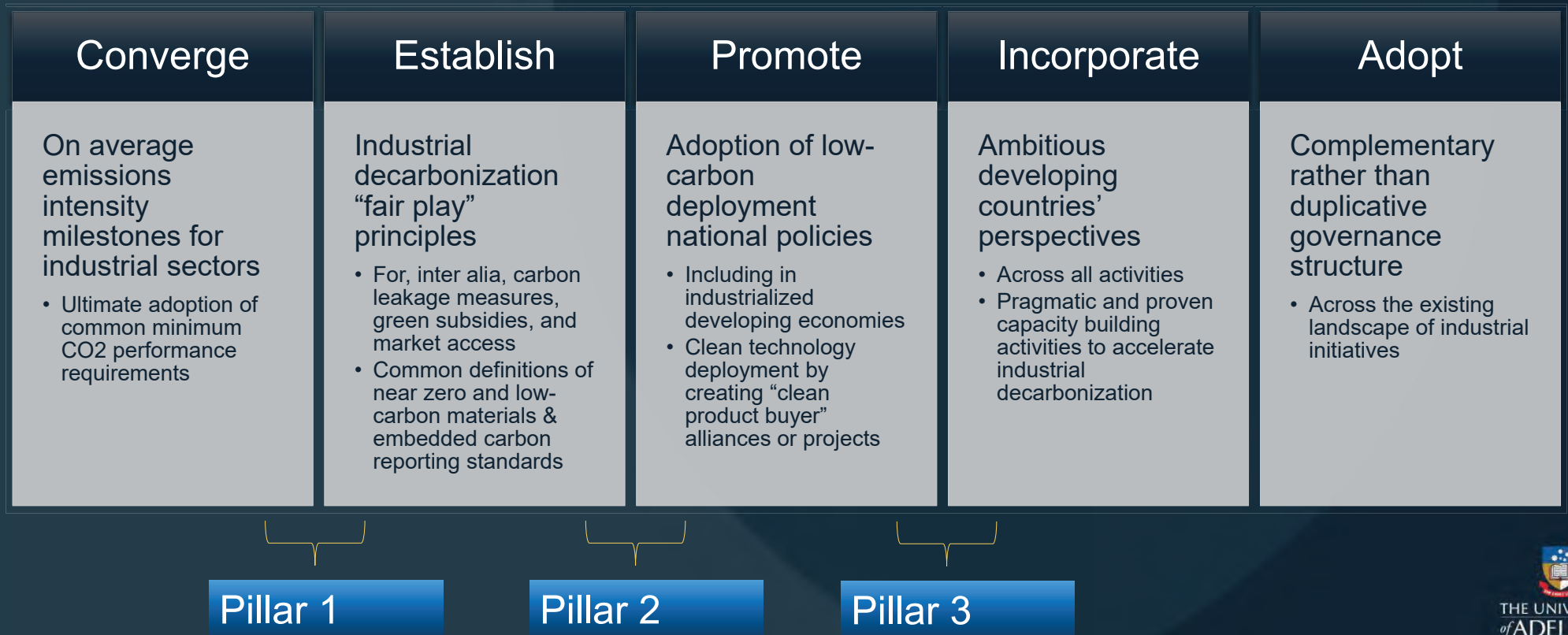
- Particularly embedded emissions measurement and/or application of default intensities in relation to imports
- Accommodating developing country concerns (or not)
- Ensuring it doesn’t become protectionism by the back door

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A “Climate Alliance” rather (E3G, 2022)?



A Climate Alliance implementation agenda (E3G)

Breakthrough Agenda (supported by IEA) <i>Overarching</i>		
Climate alliance <i>Ambitious implementation and participation in initiatives through national policies Identify and initiate missing gaps in collaborative agenda</i>		
Pillar 1 Converging on ambition and defining fair play	Pillar 2 Sectoral coordination: making scalable green markets	Pillar 3 Building capacity and investments in developing countries
Ambition convergence Lead: governments in the alliance Related processes: UNFCCC (NDC cycle & Mitigation Work Programme); Responsible Steel; LeadIT; CEM; G7/20	Demand side Lead: IDDI & FMC Related processes: SteelZero; GSA; new clean product buyers' alliances	Lead: new forum to be set up (possibly UNIDO-led) Funding: alliance members + future public-private buyers alliances Related process: LeadIT, CEM, International Climate Finance Institutions; Article 6 of the PA
Trade and fair play Lead: new dialogue to be set up Related processes: WTO; Coalition of Trade Ministers on Climate; OECD; GSA; G7/20	Supply side Lead: MI Related processes: new clean product buyers' alliances	

Cooperation or discord in global climate policy (Keohane and Victor, 2016)?

Deep mitigation:
Multilateral (Kyoto)

Shallow mitigation:
“Clubs”

Table 1 | Prospects for coordination and cooperation under four different conditions.

	Potential joint gains are high	Potential joint gains are low
Agreements are not self-enforcing (cooperation is required for collaboration)	Possible cooperation with high rewards, but with dangers of defection that rise with the depth of cooperation.	Little incentive to seek to cooperate, although shallowness of cooperation limits dangers of defection.
Agreements are self-enforcing (coordination is sufficient for collaboration)	Likely coordination, with limited but realizable gains, often leaving potential gains ‘on the table’.	Easy coordination, limited by the low level of potential gains.

Deep mitigation: sub-
groups (technologies)

Shallow mitigation:
multilateral (UNFCCC)



Domestic politics remains crucial

But how to ‘surface’ those to form credible commitments (preferences)?

Combination of approaches, or ‘polycentric’ ‘regime complexes’ likely to evolve

Reflecting National Interests via the Paris Agreement: Nationally Determined Contributions (Keohane and Victor, 2016)

- Created the global public good of reduced climate change
- Governments create local or national public goods that also address climate change
- Generated competitive economic benefits, e.g., creation of new industries
- Generated side-payments, e.g., Disaster and Recovery Fund
- Created reputational benefits for some – appeal to ESG “consensus”
- Now complemented by privately-led initiatives (ESG)
- And basic but indispensable technical work, e.g., emissions accounting and reporting

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Hydrogen in Australia's Future and the Implications for our International Relations

Allia Conference on National Hydrogen Strategies

26th June 2023, Adelaide

Professor Peter Draper, Jean Monnet Chair of Trade and Environment
and Executive Director, Institute for International Trade

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We acknowledge and pay our respects to the Kurna people,
the traditional custodians whose ancestral lands we gather on.

We acknowledge the deep feelings of attachment and relationship of the
Kurna people to country and we respect and value their past, present
and ongoing connection to the land and cultural beliefs.

Overview

Hydrogen in the global energy transition

Trade-related implications

Australia's hydrogen trade future

Broader implications for our international (trade) relations

An aerial night photograph of a city, likely Sydney, Australia, showing a dense grid of city lights and a large body of water (the harbor) in the center. The lights are primarily orange and yellow, with some blue and green lights visible. The water reflects the city lights, creating a shimmering effect. The overall scene is a high-contrast, high-resolution image of a city at night.

Hydrogen in the global energy transition

Trade-related implications

Australia's hydrogen trade future

Broader implications for our international (trade) relations

Global demand is growing but supply is met by unabated fossil fuels

Global demand is mostly in industrial and refining applications

New growth in direct iron reduction, shipping, and power (off a small base)

This will be substantially short of 2030 requirements to meet 2050 net zero targets

Low emissions production pipeline (electrolysis; CCUS) increasing rapidly off very low base

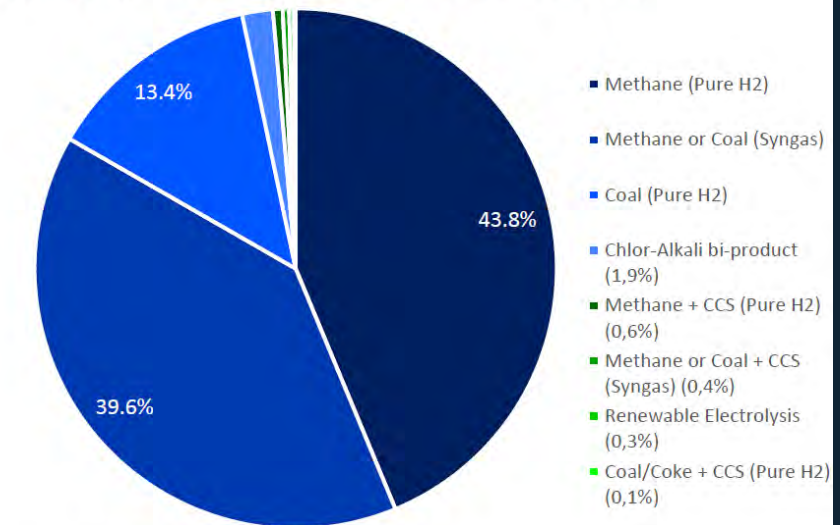
Still far short of path consistent with 2050 net zero targets

Currently competitive with unabated fossil fuels production in many regions

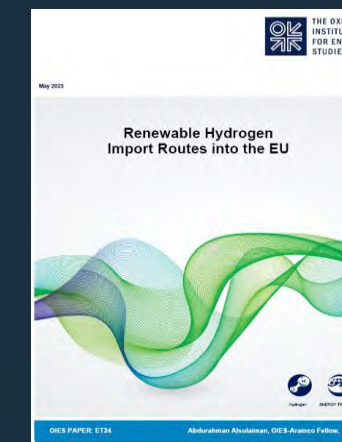
Particularly in countries/regions with good renewable resources (e.g., Australia)

If electrolyser production scales up and costs are driven down – a virtuous cycle could be established

Figure 1: Hydrogen production split by feedstock in 2020 (per cent)



Source: IEAGHG, 6/2022



Which means trade opportunities will grow

The major potential demandeurs are heavy industry, heavy duty road transport, and shipping

Securing customers is a key challenge for suppliers

Trade impediments also block progress (more on this below)

To remove them requires international cooperation



Geopolitics are providing significant tailwinds

Russia's invasion of Ukraine and impacts on European energy supplies

China's western search for energy security (Central Asia and the Middle East)

Japan's dependence on Russian gas and search for energy guarantees

U.S. desire to re-industrialise to compete with China, and derivative subsidies

European responses to US subsidies, and rush to diversify from Russian gas



A world map is the central focus, with various currencies and pins scattered around it. In the top left, there are several US dollar bills, including a \$100 bill and a \$10 bill. In the top right, there are more US dollar bills, including a \$100 bill and a \$10 bill. In the bottom left, there are more US dollar bills, including a \$100 bill and a \$10 bill. In the bottom right, there are more US dollar bills, including a \$100 bill and a \$10 bill. The map is also covered with many small, colorful pins, particularly in the central and right-hand areas. The text "Trade-related implications" is overlaid on the map in a large, white, sans-serif font.

Trade-related implications

Australia's hydrogen trade future

Broader implications for our international (trade) relations

Plans for low emissions hydrogen are ambitious, but demand is lagging

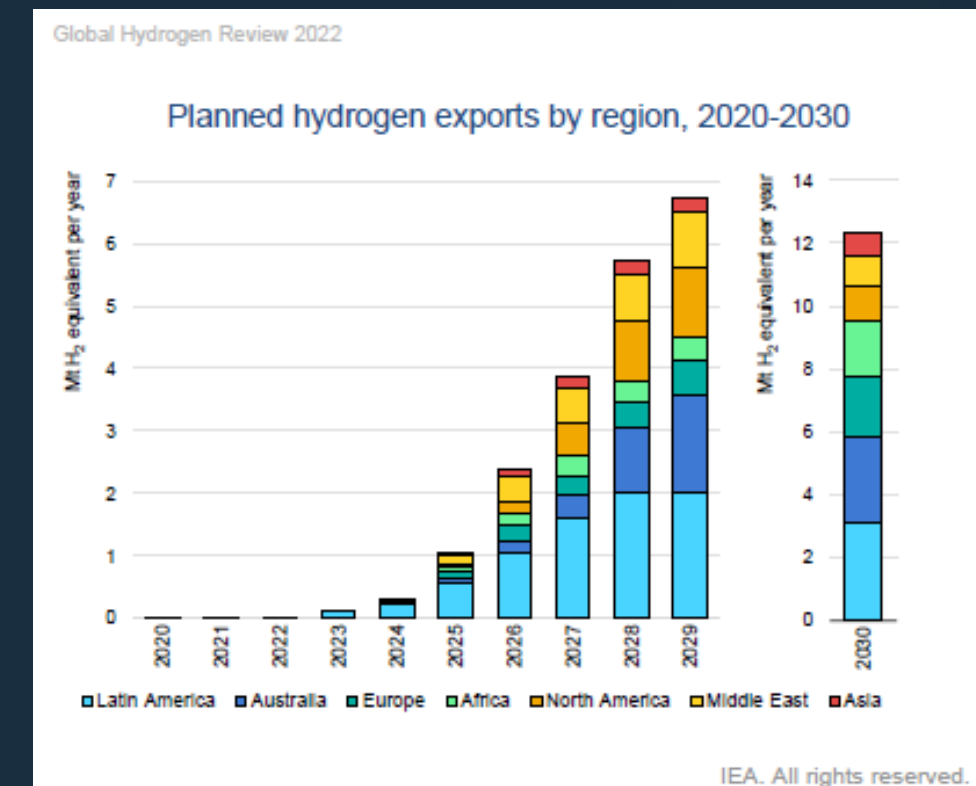
A “nascent, but rapidly growing landscape for hydrogen trade” (IEA, 2022, 162)

Derived from electrolytic production and carried in ammonia

Planned supply currently substantially exceeds confirmed import agreements

But Asian, and especially European, governments are developing import plans

Target-setting beyond 2030 remains a constraint on projects needing longer time-horizons



Source: IRENA Global Hydrogen Trade Report, 2022



Major industrial relocations could be in the cards

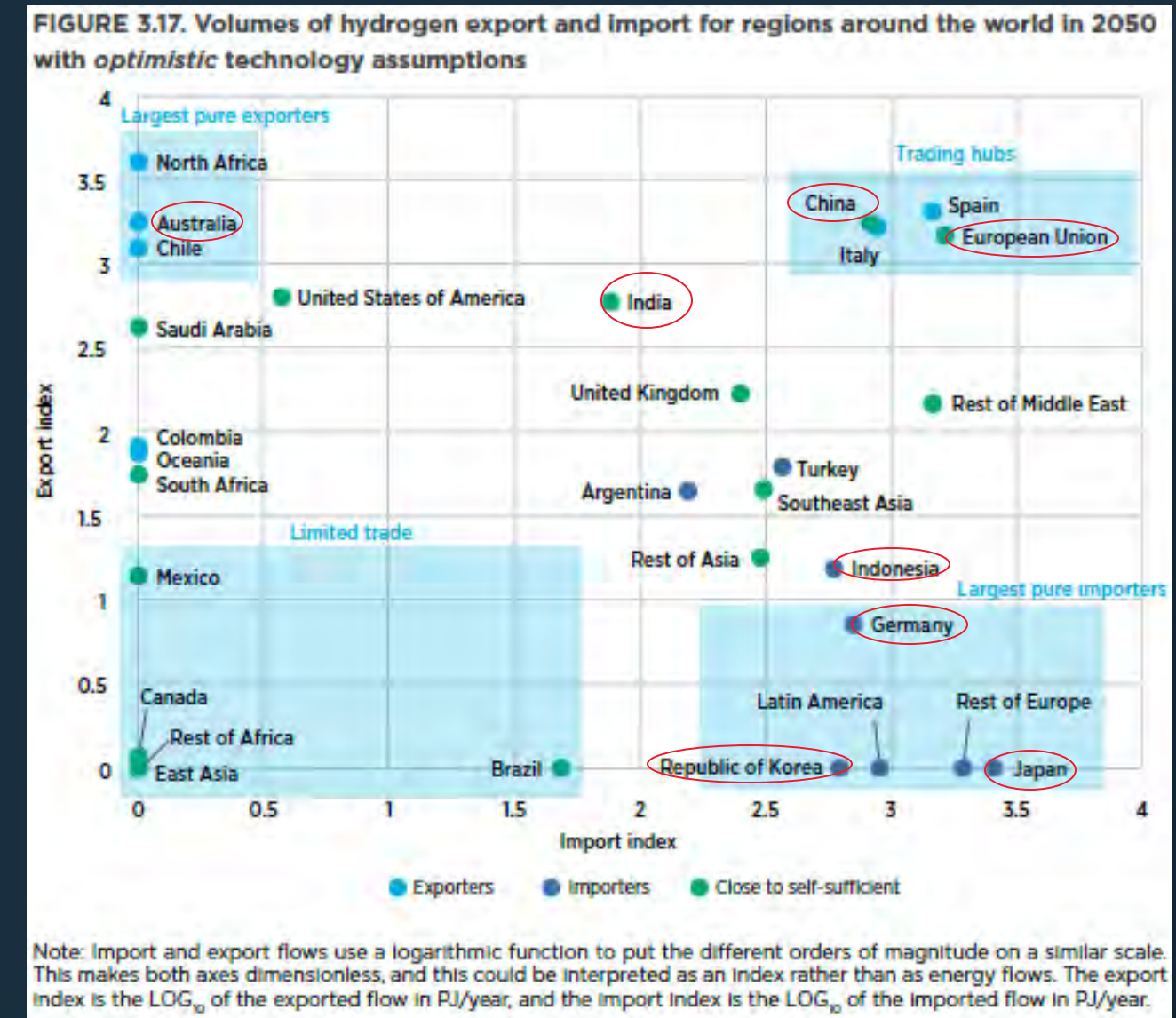
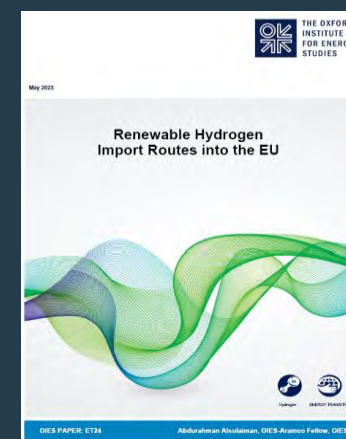
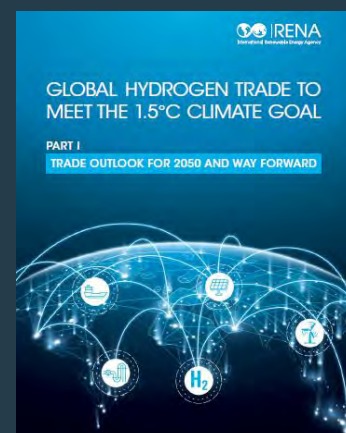
Some countries will be large net importers

Particularly Europe - the largest hydrogen import target driving investment decisions

Some current fossil-fuel exporters could benefit, including Australia

Competition is escalating rapidly

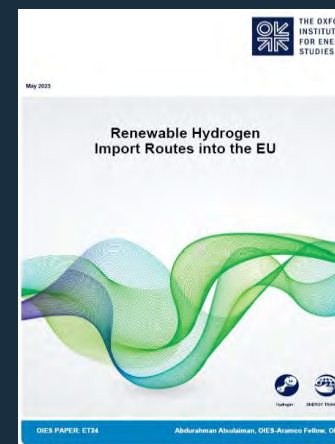
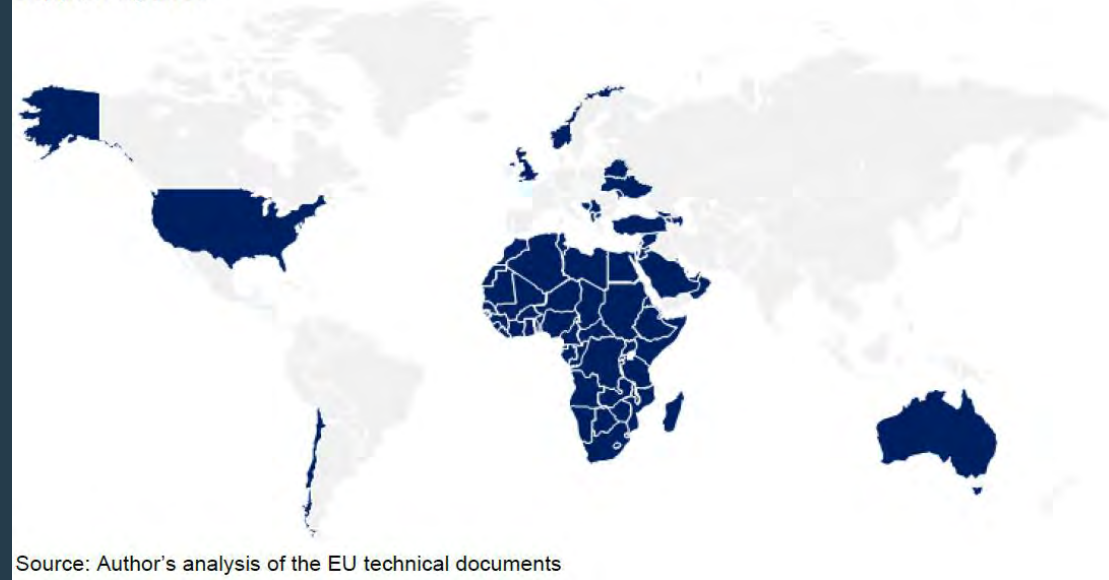
Each country and firm faces trade-offs between domestic production and imports



Source: IRENA Global Hydrogen Trade Report, 2022

Consider the EU market opportunity for Australia

Figure 14: Countries within the regions indicated by the EU for potential future Hydrogen supplies by 2030¹⁶



Geopolitics and the need for the EU to secure trusted import partners are driving import demands

North African and Gulf States constitute 4 of the 6 import partners (currently announced export intentions)

The Middle East's geopolitical future is in flux as the US retrenches from the region and China moves in

This mean that Australia has a real opportunity as a trusted supplier

But the economics of transportation are challenging

Also, the infrastructure conversion and/or establishment requirements

Table 2: Approximate estimated 2030 LCOH to the Port of Rotterdam^{23,24}

Country	Export port	Route	Estimated LCOH by 2030 (USD/kgH ₂)	Proportion of shipping cost to total LCOH)
Australia (West)	Perth	Via Suez Canal	2.49	24%
Australia (East)	Gladstone	Via Suez Canal	2.69	30%
Chile (Panama/South)	Valparaiso	Via Panama Canal	2.06	23%
Morocco	Casablanca	-	2.19	6%
Oman	Mina Al-Fahel	Via Suez Canal	2.28	17%
Saudi Arabia (West/East)	Jeddah	Via Suez Canal	2.32	14%
UAE	Sharjah	Via Suez Canal	2.39	16%

Source: Author's analysis of the different studies identified for hydrogen production in the specified geography and through the use of the HySupply Shipping Analysis Tool.



Australia's hydrogen trade future

Broader implications for our international (trade) relations

How is Australia's production capacity positioned?

According to the State of Hydrogen Report (2022, xiii), not well – it is no longer a global leader

This partly explains the latest budget's \$2 billion hydrogen fund

But this is small change compared to US, EU, and Chinese subsidies

Moreover, supply chain bottlenecks could emerge as international demand and competition heat up

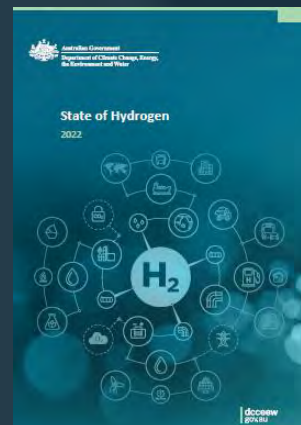


Table 2: Comparison between Global Leader and Australian Progress – by Industry Development Signal

Industry Development Signal	2022 International Comparison				
Investment	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Project Scale	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Cost-competitiveness	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Australia's exports	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Chemical feedstock	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Electricity grid support	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Mining and off-grid	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Heavy transport	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Light transport	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Gas networks	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Electricity generation	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Steel and iron making	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader
Industrial heat	<div><div></div></div> Follower	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div> Leader

(Source: Deloitte, 2022²²)

**Broader implications for our
international (trade) relations**



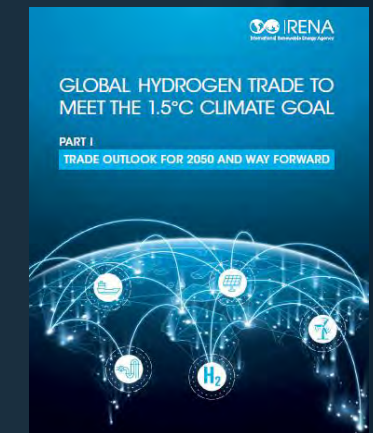
At the global level there is much to do

Develop common global standards, regulations, and certifications

- International methodology for PPM metrics (notably emissions-intensities)
- National standards to translate these into practice
- Mutual recognition of those national standards
- Certifications processes and verification procedures

Develop market models to smooth investment and trade flows

- Contract templates
- Auction procedures
- Spot markets
- Commodity pricing benchmarks linked to emissions-intensities
- In short, there are a variety of “institutional voids” (Khanna and Palepu, 2010)



How is Australia positioning in this landscape?

Domestic – National Hydrogen Strategy

- Embedded emissions accounting framework
- Hydrogen Guarantee of Origin
- Federal subsidies (etc.)
- States' initiatives
- But: infrastructure and institutional bottlenecks are emerging for renewable energies rollout

Bilateral accords

- Australia-Singapore Green Economy Agreement (GEA)
- Access to US IRA subsidies
- Australia-EU FTA, and bilateral arrangements with Germany
- Sustainability chapters in FTAs

Indo-Pacific Economic Framework

- Pillar 2 (Supply Chain Resilience): Hydrogen roadmap
- Pillar 3 (Clean economy): Details to be seen but likely to build on GEA

Multilateral

- The World Trade Organization's Trade and Environment Structured Discussions
- International Partnership for Hydrogen and Fuel Cells in the Economy
- IEA, etc.



A brown dog, possibly a pit bull mix, is standing on its hind legs. Its right front paw is raised high towards a white door. The dog is looking up at the door with its mouth slightly open. It wears a black collar with a red and black patterned strap and a pink bone-shaped tag that says "MIA". The background is a white door with a metal handle on the right side. The floor is made of light-colored tiles.

Questions?

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Issues and Options for Reforming The World Trade Organization

Presentation to Foreign Trade

University, Hanoi

23rd November 2023

Professor Peter Draper
Jean Monnet Chair of Trade and
Environment Executive Director, Institute
for International Trade



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- **A WTO Reform Agenda**

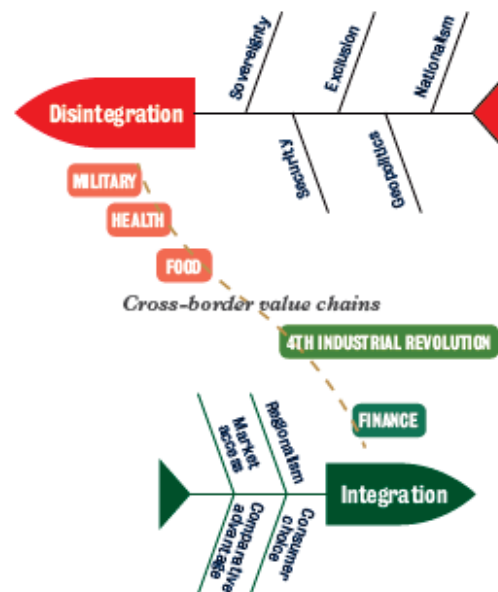
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Context matters: Deteriorating Global Trade Cooperation



Global trade cooperation has been breaking down since 2008

FIGURE 1: CENTRIFUGAL VS CENTRIPETAL FORCES SHAPING GLOBAL TRADE COOPERATION



Source: Author's construction

‘The interregnum’: Global Financial Crisis and Doha round failure

- Rise of the BRICS, and the rest
- Growth of populism, especially in the West
- Stalling, reversal, of China’s economic reforms
- Donald Trump in the US

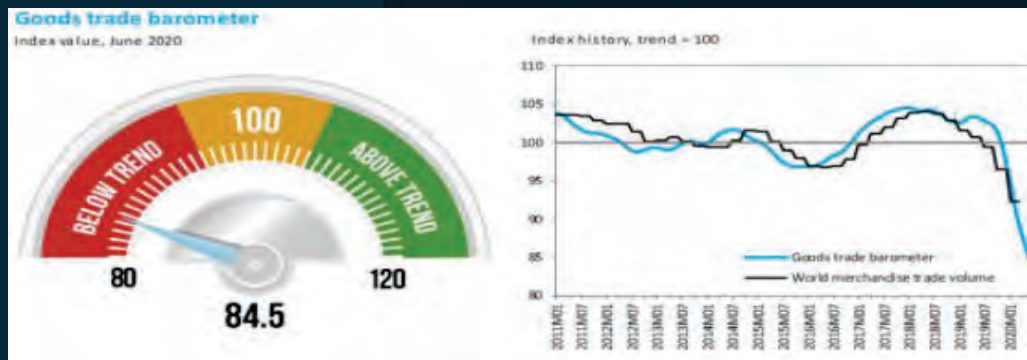
Era of geopolitical contestation

- ‘Trade wars’
- ‘Geopolitical’ EU Commission
- China-India (et al) tensions and “de-risking”
- Re-emergence of strategic trade and industrial policies

COVID-19 accelerated these trends

The (very) human impulse to protect one's own meant:

- Severe international trade disruptions



Source: WTO Secretariat

- Aggravated by export restrictions, partially balanced by some import liberalization
- Offset by growth in IT-enabled services – highlighting the importance of data-flow rules
- Enormous financial transfers in G20 countries
- Intensification of geopolitical competition ('vaccine diplomacy')
- Intensification of value chain 'resilience' debate

Then the Russian invasion of Ukraine

In geopolitics, cementing of western alliances to confront 'authoritarian powers'

- Most immediately Russia, but after the G7 and NATO Summits China too

An unprecedented western sanctions campaign against Russia

- And Russian (energy sector) responses
- Adding to the Russian blockade of Ukrainian grain exports – and global food inflation

Fuelling worldwide inflation already in train in the aftermath of COVID 19

- Central Banks' responses have raised the prospect of recession, at a time of huge financial imbalances
- Adding further populist pressures into the policy mix in many countries

These drivers have led to an intensification of negative views towards global value chains

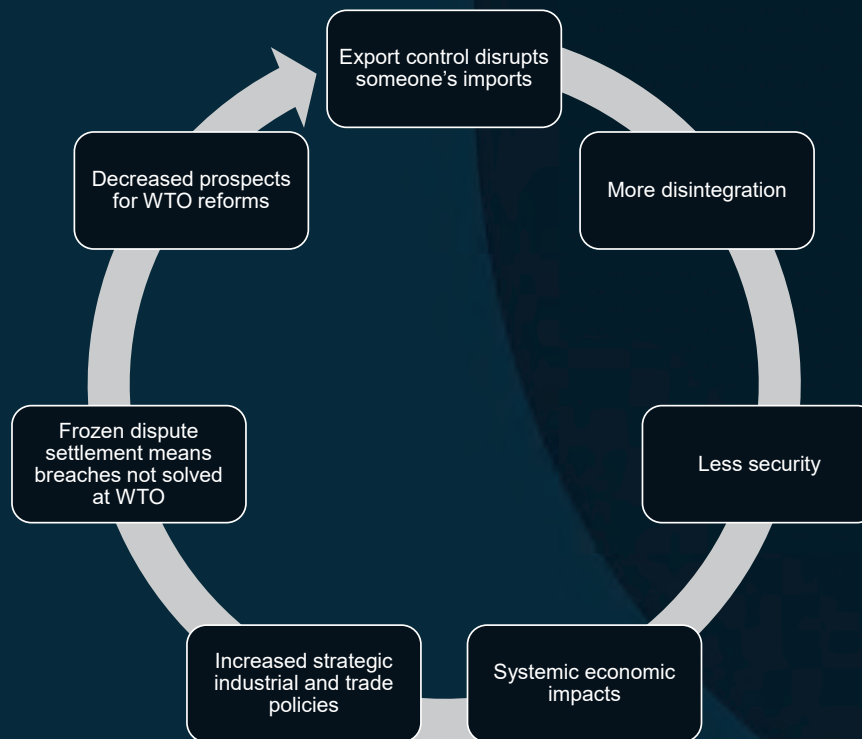
- Critical minerals; 'friend-shoring'; 'open strategic autonomy' as examples of manifestations



Manifestations in the WTO



Case-study 1: Export controls



- The US, China, and developed markets - export controls battle
- Other developing countries are playing the game too (agriculture; key resources)
- Generating a self-perpetuating downward disintegration spiral
- Can integration forces contain the slide?
- Difficult when global public discourse about value chains is negative
- What is the WTO's role?

Case-study 2: Digital policy

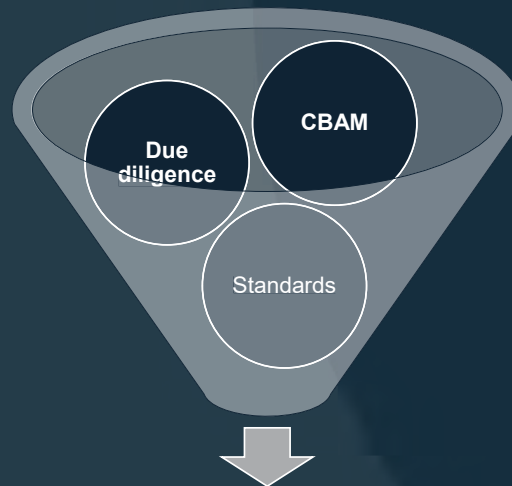
- The digitalisation of international business has opened a big regulatory gap
- No country can afford to exclude itself from digital trade flows
- But many are imposing barriers, from storing data locally to cloud access
- Some want to tax data flows
- The negative growth impacts may exceed benefits
- And contribute to global trade fragmentation

‘Deepening digital regulatory heterogeneity risks fragmentation of digital markets, to a point of no return’



Case-study 3: Sustainability

A lot is going on outside the WTO



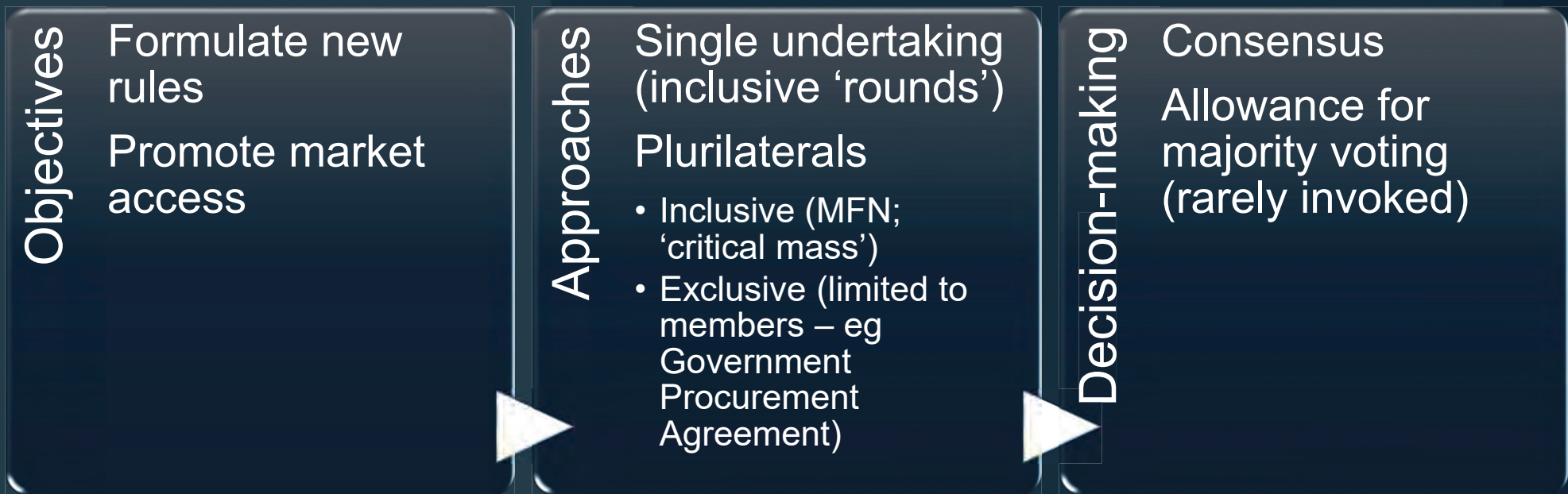
Climate club(s)?

If the WTO (and its members) do not respond its relevance will decline
But how to respond?

Implications for WTO Reforms



A reminder: Process matters



Coalitions in WTO negotiations

Coalitions amplify states' bargaining power in multi-country negotiations

Two types of inter-government coalitions:

- Issue-specific, eg: Cairns group (agriculture market access); NAMA 11
- Common characteristics, eg: Africa group; G90

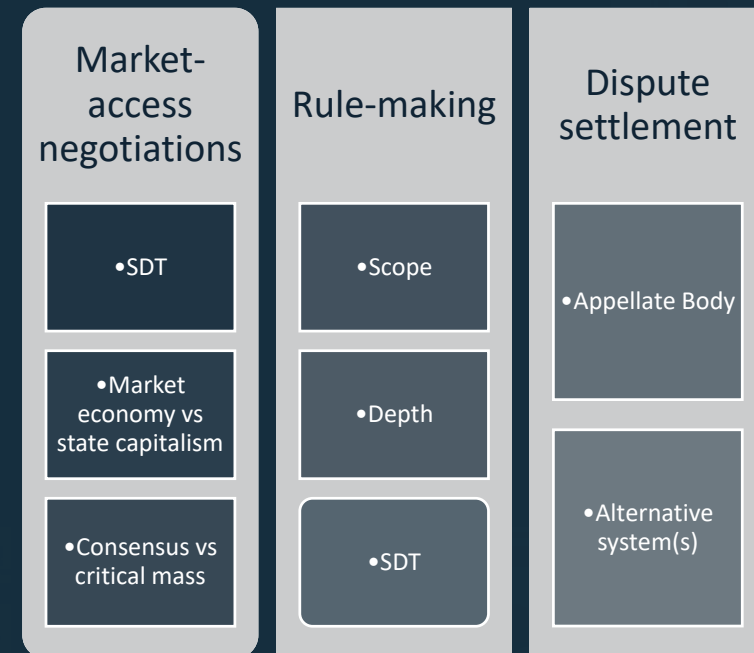
Many other actors organize across borders in order to influence governments

Bewildering array makes negotiations very complex, and time consuming

Partly explaining why some countries look outside the WTO

Before COVID-19 WTO reform was baffling

- **Multilateral accords stalled before COVID-19**
- **Some signs of life, notably the 'Joint Statement Initiatives', especially 'e-commerce'**
- **Reform debates center on:**
 - Special and differential treatment for 'developing' countries (SDT)
 - Accommodating (or not) 'state capitalism', e.g. industrial subsidies
 - Decision-making modalities: multilateral vs plurilateral
- **Members are sharply divided; progress is challenging**
- **Limited progress at the last Ministerial Conference**
- **Likely even less progress at the next MC**



A photograph of several men in business suits seated at a long table during a conference or meeting. The man in the foreground is looking down at papers on the table, with his hands clasped. Other men in the background are looking towards the camera or slightly away. On the table, there are bottles of water and juice, glasses, and papers. The text "The case for plurilaterals" is overlaid in white on the image.

The case for plurilaterals

Why do we need plurilaterals?

Despite MC12's partial fisheries subsidies success WTO negotiations lag real world needs

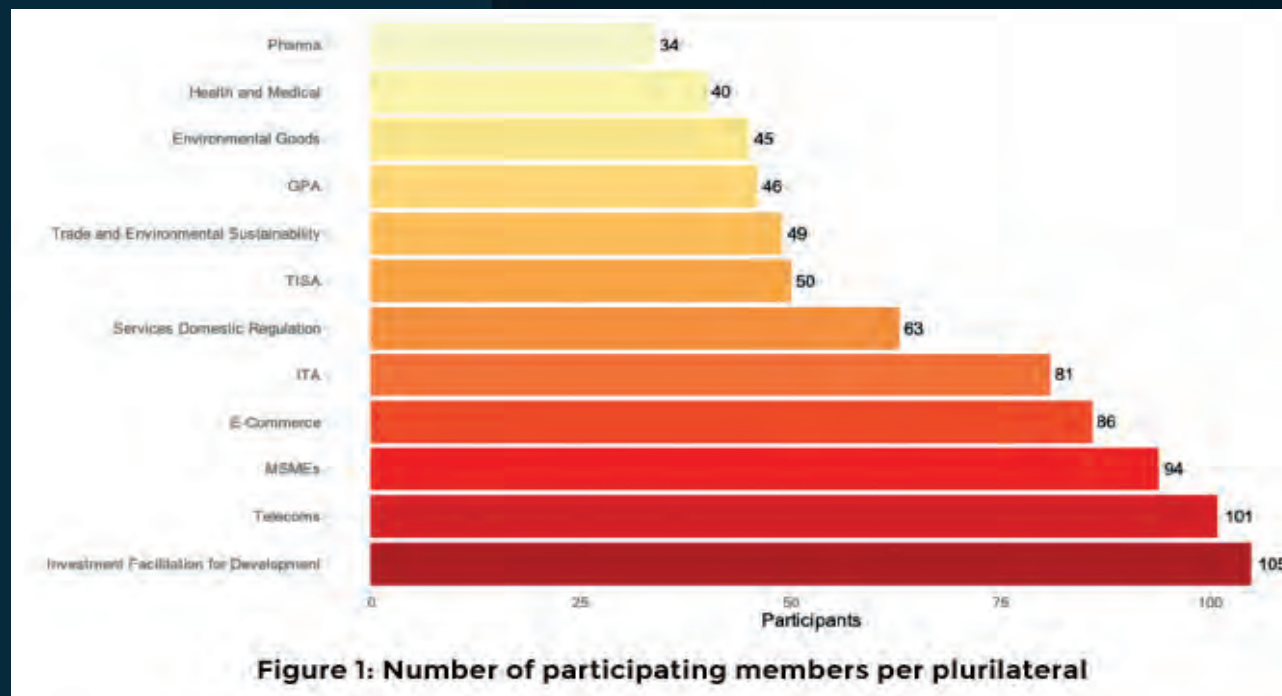
How else to progress new rules and retain the WTO's relevance?

Multilateral rules support domestic reforms and prevent backsliding

Not everyone has to sign up, nor should anyone be excluded – WTO *à la carte*

The challenge is to meaningfully incorporate as many members as possible without compromising their interests

Which plurilaterals?



Source: Akman et.al, T20 Policy Brief, 2021

Who participates?

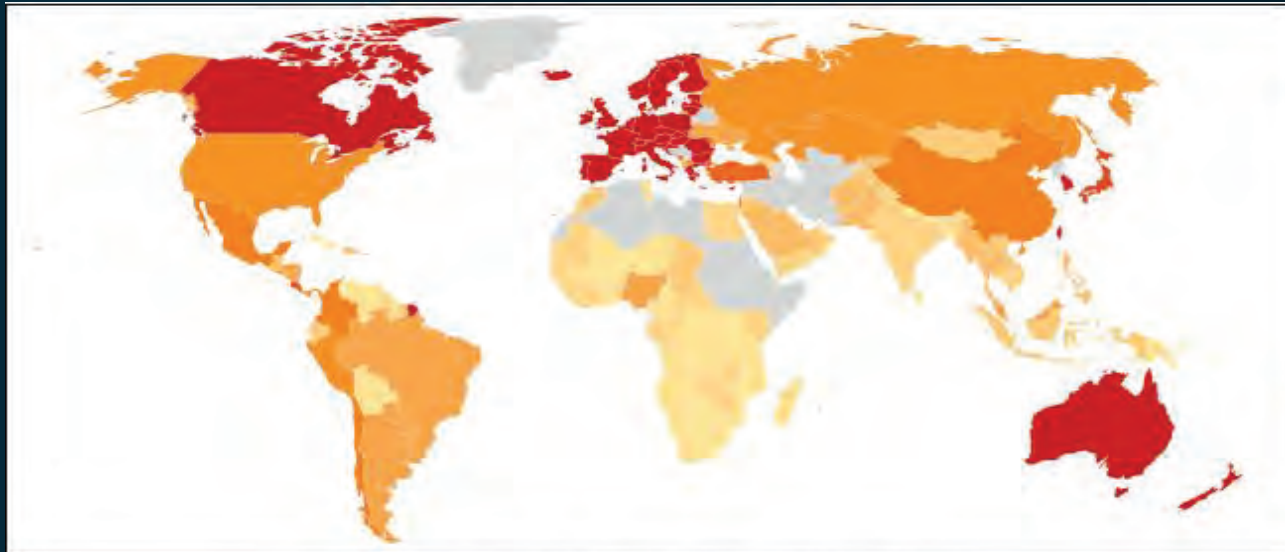
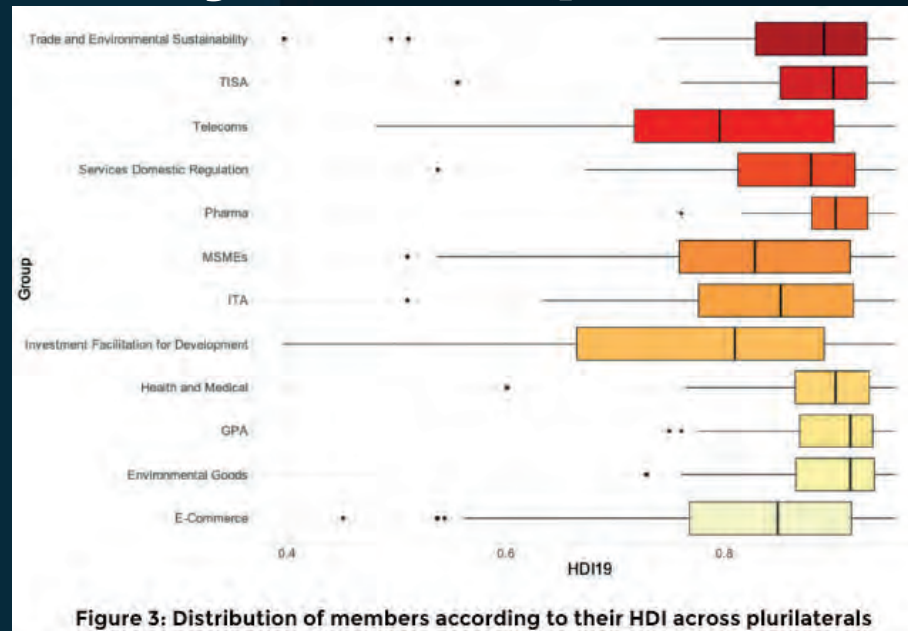


Figure 2: Participation in plurilateral agreements and ongoing negotiations per member

Source: Akman et.al, T20 Policy Brief, 2021

- Primarily OECD economies
- LDCs, Africa, South Asia notably absent

Participation by development status



Source: Akman et.al, T20 Policy Brief, 2021

- Lower income economies primarily interested in Investment Facilitation for Development
- Yet not in related services domestic regulation, health and medical, or MSMEs
- Capacity problem? Suspicion? These JSIs are very much in those countries economic and social interests

A WTO Reform Agenda



Ideally, it would consist of two broad tracks

Plurilateral negotiations to

- Reduce and/or eliminate **import duties** for critical health equipment, pharmaceuticals, and related inputs necessary for these cross-border value chains to function as smoothly as possible during pandemics
- Related clarifications of '**essential**' goods and services and accords to govern their trade during health crises
- Contain, manage, and condition potential harmful impacts of **subsidisation** of domestic firms

Multilateral negotiations to

- Tighten the conditions under which the GATT's **exceptions clauses** could be accessed
 - Export restrictions
 - National security
- **Condition access to SDT**
 - Transparent and objective graduation criteria
 - Linked to AFT provision, whether embedded in multilateral or plurilateral accords
- **Restore the Dispute Settlement Mechanism**
 - Procedural reforms
 - A functional second-tier

And strengthening the WTO's role as a deliberative forum through Ministerial Conference reform

A photograph of a brown dog, possibly a pit bull mix, standing on its hind legs. The dog is looking up at a white door with its right front paw raised. It is wearing a black collar with a red and black patterned band and a pink tag that says "MIA". The background is a white door with a metal handle on the right side. The floor is made of light-colored tiles.

Questions?

make
history.



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history.**



***The future of EU trade policies and strategies
in a militarized environment***

Presentation to the Shanghai Institutes of International Affairs
7th November 2023

Professor Peter Draper

Jean Monnet Chair of Trade and Environment

Executive Director, Institute for International Trade

And Rolf Langhammer

Formerly Vice-President, the Kiel Institute for the World Economy



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Overview



Quo Vadis “Open Strategic Autonomy”?

The EU’s Trade Policy and Strategies in the “Roaring Twenties Reloaded”

Concluding thoughts and speculations

Implications for Others

Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or the European Education and Culture Executive Agency (EACEA). Neither the European Union nor EACEA can be held responsible for them.

Quo Vadis “Open Strategic Autonomy”?

What is Open Strategic Autonomy?

How has it changed since the Russia-Ukraine War?

What is Open Strategic Autonomy?

- **“Strategic autonomy” originates from the security world**
- **“Openness” relates to trade and promotion of a rules-based system**
- **Clearly there are tensions between the two**

Why was it introduced?

Deteriorating geopolitics

- And increasing resort to unilateralism
- As well as US commitment to European security (the Trump factor)

Domestic economic policy imperatives

- Particularly relating to the green and digital transitions
- But also the need to respond to COVID 19 and guard against future pandemics

Emergence of new growth poles

- Some with diverging governance models

To better manage inclusion challenges associated with globalization of value chains

- Meaning the rise of populism within the EU
- And “levelling the playing field”

What does “openness” mean?

Specifically, trade and investment

- Emphasising sustainability and EU leadership thereof (the well-known “Brussels effect”)
- Resistance to unfair and coercive trade practices
- Reviewing strategic dependencies in “the most sensitive industrial ecosystems”

And four policy anchors

- WTO reform and support for multilateral sustainability initiatives
- Rebuilding transatlantic partnership and diversifying dialogue partners
- Levelling the playing field
- Adopting an anti-coercion instrument

“Cooperating multilaterally where we can, acting autonomously where we must”

- In other words, a decisive shift to unilateralism to protect EU values and economic interests
- Or, to use a fashionable theoretical construct: Geoeconomics
- Which has a long intellectual tradition (Hirschmann, Gilpin, etc.)
- And is not new – consider US trade policies towards Japan (“aggressive unilateralism”)
- The EU is caught between two major economic powers increasingly resorting to unilateralism
- And like other states needs to manage its dependencies/vulnerabilities

How has it changed since the Russia-Ukraine War?

Prior to February 2022 China was the focus: “Partner, competitor, strategic rival”

- Partner: Solving common economic problems while buttressing the rules-based system
- Competitor: Curtailing “unfair” competition – domestically and abroad – through leveraging the EU market, investing in strategic technologies, reducing dependencies
- Strategic rival: Values-based competition (Xinjiang; Lithuania; due diligence) and “Indo-Pacific” strategies

Since February 2022,

The EU's Trade Policy and Strategies in the “Roaring Twenties Reloaded”

The demographics, de-carbonization, and digitalization challenges

Implications for the EU's trade policy

The EU and WTO reforms

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