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Bridging the Transatlantic Divide in Climate Policy

A transatlantic agreement on sustainable steel and aluminum could establish a foundation for global climate policy cooperation. However, diverging approaches to climate protection, such as the Carbon Border Adjustment Mechanism (CBAM) and the Inflation Reduction Act (IRA), as well as Section 232 national security tariffs currently pose challenges for negotiations.

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A call for a global trade club for climate

The urgency and complexity of the climate crisis call for innovative ideas to make climate change mitigation feasible for a critical mass of countries. Since the 1950s, global CO₂ emissions have increased sixfold (Figure 1), leading to severe and irreversible consequences such as rising global temperatures,

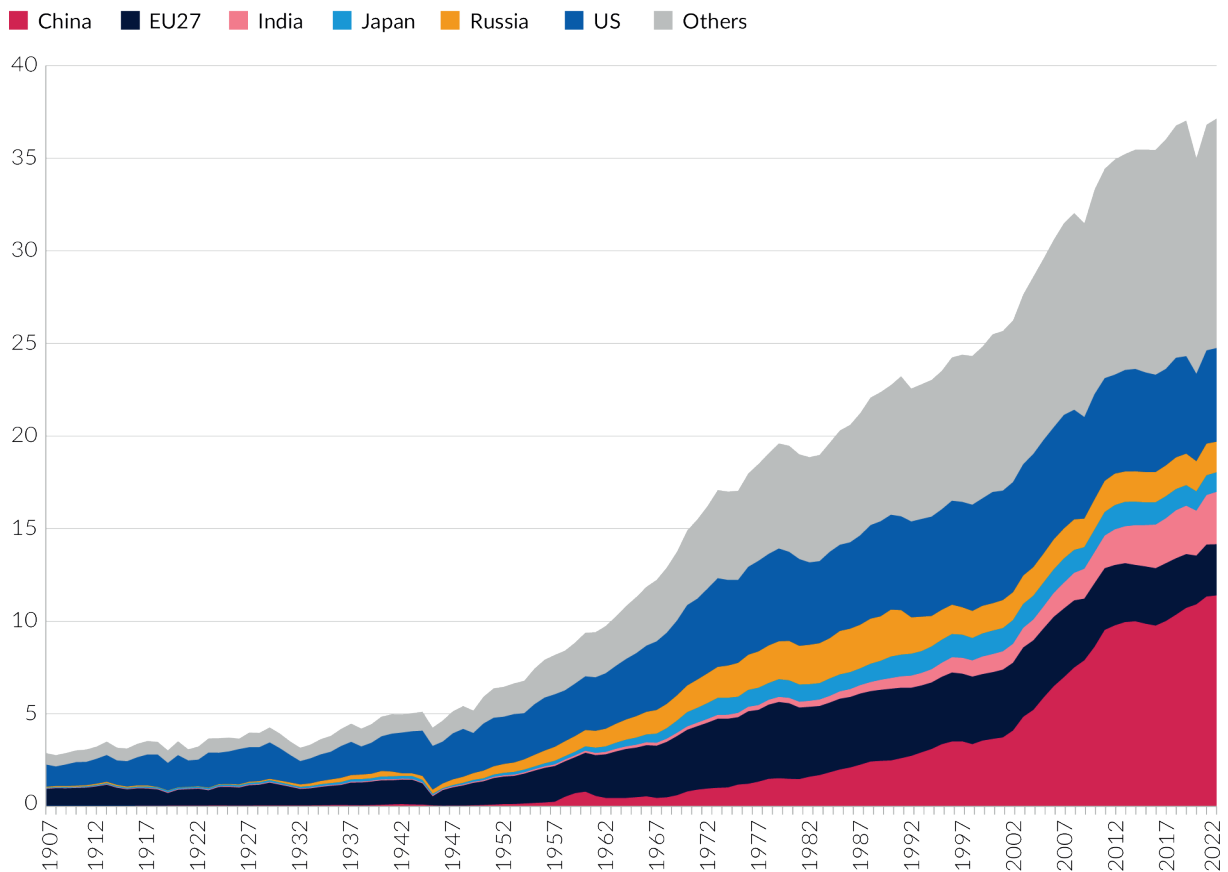
changing water supplies and weather patterns, and threats to coastal communities and entire countries from increasing sea levels. The scientific community almost unanimously calls for a global solution for this global challenge, which can be built upon market-based instruments, such as carbon taxes, cap-and-trade systems, or fossil fuel subsidy reforms.

This approach is supported by the High-Level Commission on Carbon Prices, chaired by Joseph E. Stiglitz and Nicholas Stern.

However, it is widely acknowledged that global efforts to tackle climate change are complicated by varying stages of development, preferences, impacts, and economic and geopolitical interests. According to World Bank data, in 2024, there are 110 carbon pricing instruments implemented across 53 national and 40 subnational jurisdictions, covering only 24 percent of global greenhouse gas (GHG) emissions (Figure 2).

While the concept of economic clubs is not new, William Nordhaus’s 2015 proposal for a Climate Club was ground-breaking. It sparked a broad discussion on potential paths to incentivize global climate protection. In his seminal paper, Nordhaus stressed that, without sanctions against non-participants, a stable coalition with high levels of emission reduction cannot be achieved, as climate protection is costly, and its benefits are shared globally.

Figure 1. Global CO2 emissions



Source: Ritchie and Roser (2024)

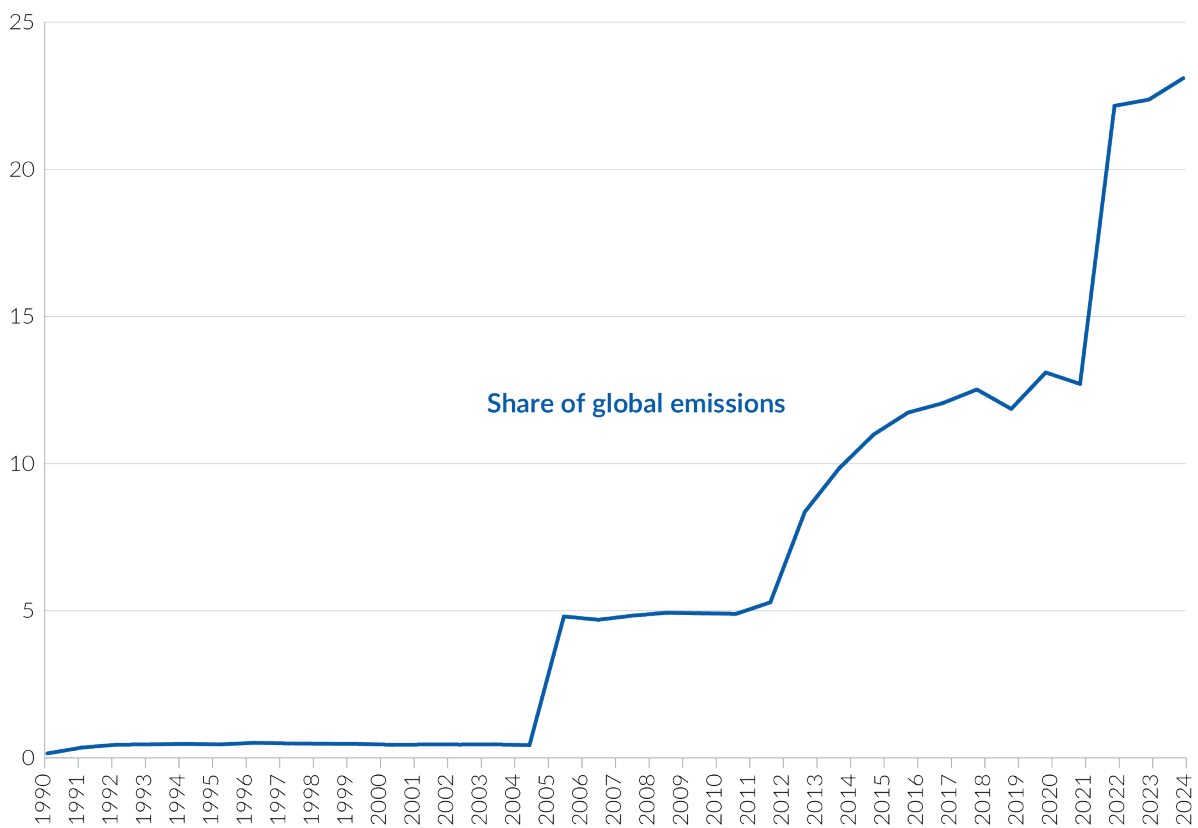
The EU-U.S. negotiations on a Global Arrangement for Sustainable Steel and Aluminium (GASSA) have the potential to establish the

groundwork for a global trade initiative on climate protection targets. Combined, the EU and the U.S. account for more than one fifth

of global CO2 emissions (Ritchie and Roser, 2024). Efficiency gains and targeted climate protection policies have enabled significant emissions reductions in both the EU and the U.S. since the early 2000s. However, global CO2 emissions continue to rise, especially in emerging economies such as China and India, making international cooperation

crucial in addressing the global challenge of climate change. Within the GASSA framework, the EU and the U.S. can create an incentive structure for ambitious climate action. Initially, however, the EU and the U.S. must reconcile their differences in climate policy and establish a common ground for climate protection to serve as a basis for future cooperation.

Figure 2. Share of global emissions with a carbon pricing mechanism



Source: World Bank Carbon Pricing Dashboard

Differing approaches to climate policy

At first glance, the U.S. and the EU have been following quite different approaches to climate protection. In the U.S., the focus lies on financial incentives, such as tax incentives and subsidies, which reward climate-friendly technologies and behaviour. The Inflation Reduction Act is considered the “most significant legislation to combat climate change” in

history, combining climate protection with economic opportunities to build a clean energy economy (U.S. Department of the Treasury, 2023). It offers companies more than 115 billion USD in manufacturing investments to develop a clean energy economy.

At the same time, the U.S. Administration highlights that the industrial sector, which

accounts for nearly one-third of the nation's greenhouse gas emissions, is challenging to decarbonize and needs supplementary measures like carbon capture and storage (CCS) to achieve climate-related goals (The White House, 2023). Thus, it particularly supports U.S.-based investments in clean manufacturing, low-carbon materials, CCS, and direct air capture technologies.

Furthermore, global overcapacity and the resulting low-priced products in key sectors like steel production are considered not only unfair competition but also a hindrance to the green transition, as they limit the financial capacity for investment. In response, the Trump Administration introduced tariffs of 25 percent on steel and 10 percent on aluminum imports under Section 232 of the Trade Expansion Act of 1962, justifying them on national security grounds. Despite the World Trade Organization's (WTO) decision in four separate disputes that the tariffs are inconsistent with the rules of the General Agreement on Tariffs and Trade (GATT), these tariffs are still in place. Moreover, since they were not introduced as safeguard measures but under the national security exception, the WTO dispute settlement pointed out in disputes raised by the United States that retaliatory measures by trading partners like China and Turkey are not justified.

Thus, the tariffs still level the playing field at least in the domestic market, although other countries question the national security argumentation. Overcapacity also distorts market structures beyond steel production. Currently, low-priced electric passenger cars from China are flooding global markets, raising concerns about unfair practices and subsidized production that threaten investment and development in the automotive industry of other

countries. In response, the Biden Administration introduced tariffs as high as 100 percent on electric vehicles from China to protect the domestic industry. Tariffs on other products have also been increased, such as those on solar cells, which were raised from 25 percent to 50 percent for similar reasons.

In the EU, on the contrary, an emissions trading system (ETS) is primarily used to incentivize producers to improve their production technology and lower CO₂ emissions. In 2023, the price of ETS certificates was around 70-100 Euros per ton of emitted CO₂. The EU-ETS covers greenhouse gas emissions from the energy sector (electricity and heat generation), carbon intensive industries, and, to a limited extent, maritime transport and aircraft. The number of certificates is set to decrease in line with the EU's emissions goals.

To address the challenge of carbon leakage, i.e. moving carbon intensive production abroad to avoid emissions-related costs, a Carbon Border Adjustment Mechanism (CBAM) was introduced in October 2023. Starting in 2026, CBAM will gradually replace the current free distribution of allowances used to protect CO₂-intensive industries from carbon leakage. The mechanism aims to charge carbon intensive imports, such as steel and aluminum, a fee similar to the costs within the EU-ETS. Although far from perfect, CBAM is intended to complement the EU-ETS and increase its effectiveness as an instrument for reducing CO₂ emissions.

Regarding the issue of global overcapacity and low-priced imports, the EU has implemented its own trade measures. Following the introduction of the Section 232 tariffs by the Trump Administration in 2018, the EU introduced provisional safeguard measures on steel imports in July 2018 to counteract the

destabilizing effects of deflected steel. Safeguards are temporary trade restrictions, such as quota or a tariff increase, taken under the WTO Agreement on Safeguards to protect a particular industry from an increase in imports that impairs or threatens to impair the local industry. In February 2019, final safeguard measures were implemented for four years. In June 2024, the European Commission notified the WTO that the safeguard measures would be extended for another two years, until the end of June 2026.

In response to the national security tariffs introduced by the Trump Administration, the EU also retaliated with tariffs on typical U.S. products, such as motorcycles, jeans, and bourbon. Furthermore, in October 2023, the European Commission launched an investigation of electric vehicles from China, suspecting distortive subsidies. The investigation was concluded in June 2024, finding that Chinese electric vehicle value chains benefit from unfair subsidies. Consequently, the EU decided to impose tariffs on imports of electric vehicles from China, ranging from 17.4 to 38.1 percent, depending on the producer. The tariffs were introduced on July 5, following unsuccessful dialogue with Chinese authorities. However, the payment of the tariffs will not start until November as the EU Commission needs more time for the final decision. During the transition period, the companies affected do not have to pay the tariffs, but only guarantee the payment.

Although the European Commission's approach in this instance mirrors that of the U.S. administration, the EU's tariff rates remain well below the 100 percent tariffs imposed by the U.S.

Sustainable Steel and Aluminum Deal

These seemingly different approaches to climate protection have posed significant challenges to the negotiations of the GASSA,

which aims to address issues like overcapacity and decarbonization simultaneously. The negotiations were launched in October 2021 as part of a new multifaceted arrangement between the U.S. and the EU, which also replaces the Section 232 tariffs with a complex tariff rate quota system for European suppliers and lifted the retaliatory tariffs on U.S. imports in the EU. The initial deadline to conclude the negotiation process in 2023 has passed, the tariff arrangement was extended, and currently, the U.S. and the EU are striving to reach an agreement by March 2025.

GASSA and the 2024 presidential elections

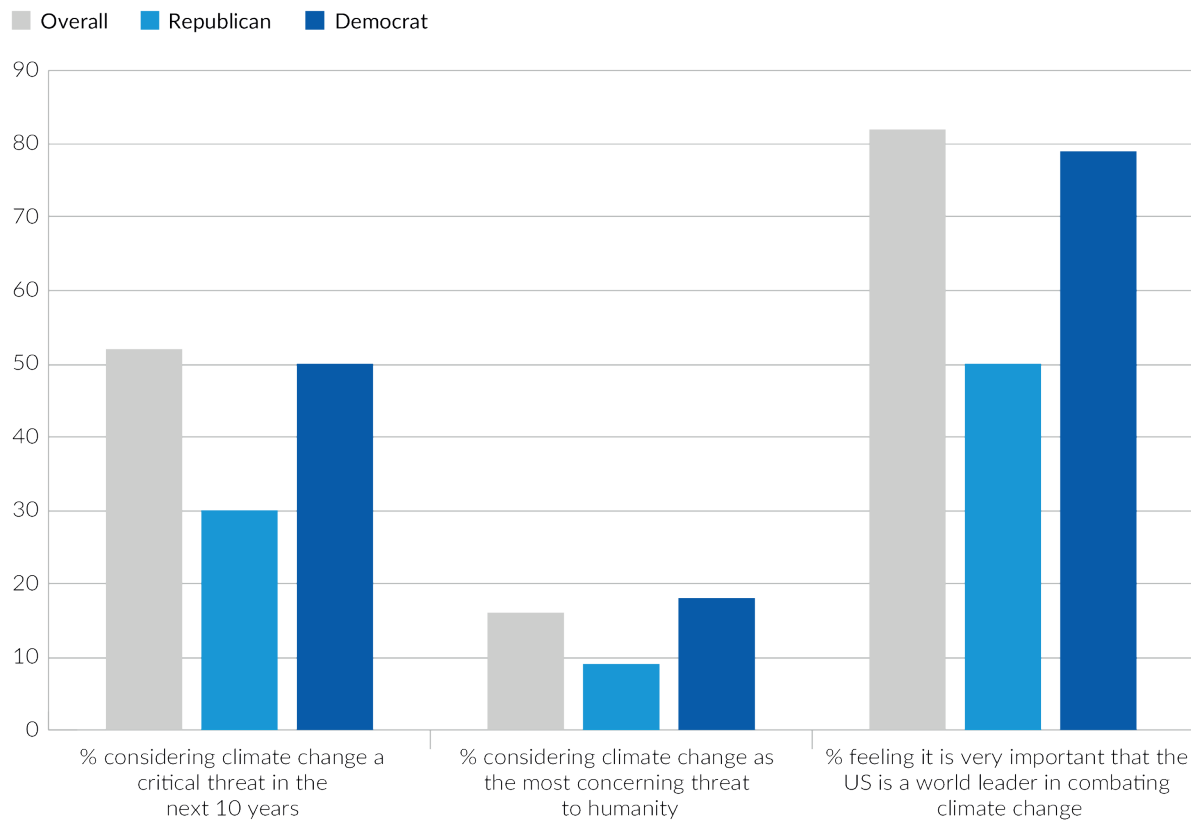
Whether the negotiations will be concluded on time depends crucially on the outcome of the presidential elections in November 2024, as the climate protection approach of the Democratic Administration under President Joe Biden significantly differs from the views of Republican voters and a potential second Trump administration (see Figure 3). According to a survey conducted in September 2023 by Chicago Council Surveys, more than four out of five Democrat voters consider climate change a critical threat over the next ten years, whereas only one out of six Republicans shares this view. For 50 percent of Democrats, climate change is the most concerning threat to humanity, compared to only 9 percent of Republicans. Almost 80 percent of Democrats, yet only 18 percent of Republicans, believe it is very important for the U.S. to be a world leader in combating climate change.

Regarding concrete measures of climate protection, the views are less diverging. A majority of U.S. Americans agree that businesses should bear the cost of recycling, use only recyclable packaging, seal methane gas leaks from oil wells, and invest in operational modifications to enhance environmental

sustainability. Democrats and Republicans largely support providing humanitarian aid to countries disproportionately affected by climate change. However, only Democrats advocate for providing economic aid to affected countries and investing in vulnerable ones.

Overall, the attitude of Republican voters towards climate change remains largely different from that of Democrats. A potential shift in political power following the U.S. presidential elections could dramatically change the course of negotiations on GASSA.

Figure 3 Diverging views on climate protection among Democrats and Republicans



Source: Chicago Council Surveys; Survey conducted on September 7-18, 2023, among 1,620 US-Americans

Even with a new Democratic President, the U.S. and the EU will pursue distinctly different goals in their negotiations. The current Biden administration seeks to shield the U.S. steel industry while addressing global overcapacity and striving to decarbonize production. The EU, on the contrary, aims at improving carbon leakage protection, thereby creating a level playing field for EU producers and

increasing incentives to promote environmentally friendly steel and aluminum production.

The U.S. insists on keeping the Section 232 national security tariffs against third countries as part of any agreement. The EU advocates for building upon the CBAM introduced as part of its Fit for 55 climate policy package to implement the EU Green Deal and achieve climate neutrality by 2050.

A common denominator

What may seem like a deadlock could, however, present an opportunity, as basic arithmetic shows. When comparing Section 232 national security tariff rates with the anticipated CBAM payments, there is potential for a compromise, particularly concerning import fees for non-members of the agreement.

During the transitional period until the end of 2025, the EU anticipates the average carbon intensity of most imported steel products to range between 2.07 and 5.01 tons of CO₂ per ton of imported steel, accounting for both direct and indirect emissions (European Commission, 2023). Projections for the price development of CO₂ certificates, influenced by factors such as the phasing out of free allowances, the introduction of CBAM, and stricter CO₂ emission targets, indicate an average price of approximately 140 Euros per ton of CO₂ in 2030 (Pahle et al., 2022). Consequently, based on emissions intensity and price forecasts, CBAM payments are estimated to range from 290 to 701 Euros per ton of imported steel.

Given an average import price of steel products covered by CBAM at 1450 USD per ton in 2022 (Eurometal, 2023), this suggests additional import fees ranging from 20 to 48 percent. This range is comparable to the current 25 percent tariff imposed by the U.S. for national security reasons. For imports from China, which typically have lower prices and higher carbon intensity, the relative import fees (as a percentage) are expected to be significantly higher, particularly when country-specific emissions intensity is applied after the transitional period.

Therefore, as a potential (though somewhat improbable) resolution to the conflicting interest of the U.S. and the EU in the GASSA

negotiations, the U.S. could adopt a similar (flexible) tariff against third countries as the import fees established under CBAM. This move would enhance protection for U.S. steel producers against competition from countries like China, bolstering efforts to address overcapacity. The U.S.'s departure from WTO principles would not differ much from the tariffs imposed under section 232. Meanwhile, the EU would maintain WTO compliance with its tariff-like CO₂ taxes at the border, aligning import fees with those levied on local producers.

A disadvantage of this approach is the necessity for annual adjustments to the border payments, requiring extensive coordination between the EU and the U.S.

Minimum carbon tax at the border

Alternatively, the U.S. and the EU could agree to impose a minimum border tax of, for example, 20 percent on steel and aluminum imports from non-member states, accommodating different approaches to climate protection. The U.S. could maintain this minimum tax by retaining its Section 232 tariffs, while the EU could implement it through CBAM as planned. This approach minimizes the need for adjustments and considers the interests of both negotiating parties, although it does not resolve the issue of emissions-neutral tariffs in the U.S., which do not incentivize improvements in emissions intensity.

Furthermore, an advantage of the minimum tax approach is that the border payments would not require annual adjustments in the U.S. to align with CBAM rate developments. Therefore, the CBAM implementation costs would be confined to the EU.

Using the revenues both in the U.S. and the EU to subsidize research, implementation and investment in green technology align with the

U.S. climate policy approach and complement the efforts of the EU under the Net Zero Industry Act, which sets the regulatory framework and investment incentives for net-zero technologies. Other countries can join this agreement by committing to similar climate related initiatives. In Canada, for instance, the CO₂ tax applied to carbon intensive production justifies a WTO-compliant carbon tax on imports, applicable to both domestic and foreign suppliers. As Canada plans to increase its domestic carbon tax to 170 CAD per ton of CO₂ equivalents by 2030 (Government of Canada, 2021), a minimum tax of 20 percent on imported steel would align current international steel prices, making Canada a suitable candidate for joining the agreement. Other potential candidates with substantial carbon pricing include Switzerland, and Norway.

Removing import fees within the arrangement presents an additional challenge for negotiations. The U.S. has already granted exceptions for partner countries like Mexico, Canada, and currently the EU in the implementation of Section 232 tariffs. However, the EU adheres to WTO conformity, and exempting imports from the U.S. under CBAM implementation may turn problematic. U.S. producers do not pay for their CO₂ emissions at home, which disqualifies them from exemption under the CBAM directive.

One potential solution could involve transferring collected CBAM payments on imports from the U.S. (and potentially other future members) back to the U.S. administration as a contribution to their climate protection policies. Such transfers would enhance incentives for membership in the climate protection club.

G7 Climate Club insufficient

While these are just a few of many controversial issues in the negotiations, it is crucial to

achieve compromises and advance in the negotiation process to potentially contribute to the formation of a trade club for climate. Indeed, the concept of a climate club has been extensively debated in politics and academia in recent years. Various approaches, such as establishing a CO₂ price floor and implementing carbon border adjustment have been discussed to incentivize other countries to adopt stricter climate policies and join the club (see e.g. Bierbrauer et al., 2021; Tagliapietra und Wolff, 2021).

However, the divergent attitudes towards climate change and climate policy worldwide remain a challenge. Carbon pricing, in particular, is not politically feasible for many countries, especially for the U.S.

Establishing a climate-focused club was a key initiative during the German G7 presidency in 2022. It led to the formation of the Climate Club, which currently includes 38 members and thus goes beyond the G7 countries. The club serves as an international forum for discussing climate-related issues, such as industry decarbonization. The Organization for Economic Cooperation and Development (OECD), in collaboration with the International Energy Agency (IEA), hosts an Interim Secretariat and works together with other international organizations to ensure synergies (Climate Club, 2024).

The club aims to facilitate the coordination of international technical and financial assistance for emerging and developing economies on their way towards industry decarbonization. Additionally, it seeks to contribute to the establishment of global standards and methodologies, such as those for calculating embodied emissions. The Climate Club is “open, inclusive and ambitious” with an unbureaucratic and simple accession process (Climate Club,

2024). Both the EU and the U.S. are members of the club, which aims to develop common standards that can underpin future agreements and contribute to global climate protection efforts.

The Climate Club, however, faces limitations in incentivizing accelerated decarbonization. Based on club theory, it is designed to be non-rivalrous and excludable, at least in principle and to some degree. Discussions on the effectiveness and economic impact of climate change mitigation policies as well as emissions measurement and reporting mechanisms (Pillar I of the working programme of the club, see Climate Club 2024) may be confined to member states. However, since climate protection benefits all countries as a global public good, there is a shared interest among club members to disseminate their knowledge to non-members.

Moreover, aligning methodologies and standards under Pillar II also serves as a global public good rather than strictly a club good, as it is less feasible to exclude non-members from adopting these practices. Lastly, promoting international climate cooperation to support climate action and industrial decarbonization in developing and emerging economies (Pillar III) clearly requires financial incentives for effective implementation.

Incentives for more climate protection

Such incentives can be beneficial for both developing and developed economies, as broadly proposed by William Nordhaus and partially discussed in the GASSA negotiations. Implementing a minimum import tax could incentivize the adoption of carbon pricing, particularly in sectors like steel and aluminum, which are significant industrial contributors to carbon emissions.

Simultaneously, it would help address the issue of overcapacity by raising prices for Chinese steel in major global steel markets. According to data from the World Steel Association (2023), the EU and the U.S. combined represent almost 14 percent of global apparent steel consumption.

Such an arrangement could serve as a blueprint for future sectoral agreements on the way towards establishing a global trade club focused on climate, equipped with sufficient incentives for decarbonization. While the club proposed by Nordhaus contradicts the principles of the WTO by raising tariffs against non-members, a viable way forward lies in combining a minimum import tax on carbon-intensive products aligned with domestic carbon pricing. Simultaneously, eliminating tariffs within a preferential trade agreement as part of club membership could further bolster this framework.

However, the Climate Club cannot hinge on mandatory carbon pricing as a prerequisite for membership, given the current challenges in adopting such policies in the U.S. Instead, a more feasible approach would be to base membership on commitments to nationally determined contributions set under the Paris Agreement. This approach allows for a coordinated policy framework rich in incentives, supported both by the EU and the U.S. (at least under the current Biden Administration).

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This policy brief is a product of the [Transatlantic Expert Group](#) which was established by the Bertelsmann Stiftung together with the Bertelsmann Foundation in Washington, DC. The Transatlantic Expert Group identifies vulnerabilities arising from economic interdependencies, analyses the consequences for the political capacity of the EU and the US to act, and develops strategies to improve transatlantic cooperation in order to increase mutual resilience. The findings of the expert group are published in a series of policy briefs. [You can find all policy briefs here.](#)

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