Transatlantic Action Plan: Energy Policy and Climate Change

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Summary

The Trump administration's short-sighted geo-economic crackdown on the main international oil and gas producers – be it Saudi Arabia, Russia, or Iran – not only came at the expense of economic interests of allied countries in Europe, but also did long-term harm to the United States itself, helping its global rival China. Sooner rather than later – and a new administration offers this opportunity – U.S. policymakers will have to address businesses' growing interests in (green) investment strategies and the rapidly intensifying geopolitical rivalry with China. Transatlantic cooperation in the development of sustainable energy sources and technologies will be instrumental. A "Transatlantic New Green Deal" would allow allies to generate much-needed new economic growth after the COVID-19-related economic contraction and improve the energy security of consumer countries, curb the effect of greenhouse gases and realign the balance of power in world energy markets.

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Analysis

Challenges

Ever since the United States became a net exporter to international energy markets due to the "fracking" boom, exporting more oil and gas than it imports, policymakers and experts alike have been celebrating "energy independence," sought since the 1970s. In President Trump's utilitarian thinking, energy became an effective means for the United States to exercise power. Energy gained a (geo)strategic purpose.

"We have real independence. But what we want now is not independence; we want American energy dominance," Trump explained his thinking, speaking to workers at the Shell Pennsylvania Petrochemicals Complex in Monaca, Pennsylvania.[1] "Energy dominance" became the buzzword in the last administration's National Security Strategy.[2]

Over the course of the past four years the U.S. has managed or manipulated energy and corresponding financial flows politically, particularly through (secondary) sanctions. Guided by its interests, the Trump administration sought to achieve the political goal of geostrategic dominance by engaging competitive forces in so-called free markets. The modern, liberal idea of free market economies and win-win-thinking lost out in this logic: It gave way to a pre-industrial, mercantilist zero-sum thinking – one wins, all others lose.

Saudi Arabia became a prominent target of this policy. The White House and Congress reminded the government that the security of its 'oil monarchy' depended on U.S. military protection, with the goal of encouraging it to curtail production, to ensure that an oversupply of oil would not ruin American energy production.

European allies also felt the squeeze of U.S. energy policy: They were encouraged to buy more American "freedom gas"[3] instead of cheaper Russian gas and were asked to finance the building of necessary transportation infrastructure, such as liquefied natural gas (LNG) terminals – ultimately with mixed results. Despite the German offer to build LNG terminals to assuage the threats of additional U.S. sanctions over Nord Stream 2, these have not come to pass, casting a shadow over a presumed 'energy détente' following the election of Joe Biden.

Europeans presume that the new President and Congress will continue to push this geostrategic argument and use even more secondary sanctions to force allies to buy "freedom gas." A year ago – in December 2019 – the U.S. Congress passed the Protecting Europe's Energy Security Act (PEESA) with bipartisan support. PEESA initially halted construction, because the sanctions targeted the operators of the special ships that laid the pipes for the Nord Stream 2 pipeline. According to Bloomberg,[4] the U.S. Congress has recently agreed to impose new sanctions on active supporters of the project. These are part of a National Defense Authorization Act (NDAA)

[1] The White House, Remarks by President Trump on American Energy and Manufacturing, August 13, 2019, https://www.whitehouse.gov/briefings-statements/remarks-president-trump-american-energy-manufacturing-monaco-pa/
[2] The White House, National Security Strategy of the United States, Washington, D.C., December 2017, p. 22, https://www.whitehouse.gov/wp-content/uploads/2017/12/NSS-Final-12-18-2017-0905-2.pdf
[3] U.S. Under Secretary of Energy Mark W. Menezes referred to American LNG as "freedom gas." U.S. Department of Energy, Department of Energy Authorizes Additional LNG Exports from Freeport LNG, Press Release from May 28, 2019, https://www.energy.gov/articles/department-energy-authorizes-additional-lng-exports-freeport-lng
[4] Flatley, Daniel and Dina Khrennikova, U.S. Targets Insurers in Latest Round of Nord Stream 2 Sanctions, *Bloomberg*, November 11, 2020. https://www.bloomberg.com/news/articles/2020-11-11/nord-stream-2-sanctions-to-be-included-in-u-s-defense-bill

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slated to be passed by the end of 2020. It provides for punitive measures both against insurers of companies and ships involved in the further construction of Nord Stream 2 and against technical certification companies.

The United States could help Germany and other European allies to become less dependent on Russian gas if it lifted secondary sanctions against Iran, which seems unlikely. While President-elect Biden chose Tony Blinken and Jake Sullivan – two of the key architects of the original Joint Comprehensive Plan of Action (JCPOA), known as the Iran Deal – as core members of his foreign policy and national security team, the prospects of achieving a second, wider deal, to include additional provisions to curb Iran's regional interference, are gloomy. For now, America's unilateral abandonment of the JCPOA, and the leveraging of secondary sanctions will continue to have a measurable effect on European companies hoping to build business ties in Iran. America's sanctions design will continue to have a positive side effect for its own fracking industry, since it has deterred Iran from extracting its abundant resources.

In the long run, these geo-economic measures harm the United States and its allies. In fact, resource-hungry China is likely to be the main beneficiary of this geo-economic approach. With a dip in overall demand, the struggle of producers will be all the more real and the power of buyers – in particular China, the largest energy consumer – will continue to increase.

Recommendations

Strategic foreign and security policy in a 21st century world, similar to forward-looking investment strategies, should not try to preserve outdated industries, but should **focus on growth markets and place both issues – energy and climate – at the center of their analyses** and recommendations for action.

International investors have already recognized that **climate risk is an investment risk**, due in part to the high-profile preparatory work of environmental researchers. In his investor letter for 2020, Chairman and CEO of BlackRock, Larry Fink, warned that environmental awareness is "rapidly changing." Fink, head of the world's largest hedge fund, expects a "fundamental transformation of finance." The "evidence of climate risk" will force investors to "reassess core assumptions about modern finance."[5]

To this end, U.S. policymakers must also rethink their unilateral, national solutions in the context of a **new international regulatory framework**. Companies should be required to disclose climate change risks so that markets can price that risk. In order to enable public and private actors around the world to make sound financial decisions, the Task Force on Climate-related Financial Disclosures (TCFD) projects could be used. It was established in 2015 by the Financial Stability Board (FSB), an organ of the G-20.[6] World-wide, national financial regulators, such as the U.S. Securities and Exchange Commission, should ensure that the TCFD recommendations are legally binding.[7]

The EU Commission has been working on a set of rules for sustainable financial investments for some time. With the Taxonomy Regulation of 18 June 2020, the EU has now created the world's first "green list" for sustainable

[5] Fink, Larry "A Fundamental Reshaping of Finance, 2020," https://www.blackrock.com/corporate/investor-relations/larry-fink-ceo-letter
[6] More detailed information: https://www.fsb-tcfd.org/
[7] See Podesta, John and Todd Stern, "A Foreign Policy for the Climate. How American Leadership Can Avert Catastrophe," *Foreign Affairs*, May/June 2020, https://www.foreignaffairs.com/articles/united-states/2020-04-13/foreign-policy-climate

economic activities. Investors can use this classification system if they want to invest in projects and economic activities with significant positive climate and environmental impacts.[8]

Driven by business interests, U.S. policymakers will need to play catch-up to EU peers that already committed to reviving their post-COVID economies with a Green Deal. Given pandemic-induced economic contractions and the fierce geo-technological competition with China, U.S. policymakers will also want to promote technological advances, not least on smart grids, artificial intelligence (AI) and autonomous driving particularly in U.S. cities – by providing management, infrastructure and research funding. A Biden administration will now be able to put campaign promises of "historic investment" into action: the plan outlines a total of $400 billion in government spending for clean energy and innovation over ten years.

The Biden administration's "Plan for a Clean Energy Revolution and Environmental Justice"[9] is ambitious – and may face legislative hurdles if Democrats do not succeed in taking back the Senate majority by winning both Georgia runoff votes on January 5, 2021.

Over a year ago – on December 11, 2019 – the European Commission, led by President Ursula von der Leyen, presented its European Green Deal. Under this ambitious plan, Europe will be the first continent to become climate neutral and reduce net greenhouse gas emissions in the EU to zero by 2050. The European Green Deal includes a number of measures in the areas of financial market regulation (keyword: sustainable finance), energy supply, transport, trade, industry, agriculture and forestry. Europe wants to use the COVID-19 crisis to transition to a modern, resource efficient and competitive digital and green economy.

To foster the development and dissemination of sustainable technologies, the **Major Economies Forum (MEF), initiated by the United States in 2009, should be revitalized**. At ministerial level, the 17 economies responsible for around 80% of global emissions could help multinationals set clean energy standards and explore new forms of cooperation in sustainable economies.[10]

In order to reduce existing global inequalities between tech-savvy economies and developing countries, and to put developing countries particularly hard-hit by the COVID-19 pandemic on a more sustainable path, the **United States and Europe should use their political weight in the Bretton Woods (World Bank and IMF) organizations to tie lending to sustainability criteria**, to encourage investment in sustainable infrastructure and development in particular.

UN voices are also calling for a broader role for the World Bank and the IMF to shape a "Green New Deal" as a driver of more equitable, inclusive global economic development. The United Nations Conference on Trade and Development (UNCTAD), a permanent body of the United Nations General Assembly based in Geneva, could also support the predominantly classically-trained neo-liberal economists of the World Bank and the IMF with broader economic thinking. This could remedy the failure of the so-called free markets and their proponents.

Future **investments could also be financed by "protection taxes:"** to protect against OPEC's unpredictability, innovation-oriented governments could impose **countercyclical taxes on fossil fuels**, coupled with the market price for oil. This would protect investment in renewable energy from sudden additional price falls, possibly

[8] See the so-called EU Taxonomy: <https://ec.europa.eu/info/publications/sustainable-finance-technical-expert-group_en
[9] See Joe Biden's Campaign Website, Fact Sheet: 9 Key Elements of Joe Biden's Plan for a Clean Energy Revolution, https://joebiden.com/9-key-elements-of-joe-bidens-plan-for-a-clean-energy-revolution/
[10] More detailed information: https://2009-2017.state.gov/e/oes/climate/mem/index.htm

initiated by OPEC. In order to promote domestic political acceptance, tax revenues could be used not only for research and development of renewable energies, but also for **tax relief for the population**.

By introducing "taxes," the control effect of energy prices could also be used consistently. In order to prevent some states from gaming tax advantages and overriding their competitors, **a coordinated "carbon border tax" is necessary.** For example, the European Commission intends to impose a CO_2 tax on imports, and to ensure that the competitiveness of European companies is not affected, especially in energy-intensive industries. The carbon border tax is a central theme in the European Commissions' Green Deal; coordinated with the United States and other innovation-oriented countries it could be a powerful measure to curtail overreach by other countries.

If the level of energy prices, particularly in industrialized countries, were to be raised systematically, gradually, and continuously over a longer period of time, there would be greater certainty of planning for adaptation measures on the energy demand and supply side.

These adjustments should be managed in dialogue, for example by **bringing suppliers and buyers into discussion at the multilateral level of the G-20 and the International Energy Agency (IEA)**.[11] IEA Executive Director, Fatih Birol, insisted that one should never waste a good crisis. In fact, COVID-19 impaired countries should use their **multibillion-dollar national stimulus programs to promote energy efficiency and renewable energies**.

It is possible to do both: Create needed timely and targeted momentum in light of the current recession in an effort to stimulate a short-term uptick in private consumption and entrepreneurial investment. Accompanied by political framework conditions (e.g. taxes), stimulus packages can also prove transformative, changing the structure of the economy in the long run.[12]

Leveraged effectively, economic growth stimulus, improved energy security, and climate protection should be deployed argumentatively in tandem – both to win over domestic audiences and build international momentum. They could give transatlantic allies, which have been badly affected by the COVID-19 crisis, a much-needed, optimistic and sustainable future.

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[11] Kempe, Frederick "How the US Can Use the Covid-19 Crisis to Reimagine the Energy World, Save Jobs and Stabilize Markets," *CNBC*, April 25, 2020, https://www.cnbc.com/2020/04/25/op-ed-how-the-us-could-use-the-covid-19-crisis-to-reimagine-energy.html
[12] Kröger, Mats, Karsten Neuhoff, and Jörn Richstein, "Green New Deal nach Corona: Was wir aus der Finanzkrise lernen können" (Green New Deal After Corona: What We Can Learn From the Financial Crisis), *DIW aktuell*, April 30, 2020.

Remarks: The opinions expressed in this contribution are those of the author.

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[13] https://www.luebbe.de/quadriga/buecher/politik-und-gesellschaft/trumps-amerika-auf-kosten-der-freiheit/id_6359392
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