

“Restoration of the Transatlantic Dialogue: The Global Fight against Climate Change”

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Climate change poses an unprecedented threat to future well-being and prosperity. Without aggressive action to mitigate carbon emissions and curb global warming to 1.5 degrees above pre-industrial levels and a scaled, global effort to build resilience to the impacts of climate pollution, we will experience the devastating consequences of climate change in extreme weather events, tipping points, migration and growing dislocation and inequality.¹

Societies must "transition" away from our dependence on fossil fuels and unsustainable production patterns and consumption with their associated greenhouse gas emissions. This transition means system changes, including energy, transport, finance, and food.

At the same time, societies must adapt to the impacts of climate change and build resilience to the intensifying disruption that past pollution is causing and will cause. This disruption will increasingly intensify shocks at a quickening pace and affect more places and people.

Societies will also need to finance their transitions and their resilience. Advanced economies are called on to help finance transitions and adaptation and resilience in those countries that have contributed little, or nothing at all, to the climate emergency.² There is a solid economic consensus that the cost of inaction is higher than the cost of action, specifically that ambitious emissions reductions are likely to cost less than the expected damages from climate change over the coming decades.³

Transatlantic cooperation lies at the heart of solutions at scale and global progress in all three areas – mitigation, adaptation and resilience, and finance. The absence of transatlantic cooperation in climate diplomacy and has never augured well for the world. Differences, or divergence, whether in Kyoto, Copenhagen, or following Paris, have slowed progress and allowed others to find room for plausible deniability of the need for action. There has not been a breakthrough in climate diplomacy in recent years without both the EU and the United States leading.

Post Paris, we are in a new era. Scientific evidence has brought about a newfound and unprecedented political alignment around climate action goals. This political alignment is matched by increasingly widespread commitment in the private sector, including private finance, to avoid and manage the risks

¹ World Scientists' Warning of the Climate Emergency, BioScience, Volume 70, Issue 1, January 2020 <https://doi.org/10.1093/biosci/biz088>

² We Are Living in a Climate Emergency and We're Going to Say So. Scientific American, April 2021. <https://www.scientificamerican.com/article/we-are-living-in-a-climate-emergency-and-were-going-to-say-so/>

³ Gauging Economic Consensus on Climate Change, Institute for Policy Integrity, NYU, March 2021 https://policyintegrity.org/files/publications/Economic_Consensus_on_Climate.pdf

of catastrophic climate change as well as exploit the opportunities that emerge from deep decarbonization including to build greater inclusivity, for example in energy and transport systems.

2021 – the super year of climate-related diplomacy

2021 offers an extraordinary opportunity to exploit this political alignment with the EU, China, Japan, South Korea, the United Kingdom, and many other more minor economic powers committing to net zero emissions by around 2050 and, in many cases, increasing their necessary ambition in emission cuts by 2030. The world awaits the U.S. climate plan expected on April 22, 2021. Details of how the United States right sizing its ambition will cement U.S. leadership on the defining challenge of our time, providing the US and its partners with the added capability of "do as we do" not "do as we say".

The U.S. promised climate plan, representing the total government approach heralded in the Executive Order on January 27, 2021, may offer an effective counterpart to the EU's comprehensive approach, laid out in the European Green Deal.^{4 5}

With ambitious plans in place, transatlantic cooperation may bring about two key results. First, cooperation that produces mutual benefit or mutual resilience. Secondly, and at the same time, cooperation that offers support and pathways for the rest of the world to build resilience and achieve net-zero emissions close to mid-century.

Zero net emissions, therefore, is a defining and integral component of the transatlantic relationship, and, in turn, the relationship will be vital to winning the race to net zero.

The EU and the United States can use the April 22 summit to signal deepening cooperation and a commitment to joint leadership. They should be the founding members of a carbon club for the 2020s and beyond. Together they can ensure that the G7 and G20 processes, and the preparations for COP26, build on each other and help the world gain momentum.

A committed partnership is essential as leadership is more distributed than in the years leading to the Paris climate agreement in 2015. China's emergent power relates at least in part to its role as the primary producer at the heart of the energy transition. Its supply of technologies and materials and financing through the Belt and Road Initiative fosters dependency. Fortunately, strategies focused on a strengthened transatlantic relationship that would produce mutual benefits will also allow the United States and the EU to promote action and ambition globally.

Transatlantic cooperation for mutual benefit

Urgent decarbonization and investment in resilience require transitions in energy systems, transportation, manufacturing processes, land use management, food systems, and the financial system.

⁴ Executive Order on Tackling the Climate Crisis at Home and Abroad, President Biden, January 27, 2021 <https://www.whitehouse.gov/briefing-room/presidential-actions/2021/01/27/executive-order-on-tackling-the-climate-crisis-at-home-and-abroad/>

⁵ European Green Deal, European Commission, December 2019 https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en

The United States and the EU may use their combined economic power to deliver mutual benefits and drive change globally. Together with China, the United States and EU account for 61% of global GDP and more than 40% of goods imports. Exerting combined economic power may have a magnetic effect on third parties. Agreement between the EU and the United States on common rules and approaches, standards, and transparency will provide direction and attract others wanting to trade or engage in the substantial EU and U.S. markets.

Underpinning increased cooperation is a shared approach to pricing carbon and preferably easy agreement on the price level. Current carbon pricing covers 22% of global emissions but at a price that is far too low to be effective. Both Secretary Yellen and Special Envoy Kerry have shown appreciation for the power and essential nature of an effective price on carbon. An effective price on carbon goes hand in hand with carbon border adjustment mechanisms (CBAM).

A joint CBAM, or at least, aligned approaches to carbon border adjustment, would offer the United States and the EU the opportunity to maximize their climate influence as others wishing to export into the EU and the United States would be forced to raise their own ambition in their NDCs and beyond. Introduced gradually, a joint CBAM could act as a powerful force and counterweight to concerns around "leakage". Both the United States and the EU are engaged with China on this issue and alignment between the two as early as possible is critical. There are also opportunities to strengthen alliances with invitations to co-create CBAMs to the United Kingdom, Canada, and Japan among others.

A joint CBAM could also be a mechanism to support global action. Its revenues could provide transition and resilience support to third countries, primarily the most vulnerable low-income countries.

Beyond carbon pricing and a joint CBAM, cooperation could address common standards and transparency in assessing carbon content of products and services. Together the EU and the United States may reach out to the WTO whose focus is on ensuring the global trading system remains open, equal, and fair, and a driver, not an impediment, to global climate change.

Combined economic power may be enhanced with common or aligned approaches to the regulation of the financial sector to ensure effective governance of climate risks and harnessing of the financial system to drive decarbonization and resilience.

The United States has begun its sprint to join the EU, the United Kingdom and others in ensuring a comprehensive approach to sustainable finance. Moves by the Federal Reserve to declare climate a financial stability risk, create a financial stability climate committee, join the Network for the Greening of the Financial System (NGFS) and signals that it will consider approaches to climate risk stress testing are welcome. Similarly, the SEC Chair has set in motion processes around disclosure of climate risks and prudential supervision. The creation of a climate hub at Treasury and clear direction by the Treasury Secretary to the Federal Stability Oversight Committee augur well for a total government approach to climate risk management for the financial sector. However, more will be needed to drive finance into green and resilient assets and avoid greenwashing. The EU's taxonomy for sustainable finance provides a framework for assessing impact of achievements in sustainability and a basis for communicating them to investors and others. It will increasingly form the basis for access to finance as non-ESG assets are less and less attractive. The taxonomy will also prove the basis for compliance and for regulation and risk management.

With global asset managers offering almost identical funds in the EU and the United States and with global firms working across multiple markets, the introduction of the EU taxonomy, despite continued arguments over the treatment of gas and nuclear energy, will have an impact on investors in the United States. The Bank of England and the ECB's introduction of initial stress tests this year will provide learning and insights for the Federal Reserve. And with the Peoples Bank of China in discussions with the ECB on convergence of sustainable finance taxonomies and the G20 to establish a working group led by China and the United States on these issues, cooperation, moreover, leadership and alignment between the US and the EU will be essential.

Joint or aligned economic and financial regulatory approaches between the EU and the United States will spur more ambitious short-term targets (to 2030) and secure their achievement.

Within this combined economic power and financial regulatory alignment lie opportunities in the processes of deep decarbonization. Each sector of the economy will experience shifts and be part of systems change. The UNFCCC Race to Zero has set breakthrough targets for every sector of the economy and finance to be agreed this year.⁶ These breakthroughs aim to put us on track for net-zero by mid-century and the targets we need to meet by 2030. In each of these, the cooperation between the EU and the United States may spur mutual achievement and secure progress in other countries and regions.

For example, in shipping as part of its goal to be net zero by 2050, is working to achieve 5% of shipping fuels to be net zero by 2030. This would act as a tipping point in the industry. Strategies to reach 5% include focusing on key routes and ensuring availability of green fuels at each port as well as switching LNG and ammonia shipping to net zero vessels. It is estimated that 60GW of green electrolyzer capacity (to produce green hydrogen – hydrogen produced from renewable energy sources) will be needed by 2030 to supply 5% of shipping fuel demand. This is a transatlantic opportunity with governors and mayors and private sector interests on both sides of the Atlantic eager to become first movers in a market shift essential to the energy transition.

Having set long-term decarbonization goals and having right-sized short-term ambition (2030 target), the EU and the United States can speed progress with closer cooperation. The possibilities of the green hydrogen market offer another glimpse of the impact of deeper cooperation. As the United States develops its substantial offshore wind resources and the EU's commitment in that space will act as a draw for other trading partners from Japan, Australia, and Chile. In addition to an effective price on carbon, the green hydrogen market could enjoy a smoother production pathway if the EU and United States shared definitions for certifying green hydrogen. Industry estimates put the size of the green hydrogen export market at US\$300bn export by 2030 and suggest that by 2040 green hydrogen could generate US\$140bn a year and support 700,000 jobs. The recent announcement by the EU of the European Green Hydrogen Accelerator Center focused on green hydrogen for use in hard-to-abate sectors offers a lesson and partner for U.S. efforts in the same direction.

Rapid transformations are impossible until they aren't. Whether it is green steel, new technologies and processes to replace concrete, carbon capture and use, battery storage, new materials and green chemistry, or digitalization for hyper efficiency, the transatlantic cooperation on climate change extends

⁶ "Transforming Our Systems Together: A global challenge to accelerate sector breakthroughs for COP26 - and beyond." UNFCCC. January 2021. <https://racetozero.unfccc.int/wp-content/uploads/2021/02/Race-to-Zero-Breakthroughs-Transforming-Our-Systems-Together.pdf>

to science, research, technological innovation, and foresight on resilience. As was the case with Mission Innovation, collaborative research offers the promise to develop technologies for the transition pathways, and the cooperation offers possibilities for faster deployment.⁷

Transatlantic cooperation also lends itself to mitigation beyond CO₂ – specifically to the need for urgent action to curb short lived climate pollutants (SLCPs). Black carbon, methane, tropospheric ozone, and hydrofluorocarbons are the most important contributors to the man-made global greenhouse effect after carbon dioxide. Cutting super pollutants at the same time as we reduce CO₂ can cut the rate of warming by as much as 0.5 degrees. This would buy the international community critical time while dealing with deeply embedded carbon that is harder to abate in the short term and help countries manage their transitions.

Both the United States and EU member states were instrumental in building platforms for collaboration on SLCPs in the run-up to Paris and in reaching an agreement on the Kigali Amendment to the Montreal Protocol, to phase out hydrofluorocarbons (HFCs), in 2016. Significantly, both the Biden Administration and the EU have indicated the importance of SLCPs in their climate strategies. It is significant that in the meeting between Chancellor Merkel and President Macron, and President Xi Jinping, on April 16, President Xi indicated his acceptance of the Kigali Amendment and, therefore, stricter controls on gases used in refrigeration and air conditioning. China, EU, and U.S. cooperation on standards and development of hyper efficient, non-polluting alternatives, will ensure access to cooling for people, foods and medicines globally, including those most affected by the economic downturn as a result of COVID19. The speed of adoption in other countries will be quicker, given the economic power of the blocs combined.⁸

Transatlantic cooperation for the global good

The climate emergency and COVID19 are compound crises. Raising ambition on climate action can only happen if the deep economic dislocation resulting from COVID19 is first addressed. The liquidity crisis experienced by many low-income and middle-income countries, particularly in sub-Saharan Africa, threatens to undermine countries' ability to pursue aggressive plans to install clean energy infrastructure and inclusive growth.

To meet the goals of net zero and ensure that countries can recover from this economic shock, an unprecedented mobilization of resources, especially to low-income countries, is needed. This mobilization is for recovery, but part of that recovery will be the clean energy infrastructure necessary for sustainable development. For many years China has been the largest investor in energy infrastructure through the Belt and Road Initiative. At the same time, the risk of stranded assets and determination to achieve climate goals has shifted public development finance and private investment away from coal-fired power and other fossil fuel investments.⁹

⁷ Myslikova, Z., Gallagher, K.S. Mission Innovation is mission critical. *Nat Energy* **5**, 732–734 (2020). <https://doi.org/10.1038/s41560-020-00694-5>

⁸ Echo Xie and Finbarr Bermingham, China will keep its word on climate agreements Xi tells Merkel and Macron, SCMP, April 16, 2021 <https://www.scmp.com/news/china/diplomacy/article/3129926/china-will-keep-its-word-climate-agreements-xi-tells-merkel>

⁹ Powering Past Coal Alliance, March 2021, <https://www.poweringpastcoal.org/news/press-release/ppca-global-summit-strengthens-international-commitment-to-accelerate-coal-power-phase-out-ahead-of-cop26>.

Achim Steiner, the administrator of the United Nations Development Program (UNDP), has noted "We need to arrive at a mindset like the Marshall plan, a bigger vision that we need to recover [from Covid-19] together, a new investment paradigm for a global economy, not an aid or charity paradigm".¹⁰ The UN Secretary-General Antonio Guterres has noted that recovery from COVID-19 cannot leave developing countries under a "mountain of debt on a broken planet".¹¹

At the recent spring meetings of the IMF and World Bank, European, United Kingdom and U.S. collaboration at the IMF made it possible to agree to a new Special Drawing Rights (SDR) general allocation of US\$650 billion. Next, cooperation must ensure a quick and effective voluntary post-allocation channeling of SDRs to support low-income countries' recovery efforts.¹² Then, this new SDR allocation needs rapid agreement on reallocation.

Transatlantic cooperation on finance for climate action

In his executive order, President Biden instructed his Treasury Secretary to use the "full voice and vote" of the United States in multilateral financial institutions to act on climate. The EU's member states should adopt the same approach. The European Investment Bank has already declared itself a climate bank. However, the EU, the United Kingdom, and the United States should ensure that public development finance, bilateral or multilateral, is efficient and effective in supporting a shared net-zero ambition.

The EU and the United States should also align resources to leverage private investment at scale and policy measures that allow countries access to markets. The EU and the United States must mobilize more finance for adaptation and resilience. Financial instruments that have demonstrated success in leveraging private investment should be replenished or funded at higher levels. The United States and the EU may invite others to mobilize investment for green growth, including China, India, private banks, and private equity.

Transatlantic cooperation into the future

Since its inception, EU member states, the United States, and the United Kingdom have been at the heart of the rules-based international system. The EU has recognized that the continued combined power and influence of the EU and the United States will be essential to anchor global cooperation in the years to come. Transatlantic cooperation will extend to effective governance of the Arctic and the Antarctic, as the ice shields recede and their role as planetary thermostats risks compromise. Ocean governance and the deep seabed will assume even greater prominence. The ocean is a source of blue carbon for countries looking to offset emissions, and the seabed is a source of minerals with potential

¹⁰ UK urged to take lead in helping poor countries fund climate action. Fiona Harvey, The Guardian, March 2021 <https://www.theguardian.com/environment/2021/mar/29/uk-urged-take-lead-helping-poor-countries-fund-climate-action-cop26>

¹¹ Margaret Besheer, UN Chief Appeals for Action to "Heal a Broken Planet" VOA, December 2020. <https://www.voanews.com/science-health/un-chief-appeals-action-heal-broken-planet>

¹² Communiqué of the Forty-third Meeting of the IMFC, Washington, DC, April 2021 <https://www.imf.org/en/News/Articles/2021/04/08/communique-of-the-forty-third-meeting-of-the-imfc>

value in the supply chains of energy transitions. Finally, as countries and private actors pursue possible geoengineering, the atmosphere and outer space will pose new governance challenges.

The United Kingdom, as president of COP26 and president of the G7 in 2021, holds a pivotal and potentially influential role. It can place climate, once and for all, at the center of global economic governance and coordination, where it belongs. As the United Kingdom's closest ally, the United States and the United Kingdom can embed climate change in international security architecture from the United Nations Security Council to NATO and beyond. Growing demands for disaster response and emergency preparedness, as well as pressures on extenuated global military supply lines and climate impacts as drivers of displacement, growing insecurity whether due to failed crop-cycles, sea-level rise, inhabitable cities due to increasing heat island effects, and intensifying extreme weather events, will test security cooperation and put new demands on it.

Just as climate can transform the transatlantic relationship between the United States and the EU, climate can be another tie that binds the special relationship between the United States and the United Kingdom.¹³

In conclusion, the EU and the United States together can force the pace of climate action, both benefiting from the results of that cooperation in sending clear signals to the private sector and establishing clear and aligned rules of the road to decarbonization. Together they can attract higher ambition from other countries and lead solutions for those who will otherwise be left behind with disastrous consequences for the lives and livelihoods of their peoples and for security, stability, prosperity, and our ability to reach necessary climate goals. If we have entered a race to net-zero emissions, both the United States and the EU need to help each other win and chalk up a victory for the planet.

¹³ "Greening the Special Relationship" Kyte, Toni and Lee. Project Syndicate. March 2021 <https://www.project-syndicate.org/commentary/uk-us-must-show-climate-leadership-for-cop26-by-rachel-kyte-et-al-2021-03>