

Executive summary

► **Key message** decarbonisation, competitiveness and strategic autonomy will underpin

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1 Why the EU needs a clear global green reach strategy

The need to reduce global greenhouse gas emissions is becoming ever more pressing. The remaining carbon budget consistent with limiting global warming to 1.5 degrees Celsius above pre-industrial levels is shrinking rapidly, estimated at 200 gigatonnes of carbon dioxide in early 2024, down 60 percent from the 500 gigatonnes estimated in 2020 (Forster *et al.*, 2024).

The European Union's annual emissions are only about 7 percent of the world total (Figure 1) but the EU nevertheless seeks to foster global decarbonisation by leading by example with domestic action. This however is not enough. The EU must also develop a stronger external strategy to foster international green collaboration and collective climate action.

The EU must also maximise the effectiveness of its global green reach strategy because all countries are required to present their updated Nationally Determined Contributions (NDCs) ahead of the United Nations climate summit (COP30) in 2025. These will outline national emissions reduction plans up to 2035 and will determine to a great extent whether the world can get onto an emissions trajectory in line with the goals of the Paris Agreement. These updates have been called “*enhanced ambition*”.

The EU should work to catalyse action and help turn the NDCs into workable national green-transition plans. In the case of emerging markets and developing economies (EMDEs), goals might be linked to international climate finance disbursements. To play a meaningful role, the EU's green reach strategy will need to use a broad range of levers – trade, economic and

In practice, there are additional motivations, including: 5) anticipating the repercussions of the EU's domestic actions on trade partners, 6) promoting European clean-tech exports and foreign green investment, and 7) projecting soft power by shaping the international climate agenda.

These considerations are both legitimate and unavoidable. The EU accounts for 17 percent of global GDP, 15 percent of the global goods trade and 23 percent of global services trade (Figure 2). The EU's push for domestic decarbonisation has repercussions for trade partners worldwide, which need to be adequately addressed. The EU's large share of global trade is also important leverage that can be used to promote green growth domestically and in partner countries.

Figure 2: EU shares of global emissions, GDP and trade (% , 2022)

Source: Bruegel based on Global Carbon Budget, World Bank, WTO. Note: CO2 emissions refer to the use of coal, oil and gas (combustion and industrial processes), gas flaring and the manufacture of cement. GDP is expressed in constant 2015 dollars.

The urgency of an effective EU global green reach strategy is further emphasised by the EU's gradually eroding influence in several regions, especially the Global South. Mistrust, accusations of hypocrisy and shifting power dynamics all contribute to this erosion. There is growing scepticism from EMDEs about Western initiatives, including those spearheaded by the EU. The EU also faces accusations of climate hypocrisy, a sentiment exacerbated in the 2022 energy crisis, when the EU gave out mixed signals on the role of gas in the transition. Meanwhile, the geopolitical landscape is being reconfigured, with nations including Brazil,

2 The shifting drivers of EU green external action

EU green external action is being influenced by two new factors: 1) the need to manage the repercussions for trade partners of its own domestic actions, and 2) the need to take into account the priorities of competitiveness and strategic autonomy, alongside decarbonisation.

2.1 Managing the repercussions for trade partners of EU domestic actions

The European Green Deal – the EU’s overarching plan to achieve net-zero emissions by 2050 – has generated an unprecedented wave of legislation to foster the necessary transformation of the European economy. Assuming the Green Deal is implemented as planned, the implications of this work will increasingly become visible, both domestically and internationally.

Three examples of how the European Green Deal will tangibly impact trade partners in the near future are: 1) the entry into full force of the Carbon Border Adjustment Mechanism (CBAM), 2) the reduced need for oil and gas imports, and 3) the increasing need for critical raw materials (Leonard *et al.*, 2021).

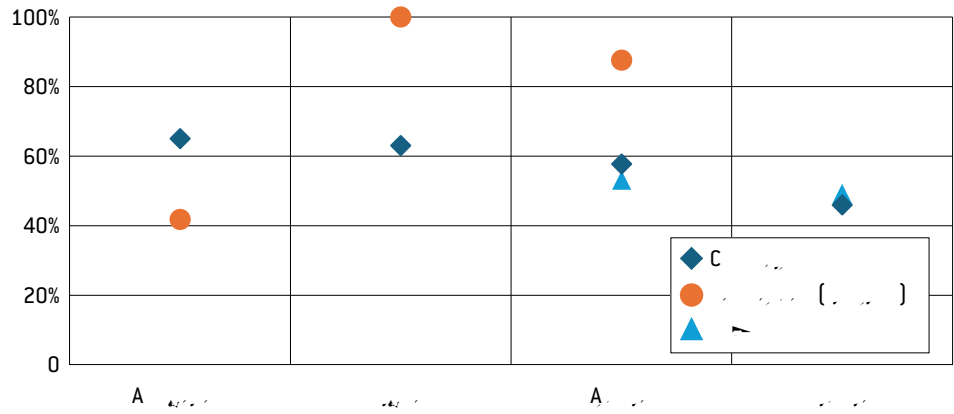
CBAM has been introduced to complement the EU emissions trading system by imposing a charge on the carbon content of selected carbon-intensive imports², thereby mirroring the domestic cost of carbon in the EU. This has been done to prevent carbon leakage – the relocation of industry to less environmentally regulated jurisdictions – as free carbon allowances for EU industry are phased out. The CBAM pilot phase started on 1 October 2023, with full entry into force in January 2026.

CBAM is one of the most internationally contested measures approved under the European Green Deal. The period ahead of its full application will likely be marked by increased political and trade tension between the EU and partners. Managing these tensions will require much stronger ‘CBAM diplomacy’ and more joined-up application of EU trade, climate and development policy instruments when dealing with partner countries affected by CBAM.

Meanwhile, in 2022, the EU’s shares of worldwide oil and gas demand were, respectively, 11 percent and 9 percent (Energy Institute, 2023). But EU demand for oil and gas is expected to drop from about 800 million tonnes per year in 2022, to 650 million tonnes in 2030 and 330 million tonnes in 2050 (IEA, 2023). Reduced demand from the EU is likely to lower global oil and gas prices, reducing the revenues of major exporters. This could directly affect the EU’s main fuel suppliers, including Algeria, Azerbaijan, Libya and Nigeria, potentially destabilising these countries economically and politically (Figure 3). Managing these consequences will require renewed, stronger EU external action.

² The Carbon Border Adjustment Mechanism (CBAM) is a tax on carbon-intensive imports from non-EU countries. It is designed to level the playing field between EU and non-EU producers by imposing a carbon price on imports that is equivalent to the carbon price paid by EU producers. The mechanism is expected to be fully operational by January 2026.

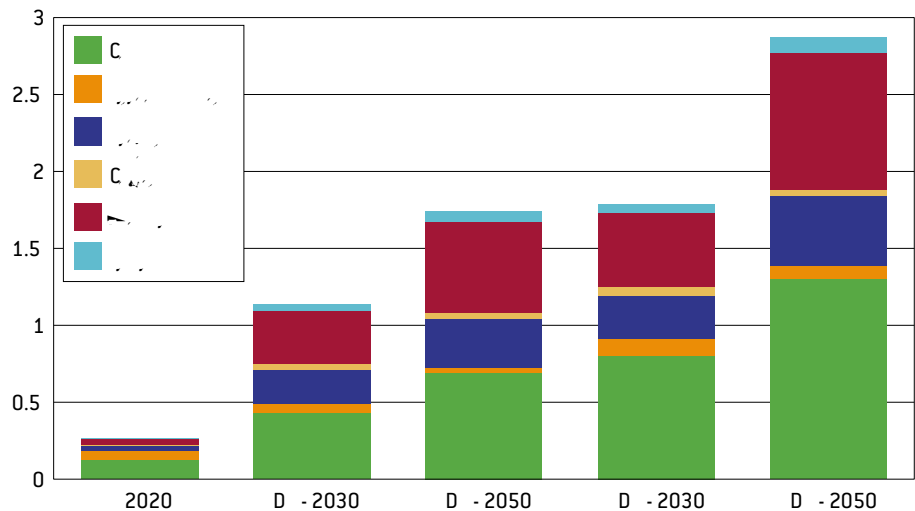
Figure 3: Shares of oil and gas exports going to the EU from selected exporting countries (% , 2020-2021)



Source: Bruegel based on EIA Country Profile and BP Statistical Review of World Energy 2022. Note: Crude oil exports are OECD Europe; Crude oil and LNG exports refer to 2020; natural gas exports by pipeline to 2021.

The green transition also implies heightened demand for clean technologies and the raw materials used in them. A clean-energy system is much more minerals- and metals-intensive than a conventional fossil-fuel energy system. Even with increased circularity in use and reuse of resources, the implications are enormous for the extraction of raw materials and for global competition to secure access to them. EU demand for critical raw materials (CRMs) up to 2030 and 2050 can be expected to increase substantially. EU demand for some of the most used raw materials, including copper, silicon metal, nickel, manganese and lithium, is expected to increase elevenfold³ by 2050 (Figure 4) (Carrara *et al.*, 2023). Meeting this surging demand in a secure and affordable manner requires third-country partnerships that effectively incentivise investment from the private sector.

Figure 4: Selected materials demand forecast in the EU (Mt/y, 2030 vs 2050)



Source: Bruegel on Carrara *et al.* (2023). Note: Forecast of material demand in low-demand and high-demand scenario (LDS/HDS) for 2030 and 2050 for all elements.

³ <https://www.bruegel.org/insights/forecast-material-demand-2030-2050> (HD) scenario. The forecast is based on the high-demand scenario (HDS) for 2030 and 2050 for all elements.

2.2 Addressing the new priorities of competitiveness and strategic autonomy alongside decarbonisation

Competitiveness and strategic autonomy, alongside decarbonisation, have become critical priorities for the EU and are set to determine the strategy for the next five years.

Developments including the United States Inflation Reduction Act and China's predominance in cheap solar panels and electric vehicles highlight the competition and security

been seen compared to 2021, with basic metals down by 22 percent, non-metallic minerals down by 12 percent, iron and steel down by 17 percent and non-ferrous metals down by 14 percent. For energy-intensive industries, the energy shock in Europe increased the attractiveness of countries with low energy prices.

During the energy crisis, governments managed to contain relocation of energy-intensive production abroad only by providing massive subsidies, with Germany providing €71 billion in state aid to its domestic companies in 2022 alone (Cannas *et al.*, 2023). Notwithstanding subsidies, some relocation is happening; German chemical giant BASF, for example, announced in 2023 the closure of its ammonia plants in Ludwigshafen and of other chemical units, partly because of high energy costs⁶.

Instead of authorising expensive and often ineffective subsidies (Losz and Corbeau, 2024), the EU might, as part of its green diplomacy push, want to help establish international green value chains. This would mean the relocation of certain energy-intensive production processes abroad to countries with abundant renewable energy resources – starting with coun-

Chile¹⁷, Namibia¹⁸, Norway¹⁹, Kazakhstan²⁰, Ukraine²¹, the Democratic Republic of Congo and Zambia²².

The principle of common but differentiated responsibilities, central to the Paris Agreement, is reflected in the climate finance pledge made by rich nations to EMDEs. At COP15 in Copenhagen in 2009, developed countries committed to a collective goal of mobilising \$100 billion per year by 2020 for climate action in developing countries, a goal which was formalised at COP16 in Cancun and reiterated at COP21 in Paris. Although this target was not met by 2020, it was in 2022 with the mobilisation of \$115.9 billion, up from \$89.7 billion in 2021 (OECD, 2024).

The EU is the largest provider of climate finance globally (Figure 6). In 2022, the EU and its member states collectively allocated €28.4 billion to climate finance, and mobilised an additional €11.9 billion from the private sector²³ (EEA, 2023). The provision of climate finance is primarily national: Germany and France contributed €9.5 billion and €7.7 billion respectively, while the EU from its own funds contributed €6.5 billion (Figure 7).

Figure 6: Top providers of climate finance (€ billions, 2021)

Source: Based on European Environment Agency and OECD DAC. Note: Figure includes climate-related development finance from data.gouv.fr. EEA report includes data from GSDG ET/CO1CSm(F) SCN /35, 001151535BT002 10.406 54.52 (Source: 2 433 316r)46T61/Span/Ac...

Figure 7: EU climate finance by provider (€ billions, 2022)

Source: Budget based on European Environment Agency. Note: The figure refers to climate finance provided to developing countries as reported by the EEA in its EU country reports. The bar in red indicates the EU in total, the bar in blue the member states. Only the open member-state providers are shown.

4 Main shortcomings of the current toolkit

While the EU has asserted a strong presence in international climate negotiations, its capability to move beyond ambitious rhetoric and target-setting in order to steer implementation at global level remains unclear.

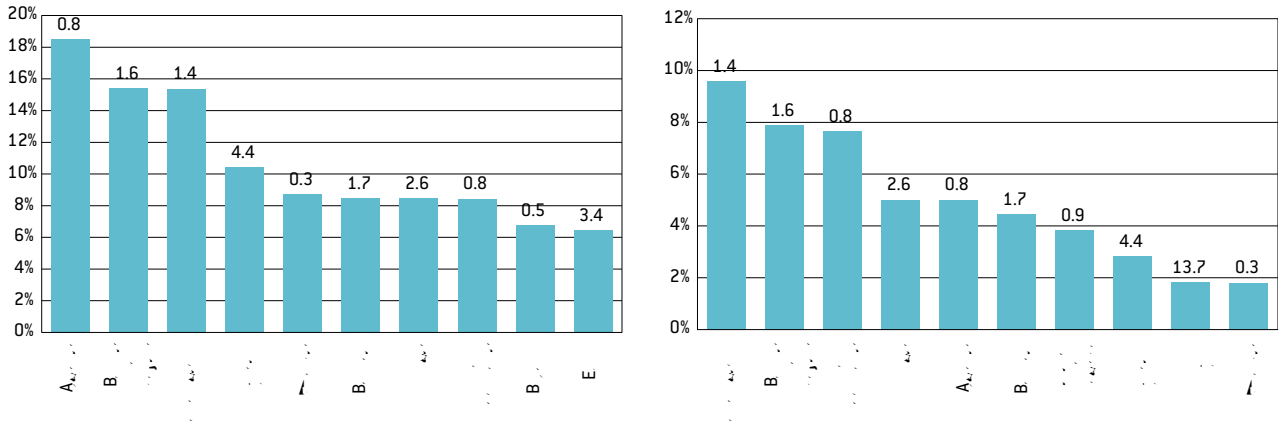
Evaluating the barriers to effective implementation is crucial. There are essentially two: 1) fragmentation of the current architecture; 2) deficiencies in implementation of bilateral and multilateral agreements of varying nature.

4.1 Fragmentation of the current architecture

At EU level, governance fragmentation within the European Commission itself represents a significant challenge. Several directorates-general (DGs) are responsible for different parts of the EU global-reach architecture: Climate Action (DG CLIMA) oversees climate negotiations; Energy (DG ENER) is responsible for international energy partnerships; Environment (DG ENV) works on deforestation; International Partnerships (DG INTPA) manages development finance (a primary source of EU climate finance); Internal Market, Industry, Entrepreneurship and SMEs (DG GROW) is in charge of the critical raw material partnerships; Taxation and Customs Union (DG TAXUD) manages CBAM; Trade (DG TRADE) handles trade-related issues; and finally the European External Action Service (EEAS) houses a Special Envoy for Climate and Environment Diplomacy. While this division of responsibilities is understandable, it might lead to coordination difficulties and a compartmentalised approach, often undermining both domestic and international policy coherence (Oberthür and Dupont, 2021). Moreover, the lack of an integrated vision across these DGs risks creating confusion in third

mies, such as Mozambique, which relies heavily on aluminium exports (Magacho *et al.*, 2022), are particularly vulnerable. Depending on the weight of the EU market in their total exports and the possibility for countries to re-route the affected exports, Western Balkan countries, Mozambique, Bahrain and Ukraine are likely to be most exposed to CBAM (Figure 8).

Figure 8: CBAM exports to the EU as percentage of total exports (left panel) and GDP (right panel), \$ billions, 2022



Source: Bruegel based on CBAM regulation and CEPII data. Note: Countries with CBAM exports to the EU lower than 300,000 tonnes are omitted. Figure shows top of the bar height as a percentage of total exports in \$ billion.

Other Green Deal regulations also face resistance from third countries, affecting international trade relations. The inclusion of emissions from maritime shipping in the EU emissions trading system applies to large ships departing from and arriving at EU ports, regardless of their flag. Non-EU shipping companies argue that this should be addressed at the level of the International Maritime Organisation to ensure fair competition across the industry. Additionally, concerns have arisen about the allocation of money generated by the scheme, with some advocating for reinvestment in R&D to facilitate technological and infrastructure improvements supporting industry-wide decarbonisation²⁷.

The Corporate Sustainability Reporting Directive (CSRD, Directive (EU) 2022/2464), meanwhile, requires businesses to disclose the social and environmental impacts of their activities, imposing significant compliance burdens on both EU and non-EU firms. The EU regulation on deforestation (EU) 2023/1815 (pr)15 (e)du1 (a)(R)Regulat (e (E)3 (413.9 (0)3/-35.9 d(r)15 (b)-1

Assessment and strengthening of climate-finance mechanisms: An evaluation of EU climate finance efforts is essential to determine their effectiveness and impact. This assessment should encompass various mechanisms, including Official Development Assistance (ODA), NDICI Global Europe and the European Fund for Sustainable Development Plus (EFSD+) (see the annex). Main considerations include whether these efforts are yielding tangible results and whether there is a need for increased EU contributions or enhanced coordination among EU countries. For this, it is imperative to carry out impact assessments to evaluate the results achieved and possibly to correct course. Furthermore, increasing the impact of EU action requires not only bringing in private sector investments but also ensuring they are effectively complemented by EU efforts.

5.2 New carbon pricing and international green-taxation diplomacy

Addressing the intricate balance between decarbonisation, security and competitiveness needs a robust approach to diplomacy related to carbon pricing and international green taxation. The EU has established a taskforce on international carbon pricing and markets diplomacy (European Commission, 2024). The taskforce's main objective is to provide EU expertise to support the adoption of carbon-pricing systems in third countries, while also fostering international trade in carbon allowances. This is a positive development that in our view might be structured into three main workstreams:

- 1. Pivot the works around Article 6 of the Paris Agreement:** To contain temperature rises within 1.5 to 2 degrees Celsius, global emissions must be reduced by 43 percent by 2030 and by 60 percent by 2035 (UNFCCC, 2024). Appetite for the use of international carbon markets to move at the required speed is high, with 143 of the 154 UNFCCC parties being willing to use carbon credits under Article 6 of the Paris Agreement, which allows countries to voluntarily cooperate and transfer carbon credits to help each other achieve their emission reduction targets³⁰. At COP28 in 2023 the EU played a more proactive role than in the past in fostering

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countries in their efforts on climate mitigation and adaptation³⁴. The EU can help advance this process, starting with a push for better carbon accounting and more effective action from the two sectoral bodies, the International Civil Aviation Organisation and the International Maritime Organisation (Sgaravatti, 2023).

- 3. CBAM diplomacy:** The implementation of CBAM is a test of the EU's ability to deliver and manage the international repercussions of EU climate policy. While the EU should continue with the implementation of CBAM, it should also be adaptable in its approach as CBAM significantly affects partner countries in different ways. CBAM not only promotes a greener industrial landscape within the EU, but also encourages international partners to adopt low-carbon practices. Countries exporting carbon-intensive goods to the EU are incentivised to implement their own carbon-pricing mechanisms or taxation, to raise revenues at the national level instead of handing them over to the EU. Since the adoption of CBAM, many countries have started considering establishing domestic emissions trading systems, including Brazil, Chile, India, Indonesia, Malaysia, Vietnam, Thailand and Turkey (Delbeke, 2024). However, it is equally crucial to intensify CBAM diplomacy in partner countries. Additionally, targeted interventions through direct EU development assistance are essential to mitigate potential adverse impacts on least-developed countries (LDCs). Finally, there is merit in evaluating the possibility of expanding CBAM to incorporate a new market for carbon removals certificates. This expansion could, for instance, be linked to targeted actions such as the closure of coal-fired power plants, thereby aligning economic incentives with environmental objectives.

5.3 New green industrialisation partnerships

The trend of signing an increasing range of diverse partnerships (ie on energy, green and critical raw materials) needs consolidation into a single, unified green-industrialisation approach for each partner country.

Promotion of bilateral green-industrialisation partnerships with selected EMDEs: Recognising the role that EMDEs play in the global transition to a low-carbon economy, the EU should prioritise the promotion of bilateral green-industrialisation partnerships with significant countries. These partnerships should facilitate the transition of the selected EMDEs up the supply chain, advancing from mere extraction to refining and value-added processes emphasising sustainability and efficiency. This transition requires strategic investment in projects aimed at enhancing environmental performance and technological innovation. Collaboration with the private sector is essential to ensure the success of these partnerships. While direct intervention by EU governments may be limited, they can play important roles by supporting private investment through financial guarantees and export credits, to mitigate country and currency risks. Alongside national promotional banks, the European Commission and the EIB should strengthen their roles by mobilising resources and providing technical assistance, and can also help on the demand side, by promoting guaranteed off-take agreements.

5.4 New international trade and climate deal

The looming risk of a green trade war between the US, China and the EU poses a significant threat to global decarbonisation efforts. To mitigate this risk and foster a conducive environment for sustainable trade, the EU should advocate for plurilateral agreements on green subsidies and tariffs. These agreements would ensure that trade policies align with environmental objectives, while preventing the emergence of protectionist measures that undermine global decarbonisation efforts. Collaboration with major partners, particularly the US and China, is essential in this endeavour. The EU should engage in constructive dialogue with these partners

³⁴ https://www.ec.europa.eu/eip/eip-act/eip-act-2023-2024_en

to explore options for cooperation through existing mechanisms such as the WTO, or through plurilateral agreements involving like-minded nations.

5.5 Stronger EU governance

Addressing the EU's domestic challenges of fragmentation, lack of authority and strategies is imperative for effective global climate and energy action. This recommendation emphasises the need for a more cohesive and authoritative EU governance structure, accompanied by a stronger and more coherent narrative.

The Executive Vice President for the Green Deal should focus on both its internal and external dimension: The current governance structure within the European Commission suffers from significant fragmentation and dispersion of responsibilities. While understandable from an internal functional perspective, this division of labour should not underpin the coherence and effectiveness of the EU green action – both domestically and internationally. To help steer coordination and coherence a dedicated position of Executive Vice President for the Green Deal should be empowered to oversee both the domestic and international climate and energy agendas. This consolidation of authority would streamline decision-making processes and foster coherent policy implementation. It could also give the EU a stronger, more authoritative voice in the world when it comes to green-related issues, including COP diplomacy, green industrial partnerships, CBAM diplomacy and energy partnerships.

Develop a strong and coherent narrative: Articulating a compelling vision, objectives and strategies for EU climate and energy policies are essential. This narrative should resonate with stakeholders and communicate the EU's leadership role in addressing climate change and promoting sustainable development. Emphasising the importance of collaboration, coherence and effectiveness in EU governance to achieve climate and energy goals is vital. By fostering a shared understanding and sense of purpose, the EU can strengthen its position as a global leader in climate action.

Enhance Team Europe Initiatives for effective coordination: To achieve this, the EU should increase buy-in by member states through inclusive decision-making and clear communication about the benefits of coordinated action. Benefits include increased impact, greater cost efficiency and enhanced diplomatic leverage. Providing financial incentives or matching funds and highlighting the role of the EU countries joining each TEI will also encourage participation. Additionally, coordinated actions in partner countries might follow the Green Frontline Missions³⁵ model adopted by Danish embassies that aims to ensure the presence of a climate ambassador who focuses on promoting the green agenda in countries considered crucial for the global transition. The presence of a dedicated desk that would coordinate the TEI efforts, prioritising support for European businesses, economic development in partner countries and social equity. This involves engaging local stakeholders, providing comprehensive support, including policy advice and technical assistance, and integrating expertise and political dialogue.

³⁵ D. C. D. , <https://denmark.dk/cop-26-english/subpage-4>.

6 Conclusion

The EU faces the difficult challenge of implementing the European Green Deal while dealing with its global repercussions, increased geopolitical tensions and the pressure of ensuring simultaneously both competitiveness and economic security.

In facing these challenges the EU must resist the temptation of protectionist inward-looking policies. In fact, the external dimension of the Green Deal is as important as the domestic one and should be brought to the forefront of EU's climate strategy. Failure to support decarbonisation abroad risks compromising not only the Green Deal but global climate targets. The 2024-2029 institutional cycle provides an opportunity for the EU to solidify its leadership and drive transformative change in global green diplomacy and partnerships. Our policy recommendations chart a pragmatic path to enhance the EU's green global reach, to ensure that Europe remains at the forefront of global efforts to combat climate change, while maintaining its global influence in doing so.

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Annex: The current EU external green action toolkit

Taxation and trade	EU	Carbon Border Adjustment Mechanism (CBAM)**	Carbon tariff on specific carbon-intensive imports to prevent carbon leakage.	Potentially high impact but complex implementation and international trade relations challenges.
	EU	Critical Raw Materials Partnerships	Agreements securing diversified and sustainable supply of critical raw materials globally.	Effective at diversifying the value chains, but sustainability hinges on transparent, socially responsible practices, regulatory cooperation.
	EU	Free trade agreement (provisions on climate)	Climate clauses in trade agreements to ensure partner countries adhere to environmental standards.	Effective if rigorously enforced; compliance monitoring is critical.
	EU	Corporate Sustainability Reporting Directive (CSRD)	Mandates sustainability reporting for large companies operating in the EU.	

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