

Guest commentary

Climate diplomacy needs reciprocity

Transatlantic climate agreements would have to be based on different principles than before. Kim Clausing, Peter Cramton, Axel Ockenfels and Catherine Wolfram explain how this can be achieved.

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Climate change is the result of misguided incentives: national and unilateral climate policy causes high costs and often competitive disadvantages, while the benefits are distributed globally. This leads to insufficient incentives for national climate action.

The Paris Agreement and the 28 climate conferences held to date (currently COP28 in Dubai), which are largely based on voluntary national commitments, do not solve this incentive problem and therefore fall dramatically short of the climate targets: CO₂ emissions continue to rise instead of falling drastically.

An international minimum price for CO₂ emissions could provide a remedy. It would force all emitters to take into account the costs of their actions for the global community and offers further advantages such as simple measurability and comparability, flexible national implementation options and enforceability through reciprocal rewards and sanctions, for example through a border adjustment mechanism. With the latter, the CO₂ content of imports is subject to the same pricing as that of domestic production.

In particular, the principle of reciprocity, which has been largely absent from climate diplomacy to date, is essential for any cooperation. It protects against exploitation and motivates participation.

Three points can facilitate a reciprocal climate agreement

The Climate Club launched by the German government offers the opportunity for a reciprocal climate agreement. Cooperation is not easy to achieve and requires a step-by-step approach. The following suggestions can make it easier to get started:

1. Bilateral commitment: Internationally effective climate cooperation requires (at least) the USA and the EU to agree on a minimum CO₂ price and invite others to join in. The joint trading power can promote the willingness of other governments to cooperate through sanctions and rewards.

The US is still hesitant, but the 2025 tax overhaul will require new revenue streams, and a carbon₂ price combined with a border adjustment would not only help green technologies and targets, but also, for example, the US steel industry, whose production is less carbon intensive than that of its competitors.

2. Initially moderate minimum price: As a minimum price agreement can be implemented in addition to all existing and planned climate policy measures, a moderate CO₂ minimum price would be conceivable at the beginning. Once the agreement has been established, the price can be adjusted relatively easily at a later date.

The minimum price could also initially only be negotiated for certain industries or sectors, such as the electricity sector, where implementation is comparatively simple and advanced.

A transatlantic methane agreement would be a good first step

3. Methane agreement: A transatlantic methane agreement could pave the way for climate cooperation. The reduction of methane emissions is

essential to limiting the global temperature rise to an acceptable level, and the oil and gas sector offers the greatest potential for cost-efficient mitigation measures.

As part of the Inflation Reduction Act (IRA), the USA has already introduced a methane emissions fee as part of new methane regulations for the oil and gas sector. In a parallel but uncoordinated process, the EU is introducing new methane regulations for fossil fuels. There is also talk of sanctioning imports from countries that do not meet certain regulatory standards.

>> Read here: [*What the new climate club should achieve*](#)

Coordinating these transatlantic efforts would encourage oil and gas exporters to adopt methane emission regulations similar to those of the US and the EU, or otherwise face a border levy on exports to both jurisdictions. The climate protection effect would be great, but the impact on energy prices for consumers would be barely noticeable due to the low cost of avoiding methane emissions. And an important extension of an agreement seems possible: China has also recently announced its intention to reduce methane emissions.

A strategic approach is urgently needed to counteract the dramatic development of greenhouse gas emissions and to put the fragile architecture of national climate policies on a stable footing. A joint methane agreement would be a first step in this direction. The potential benefits for the EU, the USA and the world should not be underestimated.

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