



# The Political Economy of Global Climate Action: Where Does the West Go Next After COP28?

Input Report for the Oslo Energy Forum 2024

Sagatom Saha, Ole Jacob Sending, Kacper Szulecki, and Fabian Zuleeg

# Acknowledgements

This is an independent report commissioned by the Oslo Energy Forum (OEF). The authors would like to thank Reidar Gjørnum and Sven Mollekleiv at the OEF for excellent comments on earlier drafts, and in particular Ulf Sverdrup for getting the project started and for discussions of the issues covered by this report throughout the duration of the project.

Report commissioned and financed by the Oslo Energy Forum 2024.



OSLO  
ENERGY  
FORUM

Photo: Emiliano Lasalvia/NTB

---

**Publisher:** Norwegian Institute of International Affairs  
**Copyright:** © Norwegian Institute of International Affairs 2024  
Published under the CC-BY-NC-SA licence  
**ISSN:** 1894-650X

Any views expressed in this publication are those of the author(s). They should not be interpreted as reflecting the views of the Norwegian Institute of International Affairs. The text may not be printed in part or in full without the permission of the publisher.

**Address:** C.J. Hambros plass 2d  
PO box 7024 St. Olavs Plass  
0130 Oslo, Norway

**Internet:** [www.nupi.no](http://www.nupi.no)  
**E-mail:** [post@nupi.no](mailto:post@nupi.no)

**Fax:** [+ 47] 22 99 40 50  
**Tel:** [+ 47] 22 99 40 00

# Summary

This report offers a critical, candid examination of the landscape of global climate action. Current efforts are lacking even amid consecutive UN climate conferences that build upon the successes of the 2015 Paris Agreement. It argues that the incremental progress achieved thus far is insufficient to address the escalating climate crisis. Challenges of domestic political economy and lacking global governance are substantively at fault.

We identify several related barriers to effective climate action, including mismatched time horizons, shared public and private responsibility, the complexity of global challenges, and problems of global collective action and burden distribution. The report explores the distributional costs of climate policies, emphasizing the impacts of populism on climate action (and vice versa), and the need for a fair transition. Global governance challenges are attributable to the limits of existing multilateral institutions and the persistently difficult geopolitical and macroeconomic outlook.

We conclude by offering a set of specific policy recommendations, spanning corporate taxation, public investment, long-term commitment mechanisms, the climate action-energy security interface, corporate responsibility, and the imperative of a just, equitable, and participatory transition. The proposed strategies can contribute to achieving time-consistent, decisive and systemic action that tackles the urgent climate crisis, building on political incentives and disincentives. This systematic lens – focused on political economy and global governance constraints - needs to be applied to all climate action policies to get ahead of the curve in the global and domestic political environment in which we find ourselves.

# Contributors



**Sagatom Saha**  
*Adjunct Research Scholar*

Sagatom Saha is an Adjunct Research Scholar at the Center on Global Energy Policy at Columbia University SIPA. He is an expert on the geopolitics of the global energy transition and U.S. competitiveness in clean energy technologies.



**Ole Jacob Sending**  
*Research Professor*

Sending is a Research Professor at the Norwegian Institute of International Affairs. He does research on global governance and geopolitics, and leads NUIP's Centre for Geopolitics.



**Kacper Szulecki**  
*Research Professor*

Kacper Szulecki is a Research Professor in International Climate Governance at the Norwegian Institute of International Affairs. His main research interests are energy, climate and environmental politics, dissent and protest as well as intra-European migration.



**Fabian Zuleeg**  
*Chief Executive and Chief Economist*

Fabian Zuleeg is the Chief Executive and Chief Economist of the European Policy Centre. His work focuses on the political economy of the future of European integration.

# Contents

- Summary .....3**
- Contributors .....3**
- 1. Introduction .....6**
- 2. Barriers to effective action: Political economy and global governance .....8**
  - 2.1 Domestic political economy..... 8
  - 2.2 Global governance and international burden-sharing .....11
- 3. Implications for policy design ..... 14**
- 4. Specific policy recommendations .....16**
  - 4.1 Corporate taxation .....16
  - 4.2 Public investment and corporate lending.....16
  - 4.3 Long-term commitment mechanisms .....16
  - 4.4 Climate action - energy security interface .....16
  - 4.5 Corporate responsibility translating into real action.....17
  - 4.6 Just, equitable and participatory transition .....17
  - 4.7 International technology sharing fund .....18
- 5. Conclusion .....19**
- References.....20**

# 1. Introduction

Last year, the 28th UN Climate Change Conference (COP28) ended with an agreement on “transitioning away from fossil fuels in energy systems, in a just, orderly, and equitable manner, accelerating action in this critical decade, so as to achieve net zero by 2050 in keeping with the science.” However, that deal, while a positive milestone, is merely a call to action, not a decisive outcome.

Addressing the global climate crisis is arguably the most significant challenge of the 21st century. Its impacts, which have already led to millions of excess deaths and trillions in economic damages, will only worsen as the global average temperature rises.<sup>1</sup> To this end, nearly 200 countries agreed to collectively pursue efforts to limit warming to 1.5 degrees Celsius, the point beyond which consequences become considerably more extreme and – in some cases – irreversible. That deal – the 2015 Paris Agreement – has produced both progress and pushback. The 1.5-degree threshold would necessitate slashing greenhouse gas emissions by 43% by 2030 compared to 2019 levels.<sup>2</sup> However, if all countries only implemented their nationally determined contributions (NDCs), the world would only achieve a 2% reduction.<sup>3</sup>

Last year’s deal at COP should be seen in this context. The conclusion, as with previous global climate deals, is ambiguous and subject to interpretation. More importantly, it relies on implementation by individual countries, where capability, domestic politics and particular economic concerns dominate and take precedence over shared global challenges and commitments.<sup>4</sup> This long-standing dynamic has resulted in the current level of progress lagging the scale and scope of the climate crisis.

An honest assessment of available data and climate progress so far leads to a simple conclusion: incremental progress is not sufficient. The current approach is hindered by progress illusion that markets – as they are currently constructed – will deliver; that domestic and global systems of governance – without new mechanisms and forums – are adequate; and that sudden future technological breakthroughs can imminently address the climate crisis without new market mechanisms or policy support. To be sure, gradual, non-systemic responses are easier to instigate, but incremental, linear steps are inadequate amid the escalating climate emergency the world faces.<sup>5</sup>

*“An honest assessment of available data and climate progress so far leads to a simple conclusion: incremental progress is not sufficient.”*

Going forward, policymakers must adopt strategies that can facilitate profound transformations that simultaneously address countervailing challenges: the inescapable nature of domestic political economy and the need for effective international cooperation, against the backdrop of heightened

---

1 World Health Organization, ‘Climate Change’, 2023, <https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health>.

2 <https://unfccc.int/news/new-analysis-of-national-climate-plans-insufficient-progress-made-cop28-must-set-stage-for-immediate>

3 UNFCCC, ‘New Analysis of National Climate Plans: Insufficient Progress Made, COP28 Must Set Stage for Immediate Action’, 2023, <https://unfccc.int/news/new-analysis-of-national-climate-plans-insufficient-progress-made-cop28-must-set-stage-for-immediate>.

4 Felix Creutzig et al., ‘Challenging the European Climate Debate: Can Universal Climate Justice and Economics Be Reconciled with Particularistic Politics?’, *Global Policy* 5, no. s1 (2014): 6–14, <https://doi.org/10.1111/1758-5899.12156>.

5 Fabian Zuleeg, ‘Overcoming the European Progress Illusion’, 26 April 2023, <https://www.epc.eu/en/Publications/Overcoming-the-European-Progress-Illusion~505c44>.

global fragmentation and uncertainty. Successfully addressing the challenge necessitates action on several fronts, and no single policy can deliver what is needed. Rather, a complex mix of policies are needed, that address additional funding, better incentives and pricing mechanisms for a green transition, and measures to protect groups negatively affected by such a transition.<sup>6</sup>

Our focus is primarily on Europe and the US in part to highlight the specific challenges faced by liberal democracies confronting the climate challenge, but also because of their self-declared role as leaders in global climate action, and, last but not least, due to their historic responsibility and legacy of past emissions. We argue that the US and Europe – as democracies, as global leaders, and as major past and present emitters – must lead the way in translating COP commitments into concrete action. However, despite the European Green Deal and the US Inflation Reduction Act, each an example of landmark climate policy, both the US and EU are facing enduring challenges that potentially undermine their ability to accelerate the sustainability transition.

At the same time, how the US and EU engage with emerging markets and developing economies (EMDEs) is of at least equal consequence. The vast majority of greenhouse gas emissions now occur outside the US and EU. Today, growth in global emissions is largely fuelled by emerging markets. China and India are the first and third largest greenhouse gas emitters, respectively. Furthermore, future emissions are likely to come from countries that have historically contributed negligibly to climate change – such as Nigeria and Vietnam – as all use more and more energy to grow their economies and increase their standards of living. Far less climate finance is mobilized toward these countries, only 15% to EMDEs excluding China and less than 3% to least-developed countries.<sup>7</sup>

Both sides of the Atlantic are facing a multidimensional permacrisis, an extended period of instability as one crisis precipitates and exacerbates the next.<sup>8</sup> Migration concerns, economic challenges, Russia's invasion of Ukraine and the resulting fallout in global energy markets, and the conflict in the Middle East, have made addressing the climate crisis more complicated. The rise of populism, which surged in the 2010s, is a dominating factor. Now, in 2024, the world is facing a second wave of populism, with direct impact on electoral outcomes, making ambitious climate action even more difficult.

---

6 IMF (2023) Fiscal Monitor. Climate Crossroads: Fiscal Policies in a Warming World.

7 Climate Policy Initiative, 'Global Landscape of Climate Finance 2023', CPI, 2023, <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/>.

8 Fabian Zuleeg, Janis A. Emmanouilidis, and Ricardo Borges de Castro, 'Europe in the Age of Permacrisis', 11 March 2021, <https://www.epc.eu/en/Publications/Europe-in-the-age-of-permacrisis~3c8a0c>.

## 2. Barriers to effective action: Political economy and global governance challenges

That action lags rhetoric and public commitments amid an existential challenge such as climate change demands explanation. This report posits that the following factors critically affect the propensity for decisive climate action:

- 1. Mismatched time horizons:** The climate crisis, even though its effects are already more frequent and visible, is a long-term challenge that necessitates myriad short-term solutions with tangible, local costs and with significant distributional consequences between groups, while the benefits accrue in the future.
- 2. Shared public and private responsibility:** Governments alone cannot mobilize the level of finance necessary to address the climate crisis. Instead, governments must cooperate across disparate interests and develop strategies to harness markets to accelerate the transformation. The business case for climate investment must be clear across sectors and jurisdictions, with policies that can address tensions between global cooperation and competition amid resurgent industrial policy.
- 3. The scope of the challenge:** Climate change is a truly wicked problem, affecting all aspects of society, across scales and sectors. Accelerating the energy transition will demand making difficult trade-offs with intended and unintended consequences across different policy areas.
- 4. Global collective action and burden distribution:** Global challenges are cross-border concerns, and stabilizing the climate is a global public good. It is difficult to prevent free-riding and achieve 'fairness' in the division of limited resources.

Political economy and global governance challenges lie at the heart of the climate dilemma, accounting for the disparity between near-universal calls for decisive action and insufficient acceleration of the energy transition whether at the global, national, or corporate level. This dynamic is particularly acute for the West, which is domestically committed to liberal democracy, and globally committed to multilateralism of some form.

### 2.1 Domestic political economy<sup>9</sup>

The short-term domestic politics of Western liberal democracies discourage decisive, timely action when it comes to long-term crises like climate change.<sup>10</sup> The distributional consequences of climate action and decarbonization are a major factor. Examples abound of climate action yielding negative political fallout – from the failed attempt to enact a domestic carbon price in the US during the Obama administration, to more recent pushbacks against green policies across EU member states, starting with the Yellow Vests protest in France and, more recently, triggering farmers' protests in a number of European countries. Counterintuitively, the need to sustain electoral success for those

---

<sup>9</sup> For the purposes of this report, domestic here where the EU is concerned refers to the EU's multi-level governance, i.e. both EU and member state level combined.

<sup>10</sup> This is not to say that other political systems necessarily perform better but rather that they face a different set of political economy constraints than, for example, frequent elections. Nordhaus, William D. "The Political Business Cycle." *The Review of Economic Studies* 42, no. 2 (1975): 169–90. <https://doi.org/10.2307/2296528>.



committed to climate policies can preclude decisive action. Former European Commission President Jean-Claude Juncker captioned this sentiment succinctly: “We all know what to do, but we don’t know how to get re-elected once we have done it.”

*“Counterintuitively, the need to sustain electoral success for those committed to climate policies can preclude decisive action.”*

US and European policymakers must address multiple policy goals, including revitalizing manufacturing, with their transition policies. However, in general, the long-term benefits of economically efficient climate policies like a carbon price are overshadowed by the short-term pain. But even the perception of short-term costs is sufficient to derail climate action. Take the US state of Washington, for example, where both revenue-neutral and economically progressive carbon taxes failed to pass.<sup>11</sup> Many policy designs aim to avoid future costs but without short-term benefits that can be distributed now, they end up as a politically challenging negative-sum game.

In short, near-term transition costs and distributional consequences make it difficult to construct politically durable climate policies. Short-term, concentrated policy costs are easier to identify and politicize than long-term, distributed benefits that extend well into the future.

Even if one government can advance policy while in power, worsening domestic polarization diminishes policy stability. Rapid swings between action and stagnation, or even complete reversals, minimize the momentum needed for energy transitions to generate economic co-benefits and undermine predictability for businesses and investors accordingly. For example, former US President Donald Trump promises to roll back President Biden’s various climate rules if back in power. Similarly, the EU, where climate action is comparatively more popular across the political spectrum, has seen its many conservatives withdraw support for green measures amid overlapping energy- and cost-of-living crises exacerbated by persistently high inflation and the ongoing war in Ukraine. A new, more right-leaning European Parliament may undermine important elements of the European Green Deal. The political dynamic, particularly in the US, has galvanized a backlash against Environmental, Social, and Corporate Governance (ESG) investing in financial markets. The real-world impact of politicizing financial markets is hard to assess, though US outflows dealt a severe blow to ESG at the end of last year.<sup>12</sup>

Polarization and domestic political rivalry are not new phenomena. Western democracies have seen periods of heightened tension and political division. However, contemporary populism presents a fundamental challenge to climate action, amplifying real distributional problems, stoking fears of an unjust energy transition, and sharply critiquing the shortcomings of current governance models and liberal democratic institutions. This extends to spreading misinformation, fuelling ‘culture war’ interpretations of today’s fundamental crises, and undermining the trust in science, law, and established authorities.

---

11 David Roberts, ‘Washington Votes No on a Price on Carbon Emissions’, Vox, 28 September 2018, <https://www.vox.com/energy-and-environment/2018/9/28/17899804/washington-1631-results-carbon-fee-green-new-deal>.

12 Brooke Masters and Patrick Temple-West, ‘The Real Impact of the ESG Backlash’, Financial Times, 4 December 2023, <https://www.ft.com/content/a76c7feb-7fa5-43d6-8e20-b4e4967991e7>; Frances Schwartzkopff, ‘US Investor Exodus Deals Historic Blow to Global ESG Fund Market’, Bloomberg.Com, 25 January 2024, <https://www.bloomberg.com/news/articles/2024-01-25/sustainable-funds-see-first-ever-global-quarterly-net-outflows>.

The US and Europe faced the ‘first wave’ of populism in the middle of the last decade, which was partially rolled back. This reversal created space for new, ambitious climate policies on both sides of the Atlantic with inter alia the US Inflation Reduction Act (IRA), the EU’s Green Deal and the Carbon Border Adjustment Mechanism (CBAM). Now, in 2024, the US and Europe are witnessing a second, arguably more dangerous wave of populism. This trend highlights a related concern: the need to redress the grievances that fuel populism is critical, given it can be wrested from power but not entirely dispelled. In fact, populism has already returned to power in a strong incarnation, for example, in Slovakia, and may in the US. A future Trump presidency would preclude any new US climate action, erode existing US energy transition policies, and diminish transatlantic cooperation on myriad issues. A rightward turn in the upcoming EU parliamentary elections does not similarly signify a decisive European pivot away from climate action, but it could trigger policy paralysis and skepticism toward new transition policies.

Populist leaders increasingly tout a trinity of issues: 1) migration and identity, 2) the costs and implications of climate action, 3) reluctance to support to Ukraine in its efforts to defend itself against Russia’s invasion. EU populist parties that swept into power in the first wave opposed climate policies to a lesser extent than their successors might – not least if the EU proceeds with discussed policies that would affect households more directly and painfully.

Box: Populism and climate action<sup>13</sup>

Voters can reject specific climate proposals, even though they may accept climate science and acknowledge a higher rate of climate risks. Experiencing the direct impacts of climate change raises the political salience of environment concerns and makes voting for green parties more likely, at least in Europe.<sup>14</sup> Given the increasing frequency of extreme weather events, policymakers may have the opportunity to link these experiences to more strategically ‘populist’ approaches to climate policy design.

The distributional costs of climate action – though not as severe as those of the crisis itself especially in the long run - open climate action to populist broadsides while underscoring the need for an equitable, just transition, which includes support for manufacturing and communities among other transition policies.

13 Fabian Zuleeg and Janis A. Emmanouilidis, ‘EU@60 - Countering a Regressive and Illiberal Europe’, 2016, Brussels: EPC; Robert A. Huber et al., ‘Is Populism a Challenge to European Energy and Climate Policy? Empirical Evidence across Varieties of Populism’, *Journal of European Public Policy* 28, no. 7 (3 July 2021): 998–1017, <https://doi.org/10.1080/13501763.2021.1918214>.

14 Roman Hoffmann et al., ‘Climate Change Experiences Raise Environmental Concerns and Promote Green Voting’, *Nature Climate Change* 12, no. 2 (February 2022): 148–55, <https://doi.org/10.1038/s41558-021-01263-8>.

## 2.2 Global governance and international burden-sharing

The climate challenge is a collective action problem, fraught with free-riding and under-investment in global public goods. To be sure, the last several COPs have advanced reform efforts like the Bridgetown Initiative to strengthen multilateral institutions' financing for climate action, but the current institutional design of global governance arrangements falls markedly short. This characterization should not detract from the value and significance of the UNFCCC and the Paris Agreement, which importantly establish a framework for necessary negotiations. However, they are insufficient to address deeper, more pervasive concerns of distributional politics.<sup>15</sup>

Keen scholars have noted that effective global action on climate change necessitates more than addressing free riding and incentivizing investment in a global public good – instead recognizing the distributional stakes that pit the beneficiaries of “climate-forcing assets, which include fossil fuels, against “climate-vulnerable” equivalents, which include coastlines and fisheries.<sup>16</sup> The COP28 commitment to “transition away” from fossil fuels will intensify the distributional conflict between these actors. Moreover, the resurgence of industrial policy has made distributional considerations even more complicated. Policies like the EU CBAM and US IRA mark a shift away from the Paris Agreement framework, which broadly views all national climate action as favorable inducements that spur collective progress. Instead, one country's green subsidies with content requirements or carbon tariffs may materially hinder another's ability to invest in climate progress. The mixing of motivations – protectionism with climate action – without effective global governance mechanisms undermines international cooperation.

*“The resurgence of industrial policy has made distributional considerations even more complicated”*

This intensified competition over the distribution of risk and reward, or damage, and profit, takes place both within and between countries, making it more difficult to establish effective global governance mechanisms. The UNFCCC does establish a framework for voluntary action: national pledges, peer review, and the global stocktake have produced substantial progress and helped overcome major constraints. These mechanisms, however, are nonetheless insufficient to induce the scale and scope of action necessary and are even less well suited to address aforementioned distributional conflicts.

The limitations of existing multilateral institutions have created momentum for climate clubs and other so-called ‘minilateral’ ad-hoc governments arrangements, in which smaller sets of countries come together to stabilize and align policies. The G7, under the German presidency in 2022, notionally has launched a climate club, to accelerate industrial decarbonization globally, but little has resulted from this effort so far. The US and EU attempted to forge a bilateral deal on sustainable steel and aluminium, in part to address US concerns over CBAM, but negotiations have halted until after upcoming elections in both the US and EU.<sup>17</sup>

But climate progress cannot wait for geopolitical calm to materialize. Rather, policymakers and

---

15 Michaël Aklin and Matto Mildenberger, ‘Prisoners of the Wrong Dilemma: Why Distributive Conflict, Not Collective Action, Characterizes the Politics of Climate Change’, *Global Environmental Politics* 20, no. 4 (1 November 2020): 4–27, [https://doi.org/10.1162/glep\\_a\\_00578](https://doi.org/10.1162/glep_a_00578).

16 Colgan, J.D, Green, J.F. and Hale, T.N. (2021) “Asset Revaluation and the Existential Politics of Climate Change” *International Organization*, 75, 586-610.

17 Gautam Jain et al., ‘Why 2024 Is Critical for Climate and Trade Policies in the Years to Come’, Center on Global Energy Policy at Columbia University SIPA | CGEP, 2024, <https://www.energypolicy.columbia.edu/qa-why-2024-is-critical-for-climate-and-trade-policies-in-the-years-to-come/>.

business leaders must tailor their approaches to the geopolitical context. To this end, geopolitics and geoeconomics can prove useful in accelerating climate action; the EU CBAM and US IRA are arguably attributable to worries over deindustrialization and economic competition with China in clean energy industries, which are a growing share of the global economy.

*“Climate progress cannot wait for geopolitical calm to materialize. Rather, policymakers and business leaders must tailor their approaches to the geopolitical context.”*

However, these policies still do not address developed countries failure to support mobilization in developing countries. After only reaching a pledge to mobilize \$100 billion in annual climate finance several years later in 2023, developed countries continue to fall well short of the estimated \$2.4 trillion annually that emerging markets and developing countries other than China will need to spend by 2030 to get the world on track for net-zero.<sup>18</sup> Of this amount, \$1.3-1.7 trillion must go towards building out low-carbon energy. The US’s international climate assistance has already been dwarfed by the sum that the IRA will direct toward US domestic decarbonization. Much more needs to be done to marshal financial resources for investment in clean energy in EMDEs, where the cost of capital is higher

In this context, the on-going negotiations over Multilateral Development Bank (MDB) reform and a strengthened role for the IMF is important. With a new mission statement that also refers to “livable planet,” the World Bank is an important source of climate financing. Given the scale of the problem, and the short time-window available to reduce emissions, offering more concessional loans to middle-income countries to incentivize investments in renewable energy is important. However, calls for greater concessionalism must be matched with capital increases during the next shareholding review in 2025. Greater concessional lending – even for climate – projects to EMDEs at the International Bank for Reconstruction and Development (IBRD) would come at the expense of poverty-alleviation efforts to the world’s poorest countries at the International Development Association (IDA) unless new resources are committed.

Even more important for addressing the fundamental problem of getting the correct pricing of emissions and the value of ecosystems, is the IMF. The IMF is arguably the only multilateral institution that can meaningfully shift the financial and economic considerations of the green transition by offering guidance and benchmarks used through, for example, Article IV consultations with governments.<sup>19</sup> Many of these big ticket issues will be on the agenda of the up-coming Summit of the Future at the UN in September, and will be an important test of whether governments will be able to re-structure global governance arrangements.

The macroeconomic outlook is also creating headwinds to the global energy transition. For example, the current high-interest-rate environment and continued supply chain dislocations make the energy transition more expensive especially for emerging markets and developing countries. For liberal democracies, concerns over economic competitiveness and economic security are embedded in economic policymaking and their diplomatic climate efforts to pursue supply-chain cooperation. Intense global competition in high-tech sectors makes technology diffusion between developed and emerging/developing countries even more difficult.

Public capital alone is insufficient to meet global climate goals, but governments can do much more

---

18 LSE, ‘Authors of New Climate Finance Report at COP28 Call for Countries to Commit to Substantial Rise in Investment’, Grantham Research Institute on climate change and the environment, 2023, <https://www.lse.ac.uk/granthaminstitute/news/authors-of-new-climate-finance-report-at-cop28-call-for-countries-to-commit-to-substantial-rise-in-investment/>.

19 Comitteri, M., Brüggemann, A., Kosterink, P., Reininger, T., Stevens, L., Vonessen, B., ... & Wilbert, L. (2022). The role of the IMF in addressing climate change risks. ECB Occasional Paper, (2022/309).

to de-risk private capital, including investing more in R&D and providing concessional finance that addresses various barriers to clean energy investment, such as currency exchange risk and political risk. On the innovation front, the International Energy Agency estimates that only three – solar, electric vehicles, and lighting – of 50 components of the energy system are on track with a net-zero by 2050 scenario.<sup>20</sup>

Corporate (i.e. private business) incentives to act on climate exist albeit to different degrees across markets. For example, the US IRA provides long-term, predictable funding to invest in green industries and deploy clean energy technologies, though financial disclosure requirements are much weaker compared to those in Europe. The US, facing strong political opposition to any form of national carbon pricing, is driving its energy transition primarily with subsidies for manufacturing and deployment of clean energy technologies – backed by various forms of regulation of vehicles, power-plants, and methane, among others. The IRA with its ten-year time horizon and place-based benefits is likely durable.

The combination of domestic corporate subsidies and lack of foreign climate assistance has made the US government seek and champion private-sector leadership on climate action. However, its ability to promulgate strong environmental regulations may soon erode as the Supreme Court hears a case that signals a potential rollback of ‘Chevron deference,’ the legal doctrine that holds judges should defer to reasonable administrative interpretations of laws and statutes.

The EU, which lacks taxation authority, cannot collectively offer subsidies by spending through the tax code as the US has, but the Emissions Trading Scheme (ETS) provides a carbon price signal, while the EU’s ‘Green’ Taxonomy Regulation provided much needed (and requested) guidelines for the private financial and industrial sector on the directions and benchmarks for the sustainability transition.<sup>21</sup> The ETS, established in 2005 and recently expanded to cover new sectors, remains the flagship of EU climate policy. It has recently been reinforced with an outward oriented Carbon Border Adjustment Mechanism (CBAM) which according to the EU policymakers seeks first and foremost to protect the EU market from carbon leakage. However, EU climate and energy policy is also characterized by fragmentation and a mismatch between the supranational EU level and a variety of national approaches and policy mixes.

Corporations face a more challenging environment in emerging markets and developing economies, but the potential there is still vast and underexplored. However, the risks of inaction on climate there, while less visible, are greater. Extreme weather events are already disrupting major global trading routes like the Panama Canal, threaten the security of physical assets, and risk the productivity and health of workers globally.<sup>22</sup> Resource scarcity will drive competition over inputs now taken for granted like arable land and water. Importantly, policy will continue to advance, meaning firm movers will have competitive advantages if they can secure clean inputs, meet demand for sustainable products, and decarbonize their supply chains more quickly than competitors.

---

20 International Energy Agency, ‘Tracking Clean Energy Progress 2023 – Analysis’, IEA, 2023, <https://www.iea.org/reports/tracking-clean-energy-progress-2023>.

21 European Parliament, ‘Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the Establishment of a Framework to Facilitate Sustainable Investment, and Amending Regulation (EU) 2019/2088’, 198 OJ L § (2020), <http://data.europa.eu/eli/reg/2020/852/oj/eng>; Sandra Eckert, ‘Business and Private Finance: Their Role in the EU’s Climate Transition’, in Handbook on European Union Climate Change Policy and Politics, ed. Tim Rayner et al., Elgar Handbooks in Energy, the Environment and Climate Change (Northampton: Edward Elgar Publishing, 2023), 83–97.

22 Mira Rojanasakul, ‘Panama Canal Drought Slows Cargo Traffic’, The New York Times, 26 January 2024, sec. Climate, <https://www.nytimes.com/interactive/2024/01/26/climate/panama-canal-drought-shipping.html>.

### 3. Implications for policy design

These political economy and global governance challenges go a long way in explaining how the strong global consensus around the climate crisis does not translate into decisive action. Electoral considerations constrain decisive action domestically in the context of deep uncertainty, political polarization, and incentive mismatches. Lacking effective global governance mechanisms, and a challenging geopolitical and macroeconomic situation, translate into an inability to ratchet ambition. No multilateral framework yet exists to address concerns over emerging green industrial policies and harness the potential upside of economic competition in green industries. While these challenges will be difficult to overcome, appropriate policy design can mitigate and manage them.

Going forward, to the extent possible and reasonable, policymakers should incorporate these political economy/global governance considerations when designing new climate actions. They should aim to follow the following principles:

- 1. Synchronization:** Alignment of short- and long-term incentive structures; taking an intergenerational approach to climate policy.<sup>23</sup>
- 2. Policy resilience:** Managing political risks, making climate policies durable and resilient to inevitable political and geopolitical volatility and shocks; identifying co-benefits and recognizing areas of political synergy between decarbonization and national security.
- 3. Unlocking private investment with public support:** Diverse funding sources will be needed, including public capital that catalyzes far greater levels of private investment, including as leverage, into less proven green technologies needed to unlock net-zero pathways.
- 4. Combining multi-and-mini governance institutions:** To maintain legitimacy and counter illiberal challenges, orchestrated domestic democracy revival with the use of participatory mini-publics is necessary. Internationally, there is a need for renewed multilateral initiatives that encourage new forms of minilateral cooperation that can spur virtuous competition that limit the potential for downward spirals.
- 5. Honesty and Integrity:** Climate politics is a particularly difficult endeavour in liberal democracies; it needs to align citizens' expectations with the reality of the often-painful changes needed. It is difficult to win broad support for trade-offs, as they generate costs for some, and rewards for others. Trade-offs are difficult to make popular, but not necessarily a losing electoral strategy. The COVID-19 pandemic, though unique, may offer instructive lessons. Engaged citizens want integrity and honesty in a crisis, which extreme weather and other climate-induced challenges already urgently present.
- 6. Mainstreaming climate justice globally and locally:** Recognising the need for a “just, orderly and equitable” transition, with burden sharing within and between countries with targeted but time-limited partial compensation mechanisms; the West - in its state sponsored packages – must cooperate more with Global South partners to accelerate rapid diffusion and implementation of technologies.

Climate ‘policymaking’ is not the sole responsibility of governments. Companies must step up given their central role in commercializing technologies and facilitating capital flows globally. Companies

---

23 Fabian Zuleeg, ‘Applying an Intergenerational Mindset to European Technology Investment’ (Brussels: European Policy Center, 2022), <https://www.epc.eu/en/publications/Applying-an-intergenerational-mindset-to-European-technology-investmen-4ca324>.

are equally global stakeholders that must accept responsibility for climate action, even when public policy does not compel action. To be sure, the role of the business community has long been recognized as critically important within global governance institutions and domestic policymaking albeit mostly with a focus on building and implementing known technology.<sup>24</sup> Such partnerships are heavily skewed, placing few conditions on private-sector participation. Multilateral institutions and national governments could do more to establish higher thresholds for partnership and participation, creating a clearer, globally agreed-upon “social license to operate” in the climate context.

*“Companies are equally global stakeholders that must accept responsibility for climate action even when public policy does not compel action.”<sup>25</sup>*

---

24 Kacper Szulecki, Philipp Pattberg, and Frank Biermann, ‘Explaining Variation in the Effectiveness of Transnational Energy Partnerships’, *Governance* 24, no. 4 (2011): 713–36, <https://doi.org/10.1111/j.1468-0491.2011.01544.x>.

25

## 4. Specific policy recommendations

The policy recommendations below are by no means exhaustive but provide avenues to build on existing mechanisms and commitments. Addressing political economy and global governance challenge in policy design makes it politically feasible to achieve the decisive and systemic action needed to tackle the climate crisis.

### 4.1 Corporate taxation

Corporate taxation, including deferred taxation and tax incentives, is a critical tool to generate private investment. A strategically deployed corporate tax system can play a pivotal role in incentivizing long-term corporate investments in both clean energy innovation and deployment by changing incentive systems. To this end, tax incentives have proved the dominant climate policy tool in the US. In contrast, the EU lacks the fiscal authority necessary to effectively leverage corporate taxation collectively.

Policymakers should consider new, innovative incentives as complements to existing schemes. For example, countries could periodically defer a certain percentage of taxes for companies that make certain climate investments or meet other similar criteria, creating competition and an incentive for sustained green investment. This strategy aligns corporate interests with national climate goals.

### 4.2 Public investment and corporate lending

Much of climate investment must come from the private sector, but governments still must facilitate such flows by mitigating risks and making direct investments that provide a strong de-risking signal. Government investment in shared network infrastructure like electric vehicle charging and transmission is crucial in this regard. Other countries should also draw lessons from the US Loan Program Office, which provides concessional debt financing for large-scale, innovative energy technologies and infrastructure. Such public investment in necessary technologies should be accompanied by a regulatory environment that enables deployment of the technology. The success of state-nurtured, private-sector-led wind energy in Denmark is instructive.

### 4.3 Long-term commitment mechanisms

Establishing effective, enduring solutions will require long-term commitment mechanisms to depoliticize processes. Self-binding governance has proven to be an important driver for action, for example within the EU framework, with legally binding climate targets that are enforceable in the legal system. The incorporation of automatic stabilizers in legal systems can ensure mandatory responses if certain predefined limits are exceeded, as seen for example with traffic restrictions in case air pollution thresholds are breached.

Further, creating principal-agent relationships, such as a creating quasi-independent national or European institutions with clearly defined goals and instruments, similar to central banks in monetary policy can similarly reduce political interference. Simultaneously, fostering global standards for clean technologies, inclusive for all parties, and financed by companies, becomes integral in promoting collaborative efforts towards a shared environmental vision.

### 4.4 Climate action-energy security interface

Climate action provides tangible security benefits and should be framed as such rather than a



narrower focus on economic welfare and justice alone. Wherever possible, policies should aim to create short-term benefits also for those sceptical about climate action that are recognized in the short-term election cycle or even shorter media cycle, even if this comes at the expense of overall economic efficiency like the US IRA. Strong incentives for both the US and Europe exist to strengthen energy security in light of the war in Ukraine as well as the concerns over economic competition with China. Both US and EU policymakers should seek to strengthen climate cooperation across the Atlantic both within the context of climate but also national security policy.

#### **4.5 Corporate responsibility translating into real action**

Individual firms committed to bold climate action should lead by example. For instance, they could tie executive salaries and bonuses to achieving sustainability goals, embedding these commitments in contracts across all business units. Sustainability should be more than superficial, instead embedded in the core decision-making, benchmarks, and metrics. Such tactics can create a lock-in effect putting industries on an overall path toward greater sustainability.

Future generations and their concerns should be more strongly represented in corporate decision-making. For example, a company can create board or advisory roles for youth voices or set aside shares or other assets in a climate-oriented trust.

Companies that claim green credentials must also reflect these claims in their lobbying, spending, and other political activities. They should provide a strong voice in the public conversation and align resources with their sustainability strategy. Like countries under the Paris Agreement, they should commit themselves to publicly laying out plans for how they will achieve greater sustainability, enabling review by the public but also unlocking the possibility of a race to the top among businesses, which can overcome the fear of being a first mover through such transparency. This process could involve regularly setting more ambitious targets.

#### **4.6 Just, equitable and participatory transition**

The rise of populism has made clear that a just, equitable transition is the most stable option. Long-term, comprehensive redistribution is not achievable, but short-term compensatory measures that ease, but not eliminate, large-scale transition costs are possible. Such schemes could be designed with sunset clauses to limit fiscal burdens. Reducing environmentally harmful welfare subsidies like those for fuel should be matched with an equivalent increase in welfare spending elsewhere to the benefit of the same sectors or groups affected, ideally at the same time aiming to foster the green transition.

There is also a clear need to strengthen citizen involvement, engagement, and ownership of policy development, which can be achieved through more experimental participatory and deliberative democratic governance tools under the joint label of mini-publics, such as citizen panels, which can already be found at municipal and national level across Europe.<sup>26</sup> These mechanisms include online e-democracy tools<sup>27</sup> and climate parliaments and assemblies, drawing on the experience of the

---

26 European Parliament, 'Future of Europe: Citizens' Panel Plans for Climate Change, Environment, Health | News | European Parliament', 1 October 2022, <https://www.europarl.europa.eu/news/en/headlines/eu-affairs/20220106STO20404/future-of-europe-citizens-panel-plans-for-climate-change-environment-health>.

27 Rathenau Instituut, 'Initiatives Supporting Digital Democracy at National Level' (The Hague: Rathenau Instituut, 2021), <https://www.rathenau.nl/en/kennis-voor-transities/initiatives-supporting-digital-democracy-national-level>.

French Citizens Convention for Climate.<sup>28</sup> To further provide citizens with objective information on which political parties further climate action, independent evaluation boards, similar to independent fiscal boards, could provide public assessment of climate and climate justice-related public policy in the context of major decisions such as public budgets and general elections.

Strengthening youth perspectives is also critical to overall public engagement in the energy transition. Lowering the voting age would better match the electorate to the most pressing, more future-oriented issues that countries now face and create a politically tractable outlet for pro-climate protest movements.

#### **4.7 International technology sharing fund**

The EU and the US have long-term interests in significantly strengthening support for a green transition in funding in low- and middle-income countries. Some progress is occurring within the context of multilateral development bank reform at the World Bank and IMF, but the urgency of the climate crisis requires additional mechanisms. To this end, the US and EU could jumpstart the creation of an International Technology Sharing Fund, through which developed countries could simultaneously share benefits and advanced supply-chain diversification goals. Developed countries, as part of the Fund, could direct foreign assistance and revenues from various border carbon adjustments to fund climate projects in low-income and lower-middle-income countries, especially those with clear plans and policies for decarbonization.

The Fund members, including the United States and the EU, could finance upstream critical mineral investments and industrial decarbonization projects, including providing needed technical assistance, technology transfer, low-cost financing, and guaranteed market access to exports. The aim would be to help answer calls for increased climate finance and ensure that developing countries benefit from developed countries' emerging green industrial policies. Such a fund could also house a global research institute as a mechanism for sharing climate innovations like newly developing AI tools.

---

28 In response to the Yellow Vests protest, in 2019-2020 the French authorities organized a 'Citizens Climate Convention' - a citizens' assembly bringing together 150 randomly selected citizens to propose policy recommendations for addressing climate change. The convention called for a shift towards a low-carbon economy, with changes in transportation, commercial, and industrial sectors, aiming to reduce France's greenhouse gas emissions by at least 40% by 2030, based on 1990 levels. It resulted in specific legislation that was voted on by the Parliament or by all French citizens in a Referendum, making it one of the most ambitious examples of involving citizens in managing the climate emergency.

## 5. Conclusion

Addressing the intricate challenges of climate action requires a multifaceted and forward-looking approach. It will require aligning short-term political considerations with long-term climate goals, where the clash between immediate electoral interests and the enduring nature of climate challenges presents a formidable obstacle.

Despite the strain on multilateralism from populist politics, global governance can be reformed and complemented by new forums. Climate clubs, ‘coalitions of the willing,’ or more focused initiatives guided by leading nations or non-governmental actors offer pragmatic avenues to circumvent the hurdles posed by geopolitical tensions and domestic politics.

The path forward demands embracing innovative, agile policy mechanisms that span taxation policy, flows of concessional finance, national security policymaking, and corporate decision-making. They span local democratic reform and global multilateral reform. Some of what this report suggests is a significant departure from current policy approaches, but transformative disruption that creates the political incentives for climate action is exactly what is required to tackle the climate crisis.

## References

Aklin, Michaël, and Matto Mildenberger. 'Prisoners of the Wrong Dilemma: Why Distributive Conflict, Not Collective Action, Characterizes the Politics of Climate Change'. *Global Environmental Politics* 20, no. 4 (1 November 2020): 4–27. [https://doi.org/10.1162/glep\\_a\\_00578](https://doi.org/10.1162/glep_a_00578).

Climate Policy Initiative. 'Global Landscape of Climate Finance 2023'. CPI, 2023. <https://www.climatepolicyinitiative.org/publication/global-landscape-of-climate-finance-2023/>.

Creutzig, Felix, Marcus Hedahl, James Rydge, and Kacper Szulecki. 'Challenging the European Climate Debate: Can Universal Climate Justice and Economics Be Reconciled with Particularistic Politics?' *Global Policy* 5, no. s1 (2014): 6–14. <https://doi.org/10.1111/1758-5899.12156>.

Eckert, Sandra. 'Business and Private Finance: Their Role in the EU's Climate Transition'. In *Handbook on European Union Climate Change Policy and Politics*, edited by Tim Rayner, Kacper Szulecki, Andrew J. Jordan, and Sebastian Oberthür, 83–97. Elgar Handbooks in Energy, the Environment and Climate Change. Northampton: Edward Elgar Publishing, 2023.

European Parliament. 'Future of Europe: Citizens' Panel Plans for Climate Change, Environment, Health | News | European Parliament', 1 October 2022. <https://www.europarl.europa.eu/news/en/headlines/eu-affairs/20220106STO20404/future-of-europe-citizens-panel-plans-for-climate-change-environment-health>.

———. Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088, 198 OJ L § (2020). <http://data.europa.eu/eli/reg/2020/852/oj/eng>.

Hoffmann, Roman, Raya Muttarak, Jonas Peisker, and Piero Stanig. 'Climate Change Experiences Raise Environmental Concerns and Promote Green Voting'. *Nature Climate Change* 12, no. 2 (February 2022): 148–55. <https://doi.org/10.1038/s41558-021-01263-8>.

Huber, Robert A., Tomas Maltby, Kacper Szulecki, and Stefan Četković. 'Is Populism a Challenge to European Energy and Climate Policy? Empirical Evidence across Varieties of Populism'. *Journal of European Public Policy* 28, no. 7 (3 July 2021): 998–1017. <https://doi.org/10.1080/13501763.2021.1918214>.

International Energy Agency. 'Tracking Clean Energy Progress 2023 – Analysis'. IEA, 2023. <https://www.iea.org/reports/tracking-clean-energy-progress-2023>.

Jain, Gautam, Noah Kaufman, Chris Bataille, and Sagatom Saha. 'Why 2024 Is Critical for Climate and Trade Policies in the Years to Come'. Center on Global Energy Policy at Columbia University SIPA | CGEP, 2024. <https://www.energypolicy.columbia.edu/qa-why-2024-is-critical-for-climate-and-trade-policies-in-the-years-to-come/>.

LSE. 'Authors of New Climate Finance Report at COP28 Call for Countries to Commit to Substantial Rise in Investment'. Grantham Research Institute on climate change and the environment, 2023. <https://www.lse.ac.uk/granthaminstitute/news/authors-of-new-climate-finance-report-at-cop28-call-for-countries-to-commit-to-substantial-rise-in-investment/>.

Masters, Brooke, and Patrick Temple-West. 'The Real Impact of the ESG Backlash'. *Financial Times*, 4 December 2023. <https://www.ft.com/content/a76c7feb-7fa5-43d6-8e20-b4e4967991e7>.

Rathenau Instituut. 'Initiatives Supporting Digital Democracy at National Level | Rathenau Instituut'. The Hague: Rathenau Instituut, 2021. <https://www.rathenau.nl/en/kennis-voor-transities/initiatives-supporting-digital-democracy-national-level>.

Roberts, David. 'Washington Votes No on a Price on Carbon Emissions'. Vox, 28 September 2018. <https://www.vox.com/energy-and-environment/2018/9/28/17899804/washington-1631-results-carbon-fee-green-new-deal>.

Rojanasakul, Mira. 'Panama Canal Drought Slows Cargo Traffic'. The New York Times, 26 January 2024, sec. Climate. <https://www.nytimes.com/interactive/2024/01/26/climate/panama-canal-drought-shipping.html>.

Schwartzkopff, Frances. 'US Investor Exodus Deals Historic Blow to Global ESG Fund Market'. Bloomberg.Com, 25 January 2024. <https://www.bloomberg.com/news/articles/2024-01-25/sustainable-funds-see-first-ever-global-quarterly-net-outflows>.

Szulecki, Kacper, Philipp Pattberg, and Frank Biermann. 'Explaining Variation in the Effectiveness of Transnational Energy Partnerships'. *Governance* 24, no. 4 (2011): 713–36. <https://doi.org/10.1111/j.1468-0491.2011.01544.x>.

UNFCCC. 'New Analysis of National Climate Plans: Insufficient Progress Made, COP28 Must Set Stage for Immediate Action', 2023. <https://unfccc.int/news/new-analysis-of-national-climate-plans-insufficient-progress-made-cop28-must-set-stage-for-immediate>.

World Health Organization. 'Climate Change', 2023. <https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health>.

Żuk, Piotr, and Kacper Szulecki. 'Unpacking the Right-Populist Threat to Climate Action: Poland's pro-Governmental Media on Energy Transition and Climate Change'. *Energy Research & Social Science* 66 (1 August 2020): 101485. <https://doi.org/10.1016/j.erss.2020.101485>.

Zuleeg, Fabian. 'Applying an Intergenerational Mindset to European Technology Investment'. Brussels: European Policy Center, 2022. <https://www.epc.eu/en/publications/Applying-an-intergenerational-mindset-to-European-technology-investmen~4ca324>.

———. 'Overcoming the European Progress Illusion', 26 April 2023. <https://www.epc.eu/en/Publications/Overcoming-the-European-Progress-Illusion~505c44>.

Zuleeg, Fabian, and Janis A. Emmanouilidis. 'EU@60 - Countering a Regressive and Illiberal Europe', 2016. <https://www.epc.eu/en/Publications/EU60--Countering-a-regressiv~259edc>.

Zuleeg, Fabian, Janis A. Emmanouilidis, and Ricardo Borges de Castro. 'Europe in the Age of Permacrisis', 11 March 2021. <https://www.epc.eu/en/Publications/Europe-in-the-age-of-permacrisis~3c8a0c>.





**Norwegian Institute of International Affairs**

C.J. Hambros plass 2d  
PO box 7024 St. Olavs Plass  
0130 Oslo, Norway

[post@nupi.no](mailto:post@nupi.no)

[nupi.no](http://nupi.no)

