



## Between Minilateralism and Multilateralism: Opportunities and Risks of Pioneer Alliances in International Trade and Climate Politics

### Summary

Global challenges such as climate change or the dismantling of protectionism can only be countered through enhanced forms of global co-operation. Traditional multilateral co-operation has come up against limits in recent years. For example, efforts to achieve an international climate treaty have taken many years, with this now set to be signed at the end of 2015 in the scope of the United Nations Framework Convention on Climate Change (UNFCCC). At the World Trade Organization (WTO) the negotiation of the Doha Development Agenda has been extremely slow for many years. To lend new impetus to international trade and climate politics it is necessary to discuss innovative forms of co-operation, such as in the form of minilateral or plurilateral initiatives, in other words "sub-groups of multilateral actors".

In the global trading system many countries have reacted to the stuttering progress of the multilateral process by concluding bilateral and regional treaties outside of the WTO. In particular, the negotiation of ever-larger mega-regional treaties such as the Transatlantic Trade and Investment Partnership (TTIP) and the Transpacific Partnership (TPP) mark a turning point in the global trade system. The content of these treaties frequently extends beyond agreements in the multilateral context. Minilateral alliances in international trade politics are frequently viewed critically. They are regarded as second-best options – or no good solution at all – compared to multilateral agreements, as they may lead to detrimental effects on countries that are not part of the negotiations, as well as tying-up capacity and reducing incentives for the conclusion of the Doha Round. To the extent that demand exists for minilateral

negotiations, these should therefore take place in the scope of the WTO. This requires the reaching of a compromise in the WTO that enables more efficient negotiations whilst at the same time supporting an inclusive, multilateral trading system. Consequently, it should be discussed whether and under which conditions plurilateral treaties should be accorded more scope within the WTO.

Pioneer alliances offer great potential for international climate policy, particularly where they also include sub-national and non-governmental actors. However, the same applies for climate politics as with trade politics: minilateral pioneer alliances should augment the multilateral process, not replace it, even supporting it in the ideal scenario. Although numerous international climate initiatives have already been formed, they tend to generate merely marginal rather than transformative changes. The basis for a transformative pioneer alliance could be, for example, the "Renewables Club" formed by Germany in 2013 along with nine other countries. In order for this club to become a transformative pioneer alliance it needs to first fulfil a number of key conditions: the members need to agree on a joint, ambitious vision and corresponding objectives; they need to concur on how to create additional benefits for all members; and they should support transformative strategies for climate protection and climate resilience in other parts of the world. In addition, it should also be ensured that minilateral alliances do not undermine multilateral forums, but instead complement them. After the COP21 it is necessary to discuss how pioneer alliances can be utilised to support ambitious climate policies and also the effective implementation of the agreements reached in Paris, e.g. by strengthening the ratchet-up mechanism.

"Minilateral" alliances (or clubs) are sub-global groupings of actors that typically seek to set ambitious goals that extend beyond multilateral agreements, for example in the context of the WTO or the UNFCCC. Whilst the members of such minilateral – or plurilateral in the jargon of trade policy – initiatives in trade policy are traditionally states, pioneer alliances in climate policy may also comprise non-governmental actors such as companies or civil society actors to a greater extent.

Minilateral alliances are a new, more flexible form of "modular multilateralism" and offer great potential for both international trade and climate policy. Smaller groups reach agreement more quickly and co-operation research shows that groups with a limited number of members can achieve more ambitious agreements than is the case with the multilateral context. At the same time, minilateral initiatives and alliances also harbour risks. It is above all necessary to ensure that they do not undermine the multilateral forums – with regard to both trade and climate policy – but instead complement these and in the ideal case even reinforce them.

### Multilateral negotiations: successes and stumbling blocks in trade and climate policy

The WTO is often held up as a model for international co-operation. Building upon several rounds of multilateral trade agreements under the aegis of the General Agreement on Tariffs and Trade (GATT), which resulted in a significant lowering of tariff-related barriers to trade from the end of the Second World War onwards, 1995 saw a far-reaching move towards integration with the founding of the WTO. However, for nearly 15 years now the negotiating engine of the WTO has been faltering, with the successful completion of the Doha Development Round not yet in sight. This blockade at the WTO can be explained via the "Impossible Trinity" (Richard Baldwin): international co-operation in the trade system is rendered difficult by the fact that rules are intended to be agreed upon that a) apply universally, in other words for all members, b) are resolved in consensus and c) can be implemented via a binding system of dispute resolution. An additional complicating factor is that WTO membership has not only grown, it has also become more heterogeneous.

With regard to international climate policy, there is an attempt to make progress at the end of 2015, including the conclusion of an ambitious new treaty. However, the experience of the failed multilateral negotiations for a climate treaty in Copenhagen in 2009 and the faltering negotiations of recent years raise questions as to whether the international community can actually achieve an ambitious climate treaty that succeeds in limiting global warming to below 2°C. As with the WTO, the international climate negotiations are to a large extent being hampered by the fact that the traditional North-South dichotomy of poor, developing and rich industrialised countries no longer applies: whilst the developing countries refer to the historic responsibility of the industrialised countries, the industrial-

ised countries point to the massively-increased emissions of emerging countries such as China, India and Brazil. In the climate negotiations there is also a strong incentive for free riders: countries that only enter into limited climate protection obligations bear lower costs and benefit from the more comprehensive measures of others.

### Minilateral approaches and international trade

Within the context of the international trading system the impeded multilateral negotiations in the WTO are resulting in an enhanced trend towards bilateral and regional trade agreements, including mega-regionals like TPP and TTIP. The benefits of bilateral and regional treaties are evident: the member countries can dismantle tariffs irrespective of multilateral negotiations, whilst also reaching agreement on related subjects such as intellectual property rights, investment or environmental and social standards, in order to boost bilateral and regional trade and thereby economic growth. In international trade policy pioneer alliances in the form of such bilateral and regional agreements can also result in problems, however, in particular as they lead to fragmentation in rules for international trade. From the viewpoint of the developing countries in particular, bilateral and regional treaties bring with them disadvantages: developing countries typically have less negotiating power than in multilateral negotiations, in which they can form coalitions of interests. In currently-ongoing negotiations of *mega regionals* such as TTIP and TPP many developing countries are no longer even present at the negotiating table – and yet they are negatively affected by trade diversion and the rules that are negotiated in small circles but have potentially global effects.

To the extent that there is demand for such minilateral negotiations, these should therefore be conducted in the scope of the WTO. The negotiation process in the WTO needs to be reformed to enable pioneer alliances that at the same time support an inclusive, multilateral trade system.

One option for compromise in this respect would be to offer more scope for plurilateral treaties within the WTO. However, pioneer alliances should only be allowed to proceed at a faster pace under certain conditions. For example, the agreements should remain open for further members to join at a later stage. Plurilateral treaties are not an ideal solution, but they might open up new prospects for progress under the aegis of the WTO.

### Minilateral approaches and climate policy

In international climate policy pioneer alliances offer great potential, but also have their limitations: although they might not necessarily be able to eliminate the structural barriers to an ambitious international treaty, they may, for example, act as a platform for political dialogue, improving the climate of co-operation for multilateral negotiations. They may generate benefits for their members that reduce the risk of free riding (see below) and contribute to a re-legitimation of the UN climate regime, not least against the

background of global power shifts that have undermined the multilateral process. At the same time, the negative effects on non-members may be estimated as moderate (compared to trade diversion effects caused by bilateral and regional treaties in the world trading system).

There are three key conditions for an ambitious pioneer alliance (Messner et al., 2014; WBGU, 2014):

1. The club members require a joint vision, which illustrates the added value of the alliance compared to existing initiatives and acts as the basis for specific objectives. For example, the members could agree on the establishment of an energy system by the year 2050 based primarily on renewable energy and delivering competitive, affordable and predictable energy costs.
2. The club members need to agree on how to create additional benefits for all members.
3. The club should support transformative strategies in other areas of the world. Ideally, pioneer alliances should be SMART, i.e. Specific as well as Measurable, Ambitious, Resourced and Time-bound, with clearly-formulated obligations that can be easily measured and examined, that are ambitious, realisable via corresponding financial, human or technical resources and include a time-frame comprising adequate short and long-term objectives.

The outcome of the COP21 can serve to revitalise the "Renewables Club", formed by Germany in 2013 along with nine other countries, at the same time achieving the effective implementation of the Paris agreements, e.g. where the alliance reinforces the mechanisms for enhancing ambition. However, with regard to the revitalising of the club the following applies: if clubs fail to provide attractive club benefits for members, there is no incentive for members to join and become involved.

What club benefits could be used to create such incentives? For example, club members could agree on close co-operation with regard to technologies, business models and political solutions that are required for a future-capable energy system. Mechanisms could be established to learn from the successes and failures of club members and to share knowledge. Club members could also initiate joint research projects and utilise the subsequent patents jointly. Within the scope of plurilateral trade agreements they could harmonise their standards or recognise these mutually, co-operating on the drafting of new standards for future technologies such as e-mobility, in order to create common markets. Club members could also create club benefits by mutually reducing their trade barriers for goods and services that are of high relevance for the establishment and expansion of renewable energies, for example in the scope of a Sustainable Energy Trade Agreement. Plurilateral negotiations are currently underway, for example in the scope of the WTO, regarding the dismantling of trade barriers for environmental goods and services (Environmental Goods Agreements, EGA).

A further proposal lies in the establishing of benefits for club members by the taxation of trade with non-members, thus establishing a free trade zone exclusively available to club members. However, such taxation would potentially result in conflict with the WTO principle of most-favoured status, which stipulates that all benefits and favoured statuses afforded by one country to another are also granted to all other WTO members. The extent to which this breach of world trade law can be justified remains unclear (WBGU, 2014): potential points of reference for justification of the discrimination of similar products can be taken from the measures to protect exhaustible natural resources (GATT Art. XX) or the exceptions for free trade agreements that permit these under specific conditions (GATT Art. XXIV). Thus far there is no arbitration ruling establishing clarity with regard to the extent to which climate protection can be regarded as a measure in the sense of the protection of exhaustible resources.

## Summary and recommendations

### *Opportunities and risks of multi and minilateralism*

In both areas of policy – international trade and climate policy – minilateralism should not be pursued without consideration of the implications for existing multilateral institutions. The WTO should discuss how the scope for plurilateral negotiations can be extended without the WTO being further undermined. Plurilateralism is certainly no ideal solution, but it offers more opportunities for the successful conclusion of negotiations within the scope of the WTO. A further advantage of this strategy is that the benefits of a mini or plurilateral agreement are open to all WTO members and the plurilateral agreements will be able to be multilateralised more easily in the future. If, with regard to climate change new minilateral alliances form in the future, care should also be taken to ensure that they do not subvert multilateralism and the UNFCCC. In contrast, they should be compatible with the multilateral framework conditions and contribute to the enhancement of their levels of ambition. There should also be a discussion of the role of ambitious pioneer alliances vis-a-vis a new treaty. An international climate treaty could, for example, incorporate the obligations of pioneer alliances of governmental, sub-national and non-governmental actors who agree on ambitious goals, rendering these more visible and easier to monitor (WBGU, 2014).

### *Involvement of ambitious pioneer alliances in climate policy*

Germany should promote an ambitious pioneer alliance with those countries looking to achieve speedy transition to a decarbonised economic system. The "Renewables Club" initiated by the German government could play a central role in this. However, this will require its revitalisation – and it will need to be more than a talk shop. The transformative club would be a project that would bundle the reputation of Germany in international climate policy, its pioneering role in climate-friendly innovations and the goal of the German government of assuming greater global policy responsibility.

In contrast to bilateral and regional trade agreements in which the advantages of participation are clear, such a pioneer alliance would have to offer incentives for involvement in the form of club benefits, e.g. co-operation on research and the implementation of technologies in the field of renewable energies.

#### **Mobilisation of sub-national and non-governmental actors**

Pioneer alliances should encompass sub-national and non-governmental actors and mobilise these to proceed as pioneers with the SMART approach. The incentives for this should be increased, as these actors are essential for climate protection: according to new estimates of the United Nations Environmental Programme (UNEP) the climate-relevant obligations of towns, regions and companies can close the emission reduction gap that needs to be eliminated in order to avoid exceeding the two degree limit, by around one third by 2020. This potential should not go unutilised (cf. Chan et al., 2015).

#### **Cross-policy area research on pioneer alliances**

Pioneer alliances in the international trade system in the form of bilateral and regional agreements are not a new phenomenon. They deliver very different positive and negative

effects for different countries – with the result that the conclusion of ambitious agreements is controversial amongst developing countries (in particular, but not exclusively). In the field of climate policy there is still scope for the creation and/or strengthening of ambitious pioneer alliances. It is therefore necessary to conduct more research into specific national perspectives regarding the potential and possible barriers for membership of a climate policy pioneer alliance. Similarly, the interaction between pioneer alliances and negotiations in the multilateral forums should also be examined with regard to both trade policy and climate policy: to what extent does unilateralism promote or undermine the multilateral regime? What is the relationship between results orientation and legitimacy and what role is played by additional transaction costs? To what extent can the trade and climate regimes learn from one another? How can unintended effects best be avoided? In addition, the ongoing debate regarding clubs and pioneer alliances should be linked to the current discussion regarding the role of sub-national and non-governmental actors within the context of climate protection and resilient development in order to strengthen the synergies between the two approaches.

## **References**

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