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# The 2018 Council of Councils Annual Conference *Panelist Papers*

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# Session One

## *Trade Without Trump: The Way Forward*

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Panelist Paper

# *Trade Without Trump: The Way Forward, A European Perspective*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

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## U.S. Protectionism: Is There Something New?

President Donald J. Trump's protectionist measures are not new to American politics. Previous U.S. presidents have adopted similar measures, authorized by provisions of the U.S. trade law that enable the government to safeguard industries harmed by imports under certain circumstances for a limited period of time.

Presidents Lyndon B. Johnson, Richard Nixon, Jimmy Carter, and Ronald Reagan imposed restrictions on imports, particularly on steel. The last two U.S. presidents imposed tariffs, similar to Trump's, shortly after entering office and under strong political pressure from domestic industries.

In 2002, President George W. Bush imposed tariffs on steel imports from China, the European Union, and several other countries, which responded by filing a complaint against the United States in the World Trade Organization (WTO), opening a formal dispute process. When the WTO ruled against the United States, the Bush administration withdrew the tariffs, proving that, in that case, the international system of settlement of trade disputes worked and helped smooth tensions.

In 2009, President Barack Obama, under strong pressure from labor unions and local industries, imposed tariffs on tires imported from China. China brought a case to the WTO, which ruled in favor of the legitimacy of the U.S. measure. China then decided to retaliate with tariffs on American imports of chickens, a decision the WTO considers a violation of international trade law.

But what is new about Trump's protectionist measures is the insistence on deficit reduction as a strategic objective. Also new is that Trump's criticism of perceived unfairness to the United States in the international trade system is an element of a more general strategy aimed at questioning the international economic and financial regime that the United States itself had designed and implemented. It is as if the system of rules and institutions that, under American leadership, had shaped the institutional infrastructure of international trade, investment, and finance would not correspond any more to the American national and strategic interests.

The most recent U.S. protectionist measures have been either adopted or announced against imports of solar panels, washing machines, steel, aluminum, and a numerous industrial and technological products. In some cases, they have been justified by the need to protect against a threat to U.S. national security (utilizing the

“National Security Exception” clause, foreseen by article 21 of the General Agreement on Tariffs and Trade, which legitimizes the imposition of tariffs and quotas without prior authorization from the WTO).

But tariffs have more generally been adopted on the conviction that competition from other countries is a direct threat to local jobs and to national industries and that the U.S. economy is the victim of unfair trade practices. Globalization in this context is perceived more as a threat than an opportunity; global governance does not rank among the priorities for the United States; and only bilateral deals, based on a transactional calculation of their direct and immediate benefits for the United States, are considered as valuable means to protect the U.S. national interest.

This approach, announced and amplified during the electoral campaign, contributed to Trump’s election. And several concrete measures of the Trump administration have fulfilled electoral promises: the decision to withdraw from the Trans-Pacific Partnership, the request to renegotiate the North American Free Trade Agreement (NAFTA), the end of any concrete prospect for the Transatlantic Trade and Investment Partnership (TTIP), and the adoption (or the threat to adopt) of tariffs and other limitations on imports from countries considered unfair competitors of the United States.

## Europe’s Reaction: Between Cooperation and Retaliation

In Europe, awareness that globalization should be managed and that some of the harmful consequences of globalization should be corrected is growing. Perceptions of an unregulated global economy and an unfair trading regime also fuel growing skepticism and frustration in Europe. This is demonstrated not only by the success in most European countries of populist and nationalist political parties that advocate protection of national productions and jobs but also by a new political narrative adopted by mainstream political parties and governments that emphasizes the need to protect citizens from the detriments of globalization.

Nevertheless, European governments and EU institutions remain generally convinced that European interests are better safeguarded by an international order based on recognized rules and legitimate and efficient international institutions. And that Europe, the economy of which is mainly export oriented, has an interest in defending trade liberalization and an open trading system.

The EU will therefore continue to invest in trade agreements and also defend a multilateral system of free (and fair) trade, under the auspices of WTO rules and principles. It will thus, most likely, continue to negotiate and conclude free trade agreements with third countries or groups of countries. The process of ratifying in national parliaments the Comprehensive Economic and Trade Agreement (CETA) with Canada will go on. Soon the free trade agreements and the EU-Japan Economic Partnership Agreement will be signed. Negotiations for the conclusion of a free trade agreement with Mercosur and with a number of Association of Southeast Asian Nations member countries will continue with the hope of a conclusion within a reasonable deadline.

Last but not least, the EU will soon begin the most ambitious trade agreement ever negotiated, with the objective to redefine its relationship with the United Kingdom after Brexit. Because the UK has excluded the prospect of its participation in the EU single market, the only available instrument to regulate future relations between the EU and the UK will be a new and innovative comprehensive free trade agreement (which will have to take into account all the complexities deriving from the special status of the UK as a former EU member).

## How to Avoid a Trade War: Policy Recommendations for the European Union

So far, evidence shows that the U.S. protectionist measures (on washing machines and solar panels in January, on steel and aluminum in March, and the threat on some 1,300 industrial and technological products) primarily target China, given China is most responsible for the American trade deficit in goods (a total of $502.3 billion in 2016, of which $375 billion is from China alone).

Protectionist measures against Europe have only been threatened, not adopted. The EU is negotiating a permanent exemption for European imports of steel and aluminum. The Trump administration will likely decide on this request by the beginning of May, but it is unclear what sort of compensation the United States requires to grant such an exemption.

Even the prospect of a trade war or the risk of a vicious circle of retaliatory and counter-retaliatory measures between the United States and China threatens the European economy. A continuing spiral of tariffs and counter-tariffs between the United States and China could affect trade flows between China and the EU (as a consequence of a diversion of China's exports from the United States to the EU markets). It could also have more systemic consequences on global trade and on its governance, with the risk of disruption of the postwar trading system.

In a situation characterized by a potential trade conflict between its two main trading partners, the EU should avoid being caught in the trap of having to choose between the United States and China, and should thus respond to new American offensive on trade with an articulate strategy that would include the following elements:

First, the EU should reaffirm its position of principle against threatened tariffs on EU exports to the United States and react to the measures announced by the Trump administration by agreeing (as it has already done) on a list of American products to which an import duty would be imposed in retaliation. At the same time, it should challenge the legitimacy of the U.S. measures at the WTO. The first objective should be to obtain a permanent exemption from tariffs on steel and aluminum (and possibly on further U.S. protectionist measures).

Second, the EU should consider the arguments used by the Trump administration to impose tariffs (hopefully only on China's exports), with the objective of verifying whether it would be possible to accommodate at least some of the complaints within the existing (or reformed) rules of GATT and the WTO. In fact, the EU and the United States share an interest in pressing China to encourage self-restraint on unfair trading practices. The EU has a converging interest with the United States in obtaining better access to China's internal market, a reduction of nontariff and regulatory barriers, better protection of intellectual property rights, a reduction of the role of the state in the economy, a decrease in public subsidies to local industries, and transparency and respect of the rule of law for foreign investments in China.

Third, the EU should not only stick to its agenda of trade liberalization but also promote an initiative, together with its major trading partners, to reinforce, and where necessary, to modernize, the international trade regime based on rules and institutions such as WTO (recognizing that if WTO has lost its appeal as a negotiating body, it still maintains its value at least as a regulatory body and as a settlement of disputes system). Reform and modernization of the international trading system should be pursued in the most inclusive manner. But the biggest challenge would be to convince the Trump administration of the value of a regulated international trading regime.

Fourth, in the context of a reform of the trade regime, the EU should promote an initiative to reconcile the reality of the growing number of intra- and inter-regional free trade agreements with the more universal principles that inspire WTO rules and procedures. As recently demonstrated by the agreement reached by forty-four African states on March 21, in Kigali, to create an African Continental Free Trade Area, and as confirmed by the failure of the WTO Doha Development Round, these regional agreements are at this stage the most promising instruments to promote trade liberalization. But serious efforts should be deployed to avoid increasing fragmentation of the international trading system, which could undermine the credibility and effectiveness of multilateral trade rules and practices.

Fifth, the EU should also reform its own trade policy by increasing the transparency and democratic legitimacy of its negotiating procedures if it wants to avoid rejection of trade liberalization by domestic public opinions. The recent difficulties encountered in the ratification process of important trade agreements suggests the need for various actors to be better involved in the early stages of the negotiations leading to the conclusion of such agreements.

Panelist Paper

# *Trade Without Trump: The Way Forward*

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The current international trade order is in disarray. *Order* refers to practices and attributes that allow international trade to proceed along well-known channels and patterns, which in turn limit unpredictability and stabilize expectations among actors. Today's disruption of a liberal trade order largely has two sources: populism and geoeconomics.

Historically, international order is a product of structural characteristics of the international system (distribution of power) and international legitimacy (obtained from social norms formed by shared beliefs and practices). The dominant power, with its superior material capability and international legitimacy gained from lesser powers, decides who will arrange, govern, and give social purpose to the system.

In the Asia-Pacific, since the end of World War II, the United States has played a central role in building a liberal trade order. The United States provided a degree of authority embedded in the General Agreement on Tariffs and Trade (GATT) and World Trade Organization (WTO) and security to the region. Under U.S. leadership, freer trade created large gains from cooperation and economic interdependence for the United States and its regional partners. Based on a domestic consensus that invests in the international order, the United States used its indispensable regional authority to establish a rules-based trade order in the Asia-Pacific by concluding a series of bilateral free trade agreements, including the U.S.-Korea Free Trade Agreement (KORUS) and ultimately the Trans-Pacific Partnership (TPP).

Now, however, U.S. trade policy is changing and so is the international trade order. Over the past few decades, U.S. policy has often deviated from liberal practices. In the 1980s and 1990s, the so-called aggressive unilateralism of the United States targeted a rising Japan. In the 2000s and 2010s, the United States has attempted to do the same to a rising China. In both cases, observers view threats to the international trade order as arising from external challengers, who play by different rules or employ unfair trade practices. U.S. retaliatory policies based on its domestic laws are in clear violation of international rules, but lesser powers have been patient with the expectation (or belief) that the United States would restrain its own freedom of action (within a range of fluctuation) to induce others to follow the international rules.

But this time is different. Populism based on economic nationalism (against globalization) is surging across advanced industrial democracies. It challenges the establishment—and by extension, the existing international establishments such as the alliance system, international organizations, and regional trade agreements—as corrupt and broken. U.S. President Donald J. Trump's America First policy is a manifestation of the populist surge.

Trump's populist policies are undermining the U.S. role in maintaining world order. His narrative portrays international trade as a zero-sum game. Trump is skeptical of multilateralism and favors bilateralism, because the latter could enable him to exercise the disproportionate power of the United States to shift gains in its favor. He is against the tenets of globalization that gave states a principled legitimacy in managing economic growth.

As in the case of TPP, states are deeply concerned about U.S. opportunism and its abuse of influence. When the United States defects or behaves opportunistically, it imposes huge costs on other states to sustain the liberal order. States and firms are left to wonder if the current system provides enough assurances that promises will be kept and enough confidence that agreements will not be subject to constant challenges.

Another source of disruption of the current order is the harmful spiral of geoeconomic competition. The nexus of trade and security can have spillover benefits and, over time, create a self-reinforcing feedback loop toward prosperity and peace. But the nexus can also have the opposite effects: interstate rivalry creates adverse spillover effects on trade relations and a destabilizing feedback loop.

In this vein, the rise of China triggers anxieties for neighboring countries that China's enhanced economic influence will not only require unwelcome adjustments to their economy but will also generate unwanted foreign policy constraints that could exacerbate interstate conflicts. China's economic retaliation against South Korea for installing the Terminal High Altitude Area Defense (THAAD) system and against Japan for the Senkaku/Diaoyu Islands provocation are two examples.

Likewise, Trump threatens to undermine the liberal order in the Asia-Pacific. His attempts to use punitive trade policy (e.g., Section 301) as a counter against Chinese influence, play KORUS renegotiations as a means to enhance his diplomatic influence over South Korean policy toward North Korea, and tie defense commitments with trade deals vis-à-vis other Asian allies goes against the principle of separating politics from economics, which has been central to the collective prosperity in the region.

To sustain a liberal international trade order, states need to make three critical choices. First, they need to fight populism. Countries in the Asia-Pacific need to effectively address the distributional consequences of globalization and rapid technological change. Even if many countries remain free of the disruptive inflow of immigration, populism can still be easily fueled by the losers from free trade. It is important, if necessary, to renegotiate social bargains that make the winners from trade share their gains with the losers. The United States will especially have to improve its social safety net to rebuild its domestic support for international leadership.

Second, countries need to build a rules-based order to restrict the harmful spillover of the trade-security nexus and to keep negative security externalities separate from trade relations. Because great powers are mostly creating such spillovers by the geoeconomic use of trade relations, the role of middle powers is critical. With a shared identity as trading states, middle powers like Australia, Japan, and South Korea can build coalitions for increased influence in designing international trade rules.

Third, Asia-Pacific countries need to sustain the dynamics of TPP. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) is a remarkable achievement made without the United States. Trump seems to be weighing a return to TPP if the deal were substantially better than the deal offered to President Barack Obama. However, CPTPP members are not inclined to renegotiate the agreement in favor of United States. It would be smart for CPTPP members to expand the membership and demonstrate leadership for sustaining a liberal order.

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# *China's Efforts to Improve Global Trade Governance: Implications of the China International Import Expo*

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Council on Foreign Relations, New York, NY

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Global trade governance faces unprecedented challenges. The World Trade Organization (WTO) has made limited progress in rulemaking for global trade, while regional free trade agreements (FTAs), bilateral FTAs, and national legislators of major trading powers have become more influential. The fragmented and unequal nature of global trade governance has become clearer. In the decade after the global financial crisis, trade protectionism has been rising. For several years now, global trade has been growing less than global economic growth. Current global trade governance efforts are unable to advance global trade growth, reduce gaps in trade capacity, and promote trade liberalization process. On May 14, 2017, Chinese President Xi Jinping declared at the Belt and Road Forum for International Cooperation that his country would host the first China International Import Expo (CIIE) in 2018. In a time of rising trade protectionism, China's voluntary measures to open its market and increase imports will improve global trade liberalization processes and global trade governance.

## Challenges Facing Global Trade Governance

Despite some progress since the 2016 Group of Twenty (G20) Hangzhou Summit, global trade governance faces many challenges. The adoption of the G20 Strategy for Global Trade Growth and the G20 Guiding Principles for Global Investment at the summit indicates basic consensus among the world's major economies against trade and investment protectionism. In February 2017, the Trade Facilitation Agreement came into effect, marking a major push for global trade liberalization. However, the stalling Doha Round talks have made the WTO lag behind global economic developments, making the forum less attractive for global trade governance efforts and contributing to the rising trend of trade protectionism and anti-globalization. Global trade governance faces the following four major challenges.

First, debates on efficiency and fairness have trapped the multilateral trading system, represented by the WTO, and little progress has been achieved. Since World War II, the multilateral trading system based on the General Agreement on Tariffs and Trade and WTO have contributed to world economic growth and poverty reduction, while setting up an international trading system based on openness and nondiscrimination. However, defects in global trade governance have also become more obvious in the past seventy years.

Consensus-oriented multilateral trade talks have been plagued by low efficiency and great difficulties in consensus-building. Although "green room" meetings among major trading partners had been conducive to reaching consensus, by making other members follow suit, the approach itself has deviated from the WTO principles of rules-based and transparent governance. Developed countries dominate global trade governance rulemaking and benefit the most from the current global trade system. They actively push for trade liberalization in their preferred trade sectors, such as trade in services, intellectual property rights, and the digital economy. Yet they have been reluctant to allow free trade in sectors such as agriculture, textiles, and clothing, in which developing countries have the comparative advantage. Preferential treatment for developing countries in the global trade system results from voluntary and discretionary decisions by developed countries. And occasionally, developed countries refuse to grant preferential treatment.

Second, global trade governance is experiencing a leadership vacuum because the United States has gone from supporting to resisting multilateral trading. Both the Trans-Pacific Partnership (TPP) advocated by the Barack Obama administration and the America First policy of the Donald J. Trump administration show U.S. abandonment of the multilateral trading system. This trend has also spread to the European Union and other developed countries and is reflected in the emergence of bilateral and regional trade agreements. Such a change is a major problem for global trade governance. On March 8, 2018, Trump invoked Section 232 of the 1962 Trade Expansion Act to take actions against steel and aluminum imports by asserting that they threaten U.S. national security. He imposed additional tariffs on imported steel and aluminum, an action that threatened to trigger a trade war. The actions of the United States have further impaired the sluggish global trade growth and the still recovering global economy. The mutual loss incurred by a trade war has impeded the global trade governance.

Third, the incompetence of the G20 as an informal consultation mechanism in dealing with trade issues has reduced policy recommendations against protectionism to mere symbolic effects. Since the global financial crisis, global trade has significantly decelerated. According to WTO, global trade growth declined from an average annual rate of 7 percent for the 1990–2008 period to 3 percent in the period from 2009 to 2015. In 2016, global trade only grew at 1.3 percent, less than half the growth rate in 2015. The comparison between global trade growth and economic growth rates since the global financial crisis has been staggering around 1:1, which deviates greatly from the historical records at the end of World War II, when the global trade growth rate was 1.5 times the global economic growth rate. The entry into force of the Trade Facilitation Agreement in 2017 contributed to the increase in the global trade growth rate. But the rising trend of global protectionism has not been contained. As the premium forum for global economic governance, the G20 summit in Hamburg produced a declaration in favor of the rules-based fair trading system. Yet great differences regarding the meaning of fair trade exist among the countries around the world. Constrained by its consensus decision-making process, the G20 lacks political will and enforcement capacity in advancing trade liberalization. What's more, with the rising importance of social and development issues, trade issues become even more marginalized.

Fourth, emerging market economies have been restrained in their ability to advance trade liberalization, despite the common interests in shaping discourse in global trade governance. According to the Bo'ao Forum for Asia Development of Emerging Economies' 2018 annual report, the average GDP growth for the eleven emerging economies (E11) in 2017 was 5.1 percent, the first increase since 2011, which is also 0.5 percent higher than the 2016 rate and 1.4 percent higher than the global economic growth rate. In terms of trade growth, the aggregate trade growth of the E11 rose rapidly in 2017 after a decline in 2016. Yet it is still uncertain whether the recovery in trade growth will be sustainable. Because of the U.S. tax cut legislation, the emerging economies are facing new challenges of capital flight and decreasing foreign investment, which could restrain the potential for trade growth. Considering that the emerging BRICS countries (Brazil, Russia, India, China, South Africa) are restrained by domestic discontent in their economic and political transformation, it is difficult for them to take collective action in pushing forward the global trade liberalization process.

**The Potential Role of China's International Import Expo in Improving Global Trade Governance**

As a beneficiary of global trade, China has been a firm supporter of the trade liberalization process. The four-decade experiences of reform and opening-up have formed strong political will to advance the liberalization agenda in the Chinese government. It is said that China's accession to the WTO in 2001 marked a tipping point in the integration of the Chinese economy into the global economy. The launch of the Belt and Road Initiative (BRI) in 2013 became the new starting point for China to promote global economic growth and trade liberalization. In order to uphold the BRI's commitment to joint deliberation, joint efforts, and shared benefits, China initiated and sponsored the Asian Infrastructure Investment Bank and New Development Bank, and set up other development financing support agencies such as the Silk Road Fund and the South-South Cooperation Fund. The initiative to host the China International Import Expo (CIIE) was another measure in the BRI joint efforts, with the aim of setting up an international trade platform to access the great Chinese market. On the one hand, it will inject new momentum into global trade and economic growth; on the other hand, it serves as China's response to the criticism that it uses BRI to export excessive industrial capacity. The CIIE is also a new attempt by China to improve global trade governance, with the following three potential roles.

One, it will demonstrate Chinese leadership in pushing forward trade liberalization. With the United States now resisting global trade liberalization, globalization in general faces a leadership vacuum. The deteriorating trade environment and declining trade growth harm the world economy and developing countries in particular. As the second largest economy and major trading power, China needs to accept its international responsibility and present its own agenda on improving global trade governance. The CIIE is just the opportunity for China to make a specific contribution to advance the development of global trade . In the recently held 2018 Bo'ao Forum for Asia, Xi announced further market opening policies in four areas:

- Scaling market access, in the services and more specifically in the financial sector, including by easing restriction on shareholding ratio in banking, securities, and insurance sectors by foreign companies, and accelerating the market opening process in insurance industry
- Fostering a more attractive investment climate, which is a major concern for the U.S. and European chambers of commerce
- Committing to enhance intellectual property rights protection
- Voluntarily increasing imports, with the aim of promoting balanced current account and not deliberately pursuing trade surplus

In general, China's voluntary market opening measures will set an example.

Second, CIIE will provide new cooperative platforms for global trade governance. As the leading organization in multilateral trade negotiations, the WTO has made little progress in advancing development rounds due to its many members and the variety of issue areas. By comparison, China's creative action in combining the import expo and trade forum as well as the physical trade and policy discussions are a new attempt in pushing for trade policy consultation and coordination. While it hosts the CIIE in November 2018, China will also hold the Hongqiao International Trade Forum to focus on global trade policy debates in cooperation with the WTO, UN Conference on Trade and Development, and UN Industrial Development Organization. The trade forum includes an opening ceremony and three parallel sub-forums, on trade and openness, trade and innovation, and trade and investment. Discussions will also take place on trade and investment liberalization and facilitation, building an open world economy, promoting trade innovation, and on trade and investment sustainable development. The Hongqiao International Trade Forum will be held annually with the CIIE. This way of regularly debating global trade and related areas will complement WTO multilateral trade talks.

Third, CIIE will facilitate the transformation of global trade governance to one more development-oriented. The relation between global trade and developing countries is important to address. International trade is crucial to meeting the 2030 Sustainable Development Goals and materializing progress in developing countries, home to over 80 percent of the world's population. As the largest developing country, China will, through voluntary market opening, promote the core concern for building trade capacity of other developing countries. The CIIE has provided a direct and fast track for products from developing countries to enter the Chinese market. With a combination of country expo and business expo, the CIIE provides a global interactive forum for developing countries to showcase both their trade policies and development polices. The accommodation of business exhibition and official expo has provided new opportunity for focusing on trade and development of developing countries.

### China's Policy on Improving Global Trade Governance

With its firm support of the multilateral trading system, China has been involved in the reform of global trade governance. However, China's efforts can only have limited effects without the joint efforts of the United States, Japan, and European Union. First, at the global level, China stresses more responsible governmental decision-making processes, with major economic powers placing more weight on spillover effects while making trade and investment policies. The world's major economies should enhance their policy consultation and coordination in multilateral forums, such as the WTO and G20 trade ministers meeting, in order to increase policy transparency. Second, at regional level, serious attention needs to be paid to developing countries' demand for development and trade capacity building. Third countries should, at individual levels, contribute to world economic stability and trade sustainability based on their own capacity and comparative advantages. The CIIE is a brave, innovative experiment, which needs the involvement and support of global partners. China hopes to enhance the policy consultation and coordination process with other major economies in pushing forward global trade liberalization. The CIIE is one of the many platforms and mechanisms. China expects more substantive progress in the more important WTO and G20 framework.

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# Session Two

## *Strengthening Effective Climate Change Action*

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Panelist Paper

# *Strengthening Effective Climate Action*

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## The Paris Approach: Where Are We?

The Paris Agreement represented a shift in the global architecture for climate governance, and the related process of consensus-seeking ensured that climate action develops bottom up from the Intended Nationally Determined Contributions (INDCs) submitted by the parties to the UN Framework Convention on Climate Change (UNFCCC). The design could have guaranteed greater involvement of the negotiating parties (with the exception of the United States), but it did not address fundamental issues that reduce the effectiveness and efficacy of the agreed mechanism in meeting the pious end goals of the Paris Agreement.

UNFCC insisted that the responsibility for fighting climate change should be equitable. Disagreement over the fundamental principles of equity has made negotiations difficult. Therefore, irrespective of whether the United States stays or leaves, the old debates on equity, technology transfer, and climate finance remain unresolved in the Paris Agreement. The parties thus could only celebrate victory by kicking quite a few cans full of worms down the road.

Until the formal process of withdrawal is complete, the United States is still a member of the Paris Agreement. Even after the United States leaves the Paris accord, it will remain party to the UNFCCC. The UNFCC was ratified by the Senate, so U.S. commitments to the UNFCCC process are qualitatively different. The Paris Agreement was adopted under the UNFCC; therefore, even after the United States quits the Paris Agreement, it would still have the right to attend meetings.

Countries have the first opportunity to formally increase their commitments under the Paris Agreement at the Global Stocktake from 2022 to 2023. The course of action after 2023 will depend on the countrywide review of, first, both mitigation and adaption actions as contained in the INDCs and, second, enabling support provided by the developed countries on finance, technology and capacity-building.

In fact, the second component is proving to be the weakest link in the Paris Agreement. Developed nations committed $100 billion annually to help transition to low carbon for nations left behind on carbon capture. Only half of the pledged funds shows signs of materializing, which means that creating clean infrastructure and transitioning to cleaner energy systems will not proceed at the required pace.

Even if these funds were available, they would not be enough. The International Energy Agency (IEA) and the Organization for Economic Cooperation and Development (OECD) estimate that the global south will require $89 trillion by 2030 to finance both new infrastructure and the transition. Additionally, the cost of adaptation, the UNEP conservatively estimates, will rise to between $280 billion and $500 billion by 2050.[1] The fact that after the Paris Agreement, climate funds have been created but inadequately capitalized upon only aggravates the lack of attention paid to adaptation risks.[2]

It is now suggested that developing countries mainstream finance for climate change as well as for adaptation across their domestic budgets and planning. Donors are debating monitoring mechanisms to assess climate resilience across budgets of developing countries, oblivious to the strain this would put on progress toward other SDGs, as governments have little left to spend on expanding access to modern fuels, skills training, and health care for their populations.[3] As things stand, the constraints in raising infrastructure finance in developing countries are likely to be the biggest hurdle in meeting their INDCs under the Paris Agreement.

### Toward Effective Climate Action

While developing and developed countries struggle to raise infrastructure finance, the resources that private capital commands dwarf both the unmet commitments for financial assistance as well as the planned budgets available to governments. At the same time, trillions of dollars stuck in the developed world in low-return financial securities fail to earn enough to finance pension schemes. The best policy therefore is in creating structures and market incentives that direct the flow of private capital to address both climate mitigation and adaptation requirements.

*Removing barriers to international debt financing.* The lack of debt financing at domestic and international levels hinders investment in clean energy projects. Clean energy projects incur significant start-up costs and generate modest revenues over a long period. Investors into these projects would therefore prefer long-term debt financing. As a result of regulatory restrictions (such as the Basel III norms) implemented after the 2008 financial crisis, long-term debt from international banks has become more difficult to come by.[4] To facilitate long-term debt for green energy financing, some of the capital restrictions and liquidity requirements need to be reviewed. Specific clauses to reduce risk-weighted averages (RWA) and credit conversion factors for loans and to revolve liquidity facilities for green infrastructure and clean energy projects should be added. Clauses disassociating sovereign RWA factors for climate action projects could reduce lending biases against developing countries.

*Creating risk-sharing arrangements.* The significant risks associated with climate mitigation and adaptation projects, even when viable, deter cross-border investment. For instance, in many developing countries with ill-developed energy markets, off-taker risk is a major consideration for project developers.[5] Sufficient risk-sharing arrangements that implicate both host governments and multilateral funding institutions are necessary. Over time, the spread of financial instruments, such as green bonds, international infrastructure debt funds, and credit guarantees from multilateral development banks, should expand to help lower the cost of debt and investor risk for such projects[6].

*Developing secondary markets for debt and equity exchange.* Developing financial instruments to create secondary markets that facilitate debt and equity exchange is an important step in alleviating investor concerns about liquidity. One possible instrument, infrastructure investment funds, has shown promise in India. Investors can buy shares in these funds, which the funds then invest across a number of different construction and completed projects in a particular sector. The completed projects provide investors with steady cash flow through dividends, while allowing the fund to invest in new projects using investor cash. Fund shares have the additional advantage of being liquid and, if forward-thinking multinational development banks pursue such opportunities, the model could be adopted elsewhere.

*Revitalizing PPP for green infrastructure.* The cost of capital for public-private partnerships (PPPs) relative to public funding and corresponding assumptions of risk is assessed to be far higher today than in the past, when the PPP model was offered as the one-stop solution to the infrastructure woes of the developing world. The fact is that the worldwide privatization experiment over the past three decades has held back the supply of new large-scale infrastructure projects in many parts of the world.[7] Revitalizing PPP for green infrastructure necessitates hybrid models that apportion risk fairly among the parties.

*Extending times lines for performance metrics.* Practically, fund houses need to revise their performance metrics to focus on long-term returns—over three-, five-, seven-, and ten-year periods. The financial sector's obsession with quarterly and annual returns encourages myopia, making asset managers lose focus on substantial long-term risks to their portfolios[8].

Certain instruments and systemic tweaks can help mobilize funds from diverse sources for climate action, but the global energy system is large and complex; transition to a greener energy system is bound to be slow. Developing nations will face the most pressure to account for this transition in their broader development priorities. Global and national climate policies will need to focus on the broader goals of these transitions and create market-based instruments that nudge capital flow toward low-carbon fuels. Meanwhile, technology and markets will continue changing as the share of various fuels in national energy baskets changes. This makes it even more important that climate action policies remain technologically agnostic and that governments refrain from the temptation of choosing winners and losers. The decision to pick a selected energy source or technology over another can expose a country to high market and geopolitical risks that jeopardize its broader energy security imperatives.

## Notes

1. *Adaptation Finance Gap Report* (Nairobi, Kenya: United Nations Environment Program, 2016).
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Panelist Paper

# *Notes on Climate Change Action*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

**Sergey Kulik**, Institute for Contemporary Development

The Paris Agreement is the result of a global understanding on the ideology and mechanisms for joint action to mitigate climate change. The agreement is important because it also demonstrates that the world trusts the assessments and conclusions of specialists concerning the nature, causes, and possible consequences of climate change.

At the same time, the agreement is not limited to climate change and the target to keep the temperature rise below 2 degrees Celsius. It stimulates the transition to low-carbon development, by mapping the road away from the hydrocarbon-dominated era. Successful implementation of the agreement involves opportunities and challenges for countries and their respective interests. One of the challenges is mobilizing financial resources for low-carbon investment.

The Paris Agreement requires government and private sector action. At the same time, the Intended Nationally Determined Contributions (INDCs), which serve as the foundation of the agreement, are not sufficient to reduce emissions to stay below the 2 degree Celsius threshold. This gap needs to be scrutinized.

This is an important year for global climate governance and for building upon the progress of the twenty-third Conference of Parties (COP23) in Bonn and French President Emmanuel Macron's One Planet Summit. This year also offers the threshold to create guiding rules for the implementation of the Paris Agreement. These rules will orient the transition to low-emissions economies. The negotiation texts of the COP23 should be limited to finding consensus for implementing guidelines. However, this will be a burdensome task.

Countries should continue to adjust to the pledge of $100 billion by 2020, also known as the Green Climate Fund. The U.S. decision to renege from this fund and from commitments under the Paris Agreement urgently necessitates strengthening international cooperation.

U.S. President Donald J. Trump's announcement last June to withdraw his country from the Paris Agreement (along with his dismantling of energy and climate policies of previous administrations) has created international backlash and a more united front to mitigate and adapt to climate change. However, the American stance could decrease the effectiveness of the agreement.

The United States is the second-largest emitter on the planet. As one of the main architects of the agreement, it committed to remain a bulwark of the climate regime. Now China, the European Union, Russia, and other major polluter countries can fill the vacuum created by absence of the United States. After Washington's decision to withdraw from the agreement, Moscow has activated its political energy to follow the implementation of the Paris Agreement, though postponing its ratification to 2019.

Patricia Espinosa, the executive secretary of the UN Framework Convention on Climate Change (UNFCC), has said that this year will test how "we'll put together pieces, directions, and guidelines in order to make the framework really operate." Besides testing a more comprehensive approach within the mechanisms set for effectively implementing the Paris Agreement, her implicit suggestion—to construct a bridge with other UN Sustainable Development Goals—also matters. She specifically mentioned the second goal, zero hunger, by stressing the importance of agriculture and land use in fighting climate change. But it would be significant to follow the implementation of the agreement with several other goals. In this respect, it is important to use the leverage mechanisms of the Group of Twenty (G20).

A number of subnational and nonstate actors, including international groups, regions, states, cities, businesses, civil society organizations, and faith groups will play a major role in energizing climate action. The Talanoa Dialogue offers an opportunity to boost their energy and government commitments to bolster their NDCs by 2020. The dialogue could also provide spur discussions on improving mechanisms for actions and on finding new formats and partnerships.

Most innovation traces back to cities. They are large consumers of energy and emitters of greenhouse gases, and many of them support decarbonization. Subnational and nonstate actors cannot make up the emission gap between NDCs and the requirements to remain at the 2 degrees Celsius threshold. However, they do have a lot of potential to lower emissions. New cost-effective technologies and best practices already deployed in several countries could also help close the gap before 2030.

COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations

Panelist Paper

# *Strengthening Effective Climate Change Action*

Council of Councils Annual Conference
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Council on Foreign Relations, New York, NY

**Silvia Maciunas**, Centre for International Governance Innovation

## Evaluating the Paris Agreement

The recent headlines that frame the context of the challenge of climate change are striking. UN Secretary-General António Guterres recently expressed his view that climate change is now the most systemic threat to humanity, referring to various reports from the World Meteorological Organization, the World Bank, and the International Energy Association. Among the indicators of environmental concern cited was the rise in carbon emissions in 2017 by 1.4 percent, after plateauing for the previous two years.

By adopting the Paris Agreement, countries expressed a common intention to address climate change collectively and individually as parties to the UN Framework Convention on Climate Change (UNFCCC). In terms of near universal ratification and support, the Paris Agreement has been an outstanding success. Not only has it been widely ratified but it has also advanced the applicability of the obligations so that all parties are undertaking substantive obligations through their Nationally Determined Contributions (NDCs). The nature of the agreement is such that NDCs are outside the treaty itself, so meeting those is not legally required. This structuring has also allowed parties to move from an approach of bifurcated developed-developing world response to climate change to one of common but differentiated responsibilities embedded throughout the agreement.

However, President Donald J. Trump's announcement that the United States would withdraw from the agreement, citing unfairness, suggests that the country will resist an international approach and movement to a low-carbon future. Other actors remain outside the Paris Agreement: it has not been ratified by Russia or Iran.

In terms of the success of mitigation and adaptation efforts spurred by the agreement, it is too early to tell. The Paris Agreement was adopted in December 2015 and entered into force in October 2016, a record speed for an international agreement. In the eighteen months since the agreement went into effect, it has been ratified by 175 of 197 parties. The rapid ratification reflects the broad and strong support for the agreement; the swiftness was also facilitated by the procedural nature of the major obligations to prepare NDCs and to report and review performance. However, the lack of substantive obligations for parties to achieve their NDCs could result in parties not taking climate action quickly. Some indicators, related to both emissions trends and effects, are cause for vigilance.

The ultimate success of mitigation efforts remains unknown. The consumption of fossil fuels is rising, both in absolute terms and in terms of energy growth. The gap between the outcomes from the existing NDCs and the intervention required to meet the goal of limiting global temperature rise to 2 degrees Celsius from the pre-industrial times is well known. Parties will have to increase their ambitions to achieve appropriate levels of emissions reduction. More climate financing is needed; this remains a challenge both within the UNFCCC and in the broader economy. With the United States stepping back from climate finance, meeting the objectives of mobilizing promised support becomes more difficult.

The trends are troubling. Various indicators signal the need for rapid action. It was known at the time of the adoption of the Paris Agreement that even if all NDCs were fully implemented, they two-degree threshold would not be met. Energy-related carbon emissions rose in 2017 after flattening for two years; 2015 and 2016 were among the hottest years on record, with record temperatures recorded in many parts of the planet. Various extreme weather events, including hurricanes, floods, fires, and droughts, caused extensive damage. Arctic sea levels are at record lows and Arctic temperatures are rising. Even the rate of sea level rise appears to be accelerating.

### Consequences of the U.S. Intention to Withdraw From the Accord

The United States' intention to withdraw is likely to slow down climate action. U.S. emissions, which had flattened for several years, are projected to have risen slightly in 2017; this will affect overall trends for global emissions. The United States has also made clear that it does not intend to contribute additional financing for climate change, in particular for the Green Climate Fund, which provides financial support to developing countries. The position of the Trump administration has mobilized state and civil society action within the United States, but subnational efforts are likely not enough to meet the United States' NDCs, particularly given the aggressive rollbacks on climate measures by the Trump administration. Many are hopeful that this period of climate denial by the Trump administration will be short-lived and that political change will come with the next election or even in the November 2018 midterm congressional elections.

Even though the United States' intention to withdraw from the agreement has dismayed UNFCCC parties, it could bring about increased cooperation among other parties. Several countries have coalesced around shared objectives, and other parties are coming forward as leaders. Innovative mechanisms could be developed soon; for example, discussions on border carbon adjustments, which could take into account carbon footprints in trade, have gone up. But while the conversations at the UNFCCC have been measured, there is much dismay at the approach taken by the United States.

### A Paris 2.0 Accord

It would be a misplaced commitment of resources to start negotiating a Paris 2.0 Accord. The Paris Agreement is designed to be a living agreement. It contains provisions to update NDCs and provisions for reporting and review of parties' efforts, and it is based on a system of increasing ambition by parties. The so-called global stocktake is a mechanism that is designed to consider collective progress. The Paris Agreement allows parties to individually revise their NDCs at any time but strongly discourages revising them downward. This latter point was debated when the United States first put forward its intention to withdraw.

It is unclear that such a broad-based agreement, with a nuanced architecture, could be reached again or how long it would take. Proponents of a new agreement argue that an improved agreement would contain specific and legally binding targets. But states are unlikely to accept binding targets and the new agreement would therefore have a limited number of parties.

If the United States wishes to downgrade its NDCs, it could, as it is planning to do, withdraw. It could then rejoin, submitting revised, less ambitious NDCs. To expect the rest of the world to revise an agreement that was adopted by 197 parties less than three years ago and that is currently being implemented, however, is unrealistic.

### Advancing the Agreement's Ambitions

Advancing the agreement's ambitions through additional partnerships is a promising area. An obvious example is the markets that are developing and could be expanded and improved for trading carbon emissions. An example of cooperation between markets would be the Western Climate Initiative, which includes California, British Columbia, Quebec, and Ontario. These partnerships present a way to reduce emissions at lower cost. Other partnerships are cooperation agreements: for example, the 2014 arrangements between the United States and China, which covered a variety of cooperation issues.

But alternative approaches in different international frameworks should also be explored. For example, efforts to limit short-lived but extremely potent climate pollutants (such as methane and black carbon) are being pursued by the Climate and Clean Air Coalition, which consists of governments (including Canada, Sweden, and the United States) and civil society. Half a degree of warming could be averted by effective action in this area. Additional actions could be taken in other forums to advance climate action: climate risk disclosure in the investment sector and modifications to trade agreements to address the interactions of climate and trade are just two examples. Most recently, the International Maritime Organization (IMO) agreed, despite opposition from a few members, on a greenhouse gas (GHG) strategy that aims to bring emissions from shipping down by 50 percent from 2008 levels by 2050.

Climate action needs to find a home in various forums in the international framework, some of which could be private partnerships, while others may be gatherings of various governments, and yet others could be a mix of both. The problem is too big to be limited to one level of governance or to one international regime.

### Policy Recommendations

The following recommendations address areas in which different actors could take action:

- *UNFCCC:* Take measures to further enhance the involvement of actors to build on momentum on climate action. Possible actions include the development of a permanent forum for dialogue between parties and individuals and better monitoring of contributions.

- *Trade community:* Consider measures to advance the mutual supportiveness of trade and climate. Possible approaches would be a climate waiver under the World Trade Organization to allow for certain climate measures and reform of the subsidy rules to allow for the further advancement of renewable energy.

- *Shipping community:* Implement, as soon as possible, the IMO approach to reducing by 2050 GHG emissions from shipping by 50 percent from 2008 levels, and strive to advance the IMO agenda to achieve decarbonization as soon as possible.

- *Finance community:* Act to disclose climate risks to shareholders and investors, to make risks of global temperature rise more widely known. This disclosure should include the risks arising not only from physical damage to assets from extreme climate events but also from the loss of value of stranded assets in high-carbon industries and from civil liability for damages in climate-related litigation. In this regard, the Financial Stability Board guidelines provide a path forward.

- *UNFCCC parties:* Take action in related forums, such as the Climate and Clean Air Coalition, with a view to achieving reductions in the average global temperature through all possible means. Parties can also rapidly implement the Kigali Amendment to the Montreal Protocol on Substances that Deplete the Ozone Layer, with a view to achieving the 0.5-degree limitation on temperature increase that could be achieved through that amendment.

- *Group of Seven (G7) and Group of Twenty*: Act on promises to remove fossil fuel subsidies, which have a highly distorting effect on energy markets. The G7 countries have promised to achieve this by 2025.

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# Session Four

## *Geopolitical Implications of New Technology*

Panelist Paper

# *Geopolitical Implications of New Technology: A French Perspective*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

**Marc Hecker**, French Institute of International Relations

During the 2017 French presidential election, the socialist party's candidate Benoit Hamon advocated for a universal basic income. Arguing that the progress of artificial intelligence (AI) and robotics will destroy three million French jobs in the coming decade, he insisted that the workers replaced by robots or algorithms still be paid.

The winner of the election, Emmanuel Macron, rejected Hamon's idea. However, after one year in power, Macron has shown an interest in the potential harmful effect of new technology on the cohesion of French society, and, more broadly, on the world order. Several official reports released over the past few months have focused on new technology.

First, the *Strategic Review of Defense and National Security* was published in October 2017.[1] It includes a section on disruptive technological and digital innovation that stresses a double risk. On the one hand, "major powers are stepping up their efforts to develop leading edge systems (such as hypersonic and stealth), creating a risk of Europe lagging behind." On the other hand, operational leveling risks—due to the widespread use of new technology, such as encryption or geolocation—benefit nonstate or hybrid actors.

Second, in February 2018, the French government released its first *Strategic Review of Cyber Defense*.[2] It describes evolving cyberspace threats and underscores that major attacks can have "critical consequences for the Nation." The review notes that cyberspace still lacks efficient international regulation and global powers have divergent perceptions of "the international security architecture that should govern relations between states in the digital age." Hence, it recommends a reinforcement of French cyber defense capabilities and the establishment of a doctrine for action. In order to avoid cyberspace conflict, the review promotes three principles: prevention, cooperation, and stability. Moreover, according to this review, private sector activities should be better regulated (e.g., through promotion of a ban for private actors to take offensive actions, better control of exports of offensive technologies, and so on).

Third, in April 2018, Cedric Villani, a newly elected member of parliament, published a report on AI.[3] Villani is a world-class mathematician and was awarded the Fields Medal in 2010. He belongs to the same generation as Macron and began his political career in 2017. In his report, Villani under-scores that France and Europe are currently lagging behind the United States and China in the field of AI. He quotes Russian President Vladimir Putin, who declared in September 2017 that the nation that leads in this field “will be the ruler of the world.” In the competition for AI, one of the most important factors is the governance of data (often described as the fuel of AI). Villani’s report sets an objective: “making data a common good.” In other words, data that currently belongs to a few technology giants—Google, Amazon, Facebook, Apple, and Microsoft (GAFAM) in the United States and Baidu, Alibaba, Tencent, and Xiaomi (BATX) in China—will have to be open and shared. Data portability is thus an important weapon in the battle for AI capabilities.

Another critical aspect is the capacity to invest. In this respect, France can only have a limited effect. The GAFAM’s market capitalization (over $3 trillion) is superior to France’s gross domestic product (around $2.7 trillion). Facebook’s market capitalization lost $70 billion in ten days after the Cambridge Analytica scandal. By comparison, the annual budget of the French defense ministry is around $40 billion. In a significant effort, the French government will invest $1.85 billion of public funds in AI over the next five years. However, it shows that a country like France cannot really become a major contributor on its own. It is only at the European level that France can compete with the United States and China.

A common term in all of three of the above reports is digital sovereignty. This expression echoes another term used as a title for a French parliamentary report in 2013: digital colony.[4] The rapporteur, Senator Catherine Morin-Desailly, wanted to raise the alarm, so she said that if there was no political change in the European Union, Europe would become America’s online colony. The colonization has become a fact. In France, if one analyzes the connections to the twenty-five most popular websites, almost 80 percent of traffic is directed to American platforms.[5] The situation is even worse in other European countries (Belgium, the Netherlands, Spain, and the United Kingdom, among others) but it is completely different in China and Russia. These two countries manage to retain the vast majority of their domestic internet traffic and related data.

This raises the question of what is to be done. In March 2018, Macron gave an interview to *Wired* magazine, in which he presented his vision of AI and, more broadly, of the effect of new technology on democracy and the balance of power.[6] He insisted on the need for a double regulation—regulation that, on the one hand, creates an environment that encourages innovation, and, on the other, protects citizens against the power of the biggest platforms. In this respect, new rules are currently being implemented in Europe both at the national level (e.g., the NetzDG law in Germany) and at the EU level (e.g., the General Data Protection Regulation).

In the *Wired* interview, Macron also highlighted the concept of responsibility. He wants to foster innovation and encourage the development of AI, especially in health, transportation, energy transition, and defense. But he insists on the need to maintain the role of humans: humans—not machines—should be responsible for actions. This is especially true in the military domain, where Macron highlighted the dangers of lethal autonomous weapons that would be able to kill without “a human check.”

The concept of responsibility is linked to openness. Algorithms are becoming increasingly complex and often presented as a black box. Macron wants to open this black box. In the decision-making process, humans—including political leaders, who are responsible to the nation—can be helped by algorithms, but need they to be sure that algorithms are not biased. Hence, it is necessary promote the openness of algorithms and of the data that feeds them.

The French government shows a strong determination in shaping its technological and geopolitical environment. The current phase is one of national and European build-up in terms of technological capabilities and regulations. This will likely create tensions with non-European states and tech companies. Intergovernmental and public-private forums need to be preserved to avoid an uncontrolled escalation of these tensions.

## Notes

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2. *Strategic Review of Cyber Defense* (Paris : Secretariat-General for National Defence and Security, February 2018), http://sgdsn.gouv.fr/evenement/revue-strategique-de-cyberdefense.
3. Cédric Villani, *Donner du sens à l'intelligence artificielle. Pour une stratégie nationale et européenne* (Giving Meaning to Artificial Intelligence. For a National and European Strategy), Parliamentary Mission from September 8, 2017, to March 8, 2018.
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COUNCIL OF COUNCILS

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Panelist Paper

# *Governing New Technologies*

Council of Councils Annual Conference
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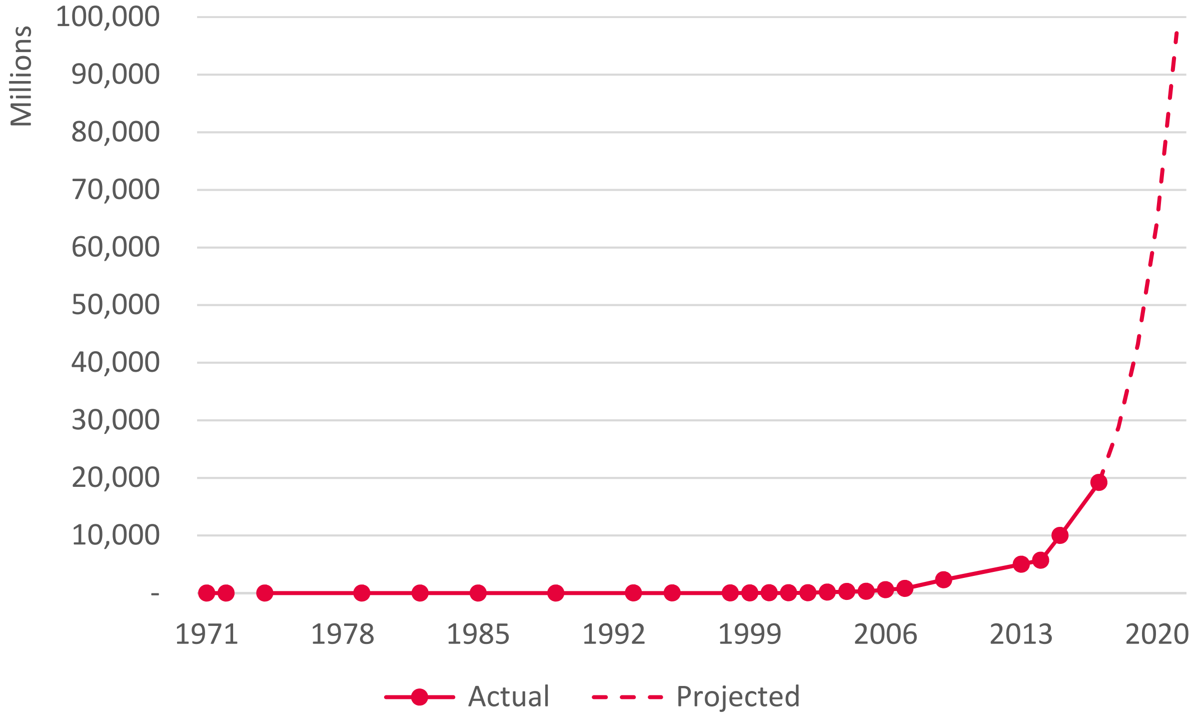
The next twenty years will see a technological revolution of a scale never before witnessed.[1] Driven by ever-increasing computing power, artificial intelligence (AI), robotics, digitization, the Internet of Things, and blockchain, technology will change the landscape of the planet. Many of these changes will benefit humanity by, among others, lowering the frequency and severity of road accidents, helping society grapple with an aging population, offering consumers more choice, increasing energy efficiency, and facilitating distributed transactions and record keeping. Yet, the significant risk is that much of the future generation could be worse off than the current one. These technologies, particularly AI and robotics, will reshape the labor market by changing the relative contributions of different factors of production.

## Transformative Technologies

Moore's Law, the observation that the number of transistors on an integrated circuit chip (and in turn computing power per power) doubles roughly every eighteen months, has proved to be remarkably reliable over the decades and across numerous semiconductor fabrication technologies.[2] Yet its broader implications may only now be starting to be felt in earnest. Whereas in the 1960s, a doubling of computing power implied a small absolute increase in the number of operations per second, a doubling today implies a large increase, and hence has a large effect on what becomes technologically feasible (see figure 1).

In no field is the potential of growing computational power more apparent than in AI. Many of the basic algorithms that underlie today's AI were developed decades ago but could not be used in real-world problems then because of the state of the art in computing. Algorithms have certainly improved, but the giant leap in computing power is what has made AI technology a feasible answer to many problems. This computing power continues to grow exponentially, annually redefining what is technologically feasible. For example, as recently as 2004, it was thought that computers could never challenge humans in pattern recognition tasks that could not easily be broken down into rules. Today, thanks to improved machine learning algorithms and more powerful processors, computers can analyze and write articles, sort images, retrieve unstructured information, recognize objects to safely drive cars, and perform complex verbal communication. They increasingly perform not only routine tasks but also unstructured cognitive and creative tasks that we were once considered uniquely human.

**Figure 1. Transistors per Microprocessor (1971–2021)**




*Source:* www.ourworldindata.org.

The power of AI is further fueled by the increasing digitization of all things. As data, news, music, movies, books, maps, documents, and numerous other information goods are created and stored in digital form, these are more readily usable by machines. Autonomous cars, for example, require detailed maps; algorithms that write articles require a large database of previous news articles. Moreover, as service delivery itself becomes digitized, embedding AI becomes much easier.

Robotics have also made impressive leaps in the last decades. Until recently, robots were inflexible machines that were good at accomplishing a single, well-defined, repetitive task. That is changing, as the newer generation of robots handles non-routine jobs, thanks in part to the guidance of AI. Robots could soon perform tasks such as housekeeping, gardening, surgery, and even construction.

Although specific scenarios are unknown (and unknowable), two things about the advanced technologies era are clear. First, they will be driven by proprietary knowledge (i.e., intellectual property [IP]) and second, this IP is generated in only a few countries by a few individuals and firms. As a result, income and wealth distribution will worsen before it improves (eventually, if at all).

**Policy Responses**

Governments policies to counter the diverse shocks of the digital era pertain to the following categories, in no order: competition policy, public finance, aggregate demand maintenance, international institutional responses, governance of new technology, global data governance, education and skills training, and public security.

*Competition policy.* Advanced technology firms accrue economic rent in two ways: via the monopoly power granted by IP systems and via first-mover advantage. The recent crises around data firms has accelerated the trend to view them not as special but as natural monopolies. In this light, the policy responses include

- enacting competition/antitrust legislation,
- taxing rents from IP (which raises inter-jurisdictional issues), and
- addressing an eroding tax base (which has led to calls for raising revenues to produce global public goods, the modern manifestation of which is the proposal to tax robots).

*Aggregate demand maintenance.* Wider use of robotics will likely usher in a prolonged period of marked deflation and a radically altered labor market wherein stable jobs give way to temporary and piecemeal work, raising the need for

- rethinking the social safety net (e.g., making pensions more portable or disconnecting pension schemes from firm-level employment),
- moving toward a universal basic income, and
- using "helicopter money" to stabilize prices.

*International institutional responses.* International organizations need to work together toward

- transforming the International Labor Organization for the twenty-first century,
- promoting greater international tax policy cooperation, and
- harnessing technology for the public good (e.g., toward achieving the Sustainable Development Goals, akin to how creative ways were devised to make antiretrovirals available at differentiated prices in different countries depending on their level of income).

*Governance of new technology*. Governance issues for new technology need to address

- creating and adopting ethical standards for emerging technologies,
- increasing the accountability and transparency for algorithms, and
- adapting existing regulatory and legal frameworks for independent workers.

*Global data governance.* Global data governance should include

- opening databases, particularly for publicly garnered information (e.g., from sensors),
- using common data protocols for the development of emergent technologies, and
- creating governance frameworks that consider privacy, public security, commercialization, and democracy preservation/enhancement.

*Education and skills training*. New approaches to education and skills training should address

- rethinking pedagogy (e.g., lifelong learning rather than "front-loaded" education),
- (re)developing curriculum (promoting STEM training while recognizing the importance of the humanities, along with focus on computer literacy and coding as core parts of basic education),
- training for interdisciplinary adaptive skills, and
- fostering entrepreneurial mindsets.

*Public security*. This issue stands out in the range of strategic defense and military implications associated with new technologies. If the coming AI and robotics revolution eliminates the large majority of routine tasks in manufacturing industries, it eliminates the traditional development trajectory of specializing in low-wage industrialization for developing countries, many of which are in Africa and Central Asia. In addition to the social, economic, and political implications, there are huge security implications of having a large and growing population with no means of livelihood.

Not all sectors have to be addressed equally and right away; the mix will vary by time and country. But it is important to understand how transformational new technologies are; therefore, a broad-based reserve arsenal of responses is required.

## Notes

1. This note draws on recent CIGI work on innovation strategy (Medhora et al., "New Thinking in Innovation," 2017, http://cigionline.org/publications/new-thinking-innovation); the governance of big data (Scassa et al., "Data Governance in the Digital Age," 2018, http://cigionline.org/data-governance-digital-age); and the future of work and policy responses to it (forthcoming).
2. Whenever progress on existing semiconductor technology slowed or reached a physical limit, new technologies and approaches emerged. While we cannot be sure that Moore's law will hold in the future, particularly as current technologies reach physical limits regarding the size of silicon-based transistors, new materials and methods (e.g., tunneling transistors and spintronic devices (Bourzac, 2016) and quantum computing (Xie, 2018) could underpin continued exponential growth.

Panelist Paper

# *Geopolitical Implications of New Technologies*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

**Samir Saran** and **Akhil Deo,** Observer Research Foundation

In today's interdependent, networked, and "informatized" world, technologies that were once the preserve of powerful states are now available to a wider array of state and nonstate actors, be it North Korea, private transnational corporations, or terrorist groups like the self-proclaimed Islamic State. At the same time, today's technologies are transformative—they will have implications across strategic, economic, and normative considerations.

For the world, the primary challenges lie in anticipating risks to domestic institutions and processes, adapting to changes in military strategies and postures, developing international law and norms, and preventing disputes on trade and investment. Managing tensions fueled by new technologies will require a more agile approach to global governance that accounts for the diffusion in global economic and technological power. It also requires finding new templates to create norms, sustain commercial interdependence, and mitigate military risk.

The first effects of new technologies will be visible at the daily societal level. Technology-driven conflict will not operate from the traditional domains of land, sea, air, and space. Instead, malicious operations will take place at the intersection of economic, political, military, and social activities. This will open up new space and avenues for the exertion of power—including by actors that do not have the resources to operate an aircraft carrier or launch a satellite. Moreover, campaigns that rely on such technology will operate well below the threshold of military conflict and could be cloaked in deniability.

Weaponized narratives are the most obvious examples. Malicious actors have begun to employ social media algorithms and videos manipulated by artificial intelligence—deep fakes—to accentuate identity-based divides. Frontier states such as Ukraine are already fertile grounds for incubating such experiments.

Second, the idea of the battlefield itself will undergo a sea change. The allure of lethal autonomous weapons is obvious: they reduce the cost of logistics, improve speed of decision-making and intelligence-gathering capabilities, and, most important, obviate the need for risk-taking by humans. In essence, they make killing more efficient. This will have implications on both the strategic postures of states and on human rights.
Advanced weapons systems that rely on algorithmic decision-making will likely be deployed in low-information and high-risk environments. Their ease of deployment—measured in terms of the political cost of using them—will lower the threshold for conflict. Consider, for example, China's plan to employ armed drone

swarms in the South China Sea. When employed in populated areas, the drones can misinterpret civilian activity or incorrectly identify them as targets—with uncertain implications for humanitarian norms and the laws of war.

Counterintuitively, these weapons also drain cognitive ability from both the warfighter and the chain of command. As the strategic environment changes, so does the ability of an organization to manage it. The U.S. Army, for example, is less prepared than during the days of the Cold War to fight a conventional battle, thanks to its twenty-first century focus on nonstate actors. The question is whether using intelligent weapons will lead to further doctrinal neglect of state-to-state conflict, which is still the most potent threat to the stability of the international order.

Third, it is clear that the traditional dynamics of military escalation and deterrence are changing. Even the most recent U.S. Cyber Command vision document recognizes that cyberspace will be a theater of "persistent engagement." The disparity in possession of new technologies could compel weaker states to employ kinetic force with few compunctions in response to a cyberattack.

Fourth, export control regimes will fail to meet the challenge posed by new technologies, for structural reasons alone. Prior arms control agreements succeeded because the world was essentially bipolar, with only the United States and Soviet Union concerned about proliferation. Today, finding an alignment of interests, objectives, and priorities among states, transnational corporations, and rogue actors is not as easy.

Additionally, today's technological advancements simply do not require expensive materials, large investments in financial or human capital, or extensive supply chains and logistics. The dual-use character of these technologies makes it nearly impossible to balance the need to foster innovations in the civilian space while restricting military use.

Fifth, the dynamics between global trade, investment, and strategic technology development will be more complex. Technology is already a flash point in the trade war brewing between the United States and China. The U.S. trade representative has singled out the Made in China 2025 plan, which envisions Beijing emerging as the industry leader in advanced technologies such as artificial intelligence, robotics, and genomics through its usual mercantilist trading practices.

Similarly, Beijing has invested considerable sums of money to acquire start-up technology firms in the European Union and United States, with the stated objective of dominating high-tech markets. In an interdependent global economy, control over supply chains and investment patterns of new technologies is just as important as battlefield positions.

Sixth, at the consumer platform level, different ecosystems are developing—especially in Asia and the Atlantic—given the differing societal norms, technical standards, and geopolitical motivations of the United States and China. China already leads the way in consumer technologies, ranging from e-payments to standards for QR codes. China is investing in telecommunications infrastructure and cyber norms in Asia, in addition to exporting its physical and digital products.

However, in contrast to the liberal norms that drove technological innovation in Silicon Valley, China is not interested in affirming values of privacy or human rights in general. Nor is it interested in accountability and transparency in algorithms. Such fragmentation can create inefficiencies due to a lack of interoperability and can reduce competition in markets as technology companies become quasi-monopolies within certain geographies. This would heighten security risks because of limited international cooperation.

Clearly, the convergence of big data, artificial intelligence, and widespread adoption of smartphones and other digital technologies will have enormous social, political, and economic consequences. To employ these technologies for beneficial purposes, states will have to find twenty-first-century templates for mitigating systemic international risks.

First, it should now be obvious that the age of formal treaty-making processes is over, for the simple reason that private sector developments are subverting national capacity to influence outcomes. Simultaneously, the applications of new technologies in sectors from health care to transportation will make an overarching regime redundant. It is therefore critical to understand new technologies in the context of the economic, social, and political conditions in which they will operate.

Conversations on this subject should embrace flexibility and identify patterns of global interdependence: allowing industry organizations to determine interoperability, security, and core technical functions, while allowing nation-states to have a say in ethical, social, and legal implications. Creating economic relationships has always been critical to maintaining global stability. New channels and forums for communication between states and global industries should be built to prevent large-scale fragmentation of technology governance.

Second, to the extent possible, the overarching principle that governs the global flow of technology should be "access first." While those technologies that serve only military purposes can prove more amenable to restrictions, broad-based export control regimes that prevented the proliferation of dual-use technologies are insufficient templates for the twenty-first century. Not only do the economic opportunities of new technologies far outweigh the risks but also singling out technologies could create supply chain inefficiencies.

Excessively restricting global technology flows will only create a new global divide, one that will accentuate differences in an already unequal world. With or without export controls, rogue actors will undoubtedly be able to source and employ new technologies for subversive ends. The response to these actions should be based on building defensive capacity along with investments in education and awareness.

Third, the confluence of advanced technology, urbanization, domestic politics, and international events will alter the face of war and intervention in ways that do not fit neatly into laws of conflict that were written in the context of European geopolitics and twentieth-century technology. Carl von Clausewitz famously declared that "war is a continuation of politics by other means." In today's digital world, these other means, such as influence operations and cyber espionage, assume added significance. Perhaps the world should now begin to consider the possibility of rewriting the rules of war all together. Critical to this endeavor will be identifying the most important actors—which currently includes the United States, China, and their respective businesses—and accounting for how new technologies are influencing military strategies, battlefield postures, and blurring the distinction between war and peace.

Fourth, these flexible regimes should respect political sanctity. It is critical that today's great powers arrive at a consensus on restricting subversion of domestic processes. Information operations are as old as war itself—ranging from the U.S.-sponsored "color revolutions" to Russia's digital manipulations in Europe and America—and every major actor is guilty of such attempts. In today's networked world, it is easier than ever to amplify the adverse consequences of these operations. Democracies and autocracies should put aside ideological differences to ensure that such operations do not undermine the international system itself.

Finally, to anchor these various initiatives, like-minded communities and influential actors should come together to from a Digital-20, based on the Group of Twenty template of governance for financial flows. Apart from addressing security risks in increasingly digital and networked economies, such a body should also work toward addressing issues of inclusion and access, along with preventing the fragmentation of digital trade regimes. Such a platform should bring together the most technological advanced states, along with important representatives from business and civil society. However, it should be more inclusive than the current multistakeholder model for cyber governance, which primarily includes transatlantic actors.

Ultimately, the velocity and direction of developments in new technologies is uncertain, and this has created tension in the international system as states and private corporations race to maximize strategic and economic benefits. The cybersecurity tech accord signed by major private corporations in April, committing themselves to not support state-driven cyber operations, reflects the appetite among businesses for mitigating this uncertainty. While treaties may not be the best way to go, states still have an array of options to create nimble, twenty-first century frameworks to underline and reinforce the accord's principles, and more broadly, to buffet the headwinds that lie ahead on account of technological disruption of ordinary life.

COUNCIL OF COUNCILS

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# Session Five

## *The Challenge From Iran and Its Global Implications*

COUNCIL
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Panelist Paper

# *The Challenge From Iran and Its Global Implications*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

**Mustafa Alani**, Gulf Research Center

Saudi Arabia and the other Arab Gulf states consider that the policies pursued by Iran and its behavior constitute an extensive and serious threat to both their national security interests and overall regional security and stability. Iran's threat has manifested in the country's

- nuclear ambition,
- ballistic missiles development and production programs,
- policy of ballistic missile proliferation among nonstate actors (militias and terrorist groups),
- geopolitical expansionist policy,
- regional interventionist policy that includes interference in the internal affairs of neighboring states as well as intentionally promoting sectarianism and therefore deepening the sectarian divide in the region, and
- support and backing of terrorist groups (both from the Shia and the Sunni sides)

In addition to the numerous challenges that Iran poses to the stability of the Gulf and the Middle East, the weakness and indecisiveness of U.S. policy over the past eight years has also contributed to the rapid growth of Iran's aggressive tendencies.

At the same time, as far as the Gulf Cooperation Council (GCC) states are concerned, the leading role played by the United States in any policy aimed at containing Iran's threatening behavior is indispensable. In this regard, the Gulf states will cautiously welcome a shift in the U.S. policy toward Iran and will be ready to support a new policy that has as its clear objectives the restraint and containment of the Iranian expansionist, interventionist policy and the curtailment of its nuclear and missiles development programs. It should therefore be recognized that the Gulf states will extend their support to a rational and sustainable policy to contain Iran. Such a policy should

- be agreed upon collectively, bringing together the United States, the European Union, states in the region, and other countries and international institutions;
- principally aim to resolve the threats from Iran politically and consider the military option as one of last resort (to be sure, the Gulf states see no benefit from another destructive war in the region);
- not place the Gulf states in the frontline of confrontation with Iran; and

- not insist on or demand unreasonable contributions from the Gulf states or expect that the burden falls primarily on the shoulders of the Gulf states. Any policy should further consider the sensitivity of the regional dynamics of power as well as the delicate nature of regional relations.

In terms of the fate of the Joint Comprehensive Plan for Action (JCPOA) from 2015, the Gulf states recognize the weakness and shortcoming of the agreement. As a result, they concur with the assessment that the JCPOA provides no solid guarantees that Iran will not develop a nuclear military capability sometime in the future. Yet, the Gulf states equally do not wish to see the cancellation of this agreement without an acceptable replacement or to see the collapse of the political process.

Iran took many years to develop the instruments for its expansionist and interventionist policies as well as to develop its nuclear and missiles programs. Therefore, any policy that aims to rollback Iranian influence in the region or to contain Iran's aggressive policy and its arms development programs, should be developed around a long-term framework that includes adequate sustainability mechanisms.

In this context, for the Gulf states to agree to and either willingly or reluctantly support an unclear, or irrational U.S. policy on the containment of Iran, potentially carries serious risks:

- The U.S. policy to contain Iran could prove to be either unsuitable or short-lived, or both. For the moment, the current policy is linked to President Donald J. Trump's administration, which has more two years in office with no guarantee that Trump will be reelected or will run for another term. Any successor to Trump could therefore choose to pursue an entirely different policy and approach, something already witnessed in the transition from Barack Obama to Trump. The Gulf states have gone through such experience.
- There could be a shift in the U.S. policy toward Iran due to internal or external developments that affect the United States.
- U.S. security priorities could suddenly shift.

In this context, national governments and international institutions should come together to better address the challenges posed by Iran and agree with the Gulf states to a comprehensive and structured approach that will lead the region to a more sustainable security environment. Given the uncertainty about the U.S. approach, the Gulf states will also continue in their determination to frame more independent and activist foreign policy positions that directly reflect their security concerns.

COUNCIL OF COUNCILS

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Panelist Paper

# *Despite Trump's Theatrics, the Iran Deal Can Be Saved*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

**Steven Blockmans**, Centre for European Policy

In the theatrical style of a capricious reality-TV host, U.S. President Donald J. Trump has been building up suspense over an American withdrawal from the Iran nuclear deal.

He has consistently called the Joint Comprehensive Plan of Action (JCPOA)—which was negotiated during President Barack Obama's presidency by the five permanent members of the UN Security Council plus Germany (P5+1) under the auspices of the European Union—an "embarrassment" that needs to be "corrected" and is not in the interest of the United States. What he is talking about here is the deal's "sunset" clauses—expiration dates after which Iran could resume uranium enrichment.

The United States is looking for an extension of those dates beyond 2025.

Trump also sees weakness in the inspection regime under which the International Atomic Energy Agency (IAEA) verifies Iran's compliance with its commitments because it does not provide full access to military sites. Hardliners like Mike Pompeo and John Bolton, who have now joined the Trump administration in leading roles, have said that this leaves Iran with too much leeway to cheat IAEA inspectors.

Facing a previous cliffhanger on the recertification of the deal, Trump passed the buck to Congress, only to discover that it was too divided to deal with the issue. When he grudgingly approved the sanctions waiver in January, he threatened: "This is the last chance. I hereby call on European countries to join with the United States in fixing significant flaws in the deal, countering Iranian aggression, and supporting the Iranian people. If other nations fail to act during this time, I will terminate our deal with Iran."

Trump's ultimatum—and Iran's response that the United States would pay a high price for breaking the deal—have piled pressure on Europe to prevent the agreement and regional security from being plunged into even more uncertainty.

## Appeasing or Confronting Trump?

So far, the European Union has said that it remains "fully committed" to implementing the nuclear deal—just as Iran is, according to no fewer than ten reports issued by the IAEA. Federica Mogherini, the EU's high representative for foreign affairs and security policy, has conveyed the message that nixing a critical element of the international nonproliferation architecture is not in the interest of anyone, including the United States, which will soon enter into direct denuclearization talks with North Korea.

Mogherini has consistently argued that the JCPOA's nuclear focus should not be sullied by attempts to import other issues such as ballistic missile control and regional security, which can be addressed in other forums.

The United States going it alone would fly in the face of the international law that workable agreements should be kept. It would also undermine the authority of the UN Security Council, whose members unanimously endorsed the agreement. Moreover, it is highly unlikely that a stronger accord could be built on the ashes of the JCPOA, which was the culmination of more than a decade of delicate multilateral talks.

The European Union has long stood united on these issues. But similarly to 2003, when member states infamously split over the invasion of Iraq, EU unity is again being stress-tested by a U.S. president. Member states closed ranks when Trump withdrew the United States from the Paris Agreement and UN Educational, Scientific, and Cultural Organization, but several of them abstained from a vote in the UN General Assembly condemning the unilateral decision by the United States to recognize Jerusalem as the capital of Israel.

Brexit Britain now appears pliable to American pressure and has set up an expert group on "fixing flaws" in the Iran nuclear deal.

France and Germany, however, are looking for ways to accommodate Trump while leaving the JCPOA—and EU common positions—intact. They have raised pressure on Iran over its ballistic missile program, while lobbying other member states to agree to new sanctions—on top of an existing EU arms embargo and sanctions on missile technology.

Of course, Trump could retaliate by imposing punishing tariffs on European imports. European diplomats are lobbying U.S. officials and members of Congress to create exemptions from enforcement for European companies that could be affected by a return of U.S. sanctions against Iran.

They should go further and threaten the United States with legal proceedings before the World Trade Organization and adopt a retaliatory system to reimburse European companies for damages they incur in the United States by imposing penalties on U.S. assets in the European Union.

The latter should accompany a proposal for a "blocking regulation" like the one that made it illegal for European investors to adhere to the 1996 Helms-Burton Act imposing U.S. sanctions on trade with Cuba, Iran, and Libya.

Past experience has taught the European Union that such a strategy can be successful in protecting its interests while preventing a trade conflict with a belligerent White House.

### Winning Tehran's Trust

Extensive soul-searching back in 2003 led to the adoption of the first-ever European Security Strategy. This document was replaced by a more comprehensive Global Strategy for the EU's Foreign and Security Policy in 2016.

European countries would do well to learn from the past, serve their shared strategic interests, and adopt a common position independently of the United States to protect the EU's flagship diplomatic achievement.

Europe should make common cause with China, Russia, and other signatories that prize the JCPOA. If, together, the European Union and the P5+1 manage to keep Iran wedded to the agreement, then the deal stands a chance of surviving.

They will have to persuade Tehran that, as long as it continues to honor its side of the bargain, Iran can continue receiving most of the benefits promised by the JCPOA, even if the United States ceases to be a party.

*This paper originally appeared as an article on CNN.com: "Despite Trump's Theatrics, the Iran Deal Can Be Saved," April 13, 2018, http://edition.cnn.com/2018/04/13/opinions/how-europe-can-save-the-iran-nuclear-deal-opinion-intl/index.html.*

COUNCIL OF COUNCILS

An Initiative of the Council on Foreign Relations

Panelist Paper

# *The Security Challenges Posed by Iran and Their Global Implications*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

**Mark Fitzpatrick,** International Institute for Strategic Studies

While Iran has been a bête noire in the eyes of both near neighbors and distant powers ever since the 1979 Islamic revolution, the security challenges it poses have markedly increased in the past fifteen years in terms of both strategic capabilities and conventional power projection.

## Iran's Regional Ambitions

Benefiting from the United States' removal of its archenemy Saddam Hussein in 2003 and later from the instability created by the failed Arab Spring, Iran has expanded its influence network and ability to shape the Middle East balance of power. In Syria, the Bashar al-Assad regime has become dependent on Iran's military and financial assistance for survival. Creating militias there modeled on Hezbollah and setting up its own military infrastructure, Iran is settling in for the long-term, reinforcing a Shiite crescent under its control from Chabahar to Beirut. To a lesser degree in Yemen, Iran is aiding the Houthi rebels, sending mines, missiles, and drones in violation of the UN arms embargo. In the Palestinian territories, Iran resumed funding Hamas as another proxy vis-à-vis Israel. In Iraq, Iran-backed militias within the Popular Mobilization Forces are more loyal to Iran's supreme leader than to Iraq's prime minister.

Iran's regional interventions are often described as malign activity in violation of international norms. Iran sees it differently, of course. Once motivated by a zeal to export its revolution, Iran's motivations today are nationalism and defense. Its leaders retain vivid memories of when they were attacked by Iraq with chemical weapons while the world whistled. Creating and abetting militia forces provides an inexpensive form of forward defense for Iran, which is otherwise outgunned by its richer rivals. Little evidence supports the contention by critics of the Joint Comprehensive Plan of Action (JCPOA) that Iran used the sanctions relief from the deal to expand its regional reach. Iran's active role in Iraq and the region preceded the nuclear accord and its intervention in Yemen is an opportunistic means of ensnarling Saudi Arabia, which is spending up to $200 million a day on a conflict that shows no sign of ending. Wielding asymmetrical policy tools, Iran has proved adept at backing militant nonstate actors and playing on popular grievances on issues such as the Palestinian territories and U.S. presence in the region. General Qasem Soleimani, the commander of a special forces unit in the Iranian Revolutionary Guard known as the Quds force, is a not-so-secret weapon in Iran's ability to raise and rally militia forces to do its bidding.

Iran has also shown the ability and will to employ cyber power like the attack on Aramco in 2012 that destroyed 35,000 computers in Saudi Arabia and the even more malign August 2017 cyberattack on a petrochemical company in Saudi Arabia that was meant to sabotage operations and cause an explosion. Iran's culpability was not proved in either case, but only a state has the means to conduct such attacks and only Iran has a motive.

## Countering Iran's Regional Efforts

Concerned states are pursuing both disincentives and engagement to quell Iran's regional adventurism. Desirous of showing common ground with the Donald J. Trump administration, France, Germany, and the United Kingdom (the E-3) are pushing for EU sanctions against Iranian entities involved in Syria. Joined by Italy, they have also opened talks with Iran to discuss its involvement in Yemen. Deterrence can also play a role. The joint U.S., UK, and French air strikes against Syrian chemical weapons–related facilities on April 14, 2018, were also intended to remind Iran of Western will and ability to uphold international norms.

## Addressing Perceived Flaws in the JCPOA

In January 2018, Trump said he would end U.S. commitment to ease nuclear sanctions unless Europeans worked with the United States to restrict Iran's missiles and to extend the limits on and transparency over its nuclear program. While they disagree that the deal is "flawed," and that they should bear responsibility for solving the political problem Trump created, the Europeans are keen to save the JCPOA by placating him. To be fair, strengthening the deal would enhance security benefits for EU. As of mid-April, the United States and the E-3 have largely agreed on an approach that addresses the three issues that Trump identified. On inspections, the four powers would confirm the right of the International Atomic Energy Agency (IAEA) to conduct inspections anywhere it has reason to believe nuclear activity could be taking place. Relatedly, Iranian military officials should stop insisting that inspectors will not be allowed on military sites. There is no legal basis or precedent for their demand. IAEA has visited military sites some two dozen times in the past and should not be impeded from going anywhere it needs to in Iran.

With regard to missiles, the Western powers are ready to declare that any Iranian intercontinental ballistic missile (ICBM) development would trigger a strong pushback. It should be recognized that Iran currently does not have an ICBM program. Judging from technology, its space launchers are not ICBMs in disguise. On the most difficult issue—the sunset provisions of the JCPOA—the Western powers would declare that if Iran's future nuclear capabilities are not proportional to its civilian energy program, then they reserve the right to reimpose sanctions. Given that Russia has agreed to supply fuel for the reactors it provides, Iran will not need an industrial-sized enrichment program for the foreseeable future.

While such a package could be persuasive, experts in Washington believe that Trump will not accept measures that fall short of his insistence on making the limits on Iran's nuclear program permanent, a condition the Europeans reject because it would violate a central tenet of the JCPOA. With the pragmatic voices of former National Security Advisor H. R. McMaster and Secretary of State Rex Tillerson replaced by the hawkish advice of John Bolton and Mike Pompeo, Trump seems ever more intent on following through with his threat not to again waive JCPOA sanctions when the next legislatively imposed deadline for doing so arises on May 12, 2018. Bolton, in particular, has long insisted that diplomatic efforts to restrain Iran are a fool's game and that only military action and regime change will suffice.

**Iran's Internal Political Situation**

Whether the JCPOA can survive a U.S. departure depends, in the end, on whether Iran continues to find it of value. The questions are of whether Iran will reap sufficient economic benefits from foreign trade to not be scared away by sanction threats from the United States and whether its leaders will decide not to risk a potential U.S. military attack if they abandon limits on fissile material production. Their cost-benefit analysis will be affected by domestic politics. A U.S. withdrawal will undermine Iranian President Hassan Rouhani and strengthen hard-liners who distrusted diplomacy with the United States to begin with. A greater proportion of Iran's youth population will similarly conclude the United States cannot be trusted. The suggestion sometimes heard in the West that the Iranian people can be enticed to turn against their own government is wishful thinking. The popular protests at the end of 2017 reflected economic concerns and anger over spending on foreign adventures. Yet opinion survey data indicates that only 15 percent of the population seeks a solution in domestic political change. The Iranian system is not on the verge of either economic or political collapse. Regime change will come to Washington before it visits Tehran.

**Potential for a Follow-On Agreement to the JCPOA**

A Trump decision not to extend sanctions waivers by May 12, 2018, will not necessarily mean the demise of the JCPOA. Several ways to salvage the deal remain. One is to engineer a "soft" U.S. exit, whereby Washington reimposes sanctions but refrains from enforcing them extraterritorially by fining foreign firms that do business with Iran. In any case, several months would expire before the mechanics of reimposing sanctions will be completed, but what is needed is a long-term political commitment not to levy fines on European firms, an act action that would spark a transatlantic crisis. With Bolton intent on forcing Iran's business partners to capitulate, a soft exit is unlikely. Instead, the European Union can try to protect European industries by updating and reinforcing 1996-era "blocking" regulations to prohibit EU persons from complying with U.S. secondary sanctions. While such regulations could fail to overcome U.S. market dominance, they would signal resistance to U.S. pressure and could be reinforced by similar moves by non-European U.S. partners. Another means of countering U.S. secondary sanctions is to establish financial channels for Iran-related transactions that avoid the use of U.S. currency and are backed by central bank authority. This could also involve offering firms doing business with Iran emergency credit lines and funding support. Salvaging the deal should also mean keeping alive the possibility of American reentry under a new president or even under Trump if he should change his mind, as appears to be the case with the Trans-Pacific Partnership. Granted, Bolton will not change his mind, but given the White House personnel turbulence, Trump's latest national security advisor is not likely to last through the first term.

Apart from protecting the JCPOA by maintaining its economic benefits, concerned states should seek ways to build on the Iran deal. The package proposal tentatively reached by U.S. and E-3 officials in response to Trump's demands would be useful in its own right. Beyond cautioning Iran to keep its enrichment capacity proportionate to its nuclear energy needs, the major powers should formally extend certain restrictions on Iran's fuel cycle activities, possibly by extending the limits to other states in the region. Arms control agreements are often extended beyond their original time limits, but the extension also needs to benefit Iran. With regard to missiles, the ban on ICBMs proposed by Washington and its allies could apply to medium-range systems such as the Khorramshahr missile, which Iran tested in 2017, but has an intrinsic range beyond the two thousand kilometers that Iran deems necessary.

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Panelist Paper

# *The Iran Nuclear Deal: An Israeli Perspective*

Council of Councils Annual Conference
May 6–8, 2018
Council on Foreign Relations, New York, NY

**Amos Yadlin**, Institute for National Security Studies

President Donald J. Trump's May 12 decision on waiving U.S. sanctions in accordance with the Joint Comprehensive Plan of Action (JCPOA) is fast approaching and its decision remains unknown. The White House is primarily dissatisfied with three major factors relating to the nuclear deal: the sunset clauses, which will allow Iran to build a full-scale civilian nuclear program in little more than a decade; the fact that the agreement does not restrict ballistic missile development; and the lack of clarity regarding the inspectors' access to military and undeclared sites. If the United States follows through on its threat to reinstate sanctions in the absence of any major improvement to the agreement, it will be in violation of the deal and signify a de facto U.S. withdrawal. Before that decision occurs, it is worth assessing possible scenarios and their consequences.

Although it now appears unlikely, it is possible that Trump will preserve the nuclear deal after receiving adequate concessions. From the Israeli perspective, acceptable terms for the deal's improvement would be an additional fifteen-year extension of the JCPOA and a freeze on the testing and development of Iran's ballistic missile program. If the United States manages to impose additional restrictions on Iran due to the manufactured crisis over the nuclear deal, it would be a victory for Trump as well as for security of the region.

Should May 12 arrive without adequate improvements in the agreement, Washington will be faced with a dilemma.

Preserving the agreement—a scenario in which Trump backs down and the nuclear deal continues absent any improvements—has initial benefits coupled with dangerous long-lasting consequences. On the one hand, it would provide Israel and its partners with over a decade in which the Iran nuclear issue is essentially off the table, time that could be used to cope with Iran's conventional threats and the sunset clauses. On the other hand, allowing for the completion of the agreement in twelve years would legitimize the advancement of Iran's nuclear weapons program, while providing it with the time to develop greater capabilities for deterring a military option. In essence, it would defer the nuclear issue for a total of fifteen years but would leave Iran closer to a nuclear weapon.

Should Trump choose to withdraw from the agreement, it is conceivable that France, Germany, and the United Kingdom will nevertheless seek to preserve the JCPOA. Even if the United States decides to implement secondary sanctions against European companies that do business with Iran, the Europeans could devise mechanisms to circumvent U.S. regulations, as they have previously done. In this case, the agreement could survive and the United States could benefit from the agreement's restrictions on Iran without being bound by its terms to allow Iran to develop a full-scale nuclear program.

It is also feasible, however, that Europe will conclude that its political and economic interests are overwhelmingly served by conforming to the U.S. policy of reimposing nuclear sanctions (however distasteful it may find the move). A scenario along these lines is possible even if the decision is not made on the political level, as the majority of European corporations could decide that the potential benefits of doing business with Iran is not worth the risk of being closed out of the U.S. market or severely penalized for violating U.S. sanctions. Either way, Europe's compliance with U.S. sanctions would likely lead to the deal unraveling as Iran would be hard-pressed to justify the restrictions on its nuclear program absent any economic benefits from the United States or Europe.

If the JCPOA collapses, there are two possible options for how Iran would realistically proceed when no longer faced with the agreement's restrictions on its nuclear program. First, Iran may learn from the North Korean model, determine that the long-term regime security ensured by the acquisition of a nuclear weapon is worth the short-term risk of conflict, and opt to break out the bomb. But Iran could also choose a more cautious, second approach, returning to its enrichment levels prior to the 2015 agreement or the full-scale enrichment that it had prior to the 2013 interim agreement, leaving it several weeks away from a nuclear weapon. The former scenario would require decision-makers to choose between a preemptive strike that could roll back Iran's nuclear program but risks escalation or standing by as a rogue state approaches nuclear weapons capabilities. Conversely, the latter scenario would allow for the two abovementioned options as well as the prospect of trying to negotiate a better nuclear agreement.

Any cost-benefit analysis of withdrawing from the agreement and risking its demise needs to closely examine the question of "what next." If no strategy or political will to extract additional concessions from Iran exists, then the major effect of withdrawing from the agreement is the possible elimination of a temporary "window of opportunity" created by the JCPOA's restrictions without even coping with the long-term risks that the agreement posed.

However, should the United States, Israel, and their allies determine that they are willing to use their political, economic, and military might to obstruct Iran's pathway to a nuclear weapon, U.S. withdrawal from the agreement could present an opportunity to roll back Iran's nuclear program. This objective could be achieved through a number of different frameworks as a result of leverage derived from sanctions and, if need be, a credible military option. First, credible economic and military threats could incentivize an Iranian regime already facing severe domestic problems, including rampant inflation and unrest in recent months, to return to the negotiating table with greater willingness to make concessions. Second, a credible threat to strike Iranian nuclear facilities could deter Iran from making advances in its nuclear program even in the absence of a formal agreement. Third, if Iran does take steps to advance its nuclear program, a military strike on its facilities could set the Iranian nuclear program back years and deter its reconstruction.

Trump should keep his October 13, 2017, promise to confront Iran on the nuclear and nonnuclear issues. However, before choosing to withdraw from the JCPOA, he should assess whether he is willing to do whatever necessary to prevent Iran from going nuclear. If he is, he could have an opportunity to cope with the long-term risk the agreement posed; if he is not, he could be sacrificing a window of opportunity, however brief, without receiving much of anything in return.