How can the EU contribute to better transnational economic governance?

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ABSTRACT

Global challenges today require integrated and coordinated responses through transnational and European cooperation. In this paper, we analyze challenges to transnational and European governance in the areas of global value chains, climate change and corporate taxation. We analyse the needs for transnational governance in these areas, the obstacles that transnational governance in these areas faces, and propose institutional reforms and new policies in each of the three policy areas to strengthen the contribution of the European Union to transnational governance and to the achievement of the UN's Sustainable Development Goals (SDGs).

The ultimate goal of the paper is to propose a strategic vision towards a sustainability path for Europe, to lead by example. Specifically, we propose the EU to mainstream the 'Sustainability Impact Assessment' process, so that it expands from being a trade agreement-specific tool to become a tool that can assess compatibility of all proposed international agreements, directives and regulations with the Sustainable Development Goals, including in the areas of global value chains, climate change and corporate taxation.

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Introduction

Global value chains, Climate change and corporate taxation, are three policy areas that clearly require transnational regulation. Progressive policy-makers generally agree that these are issues requiring transnational and global cooperation. Climate change does not stop at national boarders, corporate tax avoidance and tax evasion require cooperation between countries to stop corporations from moving their profits to low-tax jurisdictions and jurisdictions with favourable tax regimes, and global value chains can lead to exploitation of low-income countries and vulnerable communities, natural resources mismanagement and higher social inequality.

While the demands for transnational and global cooperation in these policy fields are without doubt strong, policy-makers committed to more effective regulation and cooperation on these issues also face considerable obstacles. So far, transnational regulation and cooperation fall short on what we need in many areas.

In this paper, we analyze the challenges to transnational governance in the three areas mentioned above: global value chains, climate change and corporate taxation; and develop proposals for how the European Union can contribute to more effective and more legitimate transnational governance in these three areas. The global nature of the challenges in these fields means that the EU cannot stand alone but needs to seek cooperation with other regions, as well as cooperation with non-state actors, including corporations, unions and civil society organizations. In this regard, the concept of multi-level governance and the mechanisms of dialogue (if any) among the different layers of transnational governance models are discussed in the paper, to consider the multidimensionality of the relevant systems, with diverse actors involved.

Each of the three sections follows the same basic structure: we first identify why transnational governance is needed in the respective field. Second, we look at the causes of the lack of progress in transnational governance in that field. Third, we develop proposals for possible solutions. A section discussing commonalities and differences across the three policy fields follows to examine if common approaches can be undertaken to tackle different transnational economic issues and the degree to which issue-specific approaches are necessary. In the conclusion, recommendations on European policy approaches to transnational issues will be presented, with a final reflection on progressive policy-making in particular.

It is necessary to define some terms that are used throughout the paper. This is a study of 'transnational governance' and, more specifically, 'transnational economic governance'. While an endlessly contested concept, for the purposes of this study 'governance' is defined as 'political arrangements which rely primarily on non-hierarchical forms of steering ... [G]overnance is confined to creating political order in the absence of a state with a legitimate monopoly over the use of force and the capacity to authoritatively enforce the law and other rules' (Risse 2004, 288). This absence of hierarchical authority and enforcement capacity prevails on the international plane with respect to global value chains, climate change and taxation.

When is governance 'transnational'? While many definitions have been advanced in the social scientific and legal literatures, we prefer the broad understanding that '[a]n institution, regime or regime complex is transnational when (i) private actors (such as environmental NGOs, business enterprises and technical experts) and/or sub-national governmental units (cities or provinces, for example) play significant roles in its governance, … in addition to states and/or IGOs; and (ii) it operates across national borders' (Abbott 2014, 65). Framed in this way, transnational governance is not an alternative to State ordering, but rather public, private and hybrid actors 'constitute,

transform and interact with each other to create a transnational governance regime' (Danielsen 2009, 85).

Moreover, each of the three case studies concern aspects of sustainable development, by which is meant that concept as defined by the World Commission on Environment and Development (WCED) to mean 'meeting the needs of the present without compromising the ability of future generations to meet their own needs' (WCED 1987).

Case study A: Global value chains

The quest for Transnational Governance within Global Value Chains

Production, trade and investment models are today organized in global value chains (GVCs), where different stages of value production and consumption are located across countries. MNCs represent key actors of GVCs. Outsourcing and offshoring characterize the decision making process of MNCs, pursuing investment maximization. At micro level, MNCs take advantages of specific features of a country in relation to the production cost of labour or raw materials (basic elements of a production function) or spillover effects on innovative clusters (i.e.; for product design and innovation: the case of Silicon Valley for tech industry and Italian districts for the fashion industry). According to cost-benefit analysis, MNCs decide to delocalize, outsource and/or offshore their activities. In recent decades, this led to a progressive fragmentation of the activities of the value chains in different part of the world: design, production, marketing and distribution phases of MNCs are dispersed over the globe. This fragmentation has led to mixed results in terms of sustainable development for all.

Several studies have analysed, through a Global Value Chain approach, how firms in a specific industry act within the global economy (Gereffi and Korzeniewicz, 1990) and contributed to define a specific pattern of trade, production, division of labor and consumption within and among counties. Moreover, after the crisis of the financial system in 2008, experts from political science, geography and development economics started to underline the impact of GVCs and their wave of globalization in terms of social, environmental and economic costs. Literature on GVCs and current efforts at institutional levels from G20, OECD, UNCTAD, WTO and the World Bank Group underline the need for a better understanding of the implications of MNCs behaviours on sustainable development, in the framework of the 2030 Agenda. Moreover, the impact of GVCs in relation to trade, growth, development, job creation and the distribution of value-added along GVCs should be further analysed (OECD, 2014) to avoid negative impacts. In this regard, internal governance among firms, private actors and external governance from governments and transnational institutions need to be analysed towards an integrated framework, to minimize negative effects on the social, economic and environmental aspects of our global system. Mitigation measures need to be undertaken to avoid net negative impact on the most vulnerable. A better understanding of the mechanisms of transnational governance over the different global value chains is crucial to avoid harm in case of negative shocks in countries characterized by weak structures (Keane, 2012). At macro level, in such an interconnected world, countries need to better understand their position within GVCs to reap the full benefits of the system and minimize its drawbacks (e.g., increasing dependency).

For policy-makers, the challenge is to work towards an integrated approach where transnational governance and legal frameworks accompany MNCs towards more sustainable actions and accountability within the global value chains.

The purpose of this section is to identify the nature and the magnitude of GVC risks to consider in the design of policy recommendations on transnational governance, responding to the sustainable development paradigm.

What are the obstacles to transnational governance in sustainable GVCs

Uneven development

As argued by Smichowski et al., development patterns in GVCs need to be understood as constitutive parts of a global process of uneven development where countries participating in GVCs based on their structural components and competitive advantages might be subject to *immiserising growth*[1] (case of peripheral countries with underperformance in terms of value capture), higher social inequality and downgrading (2016). Different forms of uneven development seem to be both causes and consequences of global value production systems. Devaluation (mainly related to economic upgrading of enterprises and division of labor), regional disinvestment and constitutive exclusion (Warner 2016) are dynamics of uneven development characterizing GVCs that need to be better understood and managed. Looking at the *dark side of economic geography* (Phelps et al., 2017) is therefore necessary to mitigate negative outcomes of transnational dynamics and work towards more sustainable development models. If overall, the participation to GVCs can be on average positive for the entire economy, phenomena of spatial inequality need to be addressed.

Natural Resources Dependency

The current models of consumption and production within the GVC framework are characterized by high natural reso urces dependency. Concerns regarding the potential shortage of natural resources have been already reflected on the EU's Raw Materials Initiative (Kalaitzi et al, 2017) and on the European Innovation Partnership on Raw Materials, aimed at secure reliable access to those materials. As stated by Milligan et al. (2018), meeting the anticipated future demand for resources in Europe and globally will require dramatic additional improvements in *resource efficiency* since natural resources are assets today characterized by increasing scarcity and global depletion. Moreover, despite existing legal frameworks on natural resources management and rights (mainly referred to extractive industries, water, fisheries and aquacultures), little has been detailed on the nexus between the right to resources and the resource-related expectations and dependencies of local communities (Toulmin and Quan, 2000). This missing link between natural resources and local communities contributed to speculative behaviors from different actors in position of power from the institutional and the economic ecosystem in the exploitation of finite natural resources, especially in countries characterized by abundance of natural resources and the presence of structural institutional deficiencies. To this regard the case of the illicit traffic of minerals from conflict zones from the DRC shows how predatory behaviors from state and non-state actors may occur when structural factors at institutional and governance level persist. Those speculative behaviors led to important phenomena of destruction of social, economic and environmental value for the society as a whole, exacerbating uneven development of regions and among different groups of people. To this regard and in relation to the linkages with European actors, the exploitation of natural resources in Niger Delta, today characterized by one of the most endangered ecosystems (Anejionu et al., 2015), shows us the urgency of defining a transnational multi-level governance of GVCs and the need for greater transparency on natural resources supply chains.

[1] Immiserising growth arises when economic development is associated with a fall in real living standards. Concept first introduced by Bhagwati J. N. in Immiserizing Growth: A Geometrical Note, Review of Economic Studies, 1958 No. 3, pp. 201-5.

MNCs accountability, Social and Environmental impacts within GVCs

Accountability within GVCs is a critical element to consider in the discussion over transnational governance. Phenomena of bribery, corruption, mismanagement and personal misconduct by MNCs characterized the last decades in many sectors of the global economy and especially in sectors characterized by high value sectors and assets (e.g., extractive industries). Initiatives of corporate social responsibility have taken place in various MNCs with mixed results in terms of effectiveness. Despite the ongoing and progressive legalization of the corporate social responsibility by many countries (Berger-Walliser and Scott, 2018), there is a lack of complete and shared commitment by MNCs to social and environmental responsibility vis-à-vis the people and the planet[2] within Global Value Chains. The recent scandal in the car industry in Germany over cheating on emissions tests[3] is representative of how distortive and negative behavior can persist in the system.

Unequal working conditions and allegations of human rights abuses within the GVCs

Different and unequal working conditions characterize the GVCs where MNCs operate. According to the ITUC Global Rights Index 2018[4], today decent work and democratic rights grew weaker in almost every country in the world while inequality rises. Anti-unions practices and contracts with decreasing working rights are alarming signals of a process of working rights shrinking. Unfortunately, the number of countries where workers are even exposed to physical violence and threats increased (65 out of 142). In Europe, 58% of countries violated collective bargaining rights, and three quarters of countries violated the right to strike (2018). ITUC identifies 3 main global trends: a shirking democratic space, the unchecked corporate influence and legislative power. In particular, negative corporate influence affected the closure of tripartite social dialogue among workers, business and institutional organizations in many countries. Despite progress at legislative level in some countries (e.g., Iceland, New Zealand), in other countries legislative repression on worker rights occur (e.g. China, Indonesia and Brazil) with restriction of free speech, military repression of disputes and denial of freedom of association[5].

Which tools could be applied to overcome these transnational problems?

GVCs are complex systems characterized by input-output structures depicted by a specific production and consumption model, a certain territoriality with a degree of fragmentation, a governance structure and an institutional framework. Lead firms within GVCs may coordinate and influence the system. Moreover, as showed with the extractive industry case the lack of transparency over contracts and transnational operations may lead to predatory behaviors from

[2] Two elements of the 5P model of SDGs: People, Planet, Prosperity, Peace and Partnership. See for details United Nations General Assembly, Resolution adopted by the General Assembly on 25 September 2015, ref. A/RES/70/1, 2015

[3] Daimler Is Recalling 3 Million Diesel Vehicles to Make Them Cleaner, Fortune, 18.07.2017, http://fortune.com/2017/07/18/daimler-is-recalling-3-million-diesel-vehicles-to-make-them-cleaner/

[4] The ITUC Global Rights Index rates 139 countries on a scale from 1-5 based on the degree of respect for workers' rights, for more details and the 2018 report https://www.ituc-csi.org/ituc-global-rights-index-2018-20299?lang=fr

[5] 2018 ITUC Global Rights Index, p.40-44

actors of institutions. To minimize negative shocks pertaining to long-term sustainability of GVCs, specific initiatives should be undertaken at European level with a multilevel perspective, taking into

account the different actors of GVCs. The multilevel governance approach is needed to accompany the different actors of the GVC networks towards more sustainable models for the people and for the planet. The following advised initiatives will consider a micro perspective, looking at a particular actor within the chain (e.g., MNC per se for instance) or looking at the links among different stakeholders from the supply and the demand side, with a macro and multilevel perspective (e.g., MNC, workers; legislative power as normative and governance tool of the system). In particular:

Adoption of Benefit Corporation principles at EU level

Benefit Corporation (BC or B-Corporation) is a type of for-profit corporate that considers in its mission also positive impact on society, workers, the community and the environment in addition to profit as its legally defined goals. From a legal point of view, BC is a legal business entity introduced in the United States in 2010 and in Italy in 2015. B-Corporations are obligated to pursue public benefit in addition to the responsibility to return profits to shareholders. They present higher standards of accountability and transparency in comparison with Corporate Corporations, maintaining all the traditional corporate characteristics combined with societal and environmental responsibilities. Performance on a B-Corporation are evaluated on the basis of financial as well as social and environmental effects of it activities.

The introduction at European level of this type of entity might support a process of improvement from multinationals to adhere to certain sustainable and environmental principles. Chartering as a B Corporation allow companies to distinguish as a business with a social purpose with higher standards respect to its competitors.

The promotion to all European multinationals of BC principles might have a positive impact in terms of higher social and environmental accountability. To this regards, a no-profit organization that operates worldwide, B Lab, created a certification for profit organizations that voluntarily meets certain standards of transparency, accountability, sustainability, and performance, with an aim to create value for society, not just for traditional stakeholders.

Corporate Citizenship monitoring agency on social and climate justice

Corporate citizenship refers to a commitment to ethical behavior in strategy, operations, and culture (UN Global Compact, 2009) by the company in a specific context of intervention. All the activities of Corporate Social Responsibility[6] refers to this area. Empirical analysis showed so far mixed results on the impact of CSR (and in a broader sense Corporate Citizenship) in promoting sustainable models. Indeed, in the Niger Delta for instance, several studies show the weaknesses of CSR policies (Aaron, 2012) and in particular how different CSR policies and practices contributed to the intensity and scale of the conflict between hosting communities and MNCs. Over time the adoption of CSR practices seems to have a positive impact on MNCs in terms of reduced allegations of human rights abuses but not for third parties involved along the value chains (i.e., suppliers, clients) (Fiaschi et al.,

[6] On Corporate Social Responsibility see also: http://ec.europa.eu/growth/industry/corporate-social-responsibility_en

2011, 2014). It is therefore crucial to establish a corporate citizenship agency at European level to guide, accompany and monitor organizations in their actions at global level to monitor potential human rights abuse and environmental damages along the production and consumption chains. In a spirit of proactive collaboration, the agency might work together with MNCs and the other actors of the GVCs to mitigate and solve disputes, improve process and MNCs actions along the GVCs in terms of production models and could be also a point of reference for more reliable and sustainable consumption models for European citizens, MNCs consumers. The establishment of a Corporate Citizenship monitoring agency will respond to the quest for social and climate justice, in light of the sustainable development goals of the Agenda 2030 and with respect to an integrated human rights approach to corporate responsibility. The agency specialized on social and climate justice will support, for instance, MNCs with strategic and operational guidance over the systemic introduction and monitoring of ESG indicators (environmental, social and governance indicators) to value the internal and external accountability of EU organizations in their activities. Moreover, the agency will share with MNCs best practices on the adoption of Global Framework Agreements, on environmental responsible measures for mitigation and adaptation strategies to respond to pressing climate change negative impacts.

EU role in the Sustainable Natural Resource Management within GVCs

Looking at the factors of production for European multinationals and the obstacles to sustainable management within GVCs, a proactive action should be undertaken by Europe to improve the management of natural resources. It is important for Europe to start an effective discussion and a plan of action on:

Protection and definition of resources-related rights. To this regard, collaboration with natural resources abundant countries and International Organizations such as OECD, research centers and think thank such as the Natural Resource Governance Institute should be introduced with Europe as the promoter of a task force to better understand the current implications of natural resources use and the related rights of the locals.

Promotion of Inclusive cross sector partnerships under the agenda of the 10YFp on sustainable consumption and production. These partnerships should be implemented and monitored in line with the Sustainable Development Goal 12 on sustainable consumption and production[7].

The development of a Framework on material cycles (G7 Ise-Shima initiative and circular economy) to relieve environmental pressures related with material extraction, production and consumption.

Promotion of Global Agreement for European MNCs

Global framework agreements (GFAs)[8] and international frameworks for labor rights should be embraced by all European MNCs in the spirit of continuous social commitment towards society as a whole. GFAs are agreements concluded between MNCs and global union federations (GUFs) where companies consent to respect workers' rights and to promote decent work globally within their subsidiaries and along their global supply chain. GFAs have demonstrated to be an effective tool for

[7] Sustainable Development Goal 12 https://sustainabledevelopment.un.org/sdg12

[8] Global Framework Agreements. Achieving decent work in global supply chains. ILO Background paper. http://www.ilo.org/wcmsp5/groups/public/---ed_dialogue/---actrav/documents/meetingdocument/wcms_434248.pdf

ensuring and improving workers' rights along the GVCs (Hadwiger, 2015). The promotion and systemic adoption of GFAs in all EU MNCs respond to the need for universal working rights towards the betterment of working conditions in light of a more just and sustainable welfare system.

Case study B: Climate change

What is the problem?

Climate change is a critical instance of the need for more effective transnational economic governance. Anthropogenic climate change is a whole-of-economy problem, driven by greenhouse gas (GHG) emissions that result from a broad range of economic activity, including energy, transport, industrial processes and agriculture.

What are the obstacles to transnational governance?

Given the impossibility of confining the negative effects of human-induced GHG emissions to any particular location, effective mitigation of climate change can only be realised at a global level, on the basis of coordination between States. It has long been recognised that there are powerful incentives that undermine this necessary coordination. Because the causes of climate change are localised but the effects are widely distributed, States have had an incentive to make as little effort as possible domestically to cut their GHG emissions and instead to 'free-ride' on the efforts of others. In addition, the growing salience of non-State actors, such as transnational corporations and investors, to both the production of emissions and the development of technological solutions, has increased the complexity of the coordination challenge, making climate change a genuinely transnational, rather than just inter-governmental, challenge.

As the rapid development of technology and economies of scale make clean energy more cost-competitive and reliable, as an alternative to fossil fuels, climate mitigation becomes less expensive and the incentives to free-ride, or to defer action to the future, accordingly diminish. However, coordination at the transnational level remains necessary to raising the level of action to that which is required within the relatively brief period of time available to prevent dangerous climate change. In particular, transnational governance is needed to both coordinate increases in climate action among States with diverse national circumstances and economic incentives, and to address the distributional effects of climate change and our response to it, spreading the opportunities of climate action and cushioning the blow of significant economic transition in vulnerable communities.

In addition, there remain significant political obstacles standing in the way of an adequate global response to climate change. Despite the relentless stream of expert scientific evidence confirming and deepening our understanding of the grave climate problem, certain reactionary and anti-science political forces continue to oppose climate policies on both ideological and practical grounds. Most dramatically, of course, the election to the US presidency of Donald Trump and his administration's rejection of the Paris Agreement and dismantling of domestic American climate policy has illustrated that climate change will remain a political and normative challenge just as it is a deeply practical one. This calls on progressive political forces to constantly solidify and extend social coalitions for ambitious climate action, while at the same time addressing the legitimate concerns of communities which face the economic challenges of the climate transition.

What tools could be applied to overcome these problems?

The European Union and its Member States are uniquely placed to contribute to the strengthening of transnational governance to shape and to hasten the economic transition made necessary by climate change. There are five key elements of leadership for the EU to maintain and to build upon, each of which will be considered below: 1. Offering normative and practical leadership in multilateral climate cooperation, including through the international climate negotiations; 2. Negotiating bilaterally with the other large economic powers to secure trade and other agreements that promote sustainable development and include necessary social protections; 3. Leading by example in the rollout of new technologies and socially attractive energy and finance models; 4. Mobilising broad networks of State and non-State actors to accelerate climate action; and 5. Bringing our neighbourhood with us, by working with partners such as those in the Mediterranean and the Western Balkans on shared solutions in climate and energy governance.

Europe's progressive political parties, together with partners in civil society, the private sector and the trade unions, have a crucial role to play in ensuring that this potential is fulfilled. In part, this is because social dimensions are at the fore of the next stages of developing transnational climate governance. These social dimensions include maintaining and deepening the 'High Ambition Coalition' with developing countries, achieving a just transition for regions and workforces that are disproportionately affected by the shift to climate-friendly economic production, and innovating new models of energy and electricity production and consumption that empower communities, entrepreneurs and consumers. In sum, putting these social dimensions at the centre of climate governance means offering everyone a stake in the future, climate-constrained economy. Europe's progressives can contribute to achieving these outcomes, both in the EU and beyond.

Leadership in international climate change cooperation

The EU has long played a leading role in shaping both the norms and the structure of international cooperation on climate change (Minas 2016, 18-21). The primary venue for this activity has been the negotiations under the United Nations Framework Convention on Climate Change (UNFCCC), which was agreed in 1992 and entered force in 1994. Although the effectiveness of the EU's role has varied, as a result of both internal and external dynamics (Walker and Biedenkopf 2018), the EU has been a consistent champion of increasing the ambition of activity under the Climate Convention and related agreements. The EU has also been a leader in building the programmes and institutions of international climate cooperation. At the Paris climate conference of 2015, the EU played an important role in building and extending the 'High Ambition Coalition', a broad united front of developed and developing countries which successfully pushed for a strong conference outcome. The French presidency of the conference, under progressive leadership, was instrumental in creating the conditions for the Paris Agreement to be adopted (Gonda 2016; Ourbak 2017).

Importantly, the adoption of the Paris Agreement has not concluded the need for effective and concerted climate diplomacy. Instead, following Paris, international climate negotiations must deliver two key outcomes: 1. The successful implementation of the Agreement, through the adoption of the 'Paris rulebook' of detailed regulations, which remains incomplete after the COP24 meeting in Katowice in 2018; and 2. Major increases in the collective ambition level of Nationally Determined Contributions, within the Paris framework.

The onus on the EU to contribute to these outcomes has increased following the desertion from the field of the United States. The June 2017 announcement by the Trump Administration that the US will withdraw from the Paris Agreement means that the EU must carry a greater share of the negotiation. In the short-term, this has meant building a united front to resist the American demand

to 'renegotiate' the Paris outcomes, and to push for robust outcomes on the Paris rulebook. Looking further ahead, it will be necessary for the EU to maintain the spirit of the 'High Ambition Coalition', i.e. to continue to seek negotiating solutions that strengthen climate governance while respecting the interests of both developed and developing countries.

Additionally, the EU and Member States have led the way in practical international cooperation on climate change, including to implement the Climate Convention, Kyoto Protocol and Paris Agreement. This leadership includes providing unmatched overseas development assistance, creating the largest marketplace for international carbon credits through the EU ETS and providing the largest share of finance for UN mechanisms to assist developing countries, such as the Climate Technology Centre and Network (CTCN). As the example of the CTCN indicates, the European private and research sectors are vital participants in such international cooperation.

The EU's political families have an important role to play in developing negotiating mandates in the Council and in promoting more progressive positions in the Parliament (see, e.g., European Parliament 2017). Europe's progressive political parties have tended to adopt more ambitious climate policies than have the conservative parties (Ladrech 2018). However, as the context for climate action continues to change, it will be necessary to develop new approaches to policy that account for the diminishing time horizon, expanding technological options and better-understood feedbacks between climate policy and policy areas such as trade, research and industrial transition.

Continuing to develop climate policy at EU and Member State level is vital to the EU's contribution to climate diplomacy, because the EU's credibility as a negotiator is built upon its hard-won reputation as a domestic policy leader. In particular, the EU's ability to demonstrate success in achieving a just transition in fossil fuel-dependent regions will be critical in demonstrating in international forums that climate action does not entail a zero-sum trade-off between prosperity and the environment.

Driving ambitious bilateral relations with social protections

In addition to its important role in multilateral diplomacy, the EU can also advance its climate agenda through bilateral deals with other major economies, such as China, India and Japan. This bilateral diplomacy includes both agreement on climate-specific initiatives and broader agreements, such as trade deals, which progressively address the climate issue.

The EU has increasingly made use of climate-specific agreements in its bilateral diplomacy. The separate agreements with China and South Korea to assist in the development of their emissions trading systems are examples (Minas 2016, 19). Deals of this nature allow the EU to apply distinct aspects of its diverse climate expertise to assist a partner country's policy development, while simultaneously furthering EU diplomatic objectives (in this case, the expansion of carbon pricing and deepening of global carbon markets). In the wake of announced US defections from the Paris Agreement, the Joint Comprehensive Plan of Action and other instruments, both the EU and China have defended these platforms of multilateral cooperation. The EU and China have a common interest in deepening their bilateral cooperation on climate change and defence of the Paris Agreement. Beyond this, as economies which are investing heavily in clean energy and climate-friendly industry, the EU and China also have an opportunity to contribute to higher climate standards in trade and investment, through the complex and sometimes difficult bilateral economic relationship. At the same time, China has emerged as a massive overseas investor in fossil fuel capacity under the rubric of the 'Belt and Road' – an issue which the EU has only begun to engage with (European Commission 2019). Cooperation between the EU and India on the International Solar

Alliance, co-founded by France and India in 2015, is another example of bilateral agreement to respond to particular national focuses in the context of strengthening a broader partnership (EU-India 2017).

The field of trade relations also constitutes an opportunity to strengthen climate governance through bilateral agreement. In the case of trade deals, there is a two-fold challenge: first, to prevent trade liberalisation from having negative climate consequences and, second, to proactively liberalise the trade in environmental goods and services. The drama over the EU-Canada Comprehensive Economic and Trade Agreement (CETA), with the late agreement of a Joint Interpretative Instrument including labour and environmental protections following the objections of Wallonia, illustrates the need for vigilance on the ramifications of trade deals (Joint Interpretative Instrument 2016). At the same time, there is scope to introduce more ambitious environmental chapters in trade agreements to remove barriers to the trade in environmental goods and services. The EU, which 'leads in the number of climate-related provisions in FTAs concluded throughout the world', is well-placed to pursue this trend (Leal-Arcas and Alvarez Armas 2018). Already there are useful policy tools such as the 'Sustainability Impact Assessment', which assists the EU's trade negotiators in analyzing the economic, social and environmental ramifications of proposed deals (DG Trade, 2018).

Leading through example with new models of energy and finance

The EU's contribution to building transnational climate governance is by no means limited to formal diplomacy and development assistance. Arguably, domestic development of new technologies and implementation of new energy infrastructure, markets and transactions is just as important. This is because the success of the climate transition depends, in part, on the economic viability of low-emissions energy. As the world's largest economy, and as an innovator in low-carbon technologies, the EU is ideally placed to demonstrate the viability of new models of energy.

The transition to renewable energy involves not just a switch from high-emitting to low-emitting sources of energy, but also fundamental changes to the energy market, given 'the inability of a given system to operate new technologies without altering its organizational logic' (Castells 2017, 206). This is because renewable energy is characterised by high initial infrastructure costs and can thereafter produce electricity with a marginal cost of zero. In addition, it has become possible to generate electricity from renewables independent of the electricity grid, through 'distributed renewables'. This enables households and small enterprises to both produce and consume electricity ('prosumers') and to sell surplus electricity into the electricity network. The growing role of prosumers, coupled with increasingly effective battery storage (including in electric vehicles) and the ability for smart-metres and other digital technology to regulate electricity demand in real-time, can introduce greater flexibility into the intra-day electricity market, smoothing out price fluctuations and making power failures less likely.

As promising as these technological developments are, they also raise important regulatory questions, such as how the electricity network is to be financed and how the competing interests of 'prosumers' and network-connected consumers are to be managed. There is therefore an opportunity for innovative regulation that harnesses these technologies to empower local communities and protect consumers. For example, the Renewable Energy Directive, revised in 2018, allows prosumers to maintain consumer rights while consuming their own electricity and on-selling excess production (Directive 2018/2001, Article 21). Overall, an environmentally ambitious and socially just implementation of the Energy Union framework would set the EU up to achieve its long-

term climate targets while at the same time addressing energy poverty and energy security and creating new local and regional economic platforms.

Finance, too, is a field in which the EU is playing a leading role in developing more environmentally responsible models. In a carbon-constrained future, all markets will be climate markets. That is to say, the climate consequences of an economic activity will be a key input in the pricing of capital (see, generally, UNEP Inquiry). Therefore, the effort in recent years to grow the EU's sustainable finance markets, e.g. through the development of green bonds and the work of the High-Level Expert Group on Sustainable Finance, constitute important steps but they are just the beginning.

Mobilising networks to increase and accelerate climate action

Climate change has long ceased to be a problem for states alone to deal with. In addition to national governments, a diverse array of other actors can also contribute to solutions, including cities, provinces, corporations, investors and civil society. Within the EU, networks of non-State actors have been vital contributors to both developing climate policy and innovating practical solutions. These actors include social movements, NGOs, the union movement, the private sector and research bodies. To be truly responsive to the people's needs, policymakers must be attentive to social actors which can be organised both formally and informally. As an example of the former, the European Economic and Social Committee (EESC) has made important contributions to climate policy, such as the Opinion on climate justice, which highlights the considerations for achieving a just transition, including for workers, and set out some options (EESC, 2017). But there are also more spontaneous social movements, such as the 'underground electricians' who self-organised in response to the energy poverty effects of the financial crisis and the enforcement of 'austerity' measures (Staley, 2013). Social movements thus can serve as an early(or late)-warning system that policy is in crisis, but can also demonstrate the potential of new approaches such as the sharing economy (Castells 2017).

As a unique, multilingual, supranational union of diverse Member States, the EU is uniquely placed to mobilise global networks of state and non-state actors to contribute to climate governance. The EU's capabilities in this regard include its vast network of EU and Member State diplomatic missions, its status as the world's largest funder of development assistance and the size of its domestic market. A recent example of the EU's potential to harness networks for climate action is the One Planet Summit hosted by the French presidency in December 2017. The summit resulted in a range of commitments by State, private sector and financial actors and the creation of new alliances such as the 'Caribbean Climate Smart Coalition'.

Taking our neighbourhood with us

The EU has particular opportunities to strengthen the governance of climate change in its own region. These opportunities result from the deep social and economic ties that bind the EU to its neighbours, the attraction of EU accession and the significance of EU private sector and development finance to neighbouring economies. Some key focuses of activity can be identified. Through the Energy Community, EU energy and environmental regulation is transposed into the national laws of nine Contracting Parties in eastern Europe and the Caucasus. There are current developments to extend the transposed *acquis* to include climate change (Minas 2018). Through the Union for the Mediterranean, the EU works with fifteen Mediterranean partner countries, including

on energy and climate initiatives. Expanding cooperation with Africa is also a key priority identified in the EU Global Strategy. Adaptation is also an area in which the EU Member States and partners in the Middle East and North Africa can intensify cooperation around shared challenges. The recently announced agreement of Greece, Cyprus and Israel to exchange knowledge and good practices of adaptation in the energy sector is a case in point (Ministry of Environment and Energy 2018). These climate and energy initiatives with neighbouring countries are important in their own right, but can also have broader impacts in increasing the resilience of regional economies and societies.

Case study C: Global corporate taxation

What is the problem?

Taxing multi-national corporations (MNCs) poses a challenge to national governments in a globalized economy. MNCs can shift profits across countries to reduce their tax payments, a problem that gained public attention in recent years due to several high-profile leaks of documents covered in the media, including the Luxembourg Leaks in 2014, the Panama Papers in 2015, and the Paradise Papers in 2017. These documents illustrate the strategies used by MNCs and wealthy individuals to reduce their tax payments and have received considerable attention in the media. The enhanced media coverage raised also public awareness of the issue.

At the core of corporate efforts to reduce their tax payments are strategies designed to shift profits to zero-or-low-tax jurisdictions, that is, countries where the tax code allows MNCs to achieve lower effective tax wedge on profits,. This can either be jurisdictions with low statutory tax rates, jurisdictions with favourable tax arrangements for specific types of investments, or jurisdictions that offer favourable tax arrangements for specific firms, for instance through advance tax rulings between a national tax authority and a major multinational corporation. One example of a favourable tax arrangement are special tax exemptions for intellectual property rights, which create incentives for firms to relocate these rights. In Luxembourg, for instance, the statutory tax rate on corporate income is 29.22 per cent, but income from intellectual property and royalties are taxed at only 5.7 per cent, with the effect that many companies that are tax-registered in Luxembourg pay taxes at an effective rate well below 29.22 per cent.

The methods MNCs use to shift profits to low-tax jurisdictions or jurisdictions with favourable tax arrangements exploit opportunities created or tolerated by these jurisdictions. By offering MNCs favorable terms of taxation, these jurisdictions intend to attract foreign investors. Decisions by governments to attract foreign investors through favourable tax rules or lower rates can lead to tax competition, where countries are competing for investors. The availability of profit shifting is a necessary condition for tax competition to work, since many of the relevant tax rules imply that companies shift their profits across countries. If no measures were taken against profit shifting, this could potentially lead to an erosion of revenues from corporate taxation, and in turn require governments to increase taxes on immobile factors, like labour, to compensate for this shortfall. A likely results of profit shifting is thus a shift of the tax burden from corporate income to labour income.

Available research in economics shows that the scope of profit shifting is considerable. The OECD estimates that globally about 4 to 10 per cent of corporate tax revenues are lost due to profit shifting. This is equivalent to about 100 to 240 billion US $ per year (OECD 2016, 2). A study by Dover et al , commissioned by the European Parliament, finds that revenue loss of EU member states due to profit shifting could amount to around 50 to 70 billion Euros, the authors note that this is a lower-end estimate. If other factors, such as the effects of special tax arrangements and inefficiencies in

tax collection are included, the total revenue loss due to corporate tax avoidance amounts to 160 to 190 billion Euro, again a conservative estimate. (Dover, et al. 2015, 5).

What strategies do MNCs use to reduce their tax burden? MNCs use accounting techniques to make their profits occur in low-tax jurisdictions even if the economic activity that generated the profit took place elsewhere. MNCs can use a variety of tools to shift profits across countries. The following part describes some of these methods.

The use of transfer prices for intangibles

Transfer prices are prices paid for transactions between affiliates of a MNCs located in different countries. For example, an affiliate located in country A may sell a good or service to another affiliate of the same MNC in country B. The price charged for this transaction will affect the allocation of the profit made to the two affiliates. If the MNC increases the price this will increase the profits made by the affiliate that sells the good, and reduce the profits of the affiliate that buys the good. Current rules require that MNCs apply what is known as the 'arm's length principle' when calculating transfer prices. This means they are supposed to charge the same price to an affiliate as what they would charge an unrelated third party.

While this rule seems reasonable in principle, it is difficult to apply to intellectual property rights, like patents or trademark rights. Such goods are often traded only within an MNC and it is difficult to calculate the market price that a third party would need to pay, since these goods are not traded on markets. The arm's length principle thus involves problems of application and its enforcement frequently leads to conflicts between tax authorities and MNCs.

The digital economy and avoidance of permanent establishment status

The rise of the digital economy made it easier for MNCs to do business in countries without establishing a physical presence there. By using the internet, companies can sell their products in countries where they are not registered for tax purposes, that is, where they do not have a 'permanent establishment'. Several prominent firms operating in the digital economy are registered for tax purposes in jurisdictions that offer favorable tax arrangements for intellectual property rights. Examples are Amazon, which is registered in Luxembourg, and Facebook, which is registered in Ireland. In reality, both companies make a large share of their profits by selling goods and services in other European countries. The digitalization of the economy, therefore, creates problems related to the allocation of profits for tax purposes. Outdated tax rules that have been designed for an industrial economy can be exploited by new economy firms to allocate profits in low-tax jurisdictions or jurisdictions with favorable tax arrangements as they easily explore the legislative loopholes created by outdated law (see Christensen & Hearson 2019: 14-15).

Deductibility of interest payments

Companies can in general deduct payments of interest from profits. This sometimes enables MNCs to use internal loans for purposes of tax planning. Interest payments may reduce the profit (tax base) of the affiliate receiving the loan and increase the profits of the affiliate granting it. To give an example, in 2013 the New York Times reported that the company Apple borrowed 17 billion US

$ from a subsidiary even though it had at that time 145 billion US $ in cash reserves, a move apparently intended to reduce its tax base (Norris 2013).

Mergers and Acquisitions

Companies can sometimes relocate their tax residence to a lower-tax jurisdiction when merging with another company, which is called 'tax inversion.' Tax inversion occurs when a company located in a high-tax jurisdiction merges with a company in a low-tax jurisdiction and the merged company is re-domiciled in the low-tax jurisdiction. An example of this practice is the attempted merger of the two pharmaceutical firms Pfizer Inc, a US-based firm, and Allergan Plc, a firm based in Ireland. The planned merger was expected to cut Pfizer's annual tax bill by about 1 billion US$ (Humer/Banjerjee 2016). The two companies abandoned the planned merger in 2016 after a change in the US tax code.

In short, the globalization of the economy has enabled MNCs to use a range of accounting techniques to reduce the profits they report to the tax authorities in countries with high taxes or less favorable tax arrangements.

The underlying problem of all these techniques is that corporate taxes are raised at the national level, while MNCs operate at the global level. This enables MNCs to hide profits from national governments or to make them look lower than what they are. Moreover and equally important, the taxation of MNCs treats the national affiliates of MNCs as independent units, rather than treating MNCs as the integrated, global unit that in reality they are. MNCs design their tax planning strategies on a global level, for the entire MNC, while the existing system of corporate taxation treats every national affiliate of an MNCs like an independent unit. This means, for example, that the French tax authorities deal only with the taxation of the French affiliate of a company, while the German tax authorities deal only with the taxation of the German affiliate of the company. No national tax authority at present has an overview of the global activities of an MNC. In short, MNCs act as integrated global organizations, but for tax purposes each national affiliate is treated independently.

2. What are the obstacles to transnational governance?

Stopping MNCs from shifting their profits to low-tax jurisdictions requires international cooperation. Regulatory changes by individual countries are ineffective as long as MNCs are able to shift profits to other countries with a lower level of taxation.

In principle, the international community could pursue two strategies to stop profit shifting:

a) Harmonization of tax rates: Countries could harmonize their tax rates or introduce a floor of tax rates that countries are not allowed to fall below. This would eliminate any incentives for MNCS to shift income.

b) Regulation of profit shifting: Regulations that restrict the opportunities for MNCs to shift profits to low-tax jurisdictions, for instance, through stricter rules for tax reporting and transparency, and intensified exchange of data between national tax authorities.

The main obstacle are conflicts of interests between high-tax and low-tax jurisdictions and a lack of political will to change the current setting, which is favourable to big multi-national companies.

Countries that experience losses of tax revenues tend to favour tighter international regulations, while countries that attract foreign capital investors through favourable tax rules, often veto far-reaching reforms. While many countries are on the losing end of profit shifting consensus for international cooperation is thus difficult to achieve.

Consequently, for long periods of time progress on international regulations has been limited (Farquet 2016; Genschel/Schwarz 2011, 359-363) . Yet, since the financial crisis of 2007/08 efforts at international regulations have intensified. The budgetary constraints and pressures for austerity, together with increased media attention to corporate tax avoidance and tax evasion, have created momentum for reform (Christensen & Hearson 2019).

The Base Erosion and Profit Shifting Project by the OECD and the G20

The main initiative is the 'Base Erosion and Profit Shifting' (BEPS) project, an initiative by the G20 and the OECD. At the G20 summit in Los Cabos, Mexico, in 2013 G20 government leaders mandated the OECD to develop new regulations intended to limit profit shifting. The principal goal of the BEPS project is to make sure that MNCs pay their taxes 'where economic activities take place and value is created' (OECD 2016). The OECD's Committee on Fiscal Affairs has developed a set of proposals for reforms to international tax rules that are intended to achieve this goal. The leaders of the G20 approved the OECD's recommendations at their summit in Anatalya on November 15-16, 2016.

The measures proposed by the OECD aim at preventing MNCs from shifting profits for tax purposes by improving documentation and reporting rules for MNCs. The action plan proposed by the OECD consists of 15 specific proposals ('action points') that are intended to make sure that companies report profits in that country were the economic activity that created the profit occurred. One cornerstone of the BEPS plan is what is called 'country-by-country' reporting (CbC Reporting), which means that in the future MNCs will be required to report a number of key indicators for each country in which they operate, including the number of employees, sales, and capital assets, and taxes paid. Tax authorities in all countries affected should have access to these data, which will allow them to carry out their own investigations of an MNC's activities using this data. CbC reporting should therefore make it easier for national tax authorities to analyse tax filings by MNCs for possible discrepancies. The demands by NGOs and academics to make CbC reports public was however not approved by the OECD. In the European Union, a limited form of public CbC Reporting is in place for the banking sector under the 4th Capital Requirements Directive (CRD IV) (European Union 2013).

In addition, the OECD's action plan includes, inter alia, recommendations to limit profit shifting via interest deduction, to prevent the artificial avoidance of permanent establishment status, and rules tightening the documentation of transfer prices (OECD 2016).

Academics and NGOs have criticised the measures of the BEPS project as ineffectual and not fear-reaching enough (Sikka 2015). According to the BEPS Monitoring Group, an independent group of tax lawyers, the OECD's BEPS project constitutes 'a patch up of existing rules … and do not provide a coherent and comprehensive set of reforms. Nevertheless, this is an important step on a longer road' (The BEPS Monitoring Group 2015, 1).

The main criticism of the BEPS project is that it sticks with the established 'arm's length principle', that is, the principle of treating each national affiliate of an MNC as an independent company, and taxed separately, rather than treating MNCs as global, integrated organisations, which, consequently, would also need to be taxed on a global level. Below we will present a proposal for a 'global unitary tax' as one option for further-going reform.

Another limitation of the OECD/G20 BEPS project is that its recommendations, even though approved in principle by all OECD and G20 member states, are not legally binding in themselves and thus much depends on the willingness of member states to implement them. How strict governments will be in implementing the OECD's recommendations will partly depend also on public and media pressure. Progressive movements need to pay attention to whether and how low-tax jurisdictions comply with the BEPS recommendations by the OECD and G20.

Regulatory Initiatives by the European Union

Within Europe, the measures proposed by the OECD and G20 are complemented by initiatives by the European Union, some of them adopted, others under discussion. Some of these measures serve to implement the OECD/G20 recommendations within the EU, others go beyond what the OECD and G20 recommend. The most relevant initiatives at the EU level are proposals for a Common Consolidated Corporate Tax Base (CCCTB) and proposals to introduce public Country-by-Country reporting within the EU.

A Common Consolidated Corporate Tax Base was first proposed by the European Commission in 2011. The proposal aims to consolidate corporate profits at the EU level so as to make the shifting of profits for tax purposes among EU member states pointless for MNCs. Corporate income would be determined at the EU level, rather than at the member state level, and then, in a second step, be apportioned to individual member states, using a formula that is supposed to reflect the size of economic activities in each member state. As a third step, each member state would then tax its portion of the EU-wide profit based on its own rules. Due to resistance from some countries and the unanimity requirement on tax policy in the Council, the CCCTB has however so far not been passed. The Commission has however re-launched its initiative for a CCCTB in June 2015 (European Commission 2015b).

Proposals by civil society groups and academics for Public Country-by-Country reporting are also on the agenda the EU. These proposals go beyond the recommendations of the OECD and G20 by making the data that MNCs need to report publicly available, in order to allow interested actors, like journalists for instance, to scrutinize them on their own. As mentioned earlier, for the banking sector public CbC reporting is already in force in the EU since 2014/2015, as part of the Capital Requirements Directive IV. On 8th July 2015 the European Parliament voted in favour of extending public CbC reporting to all sectors, as part of the Shareholders' Rights Directive, but negotiations between the Council and the Commission are still going on (Meinzer 2017).

While the two proposals discussed so far, CCCTB and CbC reporting, met with considerable political obstacles, including opposition from some member state, a number of other, smaller and more incremental measures, were adopted by the EU during the last three years. In January 2016, the European Commission presented a proposal for a comprehensive Anti-Tax Avoidance Package, which includes, inter alia, new limits on the deductibility of interest payments, rules regarding controlled foreign companies, and rules against treaty shopping (European Commission 2016). The European Commission has also proposed legislation for the automatic exchange of information on national tax rulings through the Revised Administrative Cooperation Directive, which make it easier for national tax authorities to detect abusive practices by MNCs (European Commission 2015a). Another measure relevant for corporate tax avoidance and tax evasion is the list of tax havens, which does however not include any EU member states (Meinzer/Knobel 2015).

To sum up, in recent years the European Union has become much more active in combating corporate tax avoidance and tax evasion and several important initiatives emerged, yet important

obstacles towards reaching political consensus on effective and meaningful measures remain. The measures adopted so far are steps into the right direction, but insufficient.

Which tools could be applied to overcome these transnational problems?

The initiatives by the G20/OECD and by the EU are a first step into the right direction, but they do not go far enough to prevent tax competition. The measures proposed and, partly, also adopted aim at enhancing tax transparency and reporting standards in order for national tax authorities to make it easier to detect unlawful forms of tax avoidance, that is, tax evasion. Yet, Progressive policy-makers should take advantage of the momentum created by the media attention and the G20/OECD's BEPS project to push for more far-reaching reforms. What further steps should be taken to limit tax competition? In these section, we present three policy recommendations for the transnational level.

1. A global unitary tax

A global unitary tax would follow the same principal as the European Commission's proposal for a Common Consolidated Corporate Tax Base and apply globally, instead of only in the EU. A global application would have the advantage that any competitive disadvantage for firms based in the EU can be excluded. Under a global unitary tax, the total global profit of an MNCs is determined and then divided up among those countries where the MNCs has genuine economic activity. Portions of the group's profit would be allocated to individual countries, using a formula that includes indicators of genuine economic activity, like the number of employees, turnover per country, and physical assets, a method called **formula apportionment**. Under this proposal, each country would still be free to set its own tax rate, but incentives for MNCs to use methods of tax planning to shift profits across countries would be removed, since profit shifting would stop to have an effect on a company's tax burden. The implementation of such a global unitary tax should be overseen by an existing international organisation, such as the OECD or the IMF, or by a newly created body.

A global unitary tax is the most radial proposal and also politically least likely to be successful. Despite its rather low chances of implementation it is important to put it on the political agenda in order to maintain the momentum for reform.

2. Global public country-by-country reporting

Public country-by-country reporting allows the public to see how much economic activity MNCs have in individual countries and creates greater transparency. The OECD/G20 proposals for CbC reporting limit access to selected national tax authorities, but do not include access to the public. The existing EU's requirements for public CbC reporting are limited to the banking sector and should be extended to all sectors of the economy. In addition, it needs to be ensured that data are indeed provided for individual countries, rather than for groups of countries. Proposals for worldwide public CbC reporting have a greater chance of implementation than a global unitary tax, but much depends on whether progressive movements manage to maintain the momentum for reform.

The EU should take the lead in adopting public CbC reporting for all sectors and at the same time put pressure on countries outside the EU to adopt public CbC reporting.

3. A global register of beneficial owners

A worldwide public register of the beneficial owners of companies is needed to restrict the use of tax havens by wealthy individuals, whose wealth often comes from business activities. Such a register already exists in the UK and has been adopted by the European Union for its member states on 15 December 2017 (Ryding 2018, 3; Eurodad 2017).

The European Union has taken the lead to introduce a public register of ultimate ownership and should use its influence to put pressure on countries outside the EU to support the adoption of a worldwide

The Role of Europe

The European Union should use the momentum created by the media attention to corporate tax avoidance and tax evasion and by the OECD/G20's initiative, to push for a coherent global approach to tax policy coordination. For Europe it matters in particular that changes in tax policies happen at the global level to make sure European companies do not face competitive disadvantages compared to companies in other regions. From this perspective, the OECD/G20 proposals constitute a first step, in the future the EU should promote a global unitary tax, similar to the European Commission's proposal for a European Common Consolidated Corporate Tax Base. Extending the CCCTB to the global level would put an end to claims from business interest groups that tighter regulations by the EU would disadvantage European firms.

In the short term, the EU should pay careful attention to the effective implementation of the G20/BEPS proposals not only among its own members but also in other world regions. So far, all OECD and G20 countries have in principle endorsed the OECD's proposals and have declared their intention to implementing them. Careful attention is needed, however, that governments implement the rules in an effective and consistent way.

At the same time, Europe needs to be a model for other world regions by taking to task low-tax jurisdictions within Europe that offer favorable tax terms to MNCs and that play a major role in the tax planning strategies of some MNCs. If the EU were to agree on introducing CCCTB, this would put Europe also in a much stronger position vis-à-vis other world powers.

Conclusions

The three case studies of this paper are instances of transnational challenges that no single State or region can tackle alone. Equally, the complexity and pervasiveness of each of the identified challenges are such that no single treaty process or international organisation has been able to provide a comprehensive solution. Rather, the evidence is that challenges such as injustice in global value chains, climate change and profit-shifting can only be addressed through concerts of regulatory initiatives taken at the multiple levels of the international community, regional bodies, the State and subnational governments, and mobilizing both public and private sector actors. In short, what is necessary in each case is to pursue regulatory activity through a 'transnational legal order', that is, 'a collection of formalized legal norms and associated organizations and actors that authoritatively order the understanding and practice of law across national jurisdictions' (Halliday and Shaffer 2015, 5). Such a configuration may be either tightly or loosely formed as the issue demands and circumstances allow, but what is ultimately crucial is the coordinated pursuit of a shared normative agenda across multiple levels.

In each case study, the absence of hierarchical authority to manage functionally differentiated economic systems in a world society 'without peak or centre' (Luhmann 1990) necessitates such transnational legal ordering. Concerning GVCs, for example, the creation of B-Corporations through acts of EU or Member State law can place a new corporate form at the disposal of those who would utilize it; harnessing this model is ultimately the decision of corporate managers, institutional and activist investors and the broader financial sector. Concerning climate change, the Paris Agreement institutionalizes a hybridized model in which 'contributions' to the global effort are determined nationally and in which the private sector will be relied upon to mobilize the greater part of climate finance. Concerning profit-shifting, the prevalence of 'soft law' instruments such as G20 and OECD recommendations evidences the elusiveness of formalized cooperation, and the cooperation of responsible private sector actors remains necessary for significant progress.

There are of course limits to productive generalization across the three case studies. The complexities of each issue require proper engagement and a 'one-size-fits-all' approach will not succeed. Rather, progressive normative commitment coupled with attention to the possibilities of coordinating regulatory governance across multiple levels enables, rather than supplants, effective engagement with the technical details and epistemic communities of each issue domain.

Europe's opportunity: A new model of development with sustainability at its core

The European Union is well-placed to play a leading role in driving the required interventions, which involve coordination of disparate actors and the modification of economic incentives. As discussed above, the EU combines strong (and stable) normative commitments, deep experience and expertise in multi-level and transnational governance and the necessary economic weight to shift economic incentives through binding regulations, non-binding standards and diplomacy.

Moreover, in climate change, corporate taxation and global value chains, the EU confronts not just challenges but also opportunities. Concerning climate change, the opportunity is to build more inclusive and socially just economies at home while leading the world in the climate-friendly industries of today and tomorrow. Concerning corporate taxation, opportunities exist to create a fairer and more efficient system of taxation through better regulations of profit shifting in Europe, as well as through the EU acting as an advocate of better regulations global level. Seizing these opportunities requires putting sustainable development at the heart of everything we do in both our domestic policy and external action.

In practical terms, this means orientating policy towards the achievement of the Sustainable Development Goals (SDGs) within our own societies, and also globally through cooperation with international partners. The SDG structure is deeply relevant to the EU's contribution to transnational governance, as (unlike the predecessor Millennium Development Goals) the SDGs apply to both developed and developing countries. SDG 17, concerning partnerships for sustainable development, has already spurred significant new international cooperation, including from the side of the EU and Member States.

The SDGs set ambitious global targets in a range of economic, social and environmental domains, ranging from health and education to poverty and work to climate change and clean energy. In short, achieving the SDGs means working to build 'an economy as if people mattered' (Castells 2017, 209). It is a profoundly progressive agenda, and one which responds to the aspirations of the social majority. It is therefore a solid conceptual and programmatic basis on which to build a broad front of progressive political and social forces dedicated to positive change. The Progressive Society initiative of the S&D Group was a valuable contribution in this respect. The creation of a European Just

Transition Alliance is an opportunity to mobilise social partners, experts and the broader community in support of this agenda. More broadly, the SDG compatibility of future policy could be institutionalised through a process of impact assessment.

Europe's progressives have multiple forums through which to galvanize and accelerate progressive EU leadership on these issues. These forums include the European Council, the European Parliament, party structures, national governments, the Committee of the Regions and the European Economic and Social Committee. Less formally, they also include sustained social dialogues with the private sector, trade unions, researchers, think-tanks and civil society, as well as exchanges with international partners.

POLICY RECOMMENDATIONS

Recommendations on EU policy approaches:

The EU should mainstream the '**Sustainability Impact Assessment**' process, so that it expands from being a trade agreement-specific tool to become a tool that can assess compatibility of all proposed international agreements, directives and regulations with the SDGs, including in the areas of taxation, climate change and value chains.

Recommendations on the three case studies

A. Global value chains

1. The European Commission should promote an integrated approach towards **International Investment Agreements** with specific and mandatory standards to be considered in terms of Property rights, Working rights and Natural Resources Management.

2. The European Commission should create a Corporate Citizenship **monitoring agency** on social and climate justice, (i) for the respect and promotion of Human Rights and equality for all, (ii) towards an effective sustainable management of natural resources along the supply chains, (ii) to monitor the actions of MNCs and to provide best practices for continuous improvement. The monitoring agency will be also a point of reference for guidelines on responsbile consumptions for all European consumers and will allow dialogue among the different actors of the global value chains.

3. The European Commission, through the monitoring agency, should promote **GFA for all European MNCs**, to improve systematically the working conditions and the relations among the different actors involved in the globalized supply chains.

B. Climate change

1. The European Commission should establish a new online **Sustainable Progress Platform** to encourage and showcase non-state climate action, with EESC input and building linkages with relevant UN platforms.

2. EU institutions and Member States should implement the Energy Union to maximize support for renewable self-consumers/prosumers and 'renewable energy communities', with particular focus on creating new economic opportunities for vulnerable communities and regions. This work could include the creation of a '**Prosumers Advocate**' to represent the interests of prosumers in policy decisions.

3. The EU should investigate options for pricing carbon through a '**Clean Environment Contribution**' payable in non-ETS sectors, with part of the resulting revenue to fund a '**Just Transition Dividend**', providing assistance for workers, communities and regions.

C. Corporate taxation

1. The European Union should advocate a **Global Unitary Corporate Tax** based on a global consolidated corporate tax base and formula apportionment of profits. A global unitary tax would make the use of profit-shifting pointless for multi-national corporations, since profits would always be taxable where the economic activity that resulted in the profits took place.

2. The EU should adopt **public country-by-country reporting** within the EU for all sectors of the economy and EU member states should promote the adoption of public country-by-country reporting at the global level through their role in internal organizations, in particular the G20, the UN, and the OECD. Public country-by-country reporting will bring greater transparency to the tax planning strategies of multi-national corporations.

3. The EU should promote a **global register of ultimate beneficial owners** of companies and funds to achieve greater transparency on tax issues.

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