

## Focus on the Intersection of the Climate, Trade, Tech, Tax and More

The 47th G7 summit took place in the UK between 11 – 13 June 2021. The G7 presidency convened with a key focus on economic cooperation to build back better post-pandemic and reinforce the alliance against other global powers that pose ideological and strategic challenges. The seven members (the UK, the US, Canada, Japan, Germany, France and Italy, plus the EU) were joined by guest countries Australia, India, South Korea and South Africa at this year's G7. The G7 meetings were followed by a meeting of NATO allies and an EU-US Summit.

One week on from the summits, our panel of politicians, ambassadors and legal experts explore the impact that the conversations and decisions made will have on global businesses with a focus on climate, trade, tech, tax and more.

### Insight From the Host Nation

A consideration of Boris Johnson's great sense of theatre and a deep knowledge and passion for history, helps us to understand why these democratic summits are of great importance to him. In part, due to the policies that stem from discussions with global leaders, but also for the opportunity to exhibit his leadership capabilities and champion the UK as a democratic power.

The 2021 G7 and NATO summits has taken place at an optimal time. They allowed the UK to re-establish its position as a leader on the global stage in this post-Brexit era, and coincided with Biden's intent to demonstrate reengagement with the international institutions that Trump had previously distanced himself from. Supported by positive media coverage, the summit was an overall success in achieving these objectives.

In terms of tangible outcomes, there is a lack of concrete objectives. World leaders reaffirmed their intentions to tackle climate change but without specific strategies or tactics, 1 billion doses of vaccines have been pledged to developing countries to support the pandemic response, although this falls short of the 11 billion required to achieve immunity, according to health experts, and all G7 delegates have confirmed their intent to create fair competitive markets.

Our legal experts analyse what these agreements and pledges mean for UK, US and EU businesses.

### Climate Policy

Relative to climate, the G7 reaffirmed the commitment to the Paris Climate Agreement and to strengthening and accelerating efforts to achieve net zero greenhouse gas emissions as soon as possible and no later than 2050. They also committed to increased 2030 targets and, where not done already, committed to the submission of aligned "nationally determined contributions" as soon as possible ahead of COP26 in Glasgow. They also reaffirmed the commitment to jointly mobilize US\$100 billion per year from public and private sources to finance the transition to net zero economies and support moving to mandatory climate-related financial disclosures. While promising that leaders at the G7 Summit have a collective drive to tackle climate change, the Summit did not result in new goals or tangible measures to advance collective targets.

On the positive side, the US is back at the table. President Biden has assembled a formidable climate team headed by US Special Envoy for Climate John Kerry, as well as National Climate Advisor Gina McCarthy. Making good on a campaign promise, President Biden, on the day of his inauguration, provided notice to the UNFCCC that the US would accept the Paris Climate Agreement, an agreement from which his predecessor had withdrawn in 2019. Making good on another campaign promise, President Biden convened a Leaders' Summit on Climate, a virtual gathering of 40 world leaders and announced a new "nationally determined contribution" under the Paris Agreement, setting an economy-wide emissions target of a 50% to 52% reduction in greenhouse gases below 2005 levels by 2030, as well as the intent to seek funding to double, by 2021, the annual US funding for climate finance. All of this was done in his five months in office.

Meanwhile, the EU, a leader in the battle against climate change, recognises that collaboration is needed in order to achieve climate change objectives, thus is keen to take advantage of this window of opportunity for green policy making that was not previously available under Trump.

There are existing areas of alignment between the US and EU, including bio diversity and decarbonisation intentions, while key differences exist in relation to the carbon transport border mechanism, which implements a penalty per tonne of carbon in order to incentivise investment in renewables, as well as definitions of "sustainable investments", and the EU is eager to maintain its standards in order to protect its leadership status.

There has previously been a cloud of uncertainty around green investments, but these types of summits help to provide clarity on the direction of travel in relation to climate change, which, in turn, enables regulatory frameworks, encourages investment and supports the development of new markets. Moreover, there is strong political support for the climate change movement in the EU, facilitating future developments that will support the EU's leadership in tackling climate change. Conversely, there is a bipartisan attitude in the US that may hinder decision-making, thus enabling the EU to go further.

## Technology and Data

The top technology- and data-related issues to arise at the G7 include data free flows with trust, securing supply chains (from cyberattacks and malware), deepening cooperation in the competition arena with a particular focus on digital markets (and market power) and regulation for the benefit of the consumer.

Competition supervision in the EU has dramatically changed in recent years due to the rapidly increasing use of technology and data, but this has been accelerated by the pandemic, which has pushed us all to find digital means of carrying out our lives. Thus, government leaders view this as the time to take action to ensure fair competition and behaviours in digital markets. In turn, the Competition and Markets Authority (CMA) has been instructed to convene its international counterparts and to reach a consensus on how to regulate digital markets on an international scale. The scale of this task should not be underestimated, but there is no doubt that enhanced regulatory cooperation will lead to more effective enforcement.

The EU is ahead of the US in terms of enacting data protection and digital markets regulation, and the US now seems to be playing catch up under the new Administration. The Democratic Caucus recently introduced a series of new bills regulating digital markets. The four bills focus on conflicts of interest between platform providers and sellers on the platform, data portability, non-discrimination, and greater scrutiny of mergers and acquisitions. Last week, the Biden Administration appointed a new Chair of the Federal Trade Commission, who some consider to be an "antitrust activist". The proposed legislation and new leadership of the FTC may help lay the groundwork for developing international regulatory frameworks and increased cooperation in the areas of both digital competition and data privacy and protection.

Concerns about limitations being placed on the free flow of personal data and the potential for control of such data to create market power in the digital space are identified in the G7 Communiqué as "future frontiers" of the global economy and society. In the Communiqué, the G7 Leaders have expressed their support for a ministerial initiative to foster greater regulatory cooperation in the areas of data protection and privacy, as well as agreement on common principles underpinning lawful government access to personal data in the private sector.

## International Trade

There was a sense of expectation that Biden would rapidly overhaul the Trump administration trade policies, but in reality, we are seeing a continuation, albeit with a few modifications. Evidently, Biden is taking time to review and restructure these policies in a way that will provide predictability for businesses.

Fostering trade opportunities with allies in the EU and UK is a key priority of the Biden administration, who see the EU and UK as ideal trade partners to work with in addressing critical trade concerns such as capacity and fair trade practices.

The recent summits provided an optimal platform to pursue such negotiations, yet agreements were not forged, much to the dismay of the EU. Notwithstanding, the sub text of trade talks was the EU-UK relationship with Northern Ireland, as the temporary reliefs in the Great Britain and Northern Ireland trade relationship will expire at the end of the month. While the EU encourages the UK to not make any unilateral decisions, the priority remains the UK's ability to provision the Northern Irish border. Nevertheless, the amicability of these world leaders to reach agreements on critical matters facing the global economy inspires the expectation that a trade deal will concur in the near future.

For both the EU and the US, forced labour in supply chains has been gaining interest, with governments encouraging suitably sized businesses to conduct thorough due diligence to ensure there is no forced labour within their supply chains. Such a topic has been increasing in importance on the corporate agenda for some time and is likely to retain prominence for the foreseeable future.

## Tax Policy

The key takeaway on tax from the G7 summit was that all leaders have agreed to support the effort to reach multilateral agreement on a proposed global minimum tax for multinational enterprises and a proposal to reallocate taxing rights on profits of certain large, profitable companies among the countries where sales are made. This is the latest step in an unprecedented process of global tax policymaking; traditionally, taxation matters have remained localised. Developments in international tax have been a long time coming, namely in response to the changing economy, a rise in digital activity, and the ability of some multinational companies to derive substantial sales revenue from countries in which they do not have a physical presence.

The Organisation for Economic Cooperation and Development (OECD) will convene a meeting of the 139-member Inclusive Framework on Base Erosion and Profit Shifting at the end of June to discuss the proposals, aiming to agree on a plan that would be presented to the G20 finance ministers in July, with further details likely to be deferred until the G20 meet again in October.

The EU Commission believes that the new tax proposals can run concurrently with existing policies (on social justice, the green agenda, pandemic response and digital levy), but it is uncertain whether countries such as Ireland, Hungary and Poland, where there are more favourable tax rates, will sign on. The UK has expressed agreement, but has asked for the exclusion of financial services, which may lead other countries to request other industry exemptions, thereby complicating the matter. The UK will need to take into consideration the added complexities of Crown dependencies, and overseas territories with favourable tax rates. Meanwhile, the Biden Administration in the US is eager for the proposed global minimum tax to be rolled out globally to discourage US multinationals from seeking to escape higher US corporate income taxation by combining with companies located in lower-tax countries.

Previously, the two-pillar taxation programme had received resistance in the US, as the Trump administration refused to endorse the programme. No doubt President Biden will face a challenge in obtaining Republican approval in Congress, if and when the time comes, as they are already sceptical of Biden's proposed tax increases. There may also be resistance from international competitors, as China has commented that "the G7 does not run the world", and may object to the tax proposals if they are perceived as a US initiative.

For the first time in a long time, the UK appears to be in agreement with the US on these tax proposals. However, for the UK, the reallocation of taxing rights is the higher priority, whereas global minimum taxation is the higher priority for the US. It is, perhaps, unusual to see the UK in agreement on this multinational matter when one considers that a major driver behind the Brexit process has been the UK seeking to re-establish its independence and sovereignty. However, the UK's re-engagement with international multinationalism on tax matters is indicative of its wider ambitions for a "Global Britain" that is, once again, a serious player on the global stage in its own right. There is, then, great presentational value for the UK in portraying its Chancellor of the Exchequer, Rishi Sunak, as the person that has facilitated the G7's "historic" agreement on international tax matters that represent a "great win" for the British taxpayer. However, such declarations may be to showcase progress to the G20 ahead of the next summit, and the recent G7 agreement seems to be subject to conditions such as the specification of a "reasonable" deal.

Needless to say, there are a variety of unresolved issues for the OECD's Inclusive Framework to address in their negotiations, and we are unlikely to see a more detailed plan until the G20 meets in late October.

## An Ambassador's Perspective

When you look at the division of GDP and the percentage of the global economy that is represented at these summits, the significance of the summits is evident. It is incredible that such powerful democratic nations have the capacity to come together and address the critical issues facing the global economy and create a consensus on which international policy can be shaped. Yet, it is important to realise that this is a consensus creating rather than decision-making body. Despite a lack of detail on how climate policy, technological regulation, trade deals and tax policy will unfold, it is evident that a roadmap has been established for the direction of travel.

## With Thanks to Our Panel

- [Ambassador Matthew Kirk](#), International affairs advisor, and former UK ambassador to Finland, London
- [Lord James Wharton](#), Senior Advisor, EU Public Policy Practice, London
- [Ambassador Frank Wisner](#), International Affairs Advisor, Public Policy, New York
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