GERMANWATCH G7 BRIEFING SERIES

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POLICY BRIEF

The German G7 Presidency: Ready to lead on climate?

Analysis of the new coalition agreement – Focus on climate protection and finance

Just weeks after the new coalition government took office, Germany took over the Presidency of the G7. The G7 Presidency provides the new federal government an opportunity to demonstrate the importance it attaches to international climate policy and ambitious climate protection. The coalition agreement lays out the government's course. This brief analysis identifies issues on which the new federal government is already sending strong signals, as well as opportunities and gaps.

1 Good starting points

Coal phase-out

With respect to the coal phase-out, the new federal government is taking an important step forward. The phase-out of coal-fired power generation is to be accelerated and will ideally be complete by 2030. This is also the benchmark for industrialised countries given by the International Energy Agency (IEA) in its latest 1.5-degree compatible scenario.[1] The German government should use this target in its G7 Presidency to advance 2030 as the coal phase-out date for all G7 countries. So far, the G7 countries have not made any concrete statements on a phase-out date. Since Germany now aims for a phase-out by 2030, it is in a stronger positioning to advocate for this target, particularly towards the USA and Japan, which have not yet committed to any phase-out dates.

Subsidies

Another positive sign in the coalition agreement is that the German government wants to reduce superfluous, ineffective, and environmentally and climate-damaging subsidies and expenditures. In 2009, the G20 announced that it would cut 'inefficient subsidies' for fossil fuels. Since 2016 G7 communiqués have stated that such subsidies should end by 2025, but the question remains as to how these are defined. Taking this process forward will be a benchmark of success for the German G7 Presidency. Agreeing on a clear definition of 'inefficient subsidies' and creating a transparent process to track the progress of subsidy reduction on an annual basis are important steps for the G7 in 2022.

[1] IEA (2021). Achieving Net Zero Electricity Sectors in G7 Members. Executive Summary. Available at: https://www.iea.org/reports/achieving-net-zero-electricity-sectors-in-g7-members/executive-summary. Last retrieved: 2022-01-20.

Non-economic loss and damage

The coalition agreement refers to non-economic climate-related damage and losses. Within the framework of foreign education and cultural policy, the coalition aims to expand measures such as the 'KulturGutRetter', which provide rapid assistance for the protection and preservation of cultural heritage in crisis situations worldwide, including climate-related crises. This provides a basis for putting the issue prominently on the agenda of the German G7 Presidency. The aim should be to launch an initiative that advances appropriate instruments for dealing with economic and non-economic climate change impacts. It should support those in the Global South who are dealing with the consequences of extreme weather events (e.g. hur-ricanes), as well as slow onset climate change impacts (e.g. sea level rise).

Debt management

The coalition also sends important signals to the G7 and G20 on the issue of debt management. It identifies a new international debt management consensus as a goal and supports a codified international sovereign insolvency procedure in which all creditors are included and debt relief for particularly vulnerable groups of countries is implemented. With the expiry of the G20 Debt Service Suspension Initiative (DSSI) and the faltering negotiations under the Common Framework, it is urgent to find an effective way to deal with heavily indebted countries that are increasingly affected by both the climate and COVID-19 crises. On the one hand, the G7 should advocate that climate vulnerability be used as a core criteria for debt relief. On the other hand, the G7 countries should push for a high reallocation of the Special Drawing Rights (SDR) of the International Monetary Fund (IMF). Here, too, climate-related risks for countries should be taken into account, as is currently planned with the Resilience and Sustainability Trust. SDRs should be seen as additional to previously agreed climate and development financing commitments.

2 Opportunities

Climate Alliance ('Climate Club')

The coalition agreement makes it clear that the new government wants to use the G7 Presidency, among other things, to establish an 'international climate club open to all states'. As important as it is that the EU and the G7 find consensus on such an approach, it is clear that it would be counterproductive if the G7 were to build the instrument as a protective wall against countries in the Global South. If this instrument is to play a central role, it is all the more important that the German government and the other G7 countries design it in a cooperative and inclusive manner. It will be crucial that the new government effectively links the Climate Alliance with the EU CO_2 border adjustment.[2] It would be wrong to insist on a globally uniform CO_2 price: the various national approaches must be taken into account. Countries in the Global South should receive extensive offers of support, for example in climate partnerships.[3] Only in this way can the Climate Alliance gain legitimacy. It is important that the G7, as a group of ambitious countries, moves forward in 2022 and serves as a role model for climate protection and cooperation offers. Through their initia-

[2] See also: Germanwatch (2021). Less confrontation, more cooperation. Increasing the acceptability of the EU Carbon Border Adjustment in key trading partner countries. Available at: https://www.germanwatch.org/en/20355. Last retrieved: 2022-01-20.
[3] Germanwatch (2021). Paris-Partnerschaften. Ein Beitrag zur Neuausrichtung der deutschen Klimaaußenpolitik an den Zielen des Pariser Klima-Abkommens (in German). Available at: https://www.germanwatch.org/de/19693. Last retrieved: 2022-01-20.

tives, G7 countries should make it clear that they are aware of their responsibility and willing to support other countries in their transformation.

Climate and energy partnerships

In the coalition agreement, the new German government places particular emphasis on G7 climate and energy partnerships. A first partnership with South Africa was signed in 2021 at the climate conference in Glasgow (COP26) and should now be effectively implemented. Germany, the UK, the USA, France, and the EU have committed to supporting South Africa with around USD 8.5 billion for the phase-out of coal, the massive expansion of renewable energies, and a just transformation. Further partnerships are under discussion, including with the next two G20 Presidencies, Indonesia and India. The coalition's 'outstanding interest' in the Indo-German Partnership and the EU-India Connectivity Partnership provides a good basis for climate and energy partnerships. Climate partnerships can support developing and emerging countries in achieving a level of ambition that also enables them to participate in the Climate Alliance. The G7 should offer such partnerships to interested countries.

Mobility

In the area of mobility, too, the coalition agreement offers pointers for the G7. In the field of air transport, the coalition is initially advocating an EU air traffic levy, until a paraffin tax is introduced. In addition, the coalition wants to actively push for green paraffin quotas. This would also be the most important step toward strengthening climate protection in aviation within the framework of the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). But as long as increasing quotas for green paraffin cannot be implemented in CORSIA, the EU should lead the way with a plurilateral treaty. Regrettably, the coalition agreement does not envisage abolishing the market-distorting VAT exemption for international flights. Nor does it take into account other climate effects of air transport, which contribute more to global warming than CO_2 emissions.

For automobile transport, the coalition has tentatively committed to the necessary phase-out of the internal combustion engine by referring to the EU 2035 target and EURO 7 standard. However, after the latest comments by Transport Minister Volker Wissing[4], more ambition on the phase-out seems possible. The US and Italy have also not yet formulated any concrete phase-out dates for the internal combustion engine. Therefore, Germany should use its G7 presidency to achieve a clear commitment by all G7 countries year for the end of the combustion engine early in the 2030s.

[4] The Transport Minister said that electric vehicles are the future of automobile transport. This presents a departure from the stance of the Liberal Democratic Party (FDP) that wanted to push synthetic fuel use for the Internal combustion engine.

3 Gaps

Climate finance

So far, the area of climate finance is unspecific and unambitious in the coalition agreement. The government merely wants to fulfil its pledges and increase them in the long run, but does not give any precise details, nor does it point out the need for a completely new approach. With the G7 Presidency, Germany should increase its contribution to international climate change mitigation and adaptation finance to EUR 8 billion per year by 2025 and work towards meeting the USD 100 billion target. In addition, financial and other innovative solutions must be created to support particularly affected countries and communities in dealing with the consequences of climate change (Loss and Damage).[5] The amount of climate financing should be aligned with the needs of the countries. The German G7 Presidency could also contribute to this by either supporting a top-down needs assessment or by promising support to coun-tries in their own needs assessments. Such an analysis for the African continent could be a starting point.

Sustainable finance

Although the topic of sustainable finance was upgraded as a separate chapter in the coalition agreement, it remains superficial and makes no reference to the G7. This indicates that the new government does not give the issue enough international weight. The coalition should not miss the opportunity to position sustainable finance as an important issue within the G7, especially if it becomes a key issue for Indonesia's G20 Presidency and if Germany wants to become a centre for sustainable finance.

A positive starting point is the coalition's support of the EU Corporate Sustainability Reporting Directive (CSRD).[6] In order to advance the sustainable finance agenda, the G7 countries should, among other things, commit to the implementation of mandatory disclosure of forward-looking climate risks. This should apply to all transformation-relevant organisations and include scenario-based stress tests.

In addition, the development and export finance of G7 countries must be oriented towards the 1.5°C limit. This means that no new investments in fossil fuels can be made. At COP26, 35 countries, including all G7 countries except Japan[7], committed themselves to "end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit" and to "prioritise our support fully towards the clean energy transition". The G7 should work to ensure that this commitment is extended to indirect financing instruments, the exceptions are specified, and that it is binding for the signatory states and organisations.

[5] For concrete approaches that can be taken forward by the G7, see: Germanwatch (2021). From Glasgow to Elmau. Available at: https://germanwatch.org/en/84672. Last retrieved: 2022-01-20.
[6] Germanwatch (2021). The EU Sustainable Finance April package and how EU sustainability reporting standards fit in. Available at: https://www.germanwatch.org/de/20152. Last retrieved: 2022-01-20.
[7] See: https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/. Last retrieved: 2022-01-20.

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