GERMANWATCH
G7 BRIEFING SERIES

STRATEGY PAPER

From Elmau to Hiroshima

How Japan can advance the G7's climate and energy agenda in 2023

Authors: Alexandra Goritz, Kuat Abeshev, and David Ryfisch

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Imprint

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Acronyms

BMF	German Federal Ministry of Finance
BMWK	German Federal Ministry for Economic Affairs and Climate Action
CAF	Capital Adequacy Framework
CBAM	Carbon Border Adjustment Mechanism
GCF	Green Climate Fund
IDDI	Industrial Deep Decarbonization Initiative
IEA	International Energy Agency
IMF	International Monetary Fund
IRA	Inflation Reduction Act
JETPs	Just Energy Transition Partnerships
MDBs	Multilateral Development Banks
NDCs	Nationally Determined Contributions
OECD	Organisation for Economic Co-operation and Development
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights

Content

1 Introduction

Germany's G7 presidency is coming to an end, and the next **Leader's Summit in Hiroshima on May 19-21** is approaching fast. This means that there is little time left for the G7 to make tangible progress on the climate and energy agenda.

Although Germany, at the beginning of 2022, announced it would make climate and sustainability issues the centre of its G7 presidency, **Russia's war against Ukraine disrupted the agenda, and progress on climate was only limited**. As a result of the escalation of the war, the G7 countries have moved closer together, creating a strong basis for coordination and cooperation. However, priorities shifted to immediate security issues such as human security, energy security, and food security. These issues are critically interlinked with the climate change and biodiversity crisis, but the challenge for the G7 was to **address the immediate security issues without increasing future risks by neglecting the long-term crises**.[1]

Russia's war against Ukraine is still ongoing and is likely to affect the G7 agenda in 2023. Moreover, the food and debt crises are increasingly pressing issues for many countries in the Global South, making them central topics to be addressed. And while the G7 in 2022 cooperated intensively, **relations between the G7 in 2023 will be put to the test** given the US Inflation Reduction Act (IRA). The massive subsidies created by the IRA are causing tensions between the US and the EU. At the same time, the EU's Carbon Border Adjustment Mechanism (CBAM) is the root of discontent for many other countries. Thus, **how the G7 will resolve its internal conflicts** but also its positioning towards China, which both the US and EU want to diversify away from, will become priority issues for next year's presidency that will also influence the climate agenda.

Here we outline the key issues and show what progress on the G7 climate and energy agenda in Hiroshima could look like.

[1] Germanwatch, https://www.germanwatch.org/en/85230

2 Climate targets and overall ambition

In 2023, the G7 should:
- Lead by example and increase overall climate ambition
- Close the gap between targets and actions

When it comes to overall climate targets, the G7 was not able to significantly increase its ambition within Nationally Determined Contributions (NDCs) this year. However, **at the G7 summit, countries committed to increase ambition**, among other things, through stronger sectoral targets, non-CO_2 sub-targets, or stringent implementation measures.

Currently, no G7 country is on track to meet its NDC, even though none of them are assessed to be sufficient or fair.[2] Still, in 2022, several new commitments have been made by the G7.

- The **IRA of the US** has the potential to drive investment of nearly USD369 bn in clean energy and the decarbonisation of the economy. According to estimates, it can **reduce emissions by about 40 per cent by 2030**,[3] whereas under current policy, emission reductions would only have amounted to 30 per cent. However, the IRA emission reduction potential is still below the US NDC target of 50-52 per cent reductions.
- In May 2022, the EU Commission proposed the **'REPowerEU'**, a package which aims to increase the EU's energy security through more renewables (45 per cent instead of previously 40 per cent) and reducing energy consumption (750 Mtoe instead of the 787 Mtoe) by 2030. With this package the EU would **likely surpass its target of 55 per cent reduction by 2030** and achieve a reduction between 58–60 per cent below 1990 levels. Although the EU did not submit a stronger NDC before COP27, Frans Timmermans in Sharm El Sheikh announced that the EU's emission reductions target can be increased from 55 per cent to 57 per cent and will update its NDC before COP28.[4]
- The UK revisited its NDC in September 2022, but with no increase in overall ambition. It still aims at reducing emissions to 68 per cent by 2030. Policies and funding cover less than 40 per cent of the emissions reductions needed to achieve its NDC. Meanwhile, **the UK government approved a new coal mine**, which undermines the UK's climate leadership.[5]
- Canada's climate goals and 2030 roadmap for achieving at least 40-45 per cent emission cuts by 2030[6] are steps forward from previous targets of only 30 per cent emission reduction. However, the policy reality in Canada does not match the targets at all, as **the Canadian government continues to build new fossil fuel capacity**, such as the Bay du Nord project planned to extract 300 million barrels of oil over 30 years.[7]

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[2] Climate Action Tracker, https://climateactiontracker.org/countries/

[3] US Embassy in Luxembourg, https://lu.usembassy.gov/what-has-the-u-s-done-since-cop26/

[4] Reuters, https://www.reuters.com/business/cop/eu-tell-un-summit-it-plans-raise-climate-target-2023-source-2022-11-15/

[5] BBC, https://www.bbc.com/news/uk-politics-63892381

[6] Government of Canada, https://www.canada.ca/en/services/environment/weather/climatechange/climate-plan/climate-plan-overview/emissions-reduction-2030.html

[7] Climate Home News, https://www.climatechangenews.com/2022/05/11/campaigners-take-canada-to-court-over-new-oil-extraction-project/

- **Japan has not improved its NDC** in 2022 since the last update in October 2021, which aims for a 46 per cent emissions reduction by 2030, but is still not sufficiently aligned with a 1.5°C pathway. Current policies and actions would only lead to a reduction of 28 per cent to 33 per cent in 2030. In 2023, more ambition will be necessary.

Among the G7 countries, the EU is most likely to submit an updated NDC in 2023. Nevertheless, the G7 should strive to at least **close the implementation gap between its pledges and its actions**. As described previously, current actions and policies do not match their NDC targets. The G7 countries should display increased accountability by reporting progress on implementing their voluntary commitments made in Glasgow.

In its communiqué from 2022, the G7 also called on major emitters to increase their ambition. While Brazil, India, and Indonesia submitted updated NDCs,[8] only India has slightly increased its ambition, aiming for 45 per cent reduction by 2030 compared to the previous target of 33-35 per cent.[9] More ambition by major emitters is central, but the G7 will only be taken seriously if it aligns its own targets, policies, regulations, and finance with the 1.5°C goal.

For Germany specifically, to show its commitment to climate ambition, it will be critical not to dilute the annual sectoral targets in the Climate Protection Act and during the monitoring process. **The transport sector is the most challenging sector in Germany**. CO_2 emissions from transport have remained at a high level for decades and Germany is at risk of missing its climate targets for 2030.[10] Yet the responsible ministry (Federal Ministry of Digital Affairs and Transport) has still not reacted with a programme to show how it aims to achieve its climate targets. Thus, Chancellor Scholz needs to step in and oppose the blockage of the Ministry of Transport.

[8] Climate Action Tracker, https://climateactiontracker.org/climate-target-update-tracker-2022/

[9] Government of India, https://unfccc.int/sites/default/files/NDC/2022-08/India%20Updated%20First%20Nationally%20Determined%20Contrib.pdf

[10] Umweltbundesamt, https://www.umweltbundesamt.de/daten/verkehr/emissionen-des-verkehrs#pkw-fahren-heute-klima-und-umweltvertraglicher

3 Coal phase-out and decarbonisation of the power sector

In 2023, the G7 should:
- Commit to phase out coal by 2030
- Commit to a fully decarbonised power sector by 2035

One of the biggest achievements for the G7's climate and energy agenda in 2022 was the agreement to a full or predominantly decarbonised power sector by 2035. However, it was Japan who resisted stronger language and pushed for the term "predominantly" instead of a commitment to a fully decarbonised power system. As the new G7 presidency, it is therefore going to be **crucial in the next year for Japan to overcome this blocking position** and align with other G7 states. Since the commitment to 1.5°C also features prominently in the text, there is no room for the G7 to still have fossil fuels in the power sector in 2035.

In 2023, all G7 countries, including Japan, should agree to a fully decarbonised power system by 2035, in line with the Net Zero Emissions scenario from the International Energy Agency (IEA). Moreover, the **G7 should commit to a coal phase out by 2030**. Although the G7 pledged to phase out coal this year, they did not announce a phase-out date.

Although Germany – given the energy supply challenge due to the Russian war against Ukraine – temporarily decided to extend its coal fired power plants, and also nuclear power plants, in the medium term, it has committed to increase the share of renewables in the power sector to 80 per cent by 2030 and also phase out coal ideally by 2030.[11] Moreover, the German government aims for a power system almost completely based on renewables by 2035 and to be a climate neutral economy by 2045.[12] To be able to meet those ambitious targets and massively expand renewable energy capacity, particularly for solar, planning and approval procedures need to be drastically accelerated.

[11] In Western Germany, coal power generation will end by 2030, https://www.bundesregierung.de/breg-de/aktuelles/kohleausstieg-2030-2139228. Moreover, the new EU Emissions Trading System it is likely to push the phase out date to 2030 in all of Germany.

[12] "Das EEG 2023 verankert das Ziel, dass die inländische Stromerzeugung bereits im Jahr 2035 nahezu treibhausgasneutral sein, also nahezu vollständig durch erneuerbare Energien erfolgen soll." https://dserver.bundestag.de/btd/20/016/2001630.pdf

4 Fossil fuel subsidies

In 2023, the G7 should:
- Provide inventories of fossil fuel subsidies by the Leaders' Summit
- Publish strategies on how to phase out fossil fuel subsidies by 2025 (incl. milestones, policy reforms, and progress reports)

The G7 did not achieve significant results on fossil fuel subsidies in 2022. Data from the Organisation for Economic Co-operation and Development (OECD) and IEA shows that fossil fuel subsidies almost doubled in 2021 from 2020 levels to USD697.2 bn.[13] These numbers do not include the additional subsidies that were provided due to the energy crisis in 2022. This trend is reversing any previous progress that has been made. This trend also occurs in the G20 and the G7. Whereas in 2020, fossil fuel subsidies amounted to USD146 bn, in 2021, they reached around USD190 bn in the G20. [14] **More than USD60 bn of these subsidies stem from the G7.**[15] An end to fossil fuel subsidies is not in sight, and the energy crisis is aggravating the situation. The G7 cannot seem to find a balance between supporting vulnerable households through the energy crisis and sticking to its commitments to phase out fossil fuel subsidies to achieve climate targets.

As a minimum achievement, the G7 re-committed to eliminate inefficient fossil fuel subsidies by 2025; a commitment that was already made in Japan in 2016. There are two years left to implement this commitment. To **increase transparency**, the G7 needs to consider options for developing joint public inventories as soon as possible. A clear date by when these inventories should be available has not been announced. In addition, G7 Climate and Energy Ministers committed to report their progress in 2023.

By the G7 summit in May 2023, public fossil fuel subsidies inventories should be presented, to create more transparency and accountability on this difficult issue. This will hopefully also help to provide more insights on the definition of "inefficient" fossil fuel subsidies. The current trend to increase subsidies puts the whole commitment into question, which is why the G7 should **provide strategies, which show how it aims to reduce and finally phase out fossil fuel subsidies by 2025.** Clear milestones, policy reforms, and regular progress reports should be part of these strategies.

Germany also introduced a number of new fossil fuel subsidies in 2022, e.g. a fuel subsidy ("Tankrabatt"). A draft of the Climate Protection Emergency Programme ("Klimaschutzsofortprogramm") says that **Germany aims to publish a reform package by mid-2023** on how to phase out fossil fuel subsidies.[16] To guide this work an inter-ministerial working group will be established, led by the Ministry of Finance (BMF) and the Ministry for Economic Affairs and Climate Action (BMWK). This working group will work towards finding a definition for climate harmful fossil fuel subsidies and assess the subsidies with regard to their climate effects on a regular basis. This will further develop the reporting around fossil fuel subsidies.

[13] The data is based on subsidies in 51 countries worldwide: https://www.oecd.org/newsroom/support-for-fossil-fuels-almost-doubled-in-2021-slowing-progress-toward-international-climate-goals-according-to-new-analysis-from-oecd-and-iea.htm

[14] Climate Transparency, https://www.climate-transparency.org/wp-content/uploads/2022/10/CT2022-Summary-report.pdf

[15] Fossil Fuel Subsidy Tracker, https://fossilfuelsubsidytracker.org/country/

[16] Klimareporter, https://www.klimareporter.de/images/dokumente/2022/05/220404-klimaschutz-sofortprogramm-2022-entwurf.pdf

5 International fossil fuel finance

In 2023, the G7 should:
- End all direct and indirect international finance to unabated fossil fuels abroad
- Provide policies that go beyond international non-binding commitments
- Provide clear criteria for exemptions to fossil fuel finance (in line with 1.5°C and without lock in effects)

One of the most difficult issues on this year's G7 energy and climate agenda was the financing for international fossil fuel projects. During a visit to Senegal, Chancellor Scholz offered Senegalese President Macky Sall Germany's support for gas exploration.[17] This was a **big step backwards from the COP26 commitment**, where Germany and 38 other governments (including all G7 governments except Japan) and banks committed to stop new direct public support for the international unabated fossil fuel energy sector by the end of 2022.[18] This commitment is intended to also guide their decisions at the boards of MDBs[19] with the potential to redirect USD28 bn of annual investments away from fossil fuels into clean energy, which would help shift even larger sums of public and private money.[20] **Among the G7, Japan (USD10.6 bn annually) and Canada are the largest financiers of fossil fuels abroad.**[21]

Against this background, it was a success that, in the G7 Leaders' Communiqué, all of the G7, including Japan, committed to end their international support for fossil fuels. At the same time, however, the G7 expanded the exemptions for financing fossil fuel projects included in the Glasgow Statement based on energy security concerns, by stating that "publicly supported investment in the gas sector can be appropriate as a temporary response", **leaving it to each country to define the respective circumstances**. While such investments are supposed to be "implemented in a manner consistent with our climate objectives and without creating lock-in effects",[22] it is unclear how the G7 aims to assess the alignment of its international finance with these goals.

Before supporting any new fossil fuel energy project, we suggest that these projects should be assessed against the **following six criteria:**

1. To what extent is there a need to develop additional sources of gas supply abroad?;
2. Is the project able and suitable to meet those needs within a reasonable timeframe?;
3. Is the investment project in question a clearly defined temporary measure? I.e. is there a specific timeline for the project and its end?;
4. Is the project aligned with a 1.5°C pathway?;
5. Does the investment project avoid lock-in effects both in the investing and in the exporting country? Is there a clear strategy to avoid lock-in effects?; and

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[17] CNN, https://edition.cnn.com/2022/05/23/africa/olaf-scholz-african-tour-intl/index.html
[18] COP26, https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/
[19] Germanwatch, https://www.germanwatch.org/de/87614
[20] IISD, https://www.iisd.org/system/files/2022-06/turning-glasgow-statement-into-action.pdf
[21] Oil Change International, https://priceofoil.org/2022/11/08/japans-dirty-secret/
[22] G7 Germany, https://www.g7germany.de/resource/blob/974430/2062292/9c213e6b4b36ed1bd687e82480040399/2022-07-14-leaders-communique-data.pdf?download=1

6. Will the investment cause any “harm” in regards to Human Rights and/or the Sustainable Development Goals (SDGs)? Is the application of strong governance criteria (SDG 16) ensured? Does the project fit into a "just transition"?[23]

In terms of G7 signatory implementation the picture is very mixed: only the UK, France, and very recently Canada, have published respective policies (the UK featuring the most comprehensive fossil fuel exclusions), while Germany, the US, and Italy are still to deliver.[24] During Japan’s presidency, all **G7 countries need to show that they take their commitment seriously by providing effective policies and implementing them**. Leadership from the Japanese government is expected to be limited, because it has not signed the Glasgow Statement yet, and, together with Germany, wanted to abstain from a strong commitment at the G7 level to end international fossil fuel finance. Besides following through on their commitments, the G7 should encourage other countries to join and push within the OECD to end fossil fuel finance through development and export finance.

Within Germany, the government is heavily divided on this issue. The KfW - Germany’s Development Bank - is about to adopt sector guidelines for new oil and gas investments. A leaked draft version shows that the bank will still be able to invest in fossil fuel projects that are not 1.5°C-compatible for two more years. Given Russia’s war of aggression against Ukraine and the concomitant reduction of Russian fossil fuel supply, Europe and particularly Germany[25] have been plunged into a gas crisis. Since then, **energy security and the diversification of gas supply away from Russia** has become the top political priority. Although energy security concerns are valid and have to be addressed, analyses suggest that Germany risks creating overcapacity with 11 planned liquefied natural gas terminals, which will not be needed if investments in energy efficiency and reduction, and electrification, as well as renewables expansion are undertaken to the extent required.[26,27] As one of the key opponents of the Glasgow commitment, **Germany has to quickly create an ambitious policy to end fossil fuel support** based on both national and international climate targets and realistic energy needs.

[23] Germanwatch, https://www.germanwatch.org/sites/default/files/germanwatch_pruefkriterien_fuer_gasinvestitionen.pdf

[24] Oil Change International, https://priceofoil.org/content/uploads/2022/11/Leaders-Laggards_-9-November-2022.pdf

[25] Before the Russian war against Ukraine, Germany received around 55 per cent of its gas supply from Russia, https://www.cleanenergywire.org/factsheets/what-happens-if-russias-gas-supplies-germany-are-cut

[26] NewClimate Institute, https://newclimate.org/resources/publications/plane-fur-deutsche-flussigerdgas-terminals-sind-massiv-uberdimensioniert

[27] Twitter, https://twitter.com/mkreutzfeldt/status/1603304580024094721?s=12&t=WAFBfgMkEJyCySGUNrMtKQ

6 Climate Finance

In 2023, the G7 should:
- Pay its fair share on the overdue USD100 bn goal and commit to USD600 bn from 2020 to 2025
- Lay out a concrete roadmap on how it will double adaptation finance by 2025
- Provide new resources and increase its share in the second replenishment to the Green Climate Fund

The G7 did not present any major progress on climate finance this year. The renewed commitment to deliver on the goal of USD100 bn mobilisation as soon as possible cannot be considered real progress. This lack of progress is continuously **eroding the trust of developing countries in the G7** and other industrialised countries. While Germany's, Japan's, and France's share of climate finance is assessed to be "fair", the US's and Canada's share leaves much room for improvement.[28] On adaptation finance, the G7 committed in their communiqué to work towards the goal of COP26 to double adaptation funding for developing countries by 2025. But even after COP27, no clarity was achieved on how this promise will be met.

In 2023, the USD100 bn target is projected to be finally met. This is, however, not a time to celebrate, but rather to roll back the sleeves for the G7 and other industrialised countries. This means that as a minimum, **industrialised countries should mobilise at least USD600 bn over the 2020-25 period**. It is clear that USD100bn is by far too little of what is needed and the G7 needs to show that it is willing to increase its support to developing countries. Particularly, the US's and Canada's share of climate finance should significantly increase. In line with the COP27 cover decision, the G7 should commit to provide resources for the second replenishment of the Green Climate Fund (GCF) and, moreover, it should agree to increase the resources in comparison with the first replenishment. On adaptation finance, the G7 must provide concrete projections concerning how it aims to meet the doubling of adaptation finance by 2025 from 2019 levels.

Germany, together with Canada, was in charge of the Climate Finance Delivery Plan and the Progress Report this year.[29] Compared to other G7 countries, Germany is doing well on its share of climate finance, however, **Germany should display continued leadership by making an early move on a new pledge for the GCF's second replenishment for the 2024–27 period**. Germany has done it before, when it was the first country to pledge EUR 1.5 bn for the first replenishment of the GCF in the run-up to COP24, and other countries have followed suit. A similar move could lead the way for the second replenishment of the GCF.

[28] Overseas Development Institute, https://odi.org/en/publications/a-fair-share-of-climate-finance-an-appraisal-of-past-performance-future-pledges-and-prospective-contributors/

[29] Canada, https://www.canada.ca/content/dam/eccc/documents/pdf/climate-change/climate-finance/delivery-plan/ProgressReport-07.pdf

7 Reform of the international financial architecture

In 2023, the G7 should:
- Push jointly towards reforming multilateral development banks (MDBs) and the International Monetary Fund (IMF) to help developing countries deal with multiple crises
- Increase MDBs lending capacity for climate finance
- Request the IMF for further allocation of Special Drawing Rights (SDRs) and rechannel them to vulnerable countries

One topic climbing the agenda since COP26 is the call for **reform of the international financial architecture**, especially the Bretton Woods Institutions. The IMF and the MDBs are currently not fit for purpose to support countries faced with multiple crises. Reforming these institutions to make climate a core element of their identity and provide the trillions needed for the transformation is one of the central ideas behind the current reform proposals - the most prominent one coming from Mia Mottley, the Prime Minister of Barbados, called the Bridgetown Agenda.[30]

The **G7 countries are important shareholders of the MDBs (and the IMF) and therefore should push for political reforms** to make climate a core component of the institutions' instruments, enable them to provide more finance to vulnerable countries, and relieve their debt burden. During last year's G20 presidency, the G20 International Financial Architecture Working Group commissioned the "Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks" (CAF review).[31] The independent expert panel concluded this year that MDBs could increase their lending capacity by, for example, adjusting their approach to defining risk tolerance; expanding uses of financial innovations; and improving credit rating agency assessment of MDB financial strength. As the largest MDB, the **World Bank is lagging on climate action** and its leadership was the centre of much criticism this year due to climate-sceptic comments. Before COP27, Germany, the US, and eight other countries had already called on the World Bank to produce a roadmap for reforming its vision, incentives, operational approach, and financial capacity to better respond to global challenges.[32] This provided a strong basis for the COP27 cover decision to include calls for MDB reform.[33]

For the IMF, one of the key requests from countries and CSOs is to allocate new SDRs and rechannel them to countries in need, for example for disaster response, without creating more debt burden. In 2021, the G20 committed to reallocate SDRs worth USD100 bn, but

[30] Barbados Ministry of Foreign Affairs, https://www.foreign.gov.bb/the-2022-barbados-agenda/

[31] https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/news/news/CAF-Review-Report.pdf

[32] Climate Home News, https://www.climatechangenews.com/2022/10/12/us-germany-world-bank-reform-climate-finance/; Non-Paper: Evolving the World Bank Group to Better Respond to Our Evolving World. Guiding Principles and Roadmap for Reform as Recommended by Australia, Canada, France, Germany, Italy, Japan, Netherlands, Switzerland, United Kingdom, United States.

[33] *"37. Calls on the shareholders of multilateral development banks and international financial institutions to reform multilateral development bank practices and priorities, align and scale up funding, ensure simplified access and mobilize climate finance from various sources and encourages multilateral development banks to define a new vision and commensurate operational model, channels and instruments that are fit for the purpose of adequately addressing the global climate emergency, including deploying a full suite of instruments, from grants to guarantees and non-debt instruments, taking into account debt burdens, and to address risk appetite, with a view to substantially increasing climate finance;*

"38. Calls on multilateral development banks to contribute to significantly increasing climate ambition using the breadth of their policy and financial instruments for greater results, including on private capital mobilization, and to ensure higher financial efficiency and maximize use of existing concessional and risk capital vehicles to drive innovation and accelerate impact;" Link: https://unfccc.int/sites/default/files/resource/cop27_auv_2_cover%20decision.pdf

pledges up until now only amount to USD81.6 bn.[34] One of the vehicles which will use SDRs to support low-income and vulnerable middle-income countries with loans that provide longer-term financing is the **new Resilience and Sustainability Trust**, established by the IMF. It aims to secure USD42 bn (33 bn SDRs) and currently stands at USD22 bn (15.3 bn SDRs).[35] MDBs are also prescribed holders of SDRs and can pass them on to developing countries, using their expertise and capacity to make the best use of them.

The G7 countries should jointly push for these reforms, in line with the cover decision by COP27 and implement the recommendations of the CAF review. Moreover, **the G7 should ask for a new SDR allocation**, given the increasing debt burden that many countries face, but also rechannel existing SDRs to the countries that need them most. For countries such as Germany, where the Central Bank (Bundesbank) regulation prevents the reallocation of SDRs, the government should push for a reform of the law.

[34] G20 Indonesia, https://www.consilium.europa.eu/media/60201/2022-11-16-g20-declaration-data.pdf

[35] International Monetary Fund, https://www.imf.org/en/About/Factsheets/Sheets/2022/resilience-and-sustainability-facility-rsf

8 Just Energy Transition Partnerships

In 2023, the G7 should
- Deliver financing for the already announced JETPs (South Africa, Indonesia, and Vietnam)
- Establish principles for JETPs, including enhanced transparency and CSO involvement
- Exclude finance for any fossil fuel infrastructure within JETPs and provide coherence within JETPs and other international finance

One of the central instruments of the newly announced G7's PGII – the Partnership of Global Infrastructure and Investment – where the **G7 pledged to mobilise USD600 bn in support over the next five years**,[36] is the Just Energy Transition Partnership (JETP). These partnerships aim to support high-emitting emerging economies to increase their ambition and decarbonise their economies in a just way by providing financial, technological, and technical resources.

The first partnership with South Africa was launched at COP26 in 2021, and in 2022, the process of developing JETPs with Indonesia, India, Senegal, and Vietnam began. The second JETP with Indonesia was recently announced at the G20 summit in Bali.[37] Here, Japan and the US were the G7 leads. Around USD10 bn from public sources and USD10 bn from private sources will be mobilised to advance the decarbonisation of Indonesia's power system. The partnership with Vietnam announced in December 2022 aims to mobilise USD7.75 bn in public resources and match the amount with private resources to a total of USD15.5 bn. The human rights situation for environmentalists in Vietnam, however, is alarming. The JETP with India still needs time, but is planned to be formally announced in 2023, during India's G20 presidency. Germany and France are leading on the development of a further JETP with Senegal. However, Germany's dash for gas in Senegal and other countries is complicating the development because financing of new gas infrastructure should not be included in a JETP.

In 2023, it will be crucial for the G7 to deliver on the promises of the JETPs. Currently, these partnerships exist on paper and through declarations. Once finances begin to flow, it will be possible to tell whether the JETPs are transformational instruments and live up to their promises. Beyond the achievement of the climate and financing targets, **principles for the JETPs should be established**.[38] Although it is clear that every partnership is unique and needs to be adjusted to the country-specific environment, questions about the country selection and the goals of these partnerships, as well as the process, arise. One of the key aspects is to improve transparency around these partnerships because a **lack of communication and transparency puts their legitimacy at risk**. The G7 should take the processes with South Africa and Indonesia as lessons learned – especially on the **inclusion of civil society**.[39] Given the lack of consultation during South Africa's JETP process, CSOs are concerned that JETPs will become closed partnerships between governments and might neglect the views of CSOs. These are, however, crucial to make the process and the overall partnership a success for as many people as possible.

Germany is in the lead for the JETPs with India and Senegal. The German government has the ability to put real money on the table, unlike other governments such as the US and UK

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[36] The White House, https://www.whitehouse.gov/briefing-room/statements-releases/2022/06/26/fact-sheet-president-biden-and-g7-leaders-formally-launch-the-partnership-for-global-infrastructure-and-investment/

[37] European Commission, https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_22_6892

[38] Germanwatch, https://www.germanwatch.org/en/87617

[39] Germanwatch, https://www.germanwatch.org/de/87278

who provide mainly guarantees. This makes Germany a trustworthy partner country in the JETP architecture. However, the partnerships with India and Senegal will be challenging. The Senegalese government and Germany are sending signals that **gas explorations** will be part of the energy future of Senegal. **Fossil fuels should, however, not be part of the JETPs**. If Germany aims to support the expansion of new gas resources in Senegal but at the same time leads on a partnership with Senegal in which gas should not be included, its credibility will suffer. Negotiations with India are also slow and difficult. However, the partnership is moving forward since the central Indian ministries are on board and the partnership is expected to be announced by the G20 summit in India. The outlines of the deal are still unclear and one of the sticky issues is whether, or under which conditions, India will commit to a coal phase-out.

Hence, **JETPs will be a central issue for the G7 on the climate and energy agenda**, where it can show its commitment to support other countries in their decarbonisation efforts.

9 "Climate Club", industrial decarbonisation and green hydrogen

In 2023, the G7 should:
- Deliver on the promises of making the "Climate Club" an inclusive alliance that has the ability to raise climate ambition
- Avoid duplicating already established initiatives for industrial decarbonisations but clarify the added value of the "Climate Club"
- Transform the G7 Hydrogen Action Pact to a Green Hydrogen Action Pact

The "Climate Club" – the core climate project of Chancellor Scholz - is still in the making.[40] Originally, the idea of the "Climate Club" was to allow for climate ambition without carbon-intensive industries leaving their countries (i.e. avoiding carbon leakage). The German government wanted to push for carbon pricing as one of the core elements for the club, however, this was impossible to achieve at the G7 level since core economies such as the US and Japan were not on board. During the Leaders' Summit, a first outline of the club was announced. The Terms of Reference of the "Climate Club", published in December 2022, laid out **three main pillars**:[41] 1) Advancing ambitious and transparent climate change mitigation policies, 2) Transforming industries, and 3) Boosting international climate cooperation and partnerships. The OECD and IEA will provide an interim secretariat for the initiative and a taskforce will work towards the **full launch of the club at COP28** - more than one year delayed from the G7 summit in Elmau.

So far, it is still unclear how participation or membership in the "Climate Club" can raise climate ambition, if it only serves as a platform for members to exchange best practices. The **terms of the club remain vague** and give little insight as to whether the club would actually be a valuable addition to already existing initiatives. Potentially additional benefits of the Climate Club might arise if it could be used to foster agreement on common emission performance requirements, on principles for industrial decarbonisation, or push the supply and demand for green industrial products and promote supportive domestic policies.[42]

Meanwhile, countries have been working on heavy industry decarbonisation through other fora. The Clean Energy Ministerial's **Industrial Deep Decarbonisation Initiative (IDDI)** grew in number, with Japan, Sweden, the US, and Saudi Arabia joining the coalition previously consisting of Canada, Germany, India, the UAE, and the UK.[43,44] In September 2022, IDDI announced a new global Green Public Procurement Pledge, based on the current IEA's carbon accounting methodologies and definitions. Similarly, the **Glasgow Breakthrough Agenda**, which was launched by 46 world leaders at COP26 to accelerate innovation and clean technologies deployment across five priority sectors, published its first Annual Report outlining priority actions for each area.[45] Importantly, some priority areas of the Breakthrough Agenda overlap with the main focus of the "Climate Club", since it also includes hard-to-abate sectors such as steel.[46] Moreover, the US very recently proposed a deal on

[40] Germanwatch, https://www.germanwatch.org/de/85536
[41] https://www.g7germany.de/resource/blob/974430/2153140/2022-12-12-g7-erklaerung-data.pdf
[42] E3G and Agora Industrie, https://e3g.wpenginepowered.com/wp-content/uploads/A-CLIMATE-ALLIANCE-FOR-INDUSTRY-TRANSFORMATION.pdf
[43] Industrial Decarbonization Accelerator, https://www.industrialenergyaccelerator.org/general/press-release/
[44] UNIDO, https://www.unido.org/news/japan-and-sweden-join-industrial-deep-decarbonization-initiative
[45] https://climatechampions.unfccc.int/wp-content/2022/09/THE-BREAKTHROUGH-AGENDA-REPORT-2022.pdf
[46] Breakthrough Agenda, https://climatechampions.unfccc.int/wp-content/uploads/2022/11/Steel-Breakthrough-Priority-International-Actions-for-2023-final.docx.pdf

green steel and aluminium to the EU, which would impose taxes on metals produced with higher emissions in other countries including China.[47] And although the US and EU are willing to extend membership to countries that meet the same high standards,[48] the exclusivity of the deal can displease countries that are left out. Without a clear scope and differentiation, the Climate Club risks bloating the existing landscape of industrial initiatives, creating duplication and fragmentation.

To achieve the decarbonisation of the industry sector, green hydrogen will play a central role. Hydrogen is also supposed to be part of a deepening cooperation between Germany and Japan, which was announced after German Chancellor Scholz' visit to the 2023 G7 presidency in Japan earlier in 2022.[49] While the G7 made progress this year with the launch of a "Hydrogen Action Pact", the reference to green hydrogen should be strengthened and concrete steps need to be implemented.[50] In order to be a truly **"Green Hydrogen Action Pact",** the G7 in 2023 should:

1. Specify goals, functions, and timeline of the G7-HAP Increase added value compared with other multilateral hydrogen programmes
2. Put clear emphasis on green hydrogen
3. Go beyond a mere exchange of best practices on sustainable hydrogen production and develop a proper set of sustainability standards
4. Develop a joint vision on a credible monitoring and certification system

[47] Congressional Research Service, https://crsreports.congress.gov/product/pdf/IN/IN11799
[48] The New York Times, https://www.nytimes.com/2022/12/07/business/economy/steel-tariffs-climate-change.html
[49] The Federal Government, https://www.bundesregierung.de/breg-en/news/federal-chancellor-japan-visit-2029280
[50] Germanwatch, https://www.germanwatch.org/de/87297

10 Loss and Damage

In 2023, the G7 should:
- Provide financial support beyond the Global Shield
- Provide leadership in operationalising the Loss and Damage Fund and make concrete pledges
- Increase funding for the Santiago Network on Loss and Damage

It was a crucial year for Loss and Damage and the G7 presidency made important steps to push credible progress on this issue. During the G7 climate and energy communiqué, the G7 recognised for the first time the "**urgent need for scaling-up action and support to avert, minimise, and address loss and damage** particularly in vulnerable developing countries". Moreover, the G7 committed to scale up Climate and Disaster Risk Financing and Insurance and work towards a Global Climate Risk Shield. At COP27, the Global Risk Shield went live and countries made their first financial contributions, among others Germany with EUR 170 million, and EUR 40 million from other countries.[51]

But more importantly, a new **Loss and Damage Fund** is one of the key outcomes of the COP27. The negotiations have been co-facilitated by Germany and Chile. Although the details of who will be contributing to the fund and who will be able to access the resources are still open, the establishment of the fund is an achievement for which vulnerable countries have fought for a long time.

The G7 should support the quick set-up of the fund, which is to be operationalised by the end of 2023. Moreover, the G7 should indicate that it will make pledges to the fund. Germany is particularly well positioned given its role at the COP27 and during the G7 presidency to be a strong voice from the G7. In addition to supporting the Loss and Damage Fund, the G7 should also make (further) contributions to the **Global Shield against Climate Risks**. Pledging to the Global Shield should, however, not be seen as a substitute for pledges to the Loss and Damage Fund or the **Santiago Network for Loss and Damage**.

[51] Federal Ministry for Economic Cooperation and Development, https://www.bmz.de/en/news/press-releases/v20-g7-launch-global-shield-against-cllimate-risks-at-cop27-128244

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