POLICY BRIEF

From Glasgow to Elmau

Leveraging COP26 outcomes for the German G7 presidency in 2022

This year's COP results have been heavily debated. Along with the negotiations, various initiatives were launched, and these received considerable attention. Examples are an initiative to end international fossil fuel finance, a partnership with South Africa to support the country's just transition, and a pledge to reduce methane emissions. The G7 should build on the COP's positive dynamics and support a strategy to avoid greenwashing of the announcements, and provide alternative solutions where the COP process could not deliver.

COP26 points of departure for the German G7 presidency

1. Present a credible strategy for enhancing climate targets in line with 1.5°C e.g. by including fluorinated gases (F-gases) and strengthening international cooperation
2. Commit to decarbonising power systems by 2035 and coal phase-out by 2030
3. Define 'inefficient' fossil fuel subsidies and commit to a transparent process for the phase-out
4. End international finance for fossil fuels by the end of 2022 and support broader commitment and strong implementation
5. Commission a study together with the African Union on how to achieve sustainable energy access in the region without fossil fuels as soon as possible
6. Acknowledge the massive climate finance gap and support the development of a report for a bottom-up climate finance needs assessment
7. Provide financial and other risk management solutions to adequately support vulnerable developing countries and communities in their addressing of loss and damage
8. Reallocate as many Special Drawing Rights (SDRs) as possible to vulnerable and indebted countries, additional to climate finance obligations
9. Support effective debt relief, restructuring, and further suspension
10. Implement mandatory forward-looking climate risk disclosure (including scenario-based stress testing) for all transformation-relevant institutions
11. Support and initiate mechanisms to create transparency and accountability of state and non-state pledges in order to avoid greenwashing

1 Keep the dynamic for ambition alive

While it will be difficult for all G7 nations to have enhanced climate targets ready by COP27, it will be crucial to present a strategy for increasing climate targets in line with 1.5°C. This could be done through a reduction of gases not yet covered, such as F-gases and/or through stronger international cooperation.

One of the Glasgow negotiations' main achievements was the call for countries to increase their Nationally Determined Contributions (NDCs) by the end of 2022. Greater ambition is urgently needed, given that current country contributions would lead to a 2.4°C global warming[1] and emissions by 2030 would increase by 13.7%.[2] The COP26 decision makes clear that the 1.5°C limit has now become accepted as the necessary interpretation of the Paris Agreement's well-below-2°C goal. This temperature goal is also operationalised, based on the Intergovernmental Panel on Climate Change (IPCC): between 2010 and 2030 global emissions must fall by 45%. Accordingly, countries that have not, or have only insufficiently, enhanced their 2030 climate targets are urged to do so by the end of 2022. Additionally, all countries are urged to improve their targets if possible by 2022 in line with 1.5°C. All G7 countries should commit to, by then, presenting a strategy for how their 2030 targets (including additional international action by international climate partnerships and Article 6) fit with a 1.5°C target. The G7 nations must keep the ambition process dynamic and provide either a strategy on how they will increase their targets, make commitments in other areas, or cooperate with other states to stay below 1.5°C.

2 The end of the fossil fuel era

2.1 Decarbonising power systems by 2035

The G7 must lead the movement away from coal. While these nations committed to accelerating a transition away from unabated coal power in 2021, they should use 2030 as a phase-out date. Besides coal, the G7 needs to commit to completely decarbonising its power sectors by 2035 in line with the International Energy Agency (IEA) net zero emissions scenario to keep 1.5°C within reach.

Inclusion of specific energy sources within the decision text was a potentially historic achievement at COP26. The COP calls for 'accelerating efforts towards the phase-down of unabated coal power.' This can be consid-ered a turning point for the global end of coal. Despite the last-minute change China, India, and others re-quested to tone down the wording from a 'phase-out' to a 'phase-down,' this achievement was vital. Within its net zero emissions scenario, the IEA lays out a target by when coal must be phased-out and power sys-tems must reach net zero. At a global level, coal must be phased out by 2040, and in industrialised countries by 2030.[3] Thus far, the G7 has abstained from a concrete phase-out date in its communiqués and only committed to 'accelerate the transition away from unabated coal capacity' in line with its 2030 NDCs and net-zero commitments. Regarding decarbonisation of its power systems, the G7 has committed in 2021

[1] Climate Action Tracker (2021): Temperatures. https://climateactiontracker.org/global/temperatures/. Last retrieved: 2021-11-24.

[2] COP26 (2021): Update to the NDC Synthesis Report. https://unfccc.int/news/cop26-update-to-the-ndc-synthesis-report. Last retrieved: 2021-11-29.

[3] IEA (2021): Net zero emissions by 2050. https://www.iea.org/reports/net-zero-by-2050. Last retrieved: 2021-11-24.

to 'overwhelmingly' decarbonised power systems in the 2030s, which is too vague. A complete decarbonisation by 2035 is necessary according to the IEA's scenario.

2.2 Ending fossil fuel subsidies

The G7 urgently needs to make progress towards phasing out fossil fuel subsidies. It must define what 'inefficient' subsidies are and provide plans on how it will end subsidies for fossil fuels as soon as possible, but by 2025 at the latest. The G7 should set up a transparent process wherein progress can be tracked to create accountability for its plans.

Next to phasing down coal, the COP decision text calls for phasing out 'inefficient' fossil fuel subsidies. This wording is familiar to that of the G7, which in 2016 committed to eliminating 'inefficient' fossil fuel subsidies by 2025. It is still, however, unclear what this means. The G7 this year must define what 'inefficient' fossil fuel subsidies are and set up an appropriate and transparent process to end them. This could build on the G20's work. Since 2013, the G20 has engaged in a voluntary and country-based peer review of fossil fuel support.[4] For example, Germany and Mexico peer-reviewed its fossil fuel support in 2017, and for Germany, 22 measures were identified, totalling USD 17.6 billion in 2016.[5] Organisation for Economic Co-operation and Development (OECD) and International Institute for Sustainable Development (IISD) data suggest all G7 nations combined provided around USD 57 billion in subsidies for fossil fuels in 2020 alone.[6] Defining 'inefficient' subsidies, providing concrete plans on how to phase out these subsidies, as well as creating a transparent process to track progress are steps for the G7 to take in 2022.

2.3 Ending international finance for fossil fuels

Japan is the only G7 member that has not yet joined the initiative to end new direct international financing for unabated fossil fuels by the end of 2022. All G7 members should back this initiative and encourage other countries and organisations to join. Moreover, the G7 should support to broaden the scope to indirect forms of financing and clarify the limited circumstances under which they will further support fossil fuels. This commitment should become binding and guide the G7 positions within the multilateral development banks and the OECD Development Assistance Committee. To ensure faster energy access in all parts of the world, the group should commission a study that identifies how different regions can achieve sustainable energy access without fossil fuels as soon as possible. The G7 could offer the African Union to finance a joint study for the region.

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[4] OECD (2021): Update in recent Progress in Reform of Inefficient Fossil Fuel Subsidies that Encourage Wasteful Consumption 2021. https://www.oecd.org/fossil-fuels/publicationsandfurtherreading/OECD-IEA-G20-Fossil-Fuel-Subsidies-Reform-Update-2021.pdf. Last retrieved: 2021-11-24.

[5] IISD (2017): Germany and Mexico Publish Peer Reviews of Fossil Fuel Subsidies Under G-20. https://www.iisd.org/gsi/subsidy-watch-blog/germany-mexico-peer-reviews-ffs-g20. Last retrieved: 2021-11-26.

[6] FossilFuelSubsidyTracker (2021): Country trends in fossil-fuel subsidies. https://fossilfuelsubsidytracker.org/country/. Last retrieved: 2021-11-24.

Besides the COP text, a UK presidency-led initiative to 'end new direct public support for the international unabated fossil fuel energy sector by the end of 2022'[7] provides an important cornerstone for the G7 on ending fossil fuel finance. During COP, 39 governments and financial institutions joined the initiative, including all G7 nations except Japan. First estimates suggest that USD 24.1 billion[8] of annual finance can be moved away from the fossil fuel sector to support the clean energy transition.

In 2021, all G7 nations have committed to ending new direct government support for unabated coal-fired power stations abroad. Supporting this initiative goes an important step further and ends new international direct support to unabated coal, oil, and gas by the end of 2022. However, interpretations of the commitment vary and, thus far, it only applies to 'direct' support, leaving room to indirectly finance further gas production abroad. Moreover, support for fossil fuels is still possible under 'limited' circumstances. The G7 needs to help clarify these limited circumstances. One way to bring the debate forward would be to commission a study identifying ways for different regions of the world to achieve access to sustainable energy without fossil fuels, especially gas, as soon as possible. The G7 could offer the African Union to fund a joint study for the continent.

3 Climate finance and beyond

3.1 Providing loss and damage finance

> *Germany and the other G7 nations must find solutions to appropriately (financially) support the most vulnerable countries and communities in their dealing with climate-related loss and damage. Germany is already providing concrete support to Global South countries for building climate resilience, increasing adaptive capacity, and dealing with loss and damage, such as through the InsuResilience Global Partnership. As part of the German G7 presidency in 2022, solutions should be expanded and extended to areas not yet covered.*

At COP26, the international community again failed to provide the most vulnerable people with sufficient, needs-based support for dealing with climate-induced loss and damage. Due to the resistance of several industrialised countries, the proposal for a Glasgow Loss and Damage Facility was watered down and, instead, the Glasgow Dialogue was established for discussing options for financing measures to address loss and damage by June 2024 (SB60). This again delays concrete solutions but it does provide a platform to put this issue in the spotlight of the next COP, in Africa (2022). Appropriate responses to this scandal of justice need to be developed within and outside the United Nations Framework Convention on Climate Change (UNFCCC) process.

To support countries to the extent necessary for dealing with loss and damage, because of the blocking by some industrialised countries, solutions must also be found outside the UNFCCC process. In this regard,

[7] UN Climate Change Conference UK 2021 (2021): Statement on International Public Support for the Clean Energy Transition. https://ukcop26.org/statement-on-international-public-support-for-the-clean-energy-transition/. Last retrieved: 2021-11-24.

[8] Oil Change International (2021): France joins commitment to end international oil, gas, and coal finance by 2022. http://priceofoil.org/2021/11/12/france-joins-commitment-to-end-international-oil-gas-and-coal-finance-by-2022/. Last retrieved: 2021-11-29.

the G7 countries and the Petersberg Climate Dialogue should produce ground-breaking proposals based on the principle of common but differentiated responsibilities and capabilities, aimed at supporting those in need. Germany has already provided concrete support to Global South countries for building climate resilience, increasing adaptive capacity, and dealing with loss and damage, such as through the InsuResilience Global Partnership. As part of the German G7 presidency in 2022, solutions should be expanded and extended to areas not yet covered. Six areas are of particular importance here:

1. Stronger linking of insurance systems with social safety nets to protect the populations' most vulnerable parts.
2. Developing international reinsurance pools to back up national mechanisms for dealing with loss and damage.
3. Supporting countries in dealing with non-economic loss and damage; such as by setting up international mechanisms for rapid assistance to protect and preserve cultural heritage in crisis situations.[9]
4. Supporting countries in dealing with slow-onset processes. Here, too, social safety nets can play an important role.[10]
5. Supporting, through anticipatory action, people forced to migrate or displaced because of climate impacts.
6. Developing, together with the OECD, an early-warning system for tipping points. This should be summarised in a report published annually or every two years including recommendations for a global and regional warning system for each tipping point, as well as policy recommendations on needed mitigation action, risk management, and addressing potential losses and damages.

All solutions should be funded through grants rather than loans and implemented through a human rights-based approach.

3.2 Identifying the need for climate finance

> *Germany and the other G7 nations should support countries over the next two years in assessing their actual financial needs regarding actions on mitigation, adaptation, and loss and damage. The G7 must recognise the existence of the massive climate finance gap and the need to identify the scale of the gap in a needs-based approach. One G7 decision could be supporting development of a needs assessment report.*

The Standing Committee on Finance (SCF) presented its first needs assessment report for developing countries at this year's COP. This offers valuable insight into the huge existing financing gap. The report is, however, only a first step to getting closer to developing countries' actual financial needs. It shows that current estimates of actual needs are inadequate, and a bottom-up approach is needed wherein countries assess their own needs. Recognising that this financing gap does exist is an important first step for the G7. Building on that, the G7 should also help in identifying the actual amount of climate finance developing

[9] Similar to the KulturGutRetter mentioned in the coalition agreement of the new German government.

[10] Schäfer, L. et al. (2021): Financing Instruments and Sources to Address Loss and Damage from Slow-onset Processes. https://www.germanwatch.org/de/21067. Last retrieved: 2021-11-29.

countries need. It should do this by supporting development of a needs assessment report, covering mitigation, adaptation, and loss and damage in a modular way. In an initial step, the G7 could support, for example, the African Union in identifying the region's financing needs.

3.3 Creating fiscal space for vulnerable countries

The G7, through various instruments, should urgently address the debt crisis many countries face. Reallocation of SDRs, if implemented correctly, can play a vital role in building countries' resilience. Providing concessional finance considering climate vulnerability, as foreseen with the Resilience and Sustainability Trust (RST), is central. Importantly, the G7 should count reallocated SDRs as additional to previous development and climate finance commitments. In a complementary step, the G7 should support initiatives for debt restructuring, relief, and further suspension by the G20 and other creditors to create fiscal space for vulnerable countries. Climate vulnerabilities should be key considerations.

One COP decision encouraged consideration of climate vulnerability in concessional finance and particularly referred to the International Monetary Fund (IMF) international reserve asset – SDRs.[11] In 2021, due to the COVID-19 pandemic, the IMF allocated additional SDRs of USD 650 billion to its member countries. These are distributed based on countries' quotas; in other words, most were allocated to industrialised countries. G7 countries thus received the largest share. These countries should reallocate as many of their SDRs as possible to support low-income and particularly vulnerable countries. They should initiate appropriate domestic processes if needed to ensure swift reallocation, as for example in Germany with an amendment of its Feder-al Banking Act.

Several options exist for helping reallocate SDRs to vulnerable countries. One is the G20-backed RST, to be established by the IMF with World Bank support. The assets are planned to be transferred to low-income and vulnerable middle-income countries and small island states particularly affected by the climate crisis' impacts. The trust will start with SDRs of USD 30 billion and increase to USD 50 billion, and provide long-term funding with low-interest rates.[12] It is critical to use SDRs to address the debt crises in various countries, and strengthen their resilience. The G7 should support reallocation to protect vulnerable countries.

Complementary to SDR reallocation, the G7 must take up the issue of general debt restructuring. The Debt Service Suspension Initiative (DSSI), which the G20 installed because of the COVID-19 crisis, expires in 2021, and the Common Framework for Debt Treatments beyond the DSSI is not delivering results fast enough in low-income countries. Even the IMF calls on G20 creditors to accelerate debt restructuring and suspend debt service while restructurings are discussed.[13] The G7 should support countries' debt restructuring by

[11] SDRs are financial assets usable as a medium of exchange, for example, to pay debts to other countries or institutions.

[12] The RST is to be designed by April 2022 and should be implemented by October 2022.
IMF (2021): IMF Managing Director Kristalina Georgieva's Statement at the Paris Peace Forum on Increasing Support for Vulnerable Countries via SDR Rechanneling. https://www.imf.org/en/News/Articles/2021/11/11/pr21330-imf-md-statement-at-the-paris-peace-forum. Last retrieved: 2021-11-29.

[13] IMF (2021). Available at: https://blogs.imf.org/2021/12/02/the-g20-common-framework-for-debt-treatments-must-be-stepped-up/. Last retrieved: 2021-12-22.

the G20 and including other creditors. Consideration of climate vulnerabilities and risks should be central in these negotiations.

3.4 Implementing risk disclosure for private finance

> *The G7 must work closely with the G20 to bring the sustainable finance agenda forward. It should support and implement mandatory climate-related risk disclosures to make them forward-looking, include scenario-based stress-testing, and applicable to all transformation-relevant institutions.*

Private finance will play a crucial role in mobilising the trillions of USD needed. At COP26, the Glasgow Financial Alliance for Net Zero (GFANZ) announced that more than 450 financial firms representing over USD 130 trillion have now committed to net zero by 2050. While the amount sounds impressive, there are serious concerns over whether the commitments are credible. Coherent reporting standards on climate-related risks are needed to assess these finance flows. The International Financial Reporting Standards, therefore, at COP announced establishment of the International Sustainability Standards Board, which will develop international standards on sustainability-related reporting. The G20 Sustainable Finance Working Group provides recommendations on how this work should go forward. Close cooperation is necessary to ensure interna-tional compatibility and bring implementation forward given that the Indonesian G20 presidency will make sustainable finance a focal area. In 2021, the G7 stated its countries 'support moving towards mandatory climate-related financial disclosures.' The next step in 2022 should be making forward-looking, climate-related risk disclosures mandatory for all transformation-relevant organisations.

3.5 Ensuring transparency of state and non-state actor initiatives

> *The G7 must work closely with the G20 to bring the sustainable finance agenda forward. It should support and implement mandatory climate-related risk disclosures to make them forward-looking, include scenario-based stress-testing, and applicable to all transformation-relevant institutions.*

COP26 was also a COP of many initiatives and announcements by state and non-state actors alike. Some were harshly criticised during the COP, such as the above-mentioned GFANZ. The UN Secretary-General announced the establishment of a high-level expert group to monitor non-state actors' net zero announcements. It will provide recommendations that can set standards for helping to assess the credibility of net-zero pledges. Backing this expert group would be a strong signal by the G7 against greenwashing. State actors have also made many pledges that will need to be monitored. The G7 should support creation of such a monitoring mechanism to hold state and non-state actors accountable for their commitments.

Outlook: From Elmau to Bali

Implementing and scaling-up partnerships for a just transition

An innovative partnership launched at COP26 exemplified how G7 nations can support accelerated coal phase-outs abroad. Germany, France, the UK, the US, and the EU Commission committed to supporting South Africa with USD 8.5 billion 'through a combination of appropriate financial instruments' over the next three to five years to achieve a 'socially just' coal phase-out. Similar partnerships with other countries should be concluded during the next year. Some have already signalled their interest in such a partnership – countries that have a great deal of coal capacity planned (e.g. Indonesia, Pakistan, the Philippines) or countries that may want to leapfrog (e.g. Rwanda), as well as giants such as India, are potential partners. Reaching such an agreement with India could be an important milestone towards bringing the 1.5°C limit within reach. Implementing the first partnership and agreeing to initiate new ones using fora such as the G20 should be priority issue in 2022. The G7 and G20 can be used as platforms to establish principles for these kind of partnerships.

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We thank all the authors of the Germanwatch blog 'A turning point for coal—but 1.5 degree limit not yet within reach and large gaps in context of loss and damage', which provided a basis for this briefing.

You can download this paper here: www.germanwatch.org/en/84672

December 2021

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'Deutsche G7-Präsidentschaft für Klimaschutz nutzen' is funded by Stiftung Mercator. Responsibility for the contents rests with Germanwatch.

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