

POLICY BRIEF

G7: What happened in Elmau and what's next

The German government wanted to place climate and sustainability topics at the centre of its presidency. While Germany has re-emphasised its focus on climate several times, the food and energy crises were clearly the centre of attention of this year's G7 Summit in June. As a result, only little progress was made on the climate and energy agenda. In this briefing we outline what the G7 Leaders' Summit was able to achieve, as well as the gaps and where to go from here.

1 Ambition

What was achieved? In the Glasgow Climate Pact at COP26, Parties committed to consolidate their NDCs by the end of this year to align them with the 1.5°C limit. The G7 urged all Parties, but especially major emitters, to follow up on this commitment and provide new NDCs before COP27. The G7 themselves committed to increase ambition, among other things, through stronger sectoral targets, non-CO2 sub-targets, or stringent implementation measures.

Where are the gaps? The G7 did not provide new NDCs, and their above-mentioned commitments on implementation and other GHGs beyond CO2 lack clarity.

What next? Now, the G7 must show that they take the Glasgow Climate Pact seriously and must rapidly implement their existing targets, strengthen their sectoral targets and provide targets for GHG other than CO2 ahead of the cut-off date for the next NDC Synthesis Report. Moreover, other major emitters must increase their NDCs before COP27 to show that the Glasgow Climate Pact is working.

2 Decarbonisation of the power system (incl. coal phase-out)

What was achieved? The G7 agreed to achieve a full or predominantly decarbonised power sector by 2035, recognising energy efficiency and renewables as key elements and committing to removing obstacles to enable a fast expansion. They did not specify domestic coal phase-out dates; however, they did agree to prioritise steps towards accelerating the phase-out. Given their overall commitment to the decarbonisation target in the power sector, coal

has to be phased out well before 2035. According to the IEA net zero emissions scenario, industrialised countries need to phase out coal by 2030.

Where are the gaps? Most of the G7 countries agreed to fully decarbonise their power systems by 2035. This commitment presents an important step forward. However, Japan pushed to include the term “predominantly” in the text, although the alignment to 1.5°C makes clear that “predominantly” in fact needs to be very close to “fully”. Concerning the coal phase-out, the G7 have not yet been able to specify a date. Accelerating the phase-out of coal in each country is a first step, but to keep 1.5°C within reach, the G7 must phase out coal by 2030. Here, the US and Japan are still lacking clear phase-out dates and given the energy crisis and short-term ramp up of coal capacity predominantly in Germany, a clear commitment to a 2030 phase-out date would have been crucial.

What next? An important next step will be for all G7 countries, including Japan, to agree on fully decarbonised power systems by 2035, and to also agree to phase out coal by 2030. Moreover, those countries that already committed to full decarbonisation should provide transparency on how they aim to achieve a fully decarbonised power system by 2035. Given that the next G7 presidency is in Japan, these issues will not be an easy outcome to reach.

3 Fossil fuel subsidies

What was achieved? The G7 leaders stressed that fossil fuel subsidies are not aligned with the goals of the Paris Agreement and reaffirmed their commitment to eliminate fossil fuel subsidies deemed to be inefficient by 2025. In May, G7 ministers also committed to report on progress in 2023 and to consider options for developing joint public inventories as soon as possible.

Where are the gaps? The commitment to end inefficient fossil fuel subsidies by 2025 has been repeatedly affirmed by the G7 for years. However, the G7 has been unable to make progress on defining what subsidies it deems to be inefficient. Moreover, it is unclear how the G7 will report on progress in 2023 and when public inventories will be provided.

What next? It is crucial that the G7 provide transparency on their fossil fuel subsidies and on their progress towards eliminating such subsidies. Progress reports should be published annually, and public inventories of fossil fuel subsidies should be established by COP27. Germany's leadership during its remaining G7 presidency is required to ensure progress.

4 International fossil fuel financing

What was achieved? The G7 Climate, Environment and Energy ministers committed to end new direct public support to the international unabated fossil fuel energy sector by the end

of 2022 based on the Glasgow Statement for Clean Energy Transitions.¹ G7 Leaders reiterated this commitment.

Where are the gaps? This commitment by the G7 comes with important exceptions. The G7 ministers added that exceptions to this commitment can be made by each country individually if these are aligned with the 1.5°C warming limit and the Paris Agreement. G7 Leaders even went one step further and agreed that gas investments are “necessary”. However, they ultimately made clear that public support in the gas sector can only be appropriate, if a) it is a temporary response to clearly defined national circumstances, and b) if it is aligned with the respective national climate goals and does not create lock-in effects. Put another way, G7 countries now have to implement these criteria properly and in a timely manner to ensure the integrity of the Glasgow Pact.

What next? The G7 should provide clarity on their exceptions ahead of COP27. They will need to ensure in a transparent way that their gas investments do not create any lock-in effects nor path dependencies that are not in line with 1.5°C. For example, answers have to be provided to the following questions:

- Which investments in the gas sector are compatible with 1.5°C?
- How long are these investments considered appropriate?
- What national circumstances have to be in place for gas investments to be allowed?
- How can additional emissions in the following years be compensated by additional reductions?

Since various studies and scenarios show that only very limited investments in gas are possible to keep 1.5°C within reach,² any investment in this sector has to be justified in detail. Until these exemptions have been clearly defined, no G7 country should provide financing for gas infrastructure.

5 Climate Finance

What was achieved? The G7 renewed its commitment to deliver on the common goal of USD 100 billion mobilisation for climate finance as soon as possible and through to 2025. Also, they committed to work towards the Glasgow Climate Pact's requirement to at least double the provision of climate adaptation funding for developing countries by 2025 compared to 2019.

¹ Statement on International Public Support for the Clean Energy Transition. Available at: <https://ukcop26.org/state-ment-on-international-public-support-for-the-clean-energy-transition/>

² See, e.g., Climate Analytics (2022) Fossil Gas: A Bridge to Nowhere. Available at: <https://climateanalytics.org/publications/2022/fossil-gas-a-bridge-to-nowhere/> or NewClimateInstitute (2021) Paris Alignment of Gas. Available at: <https://newclimate.org/resources/publications/paris-alignment-of-gas>.

Where are the gaps? The G7 did not commit to new climate finance in general or for new initiatives. There was also no increase in climate finance pledges. In the case of Germany, Chancellor Scholz announced that he would live up to the commitment of Angela Merkel to increase international climate finance to EUR 6 billion by 2025. This runs the risk that developing countries will lose even more trust in industrialised countries at a time when it is crucial to rebuild trust.

What next?

- Last year, Germany and Canada presented a delivery plan for the USD 100 billion target. Now a progress report has to be presented to show what steps have been taken on the ten actions, and what countries are being held accountable.
- The G7 must provide concrete projections concerning how they aim to meet the doubling of adaptation finance by 2025 as agreed at COP26.
- Before COP27, the G7 should make use of platforms, such as UNGA or the G20, to announce an increase in the climate finance pledges. Unfortunately, they already missed the chance at the Petersberg Climate Dialogue already.

6 Loss and Damage

What was achieved? 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 has committed to scale up Climate and Disaster Risk Financing and Insurance (CDRFI) and work towards a Global Climate Risk Shield, building on the Global InsuResilience Partnership and other initiatives. Development ministers are asked to make progress on the Global Climate Risk Shield by COP 27.

Where are the gaps? A commitment to provide new and additional climate finance to support developing countries in addressing loss and damage at a scale commensurate with their existing and future needs.

What next?

- The development ministers need to make the Global Shield against climate risk work – in cooperation with affected developing countries based on their needs. The Global Shield must provide financial and capacity support to avert, minimise and address economic and non-economic loss and damage from extreme weather events and slow-onset processes.
- The G7 need to provide concrete finance for the Global Shield until COP27. Germany should initially provide EUR 1 billion in grants as a start-up contribution, as part of Germany's overall contribution to address loss and damage, to initiate a pledging round of G7 countries for the Global Shield.

7 Climate Club

What was achieved? The G7 has set itself the goal of establishing an open and cooperative international climate club by the end of 2022. The three main pillars of the club are

- 1) Avoiding carbon leakage through coordinated measures to reduce carbon intensity, e.g., with carbon prices or other instruments, whereby the coordination between the EU-CBAM, the announced UK instrument, and other potential instruments will play a crucial role;
- 2) Joint actions towards industrial transformation, building on the G7 Industrial Decarbonisation Agenda (IDA)³ and the G7 Hydrogen Action Pact (G7- HAP);
- 3) Enhancing international efforts through partnerships and cooperation.

Pillar two received by far the broadest support by G7 partners. The fairness of the process of establishing such an international climate club will be measured by how successfully the support structure in pillar three will be established.

Where are the gaps? Most details still need to be carved out. For example, it is unclear to what extent the Climate Club could actually achieve an increase in climate ambition, advance industrial decarbonisation and support climate justice. Although membership criteria are not yet set, it has been affirmed that they will not be limited to a carbon price but include a variety of instruments of the same ambition. Also, the institutional governance remains unknown, even though OECD, IMF, World Bank, IEA and the WTO have been asked to support the process.

What next? The German presidency announced that the Terms of Reference of the Climate Club should be published by the end of this year. These should be the basis for a very inclusive, cooperative, and ambitious climate club. To be successful, it should:

- Provide incentives to raise climate ambitions
- Set ambitious membership criteria, which reflect the CBDR principle and are coherent with the 2030 targets and aligned with 1.5°C
- Provide for the harmonisation of carbon leakage instruments
- Determine concrete areas of cooperation and push implementation of action points from the Conclusions of the Industrial Decarbonisation Agenda
- Concretise the G7 Hydrogen Action Pact, including by defining sustainability criteria for green hydrogen to support market transparency and pushing the market ramp-up in the right direction given the current potential to shape the global market.

³ G7 (2022). Conclusions regarding the Industrial Decarbonisation Agenda. Available at: <https://www.g7germany.de/resource/blob/974430/2044356/bf50123ab0c7c4d98bc2436a278e88ab/2022-05-27-4-conclusions-industrial-decarbonisation-data.pdf?download=1>

8 Just Energy Transition Partnerships (JET-Ps)

What was achieved? Based on the first JET-P launched at COP26 in Glasgow,⁴ the G7 announced its work towards similar partnerships with India, Indonesia, Senegal, and Vietnam.⁵ Little is known so far about these partnerships, but they are supposed to be aligned with the Partnership for Global Infrastructure and Investment (PGII) through which the G7 aims to mobilise up to USD 600 billion.⁶ While the EU will provide EUR 300 billion in public and private finance under its Global Gateway Initiative for PGII, the US aims to mobilise USD 200 billion. These sums sound impressive; however, only a limited part present new resources.

Where are the gaps? While concrete work on the first JET-P has started, others are to be set up. Although this is a promising process, there exists little transparency around JET-Ps. This lack of transparency concerns the extent of civil society involvement (and other stakeholders) and the type of financing that will be provided.

What next?

- The G7 should provide clarity on the financing packages for the South African JET-P.
- For the other JET-P, political declarations should be published as soon as possible, ideally before COP27.
- A general transparency on processes around all JET-Ps should be set up, taking into account national circumstances.
- Criteria for JET-Ps should be communicated to ensure these partnerships benefit the partner countries in their just energy transition (e.g., no support for fossil fuels), including ensuring active civil society participation in the process.

⁴ The COP presidency provided a six month update on the South Africa JET-P. Available at: <https://ukcop26.org/six-month-update-on-progress-in-advancing-the-just-energy-transition-partnership-jetp/>

⁵ G7 Chair's Summary: Joining Forces to Accelerate Clean and Just Transition towards Climate Neutrality. Available at: <https://www.g7germany.de/resource/blob/974430/2057418/9a1d62b3c5710b4c1989f95b38dc172c/2022-06-27-chairs-summary-climate-neutrality-data.pdf?download=1>

⁶ The White House: Memorandum on the Partnership for Global Infrastructure and Investment. Available at: <https://www.whitehouse.gov/briefing-room/presidential-actions/2022/06/26/memorandum-on-the-partnership-for-global-infrastructure-and-investment/>

9 Climate and Food Security

What was achieved? In support of the UN Global Crisis Response Group on Food, Energy and Finance (UN GCRD), the G7, together with the World Bank, are launching the Alliance for Global Food Security and pledging an additional USD 4.5 billion (for a total of USD 14 billion this year). They also promise to improve “agricultural productivity particularly in the most affected countries to build their resilience and support domestic production” in a way that “also strengthens the long-term resilience and sustainability of agriculture and food systems.”

Where are the gaps? While the G7 is making more funding available for immediate food security concerns, there is no clearly spelled-out strategy and related funding to make agriculture more sustainable by moving away from industrial approaches towards a sustainable and resilient agriculture and food system that is much less dependent on imports. This might be in conflict with food security for many small farmers as well as with climate and biodiversity goals. The role of speculation in the dramatic increase in world market prices has not been addressed.

What next?

- Ensure in the short term that pledges to address short-term food security are sufficient to meet immediate needs in developing countries and grain ends up on the plate instead of in the tank or in the trough. This would lead to price reductions and more confidence in developing countries while reducing overproduction and consumption of animal products in G7 countries.
- The G7 should also announce debt relief for countries that are particularly affected by the food crisis.
- Develop a medium to long-term strategy for making agriculture more sustainable, including necessary funding and by re-purposing agricultural support in G7 countries.
- Curb speculation in grain prices on the world market.

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