

Event Summary: Canada's Input to Germany's G7 Presidency

On 14 March 2022 twenty-five transatlantic policymakers, representatives from the private sector, civil society, labor, indigenous groups, academia, and think tanks discussed two key elements on the climate agenda of the German G7 presidency – Climate Clubs and (just) coal phase-outs. The event aimed to facilitate mutual understanding of G7 priorities and offered a chance for Canadian actors to deliver their takes and inputs to the German G7 planning process. The online event was organized by the Transatlantic Climate Bridge in collaboration with the International Institute for Sustainable Development. It was an invitation-only event hosted under the Chatham House Rule.

Framing the discussion – where does Germany stand?

The conversation began with a focus on Germany's G7 climate and energy agenda. Its G7 climate goals could be subsumed under the broader headline of showing leadership for 1.5 degrees.

The importance of the G7 taking a leading role in the implementation the Glasgow Climate Pact was underscored. Hereunder, as leaders, they should work to encourage countries to strengthen their 2030 targets and to submit long-term strategies in advance of COP 27. This work could be complemented by sending a strong signal of solidarity to emerging economies through, for example, international partnerships, where the benefits of replicating the South Africa model with other countries was discussed.

One known workstream to accomplish greater international climate ambition would be the creation of a climate club. The goal of a climate club would be to accelerate implementation of the Paris Agreement by turning climate commitments into a competitive advantage for those who join and to coordinate climate policy along the lines of e.g., common standards, industrial decarbonization, and carbon pricing.

Climate Clubs: Less clubby more cooperative?

The key question underlying the discussion was the trade-off between stringency and inclusivity and what role carbon pricing would play in a prospective climate club. In the traditional Nordhaus conception of a climate club, non-members would face punitive measures. While this could strengthen compliance, it does not address lack of capacity in many countries and could deter prospective club members from joining and prevent large-scale participation, which is a key goal of Germany's G7 presidency. On the other hand, non-punitive measures run the risk of not incentivizing ambitious climate action.

Participants agreed that a successful climate club must extend beyond G7 countries. As such, many advised against predicating club membership on a common carbon price. Doing so not only poses a significant administrative and methodological challenge (carbon pricing policies around the world vary greatly in their design), but it would also alienate many countries and hinder the club's ability to increase global climate ambition. Also, in this vein, participants discussed the inclusion of "club goods" as part of the climate club. For such goods, developed members could pool resources into mechanisms and tools for developing countries to use to decarbonize. This option could increase club membership and amplify

members' mitigation efforts. Lastly, one participant emphasized that non-G7 members must also be included in the discussion early on to ensure the climate club addresses the priorities of a diverse mix of countries.

The language of a "club" also came under scrutiny. A more inclusive and cooperative framing could increase such an agreement's appeal to more countries. One alternative idea was that of a toolbox of common principles and best-practices to achieve industrial decarbonization. Such a toolbox should be designed to incentivize a race to the top in emissions reductions and be able to be replicated across different countries.

“ Form follows function ”

One participant noted the need to take a step back and figure out what exactly a climate club is meant to do. Figuring out its function will help design its form. That is, first clarifying whether a club should e.g., include (explicit/implicit) carbon pricing, create standards, be tacked onto other initiatives such as the EUs Carbon Border Adjustment Mechanism, and how that ties into the inclusivity of a club will in turn inform how such a club will work in practice.

Just phase-outs: Lessons from home applied abroad

The conversation on just phase-outs was two-pronged, addressing both the experiences with just phase-out processes at home, and how they relate to plans abroad, for example the new partnership announced by Germany and a handful of other G7 countries with South Africa. Looking first nationally, a clear point was made that even if commissions and task forces are set up to explore how to approach just phase-outs away from fossil fuels, this does not ensure that recommendations born of such convened processes are implemented. Furthermore, it was underlined that lessons learned from coal phase-outs (due to the different nature of the fossil fuel's usage) and the people involved in the industry cannot be applied one-to-one to gas and oil phase-outs.

One participant also suggested a reframing of the narrative – rather than a (just) phase-out, we should be thinking of a (just) phase-to. By initially considering what we are phasing to we can create a holistic process with relevant stakeholders involved from the very start.

It was underscored that, despite potential shortcomings on the implementation of recommendations, there were good lessons learned that should be applied when supporting phase-outs and phase-downs abroad.

This is where the G7 can play a vital role. As one participant noted, part of the G7's objectives is to navigate towards coherence through discussions on the processes, challenges, and opportunities for, in this case, just transitions nationally and internationally. The G7 meeting is a unique space to create leadership on approaches to policy challenges (or opportunities) in most countries, sooner rather than later. It was noted that coordination was key – there could be an opportunity here through partnerships to make sense of the different streams that are available and then lower boundaries for different countries to implement a transition. Lowering boundaries also relates to funding. Being able to leverage project finance and have it work in lockstep with public and private finance will be necessary to achieve a far-reaching, inclusive transition.

Main takeaways

Overarching themes

- Be inclusive. Whether at home or abroad, public or private, the more you get on-board from the start, the wider your coalition, the wider the acceptance, and the higher the chance of sustainable policy.
- There is a need for conviction and follow-through on policy recommendations.
- Pursue policy alignment. Coordination and partnerships are crucial, aligning climate policy will create efficiencies and enable better more streamlined policy.
- Reduce effort through knowledge sharing. Look around for useful lessons, approaches to climate policy coordination can be found in, for example, the working groups the Western Climate Initiative erected in the run-up to the California-Québec carbon market partnership.

Climate Clubs

- Balance inclusivity with stringency. A framework that is too inclusive can set the ambition bar too low, but a framework that is too exclusive and punitive can alienate countries and prevent large-scale participation
- Open the doors to the club. Club membership must extend beyond the G7, which requires early engagement with non-G7 countries and decisions around whether developed members provide club goods to their developing counterparts
- Base form on function. How a climate club should be designed depends on its ultimate purpose (which could include creating markets for green goods, cooperation on government procurement, harmonization of green standards, among others).

Just Phase-outs

- Rethink phrasing to rethink your framing. Move from Just Phase-outs to Just 'Phase-tos'
- Use valuable lessons learned in the right context. Listen to the commissions and the task forces, take and apply the lessons and recommendations, but only when appropriate, e.g., just coal-transitions cannot be applied one to one to gas or oil transitions.
- Apply those lessons abroad. Just element is integral when supporting transitions abroad