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GERMANY'S G7 PRESIDENCY

Energy security, high expectations, and a climate club?

In 2022, Germany assumed the presidency of the Group of 7 (G7). Its term got off to an ambitious start but was soon overshadowed by the Russian invasion of Ukraine. In addition to the crimes against humanity committed in Ukraine, the war is having an immense impact on the energy sector and efforts to protect the climate, the extent of which cannot be calculated at present. At the same time, Germany now finds itself caught up in a severe crisis due to its dependence on Russian gas imports.

As the crisis broke, calls to slow the pace of the energy transition and halt the coal phase-out in favour of energy security were not long in coming. Although energy security now dominates political debates, there are glimmers of hope: At their meeting in Berlin at the end of May, the ministers for climate, energy and the environment highlighted their commitment to the coal phase-out – but declined to name a timeline or offer specific details. Other environmental and climate protection issues have since returned to the agenda – including efforts to decarbonize the power supply by 2035, protect biodiversity, and advance marine conservation.

In times of crisis, countries seek to find strength in international alliances, especially long-standing ties such as the transatlantic partnership and the G7. The German government had announced its intention to establish a so-called “climate club” as part of its G7 programme before the war. At the meeting of the climate, energy and environment ministers, this idea was put back on the table and initial options were discussed. The proposal to harness the climate club as an opportunity to support the greening of the industrial sector under the so-called “G7 Industrial Decarbonization Agenda” met with particular interest. (see BMUV).

While the idea may sound vague at first, it points in a certain direction: During his term as minister of finance, now chancellor Olaf Scholz promised to make the creation of a climate club a goal of the German G7 Presidency. The proposal's details include the introduction of a carbon price for members. One option discussed would be to use the Carbon Border Tax Adjustment Mechanism (CBAM) proposed by the EU. Club members would gain an economic advantage as they would not be required to pay the levy. Other carbon pricing models based on taxes and emissions trading schemes, for example, could also be considered. On the other hand, the German government's proposal for the climate club stressed its desire to take an inclusive approach. The overall goal would be a

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commitment to pursuing the 1.5°C target and climate neutrality, involving developing countries, and a focus on technical cooperation.

The idea of a climate club is not new

Broadly speaking, a “climate club” is a small or select group of actors who cooperate to accelerate progress on a particular climate issue beyond the scope of targets agreed in larger contexts such as the United Nations Framework Convention on Climate Change (UNFCCC). The idea is not new; as early as the 1960s, James M. Buchanan described clubs as economic communities and a particularly expedient form of cooperation. Likewise, Nobel laureate William Nordhaus argues that the pace of decision-making is swifter in climate clubs and that laggards/non-compliance can be more easily penalized, offering the promise of greater success than could be achieved under the UNFCCC. The debate around climate clubs has continued to evolve in the research community since then.

Today, a large variety of climate initiatives exist that could be described as clubs. For this reason, we refer to a broad spectrum of 'club-like associations' in our publication *Preparing the playing field: climate club governance of the G20, Climate and Clean Air Coalition, and Under2 Coalition*. The spectrum ranges from the G20 to large alliances such as the Climate and Clean Air Coalition or the Under 2 Coalition, each of which have over 150 members. At one end of this spectrum are the alliances that could be referred to as 'Nordhaus Clubs' - these have a strong focus on economic and political benefits. These clubs are usually small and exclusive groups that grant their members benefits such as tax or import duty exemptions or other financial advantages. The G7 comes close to this definition.

At the other end of the spectrum are the less exclusive groups, referred to by Jessica Green and others as 'pseudo - or voluntary clubs'. These groups focus on technical collaboration, knowledge development and sharing, and generally focus on a specific topic. Examples include the Climate and Clean Air Coalition, with its focus on short-lived climate-forcing emissions. In our publication, we identify a tendency towards the latter type of club and their focus on technical issues. In the past these clubs have served primarily to forge close cooperation and strong networks. They raise awareness of issues, build capacities to tackle climate challenges, and support the implementation of measures.

A climate club under the G7?

The German proposal is problematic in that it draws on aspects from both ends of the spectrum: On the one hand, the proposal is directed to the G7 members and emphasizes the goal of establishing a common carbon price. In that sense, it is similar to the more exclusive Nordhaus model. However, setting a common carbon price would exclude many countries which have not yet introduced carbon pricing and where proposals to do so are unlikely to gain political traction in the foreseeable future. The USA (a G7 member) is one prominent example. Even if the proposed club were to agree on a common border adjustment mechanism – similar to the EU CBAM - the project would raise significant issues: How would poorer countries in the Global South be dealt with (fairly)? How could a price be established that would not undermine the current high carbon price in the EU and render CBAM ineffective for climate protection? Would a club with a common carbon price at its heart be compliant with world trade law?

On the other hand, as noted above, the proposal includes the option of focusing on technical cooperation and finding common standards. The desired 'inclusivity' and involvement of countries of the Global South suggests that the ultimate outcome could merely be a loose association of countries or the type of “pseudo-club” previously described.

The vague statements made following the G7 climate meeting could already point in this direction. The aforementioned focus on the industrial sector also suggests a particular focus on technical



cooperation. The climate club could serve as a forum for discussion of various 'metrics' for the measurement, standardization and comparability of climate and energy policy measures, as deficits remain in this area at the global level. For example, the club could develop a sustainability label and common standards for the production and supply of hydrogen.

Similar proposals have been put forward for methane and steel. Under the 'Global Methane Pledge', each country is to develop a roadmap for its methane emissions based on common standards to ensure comparability. On the subject of steel, the USA and EU have established a 'Clean Steel Partnership' and signed a Memorandum of Understanding. A club could also tackle the issue of common standards for this sector.

Sectoral or thematic clubs are also more accessible for countries of the Global South – provided that they engage in capacity building and support activities. Discussions on technical aspects are also often less troubled by political concerns. There is not much time left before the G7 summit, but this direction can be pursued further in the second half of the year and in Japan's subsequent G7 presidency.