

## IASS-Blogpost

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[Dachzeile]

# A G7 Climate Club to Booster Transatlantic Relations?

Since January, Germany has held the presidency of the Group of 7 (G7). In line with its own national priorities, the German government announced [ambitious climate policy goals](#) for its G7 presidency. They included accelerating the global coal phase-out and enhancing sectoral decarbonization. The G7 presidency also introduced the concept of a G7-based climate club, which represents an opportunity to intensify transatlantic climate and energy relations.

### The German climate club proposal: A new spin on an old idea

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). As early as the 1960s, James M. Buchanan described clubs as economic communities and a particularly expedient form of cooperation. Nobel laureate William Nordhaus famously argued that in climate clubs, decision-making processes are faster and laggards/non-compliance can be punished more easily.

Academic research identifies two extreme types of clubs. At one extreme lie what can be termed as “Nordhaus Clubs”: exclusive, small groups that grant their members economic and political benefits. Nordhaus framed them as an alternative form of cooperation to the UNFCCC. At the other extreme are voluntary, rather loose and less exclusive alliances, referred to by Jessica Green and others as “pseudo – or voluntary clubs.” They focus on technical collaboration and knowledge development and sharing.

Today, a large variety of climate initiatives exist that could be described as clubs. We have studied a selection of them in our recent paper Preparing the playing field: climate club governance of the G20, Climate and Clean Air Coalition, and Under2 Coalition. [Examples of club-like initiatives that tackle climate issues range from the G20 to large alliances such as the Climate and Clean Air Coalition or the Under 2 Coalition](#), each of which has over 150 members. In the past, these clubs served primarily to forge close cooperation and strong networks. They raise awareness for a specific (climate) topic and build capacities to support the implementation of climate policy measures but refrain from setting numeric reduction targets for their members.

The German climate club proposal originally entailed elements from both club types. It envisioned that its members would agree on a common carbon price and potentially apply a common carbon border tax to those outside the club to address carbon leakage. Members would commit to achieving net-zero emissions by 2050. Yet, contrary to this very exclusive approach, the German government

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also planned to focus on technical cooperation and advertised an inclusive membership that would allow countries of the Global South to join and get financial support.

### **Challenges to the German G7 climate agenda**

The German agenda was challenged on various fronts: It was soon overshadowed by the Russian invasion of Ukraine with its humanitarian implications but also its implications for energy security in Germany and the European Union (EU) as a whole. Highly dependent on imports of fossil fuels from Russia and amidst quickly rising energy prices, Germany has been forced to find alternative sources, including the United States, to secure its fossil fuel supply for the coming winter.

Further, several conceptual aspects seemed to be in conflict from the start. Its ambition to establish a joint carbon price is problematic even among the G7 members, as only the EU countries and the United Kingdom operate a carbon pricing system at the national level. Also, agreeing on a common carbon price level without a cap-and-trade or tax system in place is an extremely difficult endeavour, where domestic politics and geopolitical sensitivities play a decisive role.

The G7 meetings ended up diluting Germany's ambitious plans. The G7 environment and energy ministers were unable to agree on a date and merely sought to phase out coal-fired power generation "as soon as possible." They committed to "predominantly" decarbonizing their electricity supply by 2035 and to decarbonizing transportation "to a large extent" by 2030. The long-overdue public financing of the G7 for unabated international fossil fuel projects is scheduled to end in 2022. Yet, as a glimmer of hope for climate protection, the G7 members agreed at the Leaders' Summit in June in Elmau to launch a climate club together by the end of 2022. The new proposal abandons the carbon price as a prerequisite for membership and consists of [three pillars](#).

*Even though introducing a common carbon price to date seems a long way from becoming reality, collaborating on common metrics and standards with a more long-term perspective is not without merit*

First, members would pursue ambitious and transparent climate mitigation policies and achieve carbon neutrality by mid-century. They strive for increased comparability among their efforts, e. g. in terms of their effectiveness and impacts. Here, carbon pricing could function as a benchmark for comparison. Second, members would accelerate industrial decarbonization and expand markets for green industrial products, for instance via already existing G7 initiatives such as the Industrial Decarbonization Agenda and the Hydrogen Action Pact. Third, the club aims at making use of international partnerships to facilitate climate action and capacity building in developing countries. The overall political goal of this climate club clearly complements and supports the achievement of the Paris Agreement's objectives, first and foremost keeping global warming at 1.5°C. The main activities planned now seem to come closer to an open, voluntary, technical forum, where the focus is set on decarbonizing the industrial sector.

### **The United States as part of a climate club?**

Any club-like initiative that includes carbon pricing would have been bound to cause friction with the United States. The Biden administration has ambitious climate goals, but it has not been able to introduce a national carbon price in the United States. In Congress, climate policy efforts are once again [stalled](#). A group of Democratic Senators recently introduced the [Clean Competition Act](#), an effort to introduce a carbon price for carbon-intensive industries alongside a carbon border adjustment mechanism. Carbon pricing is thus, once again, on the Congressional agenda. But so far there is little indication of the necessary Republican support for such measures.

The shift towards technical cooperation, finding common standards, and increasing the comparability of climate measures is therefore good news for transatlantic relations. It ties in well with existing efforts such as the Global Methane Pledge or the U.S.-EU trade agreement on steel and aluminium,



which promotes “green steel” with a low-carbon intensity, or the [German-American Climate and Energy Partnership](#), officially launched in May 2022. The Partnership’s working groups focus on offshore wind development, green hydrogen-related issues such as regulation and certification, zero-emission vehicle promotion and cooperation, and capacity building in emerging and developing economies. If these efforts are advanced at the G7-level, this could become a valuable starting point for the new climate club.