

Collaborating and Delivering on Climate Ambition Through a Climate Club

An independent report to the G7

Presented at WTO Trade and Environment Week

18 October 2022

Background

- What is a Climate Club: a new intergovernmental arrangement to reach agreements on pushing further and accelerating action on climate change
- Climate Club on agenda of German G7 presidency
- 28 June G7 Leaders' "Statement on Climate Club"
- Aim to establish Club by end 2022
- Task force of designated G7 ministries
- Request for independent report, led by Nick Stern (Grantham Institute)
- G7 Finance Ministers' conference on margins of WB/IMF Annual Meetings (Oct 2022)
- Likely to be on the agenda at COP27

Key principles (1)

- G7 Principles set out principles for the Climate Club – need expansion / elaboration
- **Ambition** for climate action defines membership but falls short politically (esp. in Global South)
 - broader purpose is a positive agenda of sustainable growth and development
 - with climate action enabling investment, innovation, finance
 - Climate Club needs to be about climate leadership as growth & development leadership
- **Respect** for Paris and global trade rules implies the need to:
 - cast ambition through progressively higher targets under annual UNFCCC process
 - work to support & reinforce initiatives under Paris umbrella, not create parallel tracks
 - and where impacting trade, observe WTO legal principles: not discriminatory, not arbitrary, not distortive, etc.
 - reflect members' different starting positions, in line with the principle of common but differentiated responsibility

Key principles (2)

- **Inclusiveness** means acknowledging differences in
 - policy mix going into the Club:
 - balance of carbon pricing & CBAM vs industry & technology and other non-price policies
 - considerable variation and will not fully harmonise
 - rationales for the Club (and motivations for joining):
 - tackling a collective action problem that constrains ambition
 - managing the consequences of differences in capabilities and policies
 - capturing coordination synergies
 - diversity of associated club goods:
 - partnership
 - managing policy diversity
 - sectoral alignment
- Question whether “club” label sets right tone, and uncertain theoretical foundation in club theory

Agenda

- **Club output:** process not treaties
 - Aspirational, cooperative arrangement – for discussing mutual challenges and agreeing on how to pursue mutually beneficial solutions within the existing institutional landscape.
 - It might involve members agreeing to: adopt sectoral carbon pathways; join existing arrangements on product standards; set up country cooperation platforms; or pursue principles for green standards, duties or subsidies at WTO
- **Working groups organised around three pillars** reflecting different motivations for joining:
 - A “**partnership**” pillar: financing & technical assistance options, technology transfer vehicles, private finance channels, collective action through the multilateral institutions
 - A “**managing policy diversity**” pillar: measuring & monitoring of policies and outcomes, forum for agreeing principles and monitoring of climate-related border measures (direct or through WTO fora)
 - A “**sectoral alignment**” pillar: decarbonisation paths and options for key sectors, including EITE, and agree on collective support for common standards and innovation

Governance and place in the climate architecture

- **Membership** a tricky balancing act. It must:
 - cover “systemic countries” (e.g., main emitters), respect CBDR, ensure sufficient commitment
 - but be inclusive from the start: co-design, no fait accompli
- **Structure:** model on CoFM and G20
 - Co-leadership G7/non-G7 from the start
 - Secretariat drawn from international institution(s) but independent from them
 - Working groups organised by thematic pillars, with institutional partners
 - Sponsorship at top of government
- **What is the value added** of the Climate Club in a landscape of climate initiatives, fora and institutions? Climate Club would combine:
 - Engagement at the top; shared member ambition; critical mass in terms of emissions coverage; a focus on the climate agenda; and comprehensive topical governance to support cross-cutting negotiations.