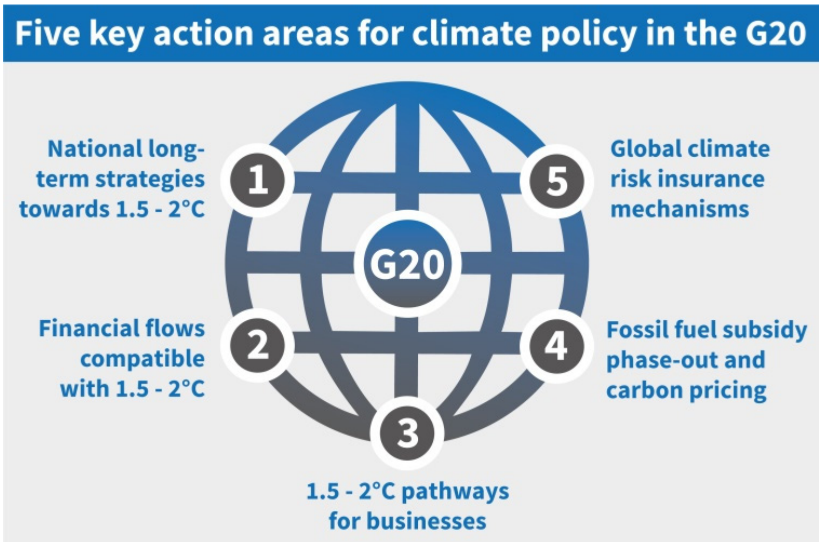
POLICY BRIEF EXPERT DIALOGUE G20 DECEMBER 2016

Climate, Energy and Green Finance

Ways forward during the German G20 presidency

In 2015, important international climate and development policy frameworks were forged. The G7 Elmau declaration to pursue the decarbonisation of the world economy over the course of the century was followed by the adoption of Agenda 2030 by the UN General Assembly and the historic Paris Climate Agreement under the UNFCCC. Amidst ongoing war and terrorism, a weak global economy and the rise of right-wing populist forces many climate policy developments remained encouraging throughout 2016: Deployment of renewable energies advances steadily, energy-related CO_2-emissions stagnate and many investors, financial institutions, companies, regions and cities are calling for long-term, ambitious climate protection. Despite the outcome of the US presidential election, Brexit and the EU crisis, the "Action COP" in Marrakech clearly showed that the international community considers the Paris Agreement as irreversible and is finally ready to take on the climate crisis. We need international cooperation to solve urgent global problems – now maybe more than ever. The G20 – the group of the largest and richest states that release about three-quarters of global greenhouse gas emissions – must stand up to their responsibility. Confronting the new US administration with that expectation by way of their climate and energy agenda for the G20 is the right thing to do for the German government. The years of diplomatic stalemate in climate politics during the Bush administration must not be repeated. Intelligent climate policy is a great opportunity for sustainable development, poverty eradication and more global equity. Recognizing this opportunity, many of the world's poorest and most vulnerable countries just pledged to go 100% renewable by 2050 – now the G20 must follow their lead.



Specifically, G20 countries should pledge to present their long-term national low-carbon development plans by 2018, showing how they will implement their Paris commitments and organize their exit from coal, oil and gas by 2050. Large companies and financial institutions should also be obliged to submit such long term low-carbon strategies. Whether their respective business models are compatible with the national long term strategies, the provisions of the Paris Agreement and rising CO_2 prices should be examined by stress testing. Public investment, and in particular the development of long-lasting infrastructure, must also be guided by the long-term climate goals and Agenda 2030. This is a necessary condition if risks are to be limited and the inevitable structural change is to be organized fairly and efficiently. Phasing out fossil fuel subsidies and introducing rising minimum prices for CO_2 – by tax, levies or through an effective emission trading system – are urgently needed to channel public and private funds into building sustainable infrastructure. Maintaining fiscal and economic stability is the core task of the G20. In times of climate crisis and increasing global inequality, the G20 need to pay more attention to the impacts of climate change and enter into transformative partnerships with the most vulnerable countries. To extend the scope of climate risk insurance with a clear focus on the poorest and most vulnerable populations in developing countries must be part of the answer.

November 30th expert dialogue “Climate and energy under the German G20 presidency”

On the eve of the start of the German G20 presidency, around 60 representatives of various ministries, the financial sector, academia, business and civil society, as well as the “Climate Vulnerable Forum” gathered at the Mercator Centre Berlin to discuss which goals and measures on climate, energy and sustainable finance should form part of next years’ G20 agenda, and which implementation strategies may prove successful. Germany takes over the G20 Presidency in a time of increasing dissatisfaction and scepticism about democracy among the population of especially the western industrialized countries. The increasing influence of right-wing populist parties and organizations, Brexit and the outcome of the presidential elections in the US prompted a change to the agenda in order to embed discussions into the wider geopolitical context.

In her comments on the changes in the political landscape and their influence on the work of the G20, **Dr Susanne Dröge** from the Berlin-based German Institute for International and Security Affairs emphasized the uncertainty regarding the future of transatlantic cooperation after the election of Donald Trump as the next US president. His protectionist agenda as well as the investments and economic policy measures he announced are expected to have a major impact on financial markets and trade relations, including the G20. To replace the US-Chinese alliance in international climate policy, new leadership coalitions will have to be explored in bilateral talks. The credibility and integrity of US climate policy will depend crucially on the federal states. An initial assessment of the Trump administration could take place after the Foreign Ministers’ meeting in February, where climate change and migration are on the agenda.

The co-director of UNEP Inquiry, **Dr Simon Zadek**, talked about progress in “green finance” and climate-related risks in financial markets. The Chinese government had put the issue on the agenda of finance ministers and central bank chairs, and the secretariat of the “Green Finance Study Group” was set up at a UN organization. With the adoption of the final report of the group, green finance leaped from the environmental playground to the grown-up panel of the decision makers. To ensure the continued work of the group beyond the extremely short German Presidency presents an important opportunity to mobilize the necessary investments for global sustainable development. However, environmental integrity must be secured to avoid green finance evolving into a mere marketing fashion without substance. **Kelly Yu**, a financial analyst at the International Institute for Sustainable Development in Beijing, China, emphasized the importance of civil society in this process during her contribution about the civil society engagement process C20. The disclosure of financial data constitutes an important first step towards making the sustainability impact of investments verifiable. The C20 working group on sustainable finance and investments that met during the Chinese presidency explicitly welcomed the progress towards green finance. However, opportunities for civil society engagement with the G20 process could clearly be much improved, and Germany would be expected to set an example here.

The first expert panel during discussion, starting left: Dr Susanne Dröge (SWP), Dr Gerrit Hansen (Facilitator, Germanwatch), Kelly Yu (IISD, Beijing) und Dr Simon Zadek (UNEP Inquiry).

The second part of the event focused on ways forward: which strategic priorities and arrangements could be helpful to promote the implementation of the Paris Climate Agreement by and within the G20? **Martin Kaiser**, Executive Director Programme with Greenpeace Germany, kicked-off the debate by highlighting the central role of 2050 long-term strategies for a cross-sectoral, just transformation. The effectiveness of long-term strategies becomes clear, for example, in the reaction of the German automotive industry, which seems to have recognized the future role of e-mobility. The G20 summit in Hamburg should send a clear signal that the requirements of the Paris Climate Agreement are understood and supported. However, new pioneering alliances and actors will be required for implementation, especially in the light of current EU climate policy which is clearly too weak to justify a leadership role.

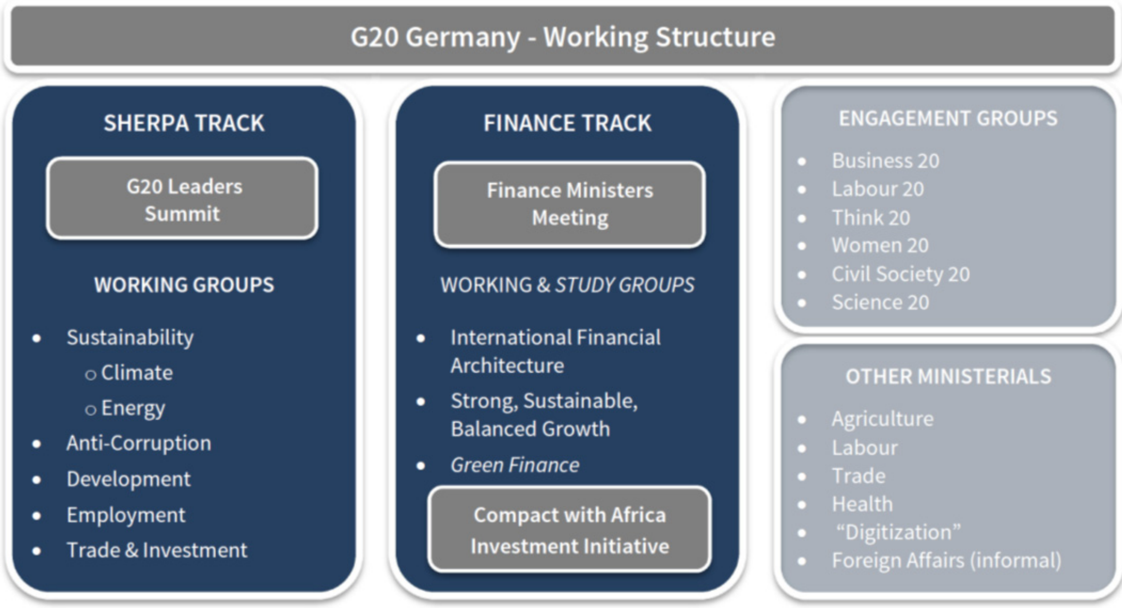
Dr. Brigitte Knopf, Secretary General of the Mercator Research Institute on Global Commons and Climate Change (MCC) in Berlin, spoke on tools for implementation of policies. The massive investments that are pending within the G20 over the next few years have to be shifted to clean technologies to avoid a long-term lock-in to a carbon-intensive infrastructure. A key element to reach this goal is the phase-out of fossil fuel subsidies. At the same time, introducing new carbon pricing instruments as well as the strengthening of existing pricing systems is paramount. Over time, such pricing systems should undergo broadening and deepening, and gradually increase the price level to be effective. For example, the G7 Carbon Pricing Platform could be extended to some, if not all, countries of the G20. An important aspect of carbon pricing is the revenue stream it creates, which can be used for investments in sustainable, low-carbon and climate resilient infrastructure, and for financial transfers that enable a just transition. In order to discuss these aspects in the context of general tax and expenditure policies, it would be useful to put the issue of carbon pricing on the finance ministers' agenda.

The second panel experts during the closing remarks by Christoph Bals (Germanwatch). Starting left: Dr Brigitte Knopf (MCC), Dr Gerrit Hansen (Facilitator, Germanwatch), Matthew McKinnon (UNDP), Martin Kaiser (Greenpeace Germany).

Matthew McKinnon, head of the UNDP support team for the Climate Vulnerable Forum (CVF), presented the perspective of the countries most affected by climate change, whose finance ministers have joined together in the so-called V20. At the COP22 in Marrakech, the CVF announced to shift to 100% renewable energies by 2050. Many of the CVF countries have already formulated ambitious national long-term plans, and are moving forward on issues such as carbon pricing, green bonds and fossil subsidies phase-out. Limiting global warming to 1.5°C is a matter of survival for the CVF countries, due to direct impacts such as sea-level rise, but also because damage costs endanger their economic development. As showcased by the new UNDP Low Carbon Monitor, stringent mitigation policies and economic development and growth are no contradiction: an ambitious decarbonization strategy creates job opportunities and has a positive impact on health and access to energy. The V20 message to the G20 also contains the appeal to support poor countries in their transformation and their efforts to increase resilience, e.g. by expanding insurance solutions for climate risks. The lively debate was concluded by the Germanwatch's policy director, **Christoph Bals**, posing as chancellor Merkel in a hypothetical post-G20 address to Donald Trump. Referencing the main points from his introductory remarks (see page 1), he concluded "I am a scientist, you are a business man – today we draw the same conclusion for different reasons: climate change is a challenge, but also a great opportunity."

Building resilience, improving sustainability, assuming responsibility in shaping an interconnected world – the German G20 agenda

The German G20 Presidency has chosen the official motto "Shaping an interconnected world" and brings together a broad range of topics under the three pillars "Resilience, Sustainability, Responsibility". The implementation of the Paris Climate Agreement is a key component of the German G20 agenda. The newly formed working group on sustainability, comprising the energy sustainability working group and a new climate sustainability working group, is working on a G20 action agenda for climate change.



The work of the Green Finance Study Group in the finance track continues, with a focus on disclosure of climate and environmental financial risks, and the development of instruments to evaluate and control such risks. What remains to be seen is whether sustainability and climate goals are integrated across the board, for example into the investment initiative led by the finance track, "African Compact". Similarly, the continuation of the G20 Action plan for Agenda 2030 and the implementation of the Hangzhou Action Plan for strong, sustainable and balanced growth can create either synergies or incoherencies.

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