

BRIEF ANALYSIS

The Hamburg G20 Summit Outcome on Climate and Energy

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[German summary included]

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Zusammenfassung

Die Welt hat den ersten Teil des "Trump-Test" zur Klimapolitik bestanden. Beim G20-Gipfel in Hamburg haben sich alle G20-Mitglieder mit Ausnahme der USA gemeinsam und eindeutig zum UN-Klimaabkommen von Paris und seiner engagierten Umsetzung bekannt. Dies folgt auf die UN-Klimaverhandlungen in Marrakesch im November und Bonn im Mai, wo bereits die Klimaverhandler der 194 Unterzeichnerstaaten des Paris-Abkommens außer den USA deutlich gemacht hatten, dass sie weiter an der Umsetzung arbeiten.

Das diesjährige Ergebnis des G20-Prozesses zu Klima stellt das umfassendste Klima-Paket dar, das jemals in der G20 verabschiedet wurde – obwohl es gegen den Versuch der US-Regierung verhandelt werden musste, die fossile Lobby in Stellung zu bringen¹.

Die Gipfelerklärung verpflichtet alle G20-Mitglieder, inklusive der USA, auf die globale Energiewende – die Differenzen bezüglich des Umgangs mit der globalen Klimakrise und der Zukunft der fossilen Energie werden dabei aber deutlich benannt. Im Konsensteil der Gipfelerklärung wird die Entscheidung der Trump-Regierung, das Pariser Klimaabkommen zu verlassen, zur Kenntnis genommen. Im darauffolgenden Abschnitt erklären die 19 anderen Staats- und Regierungschefs das Pariser-Abkommen für „irreversibel“ und stimmen dem Aktionsplan der G20 von Hamburg zu Klima und Energie für Wachstum² (KEAP) der G20 zu. Die Ankündigung des türkischen Regierungschefs Erdogan kurz nach dem Gipfel, das Pariser-Abkommen zunächst nicht ratifizieren zu wollen, ändert an diesem Konsensbeschluss der G19 nichts. Der seit Jahren regelmäßig vorgebrachte und nicht ganz unberechtigte Wunsch der Türkei nach einer Änderung ihres Status innerhalb der Klimarahmenkonvention³ ist nicht mit einem Ausstieg oder einer Ablehnung des Paris-Abkommens gleichzusetzen, auch wenn er jetzt als Bedingung für die Ratifizierung genannt wird.

Die Gipfelerklärung enthält im Absatz zur US-Haltung zu Klima einen Satz, in dem die USA ihre Absicht erklären, andere Länder bei „sauberem und effizienterem Zugang und Nutzung von fossilen Energien“ unterstützen zu wollen. Für die richtige Einordnung dieses Satzes ist es wichtig zu sehen, dass er sich nur auf die USA bezieht, und nicht Teil des gemeinsamen Textes ist. Außerdem ist seine Reichweite und Wirkung durch andere Inhalte der gemeinsamen G20-Erklärung deutlich eingeschränkt, wie dem gemeinsamen Bekenntnis zur Energiewende und zu den UN-Zielen für nachhaltige Entwicklung (SDGs) der Agenda 2030. Die G19 haben diesen problematischen Satz nur zugelassen, da die USA mit SDG-Ziel 7 einem starken Zubau von Erneuerbaren Energien und der Verdopplung der Steigerungsrate bei Energieeffizienz bis 2030 zustimmt. Im KEAP wiederholt G19 zudem den Anspruch einer Energiewende bis 2050.

Der KEAP wurde gemeinsam von 19 Partnern entwickelt und angenommen. Er zeigt wichtige Bereiche auf, die zur Umsetzung des Paris-Abkommens angegangen werden müssen, und listet für jeden Bereich mehrere G20-Aktionspunkte für künftige Kooperationen auf. Außerdem wurden wichtige Ergebnisse im sogenannten „Finanz-Strang“ erzielt – sowohl innerhalb der Studiengruppe zu Grüner Finanzierung (GFSG) als auch in der Task Force des Finanzstabilitätsrates zur Offenlegung von klimabedingten Finanzrisiken (TCFD) – welche dazu beitragen werden, private Investitionsströme und Geschäftsstrategien neu auszurichten: auf Nachhaltigkeit und die Pariser Klimaziele.

¹ Siehe Analyse von Donald Trumps "Rosengartenrede" im Germanwatch-Papier "The last battle of the fossil lobby", www.germanwatch.org/de/13976

² Abrufbar unter: https://www.g20.org/Content/DE/_Anlagen/G7_G20/2017-g20-climate-and-energy-de.html?nn=2190012

³ Zur Erklärung siehe Blogbeitrag "Türkei zwischen Sonne und Kohle", www.germanwatch.org/de/14075

Kernpunkte des KEAP sind unter anderem:

- die Verpflichtung zu einer **globalen Energiewende bis 2050** in Übereinstimmung mit dem Pariser Klimaabkommen. Dies bedeutet implizit, dass die Energiewende bis Mitte des Jahrhunderts zu einem treibhausgasneutralen Energiesystem führen muss.
- die Betonung der Bedeutung von **langfristigen Klimastrategien** und die Anerkennung, dass diese bis 2020 bei den UN eingereicht werden sollen.
- die wichtige Rolle der Langfriststrategien hinsichtlich ihrer **Lenkungswirkung für nationale Planungsprozesse** und Politiken, für das “mainstreamen” von Klimaschutz sowie ihrer **Anreizwirkung bezüglich Investitionen** und technologischer Innovation.
- die Versicherung, bestehende und künftige **nationale Klimabeiträge in Übereinstimmung mit den Erfordernissen des Pariser Klimaabkommens zu entwickeln und umzusetzen** – womit die Notwendigkeit von **Ambitionssteigerung** implizit anerkannt wird – und zwar in Kooperation miteinander und mit Entwicklungsländern.
- die Ankündigung, einen politischen und regulatorischen Rahmen zu schaffen, der die **Ausrichtung aller privaten und öffentlichen Investitionen auf die Pariser Klimaziele** fördert; wobei die Ergebnisse und Empfehlungen der G20 Green Finance Study Group (GFSG) und der Task Force on Climate-related Financial Disclosures (TCFD) als Aktionspunkte aufgelistet sind.
- die Gründung einer **"Globalen Partnerschaft für Klima- und Naturkatastrophenfinanzierung und Versicherungslösungen"** (“Global Partnership for Climate and Disaster Risk Finance and Insurance Solutions”) welche die Schutzlücke adressiert, welche für arme und verletzte Bevölkerungsgruppen besteht, die durch Klimawandelfolgen und Naturkatastrophen besonders bedroht sind.

Summary

The world has passed the ‘Trump Test’ on climate. At the G20 Summit in Hamburg, all 19 partners with the exception of the new U.S. Administration stood united in their support for the Paris Agreement and its swift implementation.

This year's G20 outcome on climate – albeit negotiated in the context of the US government fighting the last battle for the global fossil industry – is the most comprehensive climate package agreed at the G20 to date. The G20 Leaders’ Declaration (communiqué) commits all G20 countries, including the United States, to a transition to low-greenhouse gas (GHG) emission energy systems, while clearly marking the differences in the approach to the global climate crisis and to the future role of fossil fuels. Noting in the consensus paper the Trump administration’s intent to withdraw from the Paris Agreement, the 19 other leaders stress in the next paragraph that the Paris Agreement is "irreversible" and agree to the annexed G20 Hamburg Climate and Energy Action Plan for Growth⁴ (CEAP). This G19 consensus is not affected by President Erdogan’s announcement shortly after the G20 summit that Turkey will not ratify the Paris Agreement due to the pending decision on its status within the UNFCCC. Turkey’s wish to be granted “developing country” status is not without reason and has been part of the UN climate negotiations for many years⁵. It should not be mistaken for a rejection of the Paris Agreement, let alone a withdrawal.

The communiqué contains a sentence in the paragraph on the US stance on climate stating that the US will endeavour to support other countries in "the access and use of fossil fuels more cleanly and efficiently". Here, it is important to stress that this statement is only relevant for the US, and not part of the consensus. Its reach and impact is also limited by a joint G20 communiqué language, such as the G20 commitment to the energy transition and to the sustainable development goals (SDGs) of the UN-Agenda 2030. The G19 have only accepted this problematic sentence by the US because the US had – by way of in SDG 7 – agreed to both a substantial increase of renewable energy and a doubling of the rate of energy efficiency gains by 2030.

Jointly developed and accepted by the 19 partners, the CEAP identifies issues that need to be addressed for the implementation of the Paris Agreement and provides a list of G20 action items for future cooperation. In addition, important results were achieved under the finance track – both within the Green Finance Study Group and the FSB Task Force on Climate related Financial Risk Disclosure – that will help reorient private capital flows and business strategies towards a new sustainable direction in line with the Paris objectives.

Key outcomes of the Climate and Energy Action Plan include:

- the commitment to the **global energy transition by 2050**, in line with the Paris Agreement. Implicitly, this means that the energy transition will have to lead to net zero GHG emissions in the energy sector until then,
- the emphasis on developing **long-term, low greenhouse gas development strategies (LTS)** and a recognition that they should be submitted by 2020,
- the recognition of the important **role of LTS in guiding national planning and policy making**, mainstreaming climate action, and incentivising investment flows and technological innovation,

⁴ Available at: https://www.g20.org/Content/DE/_Anlagen/G7_G20/2017-g20-climate-and-energy-en.html?nn=2186554

⁵ See Blogpost “Lost in Contradiction: Could G20 Provide an Impetus for Turkey to Overcome its Conflicting Energy and Climate Targets?”, www.germanwatch.org/en/14077

- the pledge to move forward to **implement current and future nationally determined contributions (NDCs)** – and to cooperate regarding the NDCs of poorer countries – in line with the Paris Agreement, implicitly acknowledging the need to ratchet up ambition,
- the pledge to create an enabling environment that is conducive to **making public and private investments consistent with the goals of the Paris Agreement**, with an explicit action item on the recommendations of the Green Finance Study Group and Task Force on Climate-Related Financial Disclosure,
- the creation of a **”Global Partnership for Climate and Disaster Risk Finance and Insurance Solutions”** that addresses the protection gap for poor and vulnerable populations faced with disaster risk and impacts from climate change.

Overall assessment of the 2017 G20 climate outcome

The world has passed the ‘Trump Test’ on climate. At the G20 Summit in Hamburg, all 19 partners with the exception of U.S. President Donald Trump, made a strong commitment to implement the irreversible Paris Agreement and agreed to the most detailed document so far on climate change at the G20. This shows that the world – including even the big fossil fuel importers and exporters represented at the G20 – is standing united in the face of Trump's announced withdrawal of the United States federal government from the Paris climate agreement.⁶ The world is moving on and now turning its attention on how to implement the Agreement and actually reach its ambitious goals. It also sends a clear message to investors. Now, the G19 have to take the necessary implementation steps at home – they are the second part of the Trump Test on climate. Urgent action on many fronts is required between 2018 and 2020. An exit strategy for coal and a transformative framework for the mobility sector are among the requirements.

The German presidency had to navigate an extremely difficult diplomatic course, keeping consensus in the face of the antagonistic positions of the Trump US administration in many important areas such as trade, financial regulation, and of course climate change. In light of these circumstances, the climate outcome of the G20 process is an even more important signal to the world. The Hamburg outcome on climate marks the first time; agreement to disagree on an issue has been made explicit, by stating the position of 19 parties in a G20 final outcome. Usually, in cases where no agreement is possible, nothing is said in the G20 Leaders’ Declaration (communiqué). But the 19 leaders recognized that the global climate crisis is a severe threat, also to global economic stability, and that the G20 could not stay silent on the issue.

The Paris Agreement sets the ambitious objective of limiting global warming to well below 2°C and pursuing efforts to limit it to 1.5°C. The agreement explicitly states that the global economy needs to achieve net-zero greenhouse gas emissions in the second half of the century. Drawing on the best available science, this can be further specified: Staying well below 2°C will require net zero greenhouse gas emissions no later than 2070. It will also require zero CO₂ emissions from the energy sector – which are caused by the burning of fossil fuels – by 2050. Limiting warming to 1.5°C would require an even faster phase out of coal, oil and gas. This is an existential threat to the current business models of the fossil fuel industry. Donald Trump tried to organize the last battle of

⁶ See analysis of Donald Trump's "Rose garden speech" in the Germanwatch-Paper "The last battle of the fossil lobby", www.germanwatch.org/en/14058

the fossil lobby and derail the global consensus around the Paris Agreement. Hoping on the support of other fossil-fuel dependent G20 countries like Saudi Arabia, Russia or Turkey, the Trump administration made several attempts to undermine Paris in the G20 process. They failed. Instead, Trump has further isolated himself on the climate issue.

This year's G20 outcome on climate is the most comprehensive climate package agreed at the G20 to date and consists of three main pieces: the leaders' communiqué, the Climate and Energy Action Plan, and the outcome of the work on green finance and risk disclosure under the finance track. Specifically,

- **The communiqué**⁷ commits all G20 countries, including the United States, to a transition to low-greenhouse gas emission energy systems, but also clearly marks the differences on the Paris Agreement and its implementation. Acknowledging that the Trump administration intends to pull the United States out of the Paris Agreement, the 19 other leaders stress in a dedicated paragraph that the Paris Agreement is "irreversible" and commit to its swift implementation – or in the case of Turkey and Russia, which have not yet ratified, to move towards swift implementation.

This G19 consensus is not affected by President Erdogan's announcement shortly after the G20 summit that Turkey will not ratify the Paris Agreement due to the pending decision on its status within the UNFCCC. Turkey's wish to be granted "developing country" status, to be on equal footing with other emerging economies and to gain access to climate funds, is not without reason given its socioeconomic development and emissions level⁸. This request has been part of the UN climate negotiations for many years and should therefore not be mistaken for rejection of the Paris Agreement, let alone a withdrawal – despite the symbolic timing. The communiqué contains a controversial sentence in the paragraph on the US stance on climate stating that the US will endeavour to support other countries in "the access and use of fossil fuels more cleanly and efficiently", which might be read as an intention of the US to export fossil shale gas as part of a climate strategy. However, this sentence only refers to the US and is not supported by the other G20 members. Also, the G19 accepts this sentence only in the context of the joint communiqué section where all G20 members including the US explicitly support the Agenda 2030 as the framework of the global energy transition. And Agenda 2030 clearly states that in order to reach Goal 7, the universal access to affordable, reliable, sustainable and modern energy services, both the share of renewable energy in the global energy mix has to be increased substantially and the global rate of improvement in energy efficiency has to be doubled by 2030; and only in this context advanced and cleaner fossil-fuel technology is mentioned. And at the same time the CEAP – supported by G19 – recalls the invitation of the Paris Agreement to put long-term plans regarding a mid-century transition to low-greenhouse gas development forward until 2020 – indicating that all action taken now ultimately has to be consistent with the long-term climate goals.

- **The Climate and Energy Action Plan (CEAP)**⁹, jointly developed and accepted by the 19 partners, is a detailed to-do list of issues that need to be addressed to implement the Paris Agreement. The action plan was developed in a joint working group bringing together the discussions on energy and climate, a positive sign that climate is being mainstreamed – be-

⁷ Available at: <https://www.g20.org/gipfeldokumente/G20-leaders-declaration.pdf>

⁸ See Blogpost "Lost in Contradiction: Could G20 Provide an Impetus for Turkey to Overcome its Conflicting Energy and Climate Targets?", www.germanwatch.org/en/14077

⁹ Available at: https://www.g20.org/Content/DE/_Anlagen/G7_G20/2017-g20-hamburg-action-plan-en.html?nn=2190012

cause in the 21st century, you cannot make energy policy decisions without considering their climate impacts.

The preamble of the CEAP repeats the essence of Article 2 of the Paris Agreement, to limit global warming to well below 2, if not 1.5°C, to strengthen resilience and adaptation, and to make financial flows consistent with a path towards low greenhouse gas emissions and climate resilient development. All elements of the action plan have to be interpreted with this in mind.

While the most relevant issues for implementation are put on the to-do-list of the G20, some important specifics were not included due to pressure from a few countries. It is remarkable that a number of more ambitious commitments to implementation and operationalization, e.g. in the areas of a clear timeframe for phasing out fossil fuel subsidies and of climate related financial risk and mainstreaming green finance, were only blocked by very few G20 countries dominated by special fossil fuel interests, in particular Saudi Arabia. In a situation where it was crucial to get the clear signal of a G19 statement their negotiation power was strengthened. The others have to implement now what they were ready to agree in the G20.

- The important outcomes of **technical work under the finance track** – both in the Task-Force on Climate-Related Financial Disclosures (TCFD)¹⁰ and in the Green Finance Study Group (GFSG) – which are beginning to develop a framework that will reorient private capital flows and business strategies in a new, Paris-compatible direction. The G19 has put referenced these recommendations in the action section of the CEAP – and indeed the implementation of the financial disclosure recommendations will be a powerful transformative tool.

In addition to the formal outcomes, a number of actors released statements and announcements on stronger climate action around the summit, from cities to regions to businesses – not to forget the most vulnerable countries facing the global climate crisis. They all reaffirm that the global momentum for achieving the objectives set out in the Paris Agreement is stronger than ever.

The next years will be about actually implementing the necessary measures to keep global warming well below 2°C or even 1.5°C. To date, no G20 country is doing fully its part to achieve the Paris goals. Building on strong global consensus, all countries, including Germany, need to do more at home. Future G20 presidencies will need to build on the progress made in 2017, continue the mainstreaming of climate issues across all G20 work areas, including energy and finance, and work to add more specificity to the commitments made in Hamburg.

In the following chapters, we analyse the outcome of this years' G20 summit, the Communiqué language and the Action Plan on Energy and Climate for Growth, with a view to the following five key areas of implementation action:

1. Long – term low greenhouse-gas development strategies towards 1.5/2°C
2. Carbon price signals: Fossil fuel subsidy phase out and carbon pricing
3. Financial risk disclosure and 1.5/2°C pathways for businesses
4. Making public and private investments consistent with the Paris goals
5. Resilience and support for the most vulnerable

¹⁰ Available at: <https://www.fsb-tcfid.org/publications/final-recommendations-report/>

1 Long-term strategies towards low greenhouse gas development and nationally determined contributions (NDCs)

The CEAP has a strong emphasis on developing long-term strategies (LTS), as these will guide the national development planning, and serve as orientation for businesses and investors. The CEAP reconfirms the invitation to all countries agreed in Paris to develop and present those mid-century plans by 2020.

The importance of these strategies is also highlighted in the communiqué:

“We will continue to mitigate greenhouse gas emissions through, among others, increased innovation on sustainable and clean energies and energy efficiency, and work towards low greenhouse-gas emission energy systems. In facilitating well-balanced and economically viable long-term strategies in order to transform and enhance our economies and energy systems consistent with the 2030 Agenda for Sustainable Development, G20 members will collaborate closely.”

The CEAP also stresses the importance of near-term, pre-2020 action, and emphasizes the value of mainstreaming nationally determined contributions (NDCs) into broader national development and growth strategies.

The pledge to **“move forward to implement current and future NDCs in line with the Paris Agreement”** is a reference to Paris architecture with the need to **ratchet up ambition in five year intervals**. “Future NDCs in line with the Paris Agreement” would be much more ambitious than the current NDCs, so global warming can be limited to 1.5°C or well below 2°C. Highlighting enhanced cooperation among G20 countries and with other countries – this is most important for the poor and vulnerable countries – speaks to the willingness to engage in a common process. The promising instrument of the NDC-Partnership is mentioned explicitly as an important vehicle to deliver on that objective- and strengthened efforts to support developing countries with their NDC implementation are announced.

This is accompanied by the commitment to **“further align (...) development cooperation activities with partner countries’ NDCs, as well as the goals of the Paris Agreement (...)”** – meaning in essence that all development cooperation should be oriented towards a Paris compatible low-GHG and climate resilient development pathway and the necessary shift of finance flows.

While recognizing that there is no “one size fits all” approach, and that LTS will be living documents, the CEAP highlights the opportunity that LTS provide for “national, country-specific approaches, guiding short(er) term planning and policy making in relevant sectors, mainstreaming climate action with efforts to promote inclusive economic growth and the implementation of the 2030 Agenda” and recognizes that “they can incentivise respective investment flows and technological innovation.” In addition, the CEAP provides an explicit clear reference to the important link between LTS and infrastructure investment.

Energy transition strategies

As part of the long-term low-GHG development strategies, energy and development planning is of the essence. In its part D., the CEAP states that the G20 should **“lead the transition to sustaina-**

ble and low-GHG emission energy systems”, stressing that “robust, long-term energy sector strategies and their timely implementation will increase investor certainty, attract necessary investments and help minimize the unexpected devaluation of assets in the energy sector”.

The reference to the risk of stranded assets in the fossil fuel sector is particularly important, given the enhanced efforts towards disclosure and assessment of climate related risks and mainstreaming of green investment criteria in this years’ G20 work. Various references to enhancing financial flows towards energy efficiency, mobilising private sector investments into renewable energy, and realising access to modern and sustainable energy services for all, in particular in Africa, Asia-Pacific and also the Latin American regions highlight that **the G20 recognize mobilizing new finance and shifting existing investment flows towards renewable energy and energy efficiency as a top priority for both climate and development**.

In stating to “jointly work to transform our energy systems into affordable, reliable, sustainable and low-GHG emission energy systems as soon as feasible and consistent with the Paris agreement (...)” **the G20 implicitly commit to reaching net zero emissions in the energy sector by 2050**: While the Paris agreement pledges to reach global GHG neutrality in the second half of the century, scientific analysis by the IPCC makes it very clear that the energy sector has to be decarbonized upfront and by 2050 at the latest in order to achieve the long-term temperature goals.

The fact that the G20 invites the International Energy Agency (IEA) and the International Renewable Energy Agency and other international organisations to support their efforts through regular update reports on the energy transformation and further investment needs, supports their announcement of a voluntary exchange of best practice and collaboration.

2 Carbon price signals: Fossil fuel subsidy phase out and carbon pricing

Transformational change needs transformational policy instruments. A rising, cross-sectoral carbon price with a price floor– implemented through a tax, levy, ETS or hybrid system – constitutes such an instrument: A clear price signal that internalizes current and future damages from GHG-emissions would correct current market distortions, enable innovation and channel public and private funds into low-GHG-technologies and business models.

However, direct subsidies and the lack of internalization of external environmental and health damages currently lead to a net-negative global price on carbon.

Since 2009, the G20 annually reiterate their pledge “to rationalize and phase out over the medium-term inefficient fossil fuel subsidies that encourage wasteful consumption”. However, global price signals for carbon are still dominated by consumption and production subsidies for fossil fuels. The G20 members alone supported fossil fuel production (including exploration, extraction, and development) by USD 444 billion per year on average in 2013 and 2014.

Though some progress has been made on fossil fuel subsidy reform over the last years, e.g. in individual countries like Saudi Arabia, India or Indonesia or in the G20 peer-reviews of US-China, Mexico-Germany (due this fall) and Indonesia-Italy (due 2018), **there was again no consensus on introducing a phase-out date** (following, e.g., the 2016 pledge by the G7 to phase out fossil fuel subsidies by 2025 and a suggestion of the German presidency to accept this date also as G20). The current text therefore reiterates the existing commitment, adding that **“we will endeavour to make further progress in moving forward this commitment”**, encouraging all G20 members to initiate a voluntary peer review as soon as feasible, and noting the OECD/IEA progress report on

the peer review process and facilitation of inefficient fossil fuel subsidies phase out. Germany could use the rest of their G20 presidency (until end of the year) to initiate a process together with the Argentinian presidency to move indeed forward this commitment, as it is real disappointment that again no clear timeline is announced in the text. All engagement groups of G20 had jointly asked for such a timeline.

The CEAP also recognizes that “inefficient fossil fuel subsidies (IFFS) that encourage wasteful consumption distort energy markets, impede investment in clean energy sources, place a strain on public budgets, and incentivise unsustainable infrastructure investments”.

On carbon pricing, there has been some progress despite considerable resistance from countries such as Russia, Saudi Arabia, India and the US. The announcement in sector F of the CEAP to **“encourage to initiate sharing good practices and experiences on domestic mitigation and adaptation policies, including domestic economic and market-based instruments as well as emission to value approaches”** should be read as important agenda setting and the beginning of **a G20-process for mutual exchange on carbon pricing** – which, given the circumstances, represents a step forward. The ‘G19’ part of the communiqué also acknowledges the OECD report “Investing in Carbon, investing in Growth” which sets forward a clear rationale for carbon pricing and a price trajectory consistent with a well below 2 degree warming pathway. Still, the lack of a clear direction within the G20 regarding price signals despite widespread support from businesses, civil society and think tanks is a reason for concern. Again all G20 engagement groups – including business and labour – ask the G20 countries to implement CO₂-price signals. “Sharing good practices and experiences” can only be the starting point in this regard.

3 Financial risk disclosure and 1.5/well below 2°C pathways for businesses

Many of the action items outlined in the CEAP, such as enhanced NDCs or long-term low-GHG emission strategies will have direct implications for businesses – and disclosure should make transparent how well they are prepared for these challenges and opportunities. In order to enable companies to develop Paris Agreement-compatible business models and plans, and thereby minimize the risks of stranded assets, it is essential that large financial institutions and big companies develop their own low-GHG business strategy and undergo climate risk-stress testing. This kind of disclosure is a necessary precondition that the financial market incentivise transformative action.

The Financial Stability Board’s industry-led Task Force on Climate related Financial Disclosures (TCFD) got a mandate to develop recommendations for finance actors and businesses **to disclose environmental data, report on their strategies to develop long-term Paris Agreement-compatible business plans, and stress-test their business models against different climate scenarios**, in order to identify risks from climate impacts, but also litigation and reputational risk and resilience against ambitious climate policy, e.g. high and rising carbon pricing. As a result, businesses can be rated based on the extent to which they prepare for the implementation of long term strategies and carbon price signals.

The implementation of the TCFD recommendations can become an important element of a transformative strategy. Most important is the recommendation that not only actual emissions by companies – representing decisions of the past – but also their long term strategies and stress tests related to the future should be disclosed as part of financial reporting.

This can only help to address systemic climate risk for the financial system and to enable markets to make better informed investment decisions, as envisaged by the FSB, if the recommendations for voluntary actions will actually be implemented. The fact that finance actors and businesses were part of this working group makes this challenge easier.

The Chairs Summary of the Finance Ministers Meeting in April in Washington stated that the G20 finance ministers and central bank governors welcome the findings of the TCFD and “encourage **in particular large and listed companies to voluntarily consider the recommendations produced**”. The CEAP includes a reference to the TCFD work under a list of action items concerning aligning of financial flows (section F), which gives a mandate to the G20 to play an active role in implementing the recommendations.

That the work of the Task Force constitutes a substantial leap forward in making the financial system more climate-resilient and shifting investment from brown to green is revealed by the harsh resistance from the main voices of the fossil industry lobby, Saudi Arabia and the new US administration, who blocked an additional endorsement in the communiqué – despite the fact that the guidelines have already been welcomed by more than 100 firms, with market capitalisations of over \$3.3 trillion and financial firms responsible for assets of more than \$24 trillion.

4 Making public and private investments consistent with the Paris goals

Over the next 15 years, up to 90 trillion USD are estimated to flow into infrastructure investments worldwide, with the lion’s share being invested within or by G20 countries. Aligning these investments with the Paris Agreement and the UN Agenda 2030 is paramount, as failing to do so would lock the world into a high-carbon, unsustainable path for many decades.

Mobilizing private sector investment in support of the Paris Agreement and Agenda 2030 is a recurring theme of the CEAP, without downplaying the significant role of public finance. The CEAP stresses that the transformation towards sustainable, low greenhouse gas emission and climate resilient infrastructure can constitute significant opportunities for stimulating employment, poverty eradication and growth.

Stating that “in facilitating well-balanced and economically viable long-term strategies and **signals for investments** in order to continually transform and enhance our economies and energy systems, G20 members will collaborate closely (...)”, the CEAP again highlights the important double role of long-term strategies and the right investment incentives for shifting financial flows in the context of the global energy transformation.

Also in pledging, as governments, to strive “**to create an enabling environment that is conducive to making public and private investments consistent with the goals of the Paris Agreement** as well as with the national sustainable development priorities and economic growth” the CEAP re-affirms the importance of national frameworks and regulation to “shifting the trillions” from conventional “brown” to green and sustainable investment. The invitation of “the OECD, UNEP and the World Bank **to compile ongoing public and private activities within the G20 for making finance flows consistent with the Paris goals** and, building on this, to analyse potential opportunities for strengthening these efforts and present this analysis in 2018” is the **first time that governments jointly commission a climate-related stocktaking and monitoring exercise in the area of finance**.

The ongoing work of the **G20 Green Finance Study Group** (GFSG, under the finance track), and its results (summarized in a synthesis report) encourage the development of better methods to assess environmental risks and opportunities, as well as improve access to publically available environmental data. Similar to the TCFD outcome, this represents a step forward towards “greening the financial system” and shifting the trillions towards sustainable, low-GHG-development.

It is of utmost importance that this work be continued in order to mainstream climate and sustainability criteria into financial regulation and investment-decision making. While the Chairs summary of the Washington Meeting of the Central Bank Governors and Finance Ministers on 20-21 April in Washington reaffirmed the relevance of the work on green finance and its continuation, **direct reference to the GFSG was deleted from the communiqué due to pressure of the US administration and Saudi-Arabia, but Finance ministers should follow up based on the agreement there.** The CEAP again lists the GFSG activities under a list of action items regarding aligning financial flows, indicating it may form part of a future agenda. In the remainder of its presidency, Germany should work with Argentina, the next G20 presidency, to develop a green finance work program for next term.

In addition, the role of multilateral development banks (MDBs) as enabler and multiplier for Paris Agreement-compatible finance is highlighted through calls for “all MDBs to identify opportunities for cooperation and enhanced action to address, inter alia, ambitious adaptation and mitigation (...)”, as well as to “illustrate how private sector finance can be further mobilised to meet the objectives of the 2030 Agenda and the Paris Agreement.” As the G20 are the main shareholders of all MDBs, such calls are of imminent importance. The communiqué states that the G20 would “(...) support financing by MDBs to promote universal access to affordable, reliable, sustainable and clean energy”, but a strategy to climate-proof the activities of MDBs across the board is not put forward. Incentives to invite the MDBs to submit a joint action plan to that end were refuted by the US Administration. The G19 should now move the acceptance of such an action plan forward in the coming months.

5 Resilience and support for the most vulnerable

The G20, other than the G7, does not constitute a traditional donor forum. Announcements of financial assistance are not to be expected. Despite growing South-South cooperation and financial pledges, in particular by China, the emerging economies are very sensitive to upholding the traditional firewall between themselves and the industrialized countries that have obligations to deliver climate finance under the UNFCCC. Still, in particular with regard to addressing disaster risk and scaling up adaptation finance, several forward-looking announcements for future cooperation are made in the CEAP:

The commitment by developed countries to **the goal of jointly mobilising USD 100 billion per year by 2020**, and their intention to continue this through 2025, for mitigation and adaptation in developing countries is reemphasized, and the Green Climate Fund and the Global Environment Facility are recognized in the communiqué as important in supporting the global response to climate change.

A whole sub-section of the CEAP (D.3) is devoted to realizing SDG7, **access to modern and sustainable energy services for all**, with an emphasis on the G20 energy access plans for Sub-Saharan Africa and the Asia-Pacific region, and a view to extend this work to Latin America. Here, explicit recognition is given of “the opportunity for **voluntary support for the objectives of the**

African-led Renewable Energy Initiative (AREI), which aims at accelerating access to renewable energy in Africa and reducing energy poverty to enable an energy sector transition.”

Another key area (section E) of the CEAP addresses **Enhancing Climate Resilience and Adaptation Efforts**, where plans are laid out to address the protection gap of poor and vulnerable people and populations facing disaster risk and climate impacts. The G20 acknowledge that the impacts of climate change are already felt today and that poor and vulnerable people will be disproportionately affected by these impacts. For the first time in the history of the G20 process, the topics of resilience and adaptation are addressed as part of a G20 outcome. With their decisions, the G20 actively support achieving the Paris adaptation goal of enhancing adaptive capacity, strengthening resilience and reducing vulnerability to climate change.

The CEAP encourages “multilateral institutions to scale up financing for adaptation efforts of and to improve access to adaptation finance for developing countries” and welcomes “the arrangements developed by the Green Climate Fund to aim for a balance between mitigation and adaptation action over time.”

An important step forward is that the CEAP welcomes the creation of a **“Global Partnership for Climate and Disaster Risk Finance and Insurance Solutions”**, inviting relevant partners from G20 and other countries, international organisations and, as appropriate, civil society and private sector to engage according to their respective capacities. This partnership is building on existing platforms such as InsuResilience, and ongoing work by the World Bank on “Sovereign Climate and Disaster Risk Pooling”. Highlighting the need to integrate risk finance and insurance solutions into broader financial protection and comprehensive risk management strategies, the Global Partnership will develop synergies with other related initiatives, such as Climate Risks Early Warning Systems and the Global Facility for Disaster Reduction and Recovery. Multilateral institutions are encouraged to develop options for innovative climate and disaster risk finance solutions. It is crucial that G20 countries now commit to support the Partnership and that all of its activities are taken in the context of a clear pro-poor framework.

The CEAP also announces the development of a Work Program with the aim of sharing best-practices and of promoting enhanced efforts for adaptation and resilience-building at home and in cooperation with partner countries, starting this year, and invites the World Bank, MDBs, and other international organisations to assist in identifying potential areas of further cooperation in 2018.

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