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FACTS & FINDINGS



PROSPECTS FOR GERMAN FOREIGN POLICY

The German G7 Presidency (III)

CLIMATE POLICY: DEVELOP EMISSIONS TRADING SYSTEM.
ADVANCE THE TRANSFORMATION OF THE ENERGY SYSTEM.
ENHANCE ADAPTABILITY.

Working Group of Young Foreign Policy Experts

Featuring the global climate conference in Paris, 2015 will be a key year in the fight against climate change. Consequently, one of the main aims of the G7 Summit should be to forge a consensus on climate change for a follow-up agreement to the Kyoto Protocol within the G7. To achieve the two-degree target, the focus must remain on the avoidance of emissions. For this purpose an effective emissions trading system in the G7 should be developed. Moreover, the superior climate technologies in possession of the G7 nations should be capitalized on in the framework of technology, capacity and scientific partnerships. However, the huge impact of climate change means that the adaptability of all countries also needs to be enhanced. Since this can mitigate ecological and humanitarian disasters and the associated large migration flows, it is also in the G7 members' own interest to support the affected developing countries.

Information about the Working Group of Young Foreign Policy Experts is available at: <http://www.kas.de/wf/en/71.6391/>

*Prospects for German Foreign Policy:
<http://www.kas.de/prospects>*

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INTRODUCTION: GERMAN PRESIDENCY OF G7

In July 2014 Germany assumed the presidency of the G7 and will therefore host the meeting of the G7 heads of state and government on 4-5 June 2015. The presidency gives Germany the opportunity to have more of a say in defining the agenda of the summit meeting. The German government has already announced that it will pay special attention to the continued development of the United Nations' Millennium Development Goals. With an eye to the upcoming climate conference in Paris, the Summit will also focus on climate protection. Another topic on the agenda will be the realm of foreign and security policy. Here, the focus will naturally be on current crises and conflicts.

However, the Summit also offers an opportunity to address longer-term concerns and to launch joint G7 initiatives. In view of this, the Working Group of Young Foreign Policy Experts from the Konrad-Adenauer-Stiftung has prepared three papers in the run-up to the conference that address the topics of foreign and security policy (Paper I), development policy (Paper II) and climate policy (this Paper III). Based on the short analysis at the beginning of each paper, concrete recommendations for action that the German government should advance during its G7 presidency are provided.

CLIMATE PROTECTION AS A TASK FOR THE G7

2015 is a pivotal year for climate protection. The international climate conference in Paris in December 2015 will have to pass a new and binding climate agreement in order to limit the scale of climate change. Germany has therefore rightly announced that it intends to make climate policy a focus of its G7 presidency. Accordingly, the German government campaigned for greater commitment to climate protection and climate finance at the UN climate summit in New York at the end of September 2014. But what can the G7 bring to the table in the global climate debate?

If the G7 intends to represent a Western community of values, it has to assume responsibility en bloc for the world. With regard to 2015, the G7 will bring together countries that are signatories to the Kyoto Protocol and countries that are not. Consequently, every G7 compromise in the realm of climate policy would have a global signalling effect. It would represent a two-fold invitation for talks – between Europe and the USA as well as between the G7 and the large emerging economies. The G7 brings together not only the largest emitters, but also the most important technological

leaders in this policy area, thus presenting an additional, complimentary way to combat climate change. The fact that the G7 countries are also among the largest providers of development aid further eases the implementation of the development policy measures necessitated by climate change.

Moreover, the G7 plays an important liaison role in relation to the G20. As part of the G20, the BRICS countries are crucial in terms of climate protection. However, they are only willing to cooperate in a constructive manner if the G7 nations make significant individual contributions, doing justice to their historical role as major pollution emitters. The BRICS countries have already demonstrated their potential to obstruct climate action in Cancun and Copenhagen. The G7 must now make credible action commitments in order to be in a position to call these countries to account. Climate policy also has the potential to bring the G7 and the G20 closer again after the most recent phase characterized by simmering alienation. The charge by the emerging economies of a two class system of global governance became particularly prominent when ambitious talks in London on financial market regulation broke down. This development can be overcome through a joint initiative in a future-oriented and equally important policy area.

The main aim should therefore be to forge a climate consensus for a follow-up agreement to the Kyoto Protocol within the G7. In the context of Germany's presidency of the G7, the German government should advocate that the group explicitly adheres to the aim of adopting a globally binding climate agreement in 2015 as stated in the 2014 Brussels Declaration. The G7 must not go back on this pledge. Expressly acknowledging the various ways of achieving the two-degree target (increasing efficiency, pulling out of energies with high emissions and/or technological progress) will be conducive to the process. In order to meet the two-degree objective, the focus must continue to be on avoiding CO₂ emissions. However, the huge impact of climate change means that the ability of all countries to adapt must also be improved.

In the context of its presidency of the G7, Germany should advocate that the specific emissions reduction targets of 30% by 2020 and 80% by 2050, measured in relation to 1990 and recommended by numerous expert panels, are implemented consistently by all member countries. All the G7 nations should also declare their national contribution to CO₂ reduction by March 2015.



POLICY RECOMMENDATIONS

1. Avoid emissions:

Develop effective emission trading system in the G7

Accompanying the adaptation to the unavoidable consequences of climate change, effective climate protection also needs to be in place where emissions occur. The further prevention or slowing down of climate change is primarily the responsibility of the industrial nations. A unique feature of the G7 is the union of countries with and without an emissions trading system (ETS); hence a compromise within the G7 would have a global signalling effect. From an economic perspective, climate change can be considered a classic market failure as emissions cause damage, in other words, incur costs, which are not borne by the parties causing the damage. An ETS puts a price on emissions that are harmful to the climate. Internal policy debates on the introduction of ETS are taking place in all G7 nations. Germany should capitalise on this momentum and in its presidency of the G7 advocate a reform of the European ETS and a flexible, intercontinental merger of the various ETS. More particularly, Berlin should also make integration of sub-national ETS possible.

The EU has the largest market for emission certificates. However, the price of certificates has fallen considerably in recent years. Consequently, there have been fewer incentives to cut down on emissions. In order to elicit a rethink by major pollution emitters and bring about long-term modernisation of the economy in the interests of sustainability, the EU ETS should be reformed. The total number of certificates should be consistently reduced each year in accordance with a clearly defined ratio in order to ensure planning security for the companies affected. The ETS should therefore also be extended to all sectors with high emission levels. Such reform would enhance the function of the EU ETS as a global model.

In parallel, working towards an intercontinental merger of the various ETS is desirable. Based on a reformed European ETS, such proposal for cooperation involving the sub-national level offers an opportunity to circumvent obstacles created at the national level by individual G7 countries. In a trial phase US states such as California and Canadian provinces such as Quebec, which already have their own ETS, could join the reformed EU ETS on a voluntary basis. This would allow these states and provinces to experience the impact of an ETS system and on the basis of such a trial campaign for involvement at the national level. This could result in a transatlantic ETS in the long term.

Germany should actively promote ETS consolidation during its presidency of the G7 in order to set international standards in climate protection in a forum which comprises the strongest industrial nations. An initiative involving voluntary commitment at the state level in non-European G7 nations offers a one-off opportunity to advance the climate policy debate in Canada and the USA too.

2. Establish climate protection partnerships: Utilise technological leadership

The head start gained by the G7 nations in terms of climate-relevant technologies must be capitalised on in the international climate debate. The G7 brings together not only the largest emitters, but also the most important technological leaders in this policy area, thus facilitating an additional, complimentary way to combat climate change. Intelligent solutions can help avoid emissions, enhance the ability to adjust to climate change and improve strategies for coping with climatic consequences. Climate protection partnerships incorporating the three dimensions technology, capacity expansion and science should therefore be established. Whilst the developing countries need continued support in the form of affordable technology transfers, emerging economies (chiefly from the G20) should work in the spirit of a partnership on equal footing and make a counterpart contribution to the partnership through increased co-financing. Triangular cooperation would be a constructive way to incorporate emerging economies in such climate protection partnerships and share the financing of the instruments proposed here.

Technology partnerships should initiate or accelerate technological transition in favour of climate-friendly and climate-neutral companies. Firstly, this includes the reorganisation of the energy and consumption matrix through intelligent technological solutions, most of which have already been tested in the industrial nations. These involve improved energy efficiency and an expansion of renewable energies for reducing emissions. However, climate protection is also protection against climatic consequences. This involves, for example, setting up multi-national or regional early warning systems, including satellite reconnaissance and the gathering of climate data by drones. A technology transfer also lends itself to the tasks of flood protection in coastal areas or the monitoring of forest areas to prevent illegal clearance. Germany should promote the setting up of a 'North-South transfer fund' here, to which G7 members and G20 members as well as other interested nations should make financial contributions.



Disaster protection and training of the relevant agencies and provision of equipment should be enhanced with the help of a *capacity partnership*. Germany should therefore propose an international 'Initiative to increase capacities for protection against climatic consequences' in the context of the G7. Disaster control and emergency management in the industrial nations should be placed under scrutiny in the process and a structured exchange of experiences facilitated. Such cooperation on a practical level will achieve specific improvements in the partner countries and increase their willingness to cooperate with the G7 in other areas of climate protection. At the same time, capacity partnerships would be used to professionalise local agencies and would also create knock-on learning effects in the industrial nations.

Finally, the *science partnership* involves the long-term promotion of scientific know-how, going beyond the promotion of specific projects. It should advance the structured networking of climate sciences between industrial nations, emerging economies and developing countries in order to consolidate local research infrastructures and facilitate greater adjustment of technological solutions to the respective local circumstances and requirements. The model of twin institutions in industrial and developing countries has already proved its worth regarding the structured sharing of knowledge in other areas of research (UNU-Flores, for example). In emerging economies, bilateral agreements with foreign universities and the international institutes of German scientific organisations can play an important role in the context of climate protection partnerships.

3. Manage climate change effects: Employ innovative development policy instruments

Some countries are already suffering from the consequences of climate change. The resulting distributional conflicts and migration flows harbour risks for regional stability. In addition to reducing emissions, it is in the G7 members' own best interest to support the affected developing countries in preparing for the consequences of climate change and setting up disaster prevention. As the largest providers of development aid, the G7 nations have a relevant set of development policy tools at their disposal.

In order to coordinate the financing of adaptation measures, the German government should urge its partners in the G7 to pledge adequate financial resources to the *Green Climate Fund* that was mandated in Copenhagen in 2010. Germany was the first member of the G7 to pledge a contribution of 750 million euro in July 2014. Other industrial nations now need to follow this example. To ensure the fund can work, financial pledges amounting to at least 15 billion US dollars

must be made before the summit meeting in Paris in 2015. In doing so the G7 members would also respond to calls from the developing countries, which lost confidence in the industrial nations after the delay in setting up this fund.

Some of the adaptation resources should be allocated to insuring potentially affected areas against the consequences of climate change. The *Munich Climate Insurance Initiative*, a pilot project for insurance-based risk management in the Caribbean, already bears 'German' hallmarks through the involvement of the Munich Re Foundation and financial support from several Federal Ministries. At the same time it also involves the private sector, specifically the insurance industry, in combatting the consequences of climate change. Consequently, it should be extended (with the necessary adaptations) to include other regions in the world and the insurance premiums should at least in part be paid for using the adaptation resources of the *Green Climate Fund*. A corresponding initiative could be presented by the G7 nations at the climate summit in Paris since these nations boast financially robust reinsurance companies. Insurance premiums could be reduced considerably through the transfer of technology which improves local climate data forecasting.

Equally important is anticipating and preventing climate migration. It is already possible to predict which areas are likely to be uninhabitable in ten or twenty years' time on the basis of climate data. Resettlement programmes need to be launched in these regions in the medium-term in conjunction with the Nansen Initiative for 'climate refugees' and the UN Refugee Agency (UNHCR). As the only G7 nation involved in the Nansen Initiative, Germany can provide an important impetus in this area.

However, as climate migration will primarily lead to greater urbanisation in the developing countries themselves, the future focus of development cooperation with the affected regions must be on improving the quality of life in cities. In the context of its presidency, Germany should therefore encourage its partners to provide specific urban infrastructure support via public-private partnerships. Passing on knowledge from the major cities in the G7 member countries that have experience with urban crisis management would significantly contribute to overcoming climatic consequences in the developing countries. German cities and local authorities, such as Hamburg and Dresden, have already set a good example in providing flood management advice. The German government should invite its partners in the major industrial nations to follow suit and further develop the mutual exchange of experience between cities and regions on the adaptation to the effects of climate change.