



Task Force 4  
Refuelling Growth: Clean Energy  
and Green Transitions



INDIA 2023



# SECTORAL CLIMATE ALLIANCES FOR HIGHER AMBITIONS: PUTTING PLURILATERAL CLIMATE COOPERATION ON THE G20 AGENDA

July 2023

**Parul Kumar**, Senior Policy Specialist, EPICO Klimainnovation, Berlin, Germany;

**Heiner von Lüpke**, Senior Researcher, German Institute for Economic Research (DIW Berlin), Germany.


वसुधैव कुटुम्बकम्

ONE EARTH • ONE FAMILY • ONE FUTURE



# **Abstract**






**T**he Paris Agreement represents the collective ambitions of its signatory countries to limit the global average temperature to well below 2 °C above pre-industrial levels and pursue efforts to limit it to 1.5 °C. Given the limitations of a multilateral format focusing on overarching climate change mitigation goals, recent discussions have focused on establishing plurilateral alliances to supplement the multilateral United Nations Framework Convention

on Climate Change (UNFCCC) process. Two such examples are the G7's proposal for a climate club and the Global Climate Alliance (GCA) proposed by Indian policy actors in the lead-up to the G20 summit in India in 2023. This Policy Brief examines the potential of such plurilateral formats for adopting a sectoral approach and increasing the ambition of industrial decarbonisation by participating countries. It also offers suggestions for the way forward.



# The Challenge



# 1


## Increasing the ambition for industrial decarbonisation through plurilateral cooperation

By signing the Paris Agreement, countries have committed to broad, overarching climate goals.<sup>1</sup> However, despite industrial emissions being the second largest source of global greenhouse gas (GHG) emissions, GHG mitigation measures in the industry appear only in 47 percent of the nationally determined contributions (NDCs) in the Paris Agreement.<sup>2</sup> The scope of action of intergovernmental institutions is generally much broader than the mitigation of GHGs in emission-intensive industries—the topic of decarbonising emission-intensive industries has, therefore, not found a prominent place in the portfolios of intergovernmental institutions.<sup>3</sup> International climate alliances with a plurilateral format bring together like-minded countries, and focus on industrial decarbonisation. They can, therefore, fill an important gap in the intergovernmental landscape. Further, the appropriateness of using a sectoral approach globally, analogous to domestic climate policy has also been highlighted, particularly for decision-making by sectorally structured ministries as well as private organisations.<sup>4</sup>

Between June 2022 and January 2023, two proposals have emerged for the creation of plurilateral climate cooperation formats alongside the United Nations Framework Convention on Climate Change (UNFCCC) process: the climate club proposed by Germany during its G7 presidency,<sup>5</sup> and the Global Climate Alliance (GCA) proposed by Indian stakeholders in the lead-up to the G20 summit in India, in 2023.<sup>6</sup> Conceptually, both proposals aim at accelerating the ambition for emission reduction alongside the UNFCCC approach, while reinforcing the commitment to the Paris Agreement as a fundamental criterion for membership.<sup>7</sup> While both proposals aim at emission reduction in industry, they differ in their approaches, and the challenge for the G20 lies in finding common ground between the two initiatives.

### The G7 Proposal for a Climate Club

A statement released by the G7 in June 2022 under Germany's presidency expressed an intention to “establish a Climate Club to support the effective implementation of the Paris Agreement by accelerating climate action and increasing ambition, with a particular focus on the industry



sector”.<sup>8</sup> Three pillars were identified: first, the advancement of ambitious and transparent climate mitigation policies; second, collectively transforming industry for accelerated decarbonisation; and third, boosting international ambition through partnerships and cooperation with a view to supporting a just energy transition.<sup>9</sup> Notably, the G7 statement reflects an openness to climate change mitigation policies other than carbon pricing, marking a departure from Germany’s earlier stance on the topic.<sup>10</sup>


The G7 statement on the Climate Club was followed up in December 2022 with the terms of reference (ToR) for the creation of such a club. In the ToR, the climate club was characterised as a “high-ambition intergovernmental forum for discussion”, playing the role of an “enabling framework for increased cooperation, improved coordination and potential collective action”.<sup>11</sup>

The ToR reiterated the commitment to the three pillars identified in the G7 statement, while additionally providing for a governance structure in the form of a secretariat (to be hosted at first in an interim format by the Organisation for Economic Cooperation

and Development (OECD) and the International Energy Agency (IEA).<sup>12</sup> Further, it set out the creation of a Climate Club Task Force—an informal group of the G7 and other partner governments, including from the G20 and other emerging and developing economies—to collectively decide on matters such as governance, membership structures, process, and outreach.<sup>13</sup>

The G7 climate club aims “to contribute to raising climate action globally by facilitating a near zero emission industrial production transition.”<sup>14</sup> Its focus is industries, initially engaging with “unlocking potential for the decarbonisation of hard-to-abate industrial sectors”, followed by the inclusion of other sectors with the potential for substantial greenhouse gas reduction.<sup>15</sup>

The G7 statement is for joint industrial transformation for the acceleration of decarbonisation, and refers to the Industrial Decarbonisation Agenda, the Hydrogen Action Pact, and the goal to expand markets for green industrial products.<sup>16</sup> The G7 Terms of Reference notes: “[t]he Climate Club will advance the enabling conditions for substantial sectoral industry decarbonisation by



discussing and aiming to align, as far as possible, methodologies, standards, sectoral strategies and milestones and expanding markets for green industrial products.”<sup>17</sup> Thus the role of the climate club is to facilitate the sharing of best practices and provide common definitions for near-zero GHG emissions, come up with the necessary accounting standards for GHG emissions, and identify sectors, such as steel, cement, and hydrogen.<sup>18</sup>

The third pillar of the club refers to funding mechanisms, which are needed for implementing decarbonisation in emerging economies and developing countries. The proposal is to create a “platform for alignment, matchmaking on a voluntary basis and creating synergies between cooperation and funding instruments.”<sup>19</sup>


### The proposal for a Global Climate Alliance

The proposal by Indian policy stakeholders for a GCA envisages member countries committing to a long-term net-zero target, along with “statutory/legally binding, Paris Agreement-aligned, economy-wide, GHG emission reduction targets”, and the submission of detailed

and evidence-based sectoral transformation plans consistent with decadal commitments.<sup>20</sup> The sectoral focus areas of the GCA proposal are broader in comparison with those of the G7 (discussed in detail in section 3). Moreover, there is an emphasis on finance for climate adaptation and climate change mitigation through the creation and deployment of funds, such as the Climate Innovation Fund, and the Climate Resilience Fund as well as exploring interlinkages with just energy transition partnerships (JETPs).<sup>21</sup>

The GCA identifies the mobilisation and implementation of additional finance to meet climate change mitigation and adaptation challenges in the Global South.<sup>22</sup> It also envisages financial provisioning and mobilisation as the mandate for industrialised countries (Group A countries). The developing countries (Group B countries) receiving these financial flows should commit to higher climate goals, development policies, and measures,<sup>23</sup> structured along five mitigation segments as detailed below.

Accordingly, the focus of the GCA is the identification of ‘sectoral transformation targets’ and working towards GHG



neutrality in each sector.<sup>24</sup> The sectors identified are: (1) industrial emissions policy, (2) low-carbon energy mix, (3) energy efficiency measures, (4) increased share of public transport, and (5) zero-emission vehicles.<sup>25</sup>

Within the industrial emissions policy, the five major industries are iron and steel, cement, chemicals and petrochemicals, aluminium, and pulp and paper.<sup>26</sup> The objective is to commit to industrial standards and targets consistent with the net-zero and decadal targets with climate-neutral technologies (e.g. carbon capture, utilisation, and storage (CCUS) and hydrogen).<sup>27</sup>

### Convergence and divergence between the two proposals

Although the GCA proposal is more broadly framed than the G7 proposal, the two approaches reflect a convergence on the cooperation on

industrial decarbonisation, particularly in the emission-intensive sectors of steel and cement as well as in setting common industrial standards and utilising climate-neutral technologies such as green hydrogen.

Whereas the G7 proposal aims to increase ambition and cooperation through the creation of a “high-ambition intergovernmental forum for discussion”,<sup>28</sup> the GCA proposal expresses the intention of setting down legally binding targets for the member countries.<sup>29</sup>

Another important point of difference is the manner in which international climate finance is addressed in both initiatives: bridging the finance gap is central to the GCA proposal, while the climate club mentions voluntary match-making initiatives for climate finance.





# **The G20's Role**



# **2**



## Developing pathways for international climate alliance-building

### 1. Identifying sectoral foci for industrial decarbonisation

Given the convergence of both proposals, industrial decarbonisation emerges as the obvious candidate for commencing activities in a plurilateral format. A targeted sectoral approach offers a significant meeting point for the G7 and the GCA proposals. Here the identification of a pilot sector would help lay down the goals, and draw up the procedural frameworks and institutional mechanisms. A new plurilateral format could be piloted in one emission-intensive sector in the short term, offering learnings and replication in the medium term.

The identification of relevant sectors can be based on a set of factors, such as the emission profile of the sector, the exposure to international trade, and the added value to existing international initiatives aimed at the decarbonisation of a sector.<sup>30</sup> Based on these criteria, sectors such as iron and steel, cement, chemicals, and agriculture are some examples that emerge as appropriate candidates.<sup>31</sup>

### 2. Identifying goals for industrial sector cooperation

This section provides an illustrative list of suggestions for sectoral cooperation in a plurilateral format.

#### *Setting definitions, standards, and certification practices*

The IEA notes the importance of definitions and certifications for low-emission and zero-emission production for facilitating purchase decisions, policy implementation, and investor finance choices.<sup>32</sup> Demand- and supply-side measures focused on basic materials with net-zero emissions will require common definitions, standards, methodologies, and certification schemes for determining benchmarks.<sup>33</sup> A new international climate alliance focussed on specific sectors could facilitate the creation of common definitions through consultations with major emitters in the field.

#### *Knowledge-sharing and policy diffusion*

The climate club proposal aims at promoting the generation and sharing of knowledge to foster understanding of policy and technology options, while

the GCA takes this up as a necessary international policy alignment. Both initiatives can widely contribute to knowledge generation and sharing in technology, finance, and sectoral transformation in general. Such knowledge generation is an important pre-condition for policy learning, policy diffusion, and policy convergence, and can thereby promote a higher rate of adoption of climate policies within member states.<sup>34</sup>

### ***Technology diffusion***


An international climate alliance can contribute to technology diffusion, and play the role of “an international technology and investment accelerator” to facilitate technology diffusion and co-innovation in developing countries.<sup>35</sup> Here, the G7 and the G20 can help establish strategic investment partnerships with developing and emerging economies. The two groups can support the development of the required infrastructure for the diffusion of breakthrough technologies, in bilateral and mini-lateral formats, mirroring the JETPs.<sup>36</sup>

### ***Securing finance and creating lead markets***

An international alliance focused on emission-intensive sectors would also need to ensure financial flows for the sectoral transformations, particularly for buy-ins from developing countries. Proponents of a ‘green materials’ club argue for incentives for joining the club, not only for accessing finance for key infrastructures of industrial decarbonisation, but also accessing green niche markets. These markets can be promoted through instruments like green public procurement and contracts for difference.<sup>37</sup> This work could constitute yet another strong connector between the climate club and the GCA, the explicit objectives of both being the creation and expansion of markets for green industrial products.

### **3. Identifying avenues for cooperation between the Global North and Global South**

Bridging the climate club and the GCA approaches could help move beyond the inequitable agenda-and priority setting between the Global North and the Global South—an area which is traditionally dominated by northern

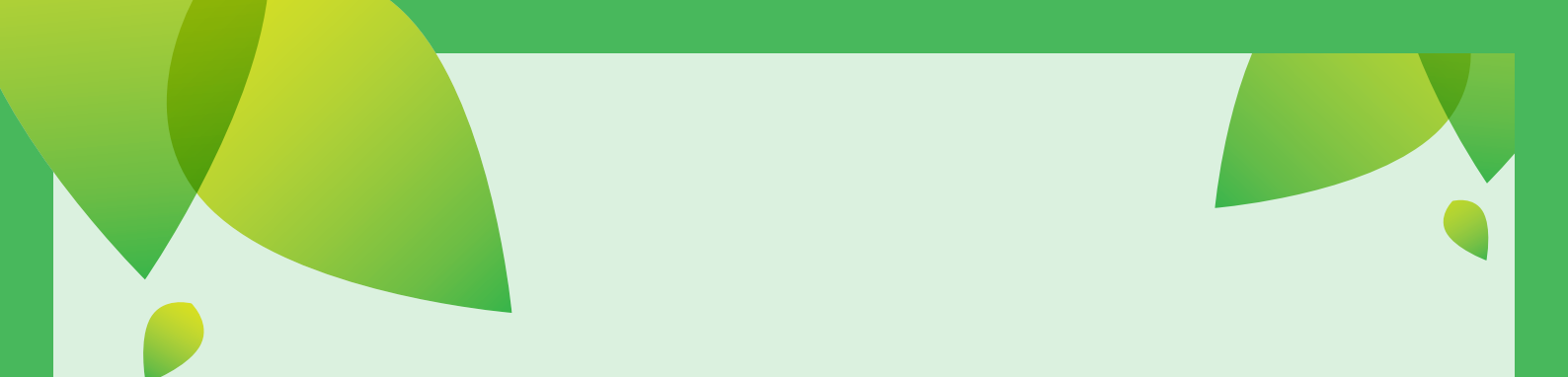


and western paradigms.<sup>38</sup> This could be achieved through co-ownership between Global North and Global South countries and equitably composed working groups, in which the contents and strategies of future climate cooperation in a plurilateral format are shaped.

The GCA refers directly to the synergies with JETPs, which are mentioned in the G7 statement for the climate club, but are absent from the subsequent ToR. Such partnerships for just energy transitions could improve cooperation between the Global North and the Global South. The implementation of the pilot JETP in South Africa reveals both the significant potentials for a socially just transformation as well as the learnings for improved cooperation and trust-building through credible

financial commitments between the parties involved.<sup>39</sup> The JETPs also demonstrate the value of focusing on cooperation on sectoral themes.

The differences in the GCA proposal on finance, support, and partnership-building (with a firm emphasis on scaling up finances adequately) and the G7 ToR (a rather voluntary and non-binding focus area for the club), can provide important starting points for creating a dialogue and exchange between the two initiatives at the G20. In particular, discussions around the nature of finance and support options (voluntary or binding), and mutual commitment to higher ambitions (particularly in the emission-intensive industries) would foster trust, the lack of which is seen as one of the causes of the gaps in international finance.<sup>40</sup>



# **Recommendations to the G20**



# **3**




**N**ew institutional initiatives to deal with the governance gaps in global decarbonisation should in the first instance focus on the key actors (the major industry emitters being China, the US, the EU, India, Russia, and Australia) along with the inclusion of emerging economies showing favourable structural conditions for net-zero production in emission-intensive industries (such as South Africa, Saudi Arabia, Brazil and Indonesia).<sup>41</sup> The cooperation can take the form of a small number of ambitious members coming together, with the membership expanding over time.<sup>42</sup> Given that most of the relevant actors for kick-starting such a cooperative and ambitious initiative are members of the G20, it is logical for the G20 to take the discussions on such an alliance forward. The G7 inception of the climate club is founded on the principle of inclusivity, and therefore, the G20 summit in 2023 offers an opportunity to secure more members to operationalise an alliance focused on sectoral industrial decarbonisation, particularly with Indian policy actors expressing a similar inclination in their GCA proposal.

Both initiatives could therefore play important roles in the development of

international institutional structures for a new plurilateral format to support the Paris Agreement. Both proposals aim at raising the ambition levels of climate mitigation and related transformations. To support such initiatives adequately through climate finance and partnerships, it may be necessary to recognise the political and institutional dimensions involved, and create conducive 'rules of the game'.<sup>43</sup>

The degree to which the rules of a new international climate alliance are binding on its member countries will be a crucial element of the architecture of a new plurilateral format for climate cooperation. While concretising the rules of such an alliance, it will be important to determine where it sits on the spectrum of political feasibility and binding rules.<sup>44</sup> The IEA recommends an international alliance with an industry focus for aligning policy goals of different countries with a sequential approach: targeting voluntary measures and cooperation on common methods (e.g. for measuring and reporting embedded carbon) in the short term, and then building up to the implementation of binding approaches in the medium term.<sup>45</sup> The cornerstones of a new international climate alliance should be negotiated between G7



and G20 members, to find a feasible pathway between the proposals for the G7 climate club and the GCA.

The ideas and proposals of the G7 climate club have met with scepticism from potential G20 partners in the Global South.<sup>46</sup> One of the reasons for this could be that the climate club is perceived largely as a G7 initiative, furthering the interests of industrialised countries and is, therefore, regarded

with caution by partners in the Global South. Therefore, if the climate club is to be effective, it must overcome this perception and find strong allies with initiatives from the Global South, and with G20 partners. A joint diplomatic effort, particularly at the G20 level, is needed for deliberations on both the commonalities and divergences of the two initiatives, and in particular, to find common ground on technical, financial and policy matters with a sectoral focus.

Attribution: Parul Kumar and Heiner von Lüpke, "Sectoral Climate Alliances for Higher Ambitions: Putting Plurilateral Climate Cooperation on the G20 Agenda," *T20 Policy Brief*, July 2023.




## Endnotes

---

- 1 UNFCCC, Article 2(1), Paris Agreement.
- 2 UNFCCC Secretariat, *Nationally determined contributions under the Paris Agreement. Synthesis report by the secretariat* (Sharm el-Sheikh: UNFCCC, November 6-18, 2022), 9, <https://unfccc.int/documents/619180>.
- 3 Sebastian Oberthür, Gauri Khandekar, and Tomas Wyns, “Global governance for the decarbonization of energy-intensive industries: Great potential underexploited,” *Earth System Governance* 8, (2021): 5, <https://doi.org/10.1016/j.esg.2020>.
- 4 Sebastian Oberthür, Lukas Hermwille, and Tim Rayner, “A Sectoral Perspective on Global Climate Governance: Analytical Foundation.” *Earth System Governance*, (April 2021): 4 , <https://doi.org/10.1016/j.esg.2021.100104>.
- 5 G7, *Statement on Climate Club* (Elmau: G7 Germany, 2022), <https://www.g7germany.de/resource/blob/974430/2057926/2a7cd9f10213a481924492942dd660a1/2022-06-28-g7-climate-club-data.pdf>.
- 6 GCA Collaborative, *A Global Climate Alliance for Accelerated Climate Action* (New Delhi: Observer Research Foundation, Brussels: Konrad-Adenauer-Stiftung, Berlin: German Institute for Economic Research (DIW), 2023), <https://www.kas.de/documents/272317/272366/A+Global+Climate+Alliance+for+Accelerated+Climate+Action.pdf/33936b24-a5a8-be13-fda4-c21f31de6828?version=1.1&t=1673609788367>.
- 7 G7, *Terms of Reference* (Berlin: G7 Germany, 2022), 3, <https://www.g7germany.de/resource/blob/974430/2153140/a04dde2adecf0ddd38cb9829a99c322d/2022-12-12-g7-erklarung-data.pdf?download=1>; GCA, *A Global Climate Alliance for accelerated Climate Action*, 35.
- 8 G7, *Statement on Climate Club*, 3.
- 9 G7, *Statement on Climate Club*, 1.
- 10 Parul Kumar, Heiner von Lüpke, Marian Feist, Heather Exner-Pirot and Hubertus Bardt, *Perspectives On Designing A Climate Club: Alliance-Building To Strengthen International Climate Cooperation, Discussion Paper* (Berlin: EPICO Klimainnovation and Macdonald-Laurier Institute, 2022), 5, <https://epico.org/en/alliance-building-to-strengthen-international-climate-cooperation>.
- 11 G7, *Terms of Reference*, 1.
- 12 G7, *Terms of Reference*, 4.
- 13 G7, *Terms of Reference*, 4.
- 14 G7, *Terms of Reference*, 1.
- 15 G7, *Terms of Reference*, 1.
- 16 G7, *Statement on Climate Club*, 1.
- 17 G7, *Terms of Reference*, 2.



- 
- 18 G7, *Terms of Reference*, 2-3.
  - 19 G7, *Terms of Reference*, 3.
  - 20 GCA Collaborative, *A Global Climate Alliance for Accelerated Climate Action*, 24 - 25.
  - 21 GCA Collaborative, 35.
  - 22 GCA Collaborative, 33.
  - 23 GCA Collaborative, 20-21.
  - 24 GCA Collaborative, 25.
  - 25 GCA Collaborative, 25-26.
  - 26 GCA Collaborative, 25.
  - 27 GCA Collaborative, 25.
  - 28 G7, *Terms of Reference*, 1.
  - 29 GCA, *A Global Climate Alliance for Accelerated Climate Action*, 24-25.
  - 30 Kumar et al., *Perspectives On Designing A Climate Club*, 10.
  - 31 Kumar et al., 10.
  - 32 IEA, *Achieving Net Zero Heavy Industry Sectors in G7 Members* (IEA, 2022), 57, <https://www.iea.org/reports/achieving-net-zero-heavy-industry-sectors-in-g7-members>.
  - 33 Simon Otto and Sebastian Oberthür, *Global Governance for the Decarbonisation of Energy-Intensive Industries: Exploring Sectoral Options (Deliverable 6.1b)* (Brussels: VUB, 2022), 7, <http://www.ndc-aspects.eu/sites/default/files/2022-10/D6.1b%20Global%20Governance%20for%20the%20Decarbonisation%20of%20Energy-Intensive%20Industries.pdf>.
  - 34 Kumar et al., 11. See also Oberthür, Khandekar, and Wyns, *Global governance for the decarbonization of energy-intensive industries*, 4.
  - 35 Domien Vangenechten and Johanna Lehne, *Can a climate club accelerate industrial decarbonisation? Towards more international cooperation in the decarbonisation of heavy industry* (E3G, 2022), 7-8, <https://www.e3g.org/wp-content/uploads/E3G-Briefing-Climate-Clubs-and-industrial-decarbonisation.pdf>. See also Mats Engström, “Put co-innovation at the heart of EU green external relations,” *EURACTIV*, January 13, 2022, <https://www.euractiv.com/section/energy-environment/opinion/put-co-innovation-at-the-heart-of-eu-green-external-relations/>.
  - 36 Otto and Oberthür, *Global Governance for the Decarbonisation of Energy-Intensive Industries*, 21.
  - 37 See Max Åhman, Marlene Arens, and Valentin Vogl, “International cooperation for decarbonizing energy intensive industries – Towards a Green Materials Club: A working paper on sectoral cooperative approaches.” *IMES*, no. 117 (2020): 1-26, <https://doi.org/10.13140/RG.2.2.14953.72807>.
  - 38 Sinan Ülgen, “How Deep Is the North-South Divide on Climate Negotiations?,” *Carnegie Europe*, October 6, 2021, <https://carnegieeurope.eu/2021/10/06/how-deep-is-north-south-divide-on-climate-negotiations-pub-85493>.

- 
- 39 See Heiner von Lüpke, Charlotte Aebischer, and Martha Bolaños, “International partnerships for a just energy transition: Findings from South Africa,” *DIW Weekly Report* 13, no. 5 (2023): 44 – 49, [https://doi.org/10.18723/diw\\_dwr:2023-5-1](https://doi.org/10.18723/diw_dwr:2023-5-1).
- 40 See J. Timmons Roberts and Romain Weikmans, “Fragmentation, failing trust and enduring tensions over what counts as climate finance,” *International environmental agreement: politics, law and economics* 17, no. 1 (2017): 129-137, <https://doi.org/10.1007/s10784-016-9347-4>.
- 41 Otto and Oberthür, 17.
- 42 Otto and Oberthür, 17.
- 43 See von Lüpke, Aebischer, and Bolaños, “International partnerships for a just energy transition,” 44 – 49.
- 44 See Robert Falkner, Naghmeh Nasiritousi, and Gunilla Reischl. “Climate clubs: politically feasible and desirable?,” *Climate Policy* 22, no. 4 (2022): 480-487, <https://doi.org/10.1080/14693062.2021.1967717>.
- 45 IEA, *Achieving Net Zero Heavy Industry Sectors in G7 Members*, 55.
- 46 See, for example, MercoPress, “Lula, a tough nut for German Chancellor Scholz,” *MercoPress*, January 31, 2023, <https://en.mercopress.com/2023/01/31/lula-a-tough-nut-for-german-chancellor-scholz>.



वसुधैव कुटुम्बकम्

ONE EARTH • ONE FAMILY • ONE FUTURE