

# Overview of this year's G7 agreement and its implications for Japan and Asia

The 6<sup>th</sup> IEEJ Webinar for the World

July 5, 2022

Toshiyuki Sakamoto

IEEJ

# G7 Leaders' Communiqué (Elmau, 28 June 2022)

## Introduction

- Sustainable Planet
  - ✓ Climate and Energy (5 pages out of 28)
  - ✓ Environment
- Economic Stability and Transformation
  - ✓ Global Economy and Finance
  - ✓ Trade and Supply Chains
  - ✓ Employment and Just Transition
- Healthy Lives
  - ✓ Pandemic Prevention, Preparedness and Response
  - ✓ Global Health Architecture

- Investment in a Better Future
  - ✓ Sustainable Infrastructure
  - ✓ Sustainable Development
- Foreign and Security Policy
- Stronger Together
  - ✓ Gender Equality
  - ✓ Extremism, Disinformation, Foreign Interference and Corruption
  - ✓ Digitalisation

## Conclusion

- Four Stand Alone Statements: (including)
- ✓ G7 Statement on Climate Club

# Climate policy in general

- Informed by the Intergovernmental Panel on Climate Change (IPCC), we note with concern that currently **neither global ambition nor implementation is sufficient** to achieve the goals of the Paris Agreement
  - We also **commit to keep a limit of 1.5 °C temperature rise within reach**, ...
  - We **urge all countries – especially major emitters** – whose 2030 NDC targets are not yet aligned, to increase their ambition and **align 2030 NDC targets with a 1.5 °C pathway well before COP 27**.
- 
- G7 continue to stand firm on its commitment to 1.5 °C, while the IPCC AR6 says “ the likelihood of limiting warming to 1.5°C has on average declined compared to SR1.5.”
  - To be exact, the Glasgow Climate Pact “requests Parties to revisit and strengthen the 2030 targets in their nationally determined contributions as necessary to align with the Paris Agreement temperature goal by the end of 2022. ” Not “with a 1.5°C pathway” as above.

# Road transportation

- We commit to a **highly decarbonised road sector by 2030** including by, in this decade, significantly increasing the sales, share and uptake of zero emission light duty vehicles, including zero emission public transport and public vehicle fleets. **We recognise the range of pathways that we are adopting to approach this goal.**
- Perhaps Germany wanted to agree on all sales of new cars being zero emission by 2035, as will be the case in EU.
- All sales of new cars and vans being ZEV by 2035 was agreed in the margin of COP26 by like-minded countries, but not by Japan and some other G7 countries.
- Japan's position was fully reflected in the above.

# Climate Club

- We endorse the goals of an open and cooperative international **Climate Club**, and will work with partners towards **establishing it by the end of 2022, as laid out in our stand-alone statement.**

## 【Stand-alone G7 Statement on Climate Club】

- 1) Advancing ambitious and transparent climate mitigation policies... and countering **carbon leakage** at the international level. In this regard, members would share best practices...such as through **explicit carbon pricing**, other carbon mitigation approaches and **carbon intensities**.
- 2) **Transforming industries** jointly to accelerate decarbonisation, ...and expanding markets for green industrial products.
- 3) Boosting international ambition through **partnerships and cooperation**....

- Significantly watered down from its original proposal of then Finance Minister Scholtz.
- Different views among G7 on carbon pricing vs. carbon intensity to address carbon leakage.
- Industry decarbonization agenda has advanced as seen in Annex to Ministers' Communiqué.
- Highly unclear how Climate Club will evolve.

# Conclusions regarding the Industrial Decarbonisation Agenda (Annex to Ministers' Communiqué)

- **Part A: Achieving Net Zero Heavy Industry Sectors**

1. Industrial Transition Plans and Policies
2. Finance for Near Zero Emissions Demonstration Projects
3. Finance Mechanisms for Technology Deployment
4. Market Creation
5. Advance International Industry Decarbonisation Collaborations

- **Part B: Standards and Definitions for Near Zero Emission Materials Production**

1. **Measurement Standards** for Material Production
2. **Thresholds for Near Zero Emission Material Production**

The threshold values proposed in the IEA Report are for **steel** production 50-400 kg of CO<sub>2</sub> equivalent per tonne (kgCO<sub>2</sub>e/t) and 40-125 kgCO<sub>2</sub>e/t for **cement** production

3. Thresholds for Interim Steps in the Transition Phase
4. Definitions for other production sectors, and products and projects

- Detailed multi-year program based upon the IEA's report. The concept was included in the original proposal of Carbon Club. Addressing carbon leakage is within the scope.
- Specific thresholds for near zero emission steel and cement were mentioned as proposed by the IEA.

## Russian energy (oil price cap)

- We reaffirm our commitment to phase out our dependency on Russian energy. In addition, we will explore further measures to **prevent Russia from profiting** from its war of aggression.
  - As for oil, we will consider a range of approaches, including options for a **possible comprehensive prohibition of all services**, which enable transportation of Russian seaborne crude oil and petroleum products globally, **unless the oil is purchased at or below a price to be agreed in consultation with international partners**.
  - We task our relevant **Ministers to continue to discuss these measures urgently,....**
- 
- PM Kishida commented as follows in his press briefing:
    - ✓ We will consider so-called price-cap not to buy or not to let them buy Russian oil over a certain price.
    - ✓ This will reduce Russian's revenues and work as lowering pressure of international market price of oil.
    - ✓ Japan will closely coordinate with other countries on price-cap, while ensuring our national interests of energy security.

# International support for fossil fuel projects

- ...recognising the importance of national security and geostrategic interests we commit to end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited circumstances clearly defined by each country consistent with a 1.5°C warming limit and the goals of the Paris Agreement.
  - ...we stress the important role increased deliveries of LNG can play, and acknowledge that investment in this sector is necessary in response to the current crisis. In these exceptional circumstances, publicly supported investment in the gas sector can be appropriate as a temporary response, subject to...
- 
- The similar text to the above first point was agreed in the margin of COP26 by like-minded countries, including G7 nations except for Japan. But this time around, two important differences.
  - METI's interpretation and media coverage on the above first point.
  - On the above second point, "publicly supported investment in the gas sector can be appropriate" is an addition to Ministers' Communiqué. In spite of some caveats, the message seems to be slightly more favorable for gas investment than Ministers.

# Hydrogen and its derivatives

- We also emphasise the central role of and confirm our strong financial commitment for the market ramp-up of **low-carbon and renewable hydrogen and its derivatives**, for hard-to-abate sectors and **zero-emission thermal power generation**, shifting towards a world economy based on low-carbon and renewable energy sources.
- The above references are significant for Japan and Asia. This is what GOJ is promoting as “Asia Zero Emissions Community”.
- Until recently most G7 countries were skeptical on the role of hydrogen and ammonia in decarbonizing the existing thermal power plants.
- However, for example, the average vintage of coal power plants in ASEAN is as young as 10 years. Due to anticipated higher price of natural gas, switch from coal to gas will be increasingly difficult in Asia.
- Ministers’ communiqué highlighted “ammonia” explicitly.

# Domestic power generation

- ...we commit to achieving a **fully or predominantly decarbonised power sector by 2035**. Recognising that coal power generation is the single biggest cause of global temperature increase, we commit to prioritising concrete and timely steps towards the goal of **accelerating phase-out of domestic unabated coal power generation**.
- Almost the same formulation as Ministers' Communiqué, except for addition of "fully or".
- Decarbonizing power sector by 2035 is highly challenging. For example, the US....
- No specific date for phasing out unabated coal power generation. The similar language with target date of "the 2030s" was agreed in the margin of COP 26 by like-minded countries. But the US and Japan did not sign up.

# Nuclear

- Those countries that opt to use it reaffirm the role of nuclear energy in their energy mix. Those countries recognise its potential to provide affordable low-carbon energy and contribute to the security of energy supply as a source of baseload energy and **grid flexibility**. They state their assessment that the development and deployment of **advanced nuclear technologies including small modular reactors** within the next decade will likely contribute to **more countries around the world adopting nuclear power** as part of their energy mix. The G7 underlines that the highest standards of nuclear safety and security are important to all countries and their respective publics.
- Last year, it was just “We will focus on accelerating progress on ..... and for those countries that opt to use it, nuclear power.”
- Perhaps changes reflect recent significant policy shift for nuclear in France and UK.

# Summary on Climate and Energy

- “Security” focused Communiqué:
  - ✓ The word, “security”, appeared 8 times in Climate and Energy part (last year just twice)
  
- GOJ’s assessment:
  - METI Minister Hagiuda commented on May 31, “Our views were rightly understood and fully accepted.”
  
- Successful probably since Japan conveyed Asia’s, in particular ASEAN’s voices.
  
- The next year’s G7 hosted by Japan may:
  - ✓ deepen industry decarbonization agenda, and
  - ✓ consider trade rules addressing carbon leakage.

International conference on industry decarbonization and international trade rules will be held in Oct. during Tokyo Beyond-Zero Week this year.