

G7 climate club

Open, cooperative and inclusive – these are the adjectives used by the Group of Seven (G7) leaders to describe the climate club, a global initiative launched in December 2022 to accelerate the implementation of the Paris Agreement. Its objective is to encourage nations with bold climate goals to join forces as a way to speed up the transition towards net-zero emissions by 2050 and contribute to reaching the targets of the Paris Agreement on climate change. A climate club may help to address coordination and implementation challenges arising from other instruments and initiatives, such as the EU's new carbon border adjustment mechanism and Green Deal industrial plan, and the US Inflation Reduction Act.

An open, cooperative and inclusive climate club

In December 2022, just before the end of the German G7 presidency, the heads of state or government of the [G7](#) launched a [climate club](#). The presidency had been the key initiator and promoter of this project.

The G7 is an informal forum of seven leading industrial nations and democracies: Canada, France, Germany, Italy, Japan, the UK and the US, as well as the EU as a supernumerary member. As the G7 does not have an administrative apparatus, its annually rotating presidency plays an important role in setting the agenda and organising the meetings. Japan holds the presidency in 2023.

The idea behind a climate club has its roots in club theory, originally proposed by [Buchanan](#) in 1965. Club theory postulates that a mechanism of 'clubs' is needed to overcome the tendency towards free-riding in international agreements, i.e. reaping the benefits without bearing a fair share of the costs. In 2015, Nobel Prize winner William Nordhaus [developed](#) the concept further in the context of environmental policy, proposing climate clubs that combine target carbon prices and trade sanctions. In 2021, Olaf Scholz, the then German finance minister, [promoted](#) the idea of creating an international climate club that would help the international community make joint steps towards achieving a climate-friendly transformation. The initiative would also benefit from the reinvigoration of the United States' [climate policy](#) under President Joe Biden and the country's return to the [Paris Agreement](#). In June 2022, at its summit in Schloss Elmau, Germany, the G7 stated its intention to explore a new international climate format – a climate club – and adopted a [statement](#) in this regard.

The [terms of reference](#) endorsed by the G7 leaders in December 2022 describe the climate club as open, cooperative and inclusive. It seeks to foster the implementation of the Paris Agreement, accelerate the transition towards net-zero emissions by 2050 and boost sectoral decarbonisation. The club has three pillars:

- advancing **climate change mitigation policies** – To accelerate the green transition, members will engage in the advancement of comparable methodologies to measure, estimate and collect emissions data. They will look for synergies in their green growth policies and national systems to prevent industrial [carbon leakage](#).
- transforming **industries** – To advance industrial decarbonisation and expand green industrial products, members will support a series of international initiatives such as the [G7 industrial decarbonisation agenda](#), the [hydrogen action pact](#) and the [breakthrough agenda](#).
- boosting **international climate cooperation and partnerships** – On a voluntary basis, the climate club will aim to enhance the synergies between countries, and address gaps in cooperation and funding instruments.

To facilitate the climate club's activities, the G7 leaders have asked the Organisation for Economic Co-operation and Development (OECD) and the International Energy Agency to create an interim secretariat. Other relevant institutions and organisations, such as the International Monetary Fund, the World Bank and the World Trade Organization are welcome to collaborate and contribute with their forums



and expertise. In this regard, the G7 embraces the OECD's [inclusive forum on carbon mitigation approaches](#) and looks forward to its contribution.

The climate club is open to developing countries; climate club members may provide support to developing countries on a voluntary basis. To further develop the climate club's governance and structure, the G7 has set up a task force, which will be composed of G7 and other governments. It will be chaired by Germany and ideally by a climate club member from outside the G7. The G7 aims for a full launch of the climate club by the time of the [COP28](#) climate change conference in November 2023.

European Union position

In October 2022, in its [conclusions](#) on climate finance ahead of the [COP27](#) climate change conference, the Council welcomed the G7's plans to establish a climate club. The European Parliament, in its [resolution](#) of 20 October 2022 on COP27, called on the European Commission to engage with major CO₂ emitters outside the EU in creating an international climate club. So far, the Commission has not taken action in this regard. During COP27, the European Council President, Charles Michel, participated in an [event](#) exploring the role a climate club could play in accelerating the industrial transition. Olaf Scholz promoted the climate club both during this event and in his [speech](#) during the session at the level of heads of state or government.

In December 2022, the Parliament and Council reached a [trilogue agreement](#) on the carbon border adjustment mechanism (CBAM) proposal. The agreed text stresses the need for bilateral, multilateral and international cooperation with third countries and calls for setting up a climate club to promote global implementation of ambitious climate action and to help countries advance towards a global carbon-pricing framework.

Related initiatives

Climate clubs have been advanced to overcome the limitations of consensus-based multilateral climate policy arrangements – one example being the United Nations Framework Convention on Climate Change – that have suffered from tortuous decision-making and a lack of decisive joint action. Nordhaus argued that the decision-making process in club environments is faster, and that non-compliance can be targeted more easily. [Different](#) from the G7 climate club, Nordhaus designed an exclusive club in which member countries commit to harmonised emission reductions, and non-members or members that break the club rules are penalised.

A 2021 [discussion paper](#) offers recommendations on designing a climate club in a flexible plurilateral approach, while the Centres for European Policy Network [warns](#) that various proposed climate club designs may increase carbon leakage and outlines an alternative proposal to avoid this problem.

A climate club can play an important role in the smooth implementation of climate policy instruments having an impact on international trade, such as the EU's CBAM, the United States' [Inflation Reduction Act](#) (IRA) and the [Green Deal industrial plan](#), which the European Commission adopted in February 2023 partly in reaction to the Inflation Reduction Act.

The CBAM gradually introduces a carbon price for certain goods imported into the EU, to safeguard the competitiveness of EU producers who must pay a carbon price under the EU emissions trading system (ETS). Unlike the existing mechanism of free ETS allowances for emissions and trade-intensive EU industries, the CBAM encourages emissions reduction both inside and outside the EU. A climate club could advance common methodologies to measure and verify the emissions associated with imported goods, and promote joint initiatives to transform the affected industries. The Norwegian Institute of International Affairs argues that the CBAM has the features of a [de facto](#) climate club, while the German Environment Agency [analyses](#) commonalities, differences and synergies between the CBAM and a climate club.

The Inflation Reduction Act and the Green Deal industrial plan both aim to mobilise investment in renewable energy and green technologies, including through subsidies and targeted State aid. While the IRA may [help](#) the US reduce emissions, achieve its climate goals and deliver economic benefits, [concerns](#) have been raised about its potential distorting effect on markets elsewhere. A climate club can therefore become a useful forum for countries to coordinate their green industrial policies and avoid trade disputes.