

## THE G7 CLIMATE MANDATE AND THE TRAGEDY OF HORIZONS

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The 2015 G7 summit concluded by issuing the first public endorsement by a group of great powers of an accelerated effort to fully decarbonize the global economy. This is a significant achievement. However, the announcement's credibility and durability will depend upon its institutionalization via shorter-term initiatives and benchmarks that shape the future of energy and investment choices in the years ahead.

### Leverage—With Limits—in Shaping the Global Agenda

- The G7 declaration's immediate impacts are limited. In terms of economic heft, population, and global greenhouse gas emissions, the relative weight of the group of states is declining. By contrast, the G20, which includes China and India, is growing in economic and political weight.
- The declaration provides a long-term target with which short- and medium-term policies must eventually reconcile, and it requires G7 members to consider timelines beyond the outcomes of the 2015 Paris climate conference.
- Leaders see the declaration's greatest contribution as catalyzing public and private capital for the green transition and pioneering innovative policies.
- To effectively shape the global agenda, the G7 should create meaningful linkages to processes under way in the G20 and via the 2015 Paris climate agreement.

### How the G7 Can Enhance the Credibility of Its Announcement

**Create a decarbonization task force.** A network of experts drawn from each G7 member should coordinate on a regular basis and meet at least annually to support future G7 summits. Early work would focus on coordinating baselines, metrics, and interim targets, while later efforts could involve the harmonization of complex policies such as carbon markets.

**Rethink electricity market design.** Energy markets are designed around an old paradigm of large, centralized supplies dominated by fossil fuels. They must be redesigned to manage a more distributed and intermittent energy supply with high capital costs and low marginal costs.

**Bring the global investment architecture into line with decarbonization imperatives.** A complete decarbonization of the global economy will require massive investments over the rest of this century. G7 members should engage with the private sector and financial governance institutions to send short-term market signals via a carbon price and long-term signals to redefine notions of fiduciary duty and climate-related risks.

**Strengthen and streamline transportation and petroleum regulations.** New data and market developments are providing opportunities to reduce the carbon intensity of the value chains of traditional petroleum transport fuels and to better incentivize innovative alternative fuels. The G7 should seize these opportunities by modernizing and expanding its own approach to focus on more than just motor vehicles.

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