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## CLIMATE DIPLOMACY IN 2021: A YEAR IN REVIEW CONTEXT, PROGRESS AND LESSONS LEARNED

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### Key takeaways

- The strong alignment of the UK G7 presidency, Italian G20 presidency and the UK-Italian efforts behind the pre-COP and the COP26 presidency played a significant role in allowing these formats to build on each other. This resulted in **formats that collectively cemented the centrality of the 1.5°C goal** and enabled:
  - > a G7 uniformly committed to climate neutrality and phasing out international coal finance in 2022,
  - > a G20 committed to taking further action in the 2020s, including, “where necessary” enhancing their 2030 climate plans,
  - > a **Glasgow Climate Pact** that opens door to acceleration – agreeing processes for elaborating the global goal on adaptation, a dialogue to address support for loss and damage, an annual high-level ministerial round table on pre-2030; urged all parties who had not yet done so to submit long-term strategies towards just transitions to net zero emissions; urged parties to accelerate efforts towards the phasedown of unabated coal power and phase-out of inefficient fossil fuel subsidies; and requests all Parties to revisit and strengthen their 2030 targets as necessary to align with the Paris Agreement temperature goal by the end of 2022.
- **2021 cemented climate as a golden thread for cooperation in an era of crises, but geopolitical relationships will remain volatile heading into 2022.**
- **The Glasgow Climate Pact opens door to acceleration, but COP26 highlighted that many emerging economies remain cautious about the speed and financing of rapid transitions.** Credible answers on affordable finance will need

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to be found in 2022 for country-led packages replicating the South Africa Just Energy Transition Deal – both a test for G7 credibility as well as an opportunity for North – South(-South) cooperation

- **Stronger coalitions are needed for international structural reforms (MDBs, DFIs, IMF) to hardwire investment in climate and particularly climate resilience.**
- **Climate impacts are becoming central to international conversations, as no region remained untouched by climate-related disasters and extreme weather events.** However, 2021 also highlighted that neither geopolitical (i.e., UN Security Council) nor international economic systems (including the IMF and development finance institutions) are yet fit for purpose in a strongly climate-impacted world.
- **2021 saw countries continue to launch and expand “coalition of the willing” initiatives around sectoral commitments** – however, COP26 highlighted the need for much clearer transparency, tracking, and accountability mechanisms. Moving from announcement to implementation, as well as clarifying where these sectoral commitments can unlock more action by 2030 will be a key test of 2022.
- **Moving forward, the G7 as a format is under scrutiny** – it remains a format with strong signalling power but will be judged on credible implementation at home, as well as its ability to broaden commitments to include the whole G20. This will require strong aligning with the Indonesia G20, as well as solidarity with and delivery for third countries.

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## The changing geopolitical context in 2021

Despite the election of US President Biden, **2021 remained marked by tense geopolitics**, particularly between the US, China, and Indo-Pacific partners. With the COVID-19 pandemic ongoing, 2021 also highlighted deepening global inequalities: uneven global economic recovery, unequal access to vaccines and to affordable capital to invest in recovery.

**Climate impacts are mounting.** Large wildfires broke out in California, Greece, Turkey, and Siberian Russia. Heavy rainfall and floods have caused massive economic damage and cost hundreds of lives in Germany, China, Canada, and the US. Countries and communities around the world are being hit harder by climate-related extreme weather events, such as floods and droughts. **Richer countries have set up extensive relief packages to help rebuild affected regions** and are waking up to the need to scale-up adaptation action and build resilience. However, **in a majority of small island states and least developed countries these impacts are exacerbating the economic impacts of the COVID-19 crisis** – driving up debt burdens and straining community, societal and fiscal resilience.

### Key tailwinds:

- **2021 cemented climate as a top-tier leaders' level issues.** While US, EU and China relations grew increasingly tense - characterised by sanctions, growing scrutiny on human rights and the mounting geopolitical and defence tensions in the Indo-Pacific - climate remained a consistent area of engagement, and where interests aligned, cooperation. While the US and China engaged in “blame game” dynamics heading into COP, the **US-China joint declaration** in the final days of COP26, highlighted that while the G2 will not be a driver of high ambition outcomes, they are not willing to have their tensions derail international negotiations and will engage on their respective transitions.
- **Climate mitigation was also heavily integrated into both the G7 and G20 Leaders' level.** Coordinated leadership by Italy and the UK of the G7, G20 and COP26 saw these formats build on each other to see a majority of the G20 commit to climate neutrality and COP26 ring in the phase-down of coal. This paved the way to a consensus outcome – the **Glasgow Climate Pact** – that sets out processes that, if invested in by the major emitters in the G20, could see an accelerated pathway for climate action in the early 2020s.

### Key headwinds:

- Insufficient international delivery on vaccine solidarity narratives – notably from the **June G7 Leaders' Summit** – has left most **middle and low-income**



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**country vaccination programmes either proceeding too slowly or non-existent.** In the absence of an effective multilateral approach, Russia and China have been filling the gap created by widespread ‘vaccine nationalism’ whilst exerting their geopolitical influence, particularly in **Africa**. Major powers have more recently stepped up vaccine action; at September’s UN General Assembly the **US and EU committed to vaccinate 70% of the world** within a year’s time. However, this has not yet shifted perceptions of ‘vaccine apartheid,’ particularly with the latest threat of the surge in the Omicron variant.

- The simultaneous COVID-19 and climate crises highlighted that **international development finance institutions are not yet fit for purpose** when it comes to investing in resilience. **LDCs and SIDS are being hit hard by the combined socio-economic impacts of COVID-19 and climate-related extreme weather events.** This is deepening tensions and trust deficits caused by growing inequalities between developed and developing countries. Economic recessions, and deepening fiscal instability mean that **low- and middle-income countries are still struggling to access affordable capital.**
- In climate diplomacy circles, **the failure to meet the \$100bn climate finance target** – a key stumbling block that hindered positive relationship-building in the run-up to COP26 – was symbolic of a wider diplomatic trust deficit. Looking into 2022, the \$100 Billion remain under scrutiny. However, alongside this, discussions on the post-2025 goal will need to balance conversations around sources and scale off finance, the potential to shift to needs-based finance, alongside addressing pipeline and absorptive capacity concerns. These conversations will take a significant trust – between G7 nations and the broader G20, but also SIDS, LDC and the broader G77. However, trust – particularly from LDCs and SIDS -remains limited, particularly after the COP26 outcome relied on a compromise by climate vulnerable countries to hold back their proposals on loss & damage finance for the sake of consensus.
- **Wider diplomatic relations between major G7 actors were often challenged.** Brexit continued to define a tense UK-EU relationship that was a major obstacle to further aligned climate diplomacy, particularly at leaders’ level. Despite the change in US administration, the transatlantic relationship continued to face challenges, notably by the surprise AUKUS (Australia-UK-US) defence and security alliance that caused significant diplomatic fallout in the US, EU, and France particularly. This incident was emblematic of rising scepticism regarding the reliability of US cooperation into Europe, a sentiment that may only increase as the US turns inwards in 2022 ahead of the crucial mid-term elections in November 2022. Different approaches – in particular in the US,



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France and Germany – to dealing with China have led to additional friction in the transatlantic relationship.

## Climate diplomacy progress in 2021

The myriad of climate diplomacy outcomes, and flurry of announced initiatives, unlocked in 2021 creates a long to-do list of follow-up action in 2022. This means that which processes get upheld and invested in will be key.

### The G7 & G20

2021 **G7** and **G20** outcomes lay the foundations for these fora to drive further action in 2022. This included:

- > **Major economies and markets shifting towards climate neutrality – with all of the G7 and the majority of the G20 committed to climate neutrality pathways.** This shift was further cemented by the traditionally conservative International Energy Agency (IEA) putting net-zero pathways at the centre of its annual World Energy Outlook. With a common direction of travel, the G7 began a discussion on aligned sectoral pathways. In contrast, a challenge remains around consistently getting broader G20 net-zero commitments underpinned by equally credible near-term targets and implementation pathways.
- > **An end to international coal finance but less clarity on domestic coal pathways:** G7 commitment to “an absolute end to new direct government support for unabated international thermal coal power generation by the end of 2021” but remained vague on domestic pathways saying only “investments in unabated coal must stop now”. The G20 cemented the end of international coal finance committing to “an end to the provision of international public finance for new unabated coal power generation abroad by the end of 2021”.
- > **Continued pressure on ending fossil fuel subsidies but still a lot of wiggle room:** The G7 committed to “phase out new direct government support for carbon intensive international fossil fuel energy, except in limited circumstances at the discretion of each country, in a manner that is consistent with an ambitious, clearly defined pathway towards climate neutrality in order to keep 1.5°C within reach”, while the G20 committed to “increase our efforts to implement the commitment made in 2009 in Pittsburgh to phase out and rationalise, over the medium term, inefficient fossil fuel subsidies”.
- > **G7 and G20 clearly signalled that their common goal is to keep 1.5°C within reach:** The G7 is uniformly committed to “making 2030 ambitions consistent



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with the aim of achieving net zero emissions as soon as possible and by 2050 at the latest”, while the G20 acknowledged the key relevance of “achieving global net zero greenhouse gas emissions or carbon neutrality by or around mid-century” and committed to taking further action in the 2020s, including, “where necessary” enhancing their 2030 climate plans. Outcomes on climate finance, adaptation, loss and damage and wider financial mobilisation for the global climate transition saw more limited engagement and progress, posing challenges to next year’s G7 and G20 Presidencies.

- > **The G7 announced ‘Build Back Better for the World’ initiative**, setting up a G7 Sherpa Task Force on the Financing of Sustainable Infrastructure. However, details on delivery platforms and both the scale and source of financing remains unclear.

### **COP26 - The Glasgow Climate Pact**

COP26 finalised negotiations on the Paris rulebook and launched the **Glasgow Climate Pact** which sets out an accelerated timeline for action and further decisions in 2022 across all elements of the Paris Agreement. Alongside the Global Stocktake, which kicks-off in 2022, the Glasgow Climate Pact ushers in a set of new work programmes on pre-2030 ambition and implementation, loss and damage, post-2025 climate finance and the global goal on adaptation – all of which will need to be advanced by COP27.

- > **Consensus that more action is needed from all in 2020s and an invitation for all countries to return to COP27 with more ambitious long-term and 2030 targets** aligned with the temperature goal of the Paris Agreement; However, key barriers remain around funding (“Shifting the trillions”) for the transition and growing scepticism from less ambitious countries (Australia) and emerging economies (particularly China/India) of their willingness and ability to do more.
- > **COP26 saw a number of countries (including Canada, Germany, UK, Italy and the US) go beyond the G7’s commitment to phase-out public finance for international “carbon-intensive fossil fuel energy”** as soon as possible launching the **Statement on International Public Support for the Clean Energy Transition** – with signatures from both developed and developing countries committing to “end new direct public support for the international unabated fossil fuel energy sector by the end of 2022”. Beyond this statement, the launch of a nascent **Beyond Oil and Gas Alliance** highlighted growing scrutiny on new oil and gas infrastructure.



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- > **COP26 also cemented global consensus on phase out of “inefficient” fossil subsidies and the phase down of coal**, with the announcement of the \$8.5bn South African “**Just Energy Transition Partnership**” providing a potential model for replication.
  - > **A recognition by all countries of the need to address loss and damage, including mandating the launch of a Glasgow Dialogue on finance to address loss and damage starting at the June 2022 UNFCCC intersessional meetings.**
  - > **A commitment to double global adaptation finance** and the need to operationalise the global goal on adaptation, as it becomes a priority for developed and developing countries alike.
  - > **Shifted leaders’ level politics on mobilising the trillions** with both the US and European leaders putting political weight, though notably not yet concrete financial commitments, behind big infrastructure initiatives like the ‘Build Back Better for the World (B3W), and Global Gateway (GG). The credibility of these initiatives going forward will depend on clear, additional, and impactful finance being mobilised.
  - > **Growing Public and UN Secretary General scrutiny on the accountability, integrity, and follow-up of announced sectoral initiatives**, and non-state actor net-zero commitments.
  - > **A push for high integrity carbon market mechanisms in the G7 and the UNFCCC**, to ensure all markets, including voluntary markets, avoid double counting.
  - > **COP26 was the cumulation of a 2021 push on major sectoral and real economy commitments**, including a number of plurilateral coalitions around reducing methane emissions, tackling deforestation, and ending the internal combustion engine vehicle. This included the **Glasgow Breakthroughs** (on Steel, Hydrogen, Power, Vehicles, Agriculture).

## Lessons Learned

- > **The alignment of the UK G7, Italian G20 and UK-Italian COP26 Presidencies was key.** It enabled ‘concentric circles’ of pressure to be built throughout the year and facilitated the escalation of priority issues – notably coal phase-out and fossil fuel subsidies – from Minister to Leader level. It will likely be much more demanding to coordinate these venues across a German G7 and two Global South presidencies – the Indonesian G20 and Egyptian COP27.





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- > G7 Climate and Environment ministers have agreed align policies with the goal of limiting temperature increase to 1.5°C. There is **growing concern about whether the G7 deliver on their commitments**, as announced initiatives have yet to be consistently underpinned by clear delivery plans (vaccines), or platforms for delivery, follow-up, and reporting (infrastructure investment).
  - > **However, the G7 as a format is often instrumentalised by others to maintain or even exacerbate existing North - South divides** – particularly in conversations around resources for responding to the COVID-19 and climate crises. **The EU’s CBAM and ‘Climate Club’ pushes risk to reinforce exclusivity of who gets to transition** if it fails to deliver financial support alongside diplomatic efforts (such as European Green Deal diplomacy) and practical assistance to support partners to speed up their transitions. These instruments could become ineffective and overly protectionist if they fail to recognise and understand low-income countries’ development needs and rights.
  - > **The G7 will be judged not only on credible implementation at home, but on delivery for third countries – of vaccines, real money to underpin properly designed infrastructure platforms, and making a real start on recovery from both COVID-19 and climate damage. G7 leadership will require addressing these very real gaps.** Addressing the trust deficit with developed countries is critical.
  - > **The window for credibly claiming we are “keeping 1.5°C in reach” is closing.** If countries like China, India, Indonesia, and Brazil do not do more to cut emissions out to 2030, a pathway to limiting warming to **1.5°C** becomes increasingly unfeasible. This means G20 climate delivery will be key. G7 walking the talk on domestic climate action will be important but not sufficient to mobilise major emitters to deliver on the Glasgow Pact. Following two years of concerted efforts ahead of COP26, **2021 has shown that this coordinated diplomatic outreach is starting to reach its limits in this ambition cycle, when not underpinned with concrete resources** (i.e., South Africa Just Energy Transition Partnership). Bridging this gap can also build linkages into the Indonesian G20 presidency that have defined “Just Energy Transition” as a top priority.
  - > **While engagement remains key, it is clear that new approaches will be needed to see more reluctant major emitters do more this decade** (i.e., Australia, China and Brazil). China did not enhance any of its headline 2030 or net zero ambitions beyond what it had already committed to do under its own economic planning. The question is whether it is possible to shift other G20 countries and major markets around countries like China and Brazil to shift
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their perceptions of the value – diplomatically and economically- of doing more this decade.

- > **Climate vulnerables were pivotal agreeing a high-ambition Glasgow Pact and setting the expectation that more needs to be delivered by COP27.** This shows the important role of climate vulnerables, African countries and coincides with increasing scope for them in 2022 with and African COP. However, with countries like China and Russia frequently filling the vacuum in supporting vulnerable nations with access to vaccines or capital injections, it will continue to be challenging for these countries to raise simultaneous challenges on lacking climate ambition.
- > **2021 has shown that as climate impacts become more real and emerging economies start accounting for larger emissions shares, North-South-(South) dynamics are becoming more complex.** We have seen tensions both in South-South cooperation (i.e., G77+ leadership tensions during COP26; SIDS/LDCs compromising on loss and damage only for the Glasgow compromise to be re-opened for India and China over coal) as well as immense differences within the Global North, for example with regard to the delivery on fair shares of the \$100bn climate finance pledge. At the same time, we are seeing positive “eye-level” North-South cooperation formats (i.e., the South Africa Energy Partnership), and South-South cooperation leadership from developing countries (i.e., Bangladesh on loss and damage). In order to prevent the instrumentalisation of remaining existing tensions, a more differentiated view is necessary.
- > **Climate is now a firmly geopolitical issue – with the benefits of leaders’ level attention but also risk** (i.e., hostage taking and “blame-game” dynamics) **that entails.** At the same time, with climate becoming a factor in the geopolitical competition over who is the better ally for middle and low-income economies (i.e. strong “green” elements in recent China-Africa forum declaration), there is the potential to drive a “race to the top” to finance green, resilient and sustainable development pathways – as long as the offers are delivered upon.



## Next steps: key risks and opportunities in 2022

<p><b>STRENGTHS</b></p> <ul style="list-style-type: none"> <li>• Climate as a cooperation space despite tense geopolitics</li> <li>• G20 consensus on more action in 2020s</li> <li>• 2021 saw shift to 1.5°C in G7 &amp; (most of) G20</li> <li>• Shifted leaders' level politics on mobilising trillions, B3W &amp; GG, SA deal as model for coop</li> <li>• Fundamental shift in impacts conversations opened outcomes on loss &amp; damage/adaptation</li> <li>• Consensus on phase down coal &amp; phase out fossil subsidies; new global sectoral partnerships</li> </ul>	<p><b>WEAKNESSES</b></p> <ul style="list-style-type: none"> <li>• Lack of trust hampered ability to build timely and sustained bridges</li> <li>• US, EU, UK remain uncoordinated; UK-EU relationship fraught, US remains "bilateral"-first</li> <li>• Limited leverage on "hard to abate" economies</li> <li>• Institutional resistance to coordinated financing offers &amp; substantive MDB/DFI reforms</li> <li>• Under-delivery on \$100bn &amp; adaptation finance</li> <li>• Lack of developed country policy on loss &amp; damage</li> </ul>
<p><b>OPPORTUNITIES</b></p> <ul style="list-style-type: none"> <li>• Climate partnerships for coal to clean transitions offer potential for North – South cooperation - G7 Infrastructure Build Back Better for the World and the EU's Global Gateway firmly on the table</li> <li>• High-level political momentum and new formats for progress on adaptation &amp; loss &amp; damage</li> <li>• Indonesia has put "Just Energy Transition" firmly on G20 agenda</li> <li>• New UNFCCC ambition process</li> <li>• Diplomatic leadership from climate vulnerables</li> <li>• IMF Article 4 reforms offer space for incentivising investments in resilience</li> <li>• Potential of national elections shifting/cementing climate priorities (Australia, Brazil, France)</li> <li>• Global "race to the top" on green "offers" to developing countries</li> </ul>	<p><b>RISKS</b></p> <ul style="list-style-type: none"> <li>• Continued health, diplomatic and economic impacts of COVID-19</li> <li>• Covid-19 solidarity gap on recovery and vaccines, risks instrumentalisation of North-South divide; gas &amp; Africa debate sours</li> <li>• Economic challenges including signs of inflation, unaddressed debt levels and energy crises</li> <li>• Lack of implementation of sectoral initiatives, financing deals &amp; G7 dismissal of COP27 ambition moment. Build Back Better bill risking US credibility.</li> <li>• Weaponisation of the loss &amp; damage debate to derail COP27</li> <li>• Volatile year with national elections (Australia, Brazil, France, and the US mid-terms). Increasingly hawkish US as Biden faces mid-terms</li> <li>• Climate Clubs &amp; CBAM pushes reinforce exclusivity of who gets to transition</li> </ul>



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## Key G7 opportunities in 2022

- **Germany could continue the G7 alignment of sectoral pathways to climate neutrality** (i.e., on domestic coal, gas, transport, forestry, and energy efficiency milestones) and enable G7 countries to bring “more” sectoral and/or headline ambition and implementation to the table by COP27.
- COP26 set up high-level political momentum and new formats for progress on adaptation and loss and damage. **Germany could leverage synergies between the G7 and the Petersberg dialogue to put investment in adaptation and loss and damage firmly on the agenda** – within G7 economies and in support of climate-vulnerable countries. This would involve using G7 ministerial meetings and Petersberg to enable the G7 bringing creative economic solutions to financing resilience to the table by the Bonn Intersessionals (SBs), as well as align G7 investment in domestic adaptation and resilience.
- **Germany could build on the political momentum of country deals to facilitate a scale-up of climate partnerships for coal to clean transitions that are underpinned by real resources** (technical and financial) – deliver the South Africa Deal to cement its status as a pilot approach and invest in platforms for scaling-up and replicating these deals – under the G20 “Just Energy Transition” priority as well as through potential delivery platforms like the G7 “Build Back Better initiative” and the EU Global Gateway.
- **Germany could leverage the COP26 momentum to see all G7 do more on fossil fuel subsidies and international fossil finance** – including agreeing clear phase-out timelines and whether public funds shift to increased investment in adaptation and mitigation.
- The G7’s major function is to provide global leadership on challenging issues at the cutting edge of global economic policy. **Germany could build on InsuResilience leadership and global momentum around resilience to deliver a credible package of economic reforms** that support V20 and African leaders’ recovery from COVID-19 and climate impacts. G7 can be the space to discuss innovative solutions to filling support gaps for LDCs, SIDS and African economies around adaptation and loss and damage.



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## About E3G

E3G is an independent European climate change think tank with a global outlook. We work on the frontier of the climate landscape, tackling the barriers and advancing the solutions to a safe climate. Our goal is to translate climate politics, economics and policies into action.

E3G builds broad-based coalitions to deliver a safe climate, working closely with like-minded partners in government, politics, civil society, science, the media, public interest foundations and elsewhere to leverage change.

More information is available at [www.e3g.org](http://www.e3g.org)

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