

Implications of the G20 Summit in Hangzhou, China, for Climate Change, Green Finance and Sustainable Development Goals

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1. Overall Context

The first G20 Summit meeting in China was held in Hangzhou on 4 and 5 September, 2016. This IGES Briefing Note considers the implications of the meeting for climate change, green finance and Sustainable Development Goals (SDGs), as well as the overall context of holding the meeting in China for the first time. From a sustainability perspective, the main concern was what would be agreed by G20 countries subsequent to the two historic agreements in 2015 on the SDGs and the Paris Agreement on climate change.

1.1. The First G20 in China

The global economy is still facing downside risks, and the current geopolitical situation seems more complicated and more unpredictable than ever, due to the growing refugee crisis and an upsurge in terrorism. China has also been under external pressure with regard to regional security issues.

Under these circumstances, China regarded the G20 Summit in Hangzhou to be one of the most important state events in 2016. China aimed to use its presidency of the G20 to improve its image as an emerging global power and made strong efforts to achieve a substantial outcome at the Summit. President Xi Jinping, serving as chair, used the Summit to once again demonstrate his leadership in the international arena, following the Asia-Pacific Economic Cooperation (APEC) meeting in Beijing in 2014.

The G20 Leaders' Communique mentions anti-corruption, which is partially covered under the SDGs, and is a priority for the current Chinese government. China has indicated that it will use the occasion of the G20 to pursue this issue further. The fact that China is emphasising anti-corruption efforts signals not only the seriousness the leadership places on this specific issue, but also the more general point that China has been making active use of recent external developments to help tackle domestic challenges.

1.2. Background to the US-China Joint Announcement on Climate Change

Just one day before the start of the G20 Summit, the US and China made a joint announcement ratifying the Paris Agreement. The announcement was made ahead of the G20 meeting, which was quite timely and effective in that it raised expectations that realistic and significant progress could be made for the Paris Agreement to enter into force in the near future.

Climate change was considered to be one of the very few issues with some possibility of close China-US collaboration to reach an agreement, and one which could demonstrate China's international leadership. Internally, environmental measures have been recognised as a major priority in China's 13th Five-year Plan (2016-2020), reflecting the urgency to address air pollution and other serious environmental issues. Moreover, China has recognised that policies to address priority environmental issues such as air pollution can mutually reinforce climate change mitigation policies, and that these synergies can enhance overall cost effectiveness. The increasing domestic priority of environmental issues has motivated China's increasingly positive stance on the environment in its global diplomacy, which may have been an important factor making possible the China-US agreement. But the Chinese government may also believe that a more positive stance on the environment could facilitate structural economic reforms, especially relating to large- and medium-scale state-owned enterprises with excess capacity issues. President Xi will be entering his second term next year, and he will need to tackle these difficult reforms to ensure the future development of the country. The year 2021, in President Xi's second term, will mark the 100-year anniversary of the founding of the Chinese Communist Party in 1921. This is one of two upcoming centennial events that President Xi sees as a top priority to realise "the Chinese dream."

On the US side, President Obama has consistently considered climate change among his top priorities. The US will have a presidential election in early November, and increasing international attention is being paid to how the issue of climate change will play out in the election itself, as well as how the election result will affect further developments on this issue.

2. Climate Change and Energy Issues at the G20

2.1 What Has Been Agreed at the G20

On the eve of the G20 Summit, the two biggest greenhouse gas (GHG) emitters, China and the US, formally ratified the Paris Agreement by depositing each country's official instrument of ratification with UN Secretary General Ban Ki-moon. This announcement was enormously important since it provided significant momentum to the ratification process, raising hopes that the Paris Agreement could enter into force at an early date. It also raised hopes that the G20 Summit could deliver further significant milestones in international efforts to address climate change.

However, the G20 Summit Communique did not meet these high expectations. Regarding climate change in a narrow sense, the G20 leaders committed to ratify the Paris Agreement and supported its early entry into force, but they unexpectedly failed to agree to set a specific timeline. Moreover, the Communique did not include other concrete actions, except that it re-affirmed the provision of climate finance through the Green Climate Fund and other channels, and expressed expectations for other multilateral initiatives to mitigate GHG emissions such as those under the Montreal Protocol and the International Civil Aviation Organization.¹

In addition, the Communique failed to address the transformational changes toward decarbonisation which the Paris Agreement envisions. Such transformational changes inevitably require immediate action in not only the energy sector but also the overall economy, and finance. However, the Communique discussed the issue of energy² and finance³ mainly in the context of traditional economic growth, rather than in relation to climate change or sustainability.

While the G20 discussion of energy was not sufficiently linked to climate change, one exception was the issue of phasing out of fossil fuel subsidies, which is one of the most important energy issues from a sustainability point of view.⁴ The rest of this section discusses the issue of fossil fuel subsidies, looking especially at a peer review process for fossil fuel subsidies for production and consumption.

¹ Paragraph 43.

² Paragraphs 23, 24.

³ Paragraphs 17-20.

⁴ Paragraph 24.

2.2. Fossil Fuel Subsidies and the G20

In the aftermath of the global financial crisis in 2008, the issue of fossil fuel subsidies was put on the agenda at the G20 Summit in Pittsburgh in 2009. At that time, the G20 leaders committed to “phase-out and rationalize, over the medium term, inefficient fossil fuel subsidies.” Fossil fuel subsidies can increase energy demand, thereby increasing CO₂ emissions. They also create barriers that hinder penetration of energy efficiency technologies and renewable energy sources. Thus, eliminating such subsidies contributes to climate change mitigation. Moreover, ending fossil fuel subsidies has even more benefits than simply those related to climate change. Economically, governments could reduce spending to improve their fiscal balance, reallocate spending to other priorities, and improve the balance of payments. The IMF estimated that fossil fuel subsidies reached USD 5.3 trillion in 2015.⁵ Although fossil fuel subsidies are intended to benefit poor people, in fact they tend to benefit those with higher incomes instead, so removing the subsidies would actually make more funding available for poverty alleviation. Environmentally, reducing fossil fuel subsidies would discourage unnecessary consumption of fossil fuels and help tackle various other types of environmental problems such as air pollution.

How to Address Inefficient Fossil Fuel Subsidies?

In June 2016, more than 200 civil society organisations⁶ called on the G20 to phase out fossil fuel subsidies by 2020. Indeed, at the Ise-Shima Summit in May 2016, the G7 leaders agreed to eliminate inefficient fossil fuel subsidies by 2025 and encouraged all countries to do so. However, the G20 was unable to agree on a deadline. Instead, the US and China took a step forward, and completed a G20 peer review process relating to actions to reduce fossil fuel subsidies.

In the G20 process, a voluntary reporting mechanism was agreed in 2011, and a process for voluntary peer review was developed in 2013, by which member states could evaluate the relevant policies and the methodologies to estimate expected impacts, as well as learn from the challenges and successes of others’ reforms and planned programmes. The US and China agreed to complete the first round of G20 peer review on fossil fuel subsidies jointly. The results of the two countries’ evaluations were reported at the G20 in Hangzhou.

⁵ IMF (2015) “Global Energy Subsidies: An Update.” <http://www.imf.org/external/np/fad/subsidies/>

⁶ Rowling, M. (2016) “Pressure for G20 Deadline on Fossil Fuel Subsidies Shift to Germany.” *Reuters*, September 6, 2016 <http://www.reuters.com/article/us-g20-climatechange-fossilfuels-subsidi-idUSKCN11C259>

The US report⁷ identified eleven production subsidies (for the exploration, development, and extraction of oil or natural gas) and one consumption subsidy, and proposed reforms for the eleven production subsidies. However, most of the eleven subsidies are special features of the tax code. Therefore, the US Congress would need to pass enabling legislation for phase-out of these subsidies to begin.

According to the OECD, the Chinese report proposed to reform nine inefficient fossil fuel support policies. The OECD explained that, “most of these policies are exemptions from excise or land-use taxes that benefit fossil fuels. Three of them relate to power or heat generation, and a collection of subsidies for fossil fuels are used in transport. These efforts are set within the context of China’s larger economic reforms, which stress the quality of economic growth, green growth and sustainability.”⁸

The Way Forward and Challenges

This joint peer review on fossil fuel subsidies is a significant milestone. Germany and Mexico will go through the peer review next. A similar process is taking place at APEC, which Peru and New Zealand have completed. These exercises increase the transparency on subsidies and lead to improved mutual understanding. Other G20 countries as well as APEC countries (and beyond) should follow suit.

There remain challenges. Of course, the identification of fossil fuel subsidies and proposals for reform are a significant step forward, but they are not enough. The real question is how to get political support domestically and implement actual phase-out. There is still room for mutual learning and information exchange regarding effective strategies to phase out fossil fuel subsidies.

Actual phasing-out of fossil fuel subsidies is one significant starting point for the successful implementation of the Paris Agreement, since it can address barriers to the wider deployment of renewable energy sources as well as energy efficiency technologies, which in turn contribute to GHG emissions reduction. As pointed out earlier, phasing-out of fossil fuel subsidies can also deliver non-climate benefits in economic, social and environmental terms. Thus, tackling fossil fuel subsidies is one approach through which the issue of climate change could be addressed in the context of sustainable development. Lessons learnt from the G20 fossil fuel subsidies initiative should be thoroughly examined and widely exchanged.

⁷ US Department of the Treasury (2016) *United States—Progress Report on Fossil Fuel Subsidies*.
<https://www.treasury.gov/open/Documents/USA%20FFSR%20progress%20report%20to%20G20%202014%20Final.pdf>

⁸ OECD (2016) “OECD Welcomes Ground-breaking Peer Reviews by China and US of Their Fossil Fuel Subsidies.”
<http://www.oecd.org/greengrowth/oecd-welcomes-ground-breaking-peer-reviews-by-china-and-us-of-their-fossil-fuel-subsidies.htm>

3. Green Finance at the G20

3.1. Introduction

The Communique acknowledges the need to scale up green finance and welcomes a new report⁹ from the G20 Green Finance Study Group (GFSG), co-chaired by China and the UK, which set out a series of policy recommendation designated to boost the flow of green finance. According to a report by the Climate Policy Initiative,¹⁰ the total funds required are estimated at about USD 900 billion per year, while the current investment level is less than USD 400 billion.

In this context, it is critical to mobilise more funds particularly from the private sector, considering that the assets owned by the banking sector and institutional investors amount to more than USD 200 trillion, and there are major constraints on large increases in ODA or public funds.

3.2 Why Was Green Finance Taken Up This Time?

For the first time, the substance of green finance was discussed in the G20 Communique. As the GFSG report explained, the scope of GFSG was carefully determined avoiding overlaps and strengthening linkages among the assignments made by other working groups dealing with financing for sustainable development under the G20, such as the Climate Finance Study Group (focusing on public finance), the Energy Efficiency Finance Task Group, the Infrastructure & Investment Working Group, and the Taskforce on Climate-related Financial Disclosure set up by the Financial Stability Board.

Placing green finance on the G20 agenda is highly relevant to China, considering that it will contribute to addressing serious pollution and other environmental degradation, which are clearly among the most urgent challenges in China. Green finance is expected to facilitate the development of new growth drivers in response to the recent economic slowdown of emerging economies including China.

⁹ G20 Green Finance Study Group (2015) *G20 Green Finance Synthesis Report*. September 5.

http://unepinquiry.org/wp-content/uploads/2016/09/Synthesis_Report_Full_EN.pdf

¹⁰ Climate Policy Initiative (2014) *The Global Landscape of Climate Finance*. http://www.climatefinancelandscape.org/?gclid=CJ6lsPLb_M4CFVgmvQodinAH6A

3.3 What Are the Challenges and Necessary Improvements to Scale Up Green Finance?

According to the GFSG report, while green finance has made some progress globally, only a small fraction of bank lending is classified as green. Less than 1 percent of global bonds are labelled green, and less than 1 percent of the holdings of global institutional investors are green infrastructure assets. Though the Communique did not address this background information, it clearly addressed the challenges and their measures based on the analysis in the report, in order to scale up green finance.

The Communique mentions major challenges largely unique to green finance. They include difficulties in internalising environmental externalities, environmental information asymmetry between investors and recipients, inadequate analytical capacity, and lack of clarity in the definition of green financing.¹¹

Seven voluntary options are suggested by the Communique to overcome these challenges: (1) to provide clear strategic policy signals and frameworks; (2) to promote voluntary principles for green finance; (3) to expand learning networks for capacity building; (4) to support the development of local green bond markets; (4) to facilitate cross-border investment in green bonds; (5) to encourage knowledge-sharing on environmental and financial risks; and (7) to improve the measurement of green finance activities and their impacts.¹²

3.4 What Kind of “Political Signal” Is Required?

As the GFSG report pointed out, internalising the environmental externalities is one of the critical challenges for promoting green financing. In other words, environmental costs should be reasonably quantified in terms of market prices, and the costs should be covered by the polluters in principle.

In this context, it is important to send a clear signal to private financiers and investors by enhancing policy instruments to phase out fossil fuels and introducing carbon pricing including carbon taxes or emissions trading. In fact, a group of 130 institutions that control USD 13 trillion in investment funds have called upon the G20 to adopt strong carbon pricing and specific plans to phase out fossil fuels, and to ratify the Paris Agreement this year.¹³

¹¹ Paragraph 21.

¹² Paragraph 21.

¹³ Slezak, M. (2016) Investors Controlling \$13tn Call on G20 Leaders to Ratify Paris Climate Agreement. August 24. *Guardian.com*.
<https://www.theguardian.com/environment/2016/aug/24/investors-controlling-13tn-call-on-g20-leaders-to-ratify-paris-climate-agreement>

3.5 How Did China Use the G20?

China strategically used its G20 presidency to promote green finance. Just a week before the G20 Summit, China's State Council approved the "Guidelines for Establishing the Green Financial System," which include a series of policy incentives to support green investment, such as a green guarantee programme, interest subsidies, and the launch of a national green development fund.

One day before the G20 Summit, when the leaders of China and US announced that they had formally ratified the Paris Agreement, China noted its commitment to starting its "national cap and trade program" in 2017. It is not clear, however, how the G20 will follow up the recommendations made by the Communiqué.

4. SDGs at the G20: Steps Forward and Back

It was encouraging that the 2030 Agenda for Sustainable Development and its Sustainable Development Goals (SDGs) were highlighted in a number of speeches at the summit in Hangzhou as well as discussed in the Communiqué. However, the actual text of the Communiqué generally put more emphasis on conventional growth priorities. Moreover, even on SDGs, the Communiqué put more emphasis on traditional development issues and less on environmental issues. Thus, overall, while the G20 Communiqué took some important steps forward, it also took some steps back.

4.1 Steps Forward

The G20 was notable because it gave China a chance to showcase its priorities on a global stage. It is therefore highly significant that China decided to underline the SDGs as a priority. In the lead up to the meeting, China's Foreign Minister Wang Yi stated that one of the "ten results" China hoped the Summit would produce was G20 support for the 2030 Agenda for Sustainable Development.¹⁴ A similar sentiment was echoed by China's President Xi Jinping during the opening of the Summit when he reflected on China's intent to "implement the SDGs, which should lead to benefits for the entire world."¹⁵

¹⁴ Wang Yi, (2016) "Strive to Achieve Ten Results from G20 Hangzhou Summit," University of Toronto, G20 Information Centre, May 26. <http://www.g20.utoronto.ca/2016/160526-wang-yi.html>

¹⁵ Xi, J. (2016) "G20 Hangzhou Summit Opening Ceremony," *China.org.cn*, September 3. <http://live.china.org.cn/2016/09/03/g20-hangzhou-summit-opening-ceremony/>

To be sure, President Xi's message was not conveyed for purely environmental reasons. The SDGs parallel recent efforts to control domestic pollution in China as part of the 13th Five-year Plan. The leadership could therefore use the SDGs to bring more attention to concerns that sat high on the national policy agenda. China had further made significant progress on the Millennium Development Goals (MDGs), and appears to be aiming to achieve similar levels of success on some of the SDGs. This seems to be particularly true for the SDG 9 on infrastructure, which overlaps with China's "one road-one belt strategy." The strategy will help the recently-created Asian Infrastructure Investment Bank (AIIB) promote interconnectivity between China and many countries in Eurasia.¹⁶

The United Nations also used the meeting to bring attention to the new development agenda. Ban Ki-moon, for instance, reiterated that the 2030 Agenda is "a universal, integrated and transformative plan of action for peace and prosperity for all on a healthy planet."¹⁷ He also applauded China's efforts to ensure that discussions on the SDGs were incorporated into G20 meeting discussions, and he praised several G20 countries, including France, Germany, Japan, Mexico and the Republic of Korea, for establishing "inter-ministerial coordination mechanisms" to help coordinate and mobilise support for national efforts to implement the SDGs.

4.2 Steps Back

While there were generally positive signs of the willingness of the G20 countries to embrace the SDGs, the degree to which the meeting seriously reflected on environmental issues is less reassuring. Part of the concern stems from the uneven coverage of environmental issues in the meeting's outcome documents, not only the Communique, but also the "G20 Action Plan on the 2030 Agenda for Sustainable Development" (hereafter, "Action Plan").¹⁸ The Action Plan offers an overview of how countries intend to work together in implementing the new development agenda. The Action Plan has subsections on infrastructure, agriculture, food security and nutrition, human resource development and employment, financial inclusion and remittances, domestic resource mobilisation, industrialisation, inclusive business, energy, trade and investment, anti-corruption, international financial architecture, growth strategies, climate finance and green finance, innovation, and global health. Of these subsections, only climate, energy and agriculture have a strong connection to the environment.

¹⁶ Stewart, M. P. "A G20 Agenda for China: Meeting the World's Infrastructure, Climate, and Development Needs." *The Internationalist*. April 12. <http://blogs.cfr.org/patrick/2016/04/12/a-g20-agenda-for-china-meeting-the-worlds-infrastructure-climate-and-development-needs/>

¹⁷ Ban, K. (2016) "Balanced, Inclusive, Sustainable Economic Growth Must Collectively Drive Development for All, Secretary-General Tells Leaders at G-20 Summit." September 5. <http://www.un.org/press/en/2016/sgsm18030.doc.htm>

¹⁸ The full document is available at <http://www.mofa.go.jp/files/000185879.pdf>.

More troubling is the apparent ordering of priorities in the final G20 Communique. Most of the document focuses on traditional growth issues as highlighted in the introductory paragraphs.¹⁹ The SDGs are briefly mentioned near the beginning,²⁰ but are only discussed towards the end,²¹ after more conventional economic concerns. Sustainable development is declared to be “high on the G20 agenda” although this is not stated until Paragraph 32. Moreover, the references to the SDGs are featured in a section on “inclusivity and interconnectivity” that then concentrates on infrastructure, employment and agriculture. The section does not offer a clear and coherent discussion of environmental issues. Further, the document makes multiple references to “integration,” but does not refer to the possible integration and trade-offs between environmental, social, and economic SDGs. For instance, there is no mention that investing in infrastructure without due consideration of the environmental impacts can undermine the sustainability of those investments.

Overall, the G20 Summit provided a platform for many countries (including China) and the United Nations to elevate the SDGs on a stage where the agenda typically focuses on issues such as trade, investment, and macro-economic stability. In that sense, the Hangzhou summit represented important progress compared to past G20 summits in terms of increasing attention to sustainability issues. The meeting also demonstrated that many countries are moving forward with the SDGs even as the new development agenda is still taking shape. There are nonetheless concerns that the environmental dimension of the SDGs is lost in the enthusiasm for rhetorical repackaging of traditional growth priorities.

¹⁹ Paragraphs 2-4, 7-10, etc.

²⁰ Paragraph 5.

²¹ Paragraph 33.



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