

Terms of Reference for the Climate Club

12 December 2022

1. Objective and Scope of the Climate Club

- 1) The climate crisis requires the transition to a 1.5°C pathway with a global greenhouse gas (GHG) emissions peak before 2025 at the latest and rapid, deep and sustained reductions in global greenhouse gas emissions by 43 percent by 2030, relative to the 2019 level, and net zero greenhouse gas emissions by or around mid-century.
- 2) The open, cooperative and inclusive Climate Club's objective is to support the effective implementation of the Paris Agreement and decisions thereunder. It aims to support accelerating climate action and increasing ambition in order to achieve global net zero greenhouse gas emissions by or around mid-century.
- 3) Its particular focus will be on the industry sector, thereby contributing to supporting green growth, and addressing, inter alia, carbon leakage and other possible risks to mitigation efforts, while complying with international rules. The Climate Club's initial scope will be on unlocking potential for the decarbonisation of hard-to-abate industrial sectors. Further sectors with substantial greenhouse gas mitigation potential can be included as agreed.
- 4) Its aim is to contribute to raising climate action globally by facilitating a near zero emission industrial production transition.
- 5) To this end, the Climate Club will provide a high-ambition intergovernmental forum for discussion and serve as an enabling framework for increased cooperation, improved coordination and potential collective action.
- 6) The Climate Club is built on three thematic pillars that will all contribute to its overall purpose. It will promote efficiency, foster existing initiatives and avoid duplication of efforts. The Climate Club will build on and complement relevant existing initiatives and exchanges of best practices between its members and the ongoing work of relevant international organisations and initiatives that relates to its activities.

Pillar 1: Advancing ambitious and transparent climate change mitigation policies

- 7) In view of bringing GHG mitigation instruments in line with the pathways towards net zero, members share their assessments and best practices with regard to mitigation policies relevant to the agreed sectoral scope of the Climate Club. This exchange should entail, inter alia, working towards a common understanding through comparative analysis of the effectiveness and economic impact of such policies, including price-based and non-price-based climate change mitigation instruments. The Climate Club's work will take into account and build upon work carried out under the OECD's Inclusive Forum on Carbon Mitigation Approaches (IFCMA) and data collection efforts, as well as by the IMF and other relevant fora.

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8) In this context, the Climate Club supports the upwards alignment of increased climate ambition and its implementation through policies and action to keep a 1.5°C limit of temperature rise within reach.

9) Mindful of the need to accelerate the green transition and the potentially undermining effect of carbon leakage and other risks to mitigation efforts, members will engage in a strategic dialogue on industrial carbon leakage mitigation and green growth to look for synergies in different national pathways while increasing their effectiveness. Within the agreed scope of the Climate Club, members will share their assessment of risks for carbon leakage as well as their strategies to mitigate such risks and identify possible ways to cooperate in this regard.

10) Members will discuss and explore working towards possible actions to strengthen the measurement and reporting of emissions regarding sectors within the agreed scope of the Climate Club. To this end, members will share their assessment and best practices regarding the development of comparable methodologies and standards to measure, estimate and collect emission intensity data including where possible at the industrial production site level.

Pillar 2: Transforming industries

11) The Climate Club will advance the enabling conditions for substantial sectoral industry decarbonisation by discussing and aiming to align, as far as possible, methodologies, standards, sectoral strategies and milestones and expanding markets for green industrial products. Pillar 2 will build on and be aligned with the work on industrial decarbonisation in the G7 Industrial Decarbonisation Agenda (IDA) and Hydrogen Action Pact (HAP), coordinating with the sector-specific Breakthrough Agenda, and also taking into account work by international organisations such as the IEA, as well as public and private initiatives such as the Clean Energy Ministerial Industrial Deep Decarbonisation Initiative (IDDI), and the First Movers Coalition. It will, inter alia, work to raise the visibility of these initiatives and broaden support for their output including as a high-level political forum for discussion of the topics listed below, drawing on the inputs of other relevant initiatives and formats.

12) Members, drawing on technical input from relevant fora, share best practices and aim, as far as possible, to find common definitions for near zero GHG emissions materials as starting points, as well as the necessary accounting standards for GHG emissions leveraging existing technical standards and other relevant work.

13) Given the major role of hydrogen in future industry processes, explorative discussions should also include a common accounting system for hydrogen GHG footprints. This will be done through supporting and working with relevant wider initiatives.

14) To contribute to realising the opportunities of industry decarbonisation, and recognising that lead markets for near zero emission materials should be scaled up already in this decade to gain dominance after 2030, members will promote markets for near zero GHG emission materials, taking into account the timeline for technological innovation and starting with

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emissions-intensive goods such as steel and cement for both supply and demand. Members endeavour to deploy relevant policy measures and instruments, including considering comparable goals for a certain share of low and near zero GHG emission materials in a given year.

15) Members will also cooperate regarding key enabling policies for making decarbonised industrial production the default business case over time and guiding investments by the establishment of lead markets and exchanging on the use of relevant instruments from, inter alia, the IDA policy toolbox.

16) Members will cooperate to improve the enabling conditions for the needed large-scale investments in research, development, innovation, and new infrastructure.

Pillar 3: Boosting international climate cooperation and partnerships

17) Under the third pillar members will aim to enhance multi- and bilateral cooperation between members in the areas of cooperation identified under pillars one and two. The Climate Club will provide a platform for alignment, matchmaking on a voluntary basis and creating synergies between cooperation and funding instruments, thereby improving the enabling environment for industry decarbonisation in emerging economies and developing countries. Identifying innovative approaches to mobilising private sector financing could also be a special focus.

18) Members of the Climate Club may - on a voluntary basis - provide support to developing countries via individual and/or joint funding instruments based on mapping of existing assistance. Support provided by members may include for example capacity building, technical cooperation and technology transfer on voluntary and mutually agreed terms to support especially the development of standards as well as enabling policies.

19) Members may discuss how to align existing multi- and bilateral cooperation and how to address gaps in cooperation in line with involved developing countries' needs for example by discussing options for joint activities and pooled funding.

2. Participation

20) The Climate Club is inclusive in nature and open to climate-ambitious countries. Participation in the Climate Club indicates their commitment to the following:

- a) the full and effective implementation of the Paris Agreement, the decisions thereunder, accelerating their climate ambition and resolving to pursue efforts to limiting the temperature increase to 1.5°C;
- b) accelerating the transition to net zero GHG-emissions by or around mid-century and reflecting this in Nationally Determined Contributions and Paris-aligned long term transformation pathways;
- c) accelerating their sectoral decarbonisation, particularly in the industry sector;

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d) actively working together to advance the objectives of this Club and promoting them in other fora.

21) Some activities as set out in the three pillars of the Climate Club may only involve a subset of members, wanting to move ahead and cooperate more closely. Accordingly, such efforts may only need the support of the members involved in this activity and may thus proceed with only a subset of members.

22) Relevant stakeholders may be invited to participate as appropriate to achieve the objectives of the Climate Club. These may include inter alia representatives of international organisations and initiatives, business and academia.

3. Governance and next steps

23) The governance structure should enable and facilitate Climate Club activities while being as lean, agile and efficient as possible.

24) Governance arrangements should foresee a secretariat and arrangements to provide members with the possibility to meet both at high level and the appropriate working level in order to, inter alia, steer the Climate Club activities, provide guidance and oversee the secretariat. Meetings for strategic dialogue at the highest level can be convened.

25) Members agree to ask the Organisation for Economic Cooperation and Development, in tandem with the International Energy Agency, to host an interim secretariat working together with other relevant organisations to ensure progress on working arrangements until further arrangements are decided. The interim Secretariat should, among other tasks, liaise with relevant international organisations, fora and initiatives to ensure synergies and avoid duplication of efforts.

26) After the endorsement of these Terms of Reference by G7 Leaders, a Climate Club Task Force will be formed to support further development of the Climate Club towards a full launch in 2023, ideally by COP28. The Climate Club Task Force will be an informal group made up of the G7 and other partner governments, including interested major emitters, G20 partners and other developing and emerging economies. It will be Chaired by Germany and ideally another Climate Club member beyond the G7 as decided by the Task Force. They will further elaborate and decide on governance, membership structures, process and working arrangements, including outreach towards partner countries, international organisations, initiatives and stakeholders.