



# SPOT ON

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## The G7 at a Watershed Moment – Will there Be an Ambitious Elmau Package?

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*Amid Russia's invasion of Ukraine and worsening global challenges, the G7 has taken on renewed significance. As the global temperature rises, inflation spikes, and inequality deepens, the international community is looking for bold action from the G7 on the world's most pressing problems. At the Leaders' Summit in Elmau, the G7 will likely make some major announcements, including on Ukraine and climate change, but it is unclear how ambitious these will be. On issues like health security and economic transformation, concrete outcomes are less certain but direly needed. This is not only a watershed moment for the global security architecture and economy but also for the G7 itself. Can the G7 meet the moment?*

As the G7 Leaders' Summit approaches, the international community faces an array of crescendoing crises including novel COVID-19 variants, skyrocketing inflation, deepening economic inequality, worsening effects of climate change, and perhaps most significantly, the unprovoked and ongoing Russian invasion of Ukraine. The G7, which includes seven of the world's ten largest economies by nominal GDP according to the World Bank, plus the European Union (EU), has a distinct ability and duty to address these interlocking crises, and Germany has set an ambitious programme for its G7 chairmanship centered around the theme "Progress Toward an Equitable World." The Programme includes five components: Sustainable Planet, Economic Stability and Transformation, Healthy Lives, Investment in a Better Future, and Stronger Together. The Programme, which had barely mentioned security, when it was published in January 2022, did not yet reflect the changing global threat landscape. Since Russia's invasion of Ukraine, however, the war and its consequences have moved to the center of the various G7 working tracks. As evidenced by Chancellor Scholz's recent announcement that Ukrainian President Zelensky will participate in the summit, Russia's war on Ukraine will occupy much of the G7 leaders' time when they meet at Schloss Elmau on June 26-28.

With this in mind, what can be expected from the G7 Leaders' Summit in Schloss Elmau?

Will there be action to address the world's most pressing social, economic, geopolitical, and environmental problems?

### Sustainable Planet

Germany's marquee G7 proposal is a "Climate Club" of nations committed to transformative climate action. Such a club would build on the results of COP 26 Edinburgh and the Paris Climate Agreement. It would be centered around achieving the Paris Agreement's 1.5 degree climate target, developing emissions standards and carbon pricing, and creating a robust partnership for climate financing between the G7 and the community of G20 nations. The goals of the Club are twofold: first, to create an alliance of like-minded climate-committed nations and second, to enable the transfer of climate-focused technology, ideas, and investment from the G7 nations to less-wealthy counterparts who demonstrate a commitment to climate goals.

*It is highly likely that a Climate Club will be declared at the G7 Leaders' Summit*

Given that the German Traffic-Light-Coalition has made the Climate Club idea a hallmark of the German G7 presidency and given that the G7 Climate ministers endorsed the proposal at their ministerial meeting on May 27, it is highly likely that a Climate Club will be declared at the G7 Leaders' Summit. Moreover,

declaring a Climate Club would provide a political lifeline to Alliance 90/the Greens, who are feeling pressure from their climate-conscious base to do something that promotes sustainability in light of frequent headlines about Germany returning to non-renewables to ensure security of supply amid a reduction of Russian natural gas deliveries and fears of a shutoff.

*Each of the G7 nations is facing fiscal pressure amid rising inflation and the war in Ukraine*

Each of the G7 nations is facing fiscal pressure amid rising inflation and the war in Ukraine. With financing being diverted to Ukrainian war efforts and domestic social support packages to ease the burden of inflation, the G7 nations will be hard-pressed to make the additional financial investment in the Climate Club that would be necessary for genuine success. Moreover, G7 countries beyond Germany, such as Italy, are also turning to coal and other non-renewables in the face of Russian supply disruptions, making it unlikely that they will be prepared to make new bold commitments to pricing and emissions limits.

## **Economic Stability and Transformation**

The G7 leaders are likely to articulate their support for speedy implementation of the G20 15 percent global minimum corporate tax rate agreed to by 137 nations under the umbrella of the OECD in 2021. In light of rising food prices and debts in developing nations, the G7 leaders will also likely reemphasize the need for a revised version of the G20 debt treatment framework, without announcing any concrete steps, as the path forward is complicated and needs to be fleshed out within the G20. In addition, following the progress made at the 12th WTO ministerial summit, the G7 are likely to make a statement in favor of rules-based free trade and the WTO as well as against export restrictions, as Biden's Indo-Pacific Economic Framework (IPEF) indicates the U.S. may now be ready to re-embrace open trade as a means of strengthening global alliances. At the same time, though, the G7 will also likely reaffirm its support for economic sanctions against Russia and other violators of the rules-based international order.

*The G7 is unlikely to embrace the idea of central bank digital currencies*

Also, in light of the recent collapse in cryptocurrency prices and renewed concerns about

their instability, the G7 leaders will probably seize the opportunity to urge the Financial Stability Board (FSB) to strengthen regulatory frameworks around cryptocurrencies, as suggested by the G7 finance ministers in May. However, with cryptocurrency in such a volatile state, the G7 is unlikely to embrace the idea of central bank digital currencies (CBDC) as outlined in the original German G7 Programme. Finally, it should be noted that while the G7 Programme mentions the need to address inequality within countries, the G7 in the past has not addressed international economic inequality in a sufficient way. The failure to sufficiently tackle macroeconomic disparities between nations is a longstanding criticism of the G7, with some arguing that its status as an exclusive "club" of wealthy nations gives it a disincentive to truly address this problem.

## **Healthy Lives**

In light of the COVID-19 pandemic, health security occupies a major spot in this year's G7 programme. At the summit, the G7 leaders will likely emphasize health security and double down on support for the Access to COVID-19 Tools (ACT) Accelerator and its main initiative, the COVID-19 Vaccines Global Access (COVAX) initiative, possibly announcing a new financial commitment.

*The proposed health architecture will have very limited effectiveness without the buy-in of China*

The G7 leaders are also likely to reiterate support for continued vaccine patent waivers to allow for local vaccine production around the world, building on the WTO's five year temporary waiver of intellectual property patents for vaccines approved at the WTO ministerial earlier this month. It is unclear, though, whether the G7 will expand patent waivers to diagnostics and treatments, a move that would further help low-income countries combat the pandemic but that would outrage pharmaceutical companies. The G7 Programme also emphasizes the need for development of a strong health security architecture to prevent pandemics and other threats. This architecture was dubbed the "G7 Pact for Pandemic Readiness" by the G7 Health Ministers at their May ministerial meeting, and will likely be endorsed in the leaders' communiqué. However, the proposed health architecture will have very limited effectiveness without the buy-in of China, which is stonewalling WHO investigations and which is not part of the G7. Such a health architecture would also require robust fun-

ding, but it is unclear if the G7 is prepared to provide additional funding. Finally, the G7 health ministers have articulated a commitment to fighting antimicrobial resistance (AMR), and it is likely that this will be mentioned in the leaders' communiqué. While seemingly less urgent than the pandemic, the fight against AMR could be an important opportunity for building trust with China, which shares an interest in its prevention, and this could provide a basis for future G7-China cooperation in countering pandemic threats.

## Investment in a Better Future

The German G7 Programme urges G7 members to invest in a socially just green transition as well as in initiatives which minimize gender-based inequality. Additionally, the Programme urges economic investment in developing countries to promote long-term food security and green infrastructure development. Based on the G7 Development Ministers' communiqué, it is likely that the G7 leaders will reaffirm the G7 Partnership for Infrastructure and Investment (G7 PII). This partnership has few rigid requirements, and G7 members can choose where and how much to invest in developing countries via their development banks and aid agencies based on their individual priorities.

*It is unlikely that there will be game-changing new investment initiatives*

With this continuation of the current decentralized structure, it is unlikely that there will be game-changing new investment initiatives, especially with the fiscal pressures created by inflation and the invasion of Ukraine. However, the G7 may commit to temporarily fund or subsidize food supplies for nations grappling with food shortages and high prices caused by the invasion of Ukraine. While such a financial commitment risks being smaller than needed for a comprehensive solution, it would be an important signal of support by the G7, similar to the WTO Ministerial's recent decision to exempt the U.N. World Food Programme's humanitarian aid from all export restrictions. Perhaps more significantly, though, the G7 is likely to announce support for a Ukraine reconstruction financial platform and facility, building on European Commission President Ursula von der Leyen's proposal for a "Ukraine reconstruction platform." Such an announcement would likely include President Zelensky via video link and it would be a natural follow-up to the resolution of the G7 Finance Ministers from May 20, which emphasized the need to financially sup-

port Ukraine's reconstruction. However, an announcement would likely duck the thorny issues of how to fund such a package: Germany, multiple EU members, and Canada support the seizure and reallocation of Russian assets for Ukraine's reconstruction, while the Biden administration is opposed to such a move.

## Stronger Together

The final component of Germany's G7 Programme is the vaguely-titled "Stronger Together," which emphasizes the G7's shared values including gender equality, security in accordance with the rules-based international order, and freedom of information. The Programme emphasizes the need for a free and inclusive digitalization of society. However, based on the lack of specific commitments in the Programme and the G7 Digital Ministers communiqué, it remains to be seen whether there will be major announcements in this area. Also, while the Programme envisioned the members of the G7 as "bridgebuilders" with "strategic foresight" serving as "mediators" in global conflicts, this has become more complicated since Russia's invasion of Ukraine. In the Ukraine context, the G7 countries failed to engage in accurate long-term "strategic foresight" regarding the Russian threat. Russia's invasion of Ukraine served as a wake-up call, making the G7 members astutely aware of the rapidly changing geopolitical environment. As such, outreach to non-G7 countries and to the G20 is more important than ever. A clear demonstration of this is Chancellor Scholz's decision to invite five partner countries to join the G7 summit in Elmau.

*Outreach to non-G7 countries and to the G20 is more important than ever*

As Scholz said in his announcement of the partner countries, our invitation of these countries "will send out a powerful signal... a common message from strong democracies that are aware of their global responsibilities. Our aim is to launch concrete initiatives... and make democracies more resilient." While it is unclear how many "concrete" initiatives will be announced, Scholz's words sound like those of a leader who understands that the well-being of countries beyond the G7's doorstep is essential to addressing global challenges.

## The Role of the G7 in a new Geopolitical Environment

The G7 is facing a mammoth task. The summit in Elmau takes place at a watershed moment – a “Zeitenwende”. The G7 have shown an unprecedented level of unity and solidarity on many issues. There will likely be some major announcements such as the Climate Club and a Ukrainian reconstruction effort. However, with fiscal constraints, high inflation, and the threat of recessions, it remains to be seen whether the G7 will succeed in making new

financial commitments regarding the health, climate, and food crises. At Elmau, the G7 needs to prove it’s worth. The G7 will not be able to solve the world’s problems alone. However, without bold leadership of the G7, the international community will continue devolving into blocs defined by extremes and regress from the ideals of democracy, trade, and prosperity. The G7 cannot, and hopefully will not, allow that to happen.



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