

# G7 summit – analysis of decisions taken to step up on climate change challenge

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## Abstract

**Research background:** After the summit of G7 held in the United Kingdom, important decisions regarding future actions against global warming were taken. Some of them were appreciated by the environmental supporters but many others tend to have a different view, especially because of lack of details.

**Purpose of the article:** In this article, we will analyse what are the measure proposed by the most powerful and developed countries, members of G7, what is the position of the other big countries (China and Russia) that were not invited, and how this could really contribute to the saving environment progress.

**Methods:** Through descriptive and comparative analysis the paper reveals the financial and technical difficulties to implement these decisions and how they can contribute to a better environment and achieve the COP 21 objective.

**Findings & Value added:** The stress caused by the Covid-19 pandemic in all economies didn't cancel the engagement of countries taken in Paris, to limit the rise of global temperatures to 1.5°C comparing to the preindustrial era. The United States even came back on track and, generally speaking, it appears that there is a stronger will to take concrete actions.

**Keywords:** *global warming; environment saving; international strategies.*

**JEL Classification:** *H22; F53; F50; Q54.*

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## **1 Introduction and research background**

At the beginning of 1975, six of the main democratic and industrialised countries of the world decided to meet each year to discuss about global issues - global economic governance, international security, global health (Balu et al.2021), and energy policy (Sarbu et al., 2021). At the time West Germany, Italy, United Kingdom, the United States, France, and Japan were part of the initial group. One year later, Canada was accepted as a part of the group.

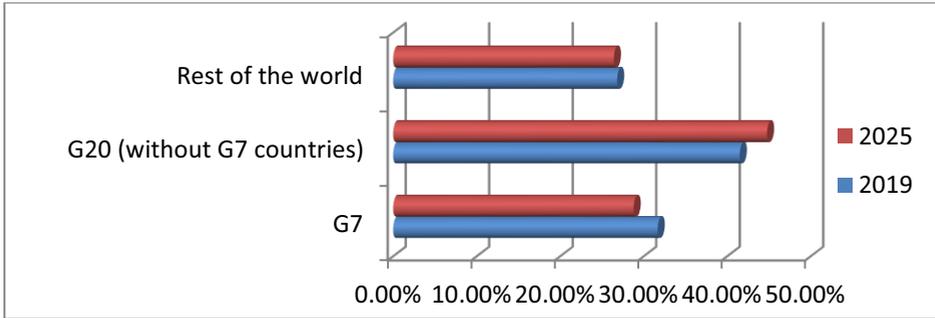
The European Union was accepted as a "non-enumerated" member starting with 1981 and is represented by the presidents of the European Council, which represents the EU member-states leaders, and the European Commission, the EU's executive body (Bodislav et al., 2020). EU has all the privileges and obligations of membership except the right to host or chair a summit (Reuters, 2008). Between 1998 and 2014, Russia was part of the group, at the time even the group was called G8, but after the annexation of Crimea in 2014, the initial members decided to suspend their collaboration.

The advantage of this type of meeting is the small number of participants (comparing with United Nations -193 states; (United Nations, 2021)), or Organisation for Economic Co-operation and Development (OECD) – 38 countries, (OECD, 2021)) but at the same time the homogeneity of the members, since generally speaking, all of them have a common interest in promoting democracy, human rights, and liberties, general wellbeing. It is worth mentioning that G7 countries represent 10% of the world's population.

Although G7 decisions cannot surpass any national or international law, because it is made up from separate nations with their own parliaments (the democratic process being in places in each state member), giving the importance of the participants (besides the founding members, other countries are invited to the talks – this year, India, South Korea, and Australia had the quality of guest), still some resolutions can have a global effect. It was the case in 2002 when G7 had an important role in fighting against malaria and AIDS. The main outcome from these talks can only be the setting up of important funds that can be used for a certain cause. The money will be directed to the responsible institutions, G7 not having an executive role.

Since climate change is a worrying issue for a large majority of the people, it is normal that everybody wait to see if politicians representing the most powerful democratic states can reach to agreement in order to reduce global warming (Bran et al., 2020).

The importance of the participants can be observed from the next picture, all together these economies count for almost 1/3 of the global GDP. It is also true that emerging markets are becoming more and more important in the global economic equation. If in 2019 the G7 countries held 30.7% of global GDP, in 2025 it is estimated that the share will be only 28.8%. A significant advancement will be registered by the G20 (except G7 members) group, whose members will jump from 41.51% in 2019 to 44.77 % of total GDP, in 2025. The rest of the world is estimated to remain stable, at around 26.5%.



**Figure 1.** Share of total GDP from G7, G20, and the rest of the world

Source: own representation, data from Statista,(Szmigiera, M. 2021).

Of course, other subjects may emerge as a main theme of the discussions, depending on the emergency and impact of the situations. The actual economic crisis generated by the Covid-19 pandemic, promoting prosperity by championing free and fair trade, climate change, human rights, international security, etc. are among the most important subjects on the table (Radulescu et al., 2021) .

## 2 Methods

Using descriptive and comparative analysis we exemplify with real data why the decisions of G7 are so important in the total equation of the fight against global warming. We started by analysing the importance of the group member states from the economic point of view; we observed what the advancement of these countries is in the climate change issue by looking at CCPI index 2021 and we continued by looking at every decision taken and which consequences might have.

## 3 Results

This year the meeting was held in the United Kingdom, Carbis Bay, Cornwall on 11-13 June 2021 and was hosted by prime minister Boris Johnson. The summit had higher importance from a political perspective since it was for the first time when the new U.S. president, Joe Biden, participated. Giving the fact that his vision is different, in many perspectives and important subjects, from his predecessor, the results of the meeting were expected to be more valuable. One of the most sensitive subjects is global warming – it is well known that during the last 4 years, this aspect was not approached seriously, in G7 meetings, since the former U.S president, Donald Trump, doesn't believe in climate change. In reality, he undermined all the sustained efforts done by other countries, organisations, and researchers on the subject.

All the climate policies that D. Trump promoted during his term, have led the United States in the situation to be considered as having the worst performance in the world, in terms of climate change mitigation. According to the Climate Change Performance Index, the U.S is in the last position of all evaluated countries. For a better understanding, in the table above we selected the performances of G7 member states (EU performance is considered as a whole). For accuracy, we have to remind

that no country performs well enough to achieve an overall very high rating in the index; therefore the first three ranks of the overall ranking remain empty.

**Table 1.** Climate Change Performance Index – Rating table

Rank	Country	Score	
5	United Kingdom	69,66	
16	European Union (28)	57,29	Rating
19	Germany	56,39	very high
23	France	53,72	high
27	Italy	53,05	medium
45	Japan	42,49	low
58	Canada	24,82	very low
61	United States	19,75	

Source: data from Climate Action Network, 2021.

As we could see if the United Kingdom and European Union (consequently its member) are having positive progress, not the same advancement is registered for the other 3 countries. If somehow the U.S. situation is easy to explain, Canada is a negative surprise. Even Japan doesn't look like its first preoccupation is to stand up for environmental protection.

The first outcome of this summit is the initial agenda. Since each country is struggling to recover after the pandemic, the main topic was this one but not only:

- how global recovery from the coronavirus can be managed and how humanity can develop mechanisms against other eventual pandemics;
- encouraging prosperity in all countries by free and fair trade;
- fighting against global warming and climate change.

Starting from the agenda let's see what the main decisions are or at least what those which were made public are:

1) 1 billion vaccines against Covid-19. In the top of 250 million vaccines already pledged by the U.S. and 100 million promised by the U.K., the other member states decided to contribute with another 870 million doses, during next year, for the developing countries, in order to eradicate the pandemic. Of course, as the W.H.O director said, more is needed and much faster but at least we can admit that this is real action and important help for the countries in need.

2) The fact that climate change was on the front head of the agenda gave even more expectations to environmentalists and the results didn't disappoint them. First of all, a fund of 100 billion USD per year, from public and private sources, was created to help poor countries significantly reduce emissions, until 2025. While this sounds like a great initiative we have to say that in 2009 the developed countries pledged the same amount of 100 billion USD / year for the poorest states but the objective was not accomplished – in part because of the pandemic.

On top of that, G7 state members jointly decided that on their territories to completely shut down power plants based on coal. They also decided to not fund any other coal burning plant in any country. Another fund of 2.8 billion USD was pledged in order to help developing nations to switch to cleaner sources of energy. Once again, environmental organisations are complaining that more is needed and in a shorter time. If up until now, the activist were right saying that there are no

concrete steps to fight against global warming, at the list on the official statements after the summit, we can see real engagements. Even more important is the fact that all countries admitted the urgency of the situation and engaged in these actions.

3) One of the most important outcomes of the last G7 summit is the fact that the U.S. is back on the table. Of course, they never left officially but it is well known that the previous president had serious frictions with the other members of the club. Joe Biden declared that the meeting had been “extraordinarily collaborative”. The new attitude was appreciated by the other participants as well; French President Emanuel Macron declared that “it’s great to have a U.S. president who’s part of the club and very willing to cooperate”. The fact the U.S came back from global warming denial is even more important than any other pledge or found, it means that the Americans will actively support the engagements taken in COP 21 in Paris to limit global warming to well below 2, preferably to 1.5 degrees Celsius, compared to pre-industrial levels. For achieving this objective the only way is to reduce their Greenhouse Gas emissions. In order to understand how important is this aspect, if we look back at the CCPI analysis, regarding the GHG emissions, we can see that the U.S. is in 55 positions out of 61 countries. Even China, a historically blamed country regarding pollution, is considered as having better results since is on 48 positions.

4) The most interesting of all decisions is that members decide to dissuade the big multinational companies to move their profits into tax havens in order to avoid paying taxes. Therefore, the G7 member states decide to impose a minimum global corporate tax rate of at least 15%. Although a clear set of rules is needed to make viable this decision, in reality, it means that all multinationals will have to pay at least 15% tax in the country where they operate, in other words, where the profit was realised and not where is declared.

5) In addition, the member states decided to take actions in order to protect the global financial system from the eventual consequences of the climate change process by imposing international companies and financial institutions to create and disclose risk scenarios of how they will be affected due to climate change.

6) China was also an important subject in their discussions, from one side because of the violation of human rights in Xinjiang (concerning demands for high autonomy of Hong-Kong region) but from the other side because of its growing influence all over the world, especially in Africa, due to the Belt and Road Initiative.

7) Regarding Russia, which use to be part of the club, G7 demanded to take actions against cyber-attacks that coming from their territories which demand ransoms from western multinational companies. The ex-soviet union was asked to do a fair investigation regarding the use of chemical weapons inside the country (Alexei Navalny case).

All these agreements are not compulsory since every country needs to implement these themes on a voluntary basis since each country has a democratic political process in place.

#### Outcomes of decisions

Obvious that every decision is quite important in the global governance process, especially those regarding the efforts to reduce the global warming effects (Profiroiu et al., 2020a). Since it is the first time after four years of contradictory visions regarding the effects of global warming (Profiroiu et al., 2020b), we will focus our attention on the decision regarding these aspects, but we will comments on the other also.

We will start our analysis with the most substantial decision that was taken in order to create equilibrium among all multinational companies, concerning the tax paid. This decision is backed up by the necessity for all states to find more money in order to solve the negative economic effects that appeared after the pandemics.

The proposal will have a different impact on international companies since many countries are imposing already a tax level higher than 15%. For example, in the U.S. the tax corporate is now 21%, cut from 35% during the republican administration. There is a will from democrats to make it higher again. In any case, as all G7 members have a corporate tax rate much higher than 15%; this will only make them bring more money to the budget.

**Table 2.** List of countries by corporate rate tax

Country	% of corporate rate tax
United Kingdom	19
European Union	20,7
United States	21
Italy	24
France	26,5
Canada	26,5
Germany	30
Japan	30,62

Source: data from Trading Economics, 2021.

Very few countries are using a lower level of taxes, Vanuatu, Cayman Islands, Bahrain, Bahamas, United Arab Emirates, and the Isle of Man having 0, which is why they are considered as being fiscal paradise. What brings new this decision of the last G7 is that international companies will be forced to pay 15% corporate taxes in the country where they realise the profit. Consequently, this deal will reduce the tax competition and will create a more efficient tax system. If most of the country will have benefits since they will receive payments from companies making profit inside their territory, the transnational enterprises will be negatively impacted – among them, most probably the majority comes from the internet and health industries. In the next table, we selected a number of big transnational corporations with international exposure but a low level of paid taxes.

**Table 3.** List of multinationals that will be affected by tax corporate rate of 15%.

Company	Foreign Effective Tax Rate	Foreign Income Exposure
Monolith Power Systems	3%	97%
Nvidia	4%	67%
Electronic Arts	4%	80%
Adobe	7%	80%
Apple	9%	62%
Visa	10%	54%
eBay	10%	84%
Oracle	13%	69%

Source: data from Goldman Sachs, (Jasinski, 2021).

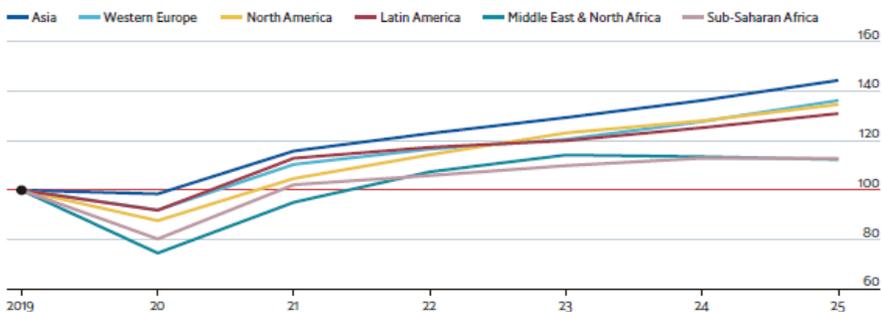
It is well known that Google, Amazon, and Facebook are criticised in the past years for not paying anything or too little corporate tax. So-called “tax adjustment” became usual practice for some companies. After the G7 decision, not only they will have to pay 15% but they have to pay to the country where the products were sold. It is also a measure that brings justice from the business competition perspective. Still, many companies will be affected and we will see what consequences this decision may produce for them. Certainly, the consequence will be higher prices. Thinking that means less consumption, it can only be good from a sustainability perspective. With all the money raised from this new tax policy, many environmental protection measures could be implemented. At the end of the day, it can also be only the beginning of much higher taxes, if needed. It is obvious that the actual situations where the state finances are becoming increasingly reduced while companies are in great shape, reporting huge profits year after year, can no longer continue (Deutsche Bank Research, 2020).

Competitiveness – the main concern of a new strategy

After an extremely complicated 2020, when many countries were forced to close their borders and many economic activities were affected (some areas were almost completely closed – events, aviation, tourism, etc.) it is normal that the first preoccupation to be how to recover (Radulescu et al., 2020).

Despite the willingness to come back to the previous situation, the pandemic showed that the world is too dependent on China’s capacity to export. Their policy of cheap salary made all investors produce exclusively in Asian countries (China mainly but other neighbour countries as well). Even though today there is a turnaround from the economic strategy perspective, many politicians declaring that Europe and the U.S should break the dependency of China, the reality is that producing inside a big part of import products remains very sceptical.

Several factors underpin this new strategy. Asia’s supply chains have proven highly resilient during the pandemic. Asian exports recovered faster than those of any other region in 2020, even exceeding pre-pandemic levels by early 2021. This resulted from generally successful coronavirus-mitigation measures, which allowed Asian factories to continue to operate while the rest of the world was entering lockdown.



**Figure 2.** Recovery of exports after the pandemic. Data from 2021 and forecasts.

Source: The Economist Intelligence Unit, 2021.

The probability of having a fourth pandemic wave is bigger and bigger, although in all G7 states all people have free access to vaccination. The population has reached a certain limit in getting vaccinated, which is not enough to have mass immunity. According to some experts, herd immunity can only be reached when

70% of the persons were healed after infection or got the vaccine, which is not the case. Although some relaxation measures were installed recently, new decisions of closing borders may be restored in the near future – in some European countries, traveling is already limited despite the launching of vaccination certificates.

Therefore it is highly improbable that G7 states could change the trends of international exports just by political willingness, competitiveness is the main driver that leads the business.

#### China and Russia reactions

Even though the Chinese President didn't have an official reaction to G7 decisions still, an official member of the Chinese embassy in London said that "the days when global decisions were dictated by a small group of countries are long gone" (BBC, June 2021). China decided to minimise the G7 resolutions because, despite the apparent understandings between participants, there are still other initiatives that couldn't find a common ground.

First of all, we should mention China's Belt and Road Initiative (BRI) that has helped finance trains, roads, and ports in many countries, which is also an instrument to financial investments and a way to gain political and economic influence in many areas (Asia, Africa but in some European country as well). Some beneficial are complaining about the huge debts that their countries have to pay in the next years.

In order to limit the Chinese influence expansion, Joe Biden decided to come up with a new proposal, in a way a similar plan, named "Build Back Better World (B3W)", plan to be a higher-quality alternative, a "values-driven, high-standard, and transparent" partnership. However, the financial details of this plan were not revealed, even the German Chancellor Angela Merkel declared that the group doesn't yet arrived at a conclusion about this initiative.

Russia also didn't have a specific reaction after G7 but President Putin meets with Joe Biden on 16 of June in Geneva. Although both declared they have a constructive talk, very few positive advancements were announced.

## 4 Conclusions

Undoubtedly the discussion on the climate change issue was more fruitful comparing with recent years, first of all, because there was no Trump at the table. One of the first decisions of Biden, as the new U.S. president, was to re-join the Paris climate agreement. Still, despite the engagements of eliminating coal energy plant insides their borders, and to allocate important funds to help poorest countries to develop the green energy sectors there was not too much advancement. Probably, the next important meeting, which is the Cop26 climate summit, held in Glasgow in November this year, will bring a clearer and effective solution to the climate problem. Another issue was economic recovery after the pandemic; vaccines and corporation tax were more urgent and worrying.

Imposing the minimum corporate tax of 15% was one of the main outcomes of this meeting not only because all the countries can benefit but also because it is the first step of a new approach of international taxation more effective. Companies obtaining the large majority of their revenues from intangible assets and who choose to declare the headquarters in a jurisdiction with a low tax policy will be most affected. From now on, this tax adjustment strategy, from which international companies' long time benefited, will be unproductive.

It remains to see how these decisions will be implemented in the national policies and how the international companies will react. Knowing the force of influence of the first 5 biggest U.S. tech companies – GAFAM, it will be interesting to follow the future evolution of the subject.

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