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AN INCLUSIVE CLIMATE CLUB TO PROMOTE CLIMATE AMBITION

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MR. COULIBALY: Hello. We’re going to get started. Sorry for the slight delay. Good afternoon, everyone, and really thank you for joining us. My name is Brahima Coulibaly. I’m the vice president here of the Global Economy and Development program at Brookings.

It gives me really great pleasure to welcome you to Brookings for this convening for the official launch of this independent report entitled, “Collaborating and Delivering on Climate Action through the Climate Club.” It was produced by the London School of Economics and Political Science at the request of the G7. And for those online as well as here, you can join the conversation on Twitter as well by using the #ClimateClub in one word.

So, climate changes, without a doubt, the single most urgent threat to our lives and livelihoods and the science on it is pretty clear. In the coming years, rising global temperatures will lead to more frequent and severe weather events, the degradation of the world’s oceans and other ecosystems and instability in access to food and drinking water among others. So, notwithstanding some progress over the past decades, collective action to address climate change, including delivering on the goals of the Paris Club Agreement, the Paris Climate Agreement has fallen significantly short. And there is now growing consensus that the next years present a critical last chance window of opportunity to ramp up ambition and action at all levels.

It is this sense of urgency that prompted the G7 leaders to endorse in June the vision of a Climate Club. A new intergovernmental arrangement to be established by the end of this year to accelerate action on climate change. The German G7 Presidency commissioned the London School of Economics Grantham Research Institute to prepare this independent report to bring in some independent perspective under the leadership of Nick Stern. The report was discussed earlier today with the G7 finance ministers here in Washington, and it's now been released and available on the website.

While the motivation behind the Climate Club is clear and compelling, we know that success is not guaranteed. And the main objective of the independent report is to make some recommendations, including on the design features and governance structure of the Climate Club that
would enhance the chances of success. The report recommends among others that the membership and the design of the Climate Club be firmly based on the following set of principles.

First, it must require from members a shared commitment to ambition, action, and collaboration. Second, it must be open and offer benefits to countries with different priorities, development circumstances, and policy mixes. And importantly, it must be collated and co-designed with emerging markets and developing countries from the start, and not the G7 alone. Finally, it must support and not sideline the Paris process and strictly observe international law including trade laws.

This is a really excellent report, and I have to confess that when I first heard of the idea of a Climate Club in the summer, I had some concerns. The name club itself does not signal inclusion, and it could even be divisive at a time when we need much stronger global cooperation to tackle the global challenges including climate change. So, I appreciate both the rigor and candor of the report on what it will take for the Climate Club to succeed, particularly the emphasis on inclusion and adherence to international law.

But the key question on the minds that we should aim to address among others is on the unique value proposition of the Climate Club in an environment of multiple initiatives on climate. In other words, what important gaps in the current landscape will the Climate Club help fill? At the event today, you’ll get the chance to hear from two of the authors of the report, as well as from a distinguished panel of expert. You would also have the opportunity to ask questions.

So, let me begin by introducing the offers who would present the report. There’s Nick Stern and Hans Peter Lankes. Nick is professor of Economics and Government and Chair of the Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science. And hence, Peter Lankes is a visiting professor on the London School of Economics and Political Science. And he led the team at the Grantham Research Institute that produced the report. Following the presentation, my colleague, Amar Bhattacharya will moderate a discussion. Amar is senior fellow in the Global Economy Development Program and a very close collaborator of Nick Stern, including co-authoring this report. So, with that, let me invite then Hans and
Nick to the podium for the presentation. Thank you.

MR. LANKES: Thank you very much, Brahima, and thank you everyone for being here. Just to mention this report was led by Nick, and I helped to coordinate it, but there was a whole team. There's Danae Kyriakopoulou -- I don't know, there she is; there was Roberta Pierfederici; there was Rob Macquarie; there was Andrew Lang, and we have had others who helped along with this report.

So, I will give, if we can go to the next slide, just a brief background on the -- if you want on the content of the report and a little bit of the plumbing of our proposals for a Climate Club. Shall we go to the first page, or do I do this myself?

WOMAN: Yeah.

MR. LANKES: Okay. This is very demanding. Okay. There we go. Okay, good. So, I'm going to first go a little bit into the background. What prompted the report. I'll talk about the key principles because those are important in shaping the club as we see it, as it -- how it needs to be designed. I'll talk about the agenda, the content, and then some on the governance. And that Nick will take over a bit on the priorities and the big picture issues.

On the background, we have it's kind of useful to us to define the Climate Club. What is it? And I would here define it in a very general way, as a new intergovernmental arrangement that helps to reach agreements on pushing further and accelerating action on climate change. So, in this very general way, the Climate Club has been on the agenda of the German G7 Presidency, as we have heard from Brahima. There was a statement, which some of you may have seen by the G7 leaders at the end of June in Elmo on the Climate Club. And it contains many of the key features that we then pick up in the report.

The aim and that's quite important in that statement, is to establish a Climate Club by the end of this year. That's, of course, a very ambitious timeline. And the report also establishes a task force of key ministries designated by each of the G7 that is then meant to take this forward. We're almost certainly going to see it feature in some form at the Club. The task force itself has not yet been very active, but if I understand correctly, this is now going to be happening. And as Brahima mentioned an
We had that discussion this morning among the G7 finance ministers. Actually, that's where we just came back, Nick and I. It was a very positive discussion, very engaged and I was particularly impressed how the Central Bank governors engaged on this. That's quite important that the macro side is behind this. Let me say a few words on key principles. And there are three that we pick out of the statement and that we then elaborate on in our report because we believe that those principles actually dictate the way that this Climate Club will have to function.

There's this principle of ambition. Members of this time club have to be ambitious in terms of their plans, their commitments, and their action on the climate agenda. They have to want to go beyond the commitments made so far under the UNFCC, but then also incorporate them in their commitments at the UNFCC. In our view, that ambition is probably too narrow, has to be a broader ambition. This has to be -- the climate objectives has to be built into a broader sustainable growth objective. And that in large measure, to bring many of the developing countries along the Climate Club should not seem like a burden sharing arrangement, which otherwise, it fairly easily does. It's a positive narrative. It's a forward-looking arrangement of investment, of innovation, of finance and collaboration. That's very important in terms of the framing of this report. And it played a role also in the discussion today among the finance ministers.

The second principle that we see in the statement by the leaders is the respect for international rules. And there in particular, the respect for Paris. This is not meant to supplant Paris. It is meant to support Paris. And that's kind of has important implications. We cannot kind of build a large institutional structure here that makes treaties that then sort of are not treaties incorporated in the Paris context. It has to be supportive of Paris, but it also has to be respectful of international trade. And that's important because much of the discussion around Climate Clubs in the past few years, and we know where it comes out of the literature, but there's also been a lot of political discussion around it has focused on the trade dimension, has focused on the creation of CBAMs, Carbon Border Adjustment
Mechanisms and the like. And there are proposals out there, which see a Climate Club essentially as an expanded form of a carbon border arrangement among willing countries. That then runs into a number of trade issues. And as you will see, this is, in our view, not the way to go, but the respect for the trade regulatory framework has to be built in.

Then we have the principle of inclusiveness and that is loud and clear in the statement by the G7 leaders, an open and inclusive club. What it means though, is it goes further than perhaps is obvious from the G7 statement. In our view, inclusively means that there has to be inclusion of different types of policies as well as of different types of countries. And that means recognizing that countries pursue their own policy mix in trying to achieve their climate ambitions. Some of those are more based around price approaches.

Others are more based around regulatory, or sector approaches. And we want all those countries that have ambitions, even though they pursue different policies to be able to come together in this club. Otherwise, we're not going to achieve critical mass. We're not going to achieve a club that will wield the kind of traction that we need. So, we need those countries to be able to be in there, and therefore, we cannot fully harmonize. We cannot make it the aim of the club to harmonize policies. That is just not realistic. It's not going to work.

There's also inclusion in terms of the rational for the club. And countries will have very different motivations for joining. The original North House idea was that the rationale was a collective action problem, and you needed a kind of sanctions mechanism in order to get countries to collaborate. But there are many other motivations that countries might have to join, and those -- some might be collaborative motivations. They want to capture coordination synergies, in particular, when we talk about sector adjustments. Or they may simply aim to manage the consequences of divergent policies such as trade approaches, trade consequences of the European CBAM, for instance, or of U.S. policies under the IRA and how to deal with international dimension of that. Those may be all questions. And when you look at inclusion as a key principle, you do wonder and Brahima has highlighted that as well, whether the club label sets the right tone. We are advising that this we should find another terminology. Maybe this is
a bit of language issue. When you come out of the Anglo-Saxon tradition, a club looks like something very exclusive in Germany. It looks a bit like a football club. And therefore, one has different views about that. But it's something that comes up all the time.

On the agenda for this club, in our view, the output of this club would not be treaties. It would not be sort of heavily negotiated international agreements for the reasons that I mentioned before. This is not meant to be a parallel track to Paris and the UNFCC. It would focus on process. It would focus on identifying where action for climate mitigation and adaptation resilience is not moving forward fast enough, and what it is that must be done in order to get it to move. And that might simply be strengthening existing initiatives that are out there. For instance, the IDDI, which is a very promising initiative where countries collaborate to establish common rules around green procurement for construction and the like, so cement and steel. It has a very small membership at this point. Can one get this to be grown? Can the Climate Club play a role in strengthening such initiatives? And that is just to take an example.

Other examples are to find ways of collaborating at the WTO to agree on arrangements for how to handle carbon border adjustments or other forms of support that countries might adopt. So, strengthening process is where we see the key output from a Climate Club. And we propose to organize it in in working groups that is very similar to what you see from the G7 leader statement. We have a slightly different variations on content. We also put the partnerships pillar first because the whole essence of the club is around partnership. And I'm not going to go into the detail here, but there is a wide range of issues that we could see working groups under such a club addressing based on an identification of where the weaknesses are in the current system, in the current processes that would have to be strengthened.

So, that is on the agenda. A couple of words before I hand over to Nick. The membership is definitely going to be a tricky issue here because if we want to be both inclusive and ambitious, we will face certain tradeoffs. There are countries that have not today declared very ambitious plans that may not be willing to commit to net zero pathways, for instance, today. But that we still feel
ought to be in this club, and that may have to go there and get there in a dynamic sense. So, for us, membership will be a dynamic concept where there are some basic commitments made. You have to pass a filter to join the club. But those would then have to be strengthened over time rather than expecting that to happen from the start.

Regarding the structure and how this would function institutionally, we don't see, as I said, an institution. We see this as a good model for this club. Some combination of the coalition of finance ministers for climate action and of the G20. The G20 because it is led by the top of government in particular, the coalition because it has this co-leadership of advanced and developing countries, which we see very important since developing countries are going to account for the lion's share of future GHG emissions. They need to be part of this.

We see a small secretariat in the same way that these other initiatives have that and the working groups that are mentioned and the sponsorship. I'm not going to go into the value added because I think that Nick is going to pick that up. With this, Nick, do you want to come to the podium?

MR. STERN: Thank you very much Brahima, Brookings for having us here. And thank you Hans Peter for leading the team that produced this. I don't know, (inaudible) clear here. Are any others from the team actually here? No. Well, we send our thanks to them. Maybe they're listening somewhere in the UK, or in some pub in the UK in the evening.

What I wanted to do was to try to share with you the slightly more political pitch that we put to the G7 finance ministers and Central Bank governors just now and indicate some of the reactions. I'll do that with the appropriate discretion without revealing too much, but indicating some, or giving some picture where that, the kind of questions and discussion we're going. And we offered it up in terms of motivation, why and why now; the principles which Hans Peter has already sent out; and some of the practicalities of beginning the work on implementation but based in large measure on those principles.

Well, the first thing, and it's crucial to keep pressing it whenever we talk about climate, is urgency and scale. And it's too easy for finance ministers to say it's all very interesting and other demands on a budget and, it's this politics stuff, and can't move too quickly. And you end up with
incrementalism in a subject where that's fundamentally dangerous. And so that's the way we started and reminded them of Pakistan and the rivers of Europe and the rivers of China and Hurricane Ian so on. And it's happening right now. And that's 1.1 degrees and in the words of Ronnie Reagan, you ain't seen nothing yet.

So, it was very important to begin there. And I think it's fair to say that has some traction, as, of course, it should. But on top of that, of course, as we all know, the space for keeping 1.5 degrees within reach is narrowing. And that is on top of what we're already experiencing, key to the urgency. So, that's where we began.

We argued that if this club were well designed, it could have a positive effect in its basic purpose, which is to increase ambition and to increase delivery on that ambition. And hence, to set out some notion of what well designed would be. He's already set out the principles, so I won't repeat them, but in illustrating what they could help us with, the positive narrative story of this is basically the growth story of the 21st Century, we emphasize that it's also very important for recovery and energy security. They'd just been discussing Ukraine, so they were quite sensitive to those issues. Well, of course, as they should be.

And that in a discussion, there are some suggestions still that actually action on climate change might cause difficulties for growth. It was mixed. Some were more positive, others not. And we came back fairly strongly on that. And we're very clear that if you think about this as in the right kind of way, including all the resource efficiency, which is productivity, of course, including cities where you can move and breathe, and ecosystems which are robust and fruitful, that you radically reduce the number of people you kill every year from air pollution.

And indeed the number of people remain each year from say a rather big productivity story. And of course, a tremendous discovery associated with all this. I didn't use the word Schumpeter, but I could have done and it's fine to use Schumpeter in Brookings. I think for that audience it might sort of draw some blanks. But that story of why it's the growth story and why it's the growth story in real time, not sort of somewhere down the track, starting right away.
So, I think the positive part of the narrative still needs some pushing. We've made progress, but we too early to declare victory and say all the finance ministries around the world absolutely get that this is the growth story of the 21st Century. It varies and there's still ways to go, but we're a lot better than we were five years ago, I think, on this issue.

The inclusiveness, I think that point was well taken because it started off as a G7 story initiated by Germany. And we've insisted, I mean, we think it's obvious, but it needed insisting that this was inclusive, in particular, inclusive in the developing world and in particular, inclusive of bigger emitters or big potential emits in the developing world. And, of course, although we didn't emphasize it very strongly the challenges of adaptation and resilience in the developing world. So, I think it's fair to say, and Hans Peter, you should also perhaps in the discussion reflect on this, but I thought that that inclusiveness idea had to -- we got over that hurdle, and I think that was broadly and cheerfully accepted. And the idea that it could be divisive, if it were divisive, it would know Brahma said if it were divisive, it would be destructive of collaboration ambition rather than enhancing collaboration for ambition.

And, of course, the theoretical point, club theory was quite active when I was a young public economic theorist, which was some considerable time ago. And in club theory, congestion is important, and excludability is important. Think of a golf club, yeah, one of the great pleasures, I'm told, I've never been a member of a golf club, but one of the great pleasures I'm told is thinking of who you're going to exclude. And, of course, you can -- and that's certainly true of many British institutions, but the -- and I'm sure it's true in other countries as well. And congestion and, of course, when we're talking about a real public good or public bad here, which is missions, which affects everybody. So, I think that the club language is unfortunate. It's got traction, but I think the rigidity on the language, I think is also receding. And the idea of alliance for ambition, I think is quite cheerfully accepted in the in the discussion.

Interestingly, the idea that you have to live with and adjust any kind of policies towards the very big differences in approaches in different countries that I think is also fairly readily acceptable. The idea that there's only one policy that's ever going to really work, and that's a carbon tax and it has to be followed by everybody is, I think, also receding. Not necessarily on theoretical grounds or all
thereafter, theoretical grounds, and we can discuss that, but really on the practicality story and the way of politic and I think, and none of us here would think that any time soon, United States is going to have a carbon tax. Well, you don't give up on climate change because you've made that observation. And we've seen, of course -- and the United States is quite rightly proud of the steps that were embodied in the Inflation Reduction Act. You see that you really can do, I think, I won't go into the theory of all the other market failures, which lead to the importance of taking actions way beyond carbon pricing. And we've written about that elsewhere, but I think that story was fairly well accepted and in a sort of practical positive way that different countries have different policies, but we can still work together, and we have to understand how the different policies could mesh and interact with each other within borders and across borders. So, I thought that was quite an interesting story.

On the implementation, well, the principles for implementation, we went through at least Hans Peter went through the engagement at the top level. We emphasized very strongly there has to be prime ministers, presidents, finance ministers, because as we all know, the actions that are relevant here cover the whole economy. And they're not many parts of government that look across the whole economy, but presidents, prime ministers and finance ministers have to do exactly that. So, that I think was well received.

I think the one last point, and this is where I'll finish, the importance, and this is what distinguishes potentially this idea from other institutional activities that Hans Peter mentioned is that you look right across the whole waterfront of activities trade, technology, investment standards, procurement, all these kinds of things. You look right across the whole area of activity. And what we've learned in international collaboration is if you increase the number of dimensions, not always, but if you increase the number of dimensions across which you're having a discussion and across which you're collaborating, it's possible that you might make agreement more likely. So, you say, well, we're going to go different ways over here, or somebody's going to go faster over here, or whatever that might be, trade or infrastructure or technologies and so on, and somebody else is going to go faster over there. So, you don't have to arm wrestle to conclusion on each individual dimension. You can find ways of going forward, which have --
take account and acknowledge the differentials across the different dimensions. My own view is that that's a description often of the way agreement has been found in the EU. And I do think that one part, a key part of the value added of this story is that whilst you have very good initiatives like the breakthrough coalitions on technology, and you have another within that story, International Solar Alliance and so on, and you have coalitions around methane and all of these were there in COP 26, but they were generally separate activities. But if we could have a place that you can discuss the whole shooting match, then it seems to me that you can find ways of moving together more cheerfully than if you just arm wrestle on each individual one. And that, for me, is one of the real potential advantages of this. That it's a process rather than a formal institution, I think is very important. My guess is if you try to drive this too hard towards formality, you would undermine it. But if you look at it in the spirit of collaboration, which is what we've tried and collaboration ambition, then it could really add value. And even if it doesn't come off in any sense of having a club with members and so on, I think the discussions about how you do it and how you go forward could themselves actually have positive value. Thank you.

MR. BHATTACHARYA: So, I'm Amar Bhattacharya. I'm going to moderate this panel, and it's always great to moderate a great panel. So, I have the privilege to have three people here who know the subject matter well, but who bring very complimentary perspectives on let's say, vantage points that are somewhat different. So, let me begin by introducing them in the order they're sitting.

Stephanie Segal, she is a Senior Fellow in the Economics Program at CSIS. She's very familiar with this topic that we are discussing, but she has a wide range of interests covering climate, but also China, U.S. relations, international financial institutions. She's been at the U.S. Treasury as co-director of the East Asia program and also at the IMF.

Sitting next to her is Jayant Sinha. Now, I think a good friend, who is currently member of Parliament and also Chairperson of the Standing Committee of Finance of the Indian Parliament. He served in the Council of Ministers from 2014 to 2019, including as Minister of Finance -- State Minister of Finance. He's been very active actually on the issues of the Climate Club, as we will hear from the vantage point of developing countries.
And last, but not least, Jürgen Zattler, whom I have known for a few years. Let's put it like that. He's currently the Director General in the Ministry of Development, BMZ in Germany. Therefore, a key person on the climate and development agenda together. Prior to that, he was Executive Director for Germany in the World Bank. And he's had -- he's always been a champion of the green agenda as far as I can remember, Jürgen. So, so these are our three panelists.

I will actually begin with Jürgen and the reason is because as we heard, Germany and in particular, Chancellor Schultz has played a key role in bringing this agenda to the world stage. It's been the driving force behind it, and it has come to fruition while Germany has been in the G7 Presidency. And my question to you, Jürgen, is what were the motivations behind this, and what were the goals that Germany had set for itself, and how does it relate in some sense to what we have just heard from Hans Peter and Nick?

MR. ZATTLER: Yeah, thanks a lot, Amar, also for the nice introduction. And yes, the German G7 Presidency and Chancellor Schultz really gave a lot of importance to this initiative and why. I think it's exactly what Nick and what Hans Peter has said. We have a collective action problem here. We want to make the climate protection happen. We want to achieve the Paris Agreement. We are far off in terms of objectives in terms of implementation, and Germany can't do it alone. We really try hard. We are in special circumstances, as you know, but we haven't abandoned it. We are really trying hard from our part to completely transform the term economy. But we know we have to find a global solution. And this is the collective action problem. One country can't do it, and there are free rider problems. So, we have to find a fair solution. It should be a fair solution globally. I think this is the motivation.

So, we started with our G7 Presidency, and we are working now on terms of reference, which we'll discuss and first suggest to our G7 partners. But, of course, it's a global initiative, and as you have said first, and others it's fair to not to exclude others, but also it doesn't work. It's not operational. If you exclude others, it's not just not working in terms of WGA rules, but even beyond. We need the main emitters and I would say even beyond that to participate.

MR. BHATTACHARYA: Thank you, Jürgen. So, I'm now, going to turn to you, Jayant.
I’ve mentioned you’ve been actually leaning a very important initiative of reflection, bringing together different perspectives, both analytical, but also in some sense from different vantage points. And I’d be very interested in hearing from you especially given where you are coming from India and the developing perspective. How do you see the Climate Club issue, and also how do you see the findings that Hans Peter and Nick set forth?

MR. SINHA: Thank you very much, Amar, and it’s wonderful to be here at this very significant and important panel at Brookings to discuss what I think is one of the most important issues that we are confronting.

SPEAKER: I’m sorry. I think your microphone --

MR. SINHA: Sorry. Yeah. I’ll start again because I understand the mic was not working. So, I just first of all want to say thank you to you Amar, and to Brookings for organizing this very important and significant discussion. And also to give us a chance to hear from Nick and from Hans Peter on this very important work that they’ve done for the G7.

For the global south, climate change, of course, is an existential issue, but the good news is, is exactly as Nick and Hans Peter have emphasized that this is a positive story. It’s a positive story because net zero is net positive. Net zero is net positive for the global south because all the analytical work and all the modeling work that we’ve done, certainly for India, but for other global south countries as well, tell us that if we get on a net zero pathway, we are going to have higher GDP growth, more job creation, we will bring down air pollution dramatically, and we will make our countries much more secure for those of us that are fossil fuel importers like India is. So, net zero is net positive in any dimension that we look at.

However, for us to be able to pursue decarbonization as development, which is really in a way what Nick and others have been saying for a very long time, that our development has to be on a decarbonization pathway. What we really need is massive amounts of investment. And let me just explain what the numbers are.

So, all the modeling is showing us for India, for example, that the total corporate
investment in India, plus the public investment from the government as well as from the private sector annually, is about $200 to $300 billion a year. That's our total investment in CapEx in India right now. What the modeling is showing us is that if we want to get on a net zero pathway for India, whether it's 2050, '60 or '70, we immediately have to increase climate investment for both mitigation and adaptation by a hundred billion dollars a year more.

Currently, we are investing, as I said, somewhere between $200 to $300 billion. We have to immediately ramp that up to have any chance of getting on a net zero pathway by a hundred billion dollars. So, that is for India alone. Now, probably, if you look at the global south, we need climate investments in the global south immediately on an annual flow basis of an incremental trillion dollars a year. So, that's the scale of investment that's required. And, of course, it's simple economic logic that if you're investing in productive investments, in good investments, obviously, that will drive GDP growth. And of course, there are massive positive externalities as well that I was alluding to earlier. So, yes, if we can get that kind of investment, it will be the growth story of the 21st Century.

But there's another important aspect here, which I think as policymakers sometimes we don't pay enough attention to, which is that the vast amount of this climate finance is not coming on a government-to-government basis. It's not coming from the MDBs. This is commercial capital. This is return generating capital that has to be invested across the economy in the (inaudible) sector, in steel, in cement, and aluminum, in real estate, in transportation. So, it's really the private sector that has to do this. And the job of the Climate Club or the Global Climate Alliance or whatever construct we put together, has to be one where we can mobilize capital from the global north to the global south. And that is the central issue, which is how do we put in place the institutional arrangements so that the global financial system can intermediate these trillions of dollars of capital from the north to the south. That is the most important question.

MR. BHATTACHARYA: I'll come back to that. Trying to get Stephanie. So, you are in a town where it's the best of times and the worst of times. We have the Inflation Reduction Act, but climate still remains a cautious word in this town. So, I wanted to ask you, being where we are, how would the
notion of a Climate Club sit in the U.S. in terms of an idea, but also in terms of traction politically? Is it something -- certainly, it's fair to say that the Inflation Reduction Act is really a major contribution to exactly the objectives we said, but the notion of a Climate Club with all these objectives, would it really go far as far as the U.S. is concerned?

MS. SEGAL: Right, and I'd like to go back to the comment that Jayant made as well. First, let me just congratulate the authors of the report for this contribution because I actually think you said it's kind of the best of times and the worst of times. I think it leans, at least as far as climate action, that we are closer to the best of times than we have ever been. And that is because perhaps to your point, it is the worst of times as far as how long we actually have to take action. And that finally it feels like the message has actually been delivered and received.

And so I think we have to be optimistic about our ability to act. And so, I think we should be looking at all options to actually mobilize action that includes the key actors. And I would put this idea of a Climate Club, or let's call it a Climate Alliance, at the top of that list of things that should be considered. I would still put it in the considered category because I think the question that needs to be answered is the additionality one. So, what does the Climate Alliance do that isn't already being done? I think the presentations kind of go some way in answering that question.

In the report itself, there's a description of the various actions that the Club or Alliance could take. Among them kind of addressing whether there are polity disparities. I think that's a nice way of saying where there are problems or disagreements among the key actors. I think a Club or an Alliance has the potential to recognize all of the work streams that are actually taking place and recognizing that there are some of those work streams where they are stuck now, or will they inevitably will become stuck. And you need leader level engagement and involvement to unstick that process. So, I think there's a lot of potential there to do that, but I think now, it's incumbent on the leaders of the idea to say specifically, this is what we want to go after. I think the idea of having a process focused Alliance is very smart, because that allows for flexibility and recognizes that the problems that leaders need to address will evolve as we make progress toward hopefully our 2030 and 2050 goals.
MR. BHATTACHARYA: Thank you, Stephanie. Jürgen, I'm going to go back to you. You started talking about next steps, but more in a process sense. I wanted to ask there are two, two messages that I take away. One is, you said it to yourself that this will not, this enterprise will not succeed. It will not be relevant, as you said, unless major parties are included in this. And, of course, since most of the future emissions are going to come from emerging markets and developing countries, they have to play central role in this. What are the plans that you have really for engagement of the big players and also, how do you then see this process playing out? There's a timeline, I think be very interesting for people to know exactly what that timeline of plans are.

MR. ZATTLER: Yeah, so first, I don't think that the blueprint, we are still early days, and we are still discussing between and amongst the different government departments. But I think there is a general understanding that the whole process has to be inclusive. I think it would not be good to come out with a proposal to agree within the G7 and then to present it to the rest of the world. So, the process has to be inclusive, but it has to start somewhere. And it will start with a first discuss discussion in the G7. And this has a lot to do with the terms of reference. My colleagues are at the moment drafting a first draft and you report will be very, very valued in that context. It's a really difficult endeavor. And, therefore, I think I'm sure they will also look at what you have written and take best thinking into account.

And then there should be a solid outreach to other partners in different ways. The G20 could be one very important pathway. And also, of course, the next presidency of the G20. And I think there are other ways we could bring in other actors also from the developing world. And one is you might have heard about the chat piece. So, the climate and development partnerships we already set up with countries and are about to set up with new countries. And, of course, there, we sit together with countries who have a high ambition. So, the target is, the objective is the Paris, but then, of course, it has to be translating international policies. And if a country wants to be ambitious for us, for Germany, it's a signal this country is a partner, and we should link and try to work together. We started with South Africa, but the discussion there, for example, is not only about getting out of coal. It's much more, it's about just transition. It's about how to build up new jobs, new industries and, for example, the South Africans were
very interested in hydrogen, but also how to transform the mining sector. And this is, of course, directly linked to the to the Climate Club. And there we will discuss with them.

And perhaps one last point, if you allow, it also links to what we will discuss in two days in the World Bank. It's to transform the MDB system because the MDBs, in particular, World Bank have to play their role. They have to help countries to adapt to new realities. And not only in terms of a project here and a project there, but systematically. And we already started with them to discuss how they could also support countries comprehensively. When I was a executive director here, I started the discussion here to discuss about policy reforms that the World Bank should support countries to adapt their regulatory, their fiscal policies. At that time, I can tell you it was very, very difficult. And it was until a few weeks ago, now, I see some change. There's also a big, big dynamic to support that this agenda and the World Bank is moving. So, this is another pillar I would see.

MR. BHATTACHARYA: I also wanted to flag that the country climate change development reports that the World Bank has started doing is very valuable because it actually gives you the content of what needs to be done. And it shows very clearly that you need a big push on the medication, but equally, you will need a very big push on adaptation. Let me come to you, Jayant. You said that ultimately, we need to construct this highway of finance. I mean, a lot of it is the private sector. Not all of it is the private sector. I mean, you've also been thinking a lot about the ideas around how this could be done. What do you think are some of the big win-win propositions in this? And also, if you wanted to talk a little bit about technology, because that's another thing that the developing countries, of course, are very keen on.

MR. SINHA: We have an excellent opportunity with India, assuming the G20 presidency in December, to take over from the excellent work take the baton on from Germany, if you will, in the G7 process and to start to push this. And I think the perspective that India, and, of course, Indonesia has also been working on it as part of its G20 process right now, is to also bring forth the global south point of view on all of this. So, I think we have a very good and very seamless transition hopefully, that we can make from the G7 to the G20 process. and the wonderful work that Nick and Hans Peter have done is
one that we are building on as input into India’s G20 work as well. So, our hope is that we can build on all
of this. But ultimately, as I would say from the global south perspective, it has to go from proposals and
principles to concretely what are people going to do. And so, let me offer in terms of some of the thinking
that we are developing, what are some of the three, four very concrete proposals that we are thinking on
and working on?

So, number one is that right now, many, many countries, India included, haven't made
binding commitments to net zero right now. So, there are many countries that you fit for 55, of course,
the Net Zero 2050 Bill in the U.K., New Zealand has a similar bill. I, myself, have put forward a private
member bill in the Indian Parliament for India to get to net zero. So, we need first and foremost that if
you're going to be a member of a global climate alliance, my submission would be that you should make a
legal binding commitment to net zero at some point. So, I think that's one very concrete thing that we
should think about as a member of the Global Climate Alliance. You make a binding legal commitment to
a net zero pathway. And those should be targets that are 2025 targets or 2030 targets, not necessarily
targets that are very far away. So, these should be binding specific targets. You have to think about
peaking and so on. And I speak as an engineer, right, so, I'm very focused on numbers and hard
commitments. So, that's one.

Number two, I think what is very important is we have to figure out how the financing is
going to work. And here, exactly as Jürgen was saying, the MDBs have a very important role to play.
And my own belief, again, having worked in the financial sector extensively and obviously, as an investor,
private sector investor, is that today, if I'm in the global south, my cost of capital is extremely high
because I bear a lot of systemic risk. I have currency risks, right; I have policy risk; I have climate
insurance that I can't get. So, can we use the MDB System to be able to take the systemic risk out of the
equation? So, if I'm an Indian steel company, if I'm investing in green hydrogen, or if I'm decarbonizing
and my costs of capital is 22, 23 percent in repeat terms, can I bring it down to 6 or 7 percent USD, right?
If I can, then I can make certain investments, I wouldn't be able to. So, how do we bring down the cost of
capital, long-term currency, hedging, blended capital instruments, climate insurance, et cetera, first loss
guarantees. What are the kinds of instruments that we can get the MDBs to be able to deliver so that I can bring down the cost of capital and make these green investments happen? That's a second very concrete thing we have to work on.

And then the third one, of course, learning from Hans Peter and all the work that they've been doing is on sectoral pathways. So, can we bring working groups together? Let's say, the global steel industry decides, okay, all of the major steel producing countries of the world decide this is the pathway for carbon per ton of steel. This is the pathway for carbon per ton of aluminum, and on and on and on, right. So, that at least the major emitting countries can agree on these sectoral pathways because it's going to be very difficult to get a carbon price, a global carbon price, a global carbon market. So, let's be realistic and say let's work sector-by-sector through some of these working groups to see whether we can get alignment on that and avoid an offset the issue of a CBAP, which by the way, the U.S. completely committed to right now. So, how do we manage and finesse that set of issues as well? So, for me, these are three very practical things that we need to think about. What are the legal binding commitments for decarbonization? How do we get the money to flow and what do we do sector-by-sector to enable this global climate alliance to really take shape?

MR. BHATTACHARYA: Thank you. Thank you very much for those perspectives. Stephanie, I'll just close with you with two aspects in the kind of mean side. So, one clearly is carbon pricing, and indeed a lot of the discussions as you know, on this started with carbon pricing, but we know that it's not the only instrument and it's how does one think about carbon pricing in the Club and the flip side of it, how does one think about commonality of standards, for example? How does one bring these elements as means in some sense to drive acceleration of ambition?

MS. SEGAL: Let me focus on the second part because I don't feel like the first part is productive given kind of where we are, the urgency to move and just the prospects. So, I think kind of as economists, everyone agree that that is a first best, and yet, here we are in the U.S. we've moved ahead, obviously, with the IRA, and that was largely based on incentives. And that gets to the point of how you actually mobilize private capital.
The number that you gave for emerging markets of a trillion a year, I heard this morning over at the IIF, three trillion a year. But we're actually looking at the global economy, the largest emitters being a combination both of advanced economies and emerging market economies. And when we start talking about the entire global economy out through 2050, we're talking about hundreds of trillions of dollars, and you only get there through private capital mobilization. So, the official sector has a very important role to play, in part, working through the MDBs through their interventions, but also how those interventions can advance standard setting and transparency and reporting.

And I would link that then to what's needed for private capital mobilization, which is already happening, but to really happen at the scale that we're talking about, standardization of what ends up being reported so that both companies and investors in those companies know how to manage toward investments and operations that actually meet these climate goals. So, that would actually be an area where I would prioritize efforts on the standard setting side. And there are a lot of standards to be discussed, so there's going to be no shortage of work, but I think that is a really cost effective way to get the capital at work that we need.

MR. BHATTACHARYA: Thanks. I would also add to that real standards, like phasing out of internal combustion engines. And this is the kind of thing that a Climate Club really can come together on. So, also standards for building, standards for lots of things where -- because the complementary between, as you said, carbon pricing is not going to happen at the pace that we need, or at the level that we need. So, you have to use multiple instruments. So, I'll leave it at that. With that, let me just turn it over to the audience. We have about little less than 15 minutes for Q&A. And if you could raise your hands and if -- I would like to just point out that this is really, you should keep your comments to the minimum really kind of questions to the panel and look forward to a good exchange. Please go ahead. Please identify yourself before --

MS. SMITH: Certainly. Yes, Amar. Thank you. My name is Sophie Smith. I used to work with World Bank, then went into academia and now work on climate finance in a variety of capacities.
First, I'm really excited about the club. I hate the name club, but I'm really excited about what you're doing, and I think process is absolutely the way to go. Thank you for the extraordinary work and vision that has gone into the report and that we've heard summarized here today. The question I wanted to take up with all of you, it actually relates to what you mentioned at the end there, Stephanie. The idea that we're looking at the MDBs as a way of mobilizing funding for the developing countries, but if we look at things on a global level, we need trillions at a global level. And one of the frustrations I suppose some of us might have with respect to the MDBs is this artificial dichotomy between developing country and developed country needs. And the sort of breakdown doesn't work so well anymore and certainly doesn't work in climate change. So, I'm wondering if there's any thought in your Climate Club deliberations to encourage or think about MDBs creating financing instruments that apply both to the developed and developing countries and that actually amortize the risk amongst them. Obviously, multi-peril catastrophe bonds are one such instrument, but they're just one of many instruments that could be used if the treasuries of these institutions were unleashed and mandated to think creatively. EIB is ahead of the game on this, but we need the other MDBs, I think, to start thinking that way because clearly financing instruments at the financial markets level have enormous potential to get private sector capital where it's needed. I just curious to know whether that's part of the thinking. Thank you.

MR. BHATTACHARYA: Thank you. Let's take a few more questions. Gentlemen in the back.

MR. SHADDAI: Thank you. Sares Shaddai (phonetic) Quincy Institute. A question I have was actually for Lord Stern, but he's not on the panel.

MR. BHATTACHARYA: He's going to be available to answer questions.

MR. SHADDAI: Okay, well anyway, it can be taken by anyone. The question I have is the concept of a Climate Club is Lord Stern said, was about trying to hash out all issues in one place. Well, we do have a forum for that. It's called the UNF CCC. And the concern that may arise is that this is a way to secede from the UN process and carve out a paddle mechanism to what should be a more collective effort. And if it doesn't, of course, include some of the major emitters in a way it should, then it'll
not even be effective. So, can somebody address that perhaps as to how we cannot undermine the UN or the international rules-based audit in this case, in fact, through this. Thank you.

MR. ROE: Hi. Thanks very much. James Roe from IMF, though I should say that I'm representing myself rather than my institution with this this question, but so I'm coming at a bit of a similar question to this, and also what Stephanie was talking about in terms of additionality. And I think we're trying to find the gap, if you like, between the UNF CCC and other proposals. And I'm trying to see the gap and where this additionality would fit because from the perspective of the coalition of finance ministers, which Nick and I and many others are familiar with and been working with closely, I do see a risk that the ambition to be part of ratcheting up and achieving enough emissions reduction, enough members to really make a difference on the emissions, could lead to just failing to get that. I think the outline at the beginning looks very similar to what the coalition and finance ministers was looking at to begin with. It's been a very useful group, but it hasn't yet reached a critical mass of emissions. It's only about 40 percent of emissions in the world. And it's not really about raising ambition. It's more about how to think about advancing, thinking about carbon pricing and all these other issues in mainstreaming carbon change in finance ministry. So, I think there's a risk that this kind of approach is going to lead to a kind of recreation of that.

And I have a practical proposal to suggest, which is that because it's so important to have a critical mass of emissions, what about if this group was to say, it's only going to actually come into a existence once you have, say, more than 70 percent of global emissions or something like that as a threshold of it, like in debt restructuring when you have a threshold to make it actually happen. And that way we could be sure that you would have a group that wasn't just going to be a talking shop. It was really going to have the power in it to make the differences needed.

MR. BHATTACHARYA: We take one more question. Troy, go ahead.

MS. RHOADES-ZENIS: Hi, my name is Cleo Rhoades-Zenis, and I'm from IFC, but I'm also representing myself. And I'm wanting to interrupt just to connect these two questions and my questions also for Lord Stone. And some of you might have seen this little book that's out, I think it's
Fixing the Climate and it's just out recently.

It's Victor and Sabel, they use the example of Montreal Protocol and CFCS, and I just want to check with you that I'm understood correctly that what you're proposing is that the finance ministers and heads of state and so untangles the methane or the steel industry that we -- instead of dealing with, because in this book, the point they make is these grand bargains are just a delaying tactic, or they slow us down, we're never going to have agreement. And, in fact, the better solution is just to agree on one thing at a time.

In '87, we had the Montreal Protocol, CFCs, China and India signed onto that, and it happened, and it was resolved. But am I correct in understanding that what your alliance is, is lining these issues up and looking at a dashboard of those issues and then where they are stuck trying to unstick them rather than substituting for a grand bargain of the Paris Club type? That was the distinction that I saw in the presentation and that's my understanding of the difference, which is sort of my question. I just want to make sure I get it. Thanks.

MR. BHATTACHARYA: Thank you. Cleo, it was sort of an answer. Let me just disentangle it. I mean, certainly from the first question, I think Jürgen and Jayant, there was a question really about repurposing the MDBs. And, you know, it's not just only a question of developed versus developing, but even middle income versus low-income countries. And what we are learning is that this is a universal agenda, and we need universal development financing in some sense. But I'll let Jürgen and Jayant maybe, and you also, Stephanie, you might have some ideas. And then, there were a whole bunch of questions around essentially the additionality and the differentiation.

I mean, the report basically says one distinguishing feature of this is it is at the highest level. It's not -- that's one element, but the two people who can answer it, Nick and Hans Peter. So, after you've answered, I'll turn to Nick and Hans Peter. So, go ahead.

MR. ZATTLER: yes, I think it's really a key question. We have to have enormous amounts of money to make it happen. We have the numbers, but it doesn't mean that we have to that this is climate finance, public climate finance, or mobilized publicly mobilized climate finance. Nowadays,
we know that renewable investments are competitive in many places, so these investments have to be financed by the private sector, but we have to make it happen because there are some bottlenecks. There are some constraints.

And one important are the regulatory, the fiscal, and other policy issues. I mean, we are talking about 600 billion fossil fuel subsidies in emerging market economies and low-income countries. And this would be transformed, of course, to have a poverty focus and to build a level playing field. I think that's only something very, very important. And the MDBs have a key role to play. And they didn't take that on in the past, I have to say.

At the World Bank, World Bank Group, the World Bank looked after public investments, nice projects here and there, and provocative. And the IFC came giving sweetness to private sector people in order to come in a risk taking and whatever. And that's nice, but we have to look at it in a comprehensive way. Both sides have to closely work together, identify what it takes, and then the private sector should come in and also use, of course, innovative financing instrument. The shareholders have to play a role there. And, for example, I'm saying here, perhaps you should not tell it to other people. Perhaps Germany has been a little bit too conservative in the past. We were a little bit perhaps too much obsessed about the AA rating and no risks. I think it's important to safeguard the AA rating. But nevertheless, I think there is some room for creativity to leverage more funding than has been done in the past. And also, I would say we need clear targets there for private sector funding for the different MDBs also broken down.

MR. BHATTACHARYA: Thank you, Jürgen.

MR. SINHA: Let me let me first start by addressing very crisply the issue of additionality. Folks, let's get real. We are looking at catastrophic climate change. We need additionality. Nothing that we've done so far has gotten us off the two and a half to three degree centigrade warming trajectory. If we don't need additionality now, when are we going to think about additionality? So, whatever processes we have that we've put in place are not delivering results for humanity. We've got to do more and to do more. There are many things coming now to the question of what's universal and what's specifically for
the global south. Yes, there are a whole host of things that are universal standards, as Stephanie’s correctly saying, should be universal. Green taxonomy has to be universal. Disclosures have to be universal. The work that this has be is doing is excellent. Yes, we have to get those done. Those are universal. But we know in the global north that markets generally work quite well. And if we price in externalities and we set the right incentives, as has been done through the IRA or EFI for 55 and so on, we know we’ll have a high degree of probability get to net zero. It’s going to happen because the resources are there. But that’s not the case in the global south.

As we move forward, and you look at the climate modeling, by 2030, ’40, ’50, 80, 90 percent of emissions are going to come from the global south because we simply don’t have the capital to get on a decarbonization pathway. That capital has to come from the global north. Already, most of the capital coming to the global south right now is coming from the global north. Already in the case of India, we are getting $50 to $60 to $80 billion a year of foreign capital. That’s what’s funding a lot of our CapEx.

Now, we want to do another a hundred billion dollars. Where is that going to come from? Let’s be real about that, but if we don’t do that, we on a two and a half, three-degree centigrade carbon trajectory. And so, therefore, additionality is required. Some solutions will have to be universal, but many of the difficult solutions are going to have to come for the global sub.

MR. BHATTACHARYA: Thank you, Jayant. Stephanie?

MS. SEGAL: I’ll add, but I’ll add briefly. I think to James’ question kind of about the additionality point and how different if you have these discussions happening in the finance channel. The, the issue or the problem is that not all the action is happening in the finance channel. So, if you take the U.S. as an example, a lot of what came through the IRA will be implemented by the Department of Energy. You obviously have EPA, you’ve got State Department who’s active, been on the international coalition building side. You have USTR that brings in its trade considerations. So, when those agencies are actually in conflict, you need somebody to kind of mediate and direct the traffic. And sometimes it happens organically, sometimes it doesn't. It has to happen quickly. I think that’s where leaders level engagement can actually help. And I don’t think the U.S. is unique in having that sort of structure where
various ministries might have different priorities and not agree.

So, I really think of it as kind of an expediting mechanism that's very much needed. And on the MDB, again, because I'm feeling hopeful, I do feel like the direction of travel is good. Secretary Yellen's speech last week where she actually raised the prospect of concessional financing to middle income countries. That was new. That is a positive sign and also, I think announced last week was an expectation for a plan by the end of the year, which might be too incremental, but it is basically asking the World Bank to look at its climate finance activity and all the MDBs have their targets. We can then push those targets a bit further. But I think there is ample reason to be optimistic that the message is getting through, and that policy is actually moving in the right direction. We just need it to move more quickly.

MR. BHATTACHARYA: Thanks.

MR. ZATTLER: Can I?

MR. BHATTACHARYA: Yep.

MR. ZATTLER: Just to make completely in agreement, I want to say that it's not a new thing.

MR. BHATTACHARYA: Sorry?

MR. ZATTLER: It's not a completely new thing. This debate about moving the MDBs. We brought it into the last quarterly increase, and we were quite alone, I have to say. I got support from the Chinese for the global public goods window and some other partners around the table were neutral. A little bit of support, of course, not the U.S. at that time, but the time changed. There was a change which really triggers now this debate. And what is this new world? It's a crisis. In the meantime, since the capital increase of the Bank, we have seen the pandemic. We have seen the war with the geopolitical crisis. We have seen de-, or slow, globalization. We see now financial tension. We see the climate crisis, and it comes to the public awareness that crisis are here to stay and crisis are closely linked with global public goods. And, therefore, now, the time is different. And now there is more support, but I really have to say, it's not a completely new issue.

MR. BHATTACHARYA: Nick, do you mind coming here and maybe closing the
discussion?

MR. STERN: A number of the answers I might have given have already been given. I think a combination of the idea of the dashboard where you look across the whole functioning of the system that's relevant to climate and development and mitigation, adaptation and so on. And you see where you are doing badly. You see where things are going wrong. So, you try to understand together with agreement on how you measure some things being part of that as was emphasized on the platform here. And then you talk through how you can up delivery as Jayant expressed so well.

So, it is in support of the UNF CCC, but the UNF CCC is actually quite narrow in terms of where it can really negotiate for delivery, where it can discuss for delivery. It's very good and it's been tremendously successful. And the bottom-up nature of the Paris story was extremely valuable. And then asking how you can revise the bottom up naturally determined contributions to get closer and closer to where you need to be in terms of the shared temperature target that you've described. That is a very good process. And it got an agreement where otherwise, you would not have got it in Paris. But it doesn't tell you how you act in this place, and this place, and this place to drive it all forward. Its environment ministers are there. We worked really, really hard. Amar, myself, and a few others in Finland to create the Coalition of Finance Ministers. And it's a place now, where we can have on climate change, climate action, and it's a place where we can have helpful discussions. But it doesn't give you -- and not yet designed to give you the agreement on what you actually do and the decisions you take and the drivers and the commitment to action.

This kind of story would be an understanding amongst those who have climate ambition that we need to get the different parts of the system really moving, and particularly the ones that Jayant described, and how do we get together to make it happen. It's totally supportive of the UNF CCC. It's absolutely not diversionary from the UNF CCC. The higher ambition group in Paris, which kept 1.5 and rightly so on the agenda, was an informal alliance in a particular political environment that worked quite well. But that was an alliance on ambition. We need an alliance on ambition and an alliance on delivery. And that's where it seems to me that this could, as a high ambition coalition did fire up the ambition, but
this could fire up the delivery within the context of the UNF CCC. It's all about UNF CCC.

I probably shouldn't go on about the MDBs since --

MR. COULIBALY: No, I think we'll, we leave that. I do think Stephanie said it, that there is now a kind of a positive momentum around the MDB agenda. And so with that, I just want to bring this to a close. I want to start by thanking Amar Bhattacharya for leading the Brookings Climate work here. And I want to thank, particularly, my colleagues, Nick Stern and Hans Peter Lankes. This journey has been a very interesting one. So, those of us who have been discussing it have found the learnings quite, I would say debatable. There's a lot of debate material here, and I really want to thank this excellent panel. This is the most important issue in the world. And so I love to see the energy of this panel, and I'd really like to thank the audience and if we could all join me in expressing some appreciation.

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