



# Germany's climate action package

## Foul compromise or a reflection of society?

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The climate action package is a classic example of political compromise. It aims to support climate protection without overextending private households and companies. Criticism is perfectly justified. In the final analysis, however, the climate action package is also a reflection of the society's attitude towards climate protection: Whilst a majority of Germans support more climate protection, only a few are willing to shoulder the financial burdens.

Politics is the art of compromise, the search for the attainable. The key parameters outlined in the German government's climate action package for 2030 are a classic example of a "both-and" approach. They are an attempt to support global climate protection by means of national measures without putting too much pressure on the rank and file of private households and corporates in Germany.

Adding to the chorus of those who are disappointed by the climate action package, criticising it for its lack of ambitiousness and spiritedness as well as its partially counterproductive nature, would be easy. There are, indeed, many grounds for criticism – even though the measures include setting up a uniform pricing system for CO<sub>2</sub> in the transport and building sectors (heat), as (not only) economists have been requesting for many years. A uniform price for CO<sub>2</sub> is a prerequisite for cost-efficient climate protection; an issue that has been gravely neglected in the past.

Starting at a fixed price of EUR 10 (from 2021) and rising to EUR 35 per tonne by 2025, initial price signals are modest: At EUR 35 per tonne of CO<sub>2</sub>, less than 10 cents will be added to the cost of a litre of petrol or diesel. From 2026 onwards, the system of fixed prices will transition to an emissions trading system with price floors and ceilings (minimum price: EUR 35 and maximum price EUR 60 per tonne of CO<sub>2</sub>). Clearly, these price caps are not in line with the pure academic principle of emissions trading. Again, the aim is to avoid excessive burdens. In principle, however, the transition from a fixed-price system to an emissions trading system is a clear positive.



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The crux is not the low CO<sub>2</sub> price in itself. What is more disconcerting is that the climate action package contains numerous measures that are inconsistent with uniform CO<sub>2</sub> pricing as well as general funding instruments and technology-specific subsidies, particularly in areas in which a fixed price on CO<sub>2</sub> emissions will be followed by an emissions trading system. The latter include the envisaged swap premium for old oil-fired heating systems and higher subsidies for electric vehicles. No need for these technology-specific subsidies here: They counteract the target of cost efficiency and are superfluous in an emissions trading system. Not to mention that such subsidies could thwart the emergence of enhanced technologies and may result in windfall effects or (given the bottlenecks at heating installation services) higher prices, which would be critical from a socio-political perspective. But because direct subsidies are perfect for symbolic compromises, the German government could obviously hardly do without them.

### The difference between politics and science

Another feature of political compromise is that higher burdens for the citizens are accompanied by reliefs in other areas. Measures to soften the impact of higher prices for petrol, diesel and heating oil include higher housing allowances and lower electricity prices, which – given the high share of taxes and surcharges in electricity prices, along with plans to electrify (not only) transport – clearly makes sense. Moreover, the government aims to raise the commuter allowance to ease the burden on commuters, though this will hardly be beneficial to climate protection. Further measures include a reduction in value-added tax on train rides to 7%, higher aviation levies and a sharp uptick in railroad investment. The list is long.

A core element of the climate action package is that revenues from the CO<sub>2</sub> price will be used to either promote climate protection measures or to ease the burden on the citizens. In response to critics who questioned the coherence and consistency of the catalogue of measures or the low starting price for CO<sub>2</sub>, the German government commented that this marks "the difference between politics and science". There may be more than one element of truth to that.

### Is the climate action package a reflection of society's attitude towards climate protection?

Possibly, the key elements of the climate action package are a fairly accurate reflection of the German public's attitude towards climate protection. It is illusory to believe that a rapid "grand transformation", the maximum demand of some climate activists, would be supported by a democratic majority in Germany. Although 61% of Germans voice concern about climate change, according to a recent survey conducted by the Allensbach Institute, "only" 33% are willing to pay higher energy prices for climate protection. And just 21% are in favour of a CO<sub>2</sub> tax. The respondents either prefer further incentives to stimulate behavioural change over financial burdens, or they are pinning their hopes on technological progress towards climate-friendlier products. Moreover, a majority of Germans (rightly) believe that Germany and Europe by themselves can do little to mitigate climate change.



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These survey results fit in well with actual human conduct: Private transport continues to rise more or less steadily, the average house size per capita is edging up, demand for electronic consumer goods is increasing across all generations, and consumers are only gradually becoming aware of how much food is actually being wasted. Moreover, fossil fuels still account for 79% of primary energy demand in Germany. The upshot is that the average citizen is not (yet) prepared to drastically reduce every-day consumption, even though more and more Germans claim to have cut down on their consumption in some areas for climate protection reasons.

### Climate protection goals still beyond reach

As we have repeatedly pointed out, (without significant progress in the area of climate-friendly technologies) Germany's long-term (2050) climate protection goals will require a major shift away from established consumption patterns and production processes. This will inevitably lead to higher prices for energy and considerable restrictions to private households' and corporates' freedom of choice and ownership rights. As it stands, the climate action package will not suffice to reach these goals. A political debate about sacrifices, however, has enormous disruptive potential. Should the financial burden on private households rise sharply on the heels of climate policy measures, fringe parties are likely to gain momentum. The comments of the Bundestag parties on the pact give an indication for that. When putting together the recent climate action package, the federal government has apparently also paid tribute to its political disruptive potential – such procedure is surely understandable in a democracy.

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