



Federal Ministry
for Economic Affairs
and Climate Action

Opportunities and challenges of incorporating just transition considerations into carbon pricing policies

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Challenges: A question of fairness

Depending on the covered sector a carbon price affect and challenge the fairness among different groups :

- Energy and industry sectors challenge the fairness among businesses - avoidance carbon leakage:
- Measure to tackle carbon leakage:
 - Carbon boarder adjustment mechanism
 - Free allocation and/or electricity price compensation to sectors exposed to a significant risk of carbon leakage
- Building and transport sector affect consumers/household
 - Poor households tend to be more disproportion affected by a carbon price
 - Population in rural area more then urban
 - Regressive impact of a carbon price can be compensated

Opportunities: Proof of good practices

	Pros	Cons
Lump sum payments	Strongly progressive and can be highly visible	Complex administered (national circumstances) No additional effect on climate
Lowering other taxes	Increases the efficiency of the tax system	Reaches only tax payers Low-income segment needs to be targeted specifically
Subsidies and transfer	Increases social transfer Subsidies for low-carbon technology reduce burden Double climate dividend	Reaches only transfer recipients Who benefit from which subsidies (clean vehicles and fuels, transportation infrastructure)?
Cost reduction of electricity	Promotes electrification and sector coupling	Risk of rebound effects No incentive for energy efficiency

Example Germany: Revenues use

- In Germany **100 % revenues** from the auctioning of allowances under the EU-ETS and the sale of certificates under the national ETS are used for climate and energy related policies
- **Energy- and Climate Fund**
- 2021:
 - EU ETS auctioning revenues: 5,3 bln €
 - National ETS revenues: 7,2 bln €
- Lagers portion is used for energy efficiency (building), promotion of e-mobility and transformative activities
- Expenditures used also to finance the administration of the EU-ETS, the national ETS and measures to avoid Carbon Leakage

Example: Germany Fuel ETS

- National ETS **launched in 2021**
 - Mainly addressing **transport and heating/building sector** as these are not on track to reduce emissions in line with the EU climate targets (ESD)
 - This ETS covers **combustion of fuels in all sectors not covered by the EU ETS**; including also smaller industries and additional industrial activities
 - **“Upstream system”**: fuel distributors/suppliers obliged to report emissions and surrender allowances
 - Carbon price is forwarded to consumers
 - Thus, German government conducted analyses to get a clear view on the impact of the carbon price and to find the right design solution that is fair
- **Set of measures** are needed to compensate unfair social impact

Example: German Fuel ETS

- Regulated allowance price in **the initial phase** (2021 – 2026):
- Reduction of **power prices** (via reduction of renewable energy levy)
- Increased commuter tax relief
- Increased **housing allowance** for lower-income households
- Support measures under the Climate Action Programme 2030, e.g. promotion of e-mobility



Current challenges: High energy price

- High energy price has an impact on further measures regarding the carbon price: New government decided not to raise the fixed prices
- High energy price: no additional revenues which could be used for compensation

Recent ad-hoc Measures to address the increasing energy costs:

- War in Ukraine and dependency on fuels imported from Russia worsened the energy crisis => additional measures required, e.g.
 - Reduction of energy taxation for gasoline & diesel for 3 months
 - Reduction of tickets for public transport for 3 months: 9 € per month
 - Energy cost subsidy => one-off payment of € 300 per capita

Conclusion:

- Consideration of introducing a carbon price should **not be postponed** due to the current high energy price
- Importance of **energy independency** – renewables as a freedom technology – a price on carbon reach this goal
- An impact assessment is crucial to define the **right design** of a carbon pricing system and its compensation measures
- Social fairness and also fairness among business should be considered while **preserving the carbon price incentive**
- **Revenue recycling** strategy for tackling distributive outcome
- **Complementary policies** that enhance the availability of climate-friendly substitution options are important

Thank you

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