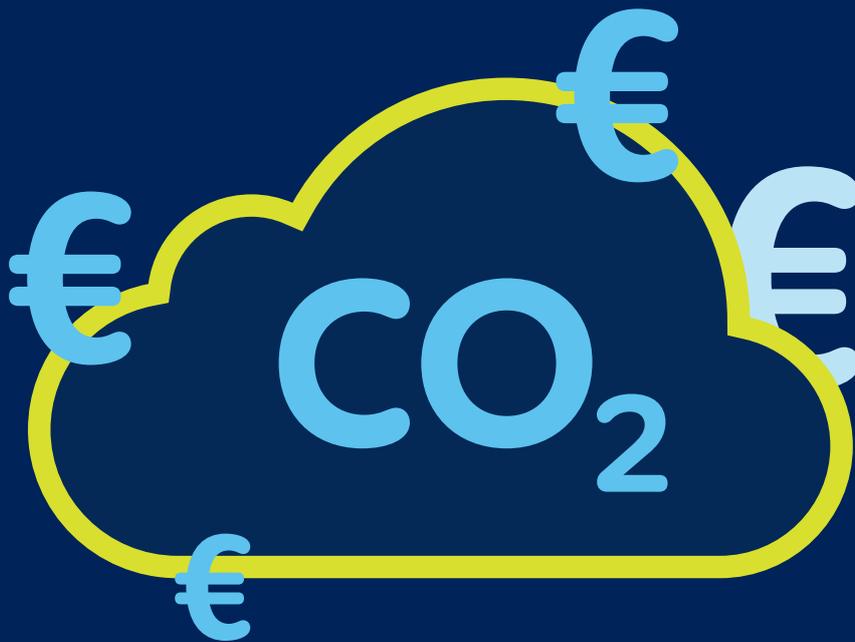




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CO<sub>2</sub> PRICING IN GERMANY

# STRENGTHENING EUROPEAN EMISSIONS TRADING



POSITION PAPER

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# 1. BACKGROUND

With the Paris Climate Agreement, the international community undertook to rapidly reduce emissions with an impact on the climate. In the past months, the demand by broad sections of the public for effective climate protection measures has grown considerably, with CO<sub>2</sub> pricing playing a central role.

CO<sub>2</sub> pricing was also a key sticking point in the negotiations of Germany's grand coalition government on drafting a Climate Change Act. While large parts of the SPD demanded a **CO<sub>2</sub> tax**, CDU and CSU representatives in the 'climate cabinet' argued for the introduction of **certificate trading for the transport and building sector**. After tough negotiations, the coalition parties finally agreed on the latter.

**A functioning price for the emission of the climate pollutant CO<sub>2</sub> is regarded as the most important instrument for reducing greenhouse gases.** Binding energy and climate targets at national and European level are not expected to be achievable without a cross-sector instrument for CO<sub>2</sub> pricing. Accordingly, the political pressure on the climate cabinet and the German government to act in this context is high. In view of the impact of climate change, which can also be felt here in Germany, social pressure to expedite effective climate protection measures is also growing.

**How CO<sub>2</sub> pricing should ideally be set up is controversial.** General options under discussion are mostly instruments relating to volume (ETS) and price controls (energy tax geared to CO<sub>2</sub> emissions); these measures can also, in part, be combined (ETS with price limits).

The **key issues paper of the climate cabinet** envisages the gradual introduction of Germany-wide emissions trading in the transport and building sector. This is based on the existing European Emissions Trading System (EU ETS) for the energy and industry sectors. A **moderate entry-level price set by the government** of ten euros per ton of CO<sub>2</sub> emitted is planned. By 2025, this price – also set by the government – will rise to 35 euros.

From 2026, **further alignment with the EU ETS** will follow by switching to an auction-based system for pollution rights and by setting a maximum level for CO<sub>2</sub> emissions that will reduce over time. The market mechanism will be restricted by specifying minimum (35 euros) and maximum prices (60 euros) for emissions allowances. Whether this price corridor will continue to exist after 2026 will be clarified in 2025.



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## 2. POSITIONS

- **We at Wintershall DEA are committed to the Paris climate protection targets, which is why we are working intensively and at many levels to reduce the climatic impact of our activities.** For instance, we already discontinued the practice of flaring (of associated gas) in our regular operations back in 2012. Moreover, in 2017 we made a voluntary pledge, together with other producers, to continuously reduce methane emissions.
- **As the largest independent European gas and oil producer focusing on natural gas in our portfolio, we contribute towards achieving fast, cost-efficient and large-scale CO<sub>2</sub> avoidance.** Provided CO<sub>2</sub> avoidance cost competition is fair, natural gas will be able to demonstrate its role as a climate-protection engine to an even stronger degree in the future. In the heating energy market, for instance, huge savings potential can still be achieved with natural gas at very low avoidance costs (partly even with macroeconomic benefits). Replacing an old gas boiler with a new gas condensing boiler saves up to 40% in CO<sub>2</sub> emissions, for example. Even greater reductions in CO<sub>2</sub> emissions can be achieved by replacing oil heating systems with modern gas condensing boilers.
- **Natural gas as a source of energy is an extremely good energy transition driver** and is a key pillar of the energy transition today, tomorrow and beyond. Natural gas can become even more climate-friendly in the future. The CO<sub>2</sub> or also the carbon can be separated and collected, thus producing hydrogen. The decarbonisation of natural gas can contribute to making our energy system CO<sub>2</sub> neutral, hence becoming a key to achieving the climate targets.“
- **We endorse innovative natural gas technologies, such as the decarbonisation of natural gas.** We are one of the initiators of the Zukunftswerkstatt Erdgas industry initiative and are partners to the Innovation Award of the German natural gas industry.
- **Emissions must be reduced swiftly and substantially. That can only be achieved with natural gas.** Basically, the discussion surrounding CO<sub>2</sub> pricing shows that a key realisation has arrived on the political scene in Berlin.
- **It is absolutely right in the context of the energy transition and in terms of energy policy, to rely much more strongly on the central coordinating function of prices** – both with regard to setting priorities for energy policy measures as well as on the subject of reducing emissions. The European Emissions Trading System model in the electricity sector shows how effectively a volume system works in the interests of climate protection. In Germany, for instance, CO<sub>2</sub> emissions in electricity generation declined by 33% from June 2018 to June 2019 – due quite substantially to increased deployment of natural gas and cutting down on coal-based power generation.

## 3. DEMANDS

- **In principle, CO<sub>2</sub> pricing should be regarded as one of many climate protection instruments and not be overloaded with excessively high short-term expectations.** This alone cannot achieve the climate targets for 2030. This applies in particular because more substantial price increases in the heating and above all in the transport sector mostly lead only to slight and slow changes in behaviour patterns – also due to a lack of alternatives for consumers (“low level of price elasticity”). Pricing must therefore be embedded in a broader concept that should also include additional elements such as tax-related incentives for renovation of existing energy systems or discrimination-free promotion of research on alternatives low in CO<sub>2</sub>.



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- **To drive forward climate protection, CO<sub>2</sub> pricing must be aligned as globally as possible and across all sectors.** The German government should continue working towards that goal. This will simultaneously ensure maximum flexibility and technological openness to all measures in the context of global competition (under the division of labour) for favourably priced climate protection. **The role of natural gas as a global climate protection engine can be particularly effective if CO<sub>2</sub> pricing is established on a global scale.** For instance, the substitution of only 10% of global coal production by natural gas is equivalent to the entire reduction of CO<sub>2</sub> by the renewable energies sector in U.S. and China.
- **For the phase prior to global regulation, the establishment of cross-sector European emissions trading by 2030** subject to the definition of uniform CO<sub>2</sub> pricing is the most convincing solution under regulatory law. This kind of volume control will ensure the achievement of climate policy targets. The trade in emission rights guarantees efficiency and the lowest avoidance costs. If a European solution cannot be achieved, then efforts should be made to accomplish a "Coalition of the Willing" that is as broadly based as possible.
- **CO<sub>2</sub> pricing must go hand in hand with a consistent and stringent new order in energy and environmental policy.** Above all, this new order must put a stop to the existing distortions and often command-economy style of "picking winners" in the field of energy policy. In addition to a CO<sub>2</sub> price, system adjustment costs should be established in the process as a guiding energy policy factor. One example would be the avoidance of additional power grid fees by using the gas infrastructure, or comparatively lower investments in a sustainable gas infrastructure.
- **Funding initiatives should be based on CO<sub>2</sub> avoidance costs, aligned to the principle of technological openness** and make use again of existing framework conditions of regulatory law with CO<sub>2</sub> as the guiding factor (example: defining primary energy factors). Existing distorted subsidies or promotional funding (example: assigning privileges to electromobility at the expense of technology-open promotion of alternative drive systems) must be abolished.
- **Uniform nature conservation rules and regulations for energy production and energy infrastructure should also be an environmental policy measure** for ensuring undistorted competition between conventional and renewable energy sources.
- **CO<sub>2</sub> pricing should take account of the implicit CO<sub>2</sub> prices that already exist in the present system.** In the interests of transparency in climate policy, only one price should be applied.
- **Energy system costs should be reflected in the respective sectors in competitive terms, and cross-subsidies avoided.** This applies above all to cost components of the electricity sector (EEC / power grid fees), especially since the CO<sub>2</sub> burden per energy unit in this segment is currently still two-and-a-half times as high compared to natural gas.

## CONTACT

Wintershall Dea GmbH  
Neustädtische Kirchstraße 8  
10117 Berlin  
Germany

Phone: +49 30 206 73 600  
politik@wintershalldea.com

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[www.wintershalldea.com](http://www.wintershalldea.com)

