

A commentary on policy implications in Germany

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check against delivery

Ladies and gentlemen,

Climate change is an important political topic in many countries – in Europe and elsewhere in the world. Traditionally, Germany wants to be a forerunner in limiting greenhouse gas emissions. This has consequences for the German role in international climate negotiations as well as for the internal climate regulations.

But climate change is not only a political topic. Climate change is becoming more and more important for the private sector: It is becoming a business case. Companies have to respond to new legislation, to the price signals resulting from the European Emissions Trading Scheme (ETS) and to changing demand of the costumers. Not surprisingly, climate change is the most important of all environmental topics for business in Germany. More than 50 percent of all environmental experts from business and business associations interviewed by the Institut der deutschen Wirtschaft Köln pointed out that climate policy has been their main topic in 2007. Furthermore, climate change is the only environmental issue that reached top management levels in various business sectors.

Consequently, I would like to comment on 3 major topics:

1. The German environmental policy in Europe and worldwide
2. The targets set by the German government
3. The response of the business sector.

To 1.: The German environmental policy in Europe and worldwide

Germany tried to foster the reduction of greenhouse gases on an international level. Climate change can be stopped on a global level, or it cannot be stopped at all. This is why the German government believes the negotiations on a post-Kyoto agreement should gain momentum. The German presidencies of the European Union and the Group of Eight (G8) this year were used to speed up the post-Kyoto process with the following results:

- At the Group of Eight meeting in Heiligendamm, the heads of state pointed out that all major emitting countries should contribute to a new global framework which should follow the Kyoto protocol of 1997. The negotiations on this new framework will be continued in Bali next month.
- The European Council went further and declared new targets for the reduction of greenhouse gases. According to these declarations, emissions in Europe should be reduced by 20 percent until 2020 compared with 1990. If the other important industrialized countries set similar targets, Europe wants to go even further. In this case, a reduction of 30 percent should be achieved. Furthermore, targets for single measures like the expansion of alternative energy supply have been agreed on.

To 2.: The targets set by the German government

For many years now, German governments have attached great importance on Germany as a role model in international climate protection. The main aim of the national climate policy is to prove that greenhouse gas reduction can be reached without harming economic growth. Unfortunately, economic growth was rather disappointing in Germany when greenhouse gas reductions were realised. In recent years, higher growth led to higher energy consumption and higher emissions. However climate policies in Germany remain to be ambitious and reduction targets are challenging.

- The German government wants to reduce greenhouse gas emissions by 30 to 40 percent until 2020 – 10 percentage points more than the European Union.
- According to the Kyoto protocol and the European burden sharing, Germany must reduce its emissions by 21 percent in 22 years – from 1990 until 2012. The 40 percent-target means that we have to reduce emissions by another 19 percentage points in only 8 more years. Therefore, climate protection efforts must be more than doubled. So far, we have reduced our emissions by about 18 percent. More than half of this is a result of the breakdown of the Eastern German economy in the early 1990ies. But this cannot be repeated.
- Several measures have been announced to achieve the new targets. An example: while the use of carbon-free energy sources is being promoted, dismantling of all nuclear power

plants is being pushed, biomass continues to be enhanced, and housing insulation is subsidized. In general, the government wants energy efficiency to be boosted by 3 percentage points each year. This hardly seems to be realistic.

To 3.: The response of the business sector

The business sector in Germany is willing to contribute. Principally, we have to accept political targets, but we want to act responsibly. We do not want politicians to decide about our measures. We want to decide for ourselves how to reduce emissions. Businesses and especially the manufacturing sector in the industrialized countries must not only be seen as part of the problem. Businesses provide the solutions. The legal framework should provide the necessary rules without harming the competitiveness of our industries. As private sector, we have to ask for fundamental improvements:

- We need realistic targets. Some of the political targets can hardly be reached. A 40 percent reduction until 2020 is very challenging, and an annual 3 percent increase of energy efficiency is more than optimistic. We need realistic targets instead of wishful thinking.
- A recent McKinsey study shows that we could reduce emissions by 31 percent until 2020. Further reductions would be too expensive and would be harmful to the German economy. Another 7 percentage points could be reached if nuclear power plants would not be shut down earlier. The

ambitious targets of the German government cannot be reached without nuclear power, nor only with expensive alternative energy sources.

- More than 5 percent of our total historic emissions could be avoided by modernizing our buildings. Better insulation and more efficient heating systems pay off after 10 to 15 years. These are the cheapest options for climate protection. Government agencies should help to realize this potential. In contrast, a duty to use expensive solar energy for heating is not acceptable. Homeowners should be neutrally informed about alternatives and then they should decide about their investments.
- We need to be very careful with new obligations for the transport sector. In Germany gasoline consumption for cars has been reduced already by 25 percent in the last 15 years. Further drastic reduction through technology is among the more expensive means to reduce emissions. A better way to reduce gasoline consumption is to train car users in economic driving; i.e. to challenge the public behaviour.
- The European Commission has announced to regulate carbon emissions of new vehicles. However, it is crucial that all producers are forced to contribute to only one target of 130 grammes carbon dioxide per kilometre. We need more intelligent solutions, differentiated e.g. by type of car and by region. Only one target for everyone is counterproductive for the economy of some member states. And we should not forget

that in the end, costumers decide whether they want to purchase premium cars or compact cars. Fuel consumption is only one of several reasons to decide in favour of a specific vehicle.

- The European Emissions Trading Scheme has already boosted prices for certain industries by up to 11 percent. Further price rises would endanger our competitiveness. We need a level playing field within Europe and with competitors in other countries. Therefore, we need global efforts to reduce emissions instead of unnecessary high local costs.

In summary industrialized countries like Germany can do more for the global climate than reducing the last tenth of a percentage point at home. In order to counter global warming, it will be necessary to focus more on the development of new and more efficient technologies and their application on a world wide level. As a leading export nation, we can and will offer very advanced and efficient technologies. This is a true contribution to global climate protection.