

EXECUTIVE SUMMARY

Due to a combination of factors, carbon pricing through emissions trading as an important climate policy instrument has found a place in Germany's mainstream politics. Some of the factors contributing to this development include the setting of more ambitious climate targets and an intensified political discourse regarding climate policy. While carbon pricing has increasingly been recognized in Germany as a powerful instrument of climate policy, several aspects concerning the actual implementation of carbon pricing still remain unclear.

At the same time, the release of the Fit for 55 Package, a set of proposals by the European Commission aimed at reducing greenhouse gas emissions by at least 55% by 2030, has highlighted the further development of carbon pricing policies as an important focus area for the next few years. Further, the vulnerability with regard to Russian sources of energy in the aftermath of Russia's invasion of Ukraine has highlighted the challenge of increased energy costs, thereby underscoring the urgency of implementing measures for social compensation.

This policy paper provides reflections on the recent discourse on carbon pricing in both Germany and the European Union, and outlines priority areas for intervention in Germany through four policy recommendations.

- A. The German government should commence the process of reviewing the BEHG, which covers the national carbon pricing scheme for transport and buildings, including the potential advancement of the price corridor phase, the concrete design of the market phase, along with a clear scheme for compensating social hardships arising from a higher carbon price.
- B. The development of the broader policy mix to support carbon pricing in the presence of market failures and market barriers, particularly in the transport and buildings sectors, should form a priority area for future climate policy. It will be crucial to develop a coordinating framework for facilitating the smooth interaction between the various relevant ministries.
- C. The extension of carbon pricing to various sectors in the economy requires the design of transparent social compensation measures, with the reduction of the electricity price and a per-capita compensation mechanism forming the core of the compensation package. The relevant criteria, timelines and administrative aspects of compensatory payouts should be determined and legislated at the earliest.
- D. Engagement with end-consumers (households) through targeted and transparent political communication about the carbon pricing regime, its objectives, and related support mechanisms should form a further focus area of the carbon pricing policy in Germany.