



Climate protection with the business community – key recommendations from the IHK

Position paper

Introduction

The European Green Deal, federal and state law to mitigate climate change, and a raft of accompanying measures and draft legislation all set ambitious targets for a reduction in greenhouse gases. In combination, they point the way to a more climate-friendly economy and society. Germany aims to achieve climate neutrality by 2045; Bavaria five years earlier, in 2040. The business community of Upper Bavaria fully supports this extremely ambitious goal. However, at EU, federal and state level, there is still a long way to go before such targets can be met. It will therefore be a big challenge to achieve them within the given time frame, while still maintaining business competitiveness.

At the same time, the business community faces immense challenges because of the Covid-19 pandemic and the Russian war of aggression against Ukraine. Drastic increases in gas and electricity prices as well as supply-chain disruptions are jeopardising the existence of many companies. Despite these difficult circumstances, the Upper Bavarian business community recognises the major role it has to play in meeting climate targets and looks upon policymakers as a key partner in this challenge. Yet if companies are to make a lasting contribution to combating climate change, they must remain competitive at their location of choice. It is therefore vital that future climate policy takes account of this.

We must therefore ensure that alternative, climate-friendly processes are made available at a cost that does not compromise our international competitiveness. To achieve this, the following concrete recommendations should be included in climate policy at EU, federal and state level:

An internationalisation of climate protection

Industrial countries bear a particular responsibility for climate protection. Germany accounts for around 2% and the EU for 10% of global greenhouse gas emissions, although in both cases this is declining. The global problem of climate change can only be solved by reducing emissions in all countries. The way forward is to agree and pursue coordinated measures at the European and global level and on the basis of international agreements on climate protection. Conversely, we must avoid burdening the domestic economy with national regulations that erect much higher financial and bureaucratic hurdles than those faced by companies abroad. Policymakers should therefore:

1. Work resolutely toward achieving a level playing field for climate protection

Given a level playing field, the Upper Bavarian business community should be leading the international race to meet climate targets. This is because ambitious climate targets drive innovation – and because they are a way for business to achieve lasting competitiveness, consolidate the region's strength as a business location and secure skilled workers. Diplomatic efforts, such as the establishment of a Climate Club¹, are to be welcomed, provided they help meet climate targets.

2. Stronger support for unlocking market opportunities via climate protection

The growing international obligation to meet greenhouse gas targets creates new opportunities for environmental and climate technology from Upper Bavaria. Helping our companies to develop markets abroad will not only strengthen the region as a business location but also accelerate the convergence of climate protection standards worldwide. Classic methods of promoting foreign trade should therefore focus more strongly on environmental and climate technology and be more closely linked to R&D funding. In turn, greater and more systematic efforts should be made to tap the local knowledge available from the network of German Chambers of Commerce Abroad (AHK). In order to strengthen Upper Bavaria as a business location, all subsidies should be scrutinised for their impact on climate change, and any that are harmful to the climate should be reduced substantially, thereby boosting support for climate-friendly technologies.

¹ There has been growing discussion of the creation of a so-called climate club since 2021, in conjunction with the introduction of a carbon border adjustment mechanism on the EU level. The basic idea is to commit, together with other countries, to ambitious greenhouse gas reduction measures, thus harmonising carbon abatement costs and creating a level playing field among trading partners. A carbon levy would then only apply to trade with countries outside of the climate club.



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3. Allow companies to offset emissions that remain unavoidable²

It is evident that carbon abatement and reduction should be prioritised over carbon offsetting. With some processes, however, it is impossible to avoid greenhouse gas emissions entirely. Companies should therefore be able to purchase offsets in order to support reductions in greenhouse gases abroad and be able to credit the resulting savings to their own carbon balance. In line with the settlement on Article 6 of the Paris Agreement, which was achieved in autumn 2021, efforts should also continue to remove any remaining uncertainties regarding the voluntary market for carbon offset projects. Similarly, it should be made easier for companies to purchase offsets that meet globally recognised UN quality standards, as defined at COP 26, and to credit these to their own carbon balance. For this purpose, the voluntary carbon market should be made more transparent and more easily accessible to companies. In addition, options should be created for companies to secure valid offsets on the basis of their participation in regional projects to reduce greenhouse gas emissions.

Competitiveness and market efficiency

As long as climate ambitions differ worldwide, it will remain necessary to protect the domestic economy against competitive disadvantages. This applies, in particular, to energy-intensive industries – in Upper Bavaria, this includes companies producing chemical feedstocks. These sectors currently face huge pressures on account of the latest increases in energy and carbon prices. Many modern plants are unable to achieve greater efficiencies, since technical or financial constraints often prevent any further reduction in emissions. Policymakers should therefore:

4. Ensure effective protection against carbon leakage

It is vital to provide effective protection against offshoring and the shifting of emissions to countries with lower climate protection standards (carbon leakage, CL) – not only to safeguard those sectors affected but also to ensure the effectiveness of domestic climate protection measures. It is essential that the effectiveness of the measures is ensured. Climate policy reforms should never be undertaken without a comprehensive analysis of CL risk and, if necessary, the introduction of offsets. Nor should they encourage the hasty removal of proven protection mechanisms – cf. the abolition of a free allocation of carbon credits following the introduction of a carbon border adjustment mechanism. Existing instruments providing CL protection should be capable of absorbing any additional pressures. Here, business processes should also be taken into account and companies provided with transparent and unbureaucratic access – e.g., online and based on existing references – to such instruments. The CL protection provided by Germany's national emissions trading system (nEHS) does not yet fulfil these criteria. Unilateral climate protection measures can distort the market – as can excessive and duplicate regulation – thereby creating inefficiencies and competitive disadvantages compared to rival companies at home and abroad.

5. Scrutinise the impact and potential interference of additional climate protection instruments

New instruments, such as the Carbon Border Adjustment Mechanism (CBAM) at EU level or Carbon Contracts for Difference (CCfD) in Germany, require comprehensive assessment and monitoring to determine their compatibility and potential interference with existing market-based mechanisms such as the EU emissions trading system (ETS). Before introducing any new instrument or market intervention designed to safeguard an economy's competitiveness and mitigate climate change, the additional advantages that it offers must be comprehensively weighed up against any disadvantages. The creation of duplicate structures can distort competition and generate extra costs and uncertainties for companies in the energy and carbon markets. This should therefore be avoided.

Carbon pricing: a market-based, incentive-based instrument

Emissions trading is the key instrument of climate policy in Europe and Germany. By putting a price on emissions, such schemes reflect their economic impact on the climate and environment, thereby creating a level playing field in the race for environmental sustainability. The business community supports the principle of emissions trading and welcomes it as a market-based instrument. Policymakers should therefore:

6. Strengthen emissions trading as a key instrument of climate policy

The EU Emissions Trading System (EU ETS) should be expanded to accommodate SMEs and the full range of business sectors. In the longer term, it should also be extended beyond EU borders. Rapid integration of existing national mechanisms should be a priority. National and unilateral carbon pricing systems, such as Germany's nEHS, should only continue on a transitional basis. As long as carbon abatement costs differ across the EU and around the globe, carbon pricing must also be accompanied by a suitable and reliable mechanism for compensating affected companies – cf. above. Similarly, decisive measures should be taken to ensure that national and EU-wide emissions trading systems provide adequate protection against CL. This is increasingly pertinent in the light of current energy prices and supply issues and the competitive pressures to which these give rise.

7. Further reduce electricity prices; enable sector coupling

The scrapping of the renewables levy (regulated in the Renewable Energy Sources Act, EEG) on the price of electricity marks a first and important step toward easing the burden on the economy imposed by drastic increases in the price of electricity and other forms of energy. At the same time, this will offer a greater incentive to switch to low-carbon, electricity-based processes and will therefore encourage business in its efforts to combat climate change. Beyond the resolutions adopted in the Easter Package³, further efforts should be made to systematically reduce electricity prices. This will also encourage increased sector coupling, which in turn will further mitigate climate change.

² Not all companies regard carbon offsetting as a (third) effective pillar of corporate climate strategy. Their concerns centre primarily on the reduced incentive to cut direct emissions and on the risk of delays to necessary innovation and of greenwashing.

³ The so-called Easter Package was tabled by federal government on 6 April 2022. It contains numerous amendments to the energy policy framework and is designed to accelerate the energy transition and boost climate protection. These include the end of the EEG levy on the price of electricity and the trimming of further levies in the electricity sector.

Infrastructure development and technology neutrality

Politically set climate targets must then be translated into technological solutions that enable companies to adapt their production processes and switch to new forms of energy supply. In practice, however, regulatory shortcomings and a lack of infrastructure hamper the use of new technology. To remedy this, policymakers should:

8. Accelerate planning and approval procedures for renewables and grid expansion

In order to ensure sufficient green electricity to power the switch to climate-friendly technologies, there needs to be a further expansion and greater use of renewable energy (RE). This, in turn, requires a massive reduction in bureaucracy – for example, a simplification of the reporting requirements for captive power generation and supply, and of the planning and approval procedures for grid expansion and for new construction and repowering of RE plants. In particular, it is important to find a practicable compromise between the need to develop RE in the interest of climate protection and any remaining environmental concerns. The decisions of the Easter Package help pave the way for this.

9. Ensure technology neutrality; facilitate innovation

The path to climate neutrality must be rigorously pursued. This requires a radical expansion of RE and the harnessing of untapped efficiencies. Yet in order to avoid endangering the energy supply or the industrial fabric, a transitional approach over several years should be pursued, making use of all available technologies. This includes technologies based on natural gas and conventionally produced hydrogen. In the short term, at least, there can no longer be any justification for excluding individual energy sources on principle, particularly in view of the current supply situation. Similarly, it is important to avoid any technological lock-in at this early stage.

Forward planning will help smooth the introduction of new and innovative technologies – cf. the H₂-readiness of LNG terminals and power plants. In particular, efforts to ramp up the hydrogen market should be intensified. The economic transition to climate neutrality hinges upon the availability of large quantities of hydrogen at competitive prices. First, however, a number of issues must be resolved. These include infrastructure, certification, importation, and the conditions governing the allocation of public funding. It is also vital to avoid the development of any new dependencies on individual supply countries. Companies destined to remain unconnected to the hydrogen grid for the foreseeable future will need to rely on an efficient trading system based on certificates of origin. The latter should therefore be introduced as quickly as possible.

Furthermore, any regulatory oversights – cf. the omission of alternative fuels in the ordinance on fuel quality and labelling (10th BImSchV) – should be corrected, thereby preparing the ground for new solutions such as synthetic climate-neutral fuels. Finally, the development of processes to reduce the amount of CO₂ in the atmosphere should also be pursued in systematic fashion.

In partnership with business

R&D in climate-friendly technologies involves substantial investment at no little risk. At a time of soaring electricity and energy prices and an unstable supply situation, this can have a big impact on company balance sheets. SMEs, in particular, are often highly innovative but lack the requisite financial and human resources. Government support and consultation can help here. Policymakers should therefore:

10. Lower the support threshold for all companies

For small companies and start-ups, access to support – both financial and non-financial – should be transparent, unbureaucratic and broad-based. Not only must funding and support be more widely publicised; funding mechanisms should also be simplified and expanded in bold fashion to foster greater research cooperation and innovation.

11. Build on partnership and dialogue with business

Cooperation and partnership between local companies, the research community and policymakers should be intensified in order to promote the development and rapid roll-out of climate technologies in business operations. Proven instruments such as the Bavarian Environmental and Climate Pact or the Bavarian Energy Efficiency Network Initiative should be continued and may also serve as a springboard and model for new measures.

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