Germany Inc waits on Merkel’s CO2 plan: Here’s what’s at stake

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Chancellor Angela Merkel is working on an investment package worth perhaps €50bn ($55bn) that aims to get German efforts to cut carbon emissions back on track.

Merkel’s Christian Democrats are trying to thrash out a common position with their coalition partners, the Social Democrats ahead of a cabinet meeting on September 20. The outcome of those negotiations will have profound consequences for a range of companies from utilities to airlines as well as the chancellor’s increasingly controversial balanced budget.

Germany is way behind on its climate efforts and saw a series of protests this year demanding more action to stem emissions and another demonstration is scheduled for Saturday in Frankfurt. With wildfires sweeping the east of the country and record temperatures disrupting summer travel, the governing parties were punished in local elections as support for the

Greens surged.
While opinion polls show that climate change has surpassed immigration as the German public's No 1 concern, the government abandoned a self-imposed target to lower CO2 emissions by 40% from 1990 levels by next year. After struggling to rein in coal-fired power generation, emissions will be just 32% lower in 2018 and Germany risks missing its legally binding EU goals.

Coalition strains
The coalition parties know they need to step up their climate action, but they don't agree on how much or how fast.
The SPD want more aggressive measures, such as a carbon tax and new debt to finance climate projects. Merkel's CDU favours market mechanisms such as the Emissions Trading System, which lets companies buy or sell their carbon allowances. The CDU also wants to tap private capital more heavily to help finance the measures.
The plans announced so far would be enough to derail Merkel's prized balanced budget if the government ended up footing the bill and Sueddeutsche Zeitung reported on Friday that the program could stretch to as much as €75bn.
That's why CDU Economy Minister Peter Altmaier is proposing an investment fund seeded with €5bn of government money. To lure investors and win round the German public, he wants to guarantee a 2% return – that's more than you make from a 10-year Greek bond.
But SPD Finance Minister Olaf Scholz, who's looking at a possible campaign to succeed Merkel, doesn't like the idea and his party has threatened to bring down the government if it doesn't get something it likes.

C-Suite winners and losers
For German executives, there's a lot riding on the outcome.
Electricity producers like EON SE and RWE AG could benefit if the policies encourage households to ditch gas heating and diesel cars in favour of electric options. Firms that use a

lot of electricity could also benefit, as well as companies that make electric heaters, cars and energy-efficiency products like smart meters.

Firms that can’t easily cut CO_2 emissions out of their business model are likely to lose out. While companies like Thyssenkrupp AG and Volkswagen AG already have sweeping carbon-reduction strategies, dialysis machine-maker Fresenius emitted 1mn tonnes of carbon dioxide last year and doesn’t yet have a goal to significantly reduce that.

If the CDU plan to impose a trading scheme instead of a carbon tax wins out, that would give the government flexibility to help out companies and consumers when the economy slows. Officials could increase the supply of the emissions permits during a recession to lower costs for companies, or cut supply during a boom.

Cheap air travel

Merkel’s Bavarian sister party, the CSU, is proposing a minimum price on airline tickets and all the parties have signalled they’d like to see airfares rise. That could actually benefit Germany’s flagship carrier Deutsche Lufthansa AG. Europe’s biggest airline is fighting off low-cost challengers like Ryanair, Easyjet and Wizz Air, and its budget unit, Eurowings, is losing hundreds of millions in euros as it tries to match their bargain-basement fares.

A price floor would be easier for Lufthansa to absorb than for the low cost carriers whose business strategy centres on having aircraft more than 95% full. Indeed, Lufthansa chief executive officer Carsten Spohr has called for an end to loss-leading fares that he said are stoking demand for needless flights that raise pollution and make the industry an easy target for climate campaigners.

“You only have to look at what happened when the first 2011 aviation tax in Germany was introduced,” Ruxandra Haradau-Doeser, head of airline research at Kepler Cheuvreux, said. “Ryanair cut capacity by one third.”

The CSU also wants to cut the taxes on rail travel.

Europe’s climate fight

Merkel wants something to show abroad as well.

Her climate decision comes three days before UN Secretary-General Antonio Guterres holds a summit in New York to encourage countries to make good on their commitments under the Paris Climate Accord and to make their goals more aggressive. Berlin’s renewed push dovetails with efforts by Ursula von der Leyen, the incoming president of the European Commission, to focus attention on the climate. Von der Leyen, who previously served as Merkel’s defence minister, wants to make Europe the first climate-neutral continent by 2050.

German plans to put a price on emissions from transportation and heating is in line with von der Leyen’s plan to extend the EU carbon market, the biggest in the world, to cover transport and construction.

But more broadly, von der Leyen and Guterres need Germany to deliver. If Europe’s biggest emitter can’t meet its goals, the EU is unlikely to either. And that would be a disaster for the global push to limit climate change.