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To the point!

Cross-Asset- and Strategy-Research

## We are subsidizing climate change

Germany should stop pouring money into environmental harm

The June heatwave has passed. Anyone who takes science seriously will have little doubt that this was not the sort of June weather once considered normal – and that human behavior, in the aggregate, is changing the climate. Two weeks ago, [in this column](#), I summarized the evidence that greenhouse-gas emissions are driving global warming. This is not a matter of opinion. It is a matter of fact. I would much prefer it were otherwise.

The costs are not abstract. Nor are they limited to the damage caused by more frequent natural disasters such as droughts, floods and storms. [A scientific paper](#), which I had the privilege of coauthoring found that even the optimistic RCP2.6 climate scenario would, on average, push the government credit ratings of the G7 countries plus China down by one notch. Under that scenario, the planet would warm by 2°C by the end of the century. Given this country group's current public-debt stock of \$74trn, the result would be additional debt-service costs of up to \$100bn. Every year. And that is likely to be the lower bound. The most probable scenario points instead to warming of around 2.7°C compared with the pre-industrial era. The costs, moreover, do not rise linearly; they rise exponentially.

### The progress and pitfalls of German climate policy

Germany has made real progress in cutting greenhouse-gas emissions. The share of renewable and zero-emission energy sources has risen sharply. Nearly all new buildings are now fitted with heat pumps, and demand for electric vehicles has grown markedly since the Iran war broke out.

Yet the government is still using taxpayers' money to subsidize activities that damage the environment. Germany's Federal En-

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The costs of climate change are rising

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The economy's emissions intensity is falling

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Environment Agency (Umweltbundesamt) put the volume of such subsidies at more than €65bn in 2018. The most prominent examples include the exemption of commercial flights from jet-fuel tax, lower energy taxes for industry and farming, Germany's favorable tax treatment of diesel relative to gasoline, and tax breaks for often gas-guzzling company cars. Fig. 1 breaks these subsidies down by sector. To make matters worse, the trend is moving in the wrong direction: according to the European Environment Agency (EEA), environmentally harmful subsidies in Germany rose from 0.4% of GDP to 1% between 2015 and 2023 (see fig. 2). Measures adopted to ease the gas crisis after Russia's invasion of Ukraine are likely to have played a part.

The governing coalition's program adds still more subsidies that work against Germany's climate goals. These include a cut in the air-passenger tax, a more generous tax allowance for commuting and the return of a tax break on diesel used in farming. According to calculations by Germanwatch, a German environmental NGO, these new subsidies together amount, in the best case, to roughly the €10bn a year earmarked for climate investment from Germany's off-budget climate-and-infrastructure fund. That spending, however, remains contingent on funding being secured. And public finances are already stretched to breaking point. Thus, actual outlays may be lower still.

What is sustainable about a state that first encourages environmentally harmful forms of production and consumption with billions of euros in taxpayers' money – and then has to spend further billions from the budget to patch up the damage to the environment and public health?

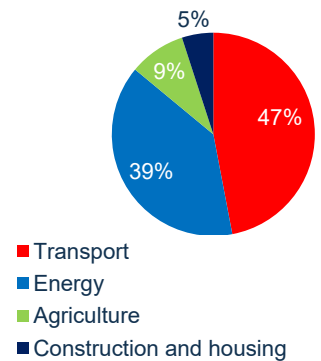
### Germany's costly fuel-price fix

A two-month fuel-price relief scheme, now expired, cost the government another €1.6bn in forgone revenue. I have already criticized its dubious incentives [in this column](#). The cost was higher than the €1.5bn that the federal government contributes each year (!) to the Deutschlandticket, Germany's flat-rate national public-transit pass. The government's priorities seem clear: climate policy is riding in the back seat of a gasoline-powered limousine.

### Renewables mean energy security

Germany also imports fossil fuels – above all oil and gas – worth more than €80bn a year on average. That is nearly €1,000 per person, or almost 2% of 2025 GDP. This year the figure is likely to be markedly higher. Recent geopolitical events show how this dependence makes the country vulnerable to pressure, and even blackmail. And the money does not usually flow to "impeccable democrats," to borrow a notorious German phrase once applied to Vladimir Putin. Germany's fossil-fuel imports therefore not only damage the environment; they may also increase geopolitical risks. Berlin is scrambling to find savings. Cutting the subsidies listed above would be a win-win.

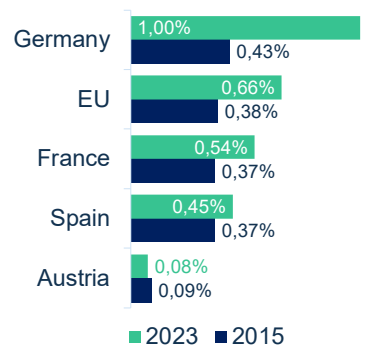
Fig. 1: Distribution of environmentally harmful subsidies by sector (2018)



Source: [Umweltbundesamt](#), LBBW Research

## Berlin increases subsidies at the environment's expense

Fig. 2: Environmentally harmful subsidies (% of GDP, 2015 and 2023)



Source: [EEA](#), LBBW Research

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