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Position on the introduction of carbon pricing

Summary

Climate change is one of the biggest challenges that civil society and policymakers are facing today. In order to limit carbon dioxide emissions, international commitments to reduce CO₂ were made in the Paris climate agreement in 2015.

At METRO, we firmly believe that climate reversal is a task for society as a whole. As a leading food wholesaler and retailer with worldwide operations, we are aware of our global climate policy responsibility. That is why we have set ourselves very ambitious and challenging climate protection targets and we are well on our way to meeting them.

According to current data, the climate protection targets set by Germany and the European Union for 2020 will not be achieved.

We therefore call for a change of mindset in climate policy which, with practicable means and measures, will realistically allow the climate targets to be achieved.

In our opinion, the introduction of carbon pricing should be considered. The fact that METRO has already been operating successfully with an internal carbon price since last year shows that this is a good way of allocating projects towards the best possible CO₂ reduction.

It will be necessary to discuss how such a climate policy instrument should be designed so that climate protection and efficient CO₂ abatement are once again in the foreground, irrespective of sector affiliation and the energy source used. At the same time, alongside the introduction of a carbon price, the opportunity should be seized to clean up overlapping and, so far, only partially successful energy policy instruments, so that the burdens of the energy transition are shared fairly and do not have to be borne by the end consumers and individual non-privileged economic sectors such as trade.

In our view, as CO₂ emissions do not stop at national borders, an international or at least European solution is preferable to a national solution so that undesired carbon leakage can be avoided.

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Position on the introduction of carbon pricing

Our position in detail

In the context of reaching climate targets, the introduction of a pricing system for the anthropogenic greenhouse gas carbon dioxide (CO₂) is being discussed in the political arena. Carbon pricing is intended to introduce a disincentive levy on fossil fuels such as coal, heating oil or natural gas, the combustion of which generates CO₂ emissions. The cost of climate change impacts and environmental damage should be borne by companies and consumers who cause CO₂ emissions via a clear carbon price. This should make a significant contribution to reducing the carbon dioxide content in the earth's atmosphere.

Climate protection goals of METRO AG

As a leading global food wholesaler and retailer with activities in 35 countries, METRO is aware of its global climate policy responsibility and has therefore set itself very ambitious and challenging climate protection targets: **By 2030, 50 % CO₂** per square metre of sales area is to be **saved worldwide** (baseline value of 2011).

By the end of the last financial year **2017**, METRO was able to reduce its own CO₂ emissions by **21 %**.

These CO₂ savings are achieved by introducing a mix of different measures:

- Consistent leveraging of savings potentials in electricity and paper
- More efficient use or switch to refrigerants free of F-gases
- More efficient planning of business trips
- Climate-friendly drive technologies for company cars and delivery vehicles
- Own production of electricity from renewable energies (such as photovoltaic systems)

METRO is well on the way to achieving the company's own 2030 climate targets.

Introduction of an internal CO₂ abatement price

To show that METRO takes climate protection seriously, we also introduced an internal **virtual CO₂ abatement price of €25 per tonne of CO₂** in our own profitability calculations in 2017. Each investment project is assessed in terms of its CO₂ emissions impact and priced accordingly. The aim of this approach is to make it clear to all employees that it is possible to combine the profitability of projects with the greatest possible CO₂ savings.

Compliance with national, European and international climate protection targets

There are now a number of different climate protection targets worldwide:

The Paris Agreement of December 2015 provides the global framework for **international climate protection**. It was originally adopted by 197 countries, which corresponds to about 55 % of global greenhouse gas emissions. The Paris Agreement contains a commitment to limiting global warming by well below 2°C compared to the pre-industrial era.

The **European Union** has also committed itself to achieving the following binding climate targets: By 2020, 20 % CO₂ is to be saved, by 2030 40 % and by 2050 80 % compared to the base year 1990. In addition, further targets have been set for individual sectors in order to achieve this objective. Compared to 2005, the economic sectors that are subject to the Emissions Trading Scheme (EU ETS), i.e. large emitters in power generation and industry, would have to reduce their emissions by 21 % by 2020 and by 43 % by 2030. Sectors not covered by the EU ETS are subject to so-called effort sharing between the wealthier and less wealthy countries, so that the EU Member States' contributions differ. However, the EU-wide emissions for the non-ETS sectors are to be reduced by 10 % by 2020 compared to the base year 2005 and by 30 % by 2030. The German contribution in the non-ETS sector is 14 % by 2020, and 38 % by 2030 (again base year 2005).

Germany has set itself ambitious national climate targets, which are laid down in the Climate Protection Plan (CPP) 2050: Compared with 1990, CO₂ emissions are to be reduced by 40 % by 2020 in absolute terms, by 55 % by 2030 and by even more than 80 % by 2050.

According to current data, Germany will miss the targets it has set itself and those set by others.

CO₂ reduction potential of individual sectors

If the climate protection goals of the Paris Agreement are taken seriously, it is necessary to discuss what alternative / additional possibilities exist for achieving the reduction targets.

The CPP 2050 establishes sector-specific target corridors for emission reductions:

Sectors	Reduction of CO ₂ 2030 (base year 1990)	Status of target achievement in 2016
Energy industry	-61to -62 %	-27 %
Buildings	-66 to -67 %	-40 %
Transport	-40 to -42 %	+2 %
Industry	-49 to -51 %	-34 %
Agriculture	-31 to -34 %	-21 %
Others	-87 %	-72 %
National	-55 %	-28 %

Source: Climate Protection Plan 2050, German Federal Environmental Agency (2017)

The CPP 2050 stipulates very different reduction potentials for the individual sectors. For example, in agriculture, at least 31 % CO₂ are to be saved, while the building and energy sectors are to reduce CO₂ emissions by a minimum of 66 % and 61 % respectively. The last report published by the German Environment Agency (2017) with emission values from 2016 shows that the reduction potentials have been tapped very differently so far. The most obvious is the transport sector, where CO₂ emissions have increased compared to the base year rather than decreased. On the basis of the figures presented above, it is therefore not possible to speak of an equal distribution of contributions to the CO₂ reduction target among the economic sectors. In addition, it can be stated that there is certainly still potential for reduction.

A similar picture emerges when looking at the greenhouse gas reductions achieved at EU level:

Sectors	Status of target achievement in 2016 (base year 1990)
Energy	-23 %
Industry	-33 %
Agriculture	-20 %
Waste	-41 %
Land use and forestry	+27 %
EU 28	-27 %

Source: EEA (2018) – Annual European Union Greenhouse Gas Inventory 1990–2016, p. 48

It is also apparent at EU level that there is still considerable potential in some sectors that needs to be exploited in order to achieve the European Union’s greenhouse gas reduction targets.

The system mix of climate and energy policy tools today

Climate policy is very closely interlinked with energy policy. In Germany, the expansion of renewable energies in particular is being heavily promoted in terms of energy policy. At European level, the emissions trading scheme is the primary climate policy tool.

In the area of **power** production, the expansion of renewable energies in **Germany** is mainly financed via the renewable energy levy. In 2018 it amounts to 6.792 cents/kWh and has risen by 89 % since 2012. In addition, the electricity tax of 2.05 cents/kWh applies to any electricity purchased from the grid – irrespective of the generation source. In addition, a renewable energy levy which is reduced by 40 % has to be paid for self-generated renewable electricity, for example from one’s own photovoltaic system.

At **European level**, greenhouse gas emissions trading was introduced in 2005, covering power production and energy-intensive industries such as chemicals, steel,

non-ferrous metals, glass, paper, cement and aviation, but not the heating and transport sectors. While initially up to 25 euros per tonne of CO₂ increased the price of converting lignite or hard coal to electricity, greenhouse gas emissions trading played hardly any role for many years due to the fall in the price of certificates – even if the price of the respective CO₂ certificates has risen again to about 16 euros per tonne of CO₂ in May 2018. In the heating and transport sector, the energy tax provides a slight direction: Natural gas is taxed at 0.55 cents/kWh for heating and heating oil at 6.41 cents/litre. With an energy content of 10.4 kWh, this corresponds to a taxation of around 0.61 cents/kWh. For the transport sector, energy taxes of 65 cents/litre of premium petrol and 47 cents/litre of diesel are levied.

However, as already described above, these energy policy measures taken to date are far from sufficient to achieve the climate protection goals of Germany and the European Union. In order to meet the obligations of the Paris Agreement, alternative ways of advancing climate protection in such a way that no preference is given to certain technologies should therefore be discussed.

Climate change as a task for society as a whole

In our view, a climate policy turnaround can only lead to the desired success – achieving climate goals – by tackling it as a task for society as a whole. This approach would motivate producers, distributors and users to optimise their emissions and use the most efficient and climate-friendly technologies.

Carbon pricing can be levied across all emission sources and sectors in the EU. This means that those will be rewarded who either do not cause any climate impacts or rely on more climate-friendly technologies in the competitive environment. METRO is already successfully implementing this principle internally through the introduction of a carbon price.

Gradual introduction of carbon pricing

The introduction of carbon pricing inevitably leads to shifts in the cost burdens across the different sectors compared to today. This process can be managed politically via a transformation phase of several years. In order to establish the climate protection target as the priority objective of climate and energy policy efforts and to pursue it further, consideration could be given to optimising the intervention measures on the energy policy side.

For example, the electricity tax could then be reduced to the minimum and the renewable energy levy could be abolished. In addition, the remaining costs could also be paid from the federal budget. This appears to be particularly sensible in view of the

competitiveness of renewable energies, which could in any case make their promotion obsolete in the coming years.

For industries that compete internationally, policymakers would then have to make adjustments in such a way that the value chain in Germany does not break. In order to avoid relocations, the so-called carbon leakage, the necessary funding could also be provided from the federal budget. This would no longer unilaterally distribute funding from non-privileged end-users and industries, such as trade.

Conclusion and demands

We therefore call for a rethinking of the national and European climate protection policies towards a solution that can realistically achieve the climate goals. This could be achieved through carbon pricing, while at the same time optimising existing energy policy instruments.

METRO is a leading international wholesale and food trade specialist. The company operates in 35 countries and employs more than 150,000 people worldwide. In the financial year 2016/17, METRO generated sales of around €37 billion. The company provides solutions tailored to the local and international needs of its wholesale and retail customers. With its sales brands METRO/MAKRO Cash & Carry and Real as well as delivery services and digitisation initiatives, METRO sets the standards of tomorrow: for customer focus, digital solutions and sustainable business models. More information at <https://www.metroag.de/en/>

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