

Germany freezes CO₂ price under 'national ETS2' for 2027

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On 15 October, the Bundestag passed an amendment to the Fuel Emissions Trading Act (*Brennstoffemissionshandelsgesetz*, BEHG), maintaining the current CO₂ price range of €55–65 per tonne in 2027 under Germany's national carbon pricing system for sectors outside the EU's Emissions Trading System (EU ETS), particularly transport and buildings. The government opted for this change in response to the EU's decision to postpone the launch of ETS2 from 2027 to 2028 and to prevent a sharp rise in prices. The carbon charge currently increases transport and heating fuel prices by 8–11%.

Germany adopted its national emissions trading system (*Nationales Emissionshandelssystem*, nEHS) in 2019, and it became operational two years later. During its initial years, legislation set the price of CO₂ emissions at €25 per tonne, before gradually raising it to €55 in 2025. Only this year did market forces begin to determine the price, albeit within a legally prescribed range of €55–65 per tonne. In practice, allowances are sold at auction for €65 as demand exceeds supply. The carbon charge currently increases the price of petrol by 15.6 cents per litre (+8% compared with the price excluding the charge), diesel by 17.4 cents per litre (+8%), heating oil by 17.4 cents per litre (+11%) and natural gas by 1.2 cents per kWh (+10%). The original plan envisaged replacing the nEHS with the EU-wide ETS2 in 2027. In the event of a delay in its launch, the existing legislation stipulated that carbon prices under the national system would be linked to those in the EU ETS.

Berlin remains committed to introducing ETS2, while German political and expert circles appear unaware that the mechanism's adverse effects could become a major political and social problem in Germany itself.

Commentary

- **The immediate trigger for the amendment was the EU's decision to postpone the launch of ETS2 from 2027 to 2028, a move that ran counter to Berlin's preferences.** Germany designed its nEHS from the outset to ensure a smooth transition to the EU-wide system in 2027 and remains one of its leading advocates within the EU. From the perspective of Germany's political and business elites, introducing ETS2 as a uniform system across all EU member states would primarily level the playing field in terms of carbon pricing (in many EU countries, CO₂ emission charges are lower than in Germany or do not exist at all) and strengthen financial incentives for adopting green technologies. The postponement of ETS2 made it necessary to amend the nEHS regulations for 2027. The existing provisions, adopted in early 2025, attracted little debate at the time, as the prevailing assumption in Berlin was that ETS2 would be launched on schedule.

- **The decision to freeze the carbon price under the nEHS will prevent a projected sharp increase next year, from the current de facto level of €65 to around €85 per tonne of CO₂.** This rise would push up the prices of petrol, diesel, heating oil and natural gas further at a time when they are already at record highs due to the fuel market crisis triggered by the outbreak of war in Iran earlier this year. Although the CDU/CSU–SPD coalition decided to freeze the nEHS price for 2027 as early as the autumn of 2025, preventing further price increases has become a political necessity amid the current crisis. From Germany's perspective, a sharp rise in the national carbon charge in the year preceding the planned launch of ETS2 would be all the more unjustified given that the initial carbon price under ETS2 is likely to be lower than the current price in Germany following recent reforms to the EU system, notably changes to the Market Stability Reserve (MSR). For German consumers, the launch of ETS2 will therefore lead to lower, rather than higher, fuel prices, at least initially.
- **The mechanism for pricing CO₂ emissions in the transport and buildings sectors has become an unquestioned pillar of the *Energiewende* among Germany's political, business and expert elites.** On the one hand, it enhances the competitiveness of green technologies relative to those based on fossil fuels. On the other, it generates substantial revenue (€16 billion in 2025) for the Climate and Transformation Fund, which finances various subsidy programmes supporting decarbonisation. Even amid record fuel prices this year and public pressure for government measures to cushion their impact, neither the governing CDU, CSU and SPD parties nor major business associations have called for suspending or even relaxing the nEHS. Although isolated voices within the Christian Democrats have advocated lowering the carbon price in the German system, they have not influenced the CDU/CSU's official position. The Alternative for Germany (AfD) has consistently called for abolishing the nEHS, as it rejects climate policy and the energy transition altogether.
- **The social risks associated with the long-term consequences of ETS2 remain surprisingly underexplored in the German debate.** Many representatives of Germany's political, business and expert elites appear unaware that the mechanism's adverse effects could become a major political and social problem not only in Central and Eastern European countries but also in Germany itself.