



Allocating greenhouse gas emissions in the German federal system: Regional interests and federal climate governance

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HIGHLIGHTS

- Profound study of renewable energy policy and emission trading in Germany.
- Study of joint-decision making in climate policy in the German federal system.
- Intergovernmental conflicts and agreements in allocating GHG emissions.
- Policy outcomes, potentials and restrictions of federal climate governance.

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ABSTRACT

The academic debate on climate policies often portrays Germany as one of the most successful cases. Despite its federal system of joint decision-making, most studies of German climate policy focus primarily upon activities at the national level while disregarding the heterogeneous economic interests and veto options of the Länder. Using the cases on renewable energy policy and emission trading, we analyze the subnational interests and institutional mechanisms that shape the intergovernmental negotiations and policy outcomes within the federated system. The cases confirm assumptions made by general research on German federalism, according to which strategies for the externalization and compensation of costs are of particular importance for redistributive policies, and the EU plays a major role in dissolving potential barriers to the process of federal policy formation. Contrary to the reservations often expressed, we demonstrate that climate policies have led to an increased economic and political competition between the Länder and have supported effective solutions. However, recent shortfalls in the effectiveness of emission trading and in the cost-efficiency of renewable energy policies indicate that redistributive conflicts in the allocation of greenhouse gas emissions have to be addressed more systematically within the German (and the European) system(s) of joint decision-making.

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1. Introduction

Academic literature portrays German climate policy as comparatively successful in achieving ambitious CO₂-reduction targets (cf. Michaelowa, 2008; Weidner and Eberlein, 2009). Analyses of German climate policy largely focus on the national government, which is regarded as both an important leader in climate mitigation and as one of the most important state actors in international and European climate politics. However, these analyses pay little regard to the fact that climate policy in Germany takes place

within a federal state system in which the Länder (regional states) play an important role in the formation of climate policy. Because it has been given relatively little attention, until now it has largely remained unclear which interests, institutional arrangements and dynamics have driven or obstructed climate policies within the German federal system.

The fact that climate policy is a particularly important field of activity for political actors at the subnational level in federal systems has been shown by numerous studies on climate policy in other federal states. Comprehensive studies have been done of federal climate policies in the United States, Australia, Spain and Canada (cf. *inter alia* Nelson et al., 2014; Bailey and Maresch, 2008; Tábara, 2007; Macdonald, 2008). Those studies show that climate mitigations policies in federated states represent a political challenge since the individual subnational governments pursue very

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different regional interests, depending above all on the potential costs of and benefits from climate mitigation (cf. Nelson et al., 2014, 9). Those subnational interests are to a large degree related to the regional energy industries, the regional energy demand structures and the opportunities for climate mitigation in regional economies (cf. Macdonald, 2008, 231ff; Bailey and Maresh, 2008, 213ff; Tábara, 2007, 175ff). Articulation and pursuit of such subnational jurisdictional interest depends to a large degree on the federal institutional context and the connected logic of policy formation. The strongly decentralized distribution of federal environmental policy competencies in Australia, Spain and—to some extent—the USA have, for example, enabled subnational governments to promote ambitious climate policy initiatives (Schlager et al., 2011), while the de facto weak position of the central government in Canada's federal system has given Alberta extensive veto opportunities in Canadian climate policy (Macdonald, 2008).

German climate policy takes place in a policy arena with very heterogeneous subnational interests due to the considerable variation in regional economic structures. The share of electricity from renewable energy sources and the economic potentials in renewable energy industries differ greatly among the Länder, due to the latter's different geographical, fiscal and economic conditions. At the same time, the energy-intensive industries and the share of coal-based and nuclear energy industries are concentrated in individual regions. Those factors go hand in hand with obvious economic interests and distributional conflicts in the formation of climate policy because regional economic benefits and disadvantages of climate policies are distributed unequally. Against the background of a consensus-oriented federal negotiation system in Germany, which is being considered as having a rather low capacity for political problem-solving in areas with strong regional (re)distributional effects (cf. Scharpf, 2009), the fact that German climate policy appears to be relatively effective compared to other (federal) states is thus surprising. Although comparative studies stress that the variable "federalism" can only to a limited degree explain the performance of environmental policy,¹ the redistributional effects of effective climate policy in combination with the enormous influence of regional interests within the German federal system make the observed success of climate policy less likely and thus necessitate an explanation. This problem of negotiating (re)distributional policies to allocate greenhouse gas (GHG) emission is exacerbated by the fact that Germany's energy policy was traditionally considered as a policy field containing an additional possibility of stalemates due to the entanglement of party competition and federalism (Lehmbruch, 2000).

We assume here that the negotiation and decision-making process regarding the allocation of GHG emission reductions involves heterogeneous place-based interests respecting the (re) distribution of costs and benefits. Our key objective is thus to explain the decision-making capacity and the policy outcomes of German climate policy by analyzing the relations between the two levels of government instead of focusing exclusively on the national government. More particularly, we focus on the heterogeneous regional interests and the regionally unequal distribution of costs and benefits of effective climate mitigation on the one hand, and, on the other, on the simultaneously existing multitude of intervention, veto and noncompliance options for subnational

actors within the German federated system. Building on the debate on German federalism and on an analysis of the different national and subnational interests in German climate policy, we select the cases of two of the most important reforms in power supply—the promotion of renewable energies and emissions trading—to examine the dynamics and outcomes of the system of federal joint decision-making. We argue that federal joint-decision-making does not necessarily have to lead to stalemates or joint-decision traps. However, our case studies demonstrate that decision-makers have tended to eschew addressing major regional allocation conflicts in order to avoid federal stalemates. As a consequence, they promote costly measures or even ineffective climate policy solutions. Recent developments indicate that redistributive conflicts have to be addressed more systematically in the future in order to find more cost-efficient and effective solutions in allocating GHG emissions.

2. Methods

We first introduce the debate on German federalism by providing potential explanations for why effective policy-making in Germany's system of cooperative federalism has been possible despite its risks of stalemates and redistributive conflicts between the Länder. Using the methodology of theory-testing with cases, we draw some hypotheses from this debate that guide our empirical study on the dynamics and outcomes of climate mitigation policy within the German system of federal joint decision-making. In order to empirically test these hypotheses, we select two of the most important policy reforms allocating German GHG emission reductions amongst the Länder. Renewable energy policy in Germany has been very successful when compared internationally and has induced an increase in the share of renewable energies in producing electricity from 3% in 1990 to 25.4% in 2013 (BMW, 2014). The emissions trading system (ETS), which covers the entire EU, regulates about half of German CO₂ emissions. Both policy reforms face heterogeneous economic interests of the Länder and potentially allocate costs and benefits unequally among the Länder.

The chosen qualitative case study design promises to gain the most heuristic insight. Next to testing and refining hypotheses, it allows an intensive examination of the complex and changing political interests and an investigation of complex variables of climate policy, along with the generation of new hypotheses. Beyond the evaluation of academic literatures on energy and climate policy in Germany, our study is based on the analysis of a broad variety of documents (e.g. statistical surveys, party programs, parliamentary proceedings and hearings, climate programs or newspaper articles) as well as semi-structured interviews with experts from both levels of government, research and policy advisory institutions, energy industry and lobby groups conducted between 2010 and 2013.

3. Results

3.1. Climate policy as a matter of federal dynamics in Germany

Germany has a federal system with two closely interlinked political levels. The constituent units of the federal system are the Länder, each of which has its own constitution as well as a parliamentary system of government, administrative departments and all the other elements of government. Institutions at the national level are the Federal Cabinet (with the Chancellor and, currently, fourteen Federal Ministries), the directly elected Federal Parliament ("Bundestag") and the second parliamentary chamber

¹ Especially quantitative analyses discuss if and how federated systems affect environmental policy (cf. Jahn and Wälti, 2007; Braun, 2000; Scruggs, 2003). While some studies see an advantage in centralized states (Scruggs, 2003; critically: Saretzki, 2007), other studies emphasize the need for a more differentiated view on the variable "federalism" (Braun, 2000) or point out that "federalism" is only an indirect variable, which has a positive impact only in combination with neo-corporatist arrangements Jahn and Wälti (2007).

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