

CONSUMERS AND CLIMATE POLICY: WASH ME BUT DON'T GET ME WET

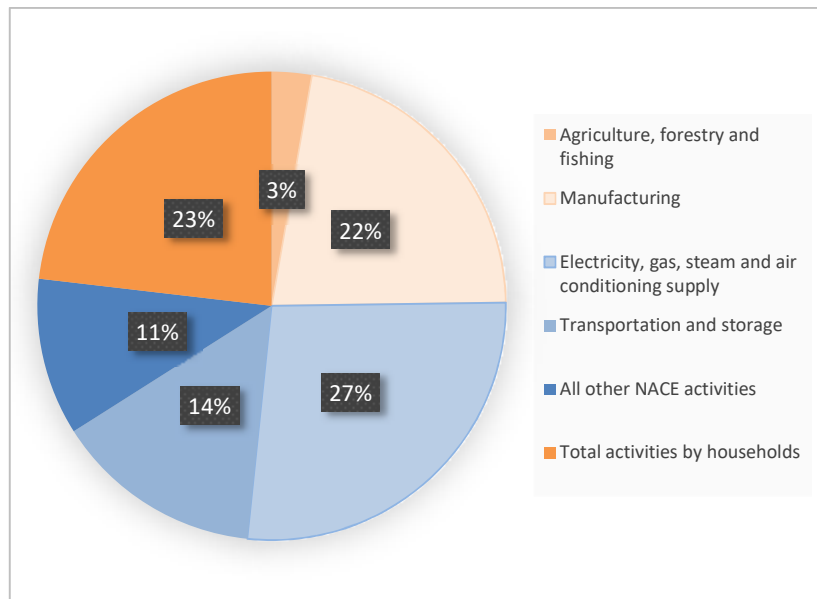
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European households account for as much carbon dioxide emissions as the manufacturing sector. For the EU to reach its target of climate neutrality by 2050, they will have to change their behavior, but our research shows on average 46% of French and 44% of Germans respondents are not prepared to pay more for climate-friendly products. Around a quarter of all carbon dioxide emissions in 2018 were attributable to activities by households¹ (Figure 1), a share on par with that of the manufacturing sector and just a tad below power generation. Even more striking: progress in recent years has been dismal. While manufacturing and power generation have reduced their carbon footprints by 20% and 27%, respectively, since 2008, households have only managed a 9% reduction. The consequence: The share of households' emissions increased by 2pp over the last decade.

Figure 1 – CO₂ emissions in the EU 28 by activities, 2018 (shares in %)²



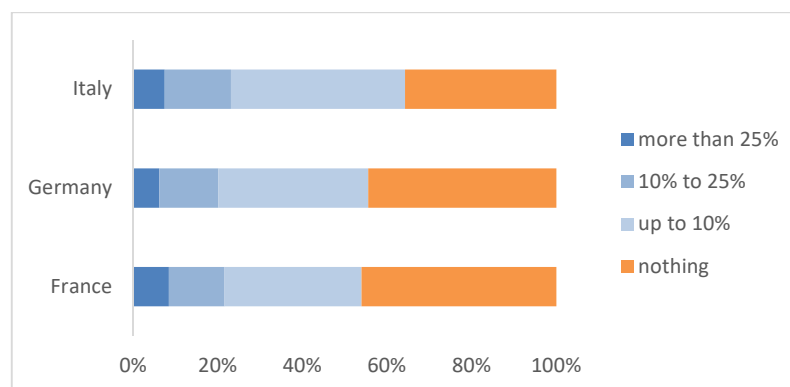
Sources: Eurostat, Allianz Research.

¹ 57% of household emissions are connected to transport activities, 42% to heating and cooling and the remaining 1% to other activities.

² NACE (for the French term "nomenclature statistique des activités économiques dans la Communauté européenne"), is the industry standard classification system used in the European Union.

In our latest “Allianz Pulse”, we surveyed a representative sample of 1,000 people in France, Germany and Italy,³ asking them, among other things, about their willingness to pay higher prices for climate-friendly products, from food and clothing to mobility and housing. The results are sobering: just under half of respondents in France and Germany said they were willing to pay more for climate-friendly products. And of those, 32% (France) and 35% (Germany) were only prepared to accept a maximum of 10% higher prices. Genuine willingness to pay looks different. Italy fares a little better in that respect: only 36% of those surveyed in Italy were unwilling to pay; 41% would pay up to 10% more. But the group of respondents who would be prepared to pay significantly higher prices – i.e. 10% and more – is very small in all three countries (just over 20%) (Figure 2).

Figure 2 – How much more would you pay for a climate-friendly product? (answers in %)



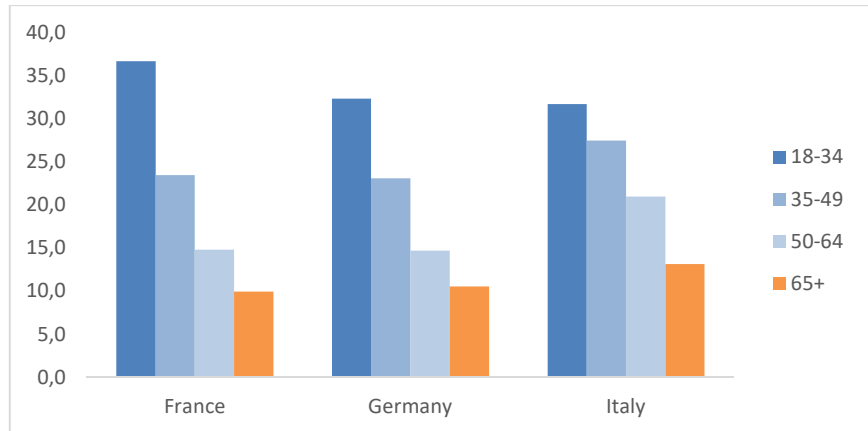
Sources: Allianz Pulse, Allianz Research.

The Greta-effect is clearly visible as millennials are three times as likely to pay 10% or more for climate-friendly products than pensioners.

This age pattern is very similar in all three countries. But even among the younger generation, the share of respondents who were willing to actively contribute to climate protection is surprisingly low: 37% in France and 32% each in Germany and Italy (see Figure 3). These numbers, however, should be interpreted with care. The pandemic-induced economic slump of recent months – which has hit the younger generation disproportionately – might have dented their willingness and ability to make cuts for the sake of climate protection.

³ https://www.allianz.com/en/economic_research/publications/specials_fmo/03092020_AllianzPulse.html

Figure 3 – Share of respondents to pay 10% or more for climate-friendly products, by age group (answers in %)

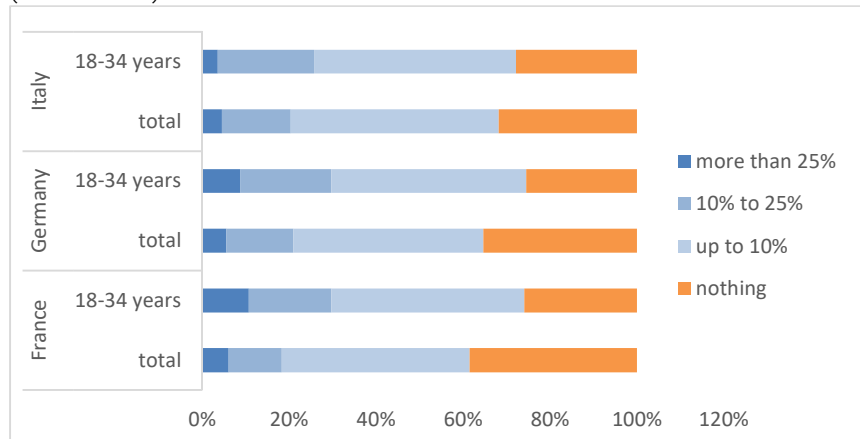


Sources: Allianz Pulse, Allianz Research.

A carbon tax is not popular, either. The spirit of the Yellow Vest protests is still alive – and not only in France. When asked about a carbon tax and its impact on gasoline prices, 39% of French, 35% of German and 32% of Italian respondents said that there should be no price increases following the introduction of a carbon tax, which means simply that they are adamantly against the introduction of a carbon tax at all. And 43% (France), 44% (Germany) and 48% (Italy) of respondents concede that only small price increases of up to 10% would be appropriate. As with the willingness to pay more for climate-friendly products, acceptance of a carbon tax is higher among millennials, albeit only slightly (Figure 4).

In other words, a vast majority of respondents in all three countries seems to be willing to accept only a very modest carbon tax of, say, EUR25 per ton of CO₂, which happens to be the starting point for the German “carbon tax” (which is framed as a national emission trading system for fossil fuels) and would lead to a price increase of about 5%. But more ambitious schemes – the enacted EUR55 floor price from 2025 in Germany or the current Swedish carbon tax of EUR110, leading to price increases of 10% to 20% – are very likely to be met with resistance.

Figure 4 – By how much should a carbon tax increase the price for gasoline? (answers in %)



Sources: Allianz Pulse, Allianz Research.

What does this mean for policy-makers? Even after Covid-19, climate policy remains a tightrope walk between what is socially desirable and what is personally acceptable. The pandemic has increased risk awareness and sharpened the consciousness of the vulnerability of our way of life, besides offering a historic window of opportunity to accelerate the global transition to a net zero emission society. But what has not changed is the attitude of many people when it comes to concrete climate actions: wash me but don't get me wet. Thus, effective and responsible climate policy needs bold nudges and price signals to initiate the necessary behavioral change; a token carbon tax will not suffice.

Moreover, the transition to a decarbonized economy is no free lunch: the necessary investments will cost hundreds of billions of euros and all this cannot simply be financed by new debt. The debt pile-up during the pandemic has already overstretched the finances of many states. Thus, effective and responsible climate policy will require hard choices about who pays for it.

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