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DEFICIT OF AMBITION: HOW GERMANY'S NEW COALITION GOVERNMENT FALLS SHORT ON CLIMATE & ENERGY

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This briefing provides background for international stakeholders on the new German Government's climate ambition by:

- > Contextualising key political events since the elections and the set-up of the new Cabinet
- > Analysing key elements of the coalition treaty with a focus on climate-related policies
- > Giving an outlook on what to expect from the new Government in the upcoming legislative term

Introduction

On 21 March 2018 in an hour-long speech after her re-appointment as chancellor, Mrs Merkel dedicated less than 40 seconds to climate and energy policy. This is indicative of the level of priority that climate policy is likely to have for her government over the next four years in the absence of greater domestic and international pressure. The challenge for established political parties posed by recent election successes of the right-wing, populist and climate-denialist Alternative for Germany (AfD) contributes to a shift in political attention to migration, public safety and social policy issues.

The coalition treaty of CDU/CSU and SPD also lacks vision and ambition when it comes to climate policy which will make it difficult to create ownership of the issue in the new government. However, the incoming government committed to deciding on a phase-out plan for coal by the end of 2018. Moreover, Germany will remain a key actor in European and international climate diplomacy. Building awareness of this role within the new cabinet and identifying opportunities for shaping the international climate agenda is a key task for both the international climate community and foreign leaders. This background briefing on the new government's climate and energy policy aims to support those efforts.



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Political context and government set-up

Angela Merkel's conservative CDU/CSU party bloc and the Social Democrats have agreed to build another Grand Coalition ('GroKo'). The signing of the coalition treaty on 13 March and the election of Angela Merkel to serve a 4th term as chancellor on 14 March mark the end of lengthy negotiations. The federal elections on 24 September 2017 resulted in big losses for the two major party blocs (CDU/CSU (33%) and SPD (21%)) and landslide gains by the far-right Alternative für Deutschland (AfD, 13%) and the economically liberal Free Democratic Party (FDP, 11%). Those results were followed by months of complicated exploratory talks and coalition negotiations.

During the campaign and in the immediate aftermath of the elections, Martin Schulz, leader and chancellor candidate of the SPD, had announced that he would not be willing to enter another coalition with the Conservatives or serve as a minister under Chancellor Merkel. Given the worst election results of the SPD since World War II and the perception that Chancellor Merkel reaps the benefits of a joint coalition, he called for his party to lead the opposition and start a process for internal renewal. For this reason, a so-called 'Jamaica coalition', consisting of CDU/CSU, FDP, and Green party, was the only viable option, as Angela Merkel had ruled out coalitions with both the AfD and the Left party.

Exploratory talks between these parties, however, failed as the FDP withdrew from the negotiations on 20 November 2017 due to perceived persisting disagreements, especially on asylum, migration and climate policy. This triggered meetings of both major parties with the Federal President, Frank-Walter Steinmeier, who called for a Grand Coalition to prevent another election or an unstable minority government. In the aftermath of these meetings, the SPD leadership reconsidered and agreed to start talks with the Conservatives. Despite major opposition from within the party, which was expressed in two votes of delegates at SPD party conventions and another member vote in late February 2018, the majority of SPD members supported another Grand Coalition in the end. Opponents, led by the party's youth wing and its leader Kevin Kühnert, argued that the SPD would risk its existence and political stability if it entered another Grand Coalition. The party should rather seek, they argued, to renew social democratic positions and re-polarise the political debate around social justice, not least to hedge against the influence of the AfD.

Overall, the **coalition treaty** focuses on steps towards deeper **European integration in cooperation with the Macron administration**, as well as **migration, asylum and security policy** and some moderate changes in tax and social policy. **Climate policy is not a key priority, and immediate high-impact measures which could ensure that the 2020 climate targets are met are not included.** Nevertheless, if the various climate-related announcements and commitments are implemented, this could have a decisive impact on emissions, especially in the power sector. However, political turmoil in both parties did not end with the finalised coalition negotiations. **All key climate-related ministries have changed leadership:**



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- > **SPD:** The SPD's announcement that Martin Schulz would be Minister of Foreign Affairs in the next Cabinet was heavily criticised by the media due to Schulz' former position that SPD would not join a government coalition under Angela Merkel. Additional criticism came from the ousted Foreign Minister and former SPD leader Sigmar Gabriel. Following public pressure, Schulz announced that he would not enter the government and would resign from his position as party leader. After an interim period during which the SPD will be led by the former mayor of Hamburg and new Finance Minister, Olaf Scholz, it is likely that Andrea Nahles will be elected party leader as the first woman to hold that position in the SPD's history. Since pressure was high to present new and younger faces in the government, the SPD further reshuffled its other picks for ministers: **Olaf Scholz (Finance, Vice Chancellor), Heiko Maas (Foreign Affairs)**, Franziska Giffey (Family, Elderly, Women, and Youth), Katarina Barley (Justice and Consumer Protection), Hubertus Heil (Labour and Social Affairs). In addition, the SPD announced that **Svenja Schulze** would **replace Barbara Hendricks as Minister for the Environment, Nature Conservation and Nuclear Safety**. Schulze is a former general secretary of the SPD in the state of North Rhine-Westphalia, who is a **member of both the trade unions IG BCE and ver.di and the Nature and Biodiversity Conservation Union (NABU) and has some experience with coal transition processes and structural change in her home state North Rhine-Westphalia**. Her husband is CEO of the environmental lobby group 'Klimadiskurs NRW'. **Contrary to many key stakeholders within the SPD, Schulze is said to be supportive of an accelerated coal phase-out** in Germany which will be the subject of a Coal Commission. Her predecessor, Barbara Hendricks, was widely regarded as favourable of a more ambitious German climate policy, but was often overruled, for instance when she called for an accelerated coal phase-out in 2015. A national Climate Action Plan 2050 with clear sectoral targets was one of her key achievements, although it was lacking a clear definition of instruments and sanctioning mechanisms. **Germany will very likely fail to reach its national 2020 targets for the reduction of GHG emissions which are part of the Climate Action Plan 2050**. It is notable that the German Environment Ministry is not in charge of energy policy (in the hands of the Economy Ministry since 2013) or the building sector (Ministry of the Interior since 2017) anymore.

 - > **CDU:** Angela Merkel and the CDU/CSU leadership were criticised internally for giving the Finance Ministry, which had been held by the Conservatives since 2009, to the SPD despite the Social Democrats' weak election results. This concession fuelled existing debates around potential successors of Angela Merkel, the future direction of the party, and the general need for a replacement of senior staff. Jens Spahn, a prominent critic of Angela Merkel's leadership who positions himself as representative of a more conservative wing of the CDU, called for a rejuvenation of the party leadership and better representation of different parts of the party in the new government. Arguably as a reaction to the internal critique, Merkel announced a major reshuffling of the Cabinet, including her opponent Spahn as Health Minister. Merkel's long-time confidant **Peter Altmaier will oversee the energy transition as the Minister for the Economy and Energy** and Julia Klöckner will lead the Ministry for Food and Agriculture. Other ministers include: Ursula von der Leyen (Defence), Anja Karliczek (Education and Research), and Helge Braun (Chancellery). During the same period, **Annegret Kramp-Karrenbauer, Merkel's likely favourite as her successor, was announced as the future general secretary of the CDU**.
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- > **CSU:** Like Spahn, the CDU's sister party from Bavaria (CSU) proposes a more conservative direction for the party, or even a "conservative revolution" following internal pressure and a strong result of the AfD in Bavaria. Success in the Bavarian state elections in October 2018 will be the key focus of CSU politicians in Berlin and Munich in the coming months.
In reaction to growing opposition within the CSU, Horst Seehofer, current leader of the party, announced after the negotiations that he would step down as Prime Minister of Bavaria and enter the Grand Coalition as Minister for the Interior, Building, and Homeland. In Bavaria, he will be replaced by the "new strong man" Markus Söder, Seehofer's long-time critic and opponent. **Alexander Dobrindt, the former Minister for Transport and Digital Infrastructure during the Diesel emissions scandal and the growing debate around driving bans in German cities, will be replaced by Andreas Scheuer.** Gerd Müller stays in office as Development Minister.



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Key elements of the coalition treaty – with a focus on climate-related policies

“Environment and climate” is a sub-chapter of Chapter 11 “Responsible use of our resources” in the 177-page coalition treaty.¹ Elements of a low-carbon transition are spread out across the agreement, for instance in the sections on energy, transport, urban mobility, research, and development cooperation. The following sections reflect on the key climate-related statements of the coalition treaty and highlights significant exclusions.

Overall climate policy

The Grand Coalition highlights its general commitment to reach the national, European and international climate targets for 2020, 2030 and 2050 in all sectors, and implement already agreed upon measures of the Climate Action Programme 2020 and the Climate Action Plan 2050. It further expresses its commitment to keep global warming well below 2 degrees and pursue efforts to limit it to 1.5 degrees Celsius above pre-industrial levels.

The coalition agrees to develop a legally binding Climate Act by 2019 which ensures that the 2030 climate targets are met in all sectors. A Commission on “Growth, Structural Change and Employment” will be set up to develop measures to close the gap towards reaching the 2020 goals “to the extent possible”. **This can be equated with scrapping the national 2020 climate targets and delaying the implementation of necessary measures to act in accordance with the Paris Agreement** (German CO₂ emissions have stagnated since 2009).² The agreement states that the government is committed to reach the national 2030 targets “in any case”. Germany exceeds its 2020 emission target (reduction of 40% compared to 1990) by 120 million tons every year, mainly due to the ongoing burning of lignite and hard coal, growing emissions in the transport sector, and only slow progress on industrial emissions and agriculture. As showcased by various environmental NGOs, think tanks, research institutes and the Green Party, **the 2020 targets could still be met through ambitious and instant action, including by taking the oldest and most polluting coal power plants off the grid.**

The GroKo agreement only pays lip service to climate as it does not lay out clear instruments for reaching the stated goals. In the exploratory talks for a ‘Jamaica’ coalition, CDU/CSU, FDP and the Greens had already agreed to take 7 GW in coal power off the grid by 2020. With the coalition treaty, **Germany is set to abandon its role as global climate leader and frontrunner on low-carbon technologies.** The EU ETS is positioned as a **core instrument**, while a **CO₂ pricing system is supported only if it is at least implemented by the G20, optimally at the global level.** **This comes as a disappointment since an agreement on a carbon price in the current G20 constellation is quite unrealistic whereas many European partners, including France, would be ready to cooperate on a joint pricing system.** It is explicitly stated that the competitiveness of energy-intensive industries and profitability are key variables for climate policy – carbon leakage is to be prevented, likely through continued ETS allowances and exemptions for many industrial sites for example with regards to surcharges on energy prices.

¹ https://www.bundesregierung.de/Content/DE/_Anlagen/2018/03/2018-03-14-koalitionsvertrag.pdf;jsessionid=02BCD105B3735D0A868D2273E475F445.s1t2?__blob=publicationFile&v=1 (in German)

² <https://www.politico.eu/article/germany-climate-change-green-energy-shift-is-more-fizzle-than-sizzle/>

Energy Transition/Just Transition

The **Commission on Growth, Structural Change and Employment**, consisting of representatives from politics, businesses, trade unions, environmental NGOs, federal states, and impacted communities, will be mandated with an action plan to develop measures to a) **close the gap to reach the 2020 emission reduction goal to the extent possible**, b) **reach the 2030 targets in the energy sector** including a comprehensive impact assessment, c) **reduce and end the power production from coal, including an end date** and necessary accompanying measures, and d) **ensure financial protection and support schemes for the required structural change in the transition regions, and build a federal fund for this structural change (€1.5 billion is set aside for example to fund training and re-education for the currently 20,000 workers employed by the German coal industry)**. The continued reclamation of the land/recultivation of former lignite mining sites after 2022 is also anchored in the coalition treaty. Such a Commission is well aligned with the ‘Just Transition’ narrative on making a coal phase-out fair for the affected regions and citizens, and supporting a future beyond the coal sector. However, it seems challenging to negotiate an ambitious outcome if both the coal industry and environmental NGO representatives must agree on a final decision. The exact governance and leadership of the Commission, which must develop its recommendations by end 2018, is still to be decided.³ Yet this shift ensures that coal has no future in Germany. **The new question is not ‘if’ but ‘when’ coal will be phased out.** The government further reaffirms the plan to phase out nuclear energy by 2022. EU funding for nuclear power plants in EU member states is not supported.

The energy chapter includes the goal **to increase the share of renewable energies to 65% by 2030**, not least to address the expected higher demand for power through coupling with the transport, building and industry sectors. For 2019 and 2020 **special auctions for onshore and offshore wind as well as solar PV are planned to save eight to ten million tons of CO₂**, provided that the grid’s carrying capacity is sufficient. The GroKo further commits to increase international cooperation and European integration on energy policy, speed up the expansion and modernisation of the grid, further develop CHP, establish Germany as a location for LNG infrastructure, and increase investments in smart retail concepts, digitalisation, and storage technologies. **The coalition also seeks to develop an “ambitious and cross-sectoral energy efficiency strategy”, anchoring the ‘Efficiency First’ principle and aiming at a 50% reduction of energy consumption by 2050, however the level of funding for this goal will not be increased.** It further promises to develop the National Action Plan for Energy Efficiency to be in line with the ‘Green Paper on Energy Efficiency’.⁴

While the 65% target for renewables and the “Coal Commission” are promising, the low priority given to climate ambition and lack of any immediate steps for emission reductions is concerning, as the government has already failed more than once to reach its own climate targets and a clear path to a low-carbon economy is not laid out. The rapid expansion of the grid and the impacts of the new market orientation of the Renewable Energy Act, e.g. on the competitiveness of small energy cooperatives, should be closely observed. In light of the recent **announcement by E.ON and RWE to overhaul the German energy market and split shares of Innogy SE**, active

³ <https://www.tagesspiegel.de/politik/kohle-kommission-der-groko-einstieg-in-den-ausstieg/21120910.html> (in German); <http://www.spiegel.de/wirtschaft/soziales/kohleausstieg-umweltverbaende-stellen-bedingungen-fuer-kohlekommission-a-1200019.html> (in German)

⁴ https://www.bmwi.de/Redaktion/EN/Publikationen/green-paper-on-energy-efficiency.pdf?__blob=publicationFile&v=4



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involvement of civil society is even more important to ensure the competitiveness of smaller actors and prevent further monopolisation. **E.ON will focus on the grids and retail business, while RWE will mainly focus on power generation** from both fossil fuels and renewables.

Transport sector

The Grand Coalition does not define ambitious instruments for climate protection in the transport sector, and fails to outline a clear pathway to reach zero emissions mobility, reduce internal combustion engines on German streets or introduce a quota for e-cars. The transport sector has not yet contributed its share to reach the national sector targets⁵ (emissions have not decreased since 1990 and increased by 8% between 2010 and 2016), and measures to structurally support e-mobility, strengthen non-motorised transport, cut diesel subsidies, introduce green taxation in the transport sector, or cut commuter tax breaks are missing. It remains to be seen whether the commitment to the national sectoral targets for transport (minus 40-42% by 2030), a denser charging infrastructure, technical retrofitting of the car fleet, and a strengthened public transport system will be followed by ambitious policies. Some other helpful policies such as tax incentives for company e-cars and support schemes for electrified car sharing, taxi, train and bus systems are also included in the treaty. A **Commission on the “Future of Affordable and Sustainable Mobility”** will be set up to present a strategy for reforms in the transport sector which should be aligned with the sectoral emission reduction targets. In light of the **Diesel emission scandal and the recent court ruling that German cities are allowed to ban certain (diesel) vehicles from city centres to reduce air pollution**, the political momentum should be used to address the persistent issues in the sector and the slow reforms of car manufacturers.⁶ Otherwise clear measures to regulate how Germany will comply with EU air quality standards and save its own citizens from negative health impacts will likely not be implemented for some time. **Announced measures will very likely be insufficient to reach sectoral targets.**⁷

Building sector

The treaty does not outline sufficiently ambitious and comprehensive measures to speed up emission reductions in the building sector in line with the climate targets. While existing building standards already ensure a relatively positive cumulative energy balance in new buildings, the retrofitting and modernisation of old buildings, especially the replacement of inefficient heating systems causing high emissions, is – despite existing support mechanisms by the KfW - advancing only slowly. **Some new measures strengthen tax incentives and support schemes for retrofitting and modernisation** and ensure a better focus of policies on energy efficiency and cuts in CO2 emissions. Significant **additional investment in the building sector would produce “enormous potential”** on energy efficiency and the share of renewables.⁸ Evidence from other countries such as Norway shows that rapid change is possible if the right incentives and policy measures are in place.

⁵ <https://www.umweltbundesamt.de/presse/pressemitteilungen/klimabilanz-2017-emissionen-gehen-leicht-zurueck> (in German)

⁶ <https://www.politico.eu/article/germany-climate-change-green-energy-shift-is-more-fizzle-than-sizzle/>

⁷ <https://www.newenergy.info/politics/europe/germany-flunks-eu-climate-targets>

⁸ <https://www.umweltbundesamt.de/presse/pressemitteilungen/klimagasemissionen-stiegen-im-jahr-2016-erneut-an> (in German)



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Industry sector

Like buildings and transport, the **industry sector has not yet contributed its share to reach the CO2 emission reduction targets**. CO2 emissions are largely stagnant since 2010 due to a lack of strong incentives and viable technological solutions. Tax allowances to avoid carbon leakage, free allocation of emission certificates and the low CO2 price in the EU ETS are some of the reasons for a lack of climate action in the industry sector. The treaty includes the commitment to set up a support scheme called “Decarbonisation” to enable emission reductions through new products and processes while maintaining competitiveness. Light weight construction is identified as a key sub-sector which will be increasingly supported to improve energy and material efficiency. Given that a carbon pricing system at the G20 or global level is unrealistic, and a carbon floor price within the EU ETS is not included in the treaty, **no major cuts in industrial emissions are to be expected in the upcoming legislative term**.

Low-carbon R&D

Climate is positioned as one of several key topics in the R&D chapters, including as part of Germany’s high-tech strategy. R&D on energy and climate will be focused on the development of systemic solutions for sector coupling (coupling of the power, mobility and heating sectors), in cooperation with actors from business and civil society. Earth system science and storage/battery technologies are also priorities. Reflecting the stronger alignment of energy R&D and climate goals, a new Fraunhofer Institute for the research of storage technology will be set up.

International cooperation

The Grand Coalition acknowledges the national and European climate targets as well as the Paris Agreement and the SDGs. It calls for the EU to adopt an international leadership role on climate change and advocate for an ambitious implementation of the Paris Agreement. Climate change is also identified as a cause of migration. For this and other reasons, the treaty explicitly mentions an increase of climate-related ODA, with a focus on renewable energy generation, decentralised solutions, ‘Green Economy’ approaches, adaptation measures and a circular economy (overall ODA is expected to grow by another €1 billion). However, given the government’s likely failure to reach both German and European climate targets, **Germany risks losing its international reputation as a frontrunner on progressive climate policies. The clear opportunity for cooperation with France** as well as Germany’s **growing isolation with regards to accelerating a coal phase-out in Western Europe** – as showcased by its absence from the Powering Past Coal Alliance (PPCA) - will put increasing pressure on the government to act in line with its international climate commitments.⁹

⁹ https://www.e3g.org/docs/SE_Germany_Coal_Paper_21_Dec_2017_FINAL.pdf



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Outlook: What to expect from the new government

If Angela Merkel's speech outlining the new coalition government's agenda is any indication, climate policy will not be a priority for Germany over the next four years. In addition to dedicating only 40 seconds of the hour-long speech to climate and energy, Merkel also emphasised that the affordability of energy was decisive for achieving climate targets – thereby reducing the Energiewende to an irksome burden rather than owning it as a political project. She mentioned the planned Climate Act for the delivery of Germany's 2030 climate and energy targets but the success and longevity of that will be decided by future Chancellors and governments. The plans of the incoming government to set a phase-out date for coal and introduce accompanying structural and social policy measures also featured in the speech. However, if the Commission on "Growth, Structural Change and Employment" decides on a 2040 or 2050 phase-out date this will be business as usual with the blessing of a multi-stakeholder process.

The incoming Environment Minister, Svenja Schulze, highlighted the importance of managing a range of structural transitions and a "big transformation" to a low-carbon economy with a strong emphasis on the social dimension and inclusive approaches in her first speech in Parliament. This is a positive move away from blocking progress and towards managing a conversation around the massive decarbonisation challenge the country is facing, especially since the Minister is from Germany's industrial heartland North Rhine-Westphalia.

Yet there is a real risk that Germany will disappear from the European and international stage as a climate leader. Engaging Germany on climate policy has therefore taken on greater importance. It will depend on both public opinion and international momentum whether Germany will re-engage on climate policy at the domestic, European and international levels. Many of the new ministers, such as Heiko Maas, the Foreign Minister, and Svenja Schulze, the Environment Minister, will want to make a name for themselves and leave their mark. Mrs Schulze is keen to tackle the climate vs jobs challenge and might be open to greater European or international dialogue. Foreign leaders should make use of these opportunities.

The new Grand Coalition government will likely be very inward-looking, not least due to the rise of the populist, nationalist and climate-denialist Alternative for Germany (AfD) which seeks to attract voters from CDU, CSU and SPD in upcoming regional elections. Coaxing Germany out of its corner will be essential to develop solutions in Europe both for the populist and the climate challenge. Re-engaging citizens who feel left alone, disenfranchised or ignored by governing parties will, if successful, free up political capital that can be used for developing an ambitious climate agenda in Germany, Europe and internationally. A political vision for Germany that combines elements of an open, just and inclusive society, an innovation-driven focus on the energy transition and a strong commitment to European cooperation will be the prize.



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About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

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