

An engine for transformation: the agenda of Germany's new Ministry for Economy and Climate

Context

On 11 January, Robert Habeck, Germany's vice-chancellor and newly appointed minister for economy and climate, presented his new super ministry's immediate policy priorities. Though no there were no huge surprises, an ambitious tone was set, one necessary to reach Germany 2030 climate goals. The task, as Habeck described himself, is gigantic. He himself lamented that Germany was likely to miss its CO₂ reduction targets for 2022 and 2023. In the [report](#) complementing the [press conference](#), stagnating progress figures for each sector were supplemented by steep linear projections, underlining just how much work is left to be done, but also how it will be achieved.

Main approach

- Underpinning the policy proposals is the principle that climate policy, economic policy, and social justice are not mutually exclusive and a collective approach to achieving all three is ingrained in the policies themselves. On the **national level**, what's new is that across the board, approval processes for new constructions are to be simplified in order to accelerate roll-out of tech and infrastructure in all sectors. **Internationally**, the ministry's priority is to use the Germany G7 presidency as a platform to push for more climate action in all domains, i.e., financing for both mitigation and adaptation. Additionally, the forum is set to serve as venue to broach the topic of 'Climate Clubs' to create minimum standards for climate policy, something they wish to extend also to the G20.

Next steps

- To initiate the agenda, two policy packages will be introduced:
 - One already for spring comprised of regulatory structures and guidelines, seeks a rapid parliamentary process to establish the necessary policy frameworks for the start of 2023. A second one, planned for the summer will outline further policies and guidelines.

Selected national agenda points

The following is a selected list of policies that are either new or have been expanded upon.

Energy

- **Sector coupling** as a key principle on the role of renewable electricity to reach other sectoral goals.
- Big focus on increasing **energy efficiency** to reduce the amount of electricity demand overall, where the plan is to reduce final energy use from around 2500 TWh in 2018 to around 1850 TWh by 2030.
- With a planned doubling of capacity to 10GW by 2030, there will presumably be lots of money flowing to **green hydrogen** through, e.g., incentives for electrolyzers and infrastructure and industry that can make use of it. Here they envisage the use of **Carbon Contracts for Difference (CCfD)** as a financial incentive to spur private sector action.

Electricity

- Plan to have renewables make up 80% of gross electricity consumption, up from around 43% (2021). This will be driven through **increases in on- and offshore wind**, construction had stagnated in recent years. Solar PV also to increase significantly with a planned 200GW of capacity by 2030 – a **tripling** of the current amount.
 - Will get rid of all hurdles by for example **reducing the time it takes with approval procedures**. These have previously been notoriously complicated and stretched out. The same applies for **grid expansion**.
- **Coal phaseout envisaged for 2030** – the new government wants to push forward the coal phaseout, though this might happen without intervention due to EU ETS allowance prices.
 - Aiming to also have **hydrogen ready natural gas powerplants**.
- The well-established renewable energy law (EEG) will be adjusted to reflect the increased demand of electricity stemming from sector coupling. The change is: private consumers will **no**

longer have to pay any EEG-Levy, the government will shoulder this as a way to **make the energy transition fairer for all citizens**.

Industry

- The policies of the past government were not sufficient to meet the legally mandated reduction target of 35% from 2019 levels to 2030 (cumulatively 178 million tons of CO_{2e}).
- Push to electrify via hydrogen and renewables, financed through **CCfDs and tax write-offs**
- **Carbon capture** technology necessary with a strategy for this to be created.
- Also planning to help **set international standards** for how modern industry should look like – with a focus on classic German production mainstays such as steel, chemicals, and cement.

Transport

- Big focus on renewable electrification for private transport and train infrastructure and the use of **electricity-based fuels for maritime and air transport**. The latter is not national policy and they will push for this on the EU-level in the on-going Fit for 55 process.
- Hints towards only allowing sales of new CO₂-neutral vehicles ‘considerably before’ the proposed 2035-EU rule.

Heating and Building

- By 2030, 50% of heating should be generated in a climate neutral manner.
- Municipalities to play big role in ‘Heating Transformation’.
 - To this effect a **new competency center** has been set up where municipalities can receive advise on how to carry out their own local heating transformation.

Selected EU and International agenda points

- Strong proponents of fit for 55, and want the French, in their council presidency, to actively push it over the legislative finish line. **Support for CBAM** specifically mentioned.
- At the very top of the **G7 Presidency agenda – push policies under the banner of “Transforming Now for 1.5 C”**.
- Push “cooperative and global” **climate clubs** to and beyond the G7 especially to G20 partners
- G7 agenda also with focus on **climate resilience and adaptation**.
- More dialogue with China and other big developing countries on climate policy (Indonesia, India, Brazil, South Africa).
- On the basis of the outcomes of COP26, a lot more money directed towards climate policy, in all sectors, aiming to go **beyond the global 100 billion goal**. More funding of adaptation strategies and policies in developing countries.
- Increased focus on and **funding for hydrogen projects internationally**.
- To help electrification goal, **in case necessary, they will push for a floor price of EUR60 in the EU ETS**.

Take-aways and outlook

- The policy ambition demonstrates that Germany aims to again **take up the mantle of climate leader**. In the same way Germany paved the way for solar PV at the start of the century, large amounts of **money will flow to new technologies such as hydrogen** which will help realize their goal of what a climate neutral industrial future can look like.
- The short-term renewable goals are ambitious and reaching the targets rests on the ability to streamline approval procedures. **The success to which the share of RE in the energy mix will increase has wide-reaching impacts on the success of other sectoral goals**.
- Though reaching the 1.5-degree global target requires international cooperation, and therefore there is a lot of focus that has been put on **G7 as a springboard to push for international standards on certain climate policy aspects**. They are banking on G7 partners-support.
- Beyond the G7, they **expect large developing country emitters** to do their part and but will also support them financially.
- Open question as to what kind of **obstruction** could happen in the 2nd chamber of parliament, the Bundesrat which represents the 16 German Länder, which co-legislates on all laws that affect state powers. To this effect, the first **big test** to the agenda will then be how the policies are reflected in the **state-level elections** planned in 2022 in Saarland, Schleswig-Holstein, North Rhine-Westphalia and Lower Saxony.