
BCCG DISCUSSION PAPER

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THE NEW „TRAFFIC LIGHT COALITION“ IN GERMANY

GOALS AND OPPORTUNITIES IN
ACHIEVING CLIMATE NEUTRALITY

BCCG ENERGY EXPERT GROUP

The new German government of Social Democrats, Greens and Liberals is reaffirming to make Germany climate neutral by 2045; their coalition agreement sets out a sound and ambitious agenda that offers new opportunities for business and investors.

The government's top priority is to meet the Paris climate goals and to move Germany on the path to limit the increase of global temperature to 1.5 ° C since industrialization began (currently + 1.2 %). The new coalition wants to end the fossil age step by step while keeping Germany in the top league of innovation, technology and competitiveness and catching up in digitizing the country. Digitization shall be a key part of the energy and climate transition. This requires a demanding transformation process impacting all areas of commerce, industry, government and society alike.

Major points of this transformation agenda are:

- Making administrative and permit procedures much more efficient and faster to advance renewable energies and other zero carbon technologies like (green) hydrogen in particular.
- Giving industry a central role in this transforming process and protecting it where necessary from global competition that does not internalize the costs of carbon emissions through instruments like "Carbon Contracts for Difference" (CCfD) and a "Carbon Border Adjustment Mechanism" (CBAM) on the EU level.
- Special depreciation ("Super-Abschreibung") for climate and digitization investments in the years 2022 and 2023.
- Expanding the share of renewable energy in Germany's power mix to 80 % by 2030 (which would almost twice as much as today). 2 % of each federal state's territory shall be devoted to green power generation facilities; constructing them will enjoy priority in building and planning laws. Offshore wind capacity will be substantially increased to at least 30 GW by 2030, 40 GW by 2035 and 70 GW by 2045.
- As coal-fired electricity plants will be ideally phased out by 2030 and nuclear energy shuts down completely by the end of 2022 new gas power plants will play a major role. Although the coalition agreement is ambiguous about the long-term role of gas in a climate neutral future it underlines its crucial importance as an indispensable energy to generate electricity during the transition towards climate neutrality. All new gas plants should be "H2-ready" so that they are able to burn non-fossil instead of natural gas.
- The EEG levy (support by the renewable energies law to promote green power) will be seized by the end of 2022 and will from 2023 onwards be covered by the federal budget.
- A steadily rising CO₂ price is a key basis for the new government's energy and climate policy. It supports the EU proposals to expand the existing European CO₂ emissions trading system (EU ETS) assuming the current CO₂ price of around 60 €/t will not fall below that level. It also supports the EU plan to create a second trading system in transport and mobility. The existing path to raise the CO₂ price in the new national pricing system for mobility and buildings will remain untouched for the time being.

- Making Germany lead markets in hydrogen technologies and electrical mobility.
 - Promoting green hydrogen shall not be reserved for certain sectors but should be prioritized for areas where it is not possible to achieve greenhouse gas neutrality through other means. By 2030 there should be 10 GW of electrolysis capacity to produce green hydrogen.
 - By 2030 at least 15 million full electrical passenger cars should be on the streets (approximately 30 % of the German car park) supported by 1 million e-charging points. Supplying industries like battery production will be promoted.
- Reform of financial support for electric and hybrid cars taxation from 1 January 2023 onwards requiring an electric driving range of at least 80 km. New hybrid cars will only enjoy special company car taxation (0.5 %) if the vehicle is operated electrically by more than 50 %.
- Following the EU proposal only CO₂ neutral vehicles will be allowed from 2035 onwards. The goal is to leave the internal combustion engine technology (ICE) behind but leaving the door open for e-fuels in road transport implying a potentially longer life of the ICE powered by e-fuels.
- The aerospace and maritime industries in Germany will be supported, especially in the areas of synthetic jet fuel and climate friendly propulsion systems as well as alternative fuels for ships.
- A new focus on mobility infrastructure by prioritizing investment in new railroads and rail electrification of 75 % by 2030 (currently 60 %) and concentrating road investment on renovation and repair measures.

These goals are demanding, promising and specific at the same time. They create huge opportunities but the challenges will not be easy for traditional or wait-and-see business strategies. The energy and climate transformation will happen one way or the other. It is better to benefit from its chances than complain about its risks.





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