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Germany's post-crisis recovery plan: some stimulus for the climate

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The [German post-crisis recovery](#) plan was unveiled by the coalition government on the night of June 3-4. With a total volume of €130 billion, and therefore much higher than initially expected, it provides for nearly €35 billion for climate-friendly investments, particularly in the transport sector and in the development of a hydrogen industry, partly based on the proposals made by Agora Energiewende.¹ Although the initial assessment is rather positive, efforts are still required, particularly in the buildings sector, for the acceptability of renewable energies or the reduction of electricity taxation. The flagship measure of a transitional VAT reduction of 3 percentage points, which is preferable to a scrapping premium for cars but not specifically targeted at sustainable activities, could furthermore favour the consumption of fossil fuels. However, the recovery plan as presented sends a strong signal regarding the direction the German economic and climate policy will take, as the country will take over the rotating Presidency of the Council of the European Union as of July.

The German recovery plan is based on three pillars, which will structure government action until 2021: short-term economic recovery (around €78 billion), investment in future-proof and green technologies (around €50 billion) and European and international solidarity (€3 billion in addition to the efforts provided for in the European Commission's recovery plan).

Climate measures are found in the first two pillars. In the short term, a slight decrease in the EEG contribution² is expected to reduce the cost of electricity for small consumers (households and SMEs), at an estimated cost of €11 billion. This is a first step towards shifting the financing of support for renewable energies (RE) to the general budget, which will soon be supplemented by the CO2 tax, due to be introduced in Germany in 2021. This measure is to be compared with the approach taken by France with the reform of the contribution to the public electricity service (CSPE), favouring the electrification of uses in the longer term. Surprisingly, the government has also opted for the reduction in VAT of 3 percentage points from July 2020 to the end of the year in order to increase households' purchasing power, at an estimated total cost of €20 billion. This measure does not specifically target the most sustainable modes of consumption and could even ultimately encourage the continued consumption of fossil fuels. For an efficient and just economic and climate policy, a more thorough reform of the RE support mechanism and electricity taxation should be favoured in order to improve households' purchasing power and SMEs' cash-flow in a sustainable way: it should aim at lowering the retail price of electricity and increasing the price of fossil energies through a rise in the price of CO2 in the non ETS (Emissions Trading system) sectors, namely building and transport.

In the longer term, a strong impetus is being given to the transport sector and hydrogen industry, while measures for the decarbonisation of the buildings sector would need to be reinforced.

In the mobility sector, in contrast to the measures taken during the economic crisis of 2008,³ no bonus was granted for the purchase of internal combustion engine vehicles, an almost historic decision considering the importance of the automotive sector in the German economy. The recovery plan provides for the doubling from July onwards of the ecological bonus paid by the State for the purchase of an electric vehicle until the end of 2021 (€2.2 billion), support for the development of a charging infrastructure and a battery industry (€2.5 billion), the modernisation of the heavy-duty vehicle, maritime and air fleets (€3.2 billion) and support for public transport, which has suffered greatly from the decline in ridership due to lockdown measures (€2.5 billion). An additional €5 billion is allocated for the capital increase of Deutsche Bahn already planned to reach €10 billion by 2030.

The development of a German hydrogen industry, and more particularly green hydrogen (produced by electrolysis from renewable electricity), with the aim of making it a key component of the energy transition, is also announced in the plan, confirmed in [the national hydrogen strategy](#) unveiled on June 10. Germany wants to become a leader in this sector in order to achieve carbon neutrality, allocating the unprecedented budget of €7 billion to support the construction of 10 GW of electrolysis units by 2040, possibly through a tendering process and with the introduction of carbon contract for difference (CCfDs)⁴ for pilot projects. In order to create outlets for products using green hydrogen, quotas for synthetic fuels are under consideration as well as the introduction of green steel quotas. In addition, €2 billion have been earmarked for the development of international partnerships in this field, calling for stronger European and international cooperation.

The buildings sector has been mostly left out of the recovery exit plan, with a single budget line for the energy efficiency retrofits of buildings of €2 billion over two years, increasing the total budget to €5 billion over the period 2020-2021. Subsidies for the retrofit of local public buildings and social housing should also be increased, but without further specification. The financing needs of this sector had been estimated by Agora Energiewende at €25 billion in order to accelerate the pace of renovation and the development of a serial renovation industry.

The implementation of the German recovery plan will take shape in the coming weeks as European negotiations continue on the recovery plan proposed by the European Commission at the end of May.⁵ Germany's alignment with the orientation proposed by the EU is noteworthy, especially as the national debates on the subject were intense, and shows the country's commitment to the European project and its willingness to cooperate with its European partners. European initiatives, in particular in the framework of the Important Projects of Common European Interest (IPCEI) in the key sectors of the future, i.e. low-carbon hydrogen, green steel or the deployment of charging infrastructure for electric vehicles across Europe, could be an important avenue for strengthening this cooperation.

¹ See Agora Energiewende (2020). Dual-Benefit Stimulus for Germany – A Proposal for a Targeted 100 Billion Euro Growth and Investment Initiative.

² The EEG contribution applies to the electricity bill, financing the feed-in premiums for the development of electric renewable energies (equivalent of the former CSPE in France). In its current form, it mainly affects households and SMEs as the electro-intensive industries are subject to exemptions. The contribution should be reduced to 6.5 c€/kWh as of 2021 (compared to 6.756 c€/kWh in 2020), and to 6 ct/kWh in 2022.

³ A €2,500 scrapping premium was included in the 2009 economic stimulus package. In France, the scrapping premium announced in the automotive stimulus plan in May 2020 is also applicable to the purchase of internal combustion engine cars.

⁴ These CCfDs would make it possible to cover the additional investment and operating costs of these technologies in order to bring them to maturity. See IDDRI's study on this topic: <https://www.iddri.org/en/publications-and-events/study/decarbonising-basic-materials-europe> .

⁵ <https://www.iddri.org/fr/publications-et-evenements/billet-de-blog/plan-de-relance-de-lunion-europeenne-vers-une-relance>

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