



Executive Summary

German Chancellor Angela Merkel's 16-year long reign is coming to an end after the elections on September 26. By examining the positions of Germany's leading parties, this piece assesses how a new German government might shape EU climate and environmental policy.

How the German elections could impact European climate and environmental policies

With Chancellor Angela Merkel stepping down, Germany will face its most crucial election in decades – and changes are likely afoot. Without Merkel's strong personal brand behind it, the ruling conservative CDU/CSU party is struggling with the less-than-enamored Armin Laschet at its helm. This has left a political vacuum in which two primary contenders have stepped in: the current Social Democrat (SPD) coalition partner as the continuity candidate, and the Greens sweeping in with a vision for change. With the Greens likely to form a key pillar of whichever coalition emerges, and the CDU/CSU set to weaken, climate is likely to take a predominant role, positively impacting Germany's path to greenhouse gas neutrality, currently set for 2045.

Expect to hear more about climate policy

The current CDU/CSU - SPD coalition government is in favor of achieving greenhouse gas neutrality by 2045, while the Greens and the Left Party are both aiming for earlier dates. On the other hand, the pro-business Liberals (FDP) – which tend to favor more market-based solutions – has proposed pushing back the date to approximately 2050.

That being said, any new government will have to develop a range of climate policy instruments if it is to achieve carbon neutrality – including around carbon pricing. With that in mind, the CDU/CSU, SPD and Greens support the Carbon Contracts for Difference (CCFD) program which rewards carbon emission reductions above current price levels in the EU emissions trading system (ETS). Here again, the market-oriented Liberals have voiced their opposition.

Despite parties jostling to launch ambitious climate programs, Germany's current climate targets are likely to remain in place, especially as the country is set to miss its 2030 targets. Although a coalition government between the SPD, the Greens and the Left Party hold the potential to alter German climate policy, it is more likely that a CDU/CSU and/or FDP moderated coalition is to maintain a more business-friendly outlook.

Germany's major parties converge in principle, but the question of cost burden is likely to magnify on the national and EU level

With Germany currently considered a laggard in achieving climate targets, a new government featuring the Greens could provide a boost for the European Green Deal – which was launched in 2019 to much fanfare but hobbled by the COVID-19 pandemic and ensuing economic crisis. It could also result in a greater commitment at the EU level to reducing greenhouse gas emissions by at least 55% by 2030, and to ensuring that the EU's €2 trillion stimulus package focuses on sustainable investments. As a result, a range of climate-focused legislation currently in the pipeline is set to receive additional support.

The much-maligned Carbon Border Adjustment Mechanism (CBAM), designed to impose levies on imported goods based on their carbon footprint, will likely receive support from a new German government regardless of coalition make-up, as it has received support from all major parties. Germany and the EU, particularly in tandem with Paris, will nonetheless have to engage at the international level to fend off accusations of protectionism – a concern repeatedly raised by German industry representatives and international trade experts.

A new government could further seek to adjust the EU ETS to bring it in line with the Paris Agreement, as this has been explicitly mooted by the CDU/CSU, Greens, FDP and the Left Party, and is likely to also receive support from the SPD. The liberal FDP has even suggested a substantial reform to extend carbon trading to other sectors. On the other hand, FDP plans for further Carbon Capture, Utilization & Storage (CCUS) have failed to gather consent.

Despite the importance of the ETS in achieving the EU's climate goals, German parties remain split over its scope. The discussion about carbon prices exemplifies the reluctance of the parties to address the inconvenient question: Who will take financial burden? A Social Democratic Chancellor, concerned with social fairness of the climate policy, could choose the path of taking the industry more accountable in alignment with the Greens. Also, for any new government to achieve its goals, it must build trust by communicating more transparently about the impact of carbon prices – on transport and heating fuels, for example, a topic which has become more tangible to citizens with the introduction of national carbon pricing. Ramifications of the cost burden discussion will likely magnify on EU level, where a number of less affluent member states will try to avoid rising energy costs. On the other hand, businesses will need to open up to stakeholders about what concrete actions they are taking to decarbonize, while also emphasizing business continuity.

Germany and the EU are entering a new political climate reality; Businesses should be ahead of it

Whatever the case, the upcoming elections are likely to result in more political fragmentation, so expect negotiations to be lengthy – meaning that legislative dossiers requiring EU Council approval could face months-long delays. In addition, especially if negotiations drag on into next year, these delays could be exacerbated by upcoming French elections in April 2022. Yet, once a coalition is formed in Germany, expect a flurry of moves, and once both governments in France and Germany are up and running again, Europeans will compete over the right climate policy instruments.

At the national level, a key aspect in climate policy decision-making will revolve around building consensus across German ministries, particularly between the Ministry for Economic Affairs & Energy (known to be more industry-aligned) and the Ministry for the Environment, which tends to launch more ambitious climate proposals. The interplay between these two ministries will be particularly decisive, especially if they are headed by ministers with opposing policy views. Most notably, the Green party has already suggested that the Climate Ministry should have the power to veto proposals from other ministries deemed incompatible with the Paris Climate Agreement.

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Thank you.