

Industry Guideline Energy

What is next for the German energy sector?

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The 2021 German election had climate protection placed centre stage. Following the results, three parties are about to forge a governing coalition. It is expected they will continue to put a noticeable emphasis on energy and environmental policies and set Germany on a course of cutting-edge innovation in climate friendly technologies, e.g., green hydrogen over fossil fuels. Alas, surging global wholesale energy prices have proved an obstacle to this objective and have quickly emerged as one of the primary political worries. Parties disagree over solutions, yet Germany might have to adapt its strategy to phase out coal and reduce fossil fuels such as natural gas for the time being.

Next German government – the negotiation period

Current negotiations confirm climate and energy policies remain among the most pressing issues. There is an agreement firstly to revise relevant legislation next year, aiming at a new energy market design that helps curb energy costs, and to draft an emergency plan, both of which are in line with the core priorities for Green and Lib Dem voters (both parties being part of the next German government).

To kickstart the expansion of **renewable energies** Germany is busy identifying the bureaucratic hurdles to be overcome, among them cutting red tape to promote fast permissions in extending onshore and offshore wind plants. Other Green postulates include expanding **solar energy** solutions across all sectors. On ETS, all parties pledge to revise the scheme according to the EU's "**Fit for 55**" plan to reduce net emissions by 55% by 2030 – ideally employing a broad range of technologies.

Transport is another key area, yet the memo envisages a soft target of "earlier than" the 2035 EU deadline for all new cars to be emission free. That's including **e-powered cars**, since all parties plan to turn Germany's powerful automotive sector, with its handful of major players plus thousands of medium-sized suppliers, into a global e-mobility leader. Public transport, on the other hand, is to be expanded using **intelligent transportation systems** for individual transport.

What's next for business?

There is a **cross-party consensus** that politics needs to address the sharp increase of energy prices already threatening post-pandemic economic recovery. Yet national solutions will only carry us so far and businesses are closely watching the ongoing diplomatic conflict with Russia over the gas pipeline **Nord Stream 2**. While the Green Party seeks to prevent the still pending EU permit, the Social Democrats, backed by future-Chancellor Olaf Scholz, continue to approve the project.

It is obvious that the profound transformation of the energy sector towards a greener future yields significant opportunities and financial incentives for a broad range of industries. Yet it is also true that the transformation is **challenging for the existing automotive supply chain**, with experts estimating that battery-powered vehicles need 80% less parts than traditional cars and need less servicing.

Nord Stream 2 and the issue of gas imports

The first of the two 1230-kilometre stretches of gas pipeline Nord Stream 2 connecting Russia and Germany under the Baltic Sea has now been filled. The demand for gas in Germany is climbing, amid a looming supply and pricing crisis. The Kremlin had signalled its intention to cut additional gas deliveries until regulatory approval for Nord Stream 2 is granted. Both of the smaller German parties that will be part of the next government, LibDems and the Greens, are considered harsh critics of the German-Russian project, while the Social Democrats have traditionally backed it. However, **the levers of the German regulator are not particularly manifold**: even if they refused approval, the Nord Stream 2 operator would have to pay only a manageable penalty payment, which Gazprom may accept and feed in gas regardless.

This conflict is not explicitly mentioned in the current government coalition draft.

Impact on German industry

High gas prices may affect whole production lines, as has happened to British ammonia plants whose fertiliser production has momentarily been halted. Furthermore, with gas prices pegged to oil prices, the effects, which are spilling over to other industry sectors and towards end consumers, have the potential to upend Germany's so far unwavering decision to phase out their coal-based electricity generation and slow the country's path towards a greener energy mix.

What will politics decide?

The current gas crisis, triggered by soaring prices globally, once again highlights the crucial role of natural gas for the security of German energy supply. For a long time now, it has been clear that renewables alone will not fill the void; the contribution from wind and sun barely reaches half its potential given unfavourable weather conditions. Given limited political and technological options, it seems that Nord Stream 2 stands a good chance of being finalised.

As new reports show, the world's governments intend to produce twice as much oil, natural gas, and coal by 2030, as permitted under the Paris protocol targets. The Glasgow COP26, at which Germany is represented by the 'old' Merkel government, will again stress the importance of global solutions. Any new German government will have to assess future room for manoeuvre in order to safeguard the country's energy supply whilst keeping prices manageable and moving towards greener energy sources asap.

Meanwhile in Brussels

At the recent EU summit, Ursula von der Leyen stressed the EU's need for a "stable" source of energy to back renewable-generated energy. Her focus is on nuclear energy and natural gas to bridge the 'transition' to climate neutrality. One could interpret this as confirmation that the EU will indeed grant a sustainability label to nuclear power and

natural gas; the process is pending. Including both sources into the green taxonomy would have manifold consequences: commercially, the respective nuclear and gas industries were eligible for EU subsidies and financing at reduced rates – with direct impacts on renewable energy companies, currently favoured under German energy legislation in terms of competition for funds.

Public-private dialogue much needed

Against the backdrop of newly devised frameworks, dialogue between stakeholders in the public and the private sectors will surely be intensified. Companies are called upon to clearly formulate their vested interests and invite both public and other stakeholders to enter a dialogue surrounding their respective strategies. Also, businesses need to assess likely effects on their strategies and actively participate in discussing their future frameworks.

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Get in touch

Interested to speak to our energy experts in more depth? Please get in touch (Geraldine.Schroeder@grayling.com).