



Germany

Big Picture series: September general elections to hail green new era

 POLITICAL POLITICAL STABILITY

BIG PICTURE

The environmentalist Green party (the Greens) will be kingmaker after the September general elections, initiating a clear shift to environmentally friendly politics. We examine the Greens' position on key issues that will shape environmental policy and the drive towards sustainable business over the next legislative term, and how different government formations could affect the burden for companies and consumers.

The Greens will use their role in the coalition to significantly move the country's transition to clean energy forward, including by speeding up the adoption of renewable energy, pushing for tighter emissions regulation and bringing forward the exit from coal.

At EU level, the Greens will leverage Germany's influence to advance the debated carbon border adjustment mechanism and push for stricter supply chain legislation.

Should the Greens form a centre-right coalition, such a government would likely protect business interests when attributing the burden of this green shift – for example in terms of administration and cost.

Alternatively, a left-wing coalition would most likely prioritise consumer welfare – leaving a higher burden on businesses.

The new government

The elections will be the first since 2005 that Chancellor Angela Merkel has not participated in, and the first since 1983 where the incumbent chancellor is not running for re-election. Considering this and given the low predictability of how the governing centre-right Christian Democratic Union (CDU) and the Christian Social Union (CSU) – the CDU's Bavarian sister party – will perform in the elections, the political landscape is the most unstable it has been for many years.

The Greens are currently polling at around 20%. One of the few relative certainties is that the party will form part of the next government after attaining its best result to date. As the centre-left Social Democratic Party (SPD) strictly opposes participation in another grand coalition with Merkel's CDU, another centrist government is highly unlikely. All other mathematically and ideologically possible coalitions involve the Greens.

[High uncertainty](#) over the next government persists, but a CDU/CSU-Green coalition remains the most likely scenario. Alternatively, a significant share of the Green party would favour a left-wing coalition alongside the SPD and the far-left the Left. A Greens-SPD coalition with the liberal pro-business Free Democratic Party (FDP) is another credible alternative. In a coalition without CDU/CSU, the Greens would likely be the largest party and therefore nominate the next chancellor.



Co-leaders of the Greens Robert Habeck and Annalene Baerbock in November 2020 at a virtual party conference in the capital Berlin (Photo by Maja Hitij/Getty Images)

The Greens' central role in any government formation will allow them to successfully pursue their desired policy agenda, of which environmental policies still constitute the core focus. The current party manifesto states that keeping global warming below 1.5 degree Celsius should be the basis of all policies pursued. Broad societal consensus that climate-friendly policies are necessary will further enable the Greens to pursue their agenda.

Renewable Energy Act

The Greens will significantly advance the production of renewable energy. The party strongly criticised the CDU-led coalition's December 2020 update of [the Renewable Energy Act](#), and will most likely aim to transform the law over the next four years. Among other criticisms, the Greens deemed the renewable energy capacity targets too low. The party called on the government to annually increase the capacity of solar energy by 10GW and that of wind energy by 5GW – more than double the current targets – before significantly increasing the targets again after 2025. The Greens also stated that offshore wind energy production should reach a capacity of 35GW by 2035, from roughly 7.8GW at the end of 2020.

The Greens have proposed a host of measures that centre around maintaining subsidies for old windfarms and establishing a decentralised network of energy production to meet these goals. They also want to further clarify how they intend to expand renewable energy capacity and the associated timeline to increase investor confidence.

Exit from coal

Decarbonising the economy is another priority for the party, and the Greens will aim to bring forward the closure of all coal power plants by 2030 – from 2038. To disincentivise the continued reliance on coal and other fossil fuels, the Greens intend to reshape the European emissions trade. On a national level, the CDU-led government in October 2020 set the cost of carbon emissions at EUR 25 per tonne of carbon dioxide (CO₂) emitted from fossil fuels. The Greens stated that this was too low to be effective, and has suggested raising it to EUR 40.

The Greens will likely struggle to get their coalition partners to agree to these specific targets. However, they are likely to reach a compromise, and some increase in the cost of carbon emissions can be expected, as well as an early exit from coal.

Carbon border adjustment

The party is highly likely to use its position in government to advocate for a strict emissions border tax at EU level. The Greens in June 2020 issued a motion petitioning the government to incorporate a carbon adjustment mechanism into the EU budget. An EU carbon border adjustment mechanism would tax imports from non-EU countries where no equivalent climate protection regime exists. The European Commission is already working towards such a system and will embrace reinigorated support from Germany, as it will significantly increase the likelihood of the system being implemented.



A coal-fired plant in Juechen (western Germany) during a climate protest in September 2020 (Photo by Ina Fassbender / AFP via Getty Images)

Supply chain law

The Greens would also push for far-reaching supply chain regulations. The party wants to legally implement the complete decarbonisation of international supply chains. A supply chain law is [currently under debate](#) in parliament, with similar regulations being discussed at EU level.

While the current government is divided on how extensive the supply chain law should be, the Greens are likely to push for more stringent legislation with extensive reporting requirements and significant penalties in the event of non-compliance. Among other matters, the Greens demand that the law stipulates continuous risk analysis with regard to environmental and human rights violations. The party also wants to push to regulate auditors that certify compliance with the supply chain law, making them liable for erroneous certifications.

Business impact depends on coalition partner

High expectations from within the party and the broad pro-environmental consensus among the electorate will likely mean that the Greens are successful in achieving these objectives, regardless of who the party's coalition partners are. The key difference will be how the different coalition partners will affect the distribution of the burden of the upcoming reforms – for example in terms of administration and cost.

In our most likely scenario of a CDU/CSU-Green coalition, the CDU/CSU's pro-business stance would likely ensure that measures to facilitate corporate adherence accompany any new legislation. A CDU/CSU-Green coalition would likely try to offset tighter and more extensive environmental regulation with reducing red tape in other areas. The CDU/CSU would likely choose a market-driven approach over a prescriptive regulatory one.

A government with the SPD and the Left, on the other hand, would want to minimise the strain on consumers and likely place a higher burden on businesses. The priority would be that the shift towards a green economy does not add to the costs of living, particularly for lower-income households.

The carbon tax passed in October 2020 illustrates this difference. The CDU initially opposed a CO₂ tax and advocated a national emissions trading system. Meanwhile, the SPD proposed the tax with targeted compensation for consumers and for some companies. The Greens will likely be open to either approach, knowing that they will have to make compromises to implement their objectives, but also given the party's internal divisions between centrist and more "hardline" factions.

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