GREEN RECOVERY TRACKER

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GREEN RECOVERY TRACKER REPORT: GERMANY

In June 2020, Germany was the first EU country to present a large recovery package (€130bn). This was supplemented by additional measures for the mobility sector agreed in November 2020[1]. In December 2020, the German government presented its draft Recovery and Resilience Plan (RRP) for the use of funds from the EU Recovery and Resilience Facility (RRF) (€29.3bn, current prices). Notably, large parts (71%) of the draft RRP cross-finance measures that were already announced as part of the domestic package, so that altogether, Germany's recovery measures add up to €140.6bn (4% of domestic GDP). Our analysis covers all of these packages. Overall, Germany's recovery measures make a moderate contribution to the green transition, as our analysis identifies the following spending shares:

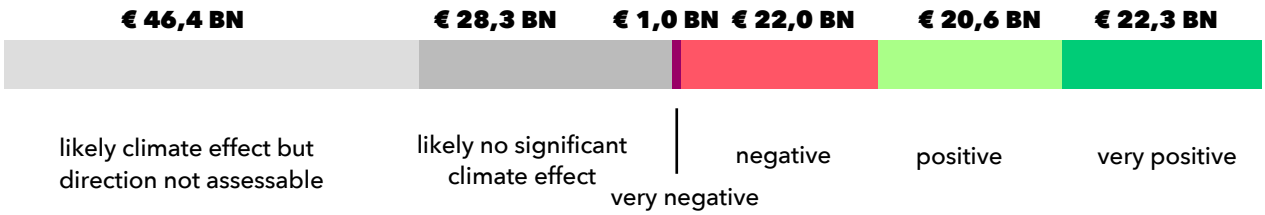

Figure 1: Amounts committed by assessment category (all recovery measures)

In focus: Green Spending Share

We find that Germany's draft recovery plan (RRP) achieves a green spending share of 34%, below the EU's 37% benchmark. When assessing all recovery measures, Germany reaches a green spending share of just 22%. In contrast, 16% (€22bn) of all measures have a negative impact. Furthermore, we find that 20% (€28,3bn) may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the further planning, review and implementation of the recovery measures.

Notably, the draft RRP carries over a high share of the green measures that were previously spelled out in the domestic recovery package. It therefore enables only few additional green investments, increasing the green spending share across all recovery measures (€140.6bn) by just 1%, from 21% to 22%.

Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to the green transition (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count "very positive" measures towards the green spending

Altogether, Germany's recovery measures unlock some necessary progress, especially in the energy sector, but are not fully transformative. Measures for the mobility sector are particularly ambiguous: while the politically influential automotive industry did not succeed with its calls for a general purchase premium for new vehicles, the agreed measures are not fully supportive of the green transition, as, for instance, plug-in hybrid vehicles and trucks with internal combustion engines are still being supported. At the same time, the government used the recovery debate to intensify planning processes for the transition of regions that are currently dependent on the traditional automotive industry.

The Recovery and Resilience Plan's lack of additional ambition beyond previously agreed measures is concerning. Our analysis shows that, instead of enabling additional projects, RRP measures cross-finance existing measures to a large extent. Only 29% of the €29.3bn fund new measures. Furthermore, cross-financing of previously announced measures is not made explicit on a detailled project level in the RRP, making the overall flow of recovery spending untransparent. Moreover, the German government itself has called for coupling funding from the EU Recovery and Resilience Facility to countries' commitments to reforms. However, the German draft RRP itself falls short of substantive reforms and has been criticized for this by the European Commission.[2] It remains to be seen whether there will be changes and a stronger commitment to reforms in the final RRP.

OUR HIGHLIGHTS

Good Practice

Little direct support for fossil industries

Germany's recovery package does include little direct support measures for fossil fuel industries, even though the traditionally powerful car lobby had mobilized to achieve an unconditional support for new car purchases.

Bad Practice

Weak governance and strategic ambition

Germany's measures are largely not linked to any concrete long-term targets or (climate) conditions, which creates a significant risk of investments appearing green but ultimately not contributing to the green transition. Furthermore, Germany is likely not meeting the required green spending share, especially when considering all recovery measures. Lastly, our analysis shows that funds from the EU Recovery Facility are mostly not used to enable additional transformative measures.

To Our Surprise

Little focus on tried and tested technology

The German government decided to spend significant funds on hydrogen (€10.5bn) while investing relatively less in green recovery solutions that are already available at scale and capable of creating many jobs even within short time frames, such as energy efficiency measures (which only receive €2.5bn in funding).

GENERAL CONTEXT

Before the crisis, the political discourse in Germany was dominated by calls for more ambitious climate action and disagreements between the governing parties over social policy, e.g. a pension scheme for low income retirees. Overall, the political atmosphere was dominated by uncertainty over whether the governing "Grand Coalition" of Conservatives and Social Democrats was able to tackle the main challenges facing the country.

The rise of climate action to a prominent place on the political agenda was the result of large-scale protests such as the "Fridays for Future" strikes as well as increasingly visible climate impacts. In September 2019, the government presented a "Climate Package" which was widely perceived as insufficient. Within the realm of climate policy, recent political debates have focused on the implementation of the recommendations of an independent commission for the coal phase-out, the role of fossil gas and hydrogen in the transition, the transformation of the automotive sector as well as on the stalling expansion of renewables in recent years.

The Covid-19 crisis has united the previously fragmented coalition government, but also large parts of the opposition, around the need to respond decisively. The government agreed a €600bn economic stabilization fund very early in the crisis (March 25th) and used its early presentation of a recovery package on June 4th to convey a sense of optimism, stating that the country can exit the crisis with a "ka-woom" (Finance Minister Scholz). Notably, to make these packages possible, it broke its longstanding commitment to not take on new debts. During the second Covid-19 wave, it mobilized additional support measures for businesses, parents, artists and others affected by the crisis. Additionally, on December 16th, the government agreed on the draft German Recovery and Resilience Plan, covering measures that are financed from the EU Recovery and Resilience Facility. Whereas Germany will only receive €25.5bn in grants through the RRF, the draft plan's measures amount to €29.3bn (current prices). This means that amendments will have to be made before the submission of the final RRP by April 2021.

From a green transition perspective, the most controversial discussion in the context of the domestic recovery package focused on the question of whether a purchase premium for all new cars should be introduced, as was the case during the last financial crisis. While politicians in "car regions" and the automotive industry demanded such a premium, there were considerable splits even within government parties on its merits. Economists opposed it and green groups mobilized against it. The final package does not include such a general purchase premium, marking a significant shift in public opinion and political power play.

Context indicators[3]	**Germany**	**EU average**
GDP (2019)	**3435.8 bn €**	
GDP (per capita, 2019)	**41510 €**	**31130 €**
GDP (per capita, 2020, provisional)	**40050 €**	
Debt (% of GDP, 2019Q4)	**59.8 %**	**77.6 %**
Debt (% of GDP, 2020Q3, provisional)	**70.0%**	**89.8%**
Unemployment Rate (December 2019)	**3.3 %**	**6.5 %**
Unemployment Rate (August 2020)	**4.4 %**	**7.7 %**
Unemployment Rate (December 2020)	**4.6%**	**7.5%**
Real GDP forecast for 2020	**- 6.3 %**	**- 8.3 %**
Real GDP forecast for 2021	**+ 5.3 %**	**+ 5.8 %**
Total recovery spending	**140.6 bn €**	
EU recovery funding (grants only, current prices)	**25.5bn €**	

KEY FOCUS AREAS OF THE GERMAN RECOVERY DEBATE AND THE RECOVERY PACKAGE

The government's announced priorities for the recovery package included securing jobs and prosperity and re-vitalizing the economy. However, its goals did go beyond this, and Chancellor Merkel said when presenting the package that "we live in times of societal change", especially due to climate change and digitalization, and that therefore a "future-oriented" package was necessary, not a "traditional" stimulus package.

The political debate on the response and recovery measures in advance of the government's decision focused on the issue of premiums for car purchases and the question of what car types should benefit, which was closely linked to a general debate on whether recovery measures should benefit specific sectors or target the economy as a whole. Furthermore, the debate concentrated on concrete support for citizens and especially families directly, as well as on the question if and to what extent major companies such as Lufthansa should receive unconditional state support.

With an overall budget of €130bn, the domestic recovery package presented in the summer of 2020 was larger than most observers expected. Its flagship measure, a temporary reduction of the VAT rate for six months, also came as a surprise to many observers. The package includes a dedicated €50bn "Future Fund" which aims to boost a future-proof economy. However, large parts of the package's climate-relevant funding are not actually mobilized through that fund, as, for example the lowering of the renewable energy surcharge (€11bn) sits elsewhere in the overall package.

In line with the goals of the EU Recovery and Resilience Facility, the measures covered by the draft Recovery and Resilience Plan focus on investments in climate protection and digitalization. According to the government, more than 40% of the funding is to be invested in digitalization measures, which would be a considerable overachievement of the EU's target of 20%. Furthermore, the government estimates that ca. 40% of the funding contributes to climate protection, without providing details on the assessment methodology used. Our own assessment finds that the plan only achieves a green spending share of 34%, however, when seeking to mirror the official assessment process that will be used by the Commission. In the domestic political debate, the release of the draft RRP played only a minor role to date, and even the Commission's criticism of it in January 2021 was not widely picked up.

FINANCING AND ADDITIONALITY OF GERMANY'S RECOVERY PACKAGE

Due to the Covid-19 crisis, the government broke its principle of not taking on new debt to finance the stabilization and recovery measures. In 2020, the government has taken on €242bn in new debt, and a further €180bn in 2021. Germany will use money from the EU's Recovery and Resilience Facility to finance some of the recovery measures that were announced earlier in 2020. The draft RRP is not transparent about cross-financing on a detailled project level, but our analysis suggests that 71% of RRF funds will be spent on measures that already exist. Furthermore, while the draft RRP includes measures worth €29.3bn, Germany will only receive €25.5bn through the Facility (current prices). This means that amendments will have to be made until the final submission in April 2021.

Compared to the previous recovery package, the draft RRP adds measures especially in the fields of digitalization and European cooperation, with funding for three Important Projects of Common European Interest (IPCEIs) focusing on hydrogen, microelectronics and communication technologies, as well as cloud and data computing.

GOVERNANCE OF THE RECOVERY PACKAGE

There is no climate-related governance of the recovery efforts. The government does specify that all funds from the domestic recovery package should be spent by the end of 2021 but does not provide more details beyond this in the package itself. It remains to be seen whether more concrete conditions and benchmarks will be included in the ongoing legislative implementation of the package's measures.

As for the RRP measures, funds have to be allocated by 2023 and spent by 2026. A precondition for funding from the EU Recovery and Resilience Facility is the fulfillment of spending shares (at least 21% for digitalization and 37% for climate protection) as well as the adherence to pre- and self-defined goals by 2026. Notably, the draft RRP does not yet specify any such goals, thus preventing public debate before the finalization of the plan. Overall, the public consultation process of the German government regarding the RRP has been sparse. While there was an exchange with social partners in the context of a yearly Macroeconomic Dialogue, there has been, for example, no possibility of consultation for environmental organizations.

Nonetheless, it must be noted that broader German climate legislation is supported by an extensive governance system, including through the Climate Cabinet and a recently established independent advisory body for the implementation of the Climate Law. Both could be linked to the implementation of the recovery package.

NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS ("COMPANY BAIL-OUTS")

The federal government agreed on a €600bn economic stabilization fund that was open to all struggling companies in March, and support from this fund was not linked to any sustainability conditionalities. However, some major bail-out decisions were subject of public scrutiny, including the government's decision to support the airline Lufthansa with a €9bn bail-out in exchange for a 20% stake in the airline and two seats on the supervisory board. However, this issue was contentious mostly because a top shareholder initially resisted this partial state ownership of the airline, and climate concerns played a minor role in the debate. The government's support for Lufthansa is not linked to any climate conditionalities. Furthermore, the government also provided a €550m loan to the airline Condor, again without climate conditionalities. At present, there is an ongoing debate about whether the government should purchase stakes in major industrial companies that are suffering from the present circumstances, such as steel maker ThyssenKrupp. Here, too, climate considerations are playing no significant role. Independent from the recovery debate but during the summer, the German parliament approved the coal phase out law and a linked public-private contract with coal operators which guarantees generous compensations. This highly controversial decision is currently being reviewed by the European Commission.

DEEP DIVE: THE MOST IMPORTANT RECOVERY MEASURES AND HOW WE ASSESS THEM

The most important measures with an effect on the green transition are:

- A temporary cut of the VAT rate for the second half of 2020 (€20bn), which we assess as negative as such generalized consumption incentives do not advance the green transition, but rather manifest the status-quo in a still fossil-dependent economy.

- The lowering of the renewable energy surcharge paid by electricity consumers (€11bn), which we assess as positive as it will improve planning security for and affordability of the energy transition and incentivize an increased use of (renewable) electricity over fossil fuels in industrial processes.

- Significant support (€10.5bn) for hydrogen projects in the context of the National Hydrogen Strategy (€7bn for domestic projects, €2bn for international projects, and €1.5bn for cross-European projects; of this overall 3.4bn through the RRF). We assess some of these as positive (€2bn support for electrolysers and €2.5bn for hydrogen use in industry) and very positive (international efforts), as the strategy is committed to

green hydrogen, especially in its international context. However, loopholes for fossil-based forms of hydrogen remain, and if this funding were to be channeled towards such types of hydrogen this assessment would need to be adjusted downwards. Such dangers, in conjunction with a risk of inefficient hydrogen developments, especially exist with regards to infrastructure development (€1bn) and in the transport sector (€1.5bn), which we therefore assess as likely climate effect but direction not assessable.

- Support for municipalities (€5.9bn), which we assess as likely climate effect but direction not assessable as the funding is not connected to any climate targets or measures but could be used by municipalities to invest in the green transition, for example public transport infrastructure or efficiency measures. Notably, the Environment Ministry published an extensive study on the benefits of financing municipalities for the green transition in advance of the presentation of the recovery package. The package contains a further measure to support municipalities in covering housing costs (€4bn, likely no significant climate effect).

- A number of measures to support the automotive industry, including purchase premiums for electric and hybrid vehicles (€3.2bn in total, of this €2.5bn through the RRF, positive) a transformation fund for the automotive supply chain (€2bn, of this €1.9bn through the RRF, positive) and a future fund for the automotive industry (€1bn, positive). In the field of e-mobility, measures include support for electric vehicle infrastructure (€2.5bn, of this €1bn through the RRF, very positive), investments in R&D (€0.8bn through the RRF, very positive) as well as tax reductions for electric vehicles and low emission cars (€0.3bn through the RRF, very positive, and €0.2bn through the RRF, positive). Considering the traditionally high influence of Germany's automotive industry, the importance of the fact that a general purchase premium did not make it into the recovery package cannot be underestimated. Instead, most funding directed towards the sector can now help advance the transformation to electric mobility, but there are exceptions, such as a truck fleet renewal program which also supports internal combustion engine vehicles (€1bn, completely funded through the RRF, very negative).

The package furthermore contains a significant number of measures that do not directly relate to the green transition but are still important and potentially transformative, such as:

- Social support measures, e.g. a capping of social insurance costs (€5.3bn), a one-time bonus payment for families (€4.3bn) and investments in kindergartens and childcare facilities (€3bn, of this €0.5bn through the RRF).

- Measures to advance the digital transition, e.g. an increase of public investments into AI technology (€2bn), investments into quantum technology (€2bn), 5G as well as 6G

technology (€7bn), and investments in Important Projects of Common European Interest (IPCEI) on microelectronics and communication technology as well as cloud and data computing (€2.25bn through the RRF).

- Additional funding for the healthcare system, e.g. though a "Pact for Public Healthcare Services" (€4bn, of this €0.8bn through the RRF), a "Future Program Hospitals" (€3bn, completely funded through the RRF), and investments into medicine goods and national and international vaccine efforts (€3.5bn, of this 0.75bn through the RRF).

IMPORTANT CLIMATE POLICY DECISIONS TAKEN DURING THE CRISIS AND RECOVERY PERIOD

Some processes, such as the development of a National Hydrogen Strategy and a dialogue on the expansion of renewable energies between the federal and state governments were delayed in the initial weeks of the crisis. Overall, however, no important environmental and social regulations were weakened during the crisis. On the contrary, several positive climate policy measures were introduced during the crisis months, including a loosening of restrictions on solar and onshore wind deployment. Furthermore, previously planned projects, such as Germany's first issuance of sovereign green bonds, were rolled out, and the German parliament passed long-awaited, and controversial, legislation for the country's coal phase-out in July 2020.

ANNEX: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR

Sector	**Most important measures with effect on green transition**
Energy	• Lowering of renewable energy surcharge (€11bn, positive) • Support for hydrogen projects (€2bn for electrolysers, of this €0.7bn through RRF, positive; €1bn for infrastructure, likely climate effect but direction not assessable; €2bn for international projects, very positive; and €1.5bn for cross-European cooperation through an IPCEI, fully funded through the RRF, very positive) • Removal of regulatory restrictions on the expansion of wind power and solar PV in advance of the recovery package
Mobility	• Support for public transport (€2.5bn, very positive) • Purchase premium for electric and hybrid cars (€3.2bn in total, of this €2.5bn through RRF, positive) • Program for transformation of car supply chain (€2bn, of this €1.9bn through RRF, positive) • Investments into electric vehicle infrastructure (€2.5bn, of this €1.5bn through RRF, very positive) • Increase of equity capital for railway company (€5bn, very positive) • Shipping modernization measures (€1bn, negative) • Support of best available technology in aviation (€1bn, negative) • Future Fund for automotive industry (€1bn, positive) • Truck fleet renewal program (€1bn, completely funded through RRF, very negative)
Industry	• Hydrogen use in industry (€2.5bn, of this €1bn through RRF, very positive) • Carbon Contracts for Difference pilot program (€0.55bn through RRF, very positive) Furthermore, there are significant overlaps with measures in other sectors (e.g. transformation of the automotive industry).
Buildings	• Investments into building energy efficiency (€2.5bn, completely funded through RRF, very positive)

Agriculture	• Support for refurbishment of animal stables (€0.3bn, direction not assessable)
Cross-cutting	• VAT cut for second half of 2020 (€20bn, negative)

This report was written by Alexander Reitzenstein (E3G), Felix Heilmann (E3G) and Antonia Brand (Wuppertal Institute). We are grateful to Helena Mölter (Wuppertal Institute), Lisa Fischer and Rebekka Popp (both E3G) for providing valuable inputs.

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