

UPDATE

GERMAN GOVERNMENT FORMATION

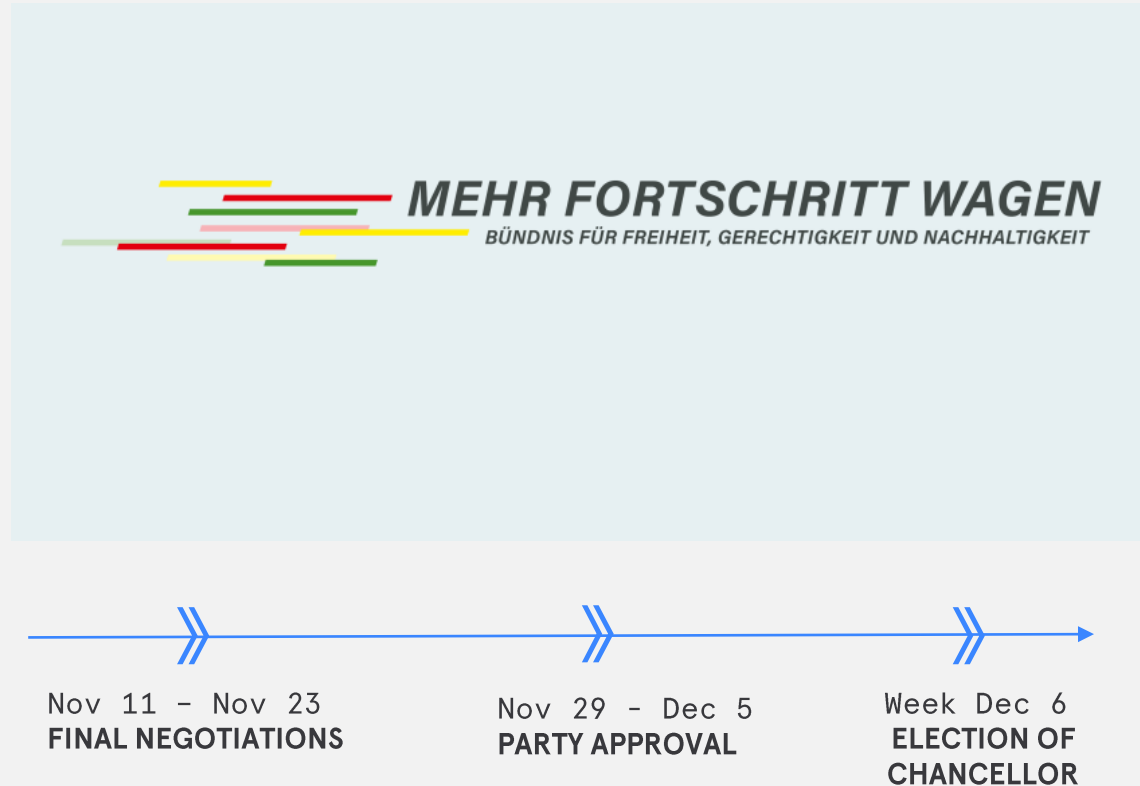
25 November, 2021



FINSBURY
GLOVER
HERING



STATE OF PLAY



- | Coalition negotiations between SPD, Greens and FDP are finished.
- | The agreement focuses on digitalisation and climate protection.
- | Negotiated coalition agreement will be approved by party conventions of SPD and FDP. Greens will hold a party member approval on the agreement.
- | Olaf Scholz will be elected as next chancellor in the week of Dec 6.

KEY LEARNINGS



Coalition parties are committed to consistently distribute competences among themselves instead of forming an overarching compromise.

Pre-negotiation rounds have not let any information through. The discrete approach could limit the possibility of large-scale influence in the future making smart advocacy even more important for companies and other stakeholders.

The expressed narrative of „change and progress“ appears to be reliable, as the prevailing ideas and the constellation of the three parties can lead to fundamental progress.

Diverse parties and new MP’s in relevant positions lead to new dialogues and sectoral orientations. The relationship to relevant stakeholders needs to be reassessed.

KEY CHALLENGES

The next German Chancellor will...

- | oversee the biggest personnel turnover in a generation.
- | have to manage the power dynamics of a three-party coalition.
- | rebalance public finances post-COVID while managing needed investment programs.
- | face a significant challenge to implement Germany's ambitious climate change targets (2030).
- | navigate the increasingly challenging US-EU-China relationship.
- | kickstart preparations for Germany's G7 presidency in 2022.
- | handle a conservative majority in the federal state governments.

First and foremost...

...however, the new federal government, and in particular the Chancellor, must master the pandemic. Political observers are already talking about a "false start" here.

COALITION SPD / GREENS / FDP

Deep Dive Sectors



FOREIGN AFFAIRS

CONCLUSION:

Overall, the coalition reinforces the previous foreign policy direction but introduces new focus areas and firmer positioning. Germany is to promote the global alliance of democracies, to empower the EU, and to develop a more critical stance toward China while united climate action stays at the forefront of its partnerships. Annalena Baerbock will become the first Green foreign minister since 2005 with little foreign policy exposure to date but is expected to change the tone, especially regarding China and Russia.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **EU:** The EU receives greater autonomy on building a united European foreign policy. This facilitates a better alignment between member states on international affairs, more effective and timely responses and an increase in Europe's strategic sovereignty. EU membership expansion in the West Balkan Region is supported.
- 2) **United States:** The transatlantic relation with the United States remains one of the key pillars of Germany's foreign policy and security. Furthermore, a closer climate and energy partnership, a global health policy, and regular cooperation on disarmament, geopolitical issues, data sovereignty and AI supplement this alliance.
- 3) **China:** The coalition aspires cooperation and economic partnership with China. Yet, this is influenced by the transatlantic alliance, the common EU policy line, systemic rivalry, and human rights standards. In this context, it will develop a comprehensive China-strategy that balances the two strategic ends while engaging in more outspoken criticism.
- 4) **Climate action and G7:** Germany's environmental, climate, and energy cooperation is expanded. The coalition will use its G7 presidency in 2022 to establish partnerships and a global climate club focusing on renewables and hydrogen. The partners seek the creation of a global emissions trading system and the introduction of CBAM or similar.
- 5) **Multilateralism:** The UN is set as the key international organization and receives a greater resource-allocation while NATO is set as the key security-alliance. Thus, the coalition aims to meet NATO's membership-demands and to satisfy the 2%-debate around the required defense-spending with an inclusive foreign policy approach. Commitment to act first through international organisations.
- 6) **Policy Tools:** The coalition anticipates a budget of 3% of Germany's GDP on general international action, including diplomacy and defense spending. Sanctions on Russia and Belarus are maintained.

ENERGY

CONCLUSION:

The strict enforcement of climate neutrality in 2045 with no caveat on international progress boosts bold goals especially for renewable energy – but also for hydrogen, e-mobility and green based heating. Realization will strongly depend on financial support, grid expansions, accelerated planning and approval procedures. Additionally, a focus on international cooperation for a climate club and the creation of a global emission trading scheme is part of the agreement.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Green transition:** The green transition will be the top priority of this legislature. The main goal is a credible path to 1.5-degrees and shall be implemented by ambitious climate protection programs. Climate neutrality is to be achieved by 2045 at the latest.
- 2) **Expansion of renewables:** The expansion of renewables will be massively accelerated by setting an ambitious target of raising their share to 80% by 2030. Two percent of the state's land is to be designated for onshore wind energy. The coalition aims at 50% climate neutral heat by 2030.
- 3) **CO2 pricing:** The national CO2 price for the heating and mobility sectors shall not fall below €60/ton in the long run. The financing of the renewable energy levy via the electricity price is to be ended in 2023. The European ETS and the national Fuel Emissions Trading Act shall be revised in line with the Fit-for-55 package.
- 4) **Hydrogen:** The hydrogen strategy will be re-defined in 2022. The goal is a rapid market ramp-up for green H2. A technology-neutral design of H2 is foreseen for the transition phase. H2 electrolysis capacity shall be increased to 10 GW by 2030.
- 5) **Coal and Gas:** The coal phase-out is planned to be moved forward from 2038 to 2030, with the review process starting in 2022. The construction of modern (H2-ready) gas-fired power plants will be accelerated to meet rising energy demands. Natural gas is described as indispensable for the transitional period.

MOBILITY

CONCLUSION:

The coalition's plans for the mobility sector are an integral part of the coalition partner's efforts to reach more ambitious climate protection goals. While the level of detail varies significantly, it is particularly obvious that the proposed steps are predominantly an intensification or accentuation of the set of measures which has already been underway. Hence, the new government refrains from radical measures or precluding technologies.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Electromobility:** Aligning the framework conditions and funding measures to ensure Germany is the leading market for electromobility. This includes battery production and recycling, with at least 15 million EVs sold and one million charging stations in use by 2030. Subsidies for EVs and PHEVs are to be reformed and then phased out by 2025.
- 2) **Phase out of combustion engine:** The coalition is striving to "leave behind" combustion engines but sets no fixed date for this to happen. Instead, they state that the European Commission's target - only CO₂-neutral vehicles to be registered in the transport sector in Europe by 2035 - would become effective "earlier" in Germany.
- 3) **Reform of Deutsche Bahn (DB):** The infrastructure units of DB are to be merged within the group to form a new, public-service-oriented infrastructure unit. Profits from infrastructure operations will remain within the new unit. DB's rail transport companies will continue to operate on a competitive market- and profit-oriented basis.
- 4) **Truck toll:** A CO₂ differentiation of the truck toll will be introduced from 2023. A commercial road haulage from 3.5 tons and a CO₂ surcharge will also be included.
- 5) **Price floor for airline tickets:** The coalition will advocate at EU level to ensure that airline tickets are not priced below the price of taxes, surcharges, fees, and charges.
- 6) **Recycling of aviation tax revenues:** Recycling revenues from the aviation tax shall promote the production and use of CO₂-neutral, electricity-based aviation fuels as well as the R&D and fleet modernization.
- 7) **Mobility data law:** A new law is to be formulated to regulate the use of data from mobility operations and to introduce data trustees.

INDUSTRIALS AND INFRASTRUCTURE

CONCLUSION:

The coalition has the ambition to strengthen the innovation capabilities of Germany's industry and to bring it in line with the climate and digital "Zeitgeist". However, many measures and projects mentioned in the coalition agreement will need to be specified in the coming months and years. This is also true for the planned Carbon Contracts for Difference and "super depreciations" for investments in climate protection and digital assets which have the potential to strongly benefit companies.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Acceleration of approval procedures:** The duration of administrative, planning and approval procedures – be it communal, regional or federal level – shall be halved. To that end, procedures, where possible, shall be simplified, digitalized and complemented by a significant increase in administrative personnel.
- 2) **Carbon Contracts for Difference:** Introduce the initiative to support the industry in reaching climate objectives and to prevent carbon leakage.
- 3) **Incentivize investments in climate protection and digital assets:** For the years 2022 and 2023, the acquisition and production costs of investments relating to climate protection and digital assets are to be rendered deductible from the taxable profit ("super depreciations").
- 4) **Promotion of climate-friendly products by public authorities:** Introduction of minimum quotas for climate-friendly products when it comes to public procurement.
- 5) **Redefinition of the subsidy framework:** Reduction of unnecessary, ineffective, as well as environment and climate damaging subsidies.
- 6) **Promote research and transformation:** The creation of a "German Agency for Transfer and Innovation (DATI)" to support social and technological innovations, the establishment of "innovation regions", i.e. subsidized clusters comprising different topical focuses. Furthermore, the bundling of existing funding programs to increase the overall impact of public funding is outlined.
- 7) **Improving the access to data for research purposes:** A novel "research data law" is to improve the access to public and private research data and is set out to democratize the practice of open access within the field.

DIGITAL

CONCLUSION:

The coalition is catching up with Germany's backlog in digitalisation (fiber to the home-infrastructure, digitalisation of schools and administrations, 5G availability, start-up ecosystem) with massive investments. For the first time, responsibilities will be bundled with a dedicated digital budget in the Ministry of Transport and Digitalisation. As a self-proclaimed "digital party", the FDP will stand in the center regarding developments in this area.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Digital First:** Contrary to the election campaign, there will be no new independent digital ministry. Instead, the coalition partners plan to reorganise competences within the government, introduce a central digital budget (volume unknown) and subject laws to a digitalisation check.
- 2) **Digital administration:** The administration is to be modernised and the digital state is to become a reality. Permanent interdepartmental and interagency agile project teams as well as innovation units with their own competences are to be established.
- 3) **Digital infrastructure:** Fiber to the home will be used for the ramp-up of the digital infrastructure. Planning and approval procedures are to be shortened in order to make faster progress.
- 4) **Digital Rights and Data protection:** Digital civil rights and data protection are moving back to the fore under the new coalition. There will be a right to encryption while personality rights are to be supported more effectively. German competition law is to be amended in order to give consumer protection greater consideration.
- 5) **Leading in key technologies:** Germany is to become a location for key digital technologies such as AI, quantum technology, cybersecurity, distributed ledger technology and robotics. To this end, European cooperation should also be expanded.
- 6) **Digital Competition:** An ambitious Digital Markets Act is supported, including interoperability obligations and merger control. Changes in the German positioning on the DMA and DSA through a green leadership of the Ministry of Economics can be expected as the Greens pushed for a broader scope and tougher legislation in the past.

REAL ESTATE

CONCLUSION:

The building sector in Germany accounts for one third of greenhouse gas emissions. At the same time, more than half of the people in Germany live in rented accommodation. Moreover, the coalition faces the challenge of massively advancing climate protection in the building sector. At the same time, they are challenged not to overburden tenants financially. A large share of the measures in the real estate chapter aim to solve these challenges – boost construction, improve tenant protection, facilitate ownership and push modernization.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Boost construction:** The coalition explicitly stresses the objective to make housing more affordable. It is planned to construct 400,000 new homes per year, including 100,000 publicly subsidized homes. Furthermore, an “affordable housing alliance” will be created to bring all relevant actors for the housing sector together.
- 2) **Slightly improved tenant protection:** The agreement foresees the evaluation and extension of current tenant protection regulations. The rental price break (“Mietpreisbremse”) will be extended until 2029. In the same vein, qualified rent indices will be broadened and made legally secure to curb rent increases.
- 3) **Introduction of a “partial warm rent” and abolishing the modernization levy:** Implementing this complex plan would have extensive implications for rent calculation and capping. In addition, a “fair” sharing of CO2 costs between landlords and tenants on the other hand is to be achieved (currently the burden lies solely on tenants).
- 4) **Enhanced climate protection in the building sector:** A funding scheme for new construction will be established which strongly focuses on greenhouse gas emissions (GHG) per m2. In addition, the 2020 Building Energy Act (GEG) will be amended. To achieve circular economy in the building sector, grey energy and a building’s lifecycle costs will be further scrutinized (e. g. through a digital building resource passport).
- 5) **Facilitate home ownership in Germany:** The coalition seeks to enable more people in Germany to live in their own property. In a nutshell, it aims to lower the hurdles to property acquisition through equity-replacing loans. Also, the coalition plans to support households in the long-term, e.g., with repayment subsidies and interest rate reductions for property acquisition. In addition, the coalition wants to support the federal states to make the real estate transfer tax more flexible through tax allowances for owner-occupied flats.

FINANCIAL SERVICES

CONCLUSION:

The agreement represents a major shift in that the potential of capital markets for the demographic challenge and investment has been acknowledged. The anticipated pension reform plans represent a major change with significant potential for the asset management industry. The coalition also clearly acknowledges the ongoing transformation of the financial sector and seeks to approach these changes with an open mindset. Consumer protection concerns play a smaller role than expected but will undoubtedly still be present in the political agenda going forward.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Pension reform:** The implementation of a capital market-based component into the public pension system is part of the agreement. Furthermore, there will be a fundamental reform of the private pension component, as part of which the introduction of a standard publicly administered fund (opt out) as well as the recognition of private investment products with higher yields than "Riester" is envisaged. The occupational pension system shall also be opened for higher-yielding products.
- 2) **Taxation:** The FDP secured agreement to its central campaign promise of no tax increases securing no raises to income or corporate tax, no introduction of a wealth tax, nor a change of the existing capital gains regime. The long-standing goal of introducing a financial transaction tax has also been abandoned. To incentivize investments, the coalition plans to implement a super depreciation program ("Superabschreibung") applicable in 2022 and 2023 to foster investment related to climate protection and digital assets.
- 3) **Sustainable Finance:** The coalition is committed to make Germany a leading hub for sustainable finance and ESG. Concretely, it plans to advocate for minimum requirements regarding ESG-ratings and to consider ESG risks in credit ratings on EU level.
- 4) **Banking Union and CMU:** The coalition strives to complete the Banking Union, including a willingness to agree to the introduction of a pan-European re-insurance scheme for the national deposit schemes. Furthermore, the deepening of the CMU by removing barriers for transnational capital market activity and the harmonization of legal regimes on EU level is anchored.
- 5) **FinTech and innovation:** The contract emphasizes the need to reappraise the opportunities and risks stemming from new business models, products, and technology in the finance sector, arguing for an open, and innovation-friendly framework whilst maintaining fair competition (esp. relating to the market entry of BigTech).

FOOD AND AGRICULTURE

CONCLUSION:

Especially for the Greens a more sustainable agricultural sector and preservation of biodiversity is an absolute priority. There will be a new focus on enhancing organic farming and transforming industrial farming to be more climate friendly. Increasing animal welfare is an overall focus, with the goal of improving both enforcement as well as the existing legal basis. Antitrust supervision of the sector will be strengthened and trade practices more closely scrutinized.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Animal welfare:** Introduction of a mandatory animal welfare labeling including transport and slaughter by 2022, with the goal of EU-wide implementation. The legal basis of animal welfare/health will be updated and a lack of enforcement will be addressed such as in animal transport and husbandry. The use of antibiotics as well as animal testing will be reduced. The conversion of stables to allow for more animal welfare will have to be financed by the food industry – there will be neither a tax nor a levy.
- 2) **Organic farming:** The loss of biodiversity is to be countered by an ambitious increase of organic farming to 30% by 2030. The use of pesticides will be reduced and the approval process will be made more transparent. Digital farming as well as access to data will be prioritized.
- 3) **Food strategy:** A nutrition strategy will be developed by 2023 and the share of regional organic products be increased. Plant-based and innovative nutritional alternatives are encouraged. The EU-wide nutrition-score shall be further developed. Antitrust supervision of the sector will be strengthened with a view at unfair trade practices and price dumping.

HEALTHCARE

CONCLUSION:

We expect high additional costs (over 10 billion for health and long-term care) and new regulations for inpatient care providers as well as outpatient care by the state authorities. Furthermore, patient rights will be strengthened and an announced price negotiation reform for pharmaceuticals marks the paper.

MOST RELEVANT AGREEMENTS OF THE COALITION NEGOTIATION:

- 1) **Nursing care:** Municipal authorities receive binding opportunities to participate in care provision. Therefore, private investors cannot freely choose locations for long-term care facilities. This could affect the ownership of new institutions. The personal contribution to inpatient care is to be limited. More funding will be provided for home care.
- 2) **Digitalisation:** A particular focus is on a digitisation strategy for healthcare and nursing. This includes documentation, social participation, therapies, and telemedical services. Health data will be better accessible for scientific use and research. Digital competencies are to be strengthened in the training of healthcare and nursing professions.
- 3) **Health Care Insurance:** The existing insurance system is broadly maintained. A Prevention Act is intended to promote precautionary care throughout the society. Further reforms to bridge the care roles of ambulatory and clinical health sector are planned. A committee will be established to assess reforms for the role of hospitals. Through "outpatientization", integrated health and urgent care centers are expected to replace unnecessary inpatient services. The federal subsidy for statutory health insurance will be raised continuously.
- 4) **Pharmaceutical manufacturer:** The law on the reorganization of the pharmaceutical market (AMNOG) is being further developed. Health insurers are encouraged to regulate drug prices. With a health assurance act, medicinal and medical products are to be stockpiled. Production of innovative drugs and vaccines will be relocated to Germany. Financial contributions to service providers should become more transparent. Cannabis sale will be legalized.









COALITION SPD / GREENS / FDP

Deep Dive Division of Ministries



DIVISION OF MINISTRIES





SPD *

	<p><i>Olaf Scholz</i> Chancellor</p>		<p>NA Interior</p>
	<p>NA Health</p>		<p>NA Defence</p>
	<p>NA Labour and Social Affairs</p>		<p>NA Construction</p>
	<p>NA Economic Cooperation and Development</p>		<p>NA Chancellery Minister</p>

Greens

	<p><i>Annalena Baerbock</i> Foreign Ministry</p>		<p><i>Robert Habeck</i> Economic Affairs and Climate Protection</p>		<p><i>Anne Spiegel</i> Family Affairs, Senior Citizens, Women and Youth</p>
	<p><i>Steffi Lemke</i> Environment, Conversation, Nuclear Safety and Consumer Protection</p>		<p><i>Cem Özdemir</i> Food and Agriculture</p>		

FDP

	<p><i>Christian Lindner</i> Finance</p>		<p><i>Marco Buschmann</i> Justice</p>		<p><i>Bettina Stark- Watzinger</i> Education and Research</p>
	<p><i>Volker Wissing</i> Transport and Digitalisation</p>				

*The SPD will name its ministers shortly after its party congress on 4 December.

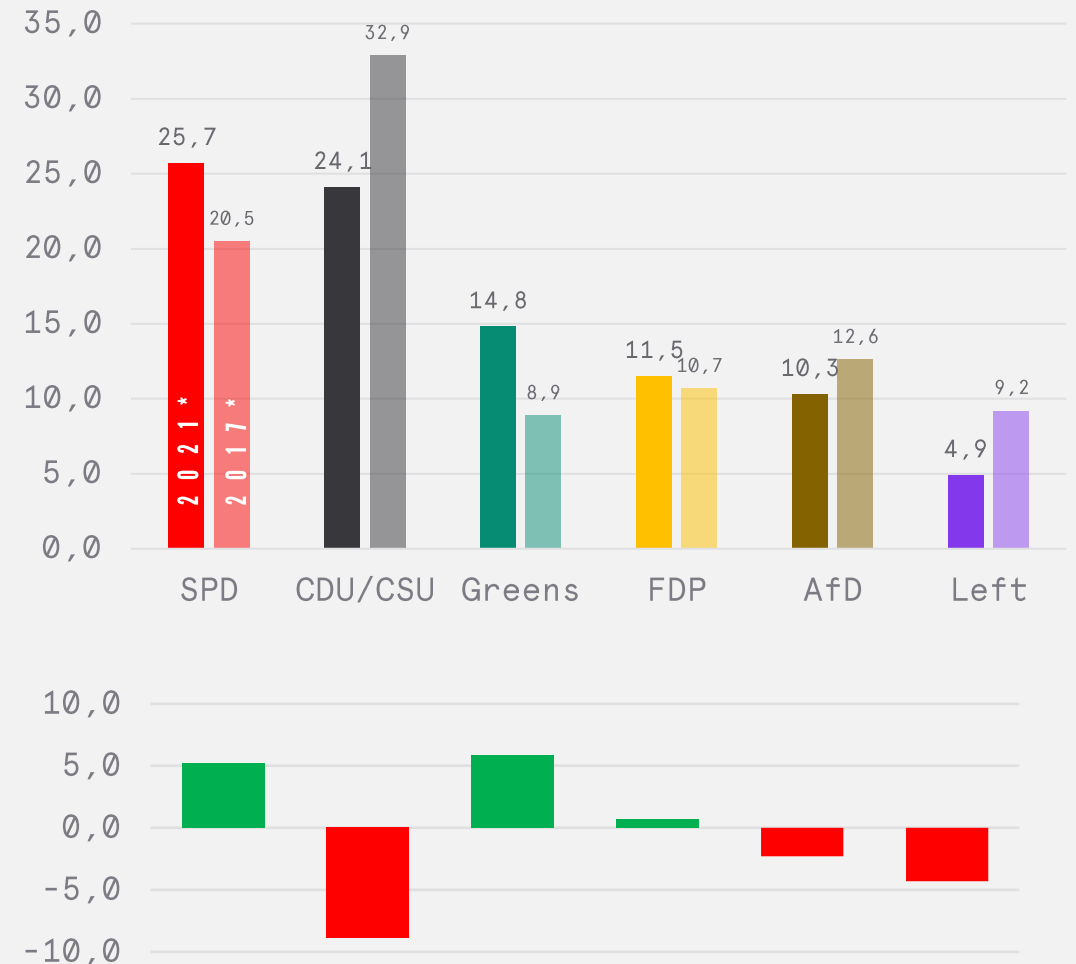
COALITION SPD / GREENS / FDP

Recap Results



DISTRIBUTION OF SEATS IN THE NEW PARLIAMENT

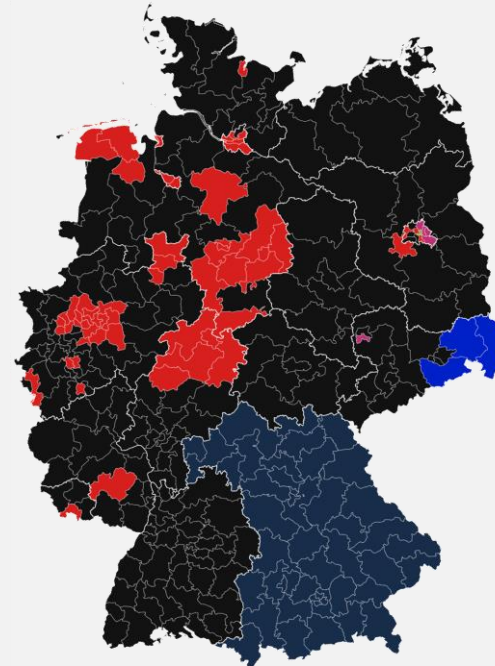
	Seats	Vs. 2017	Direct seats	Vs. 2017
SPD	206	+53	121	59
CDU + CSU	151+45	-50	98 + 45	185 + 46
Greens	118	+51	16	1
FDP	92	+12	-	-
AfD	83	-11	16	3
Left	39	-30	3	5
SSW	1	+1	-	-



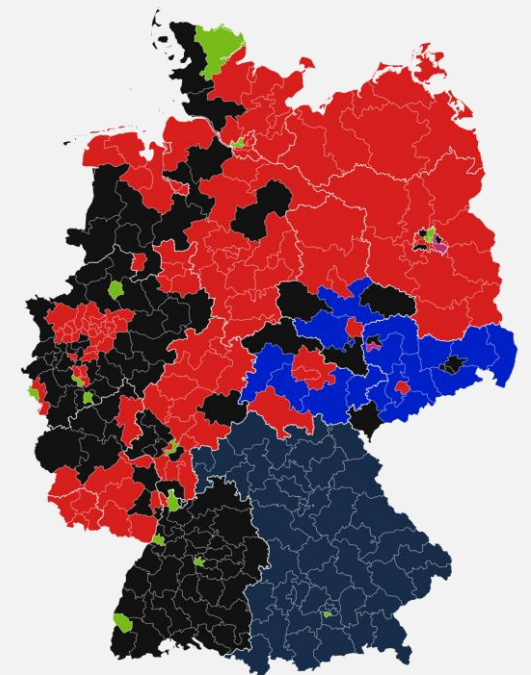
ELECTORAL MAP

- | SPD regained former strongholds in the North, East and South-West
- | CDU-weakness enabled AfD to significantly extend direct seats in strongholds in Saxony, Thuringia and Saxony-Anhalt
- | Greens win significant number of direct seats in urban centres for the first time
- | Left party rescued their continued presence in the Bundestag by winning three direct mandates (Berlin/Leipzig)

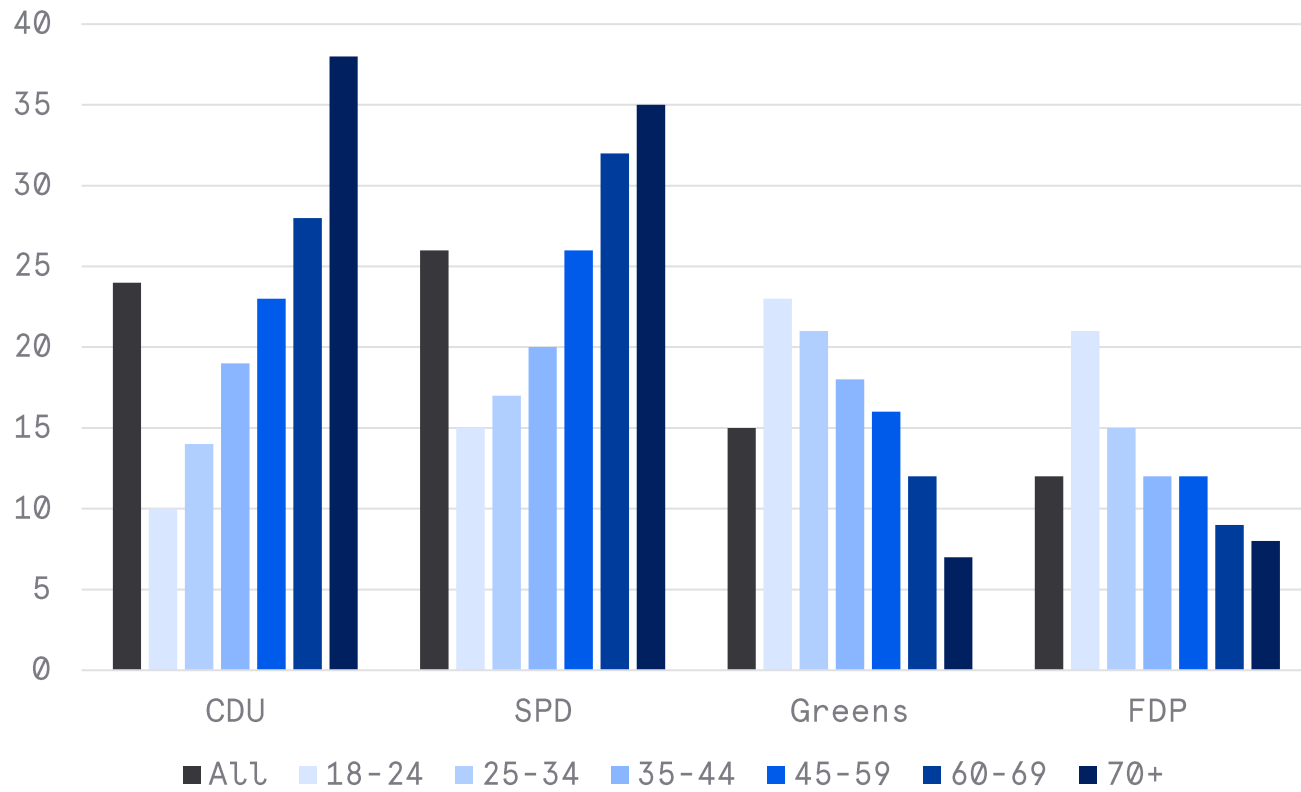
DIRECT ELECTORAL SEATS 2017



DIRECT ELECTORAL SEATS
2021



OLD(ER) vs. YOUNG: THE PARTIES' VOTER BASES



*data: infratest dimap



THE NEW BUNDESTAG

- | Avg. age 47.5 (2017 = 49.4)
- | 1/3 of MPs <40 years
- | 38 % new MPs (in particular among Greens, Social Democrats)

	Seats	vs. 2017	Of which Direct district seats	vs. direct seats 2017
SPD	206	+53	121	+62
CDU + CSU	151+45	-50	98 + 45	-87 + -1
Greens	118	+51	16	+15
FDP	92	+12	-	-
AfD	83	-11	16	+13
Left	39	-30	3	-2
SSW	1	+1	-	-



THE BUNDES RAT: AN OBSTACLE TO REFORMS

- | Composition of the Bundesrat (legislative body that represents the sixteen federal states) from November 2021
- | Laws that affect state powers and constitutional changes need its consent
- | The coalition would have just 7 of the 35 votes needed for a majority - CDU/CSU in opposition block around 48 votes
- | CDU/CSU will have to be involved in major decisions

