

## **Key Points from the Energy Talks at the Reichstag in 2024**

### ***Current status of the energy transition in general***

- There is a broad consensus that energy and climate policy cannot continue as before. Employees in industry are losing confidence.
- A reset is required. The energy transition requires a new narrative. The narrative must not be limited to the "fear of doom".
- Social acceptance is in danger of being lost. Citizens do not want to be patronized in their decisions. You can't make such a huge transformation without societal acceptance.
- The energy transition is a holistic project, all affected areas are intertwined, and people must be convinced of this again and again. But if we continue as before, there will be no green economic miracle.
- The energy transition must not be an elitist project in which some always know better than others what serves the climate. A defamation-free dialogue about the best way forward is necessary.
- It must be assumed that the current design of the EU Green Deal and its "EU Fit for 55" legislative package will not achieve the greenhouse gas (GHG) reduction target of 55% by 2030 (on the basis of 1990).
- There is no business case for CO<sub>2</sub> reduction in Europe.
- The EU now needs the Green Industrial Deal which requires pragmatism and speed.
- The EU is under pressure because not all member states can afford a system failure for as long as Germany.
- We are no longer pioneers or a global role model. We used to be admired, but today the world sees that we are making little progress in advancing climate protection while the country is deindustrializing.
- A new style of politics with new incentives and degrees of freedom for companies is required. The current political set-up is not sufficiently focused on the needs of industry.
- The widespread idea that the energy transition costs nothing must be abandoned. Will we be able to take steps towards a truly integrated energy policy?

- Considering other currently important policy goals, the funds for climate protection must be used in a very targeted manner. They are no longer guaranteed "no matter what".
- All mainstream organizations must give up long-standing commitments and creeds.
- Considering additional financial burdens and new challenges due to new challenges (defense budget), spending on climate protection is no longer simply a priority above the rest, but must be promoted to gain acceptance and steadiness.
- Against this background, questions about debt or tax increases and the debt brake should not be dealt with by engaging in party politics.
- We have to concentrate on where we are strong and stronger than competitors. The key question is: How can we tackle the next steps of the energy transition as quickly and cost-effectively as possible?
- It doesn't always have to be the S-Class for energy transition projects, the Golf would do it too, for example by focusing on above the ground transmission lines (instead of underground cables).
- Will we manage to postpone the other parts of the Green Deal that have nothing to do with climate protection?
- It is important to abandon the well-intentioned but counterproductive rigidity of climate policy. We need bridges and concrete transformation paths that define business and policy at the same time in every area.
- Solar and wind power are at the heart of the energy transition, but focusing on them is misleading. We need to unleash all technologies that reduce or bind CO<sub>2</sub>.
- Instead of pursuing climate policy through bans, the focus must be on market solutions and technological innovation.
- Climate policy must be ambitious, but not overambitious. It is about pragmatism, feasibility and concentration on concrete projects.
- There must be no narrowing of technological paths, no excessive bureaucracy and over-complexity. Stable investment conditions and openness to new technological developments are crucial.
- Let's not overdo it with excessive targeting. Goals are good if they are ambitious but achievable.
- A political paradox prevails: climate goals are equated with climate protection technologies. In addition, one should no longer speak of decarbonization, but of defossilization.

- The ideologization of energy and climate policy and the restriction of technological possibilities must be ended. The energy transition must be managed economically.
- The discussion in Germany is too wedged and mutually blocked. The momentum of renewable energies whose triumphal march can no longer be stopped is underestimated.

***Global framework conditions of the energy transition are changing***

- The transformation towards climate neutrality is taking place in times of changing geopolitical and geoeconomic conditions. Key strategic raw materials, goods and technologies form supply chains that lead to new, sometimes massive import dependencies, especially on China.
- The EEG (Renewable Energies Law) has created a lead market for green electricity, but the production of the technology (especially solar) takes place primarily in Asia.
- A new resilience must be created to cushion potential shocks from new import dependencies. To this end, strategic industries should be located in Europe and Germany and the use of domestic resources of strategic raw materials such as lithium should be made possible.
- New climate and transformation partnerships with other countries, reform of competition law and diversification of sources of supply are other key points.
- Germany must be aware that the energy transition does not stop at its own borders and help to advance it in other countries and regions under the conditions there.
- The EU and Germany are exposed to new global competition, due to the US Inflation Reduction Act (IRA) on the one hand and the "Made in China 2025" strategy on the other.
- Globalisation is currently characterised by a competition of industrial policies that deal with subsidies, tariffs and standards.
- Regaining social acceptance for indispensable mining projects for the extraction of the raw materials required for climate transformation is essential. Of particular importance is the expansion of recycling and the improvement of its framework conditions.
- The role of KfW (Kreditanstalt für Wiederaufbau) should be reconsidered and its strategy adjusted in favour of climate protection financing to support resilience abilities.

- Banks should rethink their previous risk analysis with regard to transformation-relevant raw materials and goods and acquire a new syndicate capability.

***Global framework conditions in concrete terms:***

***Energy partnership between Germany and Azerbaijan***

- Azerbaijan and Socar have their roots in the traditional oil and gas business and have been expanding for some time now their portfolio to include renewable energies.
- Decarbonisation, sustainability and climate protection are now essential components of the Azeri energy strategy. To this end, partnerships have been entered into with well-known international companies.
- Germany and Azerbaijan should make greater use of their joint potential to promote the global energy transition. Azerbaijan is an essential partner for Germany. The Azeri cooperation with German companies is good, but could be better.
- With 250 days of sunshine annually Azerbaijan has great potential in solar energy which should be used to produce synthetic fuels such as green methanol.
- European import restrictions must be dismantled. In addition, the mood and framework conditions for hydrogen - including low carbon hydrogen - must improve.
- Energy security, climate protection and affordability of energy cannot be separated.
- Natural gas plays an important role as a technological bridge on the way to climate neutrality.
- The EU is a leader in carbon pricing, especially with its carbon emissions trading. What needs to be worked on further is global CO<sub>2</sub> pricing.
- COP29 has ended by agreeing on uniform UN standards for carbon trading. This is an important step. So far, everyone is saying: COP 29 is much better than expected.

***Regulatory deficits of the energy and climate transition***

- There is too much regulation and bureaucracy. The laws, rules, exceptions, etc. are now so complicated that hardly anyone understands them anymore.

- The EU Green Deal/Fit for 55 has already generated 400 Delegated Acts to regulate all sorts of details. The EU Commission cannot say how many legal acts of this kind exist.
- But these delegated acts are the area that decides on the success of the energy transition. Delegated acts must be amended if they have the opposite effect to what has been decided.
- The EU system is not designed to adopt 1,000 pieces of legislation in a short period of time.
- In view of severe regulatory ambiguities, escalating bureaucracy and a lack of planning security medium-sized companies in particular cannot make responsible decisions for investments in Germany.

### ***Outstanding role of renewable energies, but “All Electric” does not work***

- For the energy transition to be successful all available renewable energies must be used. The focus must not be narrowed to wind power and photovoltaics.
- The All Electric vision has become obsolete. The EU's energy supply is based on 20% electricity and 80% on molecules, which must therefore be or be made climate-neutral in order to contribute to the success of the energy transition.

### ***The underestimated Cinderella among renewables: biomethane***

- Biomethane is a good substitute for gas and has a lot of potential, for example in the building sector where gas heating systems will be used in certain areas for a long time to come. It can also be used very well as an alternative feedstock in the chemical industry.
- Biomethane is an available technology that does not require high investment in new infrastructure. It is storable and versatile.
- The usable volume in Germany is limited which is why imports from EU countries and from outside the EU should also be facilitated. In the latter respect the focus should also be on Ukraine.
- Regulatory import relief for biomethane is urgent. Brussels has a special responsibility in this regard, and the EU should act more quickly. Specific points are, for example, certification questions and guarantees of origin.
- Idea of a "molecule import law", also to increase the tradability of biomethane.

- For the continuation of the energy transition a biogas or biomethane quota should be introduced. This should be urgently enacted in the coming election term.

***Much discussed, now evident: It won't work without CCUS***

- Climate neutrality cannot be achieved without CCUS (Carbon Capture Usage Storage). It's not just about enabling, but implementing CCUS.
- The aim is to treat CO<sub>2</sub> as a raw material in the sense of a climate-protecting circular economy. CO<sub>2</sub> is not waste, its introduction into natural reservoirs is not disposal, but storage for future applications.
- One example of using CO<sub>2</sub> is the production of synthetic fuels.
- Now the long overdue investment and legal certainty must be created. The planned CCUS law must be passed before the next federal election and expanded in the coming election term.
- The regulation of CCUS must also include CO<sub>2</sub> pipelines and pipeline networks, following the example of hydrogen and LNG, and it must allow cross-border CCUS solutions.
- Offshore use of CCUS is a priority, but onshore projects should also be allowed if a state decides to do so.
- Essential for good regulation and use of CCUS is the accompanying communication work on the part of the government and companies. Denmark could be a role model where there is broad societal support for CCUS.

***New hydrogen infrastructure is crucial***

- The importance of molecules for a climate neutral energy supply is no longer disputed.
- A new consensus is forming that the path from natural gas to green gas (hydrogen) not only requires good will, but must be worked out in a painstaking transformation path.
- It has taken too long for gas to be seen not as an adversary, but as a partner of renewables with the prospect of being gradually replaced by hydrogen.
- The development of the hydrogen ramp-up gives cause for cautious optimism.
- A lot has happened in this regard in the last year, namely the agreement on a hydrogen core network. However, the expansion of the hydrogen network is not progressing. No new electrolysis plant is currently being built.

- The German government has also received a lot of international recognition with its expansion and financing concept.
- Since 70% of the hydrogen transported through the core network is to be fed into the power plant area, clarity about the future power plant landscape is urgently needed in order to unleash infrastructure investments.

### ***The green transformation of industry is essential...***

#### ***....example of green steel***

- Under today's conditions, the steel industry accounts for 7% of CO<sub>2</sub> emissions nationally, Europe wide and globally – climate neutrality therefore requires a switch to green steel.
- For this reason, government funding to support this transformation is not a subsidy, but an investment.
- If 50% of EU steel companies do not switch to climate-friendly direct reduction, the European climate target will be missed.
- The European CO<sub>2</sub> emissions trading scheme for industry and energy (EU ETS 1) means that from 2039 onwards CO<sub>2</sub> certificates will no longer be available for industrial production. This is already leading to investment attentism.
- CO<sub>2</sub> emissions trading alone is not sufficient as a framework for the green transformation of industry, green lead markets are a necessary addition.
- A lead market concept for green steel should therefore be accompanied by a European industrial agenda.
- A major buyer of green steel could be automotive production. This works if the CO<sub>2</sub> footprint of the car is not measured at the tail-pipe as it is today, but if the entire life cycle of the car is the benchmark.

#### ***....example of the automotive industry***

- For the future competitiveness of the automotive industry, digitization and autonomous driving are at least as important as climate neutral propulsion technologies. Technologically, the German automotive industry is well positioned in these areas and does not need to shy away from competition, especially from China.
- The biggest challenges lie in the framework conditions such as high energy costs and excessive bureaucracy as well as in Chinese competition and protectionist trends in trade policy.

- In order to achieve climate protection in road transport, the ramp-up of electromobility is a priority. The goal must be to increase the market share of electric cars from 15% to 50%.
- The decisive factors for this are the expansion of the charging infrastructure and the recovery of customer trust lost due to the removal of purchase incentives last year. In addition, increased sector coupling between the mobility and electricity sectors is required.
- The decisive factor is a low electricity price, as can be seen in Sweden and Norway. Then many regulations and subsidies would also become superfluous.
- In addition, electric cars must become cheaper and have a longer range. In the second half of the decade cost and price parity can be achieved between electric and internal combustion cars.
- In addition, renewable fuels are necessary, especially in view of the existing fleet equipped with internal combustion engines which will exist for longer and longer than expected. This requires an ambitious greenhouse gas (GHG) quota and an ambitious implementation of the EU Renewable Energy Directive III (RED III).
- Figuratively speaking, the gasoline that will still be used in the future must no longer be brown, but green. The phase-out of the internal combustion engine by 2045 or 2050 is not realistic.
- In order to advance climate protection in road transport, new regulation is needed. The current regulatory framework is geared towards new vehicles and ignores climate protection measures for the existing fleet.
- It is crucial to stick to ambitious CO<sub>2</sub> reduction targets. They must be at the center of regulation.
- In addition, it must be ensured that there are no penalties for the automotive industry in 2025 for failing to meet current CO<sub>2</sub> fleet standards. The automotive industry cannot be blamed if customers currently have less confidence in electric mobility.
- The goal of zero emissions for new cars from 2035 is not questioned, but the method of CO<sub>2</sub> measurement is. Replacing the current tank-to-wheel (exhaust) measurement method with the Life Cycle Assessment (Life Cycle Assessment = LCA) would improve the comparability of alternative propulsion technologies. The EU Commission should fulfil its mandate to make a proposal for an LCA measurement method. The LCA method would also create an incentive to use green steel in car production.

***Electricity market reform, electricity market design, capacity mechanism/market***



- By 2028 a capacity mechanism is to be established for the electricity market with the aim of creating a capacity market.
- The argument "sun and wind don't send an invoice" is not true: Infrastructure expansion or the construction of (conventional) reserve power plants for the periods without wind and sun requires a lot of money.
- High energy and electricity costs remain a major problem, especially rising grid costs. The question arises as to whether Germany has enough power plants. Is there a chance for an industrial electricity price?
- The high electricity prices lead to a competitive disadvantage for German industry, especially for the energy-intensive industry. This accelerates deindustrialization and a loss of acceptance in the economy.
- A functioning and secure regulation must be found for volatile electricity supply based on green electricity by creating a maximum degree of flexibility.
- This regulation must address maximum decentralised demand with a central component at the same time in order to create investment security for new power plants and storage facilities.
- The potential of battery storage is not sufficiently recognized, and instead investments are being made in much more expensive expansion of the power grid. The solutions to deal with the volatility of renewables are not seen or torpedoed.
- The energy transition should be reviewed again and again for cost efficiency. Will the grid expansion really be as extensive as planned, and shouldn't the decision on very expensive underground cabling be revised?
- The new system must live up to the image of "airplane and parachute" (i.e. departure and safety at the same time).
- It is about 10.5 GW of new gas-fired power plants which would have to be hydrogen-ready. In addition, 2 GW of existing power plant capacities will be converted. However, it is doubtful whether these 10.5 GW will be sufficient.
- Combined heat and power (CHP) must be extended until 2028 and then transferred into the new capacity mechanism and subsequently into the capacity market. The CHP funding conditions must be (re)designed in such a way that the thread break that would otherwise happen in 2025 is avoided.
- CCUS must also be transferred into these new capacity structures.
- Modifications to the Federal Government's concept must be examined, such as "integrated capacity markets".

- The German electricity market must be seen and regulated as part of the integrated European energy market.
- The new capacity mechanism/market must not lead to a new permanent subsidy.
- A change of technology is required for power plants. New power plants serve system security, close the "grid gap" and thus have a price-dampening effect, not a price increase.
- The conversion of relatively new power plants by switching to gas and hydrogen must be included in the scope of the Power Plant Safety Act. Such a conversion costs only 20% building a new one.
- The complexity of the system urgently needs to be reduced. The current complexity is so great that no one can properly understand and apply the existing regulations.
- High energy costs, especially for energy-intensive industries, remain a huge problem that will tend to worsen in the coming years. Energy intensive industries are no longer competitive in Germany.
- The benchmark should be the slogan of Foreign Minister Baerbock, according to which the energy transition will fail if industry in Germany cannot be maintained.
- In addition, the problem of excessively high grid charges must be addressed urgently.

***Some thoughts on what should happen now are lessons learnt***

- The financing of the energy transition must be consistently aligned with the goal of climate neutrality.
- It must be privately financed above all, with government incentives in financial and other forms being essential to mobilise sufficient private capital.
- State investment incentives are necessary which is why there should be a special government climate protection investment fund. But even then, the question remains as to which technologies should be invested in. Where is the best "leverage effect" for the funds used?
- There should be no government funding for start-ups, and the government should rather use as being a buyer of climate protection technologies.
- Considerations on reformulating European industrial policy must take into account the limited financial resources. One of the important things now is that the European Capital Markets Union will finally be adopted.

- The drastic acceleration of planning and approval procedures is also crucial. The construction of the LNG terminals on the North Sea and Baltic Sea coasts can serve as a model for this.
- Especially in the further expansion of renewable energies it is important that such projects generate cash flow more quickly. Progress in the creation of the European Capital Markets Union can be helpful here.
- The bank financing of energy transition projects which is widespread in Germany reaches its limits when compared to the depth of the American capital market. This also speaks for a strengthening of the European capital market.
- During the last 20 years the impression has been created too much that the energy transition is free of charge. In the interest of its social acceptance the costs of the energy transition and its extent should be more transparent.
- In view of the challenges in the areas of energy transition and security. Germany must be clear about its priorities.
- Compared to the US, however, Germany has more solid public finances. A special government climate protection investment fund could be an idea if it goes hand in hand with a de-ideologization and a stronger market-based orientation of the energy transition.