Guide to Germany's plan to subsidize electricity costs for energy-intensive industries

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Introduction

Germany's economy ministry has put forward a contentious multibillion euro plan to subsidize electricity costs for the country's energy-intensive industries until 2030 to help companies transition to renewables and persuade them not move production abroad. The initiative championed by Vice Chancellor and Economy Minister Robert Habeck has been welcomed by some businesses. But Chancellor Olaf Scholz has said the government should not get into the habit of subsidizing parts of the economy while Finance Minister Christian Lindner has branded the plan economically unwise and unaffordable.

This Dods Political Intelligence report, produced by our German-language monitoring team, provides a one-stop guide to the controversial industry energy subsidy plan and a range of stakeholder reactions with links to original sources.

Habeck's energy price "bridge"

On 5 May, 2023, Robert Habeck, Germany's Deputy Chancellor and Federal Minister for Economic Affairs and Climate Action, presented a controversial plan to provide billions of euros in financial support to help the country's energy-intensive companies manage the persistently high electricity costs fuelled by the war in Ukraine until the end of the decade. Under the proposal, which has yet to be backed by the German government or parliament, 80 percent of electricity costs for a range of companies would be capped at 6 cents per kilowatt hour (kWh) until 2030, when it is hoped renewable energy prices will have dropped. The subsidy, which would cost an estimated €25bn-€30bn paid out of the country's largely unused special €200 billion energy relief fund, aims to support energy-intensive companies' transition to renewable power and persuade them not move production to cheaper jurisdictions abroad. To be eligible for the support, companies would need to commit to be climate neutral by 2045, guarantee not to relocate long-term, and engage in collective bargaining if possible.

Habeck said Germany's energy-intensive industries were facing an "existential threat" as they struggled to balance high energy prices with obligations to rapidly decarbonise. "In concrete terms, this is how we secure good jobs, complex value chains and highly innovative companies that are currently undergoing transformation," he said. "We want to avoid permanent subsidies. Therefore, we propose a bridge that will lead to a future with low renewable electricity prices and no subsidies."

The energy subsidy proposal, which Habeck has said should be implemented by early 2024 when other energy support measures expire, is being seen as Germany's response to the pull of the massive US Inflation Reduction Act (IRA) and large green subsidies in China. It is designed to support manufacturers in a range of sectors including chemicals, steel, metal and glass, as well as encouraging European investment in industries seen as crucial to reducing EU dependence on China, such as the production of solar panels and semiconductors. The bridging tariff will also be reserved for "transformative industries", expected to include clean technologies like batteries and electrolysers.

The subsidy plan has been welcomed by companies, some of which have argued that German energy prices remain high by international standards after energy relief measures introduced in 2022 focused on households and small and medium-sized firms rather than the country's energy-intensive industries which account for €355 billion of economic output and 15 percent of jobs. Energy costs remain three times as high as in 2020, while a recent survey by the German Chamber of Industry and Commerce found that three quarters of German companies consider energy and raw material prices to be the biggest risk to their business model. BASF, the world's biggest chemical company, announced plans to downsize its European production to save energy costs. Other companies have also reconsidered plans to build factories in Germany, such as Swedish battery maker Northvolt, which has been eyeing investments in the US instead. Volkswagen has similarly put a planned battery factory in eastern Europe on hold and prioritised a similar facility in Canada which would enable access to IRA subsidies and incentives. Oliver Blume, VW's chief executive, has called for politicians to intervene in the European electricity market, arguing that prices must stay below 7 cents per kWh to remain competitive. The average price of electricity for business consumers in Germany was 25 cents per kWh including taxes in the second half of 2022.

The subsidy plan has highlighted divisions in the governing coalition. Chancellor Olaf Scholz, from the Social Democratic Party (SPD), has given the proposal a cool reception, saying the government would not be able to subsidize everything that faces challenges over the long run, "nor should we get into the habit of doing so." Finance Minister Christian Lindner, from the pro-business Free Democratic Party (FDP), has pushed back harder, saying the planned subsidy would be "economically unwise" and contradict market principles. "Increasing competitiveness for some would thus mean a loss of competitiveness for others," he said in an article published in Handelsblatt, adding that there was "no leeway in the already strained budget for correspondingly high subsidies". On 22 May, Habeck, of the Greens, invited industry representatives, associations, and employees to discuss his electricity subsidy plan which he said he wanted to introduce by the beginning of spring 2024 when existing energy price caps are due to be lifted. "In my opinion, that would be the best and latest moment to step in and implement such a concept", Habeck said. However, at the time of writing, no date has been set for the subsidy proposal to be debated in the German parliament.

National decisions on subsidies in the EU are also subject to approval by the European Commission which is tasked with maintaining a level playing field for businesses across the single market. It remains to be seen if the proposed German subsidy will meet EU competition rules. Debate about the role of state aid has grown in the wake of the huge Covid-19 pandemic and energy crisis economic support programmes, President Joe Biden's $370bn IRA and large state-directed investments in China. However, if Berlin presses on with subsidies for its domestic industry it may exacerbate tensions within the EU with smaller countries that are less able to match Germany's economic fire power. Germany also insisted that member states follow EU-wide energy consumption cutbacks during the energy crisis and also recently shut down its own nuclear power plants.

At the time of writing, the European Commission had yet to comment formally on Habeck's multi-billion-euro subsidy proposal. On a visit to Berlin in the days after it was announced, Commission Vice-President Margrethe Vestager said offering discounted electricity to German industries required careful consideration, adding that, "Long-term competitiveness is not built on subsidies." However, the EU's competition chief said the Commission did not have sufficient information to assess the proposal.

Stakeholder reactions

“It is right for the government to provide financial relief for energy-intensive industries. However, such interventions should under no circumstance distort price signals on the energy market,” Kerstin Andrae, Chief Executive of the Federal Association of the Energy and Water Industry (BDEW), said in a 5 May statement.

“The best means for competitive and low industrial electricity prices are the lowest possible generation costs for offshore wind energy generation. In order to get there, the federal government must, on the one hand, take industrial policy measures for the offshore value chain - here it made the first good proposals today - and on the other hand release the existing brakes. In view of the concept presented today, the uncapped bid component in the offshore tenders seems all the more outdated because it increases the financing costs for the construction of wind turbines at sea and this is reflected in rising electricity prices. It must therefore be omitted," said Stephen Thimm, Managing Director of the Federal Association of Windfarm Operators Offshore (BWO).

“It is necessary to provide bridging conditions until 2030 to allow for a successful economic transition towards climate neutrality. Otherwise, current electricity prices would keep on skyrocketing indefinitely. The proposed price cap of 6 cents per kWh appears to be appropriate and well-balanced. We also support Habeck’s decision to source relevant funding from the 2022 energy relief fund. This price cap, however, needs to be tied to strict conditions and exclude the possibility of windfall profits. That is why it is an important political signal that Habeck seeks to couple the use of industrial electricity tariffs to companies’ loyalty commitments regarding location and climate transformation goals,” Yasmin Fahimi, Managing Director of the German Trade Union Confederation (DGB), said in a 5 May press release

“By prioritising only big energy intensive companies, Robert Habeck seems to turn a blind eye to the fate of small and medium sized enterprises. Mr. Habeck was sworn in as Minister of Economics and not as Minister of Industry. Therefore, the repeated preferential treatment of certain industries is unacceptable, especially since these electricity subsidies would presumably have to be paid by other electricity consumers, citizens and smaller businesses,” Thomas Bürkle, Vice-President of the Baden-Wuerttemberg Crafts Council (Handwerk BW), said on 7 May.

“The industrial electricity price is an important step for Germany as a business location and for our industrial sector: production, industrial value creation and investments in Germany can only be maintained with competitive energy prices […] However, the industrial electricity price cannot be a permanent solution. We stand one hundred percent for the market economy and are no friends of subsidies. But in this exceptional situation, we see no other solution." It is necessary to enter the transformation much earlier than planned,” Dr. Wolfgang Große Entrup, CEO of the Association of the German Chemical Industry (VCI), said on 30 May.

“It is good that the Minister of the Economy has once again clearly acknowledged the need for an industrial electricity price in his current working paper and is taking concrete action […] There is a lot at stake in the industrial electricity price: industrial value creation and thus the future of good jobs in Germany are at stake. If we do not succeed in transforming basic industries into the climate-neutral age and in strengthening closed value-added networks in this country, this will have dramatic effects on the entire industrial location - far beyond the sectors of basic industries. In this respect, an industrial electricity price also strengthens Germany's industries of the future,” Jörg Hofmann, First Chair of the Germany Steel Federation (IG Metall), said on 5 May.

“It is right for Habeck to be sending this clear signal to strengthen Germany's industrial competitiveness. We cannot afford an exodus of energy-intensive industries, particularly for the green transformation. These industries are at the beginning of almost all industrial production processes. A fair electricity price therefore indirectly benefits the entire industrial value chain and thus the entire country,” Michael Vassiliadis, CEO of the Mining, Chemistry and Energy Trade Union (IGBCE), said on 5 May.

“There is no doubt that the industrial electricity price in this country is so high that it nags on our international competitiveness. However, a blanket, drastic subsidisation of the electricity price for energy-intensive companies is a misguided approach. A subsidy rain with a watering can, as is planned for the coming years as a so-called bridge electricity price, burdens the federal finances and thus the economy, including mechanical and plant engineering, as well as German citizens,” Thilo Brodtmann, CEO of Germany’s largest network organization and voice for the machinery and equipment manufacturing industry (VDMA), said on 5 May.

"The decisive factor for an effective 'bridging electricity price' will be a guarantee that it is as unbureaucratic as possible. It must not take long for the measure to be implemented so that industry can also benefit promptly from the support and gain planning security," Christian Seyfert, Chief Executive Officer of the Association of the Industrial Energy and Power Industry (VIK), said on 5 May.

“Plans to keep energy-intensive companies in Germany competitive with state aid worth billions are fundamentally correct. But potential side effects may occur: An energy subsidy for industry must be designed in such a way that its target group remains clear and narrowly defined. Moreover, it must be limited in time. Because a permanently subsidised electricity price leads to higher electricity consumption. That would be the wrong signal,” Ingbert Liebing, CEO of Association of Communal Enterprises (VKU), said on 22 May.

“The Minister of the Economy intends to secure Germany as industrial location with a fixed bridge electricity price of 6 cents per kilowatt hour, which - apart from the fact that the recent shutdown of the last nuclear power plants has unnecessarily tightened the electricity supply - appears to be a pragmatic proposal that comes at the right time,” the Institute of the German Economy (IW) said in a 11 May statement.

“The aim should not be to keep energy-intensive production in Germany, but to keep innovative processes and good jobs here […] It’s also not good from a social perspective. Industry gets the subsidies while consumers are left with high energy costs,” Marcel Fratzscher, head of the German Institute for Economic Research (DIW), said on 22 May.

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