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## PRESSURE ON GERMANY GROWS AS INTERNATIONAL MOVEMENT FROM COAL ACCELERATES

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### Summary

This paper explores Germany's political paralysis on coal, building on our pre-election analysis<sup>1</sup> and contrasting it with the accelerated phase-out dynamic developing both in Europe and internationally.

The rapid international progress around the Powering Past Coal Alliance (PPCA) and the emergence of the European Commission's Coal Regions in Transition Platform will put additional pressure on Germany's political leaders to act decisively during the protracted process of forming a new government.

### International Dynamics

The launch of the Powering Past Coal Alliance<sup>2</sup> (PPCA) by the UK and Canada has provided a political watershed moment for the phase-out of coal. The increasing pressure on coal-burning countries to phase out the fuel is now complemented by the advent of the pan-European civil society campaign Europe Beyond Coal.<sup>3</sup>

In contrast to the excitement surrounding the launch of the Alliance, there was widespread disappointment at Merkel's appearance and speech at COP 23. Under pressure due to the "Jamaica"<sup>4</sup> coalition talks ongoing at the time, she failed to say anything of substance on the future of coal in Germany, despite declaring climate change a "fateful question" for humanity.<sup>5</sup> She received scathing criticism from German NGOs who questioned her climate leadership.<sup>6</sup> The media reporting was

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<sup>1</sup> E3G (2017) **Pre-election Briefing: Five Scenarios for the Future of Coal in Germany**

<sup>2</sup> The Guardian (2017) **'Political watershed' as 19 countries pledge to phase out coal**

<sup>3</sup> Europe Beyond Coal **website**

<sup>4</sup> This coalition borrows its name from the colours of the Jamaican flag, referring to the CDU (black), the FDP (yellow) and the Green Party.

<sup>5</sup> Tagesschau (2017) **Merks Eiertanz**

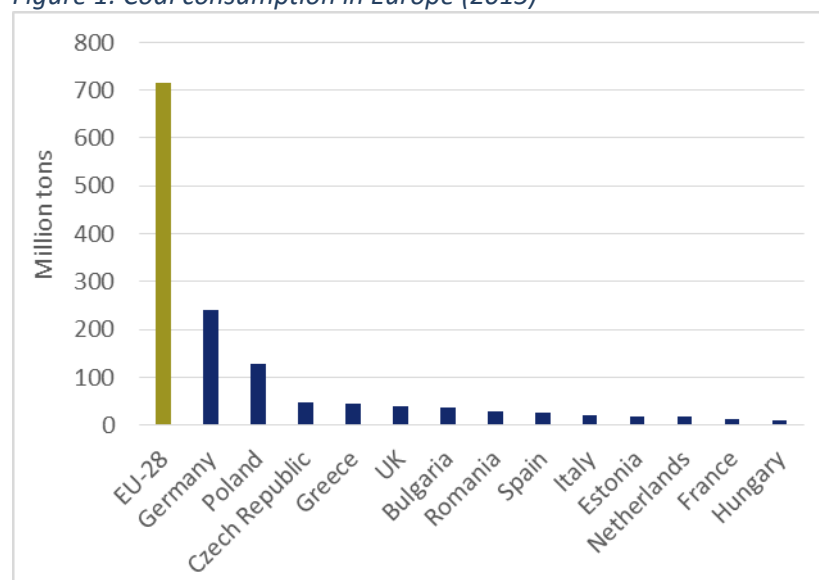
<sup>6</sup> Handelsblatt (2017) **Global coal pledge puts Merkel on the spot – again**



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likewise very critical, calling the launch of the PPCA an “embarrassment”<sup>7</sup> for Germany and likening her approach to coal to “walking on eggshells”.<sup>8</sup> As the EU’s largest coal user (see Figure 1), Germany now finds that its neighbours to the North, West and South are all members of the Alliance.

Figure 1: Coal consumption in Europe (2015)



Source: Eurostat – Gross inland consumption of solid fuels

The One Planet Summit saw the Alliance continue to grow, increasing to 34 countries, states and cities with the notable inclusion of California and Sweden.<sup>9</sup> Businesses also put their weight behind the movement, with 24 companies signing up, including Storebrand, which has investments worth over €60bn and who announced during the negotiations that they would divest from 10 coal companies including RWE and Uniper.<sup>10</sup>

It was important and welcome to see UK Prime Minister Theresa May endorse the Alliance at the high-level segment: “We do need to accelerate the phase-out of coal and that’s where the Powering Past Coal Alliance comes in....this is a call for action....this is transformational.”<sup>11</sup>

Investor interest in fossil fuels has been waning and banks are trying to limit their exposure to fossil fuels. Perhaps the most significant coal divestment announcement at the Paris Summit was made by AXA, which decided to increase its divestment fivefold to reach €2.4bn, including by divesting from companies which derive more than 30% of their revenues from coal or have a coal-based energy mix that exceeds

<sup>7</sup> Deutsche Welle (2017) [COP23: Canada and UK launch anti-coal alliance in Bonn](#); Handelsblatt (2017) [Global coal pledge puts Merkel on the spot – again](#)

<sup>8</sup> Tagesschau (2017) [Merks Eiertanz](#)

<sup>9</sup> HM Government (2017) [Powering Past Coal Alliance: Declaration](#)

<sup>10</sup> Reuters (2017) [Storebrand says drops 10 coal firms from pension fund](#)

<sup>11</sup> One Planet Summit (2017) [Plenary Session](#)



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30% per year.<sup>12</sup> Moreover, Norway's Sovereign Wealth Fund divested from fossil fuels in 2017 and, at the same time, utilities like Enel are aiming for full decarbonisation.<sup>13</sup>

The increasing momentum around the Alliance now sees Germany standing as a laggard on coal, but increasingly on climate policy more generally. Even the Polish Energy Minister Krzysztof Tchórzewski has said that the country was ready to move away from coal, at least in principle.<sup>14</sup> Pressure is likely to intensify in 2018, particularly in the G7, on countries that have failed to back up their international commitments with domestic policies on coal (Germany) or are continuing to finance coal internationally, especially Japan.

In stark contrast to the accelerating international dynamic, German political progress towards forming a new Government, including reaching agreement on critical climate and energy policy reforms, remains in the doldrums. However, it seems that the Social Democratic Party (SPD) is rethinking its stance on coal in the context of preparatory talks on forming another Grand Coalition government with the Christian Democrats (CDU) and its Bavarian sister party, the CSU. A well-managed coal phase-out is likely to be at the top of the to-do list of the next German government.

## Coalition negotiations failed, but progress on coal

To the surprise of most observers and analysts, Angela Merkel (CDU) was not able to form a "Jamaica" coalition with the Free Democrats (FDP), the Green Party and the CSU. As our previous pre-election analysis suggested, the "Jamaica" coalition was widely expected to emerge from the coalition negotiations and potentially provide new impetus for Germany's energy and climate debate, including on coal. The question now is whether a revisited Grand Coalition or "GroKo" can pivot towards more ambition on climate action.

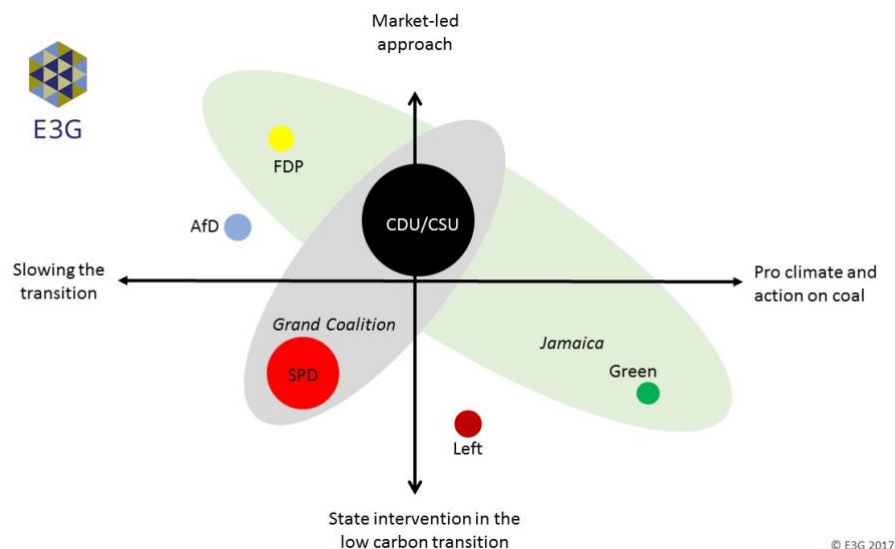
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<sup>12</sup> AXA (2017) [AXA accelerates its commitment to fight climate change](#)

<sup>13</sup> HM Government (2017) [Powering Past Coal Alliance: Declaration](#)

<sup>14</sup> Visegrád Post (2017) [Poland Will End Coal Investments, Move Toward Nuclear](#)

Figure 2: E3G pre-election scenarios



On 19 November, after weeks of arduous exploratory talks, the Head of the neoliberal FDP, Christian Lindner, declared that it was “*better not to govern at all than to govern badly*”<sup>15</sup> and quit the negotiations. He supposedly realised that he would not achieve his “maximalist” agenda, ranging from the elimination of the “solidarity tax” (seen as a burden to small business), opposition to Eurobonds and to closer cooperation in finance and fiscal policy with members of the Eurozone. The FDP was unlikely to achieve a *Trendwende*, i.e. a “political turnaround”, in favour of a politics focused on the freedom of the individual and the market.

Yet the negotiations had already yielded tangible progress on coal. The Greens successfully defended their priorities in the fields of coal and climate and secured significant preliminary results in the negotiations. Their initial call for the shut-down of 8-10GW of coal capacity by 2020 was met with an “offer” by the CDU/CSU and FDP to close-down 3-5GW, referring to security of supply constraints. The compromise was then provided by the Federal Chancellery, which proposed the retirement of 7GW of coal capacity by 2020, an amount that was perceived as not endangering Germany’s energy security.

Even though all parties agreed in principle that Germany had to adhere to the rules of the Paris Agreement and also to its own climate policy objectives, there was significant disagreement over the size of the emissions gap for reaching the 2020 emissions reductions goal.<sup>16</sup>

<sup>15</sup> ZEIT Online (2017) “*Es ist besser, nicht zu regieren, als falsch zu regieren*”

<sup>16</sup> While CDU, CSU and FDP identified a gap of 32 to 66 million tons of CO2 until 2020, the Greens emphasised that another 90 to 120 million tons of CO2 had to be cut. The Greens were referring to data by the think tank Agora Energiewende that also showed that Germany is set to miss its 40% target by a 9-10% margin. See Agora Energiewende (2017) **Das Klimaschutzziel von -40 Prozent bis 2020: Wo landen wir ohne weitere Maßnahmen?**



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The 2020 goal of a 40% reduction on 1990 emissions levels translates to 750 million tons of CO<sub>2</sub>-equivalent in total, according to the Federal Environment Agency (UBA), which announced in October 2017 that Germany was only going to reduce its emissions by around 32% by 2020, even in the best-case scenario.<sup>17</sup>

In November, as a response to this analysis, the UBA recommended the retirement of the oldest and most inefficient lignite power stations, adding at least 5GW to planned closures of 4GW by 2020 and resulting in an installed coal capacity of a maximum of 35GW in 2020.<sup>18</sup>

As a silver lining of the failed coalition negotiations, it seems today that climate policy is back on the political agenda. Weeks of political struggle over a compromise on coal did not go unnoticed in the country – and in particular, within the SPD. Since the option of a minority government was swiftly ruled out after the failure of the Jamaica talks, the only remaining option for forming a majority coalition is yet another *GroKo* between the CDU/CSU and the Social Democrats – or a variation thereof, which could take on the form of a “cooperation coalition”, according to the SPD.

For the SPD, which received a humbling 20.5% of votes (down from 25.7% in 2013), this will be a balancing act: the party has to remain credible in its announcement to renew itself, but still take responsibility for governing the country. After all, SPD leader Martin Schulz declared just minutes after the polling stations closed on the night of the elections on 24 September that the SPD was going to join the opposition and would not be available for another *GroKo*.

Now that new exploratory talks between CDU, CSU and the SPD on forming a government are starting, the 7GW that were agreed to during the Jamaica talks are seen as a baseline. The SPD has made significant progress concerning its internal stance on coal. At the SPD party convention on 7 December 2017, party leader Schulz made fervent remarks in favour of environment and climate policy and conceded: “*we want to reach the climate targets, and the truth is that this goes hand in hand with the end of coal power production.*”<sup>19</sup>

He emphasised the risks of protracted processes of structural change in coal mining regions and the need to develop perspectives and roadmaps for the future, in particular for coal miners who will be losing their jobs. He appealed to the party to stop “*playing off environmental protection and industrial policy*”,<sup>20</sup> stressing that both had to happen in parallel, a task which only the SPD was equipped to do.

Other actors are also increasingly coming around to the end of coal. EPH-owned lignite company LEAG, for instance, has recently called for a managed coal phase-out to establish planning security for the energy industry. It still demands that coal use be

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<sup>17</sup> Umweltbundesamt (2017) [UBA empfiehlt unter anderem Stilllegung von Braunkohlekraftwerken](#)

<sup>18</sup> Umweltbundesamt (2017) [UBA empfiehlt unter anderem Stilllegung von Braunkohlekraftwerken](#)

<sup>19</sup> ZEIT Online (2017) [“Klimaziele gehen einher mit Ende der Kohleverstromung“](#)

<sup>20</sup> ZEIT Online (2017) [“Klimaziele gehen einher mit Ende der Kohleverstromung“](#)



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permitted in Lusatia until the early 2040s, but, coming from a coal company, this is highly unusual nonetheless. Interestingly, lignite companies have started arguing that hard coal power plants should be closed before lignite plants, stating that the economic costs would be lower.<sup>21</sup> It thus seems that earlier cracks that appeared in the energy lobby between gas and coal groups are now widening to lignite vs. hard coal.

## Supporting the Transition

German concerns about the social impacts of phasing out coal have traditionally stood in the way of stronger domestic climate action. They have also been noted in Central and Eastern Europe, where many countries will face a transition out of coal which will likely be even more difficult than Germany's.

But other countries and actors are moving, including the European Commission. Even though the Commission had previously been reticent to engage on this topic, it recently, on 11 December 2017, launched the Coal Regions in Transition Platform.<sup>22</sup>

The platform is a key initiative which the Commission sees as a prototype for supporting other carbon-intensive industries and regions in the low-carbon transition. The launch attracted high-level Ministerial attendance from key transition countries including Greece and Poland, indicating that there is genuine interest in a managed and proactive transition.

However, other work streams made an unwelcome detour towards the quasi-mythical role of clean coal technologies. Slightly Lower Intensity More Expensive (SLIME) coal and Coal-to-Liquid technologies cannot be allowed to distract from the central purpose of supporting regions in transitioning out of coal. The aim cannot be to use precious transition resources to further embed coal structurally, as this would only make the eventual coal phase-out more painful and costly.

In the face of these efforts to strengthen knowledge-sharing and cooperation on coal transitions, it is becoming harder and harder for Germany to keep dodging the coal issue in Brussels and elsewhere.

Despite the positive progress described above, more needs to be done to move the debate on coal in Europe and Germany needs to help lead once its domestic position is clarified. This was evidenced within the "Clean Energy for All Europeans" package and notably the council of European energy ministers on the 18 December, where governments agreed to significantly water down proposals to limit coal subsidies in the form of remuneration from capacity mechanisms.<sup>23</sup> This retrograde and disappointing move was unopposed by several member states who claim to be

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<sup>21</sup> Lausitzer Rundschau (2017) [Leag fordert Zeit für Umsetzung von Revierkonzept](#)

<sup>22</sup> European Commission (2017) [No region left behind: launch of the Platform for Coal Regions in Transition](#)

<sup>23</sup> E3G (2017) [The frustrating five: the EU clean energy package](#)



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progressive and who are members of the PPCA, sadly including the UK. As these negotiations will continue at least during the first half of 2018, there will be growing pressure on climate leaders in the EU to show stronger leadership and end subsidies for polluting coal.

Looking ahead, there is optimism that growing international momentum on phasing out coal will encourage the emerging German coalition government to build upon the positive signals from the first round of failed negotiations.

For this to happen, Chancellor Merkel needs to take stronger control of the agenda and take decisive action to recover her credentials as the “climate chancellor”. Furthermore, the SPD needs to understand that the world is currently moving faster than Germany and take a more proactive position on an accelerated coal phase-out. This can best be achieved by developing convincing plans for economic alternatives in Germany’s remaining coal mining regions, in particular in Lusatia in the Eastern part of the country.

In the absence of concrete perspectives for well-paid, secure and unionised industrial jobs, key stakeholders like the affected Brandenburg and Saxony state governments, trade unions and regional businesses will fight to prevent an accelerated coal phase-out. If Germany manages to attract investors from innovative, labour-intensive industries to Lusatia, though, the region could become an example for other coal regions in Europe and beyond.

The signs are right for the prospective new *GroKo* to be more progressive and constructive on the coal question than the last. It would be high time, as Germany has recently been more closely aligned with Poland on coal than with the EU majority. Resolving the German coal conundrum is a crucial step to reinstate the country’s credibility as a climate leader and to address the thorny transition issues that will likely take centre stage at the upcoming COP24 in Katowice, Poland.