

Policy paper - Introduction of a German industrial electricity price

Energy crisis, ecological transformation, international competition: **German industry is currently facing various challenges.** In particular, the **above-average electricity prices in international comparison** are putting companies under pressure and are already leading to **competitive disadvantages.** This situation threatens Germany as a business location and makes it more likely that companies will move abroad. In order to counteract these developments and secure prosperity, the **Federal Ministry for Economic Affairs and Climate Action (BMWK) presented a working paper on a subsidised industrial electricity price** at the beginning of May 2023. Among other things, it presents a so-called bridge electricity price, which is to guarantee selected - and above all energy-intensive - companies an electricity price of **6 cents per kilowatt hour.** At best, **the subsidy is to start in 2024 and run until 2030.** By then, it is expected that the share of renewable energies in the electricity mix will be significantly higher, which will lower the electricity price and make a subsidised electricity price obsolete from 2030.

With the industrial electricity price to more competitiveness

The planned industrial electricity price is intended to **secure Germany's competitiveness and prosperity** and at the same time **support companies in decarbonisation.** In international and European comparison, the German electricity price is above average and thus constitutes a locational disadvantage for Germany. This is exacerbated by the fact that other nations massively subsidise their industry with regard to the current challenges - such as the USA with the Inflation Reduction Act (IRA). Currently, companies in Germany are relieved by the **gas and electricity price brake**, but this expires at the end of 2023. In addition, only a few energy-intensive companies are said to have used the subsidy so far or have only applied for the minimum subsidy because it is too bureaucratic and restrictive. Against this background, a follow-up solution is now to be developed with the industrial electricity price.¹

To concretise the project, the BMWK led by Federal Minister of Economics Robert Habeck (The Greens) presented a **working paper² on the industrial electricity price** at the beginning of May 2023. The paper outlines two pillars: A long-term transformation electricity price is to **provide electricity from**

¹ <https://www.bmwk.de/Redaktion/DE/Pressemitteilungen/2023/05/20230505-habeck-legt-arbeitspapier-zum-industriestrompreis-vor.html>

² <https://www.bmwk.de/Redaktion/DE/Downloads/W/wettbewerbsfaehige-strompreise-fuer-die-energieintensiven-unternehmen-in-deutschland-und-europa-sicherstellen.html>

renewable energies for industry at a low price. A rapid expansion of renewables and electricity grids are elementary for this. However, this must be complemented by targeted measures. For example, in the short term, more land should be made available for faster permits for onshore wind energy, capital costs for wind and solar energy generation should be reduced, electricity from renewable energy should be used instead of being regulated, and grid fees for supplying renewable energy to industry should be lowered in close proximity. Since these measures need time to take effect, the paper outlines in a second pillar a **"bridge electricity price" for energy-intensive industries such as chemicals, steel, metal, glass or paper, which is to guarantee the competitiveness of these companies until 2030.** The group of recipients would be clearly limited, the paper states: "Only energy-intensive industrial companies that are in international competition, including new transformation industries, should benefit from the bridge electricity price" (p. 4). The paper refers to the Special Equalisation Scheme (BesAR) of the Renewable Energy Sources Act (EEG), which specifies eligible companies. **The bridge electricity price is to have a level of six cents per kilowatt hour and run until 2030.**

The paper goes on to say that incentives to save must be maintained. Therefore, the **bridge electricity price should only apply to 80 per cent of electricity consumption** and be based on the average exchange electricity price and not on the individual electricity price of the company. In concrete terms, companies will be reimbursed 80 percent of the difference between the exchange electricity price and the six cents per kilowatt hour. According to the ministry's ideas, the companies claiming the bridge electricity price should also enter into a **"transformation obligation"** (p. 5), according to which they must achieve climate neutrality by 2045. In addition, the subsidy is to be linked to a tariff obligation as well as to a location guarantee possible within the framework of the constitution.

The **financial requirement for the bridge power tariff until 2030 is put at 25 to 30 billion euros** in the paper and is to decrease continuously over the years. According to the Ministry of Economics, this is to be financed from the Economic Stabilisation Fund (WSF). Last year, 200 billion euros in credit authorisation was put into this fund to finance the energy price brake. Since this money has not been or will not be called up to a large extent due to the drop in energy prices, it is still available.³ At the same time, it is pointed out that the **bridge electricity price should be integrated into a European strategy** in order not to endanger the economic cohesion of the EU. Meanwhile, there were already signs in Brussels that the plans would not be approved. However, the fact that many countries in the EU are in a similar situation to Germany makes an agreement more likely.⁴ **The subsidised industrial**

³ <https://www.handelsblatt.com/politik/deutschland/energiepolitik-habeck-kuendigt-industriestrompreis-von-sechs-cent-an-koalitionspartner-skeptisch/29134340.html>

⁴ <https://www.handelsblatt.com/politik/deutschland/energiepolitik-habeck-kuendigt-industriestrompreis-von-sechs-cent-an-koalitionspartner-skeptisch/29134340.html>

electricity price should be introduced by spring 2024 at the latest to replace the electricity price brake, which will expire at that time.⁵

Coalition partners show scepticism

According to Economics Minister Robert Habeck, the subsidies are necessary to create location security for companies. At the same time, companies could only overcome the current challenges of transformation if they were "economically able to do so".⁶ **Besides Habeck and his ministry, the Greens in the Bundestag also welcome an industrial electricity price.** Katharina Dröge, parliamentary group leader, said: "Only together with industry and its many hundreds of thousands of employees can we manage the transformation towards climate neutrality".⁷ She also said that financing through the WSF is legally possible, as the support from it is earmarked for high energy costs.⁸ Party leader Ricarda Lang also welcomes the subsidised electricity price.⁹ Initially, the Greens and Habeck had still quibbled with an industrial electricity price due to concerns about false incentives, which is why appropriate restrictions have now been built in.¹⁰

The chancellor's party, the Social Democrats (SPD), appears at odds in public. Lars Klingbeil, SPD party leader, and Kevin Kühnert, SPD secretary-general, demanded an industrial electricity price as early as April in order to strengthen domestic industry in international comparison.¹¹ The subsidised industrial electricity price must come "in the next twelve months", Klingbeil repeated his demand at the beginning of May.¹² The SPD parliamentary group also welcomes the possible introduction of an industrial electricity price. The vice-chairman of the parliamentary group, Achim Post, said: "It is important from the outset that this is also embedded in Europe".¹³ **Meanwhile, Chancellor Olaf Scholz (SPD) was sceptical,** saying: "As an economy, we will not be able to sustain subsidising everything that takes place in normal economic activity in the long run".¹⁴ The energy industry cannot become a "permanent subsidy case".¹⁵ Instead, supra-regional power lines should make cheap electricity from

⁵ <https://www.tagesschau.de/wirtschaft/industriestrom-habeck-100.html>

⁶ <https://www.handelsblatt.com/politik/deutschland/energie-habeck-pocht-auf-subventionierten-industriestrompreis-und-erwartet-sinkende-energiepreise/29133146.html>

⁷ <https://www.handelsblatt.com/politik/deutschland/energiepolitik-habeck-kuendigt-industriestrompreis-von-sechs-cent-an-koalitionspartner-skeptisch/29134340.html>

⁸ Ibid.

⁹ <https://background.tagesspiegel.de/energie-klima/klingbeil-und-lang-pochen-auf-industriestrompreis>

¹⁰ <https://www.handelsblatt.com/politik/deutschland/energiepolitik-habeck-kuendigt-industriestrompreis-von-sechs-cent-an-koalitionspartner-skeptisch/29134340.html>

¹¹ <https://www.faz.net/aktuell/wirtschaft/unternehmen/spd-chef-lars-klingbeil-fordert-einen-industriestrompreis-18844868.html>

¹² <https://www.n-tv.de/politik/SPD-macht-Stimmung-fuer-billigen-Industriestrom-article24097250.html>

¹³ https://www.proplanta.de/agrar-nachrichten/agrapolitik/linnemann-industriestrompreis-wird-in-die-irre-fuehren_article1684912325.html

¹⁴ <https://www.handelsblatt.com/politik/deutschland/energie-krise-scholz-bei-subventioniertem-industriestrompreis-zurueckhaltend/29125464.html>

¹⁵ <https://www.tagesschau.de/wirtschaft/industriestrom-habeck-100.html>

renewable energies accessible throughout Germany and cheaper production conditions for electricity should lower the price of electricity.¹⁶ In the election campaign, Scholz was still advertising an industrial electricity price of four cents.¹⁷

The Liberals (FDP) and Federal Finance Minister Christian Lindner show similar restraint as the Chancellor. It is "economically unwise" to rely on state aid and contradicts the principles of the market economy. It also creates problems of distributive justice. Such subsidies could find no place in the budget and the use of the WSF was legally impossible. As an alternative, Lindner proposed investment cost subsidies or a reform of the electricity and energy tax, so that consumers and companies alike would be relieved and no market intervention would be necessary.¹⁸ FDP Secretary General Bijan Djir-Sarai also spoke out against the BMWK's plans. He said that the plans were not in line with the social market economy and would lead to unequal burdens on economic groups.¹⁹ Reinhard Houben, economic policy spokesperson for the FDP parliamentary group, also described the plans as "**anti-European**" and "**unecological**", saying that a transformation of the economy could not be achieved with them.²⁰

In the Union (Christian Democratic Union of Germany (CDU) and the Christian Social Union in Bavaria (CSU), too, a divided picture is emerging. Vice-Chairman of the Christian Democrats Carsten Linnemann is of the opinion that the industrial electricity price will "lead completely astray" and that the state will not get out of the subsidy spiral.²¹ Julia Klöckner, economic policy spokesperson for the CDU/CSU parliamentary group in the German Bundestag, on the other hand, criticised in March that the government had not yet presented a solution for the high industrial electricity prices. The German business location and its jobs are in danger. In a small question²² to the federal government in April, the parliamentary group led by Friedrich Merz also called for a capped industrial electricity price. Bavaria's Minister President, Markus Söder (CSU), spoke out in favour of a rapid introduction of the planned industrial electricity price. The danger for German competitiveness, he said, threatened

¹⁶ <https://www.wiwo.de/politik/deutschland/energie-lindner-sieht-subventionierten-industriestrompreis-kritisch/29127254.html>

¹⁷ <https://www.handelsblatt.com/politik/deutschland/energiepolitik-habeck-kuendigt-industriestrompreis-von-sechs-cent-an-koalitionspartner-skeptisch/29134340.html>

¹⁸ <https://www.wiwo.de/politik/deutschland/energie-lindner-sieht-subventionierten-industriestrompreis-kritisch/29127254.html>

¹⁹ <https://www.handelsblatt.com/dpa/fdp-generalsekretaer-gegen-subventionierten-industriestrompreis/29214310.html>

²⁰ <https://www.handelsblatt.com/politik/deutschland/energiepolitik-habeck-kuendigt-industriestrompreis-von-sechs-cent-an-koalitionspartner-skeptisch/29134340.html>

²¹ <https://www.onvista.de/news/2023/05-23-cdu-vize-linnemann-industriestrompreis-wird-in-die-irre-fuehren-10-26136391>

²² <https://dserver.bundestag.de/btd/20/063/2006350.pdf>

prosperity, jobs and performance. At the same time, a reduction of the electricity tax for all consumers is to be implemented.²³

There is also some criticism from other federal states. The Ministry of Economics in Mecklenburg-Western Pomerania says that the approach is supported in principle, but that it puts many companies in the north-east at a disadvantage. In Mecklenburg-Western Pomerania, for example, only 46 per cent of the companies would be relieved of the subsidised industrial electricity price, according to Economics Minister Reinhard Meyer (SPD).²⁴ Saxony's Minister President Michael Kretschmer (CDU) rejects a state-subsidised electricity price for financial reasons. Instead, it was wrong to switch off nuclear power plants.²⁵ Contrary to this criticism, **the ministers of economics of all 16 federal states unanimously called for an industrial electricity price at the conference of state ministers of economics in June.** In doing so, they appealed to Finance Minister Christian Lindner (Liberals). The Bavarian Minister of Economic Affairs, Hubert Aiwanger (Free Voters party), had even called for an industrial electricity price of 4 cents.²⁶

Praise from trade unions and industry

Initial reactions from the affected industries to the ministry's proposal for a bridge electricity price were positive. "We as the steel industry are in the middle of the transformation to climate neutrality. In this phase of vulnerability, the companies need support," said Kerstin Maria Rippel, Chief Executive of Wirtschaftsvereinigung Stahl. Michael Vassiliadis, President of the industrial union IG BCE, is also in favour of the industrial electricity price to keep companies in Germany. At the same time, however, the subsidy should be accompanied by sustainability requirements for the companies.²⁷

The German Chemical Industry Association (VCI) welcomes the plans of the Federal Ministry of Economics. The subsidised electricity price for industry must come "quickly and unbureaucratically". It would be a "clear gamechanger" for international competitiveness and help with the ecological transformation.²⁸ With a commitment to the market economy, however, the industrial electricity price is rejected as a permanent solution. At the same time, small and medium-sized enterprises should be

²³ <https://www.zeit.de/news/2023-05/20/soeder-macht-sich-fuer-industriestrompreis-stark>

²⁴ <https://www.stern.de/gesellschaft/regional/mecklenburg-vorpommern/energie--schwerin-will-nachbesserungen-beim-industriestrompreis-33532196.html>

²⁵ <https://www.sueddeutsche.de/wirtschaft/energie-chemnitz-kretschmer-gegen-subventionen-fuer-industriestrom-dpa.urn-newsml-dpa-com-20090101-230524-99-808683>

²⁶ <https://www.merkur.de/wirtschaft/wirtschaftsminister-in-bayern-industriestrompreis-im-fokus-zr-92354540.html>

²⁷ <https://www.wiwo.de/politik/deutschland/energie-lindner-sieht-subventionierten-industriestrompreis-kritisch/29127254.html#:~:text=The%20chief%20of,industrial%20electricity%20prices%20will%20be%20involved.>

²⁸ <https://www.vci.de/presse/pressemitteilungen/ein-klarer-gamechanger-industriestrompreis-vci-begruesst-konzept-des-bmwk.jsp>

integrated into the scheme, contrary to the plans of the BMWK. Ideally, it should already apply from 2024.²⁹

The President of the German Chamber of Industry and Commerce (DIHK), Peter Adrian, on the other hand, reacted with scepticism to the concept presented: "Many businesses of different sizes and sectors are suffering from the high electricity prices. We therefore need a well-balanced overall concept for this very serious issue and not a quick fix". In June, Adrian added that a reduction of the electricity tax was preferable to the subsidised industrial electricity price. In addition, he said, the planned 6 cents was still too high for international competition.³⁰

The Federation of German Industries (BDI) welcomes the proposals in principle, but the industry association calls for an instrument in the form of "direct state payments" to companies. These should be limited to a clearly defined group and limited in time, and should be applied according to clear criteria. Furthermore, it should support transformation and efficiency advances and be communicable in terms of European policy.³¹ The Ministry's plans largely meet these criteria. Nevertheless, the President of the BDI, Siegfried Russwurm, called for clarity. Short-term solutions are needed for "companies of all sizes, from small and medium-sized enterprises to large corporations". At the same time, an integrated energy concept is needed.³²

On 22 May, Federal Minister of Economics Habeck met with the "Alliance for the Future of Industry" to exchange views with business representatives. Afterwards, he reiterated his position that without an industrial electricity price, the future location decisions of industry would be to Germany's disadvantage.³³

Conclusion

The introduction of a subsidised industrial electricity price would be welcome for the German economy in that it would make the framework conditions of Germany as a business location more attractive and help to secure international competitiveness. Particularly in view of the above-average electricity price in Germany, this can be crucial for companies. At the same time, the project supports companies in their ecological transformation. Against this backdrop, the BMWK's project is largely welcomed by the business community and associations, even if there are different approaches to its design in some cases.

²⁹ <https://www.vci.de/vci/downloads-vci/publikation/politikbrief/pb-2-2023-industriestrompreis.pdf>

³⁰ <https://background.tagesspiegel.de/energie-klima/dihk-sieht-staatlichen-industriestrompreis-skeptisch>

³¹ <https://bdi.eu/#/artikel/news/wettbewerbsfaehigkeit-der-industrie-debatte-um-industriestrompreis>

³² <https://www.zeit.de/news/2023-06/19/bdi-fordert-mehr-klarheit-bei-industriestrompreis>

³³ <https://www.deutschlandfunk.de/habeck-beraet-mit-wirtschaftsvertretern-ueber-industriestrompreis-102.html>

In the governing coalition of Social Democrats, Greens and Liberals, on the other hand, a less homogeneous picture emerges. The majority of the Social Democrats and the Greens support the concept, but the Chancellor and the Liberals reject it. Whether a subsidised industrial electricity price will actually be introduced depends largely on the coalition partners' willingness to reach an agreement. **If neither the chancellor nor the Liberals move, it will be difficult to reach a cabinet agreement and thus introduce a bill in the Bundestag.**

For advice on how to position your organisation on these political challenges and developments, please do not hesitate to contact us. Please do not hesitate to contact us.

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