

# N O V E

## NEW GRAND COALITION IN GERMANY

Analysis of the Coalition Agreement

8 MARCH 2018

### BACKGROUND

---

German federal elections for the 19<sup>th</sup> Bundestag on 24 September 2017 saw Angela Merkel's Christian Democratic Union (CDU) and its sister party the Christian Social Union (CSU) together remain the biggest group, however its share of the vote was reduced from 41.5% to 32.9%. CDU/CSU therefore secured 246 seats (a loss of 65) in the Parliament, with Merkel blaming the result on "*Unbehagen*" (roughly translated "malaise") on the capacity of the German government to lead in moments like the 2015 refugee crisis or capitalise on the digital revolution. The Social Democratic Party of Germany (SPD), led by former European Parliament President Martin Schulz, remained the second largest party with 153 seats (a loss of 40), capturing 20.5% of the vote. The right-wing populist Alternative for Germany (AfD) benefited from decreased support for mainstream parties, entering the Parliament for the first time as its third largest party with 12.6% of the vote and therefore 94 seats. The liberal Free Democratic Party (FDP) of Germany (10.7% - 80 seats), the Left (Die Linke – 69 seats from 9.2% of the vote) and the Greens (Bündnis 90 Die Grünen) (8.9% - 67 seats) complete the new Bundestag.

This result left few options for government formation, with both the AfD and – to a lesser extent – Die Linke not considered as viable coalition partners for the mainstream parties. Coalition talks were first launched between the CDU/CSU, the FDP, and the Greens in October 2017, but these collapsed a month later. This left limited and unpalatable options: minority government by the CDU/CSU (an option never attempted in modern Germany), new elections (which many feared would lead to even bigger gains for the AfD) or a so-called 'Grand Coalition' (Große Koalition or "GroKo") between the CDU/CSU and the SPD – the third such government out of the 4 previous Merkel-led administrations.

Talks for a GroKo between the CDU/CSU and the SPD were launched (formally) on 26 January 2018, despite reservations from some factions of the SPD – particularly the youth wing – who were concerned about further damaging the legitimacy of a party which had just suffered its worst election result since the second World War, as well as making the AfD the leading opposition party by default. Once a [coalition agreement](#) ("Koalitionsvertrag") was agreed on 7 February, this document was put to the vote of rank-and-file SPD party members, who eventually agreed to the grand coalition with a 66% majority which was announced on 4 March 2018. On 5 March, German President Frank-Walter Steinmeier formally proposed Merkel for reelection, planned for 14 March, at which point the new mandate of the German government would be confirmed.

The following pages highlight the intentions of the GroKo across a number of policy areas, giving insight as to the future direction of national German politics as well as positions Germany may take at EU level. Although the individual members of the government are not yet confirmed, the current picture of the Cabinet appointments is in the table below. It is worth noting that Merkel does not seem to have named a prospective "successor" to her cabinet, and is rather grooming Annegret Kramp-Karrenbauer, the new general secretary of the CDU for the chancellorship.

Ministry	Appointee(s)	
<b>Federal Ministry of the Interior (BMI)</b>	Horst Seehofer	CSU
<b>Federal Ministry of Transport and Digital Infrastructure (BMVI)</b>	Andreas Scheuer	CSU
<b>Federal Ministry for Economic Affairs and Energy (BMW)</b>	Peter Altmaier	CDU
<b>Federal Ministry of Cooperation and Development (BMZ)</b>	Gerd Müller	CSU
<b>Federal Foreign Office (AA)</b>	Heiko Maas	SPD
<b>Federal Ministry of Finance (BMF)</b>	Olaf Scholz (rumoured)	SPD
<b>Federal Ministry of Labour and Social Affairs (BMAS)</b>	Katarina Barley or Hubertus Heil (rumoured)	SPD

<b>Federal Ministry of Food and Agriculture (BMEL)</b>	Julia Klöckner	CDU
<b>Federal Ministry of Justice and Consumer Protection (BMJV)</b>	Thomas Oppermann or Matthias Miersch (rumoured)	SPD
<b>Federal Ministry of Health (BMG)</b>	Jens Spahn	CDU
<b>Federal Ministry of Environment, Nature Conservation, Building and Nuclear Safety (BMUB)</b>	Matthias Miersch or Svenja Schulze (rumoured)	SPD
<b>Federal Ministry of Defence (BMVg)</b>	Ursula von der Leyen	CDU
<b>Federal Ministry of Education and Research (BMBF)</b>	Anja Karliczek	CDU
<b>Federal Ministry for Family Affairs, Senior Citizens, Women and Youth (BMFSFJ)</b>	Frankziska Giffey or Christina Kampmann (rumoured)	SPD

## POLICY AREAS

---

The title page of the coalition agreement promises to chart a course towards a “**new departure for Europe, a new dynamic for Germany, and new cohesion for our country**”. The opening paragraphs call for reorientation towards and support for a strong EU to ensure peace, security and well-being. The partners support a strengthening of the European Parliament, a more competitive Europe built on more investment and a deeper social engagement of companies to iron out inequalities, and a Europe that takes responsibility in global fora. Any EU enlargement processes should also prioritise sound reasoning over speed (for example with Turkey or the western Balkan states).

The coalition partners recognise that the election outcome points to a divided Germany. Though they list the achievements of the 2013 – 2017 coalition government, they also promise to demonstrate flexibility and be open to new approaches.

### DIGITAL POLICY

The government is dedicated to the **completion of the EU’s Digital Single Market** with full-coverage broadband networks and easy access for better upscaling. Germany will likewise support **an ePrivacy regulation that aligns with the GDPR**.

**Data protection:** The maintenance of high levels of data protection in Germany and Europe as a whole, in line with the GDPR. The latter will be subject to an intensive review in mid-2020. This work will be supported by the Stiftung Datenschutz (Data Protection Foundation – a semi-state body in Germany) and an ethics commission which will advise policy-makers on data policy. A new law on open data will assess opportunities for citizens and government authorities inherent in open data.

**Cybersecurity:** A National Cybersecurity Pact will bring together civil society, industry, and state authorities will work towards a trust-based cooperation on questions of digital security. The BSI (Federal Office for IT Security) should become the national authority on cybersecurity. End-to-end encryption and (trustworthy) electronic identification must be available to citizens, and such standards should be enforced abroad through trade policy. IT security in all products should be prioritised.

**Digitisation, artificial intelligence and robotics:** As part of a national aim of 3.5% GDP spent on RD&I, artificial intelligence, robotics and digitisation will be prioritised. Other drivers of digitisation include data science, quantum technologies, cybersecurity and microelectronics. Microelectronics are considered a key technology for the digitisation of the economy, electro-mobility and for a 5G broadband network. Germany should become a global leader on AI – a national research consortium on AI will thus be created from the current platform “Lernende Systeme”. This will be done in close cooperation with France, with a view to both countries becoming an “engine of innovation”. With Poland, a centre for digital innovation in systems research will be established. The government will also consider tax reductions for companies investing in digitisation.

**E-government:** An E-Government Agency will be established, which will conduct pilot projects to improve e-governance. A think-tank will emerge from this in future. The government will also dedicate €500m to ensuring that the use of citizens’ data is transparent and traceable. Blockchain technologies will be explored for use by public authorities.

**Digital Taxation:** Express support all efforts towards the just taxation of big companies, particularly internet companies, through the widest possible implementation of OECD-BEPS commitments and recommendations and the fulfilment of obligations under the EU Anti-Tax Avoidance Directive. Further measures will be taken to

combat tax fraud in the digital economy, by cracking down on VAT fraud in internet commerce, and drafting legislation regarding the digital marketplace. Digital platforms will be obliged to give information on those who use them.

**Autonomous driving:** Financial support for research on autonomous driving will be prioritised, and by 2022, a legislative framework for autonomous cars will be in place, including detail on questions of liability. This framework will also include standards and guarantees on data protection and data security. The government will support research in mobility solutions, including eMobility and the needed charging infrastructure, synthetic fuels and batteries to establish battery production in Germany, with the support of the EU IPCEI in this area.

The government will support **digital skills** by embedding these into all school subject areas to ensure the next generation is equipped with digital competences. The government will also make a common cloud for schools possible with dedicated funds of EUR 5 bn and build an Open University Network for coordination among higher education institutes. Finally, the government will make sure the job market is more oriented towards increasing digital skills.

## ENERGY AND ENVIRONMENT POLICY

The government promises to **implement of EU-law** in environmental and climate policies, including the Circular Economy. The government supports **an efficient, technology neutral and innovation-oriented environmental policy** that demonstrates that economic prosperity and respect for the environment are not mutually exclusive.

On the **energy mix**, the coalition partners recommit to the “Energiewende” (end of nuclear power in Germany) to create an affordable, safe and clean energy mix that is efficient, modern, innovative and digitized while remaining competitive. Renewables (mentioned are on- and offshore wind energy and photovoltaics) should constitute 65% of the energy mix by 2030. To achieve this, the government will support innovative **energy storage technologies** by building a Fraunhofer Institut for these technologies.

The government will **modernize and expand the energy networks**, by publishing an ambitious plan to improve existing networks and for faster expansion of power networks with the help of new technologies and digitisation, as well as better cooperation of network managers. Beyond this, the partners pledge to expand international **cooperation in energy** to support the competitiveness of German companies and lead by example with the “Energiewende”.

Germany aims to stay a leader in **climate conservation**, recognising national and European climate goals for 2020, 2030 and 2050. Mobility is particularly important to address to achieve the Paris Agreement, as it is at the intersection of climate protection, air quality, new mobility and business models and divergent development of world markets. To this end, a strategy “the future of affordable and sustainable mobility” will be published at the beginning of 2019.

The government sees great potential to use renewable energy and sustainable buildings to reach climate goals. To this end, a **new and modern building energy law** is planned to meet EU goals in this area by 2019 (public buildings) and 2021 (all buildings). The government will continue to support energy efficient renovations, such as the replacement of heating systems, as well as the “future build” research initiative for CO<sub>2</sub>-neutral buildings.

The government will improve its existing **energy strategy** under the motto “efficiency first” to decrease energy consumption by 50% by 2050.

## FOOD AND AGRICULTURE POLICY

**Glyphosate** will be banned, with the government working with farmers to identify a suitable replacement. A timeline is not given. Barbara Hendricks, who campaigned vigorously to end glyphosate’s license in Europe, will not stay on as environment minister.

**CAP spending** should remain at the current level, but become less bureaucratic, more efficient, and market-oriented. It should also be better aligned with social policy goals, and target less-developed areas in particular. Julia Klöckner, from Angela Merkel’s Christian Union Party, is the new agriculture minister.

**Nutritional challenges** should be dealt with in a number of ways, in particular because of the costs of obesity, heart disease, and other diseases to the social system. The parties will promote education on nutrition, with

the aim of producing diets which are sustainable from farm to plate, and ensuring that consumers attach real value to food. A National strategy on sugar, salt and fat reduction will be produced in 2018. This will be developed with stakeholder consultation, and focus particularly on smaller producers to ensure its workability. Minimum standards for food in schools and other public bodies will also be set. The marketing of foods to children will also be held to high standards.

A new **food-labelling rule** will be developed by the summer of 2019, which will be prioritise transparency for consumers, comparability, and the facilitation of balanced diets. A nutritional value system will be used for processed and packaged foodstuffs, if necessary, showing the ratio of a certain ingredient/component in relation to the contents. The European Commission evaluation on existing voluntary labelling frameworks will be used as an inspiration. The new government will also seek to enforce new legally binding criteria for the identification of vegetarian and vegan foods.

On **origin labelling** particularly, existing approaches – including the “regional window” – will be evaluated and further developed in line with EU legislation. They will also legally examine how much origin labelling can be carried out in light of the ECJ decision on labelling for processed meat products.

## HEALTH POLICY

A **patient-centred approach** remains the core of German health policy under the new government.

Partners envisage an improvement of the formal **caring infrastructure**, with 8000 new jobs and better pay and working conditions, as well as more support for children caring for their parents. The government plans to support informal carers with better formal caring infrastructure for short-term and preventive care.

Fairer financing for **state health insurance** and **full national access to healthcare**, through **investments in hospitals and telemedicine**, more **rural doctors and medical students** and the introduction of **electronic patient records** by 2021.

Expansion of **health research**, keeping the patient at the centre of considerations. To improve medical research, the government plans to fund clinical scientists. Germany should lead in **incorporating digital innovations in health systems**. To support this, the government will release a roadmap on the development and implementation of e-health solutions.

Germany will launch a **national decade against cancer** and will expand German health research centres to address major diseases, including diabetes, dementia and depression.

## RESEARCH AND INVESTMENT POLICY

Establishment of a **national research data infrastructure** to systematise databanks and allow for sustainable access to data. The partners hope this will strengthen Germany's research systems and make them internationally competitive.

An **open access strategy** using public channels for scientific communication and publications. Recipients of public funding must make their work available with open licensing.

The government commits to making sure that **3.5% of GDP is dedicated to R&D** by 2025. To support this, the government will establish funding mechanisms in particular to strengthen regions lacking infrastructure. The so-called **High Tech Strategy (HTS)** will be continued as a research and innovation strategy to address challenges such as digitisation, health, climate, energy, mobility, security, social innovation and the future of work. Other support for innovation includes more work to help science and technology reach the market, research hubs and future clusters.

Promotion of **dialogue** between industry, policy makers, science and society. At European level, Germany supports a budget for the 9th Framework Programme for Research and Innovation, the successor to Horizon 2020, that is at least as high as the current budget for Horizon 2020. Germany will also support strategic research policies that increase the capacity for innovation based on the principles of subsidiarity and excellence. Germany calls for **better integration of the EU 13** in the European research space.



## TRADE POLICY

The text calls for the conclusion of “comprehensive, modern **bilateral agreements** with third countries, in particular in the Asia-Pacific region and Latin America”, in an obvious reference to the ongoing negotiations with Mexico and Mercosur, as well as completed talks with Japan, Singapore, and Vietnam.

Overall, the trade elements of the agreement focus on **reciprocity and fair trade**, with the latter given particular force in the context of trade relations with Africa. The partners agree to strengthen international bodies such as the IMF, the WTO, the OECD and the World Bank. The coalition partners call for the **EU to present itself as stronger and more unified** in global trade and to reject protectionism, and for the protection of public services in the context of free trade agreements. On the latter it presents CETA as the standard bearer, lauding it also for advances on environmental protection, labour rights and investment protection.

An extensive part of the trade policy section commits to using trade policy to promote sustainable development in less developed countries, with a **focus on Africa**. The use of instruments for foreign investment is put forward as a means to develop digitisation, innovation, and training on the African continent.

Specific support of the EU Framework for the **Screening of Foreign Direct Investments** is included.

The specific question of **data flows in trade agreements** is not mentioned; rather, there is a commitment to giving space for data flows to allow innovation, while preserving privacy and data protection standards.

## CONCLUSION

---

Now that the political uncertainty has ended in Berlin, there is no doubt that the impact and the policies of the new coalition government will be felt far beyond national borders, not least in Brussels. Chancellor Merkel welcomed the SPD vote results with some relief on Monday, and reasserted her commitment to work constructively with the SPD and to work on European reforms with partners, notably France, where President Macron promised constituents last year that the Eurozone will get its own budget, impossible without German agreement. The EU will also be relieved to see the return of the GroKo, preferable to anymore drawn out uncertainty, or worse yet, fresh elections leading to an unhampered populist surge in the Union’s most powerful Member State led by the AfD.<sup>1</sup> Germany also stands united as an important ally with France and other Member States who will look to prevent the UK from cherrypicking in Brexit negotiations.<sup>2</sup>

And just because a deal has been struck does not mean that the coalition partners will govern without opposition—the AfD is now the leading opposition force—or contention or tension in the ranks. Both parties are under pressure to differentiate themselves more successfully in the new edition of the GroKo, having suffered considerable losses in September 2017. For both parties, the deal may prove too bland and concessions on the allocation of ministries (in particular the relinquishing of the finance ministry will be a sore spot for the CDU/CSU) too bitter. In these earliest days of the coalition, this is already apparent. For instance, new Secretary General Kramp-Karrenbauer used her first speech to promise to make Berlin “a place where there’s a real contest” again. And on 6 March Ralph Brinkhaus, deputy leader of the conservatives in the Bundestag, warned the SPD that conservatives would not accept any new government debt and would examine European spending carefully. Germany is expected to have to contribute more once the UK leaves the EU in March 2019. “The European part of the coalition agreement is not a blank cheque,” Brinkhaus told *Die Welt*. He called on the EU to rely on existing funds to reach its goals, commenting that there was still room to save in the EU budget.<sup>3</sup>

In the end, both parties will have to work hard to recharm the public and win approval. 5 months of political wrangling have cost the CDU/CSU, and the SPD is quite literally in tatters over the decision to renew the GroKo. Many members, in particular the youth fraction, continue to oppose it.

<sup>1</sup> <https://www.economist.com/news/europe/21737516-social-democrats-are-expected-endorse-deal-march-4th-germany-prepares-new>

<sup>2</sup> <https://www.euractiv.com/section/future-eu/news/what-the-new-german-grand-coalition-means-for-europe/>

<sup>3</sup> <https://www.reuters.com/article/us-germany-politics/german-coalition-deal-no-blank-cheque-for-europe-conservative-tells-spd-idUSKBN1GH3DA>