



Germany Monitor

Bundestag elections 2017

German industrial policy

General restraint commendable, but key areas that need to be addressed are being neglected

September 12, 2017

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* The authors would like to thank Jakob Lahrso for his support in researching this publication.

Original in German: August 30, 2017

German industrial policy has been cautious over the past few decades, especially in comparison with several other European countries. Direct market intervention has been, and remains, the exception. And this approach has been successful. As a result, large parts of German industry are perhaps better positioned today than ever before. Industry makes up a large proportion of Germany's gross value added (2016: 22.6%).

The German government should continue to refrain from active industrial policy, in our view. Instead, the key should be to create economic conditions that intensify competition, promote research and development and open up markets.

At a time of increasing political uncertainty and protectionist tendencies both inside and outside Europe, it can be difficult for politicians to maintain a sense of restraint with regard to industrial policy. With this in mind, it is encouraging to see that the election manifestos of most parties suggest that Germany's market and competition-oriented industrial policy will be maintained. However, it is important to ensure that Germany's traditionally ordoliberal industrial policy is not being exploited by other (state) actors pursuing opportunistic strategies.

Nevertheless, we believe that greater state engagement or a realignment of existing policy is vital in some areas. One area where we see a need for action is network infrastructure. The development of powerful IT infrastructure is progressing too slowly, and the digitalisation of many supply chains means the pace of development urgently needs to be increased. This may require a higher financial commitment by the federal government, particularly in rural areas. And despite the provision of incentives, progress with the upgrading of electricity grids is slow as factors such as political resistance at regional and state levels are delaying expansion of the network and making it more expensive.

Many election manifesto pledges concerning the German energy transition project appear to be based on wishful thinking and contain little information about the measures required or the expected costs. This is disappointing. What's more, the fact that many individual energy transition objectives may be missed is hardly being addressed. When it comes to the shift in German energy policy, we think it would be sensible and honest to focus more strongly on what is genuinely achievable, even if this means that some individual energy transition objectives need to be reformulated or shifted to the European level.

The election manifestos offer few surprises when it comes to transport policy. Preservation and upgrading of transport infrastructure are among the most popular pledges in this area, while public-private partnership (PPP) projects are generally viewed with scepticism. Environmental aspects of transport policy are prioritised differently by different parties. The future of the internal combustion engine could become a stumbling block in the formation of a coalition. Regrettably, the election manifestos almost entirely ignore the absence of a level playing field in international aviation. Action is required in this area.



Parties fundamentally committed to specific German industrial policy approach

German industrial companies currently well positioned

Today, Germany is internationally renowned for its unique industrial structure. The creation of this structure was by no means inevitable as the country has had to overcome two formidable challenges since 1945. After the collapse of German industry as a result of the Second World War, West Germany achieved unparalleled success in rebuilding a strong industrial base. And in the wake of the reunification of West and East Germany, industry in the East was almost completely realigned, including massive structural reorganisations. On balance, large parts of German industry are perhaps better positioned today than ever before. If politicians pursue the right course, the outlook should remain bright over the coming years. Although the outcome of the Bundestag elections will likely affect future industrial policy, it is not (yet) a key issue in the election campaign – with the exception of the diesel debate.

Germany maintains firm commitment to social market economy

In Germany, there is currently broad consensus among all of the parties with strong election prospects (including the still relatively new Alternative für Deutschland [AfD] party) that economic policy has to be framed in accordance with the concept of the social market economy that has shaped Germany since the war; only the Die Linke party is (still) looking for or in favour of 'alternatives to communism'.

Of course, it is no wonder that the CDU/CSU still firmly subscribe to the current economic concept and its associated industrial policy, having been in government since the second half of 2005 with different coalition partners. The SPD, also currently a governing party, is keen to 're-establish' the social market economy and proposes the readjustment of aspects of labour market and wealth distribution policy. The FDP, currently not in the parliament, remains the party with the closest links to business and industry; it explicitly emphasises the personal responsibility of the individual, calls for a reduction of red tape and greater freedoms for entrepreneurs and companies, and would prefer a more liberal regulatory policy.

Direct intervention in market structures relatively rare

If we compare German industrial policy over the past decade with its French equivalent, for example, it is particularly striking to note that political interference in economic structures (competition, currency and trade issues, state influence on corporate decisions) tends to be significantly more restrained in Germany. A long-term comparison reveals that this has not in any way been a drawback for German industrial companies.

German industrial companies win over customers with tailor-made products

Companies themselves have borne and still bear primary responsibility for the success of German industry, turning ideas into products, taking personal responsibility and exposing themselves to international competition and market risk. In the past, this also meant that German companies had to take greater personal responsibility for their actions than their competitors in France or Italy, because they could never count on direct assistance from politicians (or the central bank with the aid of a weaker currency). However, the history of German (and European) industrial policy is also littered with barriers and stumbling blocks that inhibited the growth of individual industrial sectors and at times made entrepreneurship a far-from-attractive prospect, and that continues to hamper some areas even today. Genetic engineering is one such example.



Bad experiences with direct market intervention

Bailouts for large industrial companies generally unsuccessful

When German industrial policy has come into conflict with market and competition laws, it has generally failed or has achieved only limited success. Most state bailouts for large ailing industrial companies have been ineffective or unsuccessful. Such measures also leave a bitter aftertaste for the multitude of small and medium-sized enterprises that could not expect any government assistance in the event of a crisis due to their lack of 'critical mass'. The massive support given to the financial sector during the economic and financial crisis was primarily justified by politicians on the grounds that it safeguarded investors' savings deposits and the functioning of the payment system; this formed part of an international response and was not a unilateral decision by Germany. Nevertheless, politicians must ask themselves whether the stabilisation of the financial system that was undoubtedly required during a period of acute crisis did not also prevent a vital market shakeout in the medium term.

Government influence traditionally strong in the energy sector

The market-distorting influence of government measures is evident today in a market that makes up such a large proportion of costs for many industrial sectors – energy. The long-term subsidies for German coal mining, put in place for historical reasons, have been extremely expensive and will be coming to an end soon. There are also legitimate questions surrounding policy decisions made with regard to the development, expansion and dismantling of nuclear energy production, which will continue to be a financial burden in the economy for many years to come. Cost is not the only reason why the German energy transition (the 'Energiewende')¹ is cause for concern, particularly as it becomes clear that targets will not be met across a broad front (see also page 8 onwards). Germany was also by no means a pioneer of the liberalisation of the fixed-grid electricity and gas markets that is so vital for domestic industry, having only begun to deregulate these markets after pressure from the EU around 20 years ago. In addition, fundamental reform of the labour market, which ultimately plays a key role in determining labour costs – a crucial factor for many industrial companies – only began in early 2005. Policy in this area was driven by record levels of unemployment and underemployment of a total of around six million people, which was no longer considered socially acceptable.

Labour market reforms enhance competitiveness of industry in Germany

Labour market policy reforms are still key pillars of German industry today; this is particularly true of flexible forms of employment such as temporary agency work. While parts of the political spectrum are critical of these flexible working arrangements, they improve the international competitiveness of Germany's high-wage economy. It is, of course, important to ensure that these arrangements are not abused. There are additional special regulations concerning various aspects of energy costs, including pricing concessions for industrial customers that consume particularly large amounts of electricity. In addition, many major industrial clients are largely exempted from payment of the surcharges for the subsidisation of renewable energies, which are considerable in Germany. It is important to be aware of and to examine the redistribution effects of these exemptions, and the conflict with the actual policy objective, on a case-by-case basis.

Geopolitical changes must be taken into consideration in industrial policy

Domestic industrial policy experiencing a renaissance in several countries

Despite the examples to the contrary already mentioned, German industrial policy has been characterised by restraint in recent decades, particularly in comparison with other major EU states. It can become increasingly difficult for politicians to maintain such restraint if political conditions outside Germany and Europe change significantly and domestically-focused industrial policy experiences

¹ See Heymann, Eric (2016). German 'Energiewende': Many targets out of sight. Deutsche Bank Research. Current Issues. Frankfurt am Main.



German industrial policy

a renaissance. Any future industrial policy must therefore take account of the current fragile global economic environment:

Criticism in the US of German foreign trade surpluses

- There are questions regarding future US economic and industrial policy and the 'America First' preference espoused by the new administration. This stance has led the current US government to criticise Germany's industrial export strength on several occasions.

Chinese companies receiving government support for overseas expansion

- China is striving to become a leading technological and industrial nation. The country is using many different means to achieve this, including 'more Made in China', targeted discrimination against foreign competitors in its home market (e.g. IT providers with information and communication platforms) and high-pressure expansion into overseas markets with state backing for the expanding companies. The Chinese are also acquiring foreign industrial companies, including German ones, while simultaneously creating extremely high barriers for foreign competitors looking to take over Chinese companies. Regulatory measures affecting German and other foreign industrial companies include possible quotas for electric cars.

Political and economic relations with Russia and Turkey have cooled

- Russia's current and future role remains uncertain, with particular lingering doubts about its return to the global economy and international community as an equal competitor and partner. The timing of this uncertainty presents unique challenges, risks and even opportunities for German industry. Political relations with Turkey have also cooled markedly in recent months, which is expected to affect economic relations.

Brexit uncertainty

- The specific consequences of the Brexit decision in the UK remain largely uncertain, making it difficult to determine what future trade relationships will look like. How the EU itself will develop is also unclear. A realignment of the balance of power within the EU is among the conceivable possibilities; this may mean greater responsibility for major countries such as Germany and France and could have implications for the differing industrial policies of the two nations.

Energy and digitalisation infrastructure requires more rapid development

Electricity grid expansion progressing extremely slowly

German politics has paid too little attention to parts of public infrastructure in recent decades. The electricity grid is no longer up to date, given the challenges of the 'Energiewende': on the one hand, Germany is promoting the expansion of electricity generation from renewable energy sources while simultaneously phasing out nuclear energy. On the other hand, vital network expansion (e.g. power supply lines from north to south) is not progressing quickly enough, despite the provision of incentives. The new government should become more engaged in this area, as political resistance at regional and state levels and special requests are delaying network expansion and making it more expensive.

Investment required in IT infrastructure

It is also important to highlight the lack of infrastructure to support the increasing digitalisation of the economy and wider society. Although the development and expansion of efficient IT infrastructure (broadband, etc.) in densely populated areas is not primarily a government responsibility due to the profitability of private investment in such areas, full nationwide coverage requires more robust state involvement. Comparisons with other European nations show that Germany ranks mid-table at best in this regard. The lack of political involvement to date is difficult to understand, for at least three reasons:

- Firstly, German industry currently faces a vast array of new challenges as a result of increasing digitalisation at all stages of production and all levels of marketing. 'Industry 4.0' is a massive undertaking. Without powerful, internationally competitive digital infrastructure, German industrial companies



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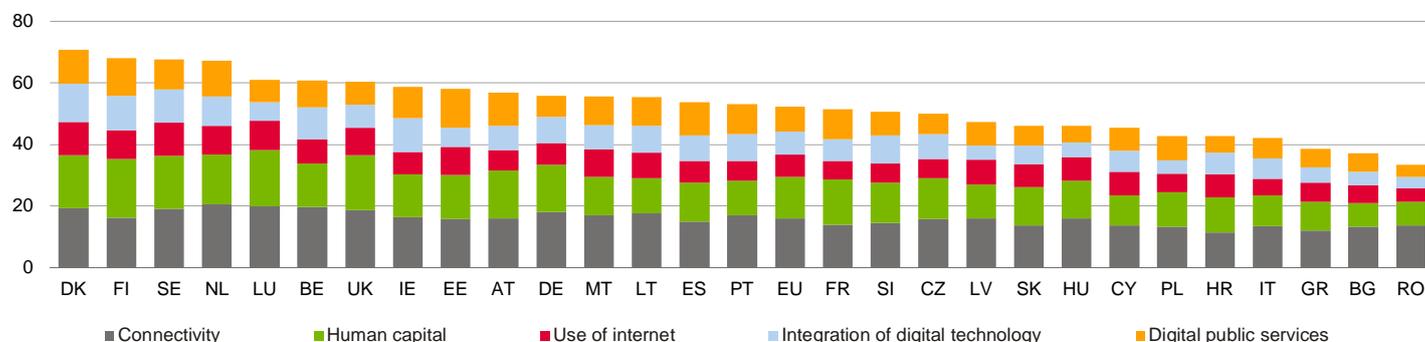
risk falling behind international competition, and not just in rural areas. This could represent a permanent structural weakness for German industry.

- Secondly, the trend towards greater smart mobility also requires effective digital infrastructure. If the vision of autonomous and connected driving really takes shape in the future, this will require error-free and comprehensive IT infrastructure.
- Thirdly, although healthcare in Germany is currently being digitalised with the aim of moving towards more e-health provision, one important prerequisite for this – functional and state-of-the-art internet with broadband connections across the country – is not yet fully available. This is slowing progress towards improved healthcare provision for all patients nationwide.²

Germany in mid-table for digitalisation in Europe

1

Digital Economy and Society Index, 2017



Source: EU Commission

Governmental commitment to develop a comprehensive IT infrastructure is necessary

While the planned copper cable upgrade represents a certain amount of digital progress, full development and extension of a comprehensive fibre optic network must become the primary objective. The government will likely have to get increasingly involved in those areas where network expansion is not financially viable from a purely commercial perspective. Given the improved financial structure of the federal government, we believe funding issues cannot be used as a pretext by politicians any longer. Federal, state and local governments could provide financial support in areas where gaps in IT infrastructure remain due to a lack of financial viability for private network operators.

Germany's outdated infrastructure holds back industrial companies in urban areas slightly less than it does the many mostly medium-sized businesses that primarily operate in rural areas. According to the Federation of German Industries (BDI), 70% of industrial jobs are still based in the countryside. Both elements are therefore necessary to prevent rural clusters of industry from being left behind: firstly, expansion of the digital high-speed network to all areas, and secondly, rapid expansion of long-distance networks.

What is more, quality of life in rural areas – including that of elderly people – can be enhanced by rapid digitalisation of healthcare, for example through telemedicine.

² See Auer, Josef (2017). Digitalisation enhances healthcare. Progress is being made in many ways. Deutsche Bank Research. Germany Monitor. Frankfurt am Main.



Digitalisation of industry requires training initiatives

While the digitalisation of German industry opens new opportunities, it also forces the sector to continuously scrutinise all of its processes. This means that taking advantage of this megatrend requires expertise. The more efficiently and effectively employees can develop and expand their knowledge of digitalisation, the faster and better it can be achieved. Companies whose employees are less involved in these new digital issues and solutions will likely find themselves at a serious competitive disadvantage.

Digitalisation requires additional education and training. While it is in the fundamental interests of every company to tackle this issue themselves, we think the predominantly state-run education sector should become more active in this regard, too. Enhanced education and training on new digital trends and opportunities benefits the economy and improves the earnings prospects of employees.

Nevertheless, digital transformation is changing every job profile, from craftsmen and teachers to doctors, public servants and engineers. Acquiring new knowledge and applying it to the real world improves the competitiveness of the entire economy. Enhanced training initiatives and greater investment in training should pay off for the economy in the medium to long term. A better and broader level of digital education (combined with Industry 4.0 trends) should help to counteract the prospect of a dwindling workforce and thus help to retain innovative and efficient manufacturing in Germany.

The parties most likely to benefit from these training initiatives are the large numbers of small and medium-sized enterprises that typically have fewer resources for training programmes than large companies. Another advantage of public training initiatives is that they are open and accessible to anyone with an interest in the area. This helps to ensure more equal opportunities.

Public training initiative on digitalisation required

Improved levels of digital education can help to counteract the prospect of a dwindling potential workforce

Reciprocity more than once in a blue moon

Germany is more closely integrated with the global economy and international trade than almost any other major nation, which is why it should be committed to further positive development in this area. Germany is interested in China's continuing integration into the global economy, not least because of its status as an important market for German-made products and a vital production location for German companies.

Furthermore, many German companies – from international corporations to medium-sized businesses – can see a variety of development opportunities in China and other emerging Asian nations and are therefore keen to support their continued development with venture capital.

In recent years, the number of acquisitions of German companies by foreign businesses, particularly from China, has grown. In terms of industrial location considerations, this development should perhaps receive greater attention, as making acquisitions in China is by no means simple. There is clearly a lack of reciprocity and we believe it would be beneficial for the German government to make greater efforts to address this imbalance than it has to date. The fact that the Federal Ministry for Economic Affairs and Energy spoke out on this issue in mid-2017 and even insisted upon extended opportunities to review deals and have a say, particularly where sensitive key technologies and/or security-related technologies are involved, is a step in the right direction. Of all the parties, the FDP is the most sceptical about state intervention in business decisions.

In terms of regulatory policy, we believe it would be appropriate for this topic, which is of great importance to German and European industrial companies, to be dealt with at EU level. For this reason, Germany's latest joint initiative on this

Germany one of the most open major economies

Degree of openness: Share of exports and imports of goods in total GDP, 2016, %



Sources: Eurostat, Deutsche Bank Research

Fair conditions needed for cross-border company takeovers between EU and China



German companies not calling for excessive state protection from acquisitions by foreign competitors

topic with EU partners France and Italy should be intensified, in our opinion. An additional benefit of this initiative is that the same ground rules would apply to all competing companies. In any case, responsibility for these trading issues ultimately lies with the EU.

The current general assessment, including our own, is that there does not appear to be any risk of a major wave of acquisitions followed by a shift of production capacity to China. On the contrary, it appears that investors from China are firmly interested in securing their German locations (e.g. Augsburg/Kuka) to enable them to make use of German/European expertise in the longer term and, if possible, to expand on it. Furthermore, the critical stance of the Federal Ministry for Economic Affairs and Energy within Germany has triggered a divided response. In this respect, a strategy for greater reciprocity should be firmly rooted at European level. Even in the extremely sensitive area of corporate takeovers, greater collaboration at European level seems the most likely way to achieve the best overall outcome.

Protection of intellectual property is vital

We believe politicians in Germany and Europe should do even more to strive to remove the obvious imbalance between Germany and the EU, on the one hand, and China on the other, when it comes to both market access and protection of intellectual property. The European Bilateral Investment Treaty (BIT) between the EU and China, under negotiation since 2013, could serve as a useful tool in this process. The USA has also expressed its intention to take a firmer approach towards China with respect to current trading practices, protection of intellectual property and regulations for foreign companies operating in China. In our view, it would be a positive development if North America and the EU had a united stance on this issue.

Need for an updated definition of 'relevant market' under competition law

An updated definition of 'relevant market' is needed for international mergers

Furthermore, better use could be made of German and European competition law in future. Obviously, this applies not only to acquisitions by Chinese companies but also to mergers with important counterparties from other countries. We believe the definition of 'relevant market' as a basis for making decisions on the admissibility of acquisitions has to some extent become too broad in the course of globalisation. In future, distinctions should be made on a case-by-case basis. Decisions should draw on what has been learned from experience and be objective and based on current circumstances. Acquisitions that restrict competition should be blocked in future for both micro- and macroeconomic reasons, in our opinion.

Sector-specific concentration in investor market may restrict competition

Politicians evaluating competition issues should take a closer look at the issue of increasing concentration in the investor market. The past few years have seen an increase in unregulated common ownership. This situation will become critical if large individual investors such as institutional investors are simultaneously involved with companies in the same sector or product segment. We believe greater attention should be paid to this issue, which threatens to undermine the competition that everyone is seeking to achieve. As this issue extends beyond national borders, answers should be sought at both international and European levels – as with other industrial and competition issues. If the right regulatory framework is put in place, domestic competition authorities can continue to deal with case-by-case assessments by sharing information and evaluations with international partners where necessary.



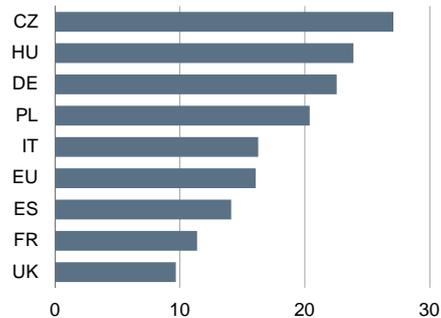
German industrial policy

Energy and transport: government influence remains high

Significance of industry varies considerably

3

Share of manufacturing in total gross value added, 2016, %



Source: Eurostat

As previously mentioned, Germany's rather cautious industrial policy has been more to the advantage of German industry than to its detriment. As a result, Germany now has a highly competitive industrial sector by European comparison and a higher-than-average proportion of its economy is accounted for by industry. But German politicians have also continuously imposed regulations on individual sectors or influenced them through their own investment activities. Particularly worthy of note are the energy and transport sectors, where it is generally thought that factors such as the existence of economies of scale, non-excludability, external effects or interdependencies with other objectives (e.g. environmental protection) justify government action. These areas will likely continue to be significantly affected by state action in future. Although energy policy, climate policy and transport policy are not necessarily among the most important or controversial issues in the current election campaign, there is little doubt that they are significant for Germany's competitiveness as a centre of industry. In recent years, Germany energy policy has had a major impact on all market players and their decisions – from the investment behaviour of energy-intensive companies down to domestic energy consumers.³

Energy and climate policy: plenty of wishful thinking

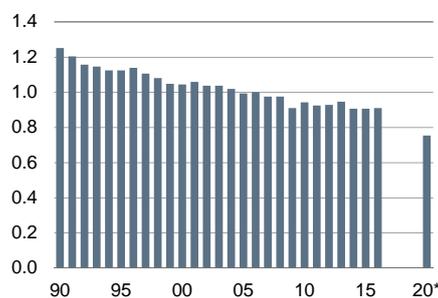
CDU and SPD offering hardly any specific energy and climate policy proposals

When it comes to climate policy, Germany formally pursues extremely ambitious goals. The most important vehicle for this is the German 'Energiewende' and its many different environmentally-friendly sub-targets (e.g. reducing CO₂ emissions, expanding renewable energies, greater energy efficiency). This 'Energiewende' is a wide-ranging project with a long-term focus. While it comes as no surprise to see more or less clear pledges to Germany's energy and climate goals in the election manifestos of the current governing parties, statements on specific measures often remain vague. Instead, manifestos often contain a series of platitudes about energy policy. For example, both the CDU and the SPD emphasise the fact that Germany's future energy supply must be reliable, affordable and environmentally-friendly.

Germany likely to miss 2020 climate target

4

Greenhouse gas emissions in Germany, CO₂ equivalent (billion tonnes)



* Federal government target for reduction of greenhouse gas emissions by 2020: -40% relative to 1990

Sources: Federal Environment Agency, Deutsche Bank Research

However, several fundamental issues are scarcely addressed. Election manifestos generally do not touch upon the fact that many of Germany's energy transition targets are likely to be missed. For example, Germany is not expected to cut its greenhouse gas emissions by 40% compared to 1990 levels by 2020. There is currently no debate about whether this target was ultimately too ambitious or whether the wrong instruments are being used to achieve it.

Furthermore, if we look at the triangle of key energy policy objectives, the energy affordability aspect is being neglected in favour of increasing the proportion of renewable energies in the electricity sector. Energy prices for private households and most commercial customers in Germany have risen faster than in the EU average in recent years, not least due to higher government charges (e.g. the surcharge under the Renewable Energy Sources Act). The CDU manifesto at least mentions that concerted attempts to introduce market forces to renewable energy production and to integrate systems must be continued. However, it gives no indication of what this might actually look like. The SPD wants to "make Germany the most energy-efficient economy in the world". Yet, again, it offers no suggestions as to how this should actually happen. The costs of the energy transition and the cost-benefit ratio of the measures to be taken are ultimately a secondary consideration in both election manifestos. This is disappointing given the costs already incurred and those expected in future.

The governing parties rightly emphasise the importance of 'interlinking sectors' – that is, stronger involvement of the heating and transport sectors. In reality, the

³ See Heymann, Eric and Oliver Rakau (2017). Uncertainty is slowing capital expenditure. Deutsche Bank Research. Germany Monitor. Frankfurt am Main.

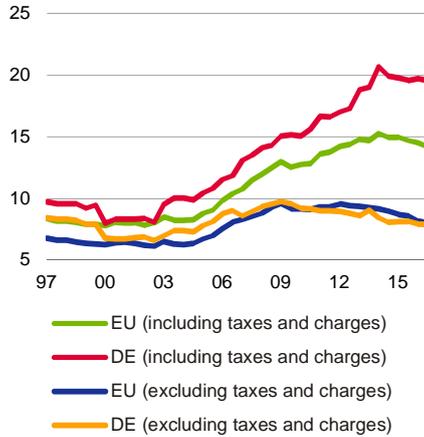


German industrial policy

Taxes and charges are the main drivers of electricity prices in Germany

5

Electricity price for industrial customers*, cents per kilowatt hour



* Annual electricity consumption, between 500 and 2,000 MWh

Source: Eurostat

Greens pursuing ambitious energy and climate goals

FDP critical of Renewable Energy Sources Act

Energy policy could be a hurdle for the 'Jamaica coalition'

The left-leaning Die Linke party wants greater consideration for social policy aspects

German 'Energiewende' is so far almost entirely a shift in the electricity sector, as progress in the heating and transport sectors has been limited to date. However, the election manifestos do not provide any specific suggestions of how this interlinking of sectors might take place or what economic costs and social benefits can be expected.

Remarkably, the objective of limiting the rise in global average temperatures to less than 2°C above the pre-industrial level does not appear in the manifesto of either the CDU or the SPD. This contrasts with the fact that the 2°C target is often cited in political speeches as (part of the) justification for Germany's energy and climate policy, even though the country's contribution to global greenhouse gas emissions is very small at just over 2%.

Greens and FDP poles apart

The election manifestos of smaller parties with prospects of representation in the Bundestag contain more nuanced perspectives on German energy and climate policy. Unsurprisingly, Bündnis 90/Die Grünen (green party) offer particularly ambitious energy and climate proposals, including the target of increasing the proportion of renewable energy sources in the electricity sector to 100% by 2030. They also suggest that the 20 most polluting coal-fired power stations in Germany be shut down immediately. However, both proposals fail to acknowledge that CO₂ emissions from the electricity sector in the EU are no longer part of domestic emission budgets but are instead subject to a cap at the EU level. With this in mind, any climate policy measures concerning the domestic electricity sector are in fundamental conflict with EU emissions trading.

At this point, the FDP's election manifesto advocates making the switch to renewable energy sources a Europe-wide project and enhancing EU emissions trading as a pivotal instrument of climate protection. While this is welcome from an economic point of view, it presents significant political challenges. At the same time, the FDP aims to bring an end to 'permanent subsidy systems' such as the Renewable Energy Sources Act (EEG). In addition, climate-friendly technologies should primarily be introduced by way of market forces and not as a result of centrally-planned targets. The FDP is calling for tax on electricity to be reduced to the minimum European level to reduce the cost burden on consumers.

It is clear that the energy and climate proposals made by the Greens and the FDP differ considerably. The issue is important for both parties. For the Greens, an ambitious energy and climate policy is practically the essence of their brand, while the FDP appeals to voters in business and industry with calls for greater exposure to market forces and rationality when implementing the 'Energiewende', thus putting clear political water between themselves and the CDU without creating insurmountable divides in the process. However, energy and climate policy could prove to be a significant hurdle for any 'Jamaica coalition' (i.e. the black, green and yellow of the CDU, Greens and FDP) at the federal government level.

Die Linke calling for greater government influence

In its election manifesto, Die Linke advocates (even) greater government influence in the energy sector. For example, it proposes that energy supply be organised more along the lines of a public service, while its election manifesto also reflects scepticism about the role of major corporations in energy supply. In addition, Die Linke calls for social policy aspects to be given greater consideration when implementing the 'Energiewende'. Among the proposals in its manifesto are a call for affordable basic rates for electricity, water and heating and a demand for structural reform of the Renewable Energy Sources Act that takes social issues into account. These targets primarily relate to the burdens placed on lower-income households by rising electricity prices.



AfD offers alternative manifesto

AfD in favour of extending the service lives of nuclear power plants

Of all the parties with a realistic prospect of representation in the Bundestag, AfD offers the most controversial energy and climate policy proposals. Unlike all the other parties, they cast doubt on the theory that climate change is predominantly caused by human activities, and also call for the Paris Agreement to be revoked. When it comes to domestic energy policy, AfD proposes that existing nuclear power plants should not be shut down before the end of their technologically viable operating lives, and calls for the abolition of the Renewable Energy Sources Act, the Energy Saving Ordinance and the Renewable Energy Heat Act. While these energy and climate proposals make it clear that AfD is focused on opposition to existing policies, its manifesto contains more than just 'extreme positions'. In terms of electromobility, for example, they propose that this area be developed in accordance with market principles.

Preliminary conclusion

Imminent failure to meet energy transition goal not sufficiently addressed

Last year, we stated that Germany had likely taken on too much in too short a timeframe when it came to its energy and climate policy targets. Our assessment has not changed since then. Most election manifestos do not say enough about the looming failure to meet these targets; this is particularly true of the current governing parties, the CDU/CSU and SPD. In our opinion, there should be greater emphasis on whether the country's energy and climate policy targets need to be adjusted in line with the reality of what is happening, whether other instruments should be used or whether the existing tools need to be 'sharpened up'. The parties are also paying too little attention to the economic costs of the 'Energiewende'. In summary, many of the statements made about energy and climate policy appear to constitute wishful thinking.

Transport policy: no surprises here

Diesel scandal plays only a limited role in official election manifestos

The current debate on transport policy in Germany is dominated by the 'diesel scandal' and the question of what actions the automotive industry and politicians should take to solve the problem of the excessive harmful emissions of diesel cars under real driving conditions. However, this issue plays only a limited role in the parties' election manifestos. Only the Greens are calling for the affected vehicles to be retrofitted at the manufacturers' expense. We are extremely sceptical about the Greens' proposal that only zero-emission cars should be allowed to be registered from 2030 onwards. One reason for our scepticism is that it is not yet possible to anticipate how quickly alternative drive technology will progress and how rapidly the costs of this technology will fall. We believe it makes sense to allow those new technologies that find favour among customers without subsidies to succeed in the market, not least to ensure a level playing field between competing technologies. It is also likely that CO₂ emissions of cars will continue to be regulated by limits set at the EU level in future. However, the Greens do not call explicitly for the affected vehicles to be banned from driving in their election manifesto. The CDU and AfD are against any driving bans for specific types of vehicle, while the FDP are opposed to a ban on vehicles with internal combustion engines or the mandatory introduction of electric cars. Die Linke – like the Greens – is critical of the lower tax rate for diesel fuel at the pump.

Internal combustion engines an obstacle to coalition

The future political approach to combustion engines could represent a significant obstacle to a coalition between the CDU/CSU and the Greens or a 'Jamaica coalition'. CSU chairman Horst Seehofer recently made it clear that the CSU will not accept a ban on internal combustion engines as part of a coalition pact. Conversely, the leading candidate of the Green Party, Cem Özdemir, cited the end of the era of the combustion engine as a prerequisite for the party's entry into coalition.



PPP projects currently out of fashion politically

Insufficient clarity on transport infrastructure

Public-private partnership (PPP) projects are generally viewed with scepticism

Relatively little space is dedicated to transport infrastructure in the parties' election manifestos. The CDU points to the higher investment in transport infrastructure during the current legislative term and proposes that this be maintained in future. The SPD simply calls for modern transport infrastructure. The FDP's demand that the federal government pay EUR 2 bn a year into a transport infrastructure modernisation fund is more specific. The Greens explicitly call for the preservation of existing transport infrastructure to be prioritised over new construction and for railways to be given priority over roads, while Die Linke also believes that local public transport, cycle paths and footpaths should be prioritised over new highways. The AfD advocates an economic stimulus package aimed at upgrading and expanding transport infrastructure, without providing any estimates of the scale or duration of such a programme. The SPD, Die Linke, the Greens and AfD are sceptical about or opposed to public-private partnerships (PPP) as a method of financing transport infrastructure. This scepticism about private involvement in transport infrastructure could also be a continuing consequence of the economic and financial crisis. Only the FDP is in favour of greater use of PPPs in the transport sector.

While the amount of space dedicated to the environmental aspects (CO₂, pollutant and noise emissions) of transport and the use of digital technology in this sector differs depending on the political orientation of each party, specific quantitative targets are few and far between. The Greens set out the most ambitious targets when it comes to environmental factors.

All in all, the parties' election manifestos offer few surprises when it comes to transport policy. Although it is unlikely that any conceivable coalitions might fail to be formed as a result of conventional transport issues, the diesel debate and the issue of whether politicians should set a specific end date for vehicles with internal combustion engines could prevent the formation of coalitions between the centre-right and the Greens.

Competition issues in international aviation are almost entirely ignored in the election manifestos

However, one area of the transport sector is conspicuous by its absence, namely aviation. The sector is mentioned in only some election manifestos in connection with noise emissions. This omission is noteworthy and extremely disappointing, as Germany and Europe's position within the aviation world is at a competitive disadvantage from a tax, environmental and regulatory perspective compared to rivals from areas such as the Gulf states and Turkey. In the past, this has contributed to German and European airlines and airports losing market share to foreign competitors. Politicians must show much greater commitment in this area, we believe.

Conclusion and outlook

In recent decades, German governments have made relatively few direct interventions in market events. In our view, politicians should continue to refrain from active industrial policy in future and instead create conditions that intensify competition, encourage research and development and open or maintain access to markets. Taxes and charges, flexibility in the labour market and incidental wage costs are among the factors that are important to investors and can be influenced by politicians. At a time of increasing political uncertainty and protectionist tendencies both inside and outside Europe, it can be difficult for policymakers to maintain their traditional sense of restraint with regard to industrial policy. Nevertheless, we think open markets and competition should always take priority over isolation and unilateralist tendencies. At a national level, policymaking around the shift in German energy policy should focus on bringing the politically desirable in line with the practically possible even if this means that individual energy transition objectives need to be reformulated or shifted to the European level. In



German industrial policy

the short term, there is also a need for industrial policy action in the area of network infrastructure (IT and electricity). Far too little attention is being paid to the lack of a level playing field in international aviation.

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