

Client Alert

Corporate

APRIL 10, 2025

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Germany's Incoming Government and Its Impacts on Future Energy and Decarbonization Policies in Europe

Talks (*Koalitionsverhandlungen*) between the centre-right CDU/CSU and centre-left SPD to form a new German government concluded in a coalition agreement reached on April 9, 2025.

In our previous coverage of the German federal elections (Part I can be found [here](#) and Part II can be found [here](#)), we discussed how energy and climate policy in general, and certain energy sources in particular, may be affected by a shift of power in Germany. Below are the coalition agreement's outcomes in that regard.

NUCLEAR

- Nuclear energy is not mentioned in the coalition agreement; the only reference to nuclear technology comprises a commitment to support scientific research into fusion reactions and to build the world's first fusion reactor in Germany. The regulation of fusion power plants is envisaged outside of nuclear law.
- Given the persistent opposition to nuclear technology in a significant proportion of the German population, the omission – in contrast to an explicit rejection – of nuclear energy may be interpreted as no positive indication of any interest in utilizing advanced (or any) nuclear technology to produce energy in Germany. Also the option to explore the possibility of developing and installing small modular reactors (SMRs) in Germany is further unclear.

LNG AND THE POWER GRID

- While LNG is not explicitly mentioned, the coalition agreement emphasizes diversifying gas supplies through long-term international contracts and partnerships, which aligns with Germany's strategy to replace Russian pipeline gas with LNG imports and other sources.
- The electricity grid's modernization is critical to integrating renewables and ensuring stability, with plans to expand high-voltage transmission lines (*Hochspannungs-Gleichstrom-Übertragungsnetze (HGÜ)*), accelerate smart meter deployment, and incentivize grid-friendly storage solutions.
- Gas infrastructure, including dual-use hydrogen-ready power plants and future hydrogen pipelines, are positioned as transitional reinforcements for the electricity grid, balancing intermittent renewables while maintaining affordability and supply security until clean energy dominates the mix.
- To increase affordability and predictability of electricity prices and international competitiveness, the Electricity Price Package (*Strompreispaket*) – including an electricity tax reduction to the EU minimum of EUR 0.05/kWh for manufacturing and the continuation of electricity price compensation – will be extended, and the Gas Storage Levy (*Gasspeicherumlage*), a charge imposed on off-takers to fund the maintenance and expansion of gas storage facilities, will be abolished.

COAL

- The coalition agreement reaffirms Germany's commitment to phasing out coal-fired power generation by 2038 at the latest, adhering to the recommendations of the "*Growth, Structural Change, and Employment*" Commission. Structural support funds for coal regions will remain available until 2038, with flexibility to address potential funding gaps while maintaining their designated purpose.
- The timeline for shutting down coal plants may be adjusted depending on the progress of replacing them with hydrogen-ready gas power plants, ensuring energy security during the transition.

WIND AND HYDROPOWER

- Wind energy expansion remains a priority, with onshore wind targets for 2027 being maintained and 2032 goals under review, alongside efforts to streamline approvals and address grid synchronization challenges. Offshore wind development will focus on cross-border cooperation with North Sea nations to optimize wind farm locations and realize hybrid offshore grid connections (combining power cables and hydrogen pipelines).
- Hydropower, including small-scale and pumped-storage systems, will be further utilized, with existing potential sources tapped to enhance flexibility and storage capacity in the renewable energy mix.

HYDROGEN

- Hydrogen is positioned as a cornerstone of Germany's energy transition, with a comprehensive strategy to establish it as a versatile, climate-neutral energy carrier for industry, transport, and power generation.
- Hydrogen-ready gas power plants (up to 20 GW by 2030) are positioned as serving a transitional backup support for grid stability, bridging gaps in renewable energy supply while phasing out coal.
- The upscaling of hydrogen production through large-scale electrolysis powered by renewable energy, alongside decentralized systems to ensure broad accessibility, is emphasized.
- The coalition agreement commits to the extension of the core hydrogen network (*Wasserstoffkernnetz*), and clarifies that during the ramp-up phase it should be color-agnostic. The network is intended connect industrial

hubs, ports, and storage facilities, with cross-border infrastructure (e.g., pipelines to neighboring EU countries and import terminals) prioritized to secure diversified supplies of green hydrogen and its derivatives, such as ammonia.

- The plan underscores the importance of international energy partnerships, explicitly citing H2Global and EU IPCEI projects as initiatives to fund production and import agreements, particularly with sun- and wind-rich regions.
- To accelerate adoption, the government intends to simplify regulations, oppose overly burdensome EU rules, and establish a transparent certification system to verify the climate credentials of hydrogen, ensuring alignment with Germany's 2045 climate neutrality target.

CARBON CAPTURE AND STORAGE (CCS)

- CCS technologies are mentioned in the context of Germany's hydrogen strategy, facilitating the production of blue hydrogen from natural gas with CCS as an interim solution for critical hard-to-abate industries like steel and chemicals, as well as gas-fired power plants.
- Storage infrastructure for hydrogen and its carriers is prioritized, including salt caverns and repurposed gas facilities, to balance seasonal demand fluctuations. To this end, legislation will be fast-tracked in order to enable CO₂ transport, offshore storage in the North Sea, and onshore storage where geologically viable.
- Direct air capture (DAC) to extract carbon dioxide from the atmosphere is acknowledged as a future tool for achieving negative emissions, complementing the accelerated renewable energy rollout and energy efficiency measures.

CARBON BORDER ADJUSTMENT MECHANISM (CBAM)

- The European Commission's suggestions to simplify the CBAM mechanism by the omnibus procedure are fully supported, but the coalition agreement explicitly reserves the possibility of ensuring competitiveness for export-oriented industries via the free allocation of CO₂ certificates.

SECURED FINANCING THROUGH RESOLUTION BY OUTGOING GOVERNMENT

- The recently resolved special fund (*Sondervermögen*) of EUR 500bn, approved by the outgoing German government through constitutional reforms, represents a transformative financial mechanism to accelerate the energy transition.
- A significant portion of this fund – EUR 100bn – is allocated to the Climate and Transformation Fund (KTF), which directly supports decarbonization efforts, including hydrogen infrastructure, renewable energy expansion, and grid modernization.
- Programs such as H2Global will benefit from this funding, as the KTF prioritizes hydrogen upscaling.
- The fund also enables investments in energy storage, smart grid technologies, and research into high-risk innovations like CCS and – potentially – even scientific research into nuclear fusion.
- By circumventing Germany's constitutional debt brake, the special fund ensures sustained financial support over twelve years, fostering public-private partnerships and de-risking investments in emerging technologies like hydrogen electrolysis and cross-border energy infrastructure.

SUMMARY

As expected, the CDU/CSU and SPD have agreed on a pragmatic approach to carbon neutrality, providing for more flexibility on the decarbonization pathway while maintaining the goal of carbon neutrality by 2045. As is often the case with such political expressions of intent, there is much room for speculation regarding aspects that were omitted in the coalition agreement, i.e. neither explicitly endorsed or rejected.

It should be further noted that, whilst the coalition agreement forms the base of the incoming German government that is expected to be sworn in in the beginning of May, none of its provisions are binding or legally enforceable. The most severe consequence of non-compliance with the coalition agreement would be a dissolution of government and a call for re-elections, as occurred in November 2024.

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