



Summary of the Federal Ministry for Economic Affairs and Climate Action's industrial strategy

The Federal Ministry for Economic Affairs and Climate Action is presenting a new industrial strategy on 24 October. Entitled: ***“Industrial policy in the Zeitenwende: safeguarding our industrial base, renewing our prosperity, boosting our economic security”***, the strategy highlights the significance of industry for Germany, provides a comprehensive and strategic justification of the Federal Government's industrial policy in key fields of action, and identifies additional needs for further measures. In challenging and uncertain times, people rightly expect the government to provide orientation and to justify its policies. That is the purpose of this strategy.

1. Vision and goals

The strategy is guided by a clear vision: We want to maintain Germany as a strong industrial centre in all its diversity. From the global corporation to the hidden Mittelstand champion and the small enterprise. From the energy-intensive basic materials industry to mechanical and automotive engineering, to space technology.

This is because – particularly in view of its diversity – industry is of enormous importance for Germany's prosperity and the participation of the whole of society in that prosperity. If Germany wishes to continue to be an economically successful country in future, we must build on our biggest strength: our ability to develop and manufacture first-class products. In short: on our industry.

However, the significance of industry extends far beyond economics. Industry makes a crucial contribution to the cohesion of our society and its democratic stability. Industry is part of our country's social and cultural identity; it is deeply engraved in the ways we work and live our lives. Safeguarding our industrial base is thus also an indispensable contribution to cohesion in our country.

Maintaining our industrial base also makes us safer. If we diversify value chains and at the same time maintain existing and build new manufacturing capacity in Germany and Europe, this will make us less dependent on autocracies in an increasingly uncertain world. To act responsibly, and to be on the safe side, therefore, we must strengthen our economic security.

2. Strategic challenges

Our industry remains strong. But it is facing strategic challenges:

A geopolitical *Zeitenwende*: Russia's war of aggression against Ukraine marks a watershed, what the Federal Chancellor aptly called a "*Zeitenwende*", changed times, at the outset of the war. The persistently increased level of energy prices is a very tangible manifestation of the effect of these changed times on our industry. But it is just the latest expression of a deep-rooted change in the international geopolitical and geoeconomic realities. The last three decades were driven by market-dominant but also rules-based globalisation. However, recent years have seen the return of geopolitical and geoeconomic conflicts, unleashing their full impact on economic policy. Trade, technology and industrial policies are used as political tools in these conflicts.

A neglected business environment: The business environment has deteriorated not least because, for a long time, necessary reforms and investments were neglected: there was a failure to expand the use of renewable energy and to renew our infrastructure, dangerous dependencies were cemented in or even newly created, bureaucracy spread like wildfire, there was a lack of determination to tackle the skills shortage.

Transition to climate neutrality: The climate crisis obliges us to take decisive action. The transition to climate neutrality and the related renewal of our prosperity offer medium- and long-term opportunities, but entail great efforts and costs for our industrial sector and its employees during the transformation process.

3. Strategic industrial policy in changed times

The safeguarding of our industrial base requires a clear course: a strategic industrial policy. This is described by this industrial strategy in line with the following approaches:

Industrial policy in the *Zeitenwende* is necessarily always anchored in a European perspective. German industry is very closely integrated into the European single market, whilst the Green Deal and the European industrial strategy constitute the strategic framework for our national policies. At the same time, we find that the maintenance of Germany's industrial base makes a major contribution towards safeguarding the industrial base across Europe as a whole. It would be sensible to adopt a more European mindset in industrial policy in order to strengthen the integrity of the single market. But until the financial preconditions and governance structures for this are in place, it is in the European interest for the Member States to take the necessary industrial policy steps.

Industrial policy in the *Zeitenwende* primarily means a strengthening of the business environment. Companies can only be successful here and survive in the face of international competition if they encounter an environment in which they can do profitable business in the long term and on which they can rely. We are therefore conducting a transformational supply-side policy to improve the business environment for industry as a whole – from the global corporation to the hidden Mittelstand champion and the small enterprise. The Federal Government has already

made substantial efforts in this direction. However, important steps still need to be taken – particularly in the energy transition – to ensure competitive electricity prices, further acceleration of planning and the removal of bureaucracy, and the specific implementation of the immigration of skilled workers. The improvements in the supply-side conditions must be the priority for the second half of the government's legislative term.

Industrial policy in the Zeitenwende also requires proactive financial support in many instances. Economic security is a new priority of our industrial and economic policy. This includes a strategic policy to attract new business operations into Germany and Europe. At the same time, we need to protect our industry from unfair competition in the light of substantial subsidies in China and the U.S., and to enable it to shift to climate-friendly production technologies. And we must smooth out the rough edges of the transition to a climate-neutral energy system and build a bridge for companies which have a competitive long-term business model.

Each instrument will not impact on all companies equally, but we wish to maintain the breadth and depth of the value chains in Germany. Public financial support for industrial companies which have taken in high profits for decades is not an end in itself: it must serve societal goals like the safeguarding of good jobs and the participation of the whole of society in our prosperity, climate change mitigation or our country's economic security. Also, in the case of many large-scale funding programmes, the Federal Government has taken key decisions in full agreement within the coalition. These now need to be upheld on a long-term basis in order to unleash their full effect – and this raises financing issues. Our constitutional rules governing public finances were adopted in times which were driven by market-dominating globalisation and by considerably smaller geopolitical tensions. We need to engage as a nation in a debate on how these rules can be adapted to the new realities, at the latest during the next legislative term.

4. Fields of action

Our strategic industrial policy translates into three fields of action which have already been intensively worked on by the Federal Government since it took up office:

We are working full steam ahead to **improve the business environment**. In 21 months, we have taken measures in a whole range of areas. These include the accelerated expansion of renewable energy, electricity grids and the hydrogen industry and infrastructure, and a campaign to renew our infrastructure with a focus on railways and the renovation of bridges and roads. Work is taking place on the acceleration of planning and approvals, particularly relating to infrastructure. Tax breaks for investments and relief for the economy and industry totalling €50 billion are planned over the next four years. Securing skilled labour and the immigration of skilled workers via the Skilled Immigration Act and the strengthening of training are also priority tasks which the government is tackling with vigour.

Economic security is a central goal for this government. We are therefore reducing our dependencies on autocracies by means of diversification, e.g. via new trade agreements and raw materials partnerships. We are also building new production capacities of our own in critical areas: these particularly include microchips and transformational technologies. Similarly, we in Europe

must be in a position to cover relevant parts of our military equipment needs and the needs of our closest allies ourselves. To this end, we want to take steps towards enhanced cooperation in the security and defence sector and to further consolidate the European defence industry. This serves to strengthen Europe's strategic sovereignty.

The climate-neutral renewal of German industry is a great opportunity to remain a world market leader in key enabling technologies. To this end, we have driven and implemented a clear framework at European level in the form of the more ambitious and expanded emissions trading system and the new carbon border adjustment mechanism. In Germany, we are complementing this with a comprehensive decarbonisation package for our industry centred around carbon contracts for difference.

So much is on track, and we now need to display long-term stamina as we implement it. The challenges have emerged over many years, and tackling them takes time. At the same time, however, there are fields of action which need to be tackled with greater resolve:

- In addition to the relief for small and medium-sized enterprises deriving from the end of the EEG surcharge, we also need a bridging electricity price for energy-intensive industry. Otherwise, we will risk reductions in production or even the relocation of structurally competitive companies away from Germany, particularly in the basic materials sectors. This would destroy the starting points of value chains which stretch across the whole of Europe. Making sure this does not happen is not only in the German interest, but is in the economic and security interest of the whole of Europe. We want to supplement the bridging electricity price with a continuation of the special discount on electricity taxes.
- We have tied ourselves up as a country with too much bureaucracy and too cumbersome permitting procedures. First steps have been taken here, but much remains to be done. It is important for our industrial future that approval processes for industry itself are significantly accelerated. The Federal Chancellor will lead the Federal Government and the Länder in presenting a comprehensive package to accelerate procedures.
- Alongside targeted immigration of skilled workers, it is important to do more to leverage the domestic labour market potential. We should not deprive ourselves of the expertise, skills and experience of older people in particular. There is therefore a need for targeted incentives so that older people voluntarily wish to work longer. One measure for this would be the payment of the employer's contribution towards statutory unemployment and pension insurance directly to employees once they have reached the statutory retirement age. Another option could be a tax exemption for employees subject to social security contributions above the statutory retirement age. As a further step, solutions should be sought together with the social partners for a flexibilisation of the fixed termination date in employment contracts when the statutory retirement age is reached.
- Finally, we also need to develop new technologies for the climate-neutral renewal of our industry. Germany will only be able to attain its climate neutrality targets if it also uses CCS/CCU. The use of CCS is primarily necessary for those areas in which there are no or hardly any technical possibilities to cut emissions. The Federal Government will therefore present a carbon

management strategy which makes possible the use of CCS and CCU and gives support to some aspects of these technologies. This also means setting up the necessary transport infrastructure in Germany and working with the European partners to find a common storage strategy.