

Can Germany's New Coalition Deliver on the Energy Transition?

by Alessio Sangiorgio

Following the 2025 German Federal Election, the Christian Democratic Union (CDU), its Bavarian counterpart, the Christian Social Union (CSU) and the Social Democratic Party of Germany (SPD) are pursuing a new Grand Coalition. CDU leader Friedrich Merz has outlined plans to stimulate economic growth and kick-start the defence sector. However, the coalition's approach to decarbonisation is way more cautious. This does not echo previous Grand Coalitions, particularly those under CDU Chancellor Angela Merkel, which shared a more unified vision on energy transition and climate policy.

This shift comes while Germany is undergoing significant changes in its energy system, phasing out nuclear power, coal and Russian natural gas and increasing its share of renewable energy. Under the Federal Climate Change Act, Germany has committed to reducing emissions by at least 65 per cent below 1990 levels by 2030 and

to achieve climate neutrality by 2045. However, as of 2024, emissions had decreased only by 48 per cent compared to 1990 levels, suggesting that drastic reductions will be necessary.¹

The new coalition, however, is not likely to push climate action further, and energy issues could become the primary source of stalemate. Along with increased polarisation within German politics, other factors hinder the energy transition: the changing international landscape causing greater focus on defence spending, and the rise of far-right and anti-green parties.

Election and rise of the far-right

The brief electoral campaign following the collapse of the previous *Ampel* ('traffic light') coalition in December already showed a significant rise in

¹ International Energy Agency (IEA), *Germany 2025 Energy Policy Review*, April 2025, p.12, <https://www.iea.org/reports/germany-2025>.

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anti-green sentiments. This aligns with a broader European trend where many voters are increasingly rejecting the implementation of green policies. In fact, in Germany, large sections of the electorate have questioned both the previous government's climate and energy initiatives and the European Green Deal strategy at large. Additionally, the crisis of the country's industrial sector, already burdened by high energy prices, fuelled doubts on the energy transition.² Even the automotive sector faced a wave of layoffs, sparking protests and strikes.

Anti-green parties, particularly the far-right Alternative für Deutschland (AfD), have blamed the transition for deindustrialisation and pointed at the decoupling from Russian gas as the cause of soaring energy prices.³ In response, mainstream parties have been pressured to adjust their stance on energy. The CDU moved toward increasingly conservative positions, attempting to counter AfD's popularity,⁴ while also raising concerns about a possible convergence with them. Indeed, shortly before the election, the AfD supported a non-binding motion proposed by the CDU to curb immigration, marking the first time in post-war German history that

a parliamentary majority was reached with the support of the far-right.

Fears of a convergence between the two parties persisted after the election, when the CDU/CSU and the AfD became respectively the first and second-largest forces in Parliament. On the contrary, the three parties of the *Ampel* coalition experienced a significant decline. The SPD lost nearly ten percentage points. The liberal Free Democratic Party (FDP) even failed to secure the 5 per cent threshold necessary to enter the Parliament, which had only occurred once in their history. The Greens also saw a decline in their support, although not as significant.

Opposition grew from the left as well. The radical-left Die Linke increased its support and the 'left-nationalist' Sahra Wagenknecht Alliance, formed by some of its former members, reached just below the 5 per cent threshold.

Shifting priorities

After the election, Merz excluded an alliance with the far-right and started negotiations with the SPD, focusing on the need to stimulate economic growth and expand the defence sector. It immediately became evident that their plans would require unprecedented investment. These expenses quickly proved to be incompatible with rigid debt rules, specifically the *Schuldenbremse* – the constitutional norm that limited the annual deficit to under 0.35 per cent of the GDP and that was responsible for blocking the previous coalition climate fund.

² Gouri Sharma, "Could Far-Right AfD Weaponise Germany's Cost-of-Living Crisis?", in *Al Jazeera*, 13 December 2022, <https://aje.io/44t2wk>.

³ "Volkswagen: 'Furious' Union Threatens Strike 'Escalation'", in *Deutsche Welle*, 12 September 2024, <https://www.dw.com/en/a-71005834>.

⁴ Deborah Cole and Helen Sullivan, "Elon Musk Congratulates AfD's Alice Weidel on Far-Right Gains in German Election", in *The Guardian*, 24 February 2025, <https://www.theguardian.com/p/xxjgfy>.

To address this, the CDU/CSU and the SPD, with the support of the Greens, approved at record speed a constitutional reform on debt limits. On 18 March, it was approved by the Parliament in its pre-electoral composition.

While the CDU/CSU and SPD's initial proposal focused on easing debt rules for defence and infrastructure expenses, the need to include the Greens extended the scope of reform to energy initiatives as well. While the main focus of the reform remained on lifting debt restrictions on defence and infrastructure,⁵ the Greens successfully pushed that 100 billion euros out of the total 1 trillion euros in loans be allocated to a Climate Transformation Fund. The reform also changed debt rules at the federated state (*Land*) level. Previously, the *Länder* were not allowed to run any deficits, but they will now be permitted to incur public debt. Additionally, one-fifth of the funding package will be managed directly by the *Länder*.

While the reform offers significant flexibility to the coalition, questions remain on how the Climate Transformation Fund will be operationalised and if attention to energy initiatives will continue now that the Greens will be relegated to the opposition. Defence policy will continue to be the focus of the new coalition. Indeed, among other changes introduced by the reform, military aid to allied nations under attack was

also exempted from debt restriction. This indicates the government's firm support for Ukraine, an issue that will likely be used to cement consensus between the parties. On the other hand, energy and climate issues will face slowdowns and stalemates.

Indeed, there are concerns over the coalition's ability to define a cohesive position, as polarisation increases between the CDU, CSU and SPD. Many have dubbed the current alliance as *Kleine Koalition* (Small Coalition), as the CDU/CSU and the SPD no longer enjoy the comfortable majorities of past legislatures. The parties hold a combined total of 328 seats out of 630, a significant decrease from the first or third Merkel Governments, when Grand Coalitions controlled more than two-thirds of Parliament. In fact, the urgency behind the constitutional reform was caused by the new composition of the Parliament, where Die Linke and AfD together hold a blocking minority of more than one-third of the seats.

Given their slim majority in the new Parliament,⁶ even relatively small internal rebellions within each party in the new ruling coalition could prevent bills from passing. For instance, Merz's concession to the Greens to secure the votes necessary for constitutional reform was not welcomed by CSU leader Markus Söder. Söder represents the component of the block most opposed to the energy transition and campaigned for the dismantling of the

⁵ Matthew Karnitschnig and Nick Alipour, "Germany Poised to Commit €1 Trillion for Defence and Infrastructure in Stunning Reversal", in *Euractiv*, 4 March 2025, <https://www.euractiv.com/?p=2221108>.

⁶ Johanna Urbancik, "Who Were the Biggest Winners and Losers of German Federal Elections: Four Key Takeaways", in *Euronews*, 23 February 2025, <https://www.euronews.com/my-europe/2025/02/23/german-election>.

European Green Deal. Merz also faced criticism for conceding too much to the SPD, with major pushback coming from the CDU's youth movement.⁷

Lack of a common vision on energy

The coalition will be tested on energy and climate issues soon, as the Climate Change Act calls for any new government to adopt a climate action programme within 12 months of the start of a new legislative term. On paper, the CDU and SPD's platforms align on several general goals, such as achieving climate neutrality by 2045, but they have different ideas of how to reach it.⁸

While they agree on expanding Germany's hydrogen sector, disagreement is likely to emerge regarding the reliance on green versus blue hydrogen. Green hydrogen, produced through electricity generated from renewable sources, can serve as a low-carbon fuel and as a solution for energy storage as well. In contrast, blue hydrogen, obtained using fossil fuels coupled with carbon capture technologies, would be cheaper to produce and import. Indeed, this debate also extends to how to position Germany in the rising European hydrogen value chain. The CDU/CSU, for instance, has proposed building

connections with Norway to import blue hydrogen. On the contrary, the SPD had promoted hydrogen production through renewable energy. Under the *Ampel* coalition's Green Hydrogen Import Strategy, plans were made to import green hydrogen from North Africa through Italy and Austria.⁹

Conservatives also criticised subsidies for renewable energy, advocating instead for a more free-market and technology-open approach to climate protection without pushing for specific technologies. For instance, Merz criticised the Onshore Wind Act,¹⁰ which requires each *Land* to dedicate 2 per cent of its territory to wind turbines, arguing that it leads to market distortions and hinders the spontaneous development of diverse technological options.

Unlike Chancellor Merkel, who championed the phase-out of nuclear reactors in Germany, Merz supports nuclear energy. He defined the shutdown of Germany's last three reactors in 2023 as a "black day for Germany" and the CDU has proposed to build a fleet of small modular reactors instead. The SPD, which oversaw the closing of the last reactors,¹¹ strongly

⁷ James Angelos, "Germany's Merz Is Already in Political Trouble", in *PoliticoEU*, 8 April 2025, <https://www.politico.eu/?p=6435588>.

⁸ CDU/CSU, *Politikwechsel für Deutschland. Wahlprogramm von CDU und CSU* (Policy Change for Germany. CDU CSU election programme), January 2025, <https://www.politikwechsel.cdu.de>; SPD, *Mehr für Dich. Besser für Deutschland. Regierungsprogramm der SPD für die Bundestagswahl 2025*, January 2025, <https://mehr.spd.de/programm>.

⁹ Marilen Martin and Akshat Rathi, "The Secret behind Germany's Record Renewables Buildout", in *Bloomberg*, 27 August 2024, <https://www.bloomberg.com/news/articles/2024-08-27/how-germany-sped-up-its-deployment-of-solar-and-wind>.

¹⁰ Alessio Sangiorgio and Pier Paolo Raimondi, "Perspectives for Italy-Germany Energy Cooperation amid Energy Security and Transition", in *IAI Papers*, No. 24|26 (October 2024), p. 11, <https://www.iai.it/en/node/19061>.

¹¹ SPD, *The SPD's Programme for the Future*, May 2021, https://www.spd.de/fileadmin/Dokumente/Regierungsprogramm/202105_

opposed this reversal and committed to climate neutrality without nuclear power.

Furthermore, some CDU members also proposed reviving natural gas imports from Russia via the Nord Stream pipeline. While Merz has shut down the idea for now, as pressures from the industry are asking for a reset about Russia, the proposal may divide both parties. While most social democrats favour the phase-out of fossil fuels and diversification away from Russia, a minority of SPD members, who have historically been cautious in their opposition to Russia, may be swayed to the idea.¹² At a minimum, the proposal further highlights the risks of internal defections in both parties, complicating the design of a common energy vision for the coalition.

Looking ahead

The reduced combined strength and growing division between the parties signalled that the new coalition may not be grand enough to deliver on the energy transition and that their priorities will lie on other issues. Merz may have already lost support among his party and conservative voters due to the perception of excessive compromise with the Social Democrats and opposition to the reform of debt rules. This situation is further propelling the AfD, which for the first time has topped a poll at the national level.¹³

Zukunftsprogramm_EN.pdf.

¹² Ben Knight, "Germany Debates Proposal to Re-open Nord Stream Pipelines", in *Deutsche Welle*, 27 March 2025, <https://www.dw.com/en/a-72060104>.

¹³ James Angelos, "Germany's Merz Is Already

At the same time, pushing too much to the left or the right may encourage more conservative factions to oppose the coalition or provoke reactions from the SPD and centrist factions within the CDU/CSU, respectively.

Additionally, new priorities will constrain the coalition's agenda, as its political capital will be absorbed by efforts to operationalise the large build-up of the defence sector, relegating energy reforms to secondary concerns. As a result, Merz is likely to adopt a "lowest-common-denominator" approach. This will lead the parties to focus on a reduced number of non-controversial proposals, such as the necessity to reduce energy prices, which may be achieved by cutting network charges. Additionally, the parties have also signalled a common intention to streamline permitting processes for new infrastructure and renewable energy plants and expand electricity grid infrastructure.

The CDU/CSU and SPD may be more inclined to present a unified energy vision to take leadership in Europe on the debate on how to balance industrial competitiveness and climate protection. This is particularly significant as the Commission is launching its new flagship initiative, the Clean Industrial Deal, allowing Berlin to influence it in its initial phase.

in *Political Trouble*", cit.; "Germany's Far-Right AfD Tops Poll for First Time in Blow to Chancellor-in-Waiting Merz", in *Reuters*, 9 April 2025, <https://www.reuters.com/world/europe/germanys-far-right-afd-tops-poll-first-time-blow-chancellor-in-waiting-merz-2025-04-09>.

First, Germany is likely to downplay European decarbonisation efforts in its strategic industrial sectors. Indeed, regarding the automotive sector, the country is already aligning with the bloc of member states proposing a relaxation of CO₂ emission standards and opposing the de facto ban on internal combustion engines by 2035. Second, even without directly promoting the construction of new reactors, a German shift away from its traditionally anti-nuclear position may spark new momentum for the supporters of nuclear energy in the EU. Finally, the coalition also endorsed a larger EU-wide goal of 90 per cent emissions-cutting by 2040, which the Commission had previously struggled to build consensus around. However, Berlin's support would be contingent upon the inclusion of international carbon credits in the calculation for this target. This would mean that rather than just reducing emissions domestically, member states would also be allowed to offset reductions in non-EU countries and count those as well. These positions show how, even when not directly opposing climate ambitions, Germany is likely to curb their operationalisation in the name of preserving economic competitiveness.

17 April 2025

Istituto Affari Internazionali (IAI)

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