
Policy Instruments for a Climate-Neutral Germany

55 Recommendations for the 21st Legislative Period (2025-2029)

Cross-Cutting Measures and Financing

1. **Secure Financial Needs for Climate Transformation**

Achieving the 2030 climate targets requires at least €406 billion in additional public funding. Resources for the federal, state, and local governments will be mobilized through a mix of measures, including financial transactions, a special fund, budget prioritization, reform of the debt brake, and moderate increases in public revenues.

2. **Introduce a Unified Social Transfer System**

A unified social tier system will simplify the implementation of income-based funding programs. This system, developed using tax office income data, will enable streamlined, socially targeted measures across federal, state, and local levels with minimal administrative effort. It can also be combined with other subsidy criteria.

3. **Introduce a Social Climate Allowance**

A social climate allowance, scaled by income, will compensate 60% of the population for rising CO₂ prices. The disbursed amount will annually equate to half of the revenues from ETS II pricing. Eligibility will be verified efficiently through the newly introduced unified social tier system.

4. **Combine the Fuel Emissions Trading Act and EU ETS II**

From 2027, a minimum price of €80/tCO₂ under the Fuel Emissions Trading Act (BEHG) will increase by €10/tCO₂ annually. When EU ETS II begins, BEHG prices will align with ETS II prices while acting as a floor price for sectors not covered by ETS II.

5. **Equity Instruments for Municipal Utilities and Distribution Network Operators**

The federal government will support infrastructure companies through capital increases to strengthen their balance sheets and financing capacity. This instrument primarily enhances the investment capacity of municipal utilities and distribution network operators.

6. **Constitutional Integration of a Special Climate Fund**

A constitutionally secured, time-limited special fund will be established in collaboration with the states to finance the expansion of climate-neutral infrastructure and transformation investments. This fund will ensure reliable financing for projects such as rail expansion and regional public transport.

7. **Phase Out Environmentally Harmful Subsidies**

The federal government will provide annual progress reports to the Bundestag and the public on reducing environmentally harmful subsidies.

8. **Reform the Debt Brake**

The narrow interpretation of the debt brake, following the November 2023 ruling by the Federal Constitutional Court, is incompatible with challenges posed by future extreme weather events and crises. Reform is necessary.

9. **Reform federal funding for Climate Protection and Adaptation in Municipalities**

The federal government will advocate for a new joint task under Article 91a of the Basic Law to strengthen cooperative federalism. This will redistribute responsibilities and resources for climate protection and adaptation among federal, state, and local governments.

Energy

10. **Increase Electricity System Flexibility**

Barriers to flexible use of weather-dependent wind and solar energy will be removed. A fair market for flexible producers, storage operators, and consumers will be ensured. Price signals from the wholesale market should reach participants unaltered.

11. **Enable System-Compatible Electricity Storage**

The government will establish incentives and regulations to ensure that large-scale storage systems are built at optimal locations and operated system-compatibly. Bidirectional charging of electric vehicles will also be promoted.

12. **Avoid Solar Peaks and Negative Wholesale Prices**

New installations will no longer receive subsidies during periods of negative electricity prices. Operators of existing systems will be allowed to voluntarily disconnect during these periods in exchange for extended subsidy periods, double the number of curtailed hours.

13. **Shift EEG Subsidies to Performance-Based Models**

A robust, cost-efficient investment framework under the Renewable Energy Act (EEG) will include capacity payments combined with claw-back mechanisms compliant with EU law. Compensation per kilowatt will be determined competitively and paid over 20 years.

14. **Reduce Electricity Prices**

Electricity tax will be reduced to the EU minimum. Feed-in tariffs for renewable energy will be capped at €0.10/kWh. High-voltage transmission lines will revert to overhead lines to reduce costs.

15. **State Participation in Transmission Network Operators**

The government will establish an energy infrastructure company to inject equity into transmission network operators, lowering financing costs. Profits will be used to reduce grid fees.

16. **Accelerate Offshore Wind Energy Expansion**

To achieve 30 GW of offshore wind by 2030, the federal government will strengthen supply chains, expand port capacity, and enhance KfW credit and guarantee programs. Offshore wind parks will be connected to multiple EU grids where feasible.

17. Implement EU Acceleration Measures

The government will fully utilize acceleration measures under EU law (RED III). By February 2026, acceleration zones will be designated to simplify approval procedures.

18. Ensure Security of Supply

Legal frameworks for hydrogen-powered "sprinter" and hydrogen-ready gas power plants will be introduced. A capacity mechanism compatible with the energy transition will support a mix of power plants, storage systems, and flexible demand.

19. Expand Electricity Networks Rapidly

The March 2024 Network Development Plan confirmed by the Federal Network Agency will be swiftly integrated into federal planning laws to secure its necessity and priority.

Industrial Transformation, Growth Markets, and Resilience

20. National Strategy for Industrial Transformation and Resilience

The government will develop a national strategy outlining differentiated pathways and goals for various sectors and subsectors to ensure a future-proof industrial landscape.

21. Tax Deductions with Investment Premiums for Green Technologies

Tax laws will be amended to allow super deductions with an additional 15% investment premium for green technologies, aligned with the European Net-Zero Industry Act.

22. Streamline Climate Contracts for Difference

Industrial cluster-specific auctions and simplified procedures will make climate contracts more accessible, with expanded volumes and lower project size thresholds.

23. Accelerate Hydrogen Market Development

Leverage public procurement and quotas to establish lead markets for hydrogen. Partner internationally with rule-of-law nations offering favorable production conditions.

24. Green Markets through Public Procurement

Investment security for transformation technologies will be supported by bundling public procurement initiatives in areas like e-mobility and public transport.

25. Strategic Realignment of Foreign Trade Policy

The government will aim to reduce import dependencies for critical goods, monitor diversification targets, and promote private foreign investment.

26. Focus International Partnerships on Resilience

International partnerships will ensure access to critical resources through diversified private investment, aligned with both economic and development goals.

27. Establish Comprehensive Resilience Monitoring

A resilience monitoring system will analyze dependencies, supply risks, and strategic materials, guiding policy responses.

28. Advance Circular Economy Strategy

A legally anchored circular economy strategy will strengthen incentives for recycling critical minerals and carbon cycle innovations.

29. Focus Carbon Management Strategy

CCS will be restricted to hard-to-abate sectors (e.g., cement, waste incineration) while excluding energy applications due to cost and residual emissions.

30. Accelerate Climate-Neutral Industry Zones

Special planning zones for climate-neutral industries will receive expedited approvals with federal and state support.

Transport

31. Sustainable Transport Infrastructure Planning

The Federal Transport Infrastructure Plan will be updated with a modernized planning process. The government will align the plan with the Climate Protection Act to develop a multimodal, climate-neutral transport system by 2045.

32. Introduce a General Speed Limit

A maximum speed of 130 km/h will be set for federal highways, with a limit of 30 km/h in urban areas. Municipalities can impose a 50 km/h limit on main urban roads.

33. Accelerate the Adoption of Electric Mobility

To increase the attractiveness of electric vehicles (EVs), vehicle taxes will be reformed. The taxable benefit for internal combustion engine (ICE) company cars will rise from 1% to 1.5% of the list price.

34. Introduce Social Leasing for EVs

The government will establish a state-subsidized social leasing program for small EVs. By applying the unified social tier system (see Recommendation 2), the program will effectively target low- to middle-income households.

35. Electrify Road Freight Transport

The government will support the expansion of private charging infrastructure at businesses and the construction of charging stations along major transport routes. This includes accelerated grid connections and variable tariff structures.

36. Expand Charging Infrastructure

Through funding programs and regulatory measures, the federal government will accelerate the development of charging points at fuel stations, supermarkets, workplaces, and public parking areas. A special focus will be on neighborhoods with multi-family homes lacking private charging options.

37. Expand Public Transport Offerings

The federal government will collaborate with states and municipalities on an initiative to improve public transport. Goals include more frequent service, increased punctuality, better accessibility, simplified fare structures, and integrated, flexible options.

38. Stabilize the Germany Ticket for Public Transport

The Germany Ticket will be established as a reliable mobility option, with the federal government covering costs and fixing the price at €49 per month.

39. Reform the Commuter Tax Allowance

The reform will replace income-based deductions with a fixed amount per kilometer directly deducted from tax liabilities. This ensures equal benefits for all taxpayers regardless of income level.

Buildings

40. Implement EU Building Law and Establish Zero-Emission Buildings as the Standard

The EU directive on the energy performance of buildings will be transposed into national law by May 2026. Starting in 2030, new buildings must be zero-emission, producing no on-site CO₂ emissions from fossil fuels. Public buildings will comply with this standard by 2028.

41. Develop a Building Renovation Plan

The federal government will create a national building renovation plan to convert existing buildings into zero-emission structures by 2045.

42. Shift Funding Focus to Energy Efficiency in Existing Buildings

Funding for energy efficiency beyond statutory standards in new buildings will be redirected entirely to the renovation of existing buildings.

43. Socially Differentiated Support for Building Efficiency

Federal funding for efficient buildings (BEG) will be socially tiered using the unified social tier system (Recommendation 2). Support will focus on cost-effective attainment of zero-emission building standards.

44. Ensure Expansion and Decarbonization of District Heating Networks

The federal funding for efficient district heating networks (BEW) will be secured long-term, with annual funding increased to at least €3 billion by 2030.

45. Prevent Misaligned Incentives in District Heating Areas

In designated district heating areas, federal funding will no longer support individual heating solutions, provided a network connection is available or imminent.

46. Decarbonize and Climate-Proof Social Infrastructure

The federal government will develop a strategy to decarbonize and climate-adapt social infrastructure, such as hospitals and care homes. Funding for climate adaptation in social institutions will be expanded, with operational and investment needs recognized as essential.

47. Utilize the Potential of Deep Geothermal Energy

A geothermal strategy will combine geological data with energy system and heating demand information. Legislation will be enacted to accelerate geothermal development, including a KfW risk insurance program and updates to the Federal Mining Act.

48. Regulate District Heating Monopolies

District heating networks, as natural monopolies, will be regulated by a federal or decentralized authority to ensure effective price and market oversight. This replaces the existing Heat Supply Ordinance.

49. **Revise the Heat Planning Act for Socio-Economic Optimization**
Post-2030, municipal heat planning will focus on socio-economic optimization, with detailed decarbonization roadmaps for neighborhoods. Planning costs will be borne by states and reimbursed by the federal government.
50. **Expand the Toolbox for Collective Heat Transition**
Additional federal funds will be made available as bonuses for challenging structural or social areas or to support neighborhood renovations.
51. **Expand Outreach Energy Consulting**
Funding for the "Electricity Savings Check" will increase to €50 million annually, tripling the number of municipalities reached. The program will evolve into a comprehensive tool for low-cost efficiency improvements in existing buildings.

Agriculture and Land Use

52. **Restore Agricultural Peatlands**
Peatland restoration is the most effective measure to reduce agricultural greenhouse gas emissions. The federal government will introduce financial incentives and long-term funding for rewetting premiums, planning, construction, and hydrological management.
53. **Transition Fertilizer Production to Green Nitrogen**
The government will implement a quota system requiring fertilizer manufacturers to gradually replace conventional ammonia with green ammonia in nitrogen fertilizer production.
54. **Reform Food Taxation**
Plant-based milk and meat substitutes, as well as organic products, will qualify for the reduced VAT rate. Meat from lower animal welfare standards (Levels 1+2) will incur the full 19% VAT, while fruits and vegetables will be VAT-exempt.
55. **Introduce Nutrient Accounting**
Farm-level nutrient accounting will be introduced to limit nutrient surpluses.

Imprint

Climate Neutrality Foundation
www.stiftung-klima.de | info@stiftung-klima.de
Friedrichstraße 155-156
10117 Berlin

Authors:

Rainer Baake, Sören Borghardt, Frederik Digulla, Sebastian Helgenberger, Marian Jacobs, Frederik Josten, Thomas Losse-Müller, Linnea Weiß