On Friday, July 3, 2020, the German Bundestag and Bundesrat finally passed the law on the phase out of coal. The phase-out was announced by the German government at the beginning of the year, and the underlying legislation is now enacted.

Phase-out of coal by 2038 at the latest

The German government’s decision to accelerate the phase-out of coal by 2038 was taken at the beginning of the year following the recommendations by the Coal Commission (Kohlekommission). The initial announcement was followed by intensive negotiations mainly in relation to the shut-down of hard coal-fired power plants, as the exact shut-down dates and amount of compensation payments were hard to agree on. As a result, the German government has developed tendering models that apply until 2027, and hardship provisions for hard coal-fired power plants that were built recently. These will now will receive up to €2 billion in compensation and conversion aid. The settlement of the last contentious points had paved the way for the Coal Phase-Out Act (Kohleaustiegsgesetz), which was passed today.

According to the bill, the last coal-fired power plant shall be taken off the grid by 2038 at the latest, potentially already in 2035. Technically, the coal phase out is implemented by an agreement between the owners of the coal-power plants and the state. The agreement imposes a gradual reduction of coal-fired power generation and the decommissioning or conversion of coal-fired plants by 2038 at the latest.

The overall coal phase-out plan provides for billions in compensation for power plant operators, which is secured by public law contracts. Compensation payments for lignite-fired power plants amount to approximately €4.3 billion, while compensation payments for hard coal-fired power plants as well as promotion and conversion programs amount to approximately €2 billion.

€40 billion support for affected regions

In addition, the Structural Strengthening Act for Coal Regions (Strukturstärkungsgesetz Kohleregionen), which is linked to the Coal Phase-Out Act, provides for general support and conversion programs worth around €40 billion for regions affected by the phase-out of coal and the gradual shut-down of coal-fired plants.

The conversion programs aim to restructure the economy in the coal regions of North Rhine-Westphalia, Saxony-Anhalt, Saxony and Brandenburg by 2038 at the latest. The beneficiaries of a €12 billion package, which shall be supplemented by measures at the federal level worth €26 billion, will include the Lusatian mining district (Lausitzer Revier), Rhenish mining district (Rheinisches Revier) and Middle Germany mining district (Mitteldeutsches Revier), which are located in the federal aforementioned states. Funding shall be granted to those Federal States for
investments to improve the infrastructure which is needed to attract companies and employees skilled for those new businesses. The measures include developing land to attract new businesses and funding the energy-related renovation of buildings, traffic infrastructure, infrastructure for families, digitalization, climate and nature projects, touristic infrastructure, and research and scientific projects. It is the law’s overall intention to provide these areas affected by the phase-out of coal with the opportunity to built-up an alternative local economy.

Hardship provisions and plant conversions

Certain hard coal-fired power plants can now benefit from hardship provisions and compensation payments. The German government is thus responding in particular to criticism from the industry, which opposed to the shutdown of “younger” coal-fired power plants from 2027 onwards without compensation.

More recent, and therefore more efficient, coal-fired power plants shall be given a second life. The newly developed framework is primarily aimed at future-oriented plant conversions. The conversion is to be achieved through targeted support programs, for example the “coal replacement bonus” (Kohleersatzbonus) intended to optimize the framework conditions for combined heat and power. The coal replacement bonus is calculated according to the age of the plants and decreases over time, thus creating an incentive for early decommissioning. Starting in 2023, the basic subsidy for combined heat and power for large plants will be increased by 0.5 cents per kWh. These measures serve to safeguard and promote the supply of heat.

Switch to biomass and hydrogen

In addition, comparable support programs for the use of biomass and hydrogen aim to create incentives for a sustainable conversion of existing power plants currently fired with coal. The hardship provisions only take effect if conversion is not possible. The provision of renewable heat is promoted by a support program for greenhouse gas-neutral generation and use of heat, by using CO2-free generation technologies including biomass and biogas. The support measures intend to take account of the fact that recent power plants are highly efficient and can therefore continue to be used as gas-fired and thermal power plants by means of conversion.

Supporting the switch to hydrogen as the fuel of the future is part of a long series of hydrogen-focused measures taken by the German government. In addition to its €9 billion economic stimulus package for the hydrogen sector, the Federal Government recently published the National Hydrogen Strategy of 38 support and regulatory measures, giving an enormous boost to the expansion of the hydrogen industry. Minister of Economics Altmaier has emphasized the key role of hydrogen in the context of the energy turnaround. The importance of hydrogen is also clear in the coal phase-out: in the course of a conversion to renewable technologies, hydrogen gives power plants a prospect for a sustainable future. These measures not only create the framework conditions for an orderly coal exit, but also the potential for a sustainable energy economy using hydrogen. The government’s concession, especially for more recent coal-fired power plants, is a sign of investment security in Germany as a business location. It remains to be seen how the support measures for hydrogen and biomass will be implemented.

For more information on the German National Hydrogen Strategy, please click here.

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