

GERMANY'S GRAND COALITION

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'SHAPING GERMANY'S FUTURE': CDU/CSU AND SPD REACH A DEAL



Negotiators for Germany's two biggest parliamentary groups - the Christian Democrats (CDU, with its Bavarian partners, the Christian Social Union, CSU) and the Social Democrats (SPD) have reached an agreement that will establish a 'grand coalition' government in Berlin.

Angela Merkel (pictured above with Sigmar Gabriel, the leader of the SPD) will become Chancellor for a third term, returning to the coalition partners with whom she shared power from 2005 to 2009.

However, she has had to make a number of concessions to the SPD. The Social Democrats demanded a high price for entry into a new pact after their crushing defeat in 2009.

The 185-page agreement - entitled 'Shaping Germany's Future' - will be put to SPD members for approval, with ballots due to be counted on 14 December.

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BACKGROUND

Context of the coalition talks

Coalition talks between the Christian Democrats (CDU, alongside its Bavarian Christian Social Union (CSU) sister party) and the Social Democrats (SPD) began in late October.

The CDU/CSU - the clear winner of the federal elections held in September, when it won 41.5% of the vote, had first conducted a round of exploratory talks with both the Greens (who won 8.4% in the elections) and the SPD (25.7%).

With a coalition between the CDU/CSU and Greens deemed not to be politically viable, 'grand coalition' talks between the centre-right and the Social Democrats began in earnest.

Opposition to a grand coalition within the SPD was and remains strong. Therefore the SPD's leadership consciously pursued a course of transparency and party participation in conducting talks with the CDU/CSU.

Party assemblies were convened frequently, and members were promised a binding vote on the final coalition agreement.

Structure of coalition talks

The CDU/CSU and SPD set up twelve working groups, each co-led by a CDU/CSU and SPD representative.

As the heads of these working groups are often viewed as likely candidates to be ministers, some issues - such as EU affairs or digital issues - were delegated to sub-groups. Overall, more than 250 negotiators took part

GRAND COALITION DEAL KEY POINTS

'Shaping Germany's future' was presented to the public on 27 November

The 185-page document is the result of a month of talks between the CDU/CSU and the SPD

The agreement will be the cornerstone of the third 'grand coalition' in German history and Angela Merkel's third term as Chancellor

SPD members must first approve the deal via an internal party vote in early December

The agreement is a pragmatic collection of diverse mainstream policy proposals but represents a significant shift to the political left

Many of the planned policies will have a major impact on business - notably the introduction of a nationwide minimum wage of €8.50 per hour

in the talks, and the leaderships of the CDU/CSU and the SPD met regularly for top-level negotiations.

Germany will have experienced its longest-ever period of coalition talks: if the agreement gets the green light, 86 days will have passed between the election and the formation of the government.

POLICY DIRECTION: OVERALL IMPACT

The agreement contains a variety of changes that will have a wide economic and social impact:

- One fundamental change is the introduction of a **minimum wage** of €8.50 from 2017. Until then, unions and businesses may negotiate labour agreements below that level. The level of the minimum wage will be reviewed on a regular basis by a committee composed of union and business representatives, with scientific expertise if required.
- Other **employment law changes** will mean that low-paid jobs will become part of the state's pension insurance scheme, and so subject to social security contributions.

Contract workers will be able to be employed only for a maximum of 18 months, and after nine months they must receive compensation equal to that of regular workers.

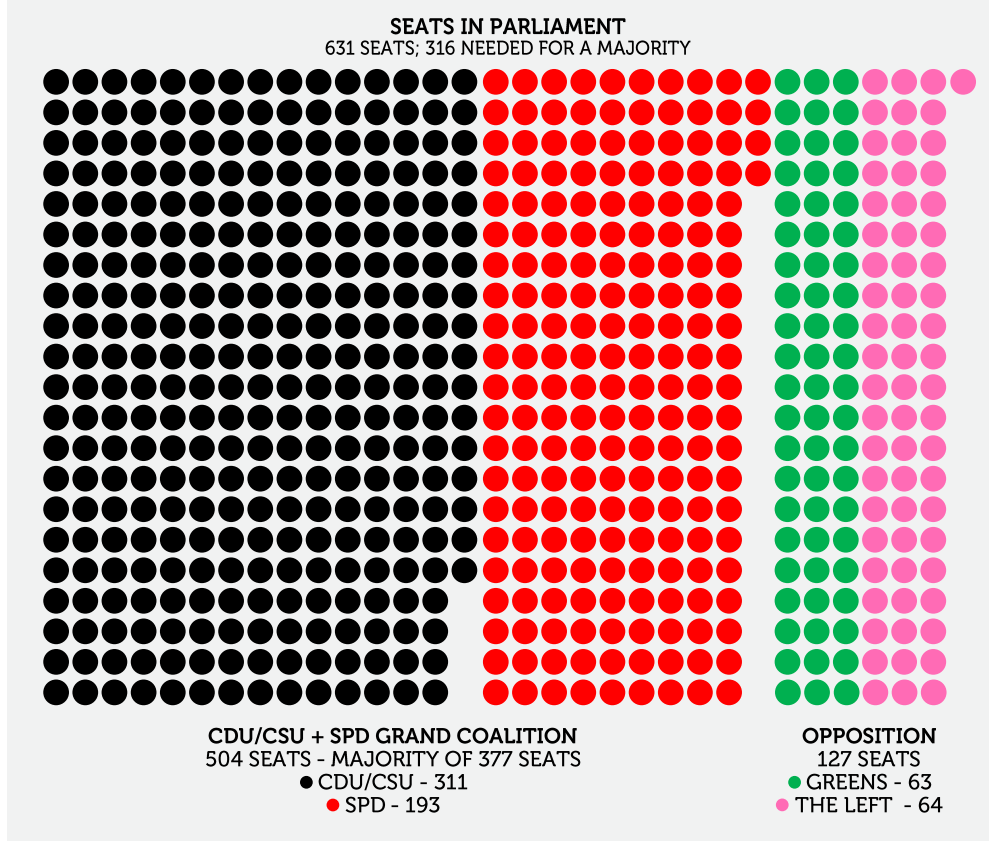
Employees who switched to part-time work for family reasons will have the possibility of going back to their old working contract.

- The coalition agreement also contains changes regarding the **pension system**: after having paid social security contributions for at least 45 years, retirees of 63 years or older will be able claim their full pension (instead of a decreased rate).

Women whose children were born before 1992 will receive an increased pension. For retirees who have had a low income all their life, a new minimum monthly pension of €850 will be introduced.

- The coalition agreement includes **no plans for tax increases**, a major policy pledge of the SPD. The coalition partners plan to reduce the share of new debt within the federal budget to zero by 2015.
- The coalition plans to **tackle tax evasion** within and outside the EU via international harmonisation

THE 18TH BUNDESTAG



and extended automated exchange of relevant information.

The government will review the BEPS (base erosion and profit-shifting) initiative set up by the Organisation for Economic Cooperation and Development (OECD) in 2015, after which it will decide whether additional national measures are needed. These measures may tackle payments to offshore firms and offshore financial centres.

Furthermore, actions may include a public register of involvement in foundations or foreign trusts, and double taxation agreements may be designed to exclude the possibility of double *non-taxation*.

- Germany's policies regarding **foreign affairs**, the euro crisis and international trade will not undergo major changes.

The Chancellor, Angela Merkel, will be able to stick to her path in handling the euro crisis, and the coalition is committed to opposing debt-sharing within the Eurozone - although it will seek a European banking union. The coalition will back a financial transactions tax.

The coalition agreement says that new government sees a EU-US

trade deal, known as the Transatlantic Trade and Investment Partnership (TTIP), as one of the central projects of the transatlantic partnership, but European standards in data protection, social security, environmental protection, food safety, and consumer rights must be considered.

POLICY DIRECTION: IN DETAIL

Energy and environmental policy

Making the transition from nuclear to renewables remains a political priority, but the coalition agreement does not include a grand design for this project.

Instead it puts more emphasis on energy price stability and security of supply, and aims to reform fundamentally the law on renewable energy by summer 2014.

The agreement foresees a continuous reduction in funding for renewables and their integration into the European energy market. This will affect new energy plants - biomass and onshore wind in particular. Grandfathering is foreseen for existing plants.

The expansion of renewable energy will have to meet legally-binding targets: 40 to 45 per cent by 2025, and 55 to 60 per cent by 2035.



This is slightly more ambitious than earlier targets set in 2010, but at the same time, the 'corridors' provide for more flexibility, and the intention is to examine progress on an annual basis in the context of related developments, such as electricity network expansion and network integration as well as energy price developments.

Moreover, fewer businesses shall benefit from an exemption from renewable energy apportionment, meaning a significant rise in energy costs for those businesses that will be taken off the list.

Germany will maintain its position as the leading provider of environmental technology.

A 2030 Environmental Programme, export initiatives, a target to double raw material productivity by 2020 (based on 1994 figures) and an ambitious recycling quota are among the measures intended to foster this position of leadership.

IT and digital agenda

The so-called 'digital agenda' has increased in importance since the last coalition agreement.

The grand coalition deal will mean an increase in regulation to deal with the most pressing issues, but not any major policy changes.

The agreement promises incentives for broadband investment in rural areas, and wifi in urban areas.

The coalition has also agreed to transpose the controversial European Data Retention Directive into national law and says it wants to establish net neutrality within the framework of the Telecommunications Law.

In addition, the CDU/CSU and SPD say that they want to introduce a Europe-wide obligation for companies

to report (to the EU) disclosure of user data to authorities in third countries without the users' consent. The government will seek to renegotiate parts of the 'Safe Harbor' and SWIFT agreements.

Finally, European telecommunications providers shall be made subject to obligatory encoding of their connections within the EU.

Healthcare

As one of the most cost-intensive elements of healthcare policy, prices for pharmaceuticals will be frozen at 2009 levels and producers' mandatory sales discount increased to seven percent.

Future adjustments regarding prices for pharmaceuticals will depend on the financial situation of the statutory health insurers.

Customers of health insurance will no longer have to pay a blanket fee that is not related to their income. Instead, insurers will set their own rates by according to their customers' income. Employers' share of health insurance fees will remain frozen at 7.3%.

By the end of 2014, a new law regulating health promotion in all areas of life will be passed.

Corruption in the area of healthcare will become a criminal offence.

Consumer protection and food

The coalition agreement clearly aims to strengthen consumer rights. Consumer protection will be established as a prime concern of all regulatory authorities, and consumer protection groups will receive

ANALYSIS



WHAT THE RESULTS MEAN FOR BUSINESS

CHRISTIAN THAMS

The coalition agreement signals stability in the coming years as the parties have agreed not to change the general direction of the previous government in many areas, including EU and international policies.

But as the Social Democrats have 'won' the coalition negotiations and shifted economic and social policies significantly to the left, new challenges will emerge for business - including more regulation.

Furthermore, the coalition partners have not addressed the major economic and social reforms Germany needs for growth over the coming years and decades. This may have a significant negative impact for the business climate of the EU's biggest economy.

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increased competencies ('market-watching'), especially in the fields of financial markets and digital affairs. A new expert advisory board will be created to deal with consumer concerns and questions relating to particular industries.

At an EU level, the CDU/CSU and SPD aim to set up an 'animal welfare certificate' modelled on a German prototype as well as binding disclosure rules for the origin and place of production of food.

These rules would be more far-reaching than the current EU labelling regulations and may cause costs for small and medium-sized companies.

In addition, food produced from animals that have been fed genetically-modified crops will be labelled accordingly. This label may, for the first time, create awareness among consumers about the use of genetically-modified crops for feeding animals.

Overall, the coalition agreement does not contain plans for intervening in businesses' production and marketing activities; consumers are still treated as responsible individuals able to shape their own diet.

NEXT STEPS

Formal approval of the coalition agreement by the three parties (CDU, CSU and SPD) is still pending.

While the approval by CDU and CSU can be taken for granted, the outcome of the SPD's internal party vote is unpredictable and will not be known before 14 December.

Should SPD members reject the proposed agreement, the Christian Democrats may return to talks with the Greens. Alternatively, the Federal President may pave the way for new elections.

If the SPD members approve the agreement, Angela Merkel will be re-elected as Chancellor on 17 December. On the same day, she and her ministers will be appointed by the Federal President.

Over the following days, the first personnel changes at senior levels of the ministries can be expected.

The new government should be fully up and running by January 2014.



THE FUTURE CABINET

The details of the new government (portfolio of ministries and personnel) will not be made public until after the SPD's internal party vote.

However, it is known that Chancellor Merkel's CDU will take five ministries plus the role of head of the federal chancellery (the Chancellor's office), which holds the rank of a federal minister.

The CSU will take three ministries, while the Social Democrats will hold six ministries. The top personnel of the new government will include Angela Merkel (CDU) and most probably Wolfgang Schäuble (CDU), once again in the role of finance minister.

For the SPD, Sigmar Gabriel, the party leader and a former environment minister (2005-2009) and Frank-Walter Steinmeier, the current head of the SPD parliamentary group in the Bundestag and a foreign minister (2005-2009), will be key players.

No ministries have been assigned yet, but it is not unlikely that Gabriel will take economic affairs and Steinmeier foreign and European affairs.

EUROPEAN IMPACT

It also is not yet clear which party will take Germany's nomination for the role of European commissioner in 2014.

The President of the European Parliament, Martin Schulz, is still the frontrunner and it may well be that Chancellor Merkel will back him as Commission President if the centre-left wins the European Parliament elections.

If the centre-left fails to win and Schulz is not named as (or does not want to be) a commissioner, then other names in the frame include CDU politician David McAllister, the Prime Minister of Lower Saxony.

Much depends on what has been agreed over the last few months without being written down - and that may not be clear until next summer.

In general European affairs, the grand coalition in Berlin is likely to see the left and right in the European Parliament - where German MEPs heavily influence the main groups' positions - work more closely. This may become even more necessary if Eurosceptics make gains next year.