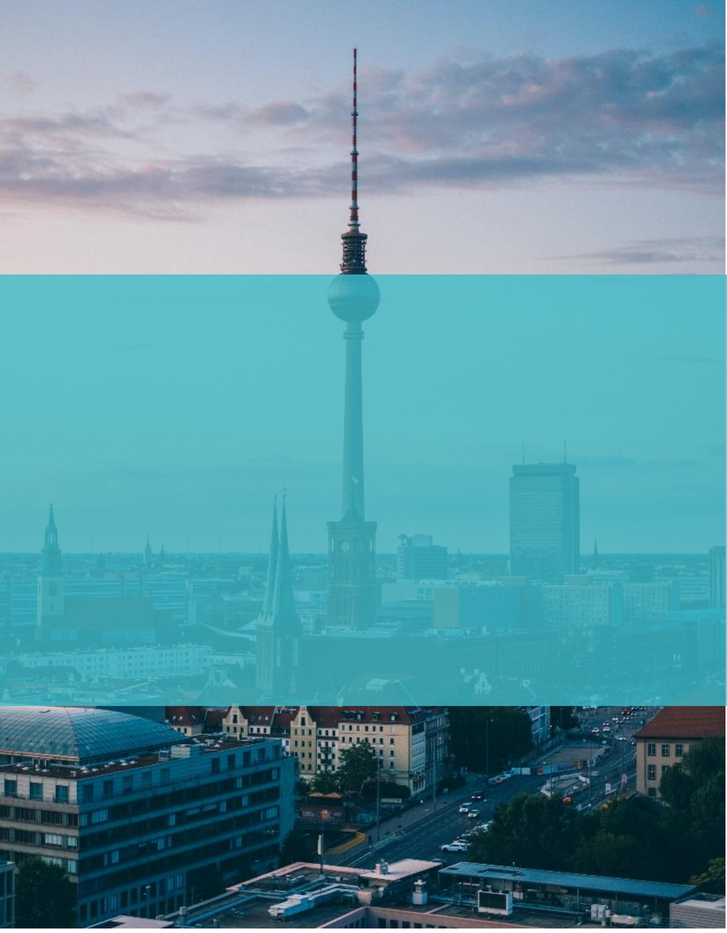

Recovery and Resilience Plan Germany

Budget

German Recovery and Resilience Plan represents **€27.9 billion in total**. Germany will benefit from a € 25 613 478 442 grant budget coming from the RRF. The Federal government and regions ("Länder") are both responsible via the allocation of the Ministry of Finance.[1]

Structure

Specific measures of the GRRP will concentrate on the following 6 pillars:

- **Climate policy and energy transformation (€ 11.3 billion, 40% of the Budget)**
- Digitalisation of the economy & Digitalisation of education (€ 5,25 billion)
- Strengthening social participation
- Strengthening a pandemic-resilient health system (€ 3 billion)
- Modern administration and elimination of obstacles to investment.

Germany so far is expected to reach 40% investments in the green and 50% in the digital sector.

Relevant areas

Component 1.3: Climate-friendly building and refurbishment (€ 2.5 billion)

[1] More on the website of the German government: https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Europa/DARP/deutscher-aufbau-und-resilienzplan.html

Under this component, planned Investments include the further development of climate-friendly construction with wood; Municipal real laboratories of the energy transition and a federal funding programme for efficient Buildings - Innovation Funding.[2] With these, Germany addresses the country-specific recommendations for 2020 with regard to investments in ecological change, in particular housing.

Link with the Semester

The high housing prices continue to lead to supply issues not only for low-income households but also for households with medium-middle incomes. Therefore; creating affordable housing is one of the most urgent social issues-says the Plan and is therefore also responding to the country-specific recommendations for 2019.

In the years 2020 to 2024, the Federal Government will support the Länder in the implementation of affordable housing by providing €1 billion in programme funds each year.[3]

With its investment in energy-efficient renovation, the Plan will address the CSR 2 from 2020 and CSR 1 from 2019.

Beyond this investment, the plan provides for reforms to remove barriers to investment (component 6.2) and thus strengthens, among others, the capacities for construction works, which is expected to benefit also the supply of social housing and improve transport options from areas where housing is more affordable.[4]

In particular, Germany is preparing its **Building Land Mobilisation Act** to improve the municipalities' scope for action in activating building land and securing affordable housing. It includes a number of facilitations for the creation of housing. For example, the possibilities of exemption from the provisions of a development plan and it is possible to include a small land in the outer area for housing construction. The insertion of a new category of building area, **"village residential area"**[5], is intended to facilitate a more municipality-friendly design. In addition, the draft also contains a temporary regulation to reduce the possibility of converting rented flats into condominiums.

→ Investment 1: Development of climate-friendly construction with wood

The Plan argues[6] that building with wood has additional technical and economic advantages in our sector: High degree of prefabrication, the option of modular construction, short construction times, low weight with high load-bearing capacity as well as flexibility when adding storeys to buildings or extending living space -especially in the case of densification in urban areas (additions of storeys, extensions, closing gaps).

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[2] Page 240, German RRP, April 2021
[3] Page 248, German RRP, April 2021
[4] Page 39, Assessment of the European Commission https://ec.europa.eu/info/system/files/com-2021-341_swd_en.pdf
[5] Page 249, German RRP, April 2021
[6] Page 251, German RRP, April 2021

The measure also aims to improve cooperation between companies, institutions, science and research and thus contributes to overcoming obstacles and structural disadvantages in the further development of climate-friendly construction with wood and the optimisation of material and energy efficiency in the production.

The measure is an **ongoing federal funding programme (BMEL).** Grants are received upon application on the basis of the General Block Exemption Regulation (AGVO) and de minimis regulation. Funding is provided for advisory services and the establishment and expansion of innovation clusters in the field of timber construction.

Besides the knowledge transfer; other elements are also planned such as the **introduction of Building Information Modelling (BIM)** into the planning and manufacturing process, and testing with other digital solutions such as robotics or AI.

→ Investment 2: Municipal laboratories on energy transition

Municipal real laboratories of the energy transition are going to investigate and demonstrate new solutions for the efficient and sustainable energy supply of urban districts. The technical and non-technical innovations will be tested in a real environment.

They will serve as a blueprint for the subsequent large-scale rollout of integrated solutions and in the long term, this will achieve a considerable multiplier effect. The acceptance of the energy transition by the residents of the neighbourhoods will be also looked at the labs. At least 4 collaborative projects are to be realised, comprising a total of at least **10 neighbourhoods**.[7]

This measure will be supported by subsidies.

→ Investment 3: Federal funding programme for efficient Buildings

This new programme will integrate existing programmes such as the Market Incentive Programme (MAP), the Energy Efficiency Incentive Programme (APEE) and the Federal programme for heating system optimisation (HZO). With the BEG, the funding measures are bundled, and reorganised and the incentive effect will be optimised.

Tax incentives for the energy-efficient refurbishment of buildings came into force in 2020 which makes eligible individual energy-efficient refurbishment measures incl. building supervision and expert planning. Tax deductibles are 20 % of the expenses - 50% for construction supervision and technical planning - over 3 years, max. 40,000 EUR.

The aim of the BEG is to stimulate investments that increase energy efficiency and the share of renewable energies for heating and cooling in **residential and non-residential buildings**. The BEG funding is expected to result in CO2 reductions of 1.2 to 1.3 Mt/a (about 14 Mt/a over the period 2020-2030).

BEG's gross investment volume is going to represent 32 billion per year. In addition, there are measures for non-residential buildings with a gross investment volume of approx. **€5.5 billion**

[7] Page 261, German RRP, April 2021

and individual energy efficiency measures with a gross investment volume of approx. **€6 billion** per year.[8]

The funding will in future take greater account of the life-cycle approach of sustainable construction through the introduction of Efficiency House NH classes.

Intensity of the investment per year[9]

BEG	2022	2023	2024	2025
	5.322.927.000	4.881.127.000	4.329.127.000	4.329.127.000

→ Climate target

The Commission's assessment of Germany's plan finds that it devotes **at least 42% of its total allocation** to measures that support climate objectives. The plan includes measures to decarbonise the industry, with a particular focus on renewable hydrogen, investments in sustainable mobility, and the **renovation of residential buildings to improve their energy efficiency.**

The German **Recovery plan[10] does contain an increase in funding for energy renovation beyond what is already included in national recovery measures (adopted in June 2020)**. The additional **€2.5 billion** earmarked in the Plan and in the national recovery package will bolster Germany's **main energy renovation funding program** (CO2-Gebäudesanierungsprogramm).

However, this is not enough to meet the scale of the challenge and bring the German building stock onto a path towards climate neutrality. In addition, climate-oriented structural reforms (e.g. fiscal reforms) and climate-friendly monitoring instruments are missing from the Plan.[11]

In terms of renewables, current policies are not ambitious enough to increase the share of renewables to 30% of gross final energy consumption by 2030. Although a set of sectoral targets and policies have been defined, they seem jointly inadequate for reaching targets on renewables, especially on electricity, heating, and cooling.

The key policies and measures in the heating and cooling sector could involve **financial incentives: setting a CO2 price, providing support to replace oil boilers, several (financial and advisory) support measures for households and bigger buildings**, and support for renewable heat production plants to build new heat networks and transform existing ones. To reach the target, further efforts may be needed, including increasing the number of buildings with heat pumps.[12]

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[8] Page 270, German RRP, April 2021
[9] Page 318, German RRP, April 2021
[10] German Ministry of Finance, *German Recovery and Resilience Plan* (2020) (in German)
[11] Rethink the Recovery, *Is Germany taking a rocket to a transformed future or catching an old train back to 'normal'?* (2021)
[12] Page 12, Assessment of the European Commission https://ec.europa.eu/info/system/files/com-2021-341_swd_en.pdf

Building renovation

In Germany, the building renovation rate has stagnated below 1% for years, and the country is not on track to achieve its current energy efficiency targets. In 2020, the building sector is the only one not to meet its emissions target under Germany's climate law.

Germany targets a 30% reduction in national primary energy consumption by 2030, compared to 2008. To achieve this, primary energy consumption must fall by an average of 1.5% per year from 2020 onwards. This would represent considerable progress, as prior to 2020, primary energy consumption decreased only by an annual average of 1.1%.

To meet the target, in December 2019, the government launched the 'Energy Efficiency Strategy 2050', which includes measures to boost energy efficiency investment across sectors. On buildings, Germany submitted a comprehensive long-term renovation strategy in July 2020 and developed an ambitious 'Renovate' component in its recovery plan, focussed on **climate-friendly timber construction, increased energy efficiency of buildings and a higher share of renewable energy for heating and cooling in buildings**, which can contribute to accelerating energy efficient buildings renovation.

It is estimated that following an **average annual renovation rate of 2.6% at the cost optimal level, the primary energy saving potential in Germany, by 2050, is 352 TWh**. Over the period of 2021-2050 this is expected to generate more than 12.8 million full-time jobs (Zangheri et al., 2020). Carbon pricing policies can create additional incentives for energy efficiency measures.[13]

However, according to the European Commission, **further measures are needed to deliver on the German national contribution to the already agreed EU energy efficiency targets for 2030**.

According to a recent study, **up to €14 billion in public funding would be needed each year**[14] to reach a climate-neutral building stock by 2050, which is Germany's official target. In 2021, the volume of financial support for energy renovation is only €6 billion in loans and grants. From this perspective, €2.5 billion over 6 years is a drop in the ocean and additional funds are sorely needed.[15]

Without additional funding and a reform of energy efficiency standards, the German building stock risks to remain unrenovated.

[13] Page 13, Assessment of the European Commission https://ec.europa.eu/info/system/files/com-2021-341_swd_en.pdf

[14] *Universität Regensburg,* Wissenschaftliche Plausibilitätsprüfung bzgl. der errechneten öffentlichen förderung lücke zur erreichung der klimaziele durch energetische gebäudesanierungen im mietwohnungsbau *(2020)*

[15] *German Ministry of Finance,* Corona-Folgen bekämpfen, Wohlstand sichern, Zukunftsfähigkeit stärken *(2020) (in German)*


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