

A shield to protect the economy against the consequences of Russia's war of aggression

**Guiding Germany through the crisis,
helping consumers and businesses, stabilising the gas market and
ensuring supply security**

Russia's invasion of Ukraine is also an attack against Europe and our own country. Our security, our freedom and our prosperity are at stake. For this reason, we are working together with our partners in Europe and around the world to support Ukraine and to defend the values of self-determination, freedom and democracy in Europe. President Putin is responsible for this war and all of its consequences.

Russia is fighting more than just a military war in Ukraine. Rather, it is also using energy as a weapon. The situation has escalated dramatically in recent weeks. Since the beginning of the war, President Putin has used the supply of gas as a political and economic weapon to undermine the western world's, and especially Europe's, support for Ukraine. From now on, we can no longer count on the supply of gas from Russia.

The German government has been responding consistently and resolutely to the current situation. We have provided liquidity and loans to gas importers and energy companies. A number of companies were placed under state trusteeship or were nationalised in order to safeguard energy supplies and maintain the competitiveness of the German and European economies. The acts of sabotage against the Baltic Sea gas pipelines have led to a new level of escalation.

The economic and social consequences of Russia's war of aggression place a heavy burden on individuals and businesses in Germany. The rising energy costs in particular are causing sustained high levels of inflation. This reduces purchasing power and hurts the competitiveness of businesses. Germany stands united in solidarity. We will uphold the economic foundations

of our prosperity. The German people as well as our economy will not be left alone with the consequences of this war.

Once again, the new situation calls for a resolute response. **The German government is adopting a comprehensive package of measures – a “protective shield” – to mitigate the impact of rising energy costs and to alleviate the worst consequences for consumers and businesses.** This will preserve social cohesion in Germany while safeguarding our economic strength. We will add more heat and electricity capacity to the market. By saving energy, we will more swiftly reduce our dependence on gas and other fossil fuels. In addition to the electricity price brake, the German government will introduce a **gas price brake**. The German government will make available comprehensive financial resources of up to €200 billion for this protective shield.

The German government is mobilising the necessary resources for the protective shield and as a response to the crisis. Constraints on the short-term supply of energy, together with extreme energy price surges and fluctuations, currently pose an extraordinary challenge to the German economy. We are responding decisively to Russia’s aggression and are pointing out clearly: there is no doubt that we will mobilise the necessary financial resources to meet this challenge. This is why we are already making such a high level of funding available now, both to send a signal to Russia and to provide planning certainty for consumers and businesses. Individuals and businesses can rest assured that this package of measures will be equipped with sufficient financial resources. The amount of budgeted funding is significant but, when viewed in terms of the size and strength of our economy, is also proportional and sustainable over the long term. Germany’s fiscal reserves will remain sufficient to take further effective action if the need arises.

We will uphold our fiscal resilience and long-term financial stability. Our fiscal policy will not further fuel inflation. Therefore, we still expect the federal budget to comply with the debt brake’s upper limit as of 2023. To this end, it will remain necessary to set priorities in the budget. This means that German federal bonds will continue to meet with the highest level of confidence on financial markets.

At the European level too, it is crucial to reach joint decisions that will curb the rise in gas and electricity prices. The German government is committed to achieving this objective. In light of the integrated gas and electricity markets in Europe, it is essential to reach joint EU-level solutions and to incorporate European considerations into national-level decisions.

The “protective shield” encompasses the following measures:

1. **Expand supply, reduce consumption.** By expanding the energy supply and reducing consumption, we will make a key contribution to lowering gas prices on the market again. The measures we will take include improving the energy supply by tapping the full potential of renewable energy and coal-fired electricity generation (including securing the necessary transport capacity), facilitating a fuel switch, and expanding import structures through the construction of LNG terminals. We will also allow nuclear power plants in southern Germany to keep running until the spring of 2023. We will continue to prioritise and accelerate the expansion of renewable energy. To this end, we will make sure that the planned tender procedures for offshore wind farms are carried out as quickly as possible. In order to replace missing Russian gas supplies with new LNG supplies, we will work together with countries that have the capacity to develop new gas fields; this will be done in line with our obligations under the Paris Agreement. As part of ongoing deliberations at the EU level, we will press forward with the coordinated expansion of joint areas for offshore wind power, the expansion of interconnectors, and pan-European investment in hydrogen-compatible pipeline infrastructure. We will ensure that gas reserves accumulated in recent months with financial support from the German government will be made available to the market during the winter months. Spot markets and futures markets will be used for this purpose.

The German government calls on businesses and private households to reduce their energy consumption and is working to ensure that price signals have their intended effect to the greatest possible extent. In addition, the German government has already adopted a number of specific measures, including (a) ordinances to reduce energy consumption, (b) the introduction of a balancing product, (c) the launching of a comprehensive campaign to promote energy savings, and (d) further measures to save energy and boost energy efficiency, all of which will be adjusted as needed on an ongoing basis.

2. **Introduce an electricity price brake for consumers and all businesses.** Due to the high gas price, which is driving energy prices in general, non-gas power plants are reaping major windfall profits. These should be used to ensure that consumers and businesses benefit to a greater extent from the cheaper production costs for renewable

energy and the other electricity producers, and that they see the impact on their electricity bills.

A “baseline” consumption will be subsidised for consumers and small and medium-sized enterprises (baseline price quota). Any electricity consumed beyond this amount will be charged at the current market price. This will provide relief to consumers while simultaneously encouraging them to reduce their energy consumption. The goal is to reduce the retail price for electricity on consumers’ energy bills and to decouple it from the high prices on the wholesale market. The measure is intended to be workable from the administrative perspective, and it should be implemented quickly. Similar relief will also be provided for other types of companies, particularly large industrial companies, by making a specific baseline consumption cheaper.

3. **Introduce a gas price brake as quickly as possible.** The gas price brake will mitigate the burden on households and companies that arises during a phase of high prices. It will provide tangible and visible financial relief to those affected. The mitigation is a temporary measure. Therefore, the prices will be reduced to a level (at least for part of the consumption) that prevents households and companies from being overwhelmed. At the same time, incentives to reduce gas consumption should be retained. The gas price brake is time-limited and can be extended following an evaluation. Here, too, the goal is to make the measure manageable in administrative terms and to implement it quickly.

The exact design of the gas price brake along the lines described above will be determined taking into account the relevant proposals from the Expert Committee on Gas and Heat, which will be presented by mid-October.

4. **Reactivate and reorganise the Economic Stabilisation Fund.** The Economic Stabilisation Fund (ESF) will be provided with additional borrowing authorisations in accordance with Article 115 (2) sentence 6 of the Basic Law (*Grundgesetz*) totalling €200 billion in 2022. In this way, the measures to deal with the crisis will be distinguished from general political projects. For this reason, use of the ESF will be restricted to the following tasks:

- a. To finance the gas price brake

- b. To provide liquidity and grants for the electricity price brake. Recovered windfall profits from electricity producers will also be incorporated into the financing of the electricity price brake. However, funds from the ESF may be used as liquidity assistance on a temporary basis if required, should there be a discrepancy between the implementation of the relief and the recovery of profits.
- c. Financing of additional support measures for companies that are experiencing difficulties due to the war. Liquidity and equity assistance will be available for companies that are not sufficiently covered by the electricity and gas price brakes. This assistance will be targeted at difficulties caused by Russia's war of aggression and will avoid windfall effects. Here, too, an arrangement for hardship cases will be created.
- d. Financing replacement procurement costs incurred by gas importers that are significant for market stability and that are experiencing difficulties as a result of the war. The net price adjustment will therefore be cancelled. Instead of this, customised solutions will be developed for the companies that are particularly affected, namely SEFE, Uniper and VNG.

The Energy Cost Mitigation Programme (EKDP) and the SME programme will be incorporated into this measure.

- 5. **EU solidarity contribution for companies in the energy sector.** The Federal Government supports the European Commission's proposal to introduce a solidarity contribution for companies in the oil, gas, coal and refining sectors. It will seek to achieve a political agreement at the special meeting of the Energy Council on 30 September 2022.
- 6. **Reduce the VAT rate on gas.** Irrespective of the gas levy, we will limit the VAT rate on gas to the reduced rate of 7% until spring 2024. In addition, the reduced VAT rate will also apply to district heating. This represents a further contribution to containing energy costs.
- 7. **Avoid disproportionate bureaucracy.** The crisis is causing additional costs for many companies. For this reason, careful attention will be paid to ensuring that no disproportionate additional bureaucratic burden is placed on businesses during the

crisis (moratorium on additional burden). The Federal Government will also push for this at the EU level.

The measures described above will also help the *Länder* and local authorities. Schools, sports associations, and municipal enterprises such as hospitals and cultural institutions will also benefit from the protective shield. The potential burden on the *Länder* and local authorities will be reduced as a result, because otherwise they would have to provide greater support for these businesses and institutions. Against this background, and considering the extensive borrowing within the framework of the ESF, the Federal Government expects that the *Länder* will be able to make their financial contributions at the upcoming negotiations on financing relief package III.