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Germany's energy transition: Shifting to a pragmatic approach

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The German industry is facing challenging times. According to a survey conducted by the German Chamber of Commerce and Industry (DIHK) in 2025, 59% of large industry firms with 500 or more employees are considering or have already implemented production cuts in Germany or relocations overseas. This figure has increased year on year, rising by 22 percentage points over four years, from 37% in 2022. The survey identifies high energy costs and the complex processes required to comply with climate regulations as the underlying causes. Although Germany is renowned as one of the world's leading industrial nations, the exodus of these companies, which form the backbone of the German economy, is accelerating. This is undoubtedly a frightening reality for the German government.

Under these circumstances, the Merz administration formed in May 2025, pursuing more realistic energy and climate policies while maintaining the goal of carbon neutrality by 2045. For instance, in November 2025, the administration set a temporary cap on industrial electricity rates for the period from 2026 to 2028. Although measures to curb electricity costs, such as exemptions from renewable energy surcharges, had been in place since 2023, they were probably not enough to prevent companies from moving elsewhere. Although such energy subsidies are clearly undesirable from a climate change perspective, immediate industrial protection was deemed more important.

In order to ensure an increasingly vital, stable power supply, Germany will call for 10 GW of dispatchable capacity in 2026. Of this, 8 GW will come from gas-fired power plants designed for conversion to hydrogen in the future. While the deployment of solar and wind power advances in Germany, the expansion of transmission capacity and other measures to secure balancing capacity have not kept pace. For a country that has committed to phasing out coal-fired power by 2038, building new gas-fired power stations is a limited yet reliable method of securing balancing capacity. Although it runs counter to the goal, compromising the stable supply of electricity would render decarbonization meaningless. Furthermore, as Germany shifts away from Russia, natural gas is no longer a cheap energy source, creating another problem. As previously mentioned, Germany has committed to phasing out coal-fired power. Consequently, the shift will be from inexpensive coal-fired power to more expensive gas-fired power. This will naturally drive up

power generation costs.

Chancellor Merz has mentioned nuclear power generation on several occasions. Following the Fukushima Daiichi nuclear power plant accident, Germany decided to phase out nuclear power, closing its last nuclear power plant in April 2023. However, in January 2026, Chancellor Merz described this policy as a “serious strategic mistake”. He argued that by eliminating nuclear power as an option, Germany was forced to undertake the world's most costly and challenging energy transition. While Germany has pursued climate change measures aligned with its convictions, such as phasing out nuclear and coal power, cutting off options has limited its choices. These problems are now manifesting as risks to the economy and security.

Japan must bear this in mind. There is no single, absolute solution to the energy transition. Furthermore, the world's geopolitical landscape is undergoing significant change. As the right answer evolves over time, it is better to maintain as many options as possible in order to mitigate risks. Germany's current situation demonstrates the importance of this.

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