

THEMATIC AREA “INDUSTRIAL DEVELOPMENT (incl. Research, Education and Trade)”

Sustainable Growth and Social Cohesion and Environmental Protection

The Federal Government aims at policies that are economically, socially and environmentally responsible to meet the needs of the present without compromising the ability of future generations to meet their own needs. More dynamic growth and the protection of natural environmental resources are not in any way incompatible. What we need is a new dynamism in growth to combine prosperity, jobs, social security and environmental protection. Especially in a country with scarce raw materials and a population that is declining in the long run, economic prosperity must be created through investment in skills and knowledge.

The shortage of natural resources certainly plays a key role in the development of the world economy in coming decades. With the strong rise in demand in the newly industrialised and developing countries, especially China and other Asian countries, competition for the scarce raw materials, particularly oil, will grow considerably (cf. Box 1). Nationally as well as internationally the Federal Government is therefore working for economical and at the same time environmentally compatible energy production and supply. In this context raising economic output involves the decoupling of economic growth from resource use.

Box 1: The Development in Prices for Oil/Raw Materials

Oil prices have risen markedly. The strong growth in the world economy and the very lively demand for crude oil this has brought are playing an important role here. The boom in demand has pushed the entire supply chain, from oil extraction through transport to refinery processing, to the limits of capacity. The fear of terrorist attacks in oil-producing countries has also driven prices up. But according to experts a strong increase in speculative buying is also responsible for the price hikes in past months. The development on the oil markets remains a risk to worldwide prospects of growth, especially for countries that are greatly dependent on imported oil. The long-term equilibrium on the oil markets must therefore be stabilised through the interaction of increased oil exploration, increased investment in crude oil processing and greater efforts to reduce consumption of oil. If the greatly increased volatility of oil prices is to be kept within limits greater transparency of oil market data is essential. At the last world economic summit the Federal Government therefore asked for the work that is already underway to obtain better

supply and demand data to be intensified. This initiative has met with broad support from the G8 countries and from oil and natural gas producers.

The efficient use of resources remains a central concern for the Federal Government not least because diminishing resources must be preserved for a growing world population. Therefore, especially the industrial countries must intensify their efforts to achieve the sparing use of fossil fuels.

Prices have generally risen strongly on the markets for other raw materials as well, particularly metals. With a rather moderate development in demand, especially in China, and a gradual build up of production capacities, the price pressure on these markets should also subside slightly. But also in this case it is important to be more sparing in the use of raw materials. That is the only way to sustain growth.

Sustainability means searching for solutions that will also be viable in future, and that will reduce consumption of resources and the strain on the environment. But sustainability also calls for solutions that take due account of the interdependence between economic, environmental and social aspects. That means that a balance must be found between economic development and a high level of environmental protection. The social aspect of sustainability, in the sense of ensuring social cohesion, establishing justice between the generations and ensuring appropriate protection from social risks, is also of great importance. Not least of concern are questions of the burden of public indebtedness on future generations, of environmental pollution and the effect of the ageing of the population on the financial viability of the social security systems. The model that combines efficiency and solidarity with the principle of sustainability in Germany is the social and ecological market economy. The Federal Government is guided by this model in its reform process.

In the past social justice was largely interpreted as fair distribution. Today, in the framework of an internationalised economy, this is increasingly coming up against limits. Moreover, subsidiary wage costs have risen to a level that, in conjunction with a moderate growth rate on a falling trend and rising unemployment, is hampering growth. In future, therefore, the “social” aspect of the market economy can, even less than hitherto, be equated with a steady rise in state benefits for health care, pensions or unemployment, particularly in view of the demographic development. It would put a brake on the dynamic in the market economy and, in the long term, also remove the financial basis for social redistribution. Today the share of social expenditure in

total Federal expenditures is just under 50%. Hence, it will only be possible to maintain the social security network in Germany by reforming it. Firstly, in order to ensure that it can still be financed, and secondly, in order to maintain the social consensus on which the contract between the generations is based and to maintain fair opportunities for all with regard to education, the acquisition of skills and participation.

Agenda 2010

There is no alternative to this comprehensive reform process which has been launched in 2003 in order to continue to reduce unemployment and address the challenges of greater international division of labour and the foreseeable demographic development in Germany. The international division of labour intensifies worldwide competition – not only competition between companies to produce the best products, but also competition between business locations to offer the most favourable investment conditions. Wages and subsidiary wage costs, taxes and charges as well as regulations and bureaucratic obstacles are thus under constant review.

The demographic development will have considerable consequences in coming years, not only for the economic development but particularly for the financial viability of the social security systems. According to an estimate by the Federal Statistical Office the number of people living in Germany will fall from the present 82.4 million to 81.2 million within the next 25 years, and by 2050 the number is expected to have fallen to 75.1 million. At the same time, the age structure of the population will alter significantly. Whereas there are 100 people of working age to less than one third aged 65 and older at present, the relation will be nearly 50% in 25 years. So the numerical relationship between those drawing pensions and those paying contributions will change decisively – with corresponding consequences for the level of contributions and/or pensions.

We must respond quickly to these challenges – the external and the internal – with answers that will hold good for the future. The Federal Government's answer is Agenda 2010. It is the most comprehensive reform project in the history of the Federal Republic of Germany. Within the framework of the social market economy it combines economic efficiency and initiative with the objectives of social justice and sustainability. Agenda 2010 is a modern economic policy concept that will clearly improve the conditions for more growth and employment. The reforms to the social security systems which it contains will readjust individual responsibility and solidarity with regard to globalisation and demography. The balance of individual rights and obligations, of

social security with equal opportunities and justice between the generations, is being redefined. And finally the regulations governing the labour market are being amended to put much more emphasis on (re)placement in the labour market rather than on how to finance unemployment (cf. Box 2).

Box 2: Examples of the First Results of Agenda 2010

- **The Labour Market:** According to preliminary calculations by the Federal Labour Agency the number employed in mini-jobs was about 4.8 million in July 2004 which is around 400,000 more than a year before. Since January 2003 almost 273,000 Me Incs (micro enterprises) have been founded. In 2004 about 185,000 new businesses were set up thanks to the bridging loan.
- **The crafts:** The number of firms in this sector rose by a good 16,000 in the first half of 2004.
- **Reducing bureaucracy:** The suspension of the craft census for four years eased the statistical burden on 560,000 firms. The amendment to the legislation on raw materials statistics has reduced the compilation of data in the iron and steel industry by 65%.
- **Health insurance:** More than 28 million persons insured in the statutory system had already benefited from lower contribution rates by November 2004. Without the Act to Modernise the Health System the average general contribution rate would not now be 14.2%, it would already have risen to around 15%.

A Policy to Promote Growth

If the concern is to ensure higher growth in real incomes in the long term and to achieve lasting improvement in employment conditions attention must continue to focus on structural reforms. The Federal Government is convinced that structural reforms, together with a macroeconomic environment that favours innovation and investment, will revive the potential for growth in Germany, reduce the number of unemployed people, reduce state indebtedness and put the social security systems on a sound financial basis. Important fields of action in this regard are flexible markets for goods, finance and services, making best use of the existing labour force potential, a sound fiscal policy that will build up confidence, a growth-friendly and transparent tax system and ensuring undistorted competition. Not least more investment is needed in education and research, combined with measures to improve quality in the education and research system, so

that more innovation can be generated and implemented. Structural measures here will only develop their full effect in the next few years.

Innovation Policy

Education, research and innovation are driving forces for growth and employment. The research system in Germany is very efficient, and its scientific personnel are well trained. Germany has a large world market share of research-intensive goods. Certainly, innovation activities are first and foremost a matter for the companies themselves, but the state can support their ability to do this. In order to strengthen and expand Germany's position as the second largest net exporter of technology the Federal Government launched the initiative "Partners for Innovation" in January 2004 together with businesses, research and the trade unions. The aim of the initiative is to reduce obstacles to innovation, strengthen technological efficiency and thereby give more impetus to the creation of sustainable jobs. Around 200 firms and institutions are now active partners in the network. They are incorporating their knowledge and expertise in order to make the high quality of Germany as a location for innovation more evident to other countries, and contribute with concrete activities to a new culture of innovation. The main focus lies on the services sector, the information and communications industry, energy technology, the health system and mobility and logistics. Work is also in progress on structural cross-section activities, like strategies for enhanced use of the potential of the research system and better provision of venture capital for young, technology-based firms. The first phase of the "Partners for Innovation" initiative will end in the second quarter of 2005. Currently the partners are discussing proposals to make the initiative permanent. As part of its innovation initiative the Federal Government has proposed to the federal states and to the big research and scientific organisations to form a pact for research and innovation; in return it is expecting further measures from these organisations to improve quality, efficiency and performance. Besides strong basic research the Federal Government's project promotion is mainly concentrated on joint venture research between science and business, to enable ideas from research to find their way into practice faster and to address practical problems more quickly by research.

The worldwide structural change and the growing competition for top international performers are increasing the demand for highly skilled staff. As well as a sound broadly based education and training system, Germany also needs top class universities with worldwide reputations in order to attract the best brains to Germany and keep them here. The Federal Government is therefore negotiating with the Federal states for a 1.9 billion euro programme to expand the

present strengths of German universities. The Federal Government has also cleared the way for the universities to have greater freedom to select their students, so increasing their autonomy. The amendment of the Vocational Training Act takes due account of the growing internationalisation of vocational training. In the school sector, the Federal Government is supporting the Federal states particularly in expanding full-day schools. Altogether 4 billion euro are earmarked for this. The funding is being flanked by an accompanying programme of teaching material and an independent national education report.

Growth and Employment in the European Context

Since the introduction of the euro and the deeper integration of EU member states in the single market important framework data for the economic development in Germany are no longer set only nationally, they are also set on European level. That applies particularly to macroeconomic policy. Monetary policy by the European Central Bank (ECB) must be oriented to the framework data in the Eurozone as a whole. The implementation of fiscal policy still lies within the competence of the national governments, but it must be implemented according to the jointly agreed objectives of the Stability and Growth Pact. Wage policy, on the other hand, is still largely determined by the social partners on the national level. Moreover, with the Lisbon Strategy the EU has also created a common framework for structural reforms in order to strengthen the competitiveness of the EU and make the European economic and social model viable for the future as well (cf. Box 3).

Box 3: Seven Opportunities for the EU Single Market

- **Liberalising the electricity and gas markets in Europe:** By 2007 all customers are to be free to choose their electricity and gas suppliers. That would increase cross-frontier competition in this market.
- **Improving the competitiveness of financial services:** In order to make those financial institutions that operate worldwide more competitive on an international level the Federal Government proposes forming a European system of financial supervision.
- **Making payments transactions more efficient:** Faster handling of financial transactions at lower cost, with uniform standards in payments transactions, could serve to give further stimulus to trade.

- **Utilising the growth potentials in trade in services:** The opportunities of trade in services must be better utilised. The proposal from the European Commission (the Services Directive) provides the framework for increasing competitiveness in this sector and creating more jobs.
- **Consolidating the defence industry:** A common market for defence technology would be able to operate more efficiently and so more successfully. Suitable measures here would be to standardise defence goods, facilitate trade within the Community, optimise acquisitions, coordinate research and establish joint EU exports control.
- **Drawing up a European contract law:** A common frame of reference for member states and in the long term a common European contract law would guarantee a uniform legal framework for companies operating throughout Europe and so increase the efficiency of the single market.
- **Harmonising corporate taxation:** It is the aim of the Federal Government to harmonise the assessment basis for corporation tax in the EU, in order to remove present distortions. A joint proposal on this is to be presented by 2006. • **Strengthening environmental technologies:** On a voluntary basis, the environmental technologies action plan (ETAP) aims at improving environmental technology and eco-efficiency as an instrument for innovation and the strengthening of competitiveness in this sector.

Education and Research: The Basis for Growth and Employment

Well trained people are, as the German Council of Economic Experts points out, “a central factor for future growth in Germany and the prosperity of each individual. An efficient education system is essential for ensuring a sufficient supply of skilled personnel.”. The Federal Government agrees with this statement by the Council of Experts. Excellently qualified personnel and an efficient research and innovation system are the basis for successful top level research, new products, new production processes and innovative services. That is the only way to ensure international competitiveness in the long term.

With the intersectoral structural change towards knowledge based branches, the need for highly qualified personnel will rise further. Education and training pay off in several ways. They are the best guarantee of personal success on the labour market. The risk of becoming unemployed diminishes, the more highly skilled a person is, and the income of a person is usually higher than

someone's without a vocational qualification. In the economy, education and training have a positive effect on productivity and growth.

Germany plays a leading part on the world markets for technology. With 15.6% it has the second largest world market share after the United States in research-intensive goods among the OECD countries. In its latest economic report on Germany, the OECD confirms that Germany has a high level of innovation activity. This is evident from key indicators of patent registrations and product and process innovations.

Germany is classified as one of the most attractive target countries for R&D activities by foreign firms. Our efforts in research and innovation are bringing rewards. Net output has been rising in research-intensive branches of industry faster than in non-research intensive branches for years. Accordingly, employment is also better there. The growing importance of state research as a source of knowledge for firms is also reflected in the share of research at universities financed with outside corporate funds, which are high by international standards.

More successful research and development than ever before is performed today in division of labour. Successful innovation is also supported by building up efficient formal and informal partnerships. But building up cooperations and networks entails considerable expenditure for the individual. However, the overall benefits of research and development resulting from such networks are even larger for the economy as a whole than for the individual firm. Therefore around one third of all expenditure on research and development is funded by the state in Germany. State research promotion concentrates particularly on research in partnership between science and business. The promotion is supplemented with the Federal Government's innovation programmes, most of which are designed for joint ventures between small and mid-size enterprises and research institutes. The Federal Government attaches priority to education, science, research and innovation in its budgets as well. It has clearly increased the funding for these tasks since 1998.

Research Promotion

Investment in research and development has been increasing in Germany since 1998. The share of total R&D expenditure in GDP has risen from 2.3% to 2.5%. The Federal Government is keeping to its aim of nationally implementing the target agreed by the European Council in Barcelona, which is raising the share of R&D expenditure in the EU to 3% of GDP by 2010.

Two thirds of the expenditure is to come from the private sector and one third from the state. The funds from the abolition of the home ownership grant will form part of the state's share of this.

As part of a pact on research and innovation the Federal Government is willing, despite the need for budget consolidation, to make every effort to give the institutionally promoted scientific and research organisations financial planning security, and to increase the annual grants by at least 3% a year up to 2010. In return, these organisations will be expected to take additional steps to increase their quality, efficiency and performance further.

The Federal Government is directing its research promotion consistently to technological developments and processes that will have particular leverage for growth and employment. Top level scientific competences must be maintained or increased and companies – particularly in the SME sector – supported in opening up new growth fields. As part of the research promotion, partners from research and business will be linked in joint research projects and possible solutions of important research questions will be combined. Furthermore, new accents set for strategic technological development are:

- In **nano technology** – proceeding from the basic scientific and technical research that is competitive worldwide – potential applications will be systematically utilised. This will help German companies to be successful as “systems leaders” on the global market in the future, too.
- In **production technology** the Federal Government is promoting projects, e.g. in the miniaturisation, as well as the integration of offers of services.
- In recent years, Germany has developed into an internationally acknowledged location for science and business in modern **biotechnology**. The Federal Government has made a significant contribution with the Bio-Regio and Bio-Profile competitions, and today 25 bioregions are operating with around 350 new companies in the core area of biotechnology. This has made Germany the leader in Europe. The Federal Government is continuing its successful promotional strategy with the BioChancePLUS measure.
- Besides supporting sensitive technological developments, the aim of the 2003-2008 civilian **aircraft research programme** is to decouple the growth in air traffic from fuel consumption and environmental pollution.

- This year, the Federal Government will present a new **energy research programme** as part of the fiscal planning now decided. It will support research in business and science. The promotional policy will focus particularly on modern power station technologies, renewable energies, fuel cells, hydrogen and energy-optimised construction techniques.

Important fields for action in **information and communications technology** are the convergence of fixed and mobile networks, the digitalisation of media transmission and mobile and broadband transmission technologies (in particular mobile phones). The aim is to ensure that the growth potentials in information and communications technologies, i.a. in branches like vehicle construction and mechanical engineering or logistics, are fully utilised. With the 2004 amendment to the telecommunications legislation the Federal Government has set the signals for more intensive competition. The key areas of the Federal Government's master plan "Germany 2006: The Information Society" include e-government, e-learning and e-health. Against the background of the convergence of networks the Federal Government will make its contribution to designing the next generation network to include German products and standards.

Making science and technology understandable and accessible is the aim of the initiative "Science in Dialogue" funded by the Federal Government, all the big research institutions and the German Science Foundation (Stifterverband für die Deutsche Wissenschaft). A large number of events have been organised in the Einstein Year 2005 to focus on the ideas of this outstanding personality, whose ideas go far beyond the realm of physics (cf. Box 4).

Box 4: New Promotional Architecture for Technology-Based Firms

- The new umbrella fund of the ERP Special Fund and the European Investment Fund (EIF) have been on the market since January 2004. With a budget of 500 million private venture capital funds that are investing in young innovative companies will be cofinanced in the next five years.
- The second pillar of the new promotional architecture is the new ERP Start-Up Fund that was launched on the market on 1 November 2004. Handled by KfW, the fund will invest a volume of 250 million over a five-year period to provide equity capital for small technology-based firms, if private investors commit at least the same amount to the firm and at the same terms and conditions.

- The third element in the new promotional architecture is to be the New High-Tech Businesses Fund set up as part of the Partners for Innovation initiative (cf. Item 3). This fund is to support new R&D-based firms in their first one to two years by providing equity capital, so closing the gap that presently exists in Germany in financing the seed area. The fund is to be equipped with public funding to a total of 240 million over five years, which is to be supplemented by private capital from industry.

Strategy for sustainable development

The first Progress Report on the National Sustainability Strategy, published in autumn 2004, shows how Germany has advanced since 2002 in implementing the strategy. It is based on 21 key indicators and identifies areas for further action. With regard to the environment-related indicators, i.a. energy and resource productivity has improved further and the share of renewable energies has clearly risen. For land use the latest data for 2003 show a decline, but that is largely due to the cyclical trend. Apart from this, the Federal Government has included four new major themes in the Progress Report: the potentials for older people in working life and society, new energy supply structures, including renewable energies, alternative fuels and drive technologies and reducing building on undeveloped land.

On the European level, the Federal Government additionally works towards a more coherent, more goal-oriented, and more visible EU Sustainability Strategy. The EU Sustainability Strategy and the Lisbon Strategy for growth and employment will be further developed in their different timescales as reform processes. Decoupling economic growth from resource consumption remains an urgent task for sustainable development within this context. At the same time the principle of economic efficiency must be observed. Concepts to internalise the external costs and clear environmental standards can assist here.

Decoupling Economic Development from Environmental and Resource Consumption

From an environmental perspective, economic activity that is bound by the principle of sustainability requires natural resources to be used as efficiently as possible to ensure that the future generations also have an intact environment. Economic activities always involve the use of resources and energy and the emission of waste and harmful substances into our natural environment. So increasing the productivity of resources and energy as well as the promotion of sustainable production and consumption patterns are essential components of the economic

development and innovation process. With its policy of ecological modernisation the Federal Government is setting the necessary framework conditions for this.

An increase in **energy productivity** – that is, economic output related to primary energy consumption – of 24% from the 1990 level by 2003 is evident, with a slight absolute decline in consumption of primary energy. This increase in energy productivity – which was achieved mainly in the first half of the 1990s – was partly due to the restructuring processes in eastern Germany in connection with reunification, but it was chiefly due to the increases in efficiency in power stations and opening up energy saving potentials in every sector of the economy. Reaching the target of doubling this by 2020 will require greater efforts in every sector (transport, private households and industry).

Raw materials productivity has also shown a very positive development. In relation to the base year for the national sustainability strategy, 1994, it has increased by more than 28%. The avoidance of waste, more recycling of raw materials and greater use of regenerative raw materials has contributed to this increase. In recent years, however, this has also been due to the lower use of materials in building and lower output of hard coal and lignite, due to cyclical causes. There are potentials for increasing efficiency that can still be exploited, particularly in private households, which contribute considerably to CO₂ emissions.

Building over undeveloped land for housing and transport seals the surface, causes a growing need for transport and pollution from noise and harmful substances. The Federal Government's aim of reducing this to a maximum of 30 hectares a day by 2020 is ambitious. In 2002 the use of new land for housing and transport was 105 hectares a day, by 2003 it had fallen to 93. In view of the present land-intensive development in settlements this does not necessarily indicate a change in the trend, not least because the reasons for the fall are largely cyclical. A balanced overall concept is therefore needed, consisting of specific planning and economic instruments on all state levels.

Climate Protection Policy

The purpose of the present **National Climate Protection Programme** is to make sure that Germany will be able to comply with the commitments made at the European and international level to reduce its greenhouse gas emissions in the period 2008 - 2012 by 21 percent as against

1990 levels and thus provide a basis for further ambitious climate and environmental policies after 2012.

The update of the National Climate Protection Programme of 18 October 2000 **takes stock of the Federal Government's climate protection policies** of the past 5 years. It outlines the measures taken and their reduction effect with respect to greenhouse gas emissions and assesses whether the targets in different sectors have been met. Based on this analysis the need for additional policies and measures was identified and a set of concrete and quantified measures was formulated.

The energy and industry sectors are covered by the new instrument "emissions trading". Therefore, the Climate Protection Programme 2005 focuses on **action deemed necessary in the transport and private household sectors** from the present perspective.

All in all greenhouse gas emissions were brought down by as much as **18.5 per cent by the year 2003** as against 1990 levels. However, reduction rates have drastically slowed down since the mid 90s. In particular the turnabout which took place in the traffic sector is worth noting. Here, emissions were brought down by 15 million tonnes in Germany between 1999 and 2003, which is contrary to the development within the European Union. The instruments by which this was achieved are amongst others the ecological tax reform and the strengthening of the public transport system (e.g. Law on the Regionalisation of Public Transport).

The **targets for the 2008-2012** period are laid down in the Emissions Trading Allocations Act (ZuG 2007) and are thus legally binding.

The new instrument emissions trading guarantees that the targets in the **energy and industry sectors** will be met. For the **sectors private households and transport** a joint reduction objective has been set at **291 million tonnes per year**. The Federal Ministry of Transport, Building and Housing was entrusted with dividing this figure between the two sectors and placed the rates at **120 million tonnes reduction per year for private households** and **171 million tonnes per year for the transport sector**.

As for the **other greenhouse gas emissions** and the **trade/business/service** sector it is assumed that the 2008-2012 targets will basically be met without further intervention. Based on present

forecasts, it can, on the other hand, also be assumed that CO₂ emissions are likely to rise again in the sectors private households and transport if no additional measures are taken.

The **Federal Ministry of Transport, Building and Housing** developed sets of **measures** for those sectors and expects that they are **sufficient** to reach the joint reduction target of 291 million tonnes CO₂ per year for the 2008-2012 period as set out in the Emissions Trading Allocations Act. The following is a summary of the measures planned for these two priority areas.

Private households:

- Public relations campaigns, counselling, information
- Financial support measures, such as bank loans for the building sector and market incentive programmes
- Regulatory measures such as the implementation of the Energy Savings Ordinance 2006 and the introduction of energy passes

Traffic

- Incentives to reduce transport intensities and increase energy efficiency by e.g. introducing revenue-neutral tax reductions for low fuel consumption passenger cars
- Technical improvements in vehicles and fuels and support for alternative fuels and innovative engines
- Public information campaigns on low emission driving habits

Even on the basis of conservative estimates, it can be assumed that the **sum of these measures will be sufficient to meet the sectoral climate targets in the period 2008-2012. It can be split up into an additional reduction of 10 Mio. t CO₂ in the period 2008-2012 in the traffic sector and more than 5 Mio. t CO₂ in the private households sector (on average per year in 2008-2012).**

To permit an ongoing evaluation as to whether the measures laid down in the National Climate Protection Programme 2005 lead to the projected emissions reductions, the programme provides for a **regular monitoring**. Under the monitoring provisions the Inter-Ministerial Working Group on CO₂ - Reductions (Interministerielle Arbeitsgruppe (IMA) "CO₂-Reduktion") will – based on

already existing reporting obligations – submit to the cabinet an **annual assessment report** on the national greenhouse gas emission status with special emphasis placed on meeting climate protection targets. The **next update** of the **National Climate Protection Programme** will be published **in 2008**.

The Climate Protection Programme 2005 reiterates the commitment made by the Federal Government to take the necessary measures that will allow Germany to meet its Kyoto targets. It states ambitious **medium- and long-term climate protection goals** and thus lays the basis for challenging climate protection policies after 2012.

Emissions Trading

Emissions trading started in the EU on 1 January 2005. It is a key instrument for the implementation of the Kyoto Protocol and for the compliance with the European Burden-Sharing commitments. The aim of emissions trading is to reduce CO₂-emissions in the energy and industry sector and minimize the costs for their mitigation. The German National Allocation Plan has been approved by the European Commission on 7 July 2004.

The National Allocation Plan forms the basis of the Allocation Act, which determines the total number of emission certificates and the rules for the distribution of these certificates between the plant operators participating in the trading scheme. The Allocation Act gives incentives to achieve emission reductions by investing in the most up-to-date and most efficient technologies, with the aim of maintaining a balanced mix of energy sources and to secure energy supply in the future as well. By setting indicative national targets for the reduction of greenhouse gas emissions for the following trading-period (2008-2012) as well, the National Allocation Plan and the Allocation Act provide planning security for industry. The first months since the beginning of Emissions Trading have shown a significant rise in prices for emissions certificates as well as for electricity. The reasons for this development and the interdependencies of these two markets have not been analysed sufficiently yet. In any case, these first experiences with the new instrument Emissions Trading will be taken into account while developing the National Allocation Plan for the second trading period, which has to be notified to the European Commission and the other Member States by 30 June 2006.

The Foreign Trade Campaign “Active Worldwide”

Germany is closely integrated with other economies or economic areas and bound into the process of progressive globalisation. Worldwide trade and cross-border investment are essential bases for growth, employment and prosperity in Germany. But the increasing globalisation and the changes in the global division of labour or shares in world trade also constitute a major challenge to the German economy. Fiercer competition on the international markets and the dramatic pace of technological development are confronting the German economy with the task of maintaining its lead in important areas. A future-oriented foreign trade policy is therefore necessary, and the Federal Government is pursuing this with the foreign trade campaign “Active Worldwide” as part of Agenda 2010. In this framework the Federal Government is the activities of German private companies to open up and secure foreign markets supporting in a variety of ways (cf. Box 5).

Box 5: Federal Government's Foreign Trade Campaign in 2005

- **Strengthening the multilateral framework to the current world trade round:** Working for framework conditions to apply worldwide, in which competition and trade can develop as freely as possible.
- **Increasing the efficiency of customs processing in major target countries for German exports, and modernising the EU customs code:** Modernising and simplifying costly customs procedures.
- **Further expansion of the foreign trade chambers and improving the range of services offered to German firms:** Extending the foreign trade chambers' activities i.a. in the Arab countries (opening new offices in Algeria, Libya, Kuwait and Jordan for Iraq).
- **Improving company-oriented offers through the Federal Agency for Foreign Trade:** Enlarging the family of gateways to include the IXPOS foreign trade gateway (www.ixpos.de) and the new cooperation exchange “e-trade center” (www.e-trade.competitiveness) with an Internet platform in English for business-related enquiries.
- **More participation in foreign trade fairs:** In 2004 a record volume of foreign trade fairs with presence at 230; currently attendance at 250 planned for 2005.
- **Export credit guarantees (Hermes cover) to strengthen German export firms in international competition:** Important accompaniment to the German export industry, especially in risk-prone but strong growth markets (China, Turkey, Iran, Russia etc.). Hermes

cover is being further developed, especially with regard for the needs of SMEs and the changing framework conditions. In the first half of 2004 cover for export business totalled 10.6 billion, clearly above the same period of 2003. This positive trend has continued in the second half-year of 2004. The comprehensive restructuring of Iraq's public debt agreed in the Paris Club of creditor governments eases the way to reopening Hermes cover. The total volume of this rescheduling is 5.94 billion EUR; the bilateral rescheduling agreement was signed in December 2005.

- **Investment guarantees to cover foreign investment by German firms:** A clear rise in new applications and guarantees in 2004. German firms are showing great interest in the more extensive guarantees, especially the extended list of items covered (e.g. other rights similar to assets) and the extension of the cover to events like acts of terrorism, payments commitments, the costs of avoiding damage and municipal commitments. Investment guarantees are more attractive to SMEs now, especially from the decision not to charge fees for applications up to 5 million (www.apaportal.de).
- **More promotion of development cooperation with the private sector:** Increasing the possibilities for partnership between official development cooperation and private firms (public private partnerships).
- **Advertising Germany as a business location through the Federal enterprise Invest in Germany GmbH and the representatives of the Federal Government for foreign investment in Germany:** Planning for an information campaign to start in 2005 and last several years to convince foreign investors and multipliers of the advantages of investing in Germany. Among other things, major events like the Football World Cup in 2006 and the Germany Year in Japan are to be advertised by the campaign and used as an advertising platform by it.
- **Increasing political support measures for commitments abroad by German firms:** Support for German companies, particularly in newly industrialising and developing countries

The World Trade Organisation WTO

On the international level, the Federal Government is following the world trade round that started in November 2001 in Doha (Qatar) with close attention in order to ensure that the negotiations will also lead to tangible results regarding the development and environment related

negotiations items. With a unanimous decision by all the WTO member states on 1 August 2004 it proved possible to restart the world trade round in Geneva after the failure of the ministerial conference in Cancun in Mexico. The main focus there was on progress in the negotiations on agricultural issues. The offer from the EU to make the reduction of all forms of export support for agricultural products binding was important in reaching the compromise. The Federal Government was one of the main supporters of this initiative to enable progress to be made in the comprehensive WTO negotiations.

Now the new momentum in the negotiations needs to be utilised to enable clear progress to be made in the other important areas of market access for industrial goods and services. Proper account will be taken of the concerns of the developing countries in all the subjects under negotiation in the Doha Round. In addition, Germany has particular interest in the negotiations on simplifying customs procedures, more effective anti-dumping rules and substantial progress in the subject of trade and the environment. The results that have been achieved at the 6th WTO Ministerial Conference at Hong Kong in December 2005 provide a good basis for the next stages of these difficult negotiations.

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