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Germany's AI Governance: Expanding Federal Coordination

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KEY TAKEAWAY

In line with the EU AI Act, Germany has intensified its efforts to establish a coordinated governance framework for AI regulation. This has resulted in a highly complex setting in which responsibilities are fragmented and overlapping. This policy brief outlines the governance of AI in Germany's federal system and suggests ways to enhance coordination.

> ***"Germany's response to AI has been to increase institutional complexity. A plethora of organizations and bodies, some of which have partially overlapping responsibilities and personnel, are involved in the coordination process."***

THE ISSUE

Background

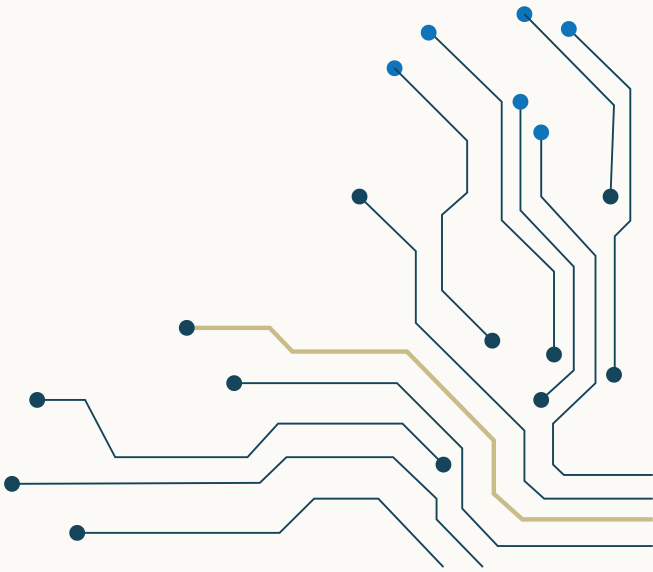
Federalism is often praised for its inherent flexibility, and appreciated for its capacity to adapt to new societal, economic and political developments. Artificial intelligence (AI), however, is a transformative technology that challenges the assumed virtues of federalism. It necessitates the standardization and interoperability of technical solutions. In order to avoid centralization in the adoption of AI, which would ultimately undermine federalism, political actors must intensify the coordination between the levels of government and across the subnational units. Furthermore, AI is advancing at an unprecedented pace. This conflicts with the path-dependent logic of federal systems, which adapt to external and internal pressures gradually rather than rapidly. Consequently, doubts have been raised as to whether federalism is a governance setting that is flexible and adaptable enough to address the challenges associated with AI.

The German Context

Against this backdrop, the German federal system provides a particularly instructive case to study institutional responses to AI. Among established federal democracies, Germany is considered a prime example of cooperative federalism due to its extensive range of tightly institutionalized coordination mechanisms. These include a rather sophisticated system of intergovernmental bodies, ranging from the peak council of prime ministers and ministerial conferences to the different echelons of ministry officials. Organized by a detailed set of statutes and based on norms of mutual restraint and comity among federal and state governments, these bodies have significantly reduced party-political and territorial conflict in Germany's post-war history. Furthermore, German political parties themselves facilitate multilevel coordination because they have branches at all levels of government. Thus, at first glance, German federalism appears to offer significant advantages in coping with AI-related challenges. However, it also comprises elements that are potentially detrimental.

Federalism Challenges for AI Governance

1. Constitutional and legal requirements often necessitate joint decisions between the federal government and the states ('Länder'), vesting the governments with considerable **veto powers.** This tends to slow down policy change. This has been clearly evident in the digitalization of public services, an area in which Germany has been more of a latecomer than a forerunner.



THE ISSUE

2. In Germany's Europeanized federal system, multilevel coordination by governments and bureaucrats enforces sectoral fragmentation. Coordination largely proceeds within sector-based, departmental tracks, connecting the European Union with the federal and state levels. It is further reinforced by the so-called 'departmental principle', whereby each German minister is responsible for making decisions within their own area of responsibility. Although prime ministers (chancellor) have the authority to set basic guidelines, the German Basic Law (the constitution of the Federal Republic of Germany) and the state constitutions stipulate that they cannot simply interfere in ministerial domains. The **resulting compartmentalization of government authority** can lead to silos that hinder cross-sectoral coordination, which is essential for establishing a harmonized AI strategy.

3. Under Germany's system of administrative federalism, the states implement federal law in their own responsibility and at their own cost. As most officials are lawyers, the ministerial bureaucracy is shaped by an administrative culture based on the rule of law. This mindset **prioritizes the coherence and certainty of law over policy experimentation**, potentially reinforcing the understanding of AI as a risky technology that requires effective safeguards in order to protect human rights. German bureaucrats are well trained to anticipate and regulate these risks, but must simultaneously keep regulation strategically vague to allow for technological and economic innovation.

An effective regulatory framework for AI requires **a coordinated and consistent** federal governance structure.

The question, therefore, is:

How are the institutions of German federalism adapting to cope with AI as a transformative technology?

> ***"AI is advancing at an uprecendented pace. Federal Systems adapt to external and internal pressures gradually rather than rapidly. Doutbs have been raised about whether federalism is a governance setting fexlible and adaptable enough to address the challenges associated with AI"***

THE FINDINGS

The German AI Governance Landscape

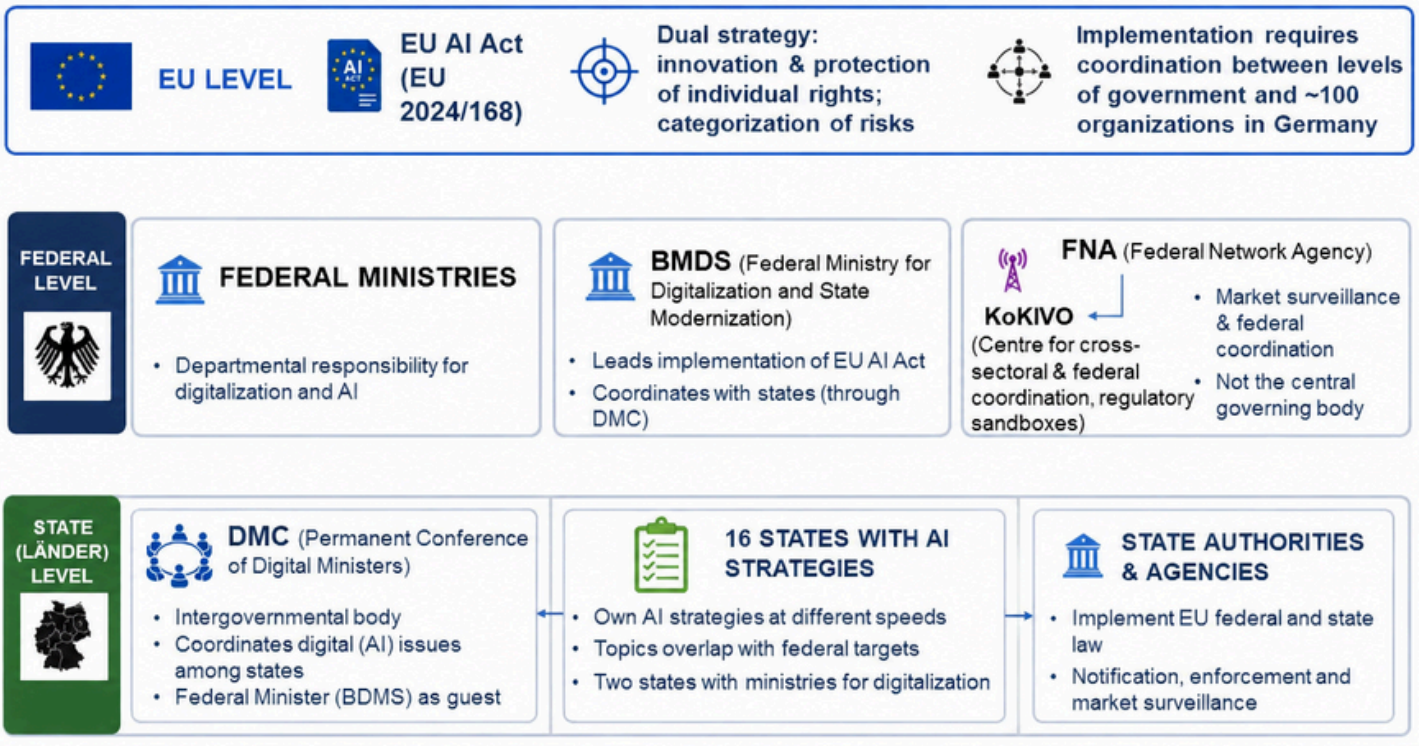
AI governance structures in Germany's federal system have been built in line with the existing institutional framework. Depending on the task in question, responsibility for AI lies with either the federal government or with the state governments, while the EU has created the overarching regulatory framework.

Federal Level

The **federal government** began developing its own federal AI strategy as early as 2018. Updated in 2020, it now covers 12 areas of action. The strategy comprises several measures and initiatives for each specific area, including cybersecurity, regulatory issues, higher education, support for SMEs, etc.

The federal ministries are responsible for monitoring the progress of measures within their own areas of responsibility. They have pursued their AI initiatives according to their own rules and goals. The lack of a consistent approach is reinforced by the 'departmental principle', which has prevented the Federal Chancellery from establishing a robust leadership presence in the AI sector.

AI Governance in Germany's Federal System



THE FINDINGS

State Level

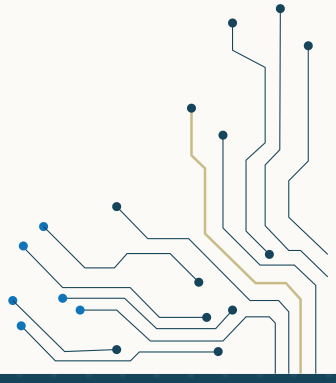
At state level, a wide variety of digitalization and AI policies exist. Eight out of the 16 German states have adopted their own AI strategies. Currently, each state is developing its own initiatives at different speeds, depending on its administrative capacity, expertise, fiscal resources, and political alignment. Some of the fiscally stronger states, such as Bavaria, Hesse, and North Rhine Westphalia, have established their own AI agencies or platforms. Other states have defined AI-related goals and measures as part of their innovation or digital strategies. The topics covered by the states' AI strategies show significant overlap with the federal government's targets. Despite these overlaps, however, **coordination between the federal government and the states has not yet resulted in a consistent nationwide strategy.**

In accordance with Germany's administrative federalism, the states are responsible for implementing the federal AI strategy, leaving room for various approaches. For example, the legal authority to implement real-world laboratories for automated driving has so far lain with the states, meaning that the respective state-level authority must grant applicants an operating license, i.e., a special exemption. Under the current German legal framework, an autonomous vehicle must first obtain an operating permit from the Federal Motor Transport Authority. After that, the relevant state or local authority can approve a specific operating area. However, the lack of expertise at state level has often been criticized for hindering the application of AI regulations.

The European Union

The EU AI Act represents a significant milestone in the regulation of AI. Like the national strategy, it pursues a dual approach. It enables the free movement of data and AI systems within the EU while also seeking to protect fundamental individual rights, such as non-discrimination and fairness. AI systems are classified according to their level of risk, and must meet harmonized standards to comply with legal requirements. High-risk AI systems, such as those used in critical infrastructure, employment, healthcare, and banking, must fulfil a series of requirements to be approved for the EU market. For low-risk applications, limited transparency and information requirements apply. To be enforced in Germany, the EU AI Act requires close coordination between all levels of government (as well as the passing of corresponding German legislation). This will result in a highly complex, federal and sector-based network involving potentially as many as 100 agencies. These networks include EU, national and subnational organizations. Consequently, questions have been raised about the effectiveness of this approach.

Against this background, several institutional measures aimed at enhancing federal coordination have been implemented since 2024.



THE FINDINGS

AI Coordination: Institutional Novelties

Permanent Conference of Digital Ministers

The **Permanent Conference of Digital Ministers** (DMC) was established in April 2024. It is built on the example of the existing intergovernmental councils (IGC) and integrated into the elaborated intergovernmental system, which already comprises around 20 ministerial conferences. The DMC coordinates with the other permanent ministerial conferences, as far as digital (AI) issues are concerned. Although it is designed as a horizontal coordination body, the Federal Minister for Digitalization participates as a guest. Furthermore, the DMC's areas of focus overlap with those of the IT Planning Council, the central political steering body between the federal and state governments in the field of digitalization. Our own evaluation of the DMC's minutes reveals that the body regularly includes AI topics on its agenda.

There are a number of reasons why the DMC's authority appears to be limited. Only two federal states (Bavaria and Hesse) have established ministries dedicated to digitalization. In Schleswig-Holstein, the head of the state chancellery acts as the digitalization minister. In all other states, responsibility for digitalization lies with another ministry or with the state or senate chancelleries. This means that **the DMC comprises actors who may prioritize the topic differently and hold different levels of authority within their cabinets**. Furthermore, **the DMC is not entitled to make binding decisions.** Instead, it has acted as an intergovernmental lobby, vis-à-vis the federal government. To implement the DMC's decisions, its members must rely on the political will of federal and state ministers who are responsible for a variety of policy areas, depending on the agenda item. This reinforces the fragmentation of Germany's AI strategy. Overall, it can be concluded that the DMC still has to establish its role among the various actors and organizations involved in AI governance.

Federal Ministry for Digitalization and State Modernization

Following the 2025 federal elections, a new ministry was established: the Federal Ministry for Digitalization and State Modernization (BMDS). The ministry was set up to give the issue of digitalization greater weight within the federal government. At the same time, cabinet committees comprising several ministries can be established in Germany's government organization in order to prioritize a topic on the political agenda. This instrument, which has already occasionally been employed, could enable the BMDS to solidify the federal AI strategy in collaboration with other ministries.

Only one division, within the 'Economy and Digitalization' department, is explicitly responsible for AI. Notably, the BMDS is leading the implementation of the EU AI Act and the corresponding German draft law, the AI Market Surveillance and Innovation Promotion Act, which was finally adopted by the Bundestag and the Bundesrat in July, 2026. In the field of AI, the BMDS also coordinates its activities with the states (e.g., through the DMC as a guest) and their agencies.

THE FINDINGS

The Federal Network Agency

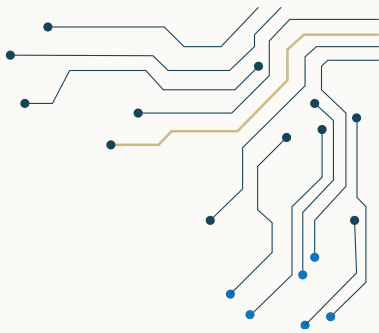
The German draft law implementing the EU AI Act sets out the responsibilities of federal and state authorities regarding market surveillance and notification. It further regulates and establishes provisions for federal cooperation, as well as the necessary rules for administrative sanctions. The **Federal Network Agency** (FNA), founded in 1998, acts as an autonomous federal agency primarily under the jurisdiction of the Federal Ministry of Economics, and is Germany's leading regulatory authority. With extensive experience in market regulation and competition oversight in so-called network markets, it is expanding its responsibilities to the field of AI and is set to play a key role in federal coordination. The FNA's coordination responsibilities stem from the interplay between the EU AI Act and the national regulatory framework. At present, the FNA is setting up the 'Coordination and Competence Centre for AI Regulation' **(KoKIVO)**, which will become a new government agency within the FNA. The KoKIVo is intended to provide necessary expertise, create "regulatory sandboxes" and serve as a cross-sectoral platform facilitating the exchange of information on AI-specific issues between private and public actors, as well as state and federal market supervisory authorities. One of its major goals is to avoid duplicate structures.

The FNA will not become the central governing body in the field of AI. It is neither responsible for Germany's overall AI strategy, nor is it a superior authority with the power to issue binding directives to the states and their sectoral regulatory and oversight authorities.

Technical responsibilities will generally remain with the federal and state authorities, which are still independent. Wide-ranging notification responsibilities will continue to lie with the states, which may lead to divergent priorities and legal uncertainty. Nevertheless, the data protection authorities have heavily criticized the FNA's extensive powers that they see as a weakening of the protection of fundamental rights.

In sum, the **key findings** are:

- AI has not resulted in a centralization of authority. The **architecture of German cooperative federalism has even been extended**.
- Germany's response to AI has been to **increase institutional complexity.** A plethora of organizations and bodies, some of which have partially overlapping responsibilities and personnel, are involved in the coordination process.
- AI regulation largely takes place within **sector-based multilevel tracks and networks**. This **reinforces the fragmentation** and multiplies coordination efforts.



POLICY LESSONS

Clarify and Evaluate Responsibilities in Germany's AI Governance on an Ongoing Basis

Germany's approach has been to integrate AI, as a potentially transformative policy task, into its existing federal architecture. While this has reinforced the characteristics of cooperative federalism, it is striking that gradual change has also occurred. A downside of Germany's approach is that it creates fragmented, partially overlapping and conflicting responsibilities, which may duplicate work and lead to an incoherent AI strategy. As comprehensive constitutional reforms are unrealistic, improvements should be sought within the current governance framework. One suitable method would be to establish continuous feedback loops. An ongoing evaluation of Germany's sophisticated AI governance by an advisory board comprising independent legal, organizational, and IT experts could help to monitor progress and identify flaws in Germany's federal governance of AI. The board's primary responsibility will be to ensure that the governance framework remains flexible enough to keep up with the rapid evolution of AI. While remaining an independent body, the board could be attached to the BMDS.

Vest Ministries Responsible for AI with an Explicit Role in Inter-Ministerial Coordination

The German case illuminates the complexity of coordinating AI as a cross-cutting policy within the long-established, sector-based, multilevel channels and networks. The current governance setting collides with the steadily increasing **need for harmonized regulatory approaches in the digital and AI sector**. Within the German governments, the responsibility for AI is divided among various ministries. However, the issue requires more visibility and the bundling of expertise. To ensure that AI issues are coordinated more coherently, and that dedicated authorities are involved in the various multilevel coordination bodies, the authority of digital ministers within the state governments should be elevated. Furthermore, cabinet committees could be used more extensively in the field of AI to overcome compartmentalization and prevent 'siloes' within the federal and the state governments.

Create a Hub for AI Laboratory Federalism to Enhance Learning and Experimentation

Although AI requires standardization and interoperability, its application as a new technology opens up a wide field for experimentation and mutual learning. Compared to other federal systems that grant greater legislative autonomy to the states ('self-rule'), **German federalism offers limited opportunities for policy experimentation**. To enhance the laboratory function of federalism in the field of AI, policy makers should be able to compare various approaches and adapt best practices to their own needs. Ideally, this would result in a harmonized AI strategy while avoiding high coordination costs. While the KoKIVO could provide the necessary overarching expertise, **the responsibility for establishing a hub for laboratory federalism lies with the states**. Therefore, a flexible organizational structure must be found to integrate experts and state representatives (e.g., through the DMC) into such a hub.

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