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The *Energiewende* – or: how not to do it

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The *Energiewende* – or: how not to do it

Bonn, 3 September 2012. Since Norbert Röttgen's dismissal as German Environment Minister, his successor, Peter Altmaier, has put the country's *Energiewende*, or change of energy policy, on the agenda where it should have been from the outset: right at the top. And in May Chancellor Merkel called a time-out from attempts to rescue the Euro to hold talks with the Federal Network Agency for Electricity, Gas, Telecommunications, Post and Railways (*Bundesnetzagentur*). After all, the *Energiewende* will succeed – according to the second grid study by the German Energy Agency – only if an additional 1,700 to 3,600 km of extremely high-tension power lines are installed and the existing grid is also optimised. But one thing at a time.

During the campaigning for the elections to the North Rhine-Westphalian state parliament in the spring of 2012 the CDU's leading candidate and then Environment Minister, Norbert Röttgen, claimed the increase in the use of renewable energy sources (RES) in Germany as a personal success of his period in office. What he failed to mention was that the political parties forming the present government had refused to approve the Renewable Energies Law (EEG) – the basis of Germany's successful increase in RES use – in the German parliament, the *Bundestag*, in the spring of 2000.

Although RES accounted for 20 percent of the electricity generated in 2011, Germany is ill prepared for the *Energiewende*. And that has something to do with the present government's misguided energy policy. Until the nuclear disaster in Fukushima, Germany's energy policy was very heavily biased towards nuclear energy. This was evident both from the withdrawal of the nuclear phase-out that was negotiated under the red-green coalition government and from the massive growth in the funds devoted to nuclear and fusion research – a trend that continues even now. It would be better, then, to call the post-Fukushima reversal of the nuclear phase-out an energy U-turn; the real shift in energy policy began in 1999/2000 with the 100,000-roof solar power programme, the EEG and the start of the phase-out of nuclear power.

The German government made its first cardinal error in the energy policy field in May 2010, when Finance Minister Schäuble cancelled the € 115 million Market Incentive Programme (MAP) for short-term cost-cutting reasons. It should be pointed out that, as the MAP generated eight to ten times that amount in private investment for measures to encourage the use of RES in the heating market, it virtually finances itself from tax revenues. By the time the funds were released by the *Bundestag's* Budget Committee, the renewable heating market had almost completely collapsed and was subsequently very slow to recover.

In recent years the legislative politicking over the EEG has led to a sharp reduction of the feed-in tariffs for photovoltaic electricity generation – well above the agreed depression, since the dumping policy pursued by Chinese producers resulted in a steep decline in the prices of photovoltaic modules. This is, in principle, to be welcomed, since it will lead to lower power-generation costs and the earlier grid parity of solar electricity. But the latest amendment of the EEG stipulates that payment will be restricted to 90 percent of solar electricity generated. If, then, a (more expensive, German-made) photovoltaic unit operating at a higher degree of efficiency has hitherto generated more power over a lifetime of 20 years and so produced a greater return on the original investment, that incentive will now no longer apply because of the 90 percent rule. This will make it easy for inferior products, mostly manufactured in Asia, to succeed in the German market.

Quite a few leading FDP (Liberal) politicians have now gone so far as to call for the repeal of the EEG and the introduction of a bidding or quota model, even though an EU15-wide research project was showing as long ago as the late 1990s that bidding or quota models of the kind widely used in Britain and the Netherlands had resulted in neither an appreciable increase in the use of RES nor the development of a domestic RE industry.

A spurious argument constantly advanced for the repeal of the EEG is that it drives up electricity costs. What is not mentioned in the debate is that

power-intensive industry is exempted from the EEG levy. In 2012 alone that exemption will benefit German industry to the tune of € 2.5 billion – and rising. Without that entitlement the EEG levy would have been almost 19 percent lower. While it has been in power, the German government has raised the number of companies benefiting from the Special Compensation Scheme to over 2,000.

A state-guaranteed return of 9 percent. That sounds like good business. But this is not a guaranteed profit for operators of RE units. It is the 1,600 operators of electricity and gas networks who are receiving a guaranteed rate of return on their capital of 9.05 percent. Despite this, the Dutch company Tennet, which operates, among other things, the North German grid and is responsible for connecting up the offshore wind farms, is having difficulty coping with this mammoth task in spite of the guaranteed return. Meeting at a mini-“crisis summit”, the German and Dutch Economics Ministers therefore decided that Tennet would be allowed to raise private capital for future investments. And just last week the German Cabinet tabled a draft law limiting the liability of the grid operators and requiring power consumers to foot the bill.

Owing to the mistakes it has made in the past under its energy policy, the German government was ill prepared for the *Energiewende*. An added factor was the former Environment Minister’s inability to get his own way. In his first hundred days in office Minister Altmaier, on the other

hand, has put up a brave fight. He now has a year until the next *Bundestag* elections to get the *Energiewende* going. The priorities have been defined: grid expansion, connection of the offshore wind farms and sustainable RES expansion in a way that does not drive yet more German companies into insolvency. And let us not forget about energy efficiency. There is still huge potential, particularly in the building sector.

If there is to be an *Energiewende*, the necessary steps will have to be taken: phase-out of fossil fuel subsidies, redirection of the energy research budget to renewable energy sources and energy efficiency technologies. And finally, the government must come clean about the price of the *Energiewende*, because it won’t come free.

If Germany succeeds with its *Energiewende* and shows that competitiveness, employment and climate protection can all be achieved together, it will have its imitators – and they will also be found in many developing countries and emerging economies. The *Energiewende* is therefore very important for development policy. Germany is already one of the world’s largest financiers of climate protection, and strategic cooperation with developing countries and emerging economies must be increased against that backdrop. The formation of trail-blazing alliances, primarily with developing countries and emerging economies, can only accelerate the transformation to a climate-compatible global economy.



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