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Energy subsidies: more honesty, please

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Energy subsidies: more honesty, please

Bonn, 22 October 2013. As is the case every year, mid October saw the four German power grid operators publish their forecast for the apportionment that electricity consumers will have to pay for the coming year as per the Renewable Energy Sources Act (*Erneuerbare-Energien-Gesetz*, EEG). The media outcry was particularly loud this year, as the apportionment is set to increase from the previous level of 5.277 € cents to 6.24 € cents per kilowatt hour.

The prompt response of various German actors in fields such as politics, business and the media was to demand the reform or abolition of the EEG. Their argument was that support of renewable energy sources in this form is no longer financially feasible. However, this form of argument needs to take into consideration energy subsidies in their entirety. The problem is that this is not in the interests of those in favour of traditional forms of energy, including EU Energy Commissioner Oettinger.

Shortly before the announcement of the new EEG apportionment the *Süddeutsche Zeitung* reported that Oettinger had a report from his own Directorate-General amended to remove every reference to the amount of state energy subsidies. The reason: as a critic of renewable energy sources, it was not advantageous for Oettinger to concede that the 27 countries of the European Union spent 35 billion € on nuclear energy and 26 billion € on fossil fuel power plants in 2011 - compared to 30 billion € for the support of renewable energy sources. This is joined by billions in further, indirect costs for generating energy from coal and gas that are merely recorded as footnotes to the report.

Viewed from a global perspective, the discrepancy between energy subsidies for traditional forms of energy and the support provided to renewable energy sources is even more dramatic. Because in spite of the G20 resolution of 2009 to remove energy subsidies for inefficient fossil fuels, according to the International Energy Agency (IEA) these

have risen to a record level of 523 billion USD – six times as much as the worldwide support for renewable energy sources. One frequently-heard argument in favour of subsidies for fossil fuels in developing countries and rising powers is that this helps to improve the living conditions of the poor by giving them access to a basic supply of energy. However, this argument has been effectively refuted. Calculations of the IEA indicate that in 2010 just 8 % of fossil fuel energy subsidies reached the poorest 20 % of the population. Those benefiting from subsidised energy are found primarily in the middle and upper echelons of society, as these tend to consume more energy. Subsidies of fossil energy are not sustainable, neither from ecological or economic viewpoints, nor with regard to social aspects.

As a consequence, the following applies for industrialised countries as well as developing countries and rising powers: as long as traditional forms of energy are kept artificially cheap through subsidies renewable energy sources will find it difficult to establish themselves on the market. The most successful global instruments for the introduction of renewable energy sources are guaranteed feed-in tariffs as implemented with the German EEG. Nevertheless, there is also a need for reform here. Fact is, the EEG apportionment has increased continuously in Germany in recent years. It is also true that the increased feed-in of electricity generated from renewable energy sources has led to a fall in prices at the electricity stock exchange, but that electricity prices for small consumers have nevertheless not declined.

There are three aspects that should not be forgotten in an EEG reform. Firstly, the German CDU-FDP government bears a major responsibility for the forthcoming increase, as a consequence of their extending the exemption from the EEG apportionment to around 2,300 electricity recipients. This compensation scheme is responsible for an increase of 25 %. However, the political insignificance of the FDP following the German parlia-

mentary elections of 22 September 2013 is now becoming apparent: in a recent address to the *Industriegewerkschaft Bergbau, Chemie, Energie* (Mining, Chemical and Energy Industrial Union), Chancellor Merkel spoke of only exempting those industries from the EEG apportionment which face international competition.

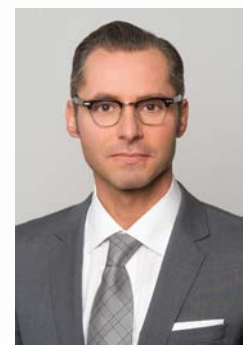
Secondly, Germany could take lessons from rising powers such as China, India and South Africa with regard to the fact that the tariff auction systems applied in those countries lead to an automatic adjustment to dramatically falling technology costs, rendering the support scheme as a whole more flexible.

Thirdly, those calling for the abolishment of the Renewable Energy Sources Act in Germany or the global removal of support for renewable energy sources must also call for the removal of the many-times-higher subsidies for nuclear and fossil energies. Anyone looking to establish fair competitive conditions between traditional and renewable energy sources cannot fail to address this issue.

However, even if subsidies for fossil energies are reduced or removed, the necessary transformation of energy systems as called for by the German Advisory Council on Global Change (*Wissenschaftliche Beirat der Bundesregierung Globale Umweltveränderungen, WBGU*) will not result in success in the short term – in Germany or worldwide. On the one hand, existing coal-fired power plants

will remain on the grid for forty to fifty years. On the other hand, since the beginning of the 21st century we are witnessing a renaissance of coal – particularly in developing countries and rising powers. In order to continue to depend on coal-fired power plants in the future the energy industry has long promoted carbon capture and storage (CCS) as a means of separating climate-harming greenhouse gases. However, CCS has failed to make decisive progress in recent years, in spite of millions in research subsidies. Norway recently abandoned the project of the world's largest CCS plant in Mongstad due to the high costs. "Clean coal" remains a utopia.

The call to abandon energy subsidies of all kinds remains the right one, but is only capable of being achieved in the medium to long term. The respective economic interests of the players concerned are simply too great. For Germany and Europe, those that wish to reduce support for renewable energy sources must also be prepared to reform the system of subsidies for fossil energy, as well as the European Union Emission Trading System (EU ETS). The excessive allocation of emissions entitlements and less-than-ambitious reduction goals resulted in very low certificate prices; with the result that there is no incentive to switch energy carriers from traditional to renewable energy forms. Quite the opposite, the generation of energy based on fossil fuels has even increased.



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