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Thesis: The price of sustainability in energy policy is proper regulation and wide participation

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For years to come, the German energy market is going to be an economic laboratory of extra large dimensions. By 2022 nuclear power plants, which still account for 15 percent of the power supply, will have to be substituted by renewable energies. On top of that, by 2025 the renewables will have to account for 40 percent of the over-all electricity production. This decision of the government, the so-called “Energiewende”, was triggered by the nuclear catastrophe of Fukushima which brought home to everyone the vast ecological consequences in the - admittedly rare - case of a technical failure of nuclear power production. There was no underlying strategy or masterplan for this decision at the time. But it is still supported by an overwhelming majority of the people as it ended a social polarization that characterized decades of outright conflict within Germany’s society.

To accomplish such a swing in such a short period of time you cannot rely on market mechanisms alone. You have to implement a forceful regulation of the energy sector with adequate feed-in tariffs to encourage investment in renewable energies on a large scale. In addition, this regulation has to make sure that inevitable investments in energy infrastructure like grids and off-shore transformation stations come

forward. And it does happen. Billions are invested and have triggered a remarkable economic growth in the renewable sector and in many parts of the country. Private and public research funds have been concentrated in this sector, thus creating an industry of its own. So much for the positive side.

On the negative, it is not yet known by which dimension this regulation is undercutting growth in other sectors, particularly energy intensive industries. One cannot draw the balance sheet of the “Energiewende” so far. This is due to the fact that the chosen sort of regulation puts the costs on the users of energy and not the on the national budget. This leads to the fact that due to rising energy prices the revenue income of the state is also rising, contributing to a very high level of energy prices in Germany.

There is an alternative to this: reduce tax on energy. So, assuming that you can achieve a swift change of energy policy only by means of implementing regulation, it melts down to the question: who is carrying the burden of policy induced market changes?

Another feature has become obvious. There is no successful change of strategy without a wide participation of stakeholders. In Germany, a vital grid project of the “Energiewende” has been stopped recently due to the protest of a coalition of politicians, environmentalists and landowners. New strategies need to be developed for the participation of those involved, including economic participation and the acceptance of higher costs of investments in order to make them happen.

Conclusion: For a project like the “Energiewende” or any other strategy to increase the share of renewable energies above usual market levels there has to be a market design that includes all costs of production, consequential charges and taxation. In effect this needs to be a regulation on the basis of conclusive and consistent policy decisions.

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