

Germany on energy zigzag course

Chancellor Angela Merkel may have taken Germany, Europe's largest economy, back to the political centre stage, but the German government has yet to develop a coherent energy strategy that would put the country in a comfortable position for the future. EER's correspondent in Berlin, Stefan Nicola, spoke to experts and politicians about Germany's energy strategy – or lack thereof. 'If there is an energy crisis or a battle for resources, Germany is at the bottom of the list,' warns one expert.

| *By Stefan Nicola*

It's August in Greenland. The wind is icy, making the cheeks of the 53-year-old woman as red as the thick wind jacket she is wearing. German Chancellor Angela Merkel is visiting Ilulissat, with 4,500 inhabitants the third-largest city on the island of Greenland, where the effects of global warming are the most visible in the world. Over the last decade, the temperature there has climbed by over 1.5 degrees Celsius, roughly twice the average global increase, causing glaciers to retreat by an average 240 cubic kilometres a year. Merkel has come to Greenland, a self-governing Danish province located between the Arctic and Atlantic Oceans, at the invitation of the Danish Prime Minister Anders Fogh Rasmussen, and she has brought along German Environment Minister Sigmar Gabriel, who is wearing the same red wind jacket that contrasts so well to the backdrop of ice and snow. The trip, carefully chosen shortly before the end of the political summer break, shows what topic currently dominates Germany's energy strategy: climate change.

'Currently, most of the energy strategy decisions taken by the German government are driven by the fight against global warming,' says Susanne Droege, an energy expert at the German Institute for International and Security Affairs (SWP), a Berlin-based think tank that advises the German government, in an interview with EER.

In 2007, Germany took over the European Union and G8 presidencies, and Merkel, who in the 1990s was herself an environment minister, put climate change at the top of both presidencies' agendas. Energy experts have since praised her achievements at two high-profile summits. In March, Merkel put the EU in the green movement's driver's seat when she managed to convince the 27 EU leaders to agree to reduce greenhouse gas emissions by 20 percent, raise the share of renewable energy sources to 20 percent of the body's overall energy consumption and increase energy efficiency by 20 percent by 2020. At the G8 summit in Heiligendamm, Merkel even sweet-talked U.S. President George W.

Bush, who has long opposed negotiated limits on the greenhouse gases blamed for global warming, to agree to take 'strong and early action' to combat climate change and to 'seriously consider' halving greenhouse gas emissions by 2050.

In September, the German cabinet also agreed on a new set of domestic climate protection measures. The programme is aimed at cutting Germany's greenhouse gas emissions by 40 percent from 1990 levels by 2020. 'We want to be the international leaders when it comes to climate protection,' says Frank Schwabe, a young lawmaker for Germany's centre-left Social Democratic Party (SPD), and one of the group's rising stars on energy issues. In the past, the SPD has called for extensive climate protection measures, some of which have gone too far for Economy Minister Michael Glos, a senior politician among Merkel's conservatives, who observers say because of the nature of his political brief fosters closer ties with the German industry than Gabriel does. 'Merkel really wants to work for climate protection,' Schwabe says. 'A lot of measures fly only because Merkel guards Gabriel's back. If that wasn't so, Glos might have the upper hand in many decisions.'

However, Droege observes, an efficient climate protection strategy is not necessarily the same as a good overall energy security strategy. Such a strategy, she believes, is sorely lacking at the moment. 'Of course, greater energy efficiency and the push of renewable energy sources help Germany's energy security. But we will need fossils for a while, and considering climate protection aspects, you need to choose natural gas versus coal, for example. But if you consider Russia to be a potentially unstable supplier, then it is naturally wrong to focus on Moscow for most of the deliveries. So that's where the two strategies conflict.'

Claudia Kemfert, analyst at the German Institute for Economic Affairs and one of Germany's leading experts on energy and

climate change, goes even one step further. 'Germany's energy policy is on a zigzag course,' Kemfert says. 'Berlin advocates a series of different approaches – also good ones like the push of renewable energy sources – but has failed to come up with a coherent strategy that looks at the entire picture.'

One reason for this is that the German government, an unlikely team-up of traditional rival parties CDU and SPD, harbours strongly divergent opinions on key energy issues.

One issue where the two parties are at loggerheads behind the scenes is the planned phase-out of nuclear energy in Germany by 2021.

A second reason for the lack of an energy policy, Kemfert and others believe, is that Germany is the only country among the 12 largest OECD countries, along with Japan, that does not have a national oil company, or a domestic firm that produces oil in a foreign country (with the exception of the RWE-subsiary Dea and Basf-subsiary Wintershall, both of which are relatively

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small oil producers. This irritates Kemfert and some of her colleagues, like Enno Harks, oil expert at the SWP. Because it lacks a national oil company, Germany 'has no influence on the production in the producing countries, it can't raise the transparency of the oil market through its own lawmaking, it can't influence the geographic location of the production, its own imports or conditions of trade, and unlike its partners, Germany cannot conduct energy foreign policy through a company,' writes Harks in the SWP study 'The global oil market,' which was published in-house in May.

Not having a national oil company is 'a big strategic disadvantage,' Kemfert agrees.

'Other countries in Europe, like France, are much better positioned, and that not only applies to the oil sector but also for other resources, like water. If there is an energy crisis or a battle for resources, Germany is at the bottom of the list.'

Kemfert would like to see Germany create an Energy Ministry, where strategic decisions are drafted and taken. Currently, energy issues are handled by the Ministry of the Environment (responsible for energy efficiency, renewables and nuclear energy), the Ministry of Economic Affairs (responsible for energy markets and the electricity and gas grids) and the Ministry of Science (responsible for the support of new energy technologies).

'The fact that Germany has no Energy Ministry is just another sign that the politicians do not regard energy security as an important enough issue', says Kemfert. On the subject of German energy security, there is an 800 pound gorilla you cannot ignore: Russia. Germany imports a third of its oil from Russia, and more than half of its natural gas. The Russian-German energy relationship, it must be said, has worked flawlessly for the past two decades. However, Russia's image as a dependable supplier is being questioned ever since Moscow temporarily shut off Ukrainian gas supplies in early 2006. Critics have accused Russia of using its energy assets as a foreign policy weapon against former

unwillingness to ratify the Energy Charter, an international agreement aimed at integrating the energy sectors of the former Soviet Union and Eastern Europe into the broader world market. Under Chancellor Gerhard Schroeder, Merkel's predecessor, German-Russian ties reached their zenith. Shortly before Schroeder lost the general election, he and Russian President Vladimir Putin struck a deal that both leaders hailed as beneficial for German energy security. This is the controversial German-Russian plan to build a gas pipeline under the Baltic Sea. Stretching 750 miles, from Vyborg near St. Petersburg to Greifswald in north-eastern Germany, the Baltic Sea pipeline is scheduled to go into operation in 2010 and would then tap into the giant Yuzhno-Russkoye field, which has an estimated annual output of 25 billion cubic metres of natural gas.

While observers have said that the tone between Berlin and Moscow has become slightly terser since Merkel criticised Russia's democratic shortcomings during meetings with Putin, the overall German strategy has not changed much. Berlin still supports the Baltic Sea pipeline, and the SPD-half of the government 'still banks on inclusion' of Russia, as Schwabe puts it. One of the main architects of Germany's Russia policy is Foreign Minister Frank-Walter Steinmeier, who headed Schroeder's chancellery from 1999 until 2005.

'Key questions of today's policy cannot be answered without Russia or by bypassing Russia,' said Steinmeier in early September. 'We must not allow Russia to become increasingly isolated.'

Several Eastern European countries, however, have harshly criticised Germany for what they see is a Russian policy that sidelines smaller countries in Eastern Europe. The Baltic Sea pipeline is a particular source of concern, as it bypasses Russia's traditional transit countries Ukraine, Belarus and Poland, stripping them of important transit fees. Even experts say the pipeline project does not make much sense. 'I think it's a strategic mistake to build an expensive

pipeline under the Baltic Sea,' Kemfert says. 'Because of rising gas prices, liquefied natural gas will soon dominate the market, so Germany should have built LNG terminals.'

For the past three decades, an LNG terminal has been on the cards for the German North Sea port of Wilhelmshaven, but it is still waiting to be built. 'France is much cleverer in that respect,' Kemfert says, pointing to the state-supported merger of Gaz de France and Paris-based Suez, which will create one of the biggest energy conglomerates in Europe and 'one of the most important players on the LNG market.'

'Yes, Russia will probably be a reliable supplier for the next few years,' Kemfert says. 'But rising oil and gas prices will eventually damage European economies, so the question is: Do we want to make

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Soviet republics that have turned to the West. Russia, however, contends that it is merely asking these states to forgo preferential rates on energy and pay what the rest of Europe does.

Yet various affairs, such as the brutal confiscation of oil company Yukos, have increased public unease in Germany over Russia as a reliable partner. So has Russia's



ourselves dependent on such potential economic threats?’

In the past, experts have advocated for Europe to speak with a unified voice toward Russia, especially in deals with powerful state-controlled energy giant Gazprom. Dieter Helm, an economist at Oxford University, argues that this strategy has been thwarted by national governments, such as the one in Berlin, which pursue their individual energy security strategy toward Russia. Instead of continuing with that tradition, Europe should draft a coherent strategy toward Russia that ‘would give real meaning to the solidarity that former eastern Europeans craved from membership (having experienced energy dependency in the raw during the cold-war era),’ Helm wrote in a commentary for the Britain-based political forum opendemocracy.net.

In mid-September, the European Commission for the first time drafted such a coherent strategy, particularly aimed at ‘unbundling’ and a unified policy towards Russia. But while Berlin probably does not mind addressing Russia with one European voice, it has so far responded coolly toward Brussels’ unbundling plans. Four large energy companies – Eon, RWE, ENBW and Vattenfall Europe – dominate the German market and they would prefer to keep the networks in their hands. So far, they have received backing from Berlin. However, all experts and politicians agree that the grids must be updated to be able to cope with the increasing share of renewable sources in power generation. ‘Some of the German networks are so antiquated that they should be completely rebuilt,’ Droege says. ‘For that, the state or the EU needs to create the incentives. So far, unbundling

was a taboo topic in Berlin. But who knows – that may change.’

Even Schwabe, the SPD lawmaker, admits that German energy strategy is not always coherent. ‘On the one hand, we want to have national champions that can negotiate with the likes of Gazprom, and on the other hand, we want a liberal, decentralised market economy,’ he says. ‘At the moment, we have something in between, and almost everyone agrees that this is not the best solution.’

So will Germany follow the British model and completely liberalise its energy sector, supporting the unbundling of its large players and crushing what experts have called an oligopolistic German market? Or will it follow France’s example, supporting the merger of large companies into energy champions that can negotiate at the same level with the likes of Gazprom? ‘Right





Power lines in Hagen, Germany. Photo: Guido Cozzi/Corbis.

now, no one knows which direction the pendulum will swing,' Schwabe says. 'The discussion will become really interesting if Gazprom one day sends a takeover offer for, let's say Eon. Then we'll surely have a heated debate.'

So is there nothing new in Germany's energy strategy? Yes, there is. While the German discussion about the structure of the energy market to some extent reflects a growing general insecurity in Europe about energy strategy, Berlin has recently also come up with some ambitious strategy updates that take into account changing realities and are intended to diversify Germany's energy cooperation.

After an extensive climate change and energy security trip that took him to Norway and the US state of California, Steinmeier, the German foreign minister, advocated for Europe – and especially Germany – to form stronger energy security ties with the United States. 'We need to protect our common energy supply

interests,' he said. 'The United States and Europe will need each other even more in times of globalisation.'

Germany has already announced it wants to form a 'coalition of goodwill' with California to jointly combat global warming. Steinmeier praised the climate protection efforts of California Governor Arnold Schwarzenegger and said the establishment of a joint emissions trading scheme involving the western US state could be a precursor to a 'global emissions trading market we desperately need.'

In other regions, however, Germany and the United States may be competitors. In February 2007, Steinmeier travelled to Azerbaijan, Georgia and Armenia in the Caucasus, and in late 2006 to Central Asia, two regions the West are currently wooing for energy cooperation.

In Azerbaijan, a potentially important supply and transit country, Steinmeier not only met with President Ilham Aliyev, but also with Rovnag Abdulayev, the head of the state-owned oil and gas firm SOCAR.

Central Asia is even more attractive. In late 2006, Steinmeier travelled to Kazakhstan, Uzbekistan, Turkmenistan, Tajikistan and Kyrgyzstan. 'Central Asia has long been uncharted territory,' he

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said, adding that it was in Germany's and Europe's interest to play a larger economic role in the region. And there is the hope that Iran will become politically acceptable and turn into a gas supplier. 'No one in Berlin wants to write off Iran,' Droege says. 'Everybody hopes that the political situation there will improve.' If that happened, German energy future would start to look a lot less gloomy. ■