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PROSPECTS FOR GERMAN FOREIGN POLICY

## Germany's Foreign Policy and the "Energiewende" – Action Areas and Approaches

Christian Hübner

The manner in which the implementation of Germany's transformation of the energy system (*Energiewende*) is being achieved is characterised by a considerable dynamic. There are no blueprints for Germany to refer to. In addition, this shift in energy policy is taking place at a time of great economic and thus geopolitical change in the global energy landscape. Thus, the need has arisen for Germany to articulate its foreign policy regarding this energy transition, and to take care to efficiently incorporate the shifting energy policies in the European and international arenas while considering domestic policy developments.

### Contact person at the Konrad-Adenauer-Stiftung

Dr. Christian Hübner  
Environmental, Climate and Energy Policy Coordinator  
Department of European and International Cooperation  
Phone: +49(0)30 2 69 96-35 74  
Email: christian.huebner@kas.de

### Postal address

Konrad-Adenauer-Stiftung, 10907 Berlin

[www.kas.de](http://www.kas.de)  
[publikationen@kas.de](mailto:publikationen@kas.de)



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## INTRODUCTION

In Germany, there is an increasing political realisation that an energy transition cannot be designed with only domestic policy considerations in mind. With the resolution for its energy system to undergo a nearly complete transformation towards renewable energy, Germany has reclaimed its position as one of the leading industrialised nations in the world. And now great attention is being paid to how we have organised this process. For international observers, it is less a matter of interest about Germany's climate change policy motivations than it is about the question of what the likely overall costs to society will be for entering the age of renewable energy compared with its benefits. If this results in a positive cost-benefit ratio, the attractiveness of the German model to the international community will grow.

Current global demand for energy is characterised by continuous growth. Among the significant factors contributing to this are the growing world population, the effects of urbanisation and the emergence of newly industrialising countries such as China or India. In addition, industrialised nations are slowly recovering from the effects of the financial and economic crisis. This process is accompanied by a rapidly changing global energy policy landscape. Industrialised nations are configuring their energy supplies with a greater degree of autonomy by increasing energy efficiency and through increased use of domestic, though more expensive, and unconventional energy sources, such as shale gas. Emerging nations are advancing to become consumer powers and are increasingly dominating the global energy demand for fossil fuels. It also appears that climate protection efforts at the multilateral level have hardly achieved any progress, though progress is being made on the national and federal level. In addition, it should be noted that the area with the highest rate of expansion is that of renewable energy, a position which no longer belongs to fossil fuels.

Germany, which has not occupied a dominant role either as a consumer or a supplier in the sphere of international energy policy, nevertheless has a vital interest in securing its national energy supply as an industrialised nation and should aim to integrate its transition to renewable energies with the changing global conditions as efficiently as possible. For Germany, this has resulted in the need to articulate and implement a German "Energy Transition Foreign Policy" (*Energiewende-Außenpolitik*). Initial considerations on this foreign policy agenda are due to come up in various contexts. However, above all else these have so far been rooted in the framework of an environmental and climate change policy. With some exceptions, more in-depth examinations that address and coherently incorporate the issues of securing the

energy supply and the economic viability in an international context are few and far between. For this reason I have outlined and specified in detail three action areas for a German foreign policy regarding its energy transition. The first action area deals with energy policy challenges within the EU, the second with the EU's external energy relations and the third with international energy governance and emerging nations.

### ACTION AREA 1: ENERGY POLICY IN THE EU

- Positioning for maintaining the three objectives of climate protection, expansion of renewable energy sources and increasing energy efficiency in terms of the European debate regarding the 2030 framework for energy and climate.
- Increased commitment towards deeper integration in the EU internal energy market and emphasising Germany's significance as an electricity transit country.
- Further developing bilateral energy partnerships.

Despite having always been one of the cornerstones of European integration, lately, European energy policy has seen a fundamental increase in importance with the Treaty of Lisbon. Article 194 of the Lisbon Treaty grants the EU a clear legal foundation which now forms the basis of energy policy measures. In doing so, they can take an active role in (i) securing energy market operation, (ii) ensuring the security of energy supplies, (iii) promoting energy efficiency and (iv) fostering the interconnectivity of energy networks. At the same time, however, it should be noted that the focus of this energy mix remains rooted in national sovereignty. For Germany's foreign energy policy within Europe, this has resulted in an initial framework that includes limits and offers opportunities.

### Climate and Energy Targets for 2030

A fundamental debate on the focus of future energy and climate policy is currently taking place in the EU. The EU Commission has initiated a dialogue meant to urge EU Member States to take a position. The EU's previous climate and energy goals provide a framework up to 2020. They are now being expanded to include goals for 2030. This is primarily set against the backdrop of competitive issues that have shaped the political debate within the EU in the face of the economic and financial crisis. Setting targets for 2030 will create security for investment in EU energy infrastructure, but also in research and development in the field of low-carbon technology. In addition, a new international climate protection treaty is expected in 2015, for which the EU must prepare a unified stance. So far only a few EU Member States have weighed in on the current debate on the further



development of climate and energy targets. For example, the UK only wants to advocate for one additional goal – greenhouse gas reduction. Thus the goals of reducing energy consumption and expanding the use of renewable energy sources will presumably no longer be explicitly called for politically at the EU level. In view of the climate policy agenda that has reigned in the EU up to this point, this is tantamount to a political paradigm shift. During this process, a German foreign energy transition policy aimed at the EU that keeps in mind the goal of a shift in energy policy should advocate for the perpetuation of the three targets: expansion of renewable energy, reduction in energy consumption and reduction of environmentally damaging greenhouse gases. The German shift in energy policy will face even more difficulty at the EU level the greater the difference between the EU's objective and the federal government's objectives becomes. For this reason, Germany must become even more engaged in bilateral partnerships in the EU in order to politically and technologically flank its energy objectives. Recent initiatives, such as the establishment of a German-French coordinating body for renewable energy or the first meeting of the German, French and Polish ministers for the environment as part of the "Green Weimar Triangle", are promising.

#### **Internal Energy Market and Germany as an "Electricity Transit Country"**

A comprehensive European energy infrastructure and a functioning internal market for performance-based electricity and gas energy sources are essential prerequisites for the success of Germany's energy transition. Indeed, from a regional perspective Germany is closely connected to the electricity networks of its European neighbours, enabling the continued import and export of electricity. However, the advantages of this flow of electricity, which include securing the national energy supply – for example, if in Germany the electricity is not sufficient to serve the domestic demand – may be countermanded by economic distortion and network destabilisation in direct neighbouring countries in Europe in the form of exports of surplus renewable energy sources from Germany. Thus Poland wants to prevent the flow of renewable energy Germany directs to southern Germany using the Polish networks. At the same time, Germany's renewable energy sources subsidised through the Renewable Energy Act (EEG) may lead to a serious competition issue in Europe, e.g. vis-a-vis gas-fired power plants that may then no longer be economically feasible. For Germany, this has resulted in a problem with acceptance of energy transition in Europe. Because of this, resolving this regionalisation through increased expansion of the internal energy market for electricity and gas across the EU is necessary. Surplus renewable energy from Germany could then be optimally distributed to all EU Mem-

ber States. Ultimately even shortages in energy supply that are likely to appear in some EU Member States would be reduced by an increased aggregate supply of energy. In this context, Germany will have to develop a more distinctive awareness of its role as an electricity transit company in Europe. Once the large electricity grid projects included in the plans for carrying out this shift in energy policy in Germany have been completed, Germany will be in a position to transmit extensive amounts of fluctuating renewable energy within Europe. In the process, Germany's dependence on European energy networks will decrease. In return it is even expected that other European Member States will take great interest in our power lines. A new north-south axis current is possible. Only the question of how Germany will handle nuclear energy imports once it completely pulls out of nuclear energy production in 2022 remains difficult to answer.

#### **ACTION AREA 2:**

##### **EU EXTERNAL ENERGY RELATIONS**

- Intensifying diversification efforts in the field of EU energy imports in order to secure the energy supply: new gas pipeline connections in the short-term, renewable energy imports in the long-term.
- Supporting initiatives such as DESERTEC or the Mediterranean Solar Plan, for example, in the form of a targeted energy development policy.
- Political accompaniment of possible electricity imports from the MENA region through early dialogues with European electricity transit countries such as Spain or Italy.
- Exploring shale gas import options within the framework of TTIP negotiations between the EU and the USA.

In 2011, the EU Commission brought forward a comprehensive plan to further develop the EU's external energy policy. It included the development of the external dimension of the EU internal energy market; strengthening partnerships for more secure, sustainable and competitive energy sources; improving access to sustainable energy sources for developing nations and improving the promotion of EU policies beyond the EU's border. At the same time, the EU produced a number of bilateral agreements. Important strategic dialogue forums or EU treaties are in place with Norway, Russia, the Organization of the Petroleum Exporting Countries (OPEC), the U.S., Brazil, Ukraine, the Caspian region, the Middle East and the Persian Gulf, the southern Mediterranean, China and India, among others. The EU Commission wants to use their proposal to achieve a greater degree of coordination among its Member States concerning European external energy relations. The extent to which this will be successful remains to be seen, though the advantages are obvious: as an aggregate consumer of energy, the EU has



more political weight than its individual Member States. Thus it may be possible for Germany to introduce its energy transition interests into European external energy relations more actively.

### European Energy Supply Corridors

Europe's increasing dependence on energy imports has become a challenge for Germany and is one of the reasons Germany is pursuing the increased use of domestic renewable energy sources. Restricting options for importing fossil fuels during the transition period in particular through to the achievement of the targets could threaten the energy supply. Therefore, the current efforts to diversify European energy imports using bilateral agreements should be continued and intensified. One exception is the dependence on Russia; while they have always been a reliable energy partner, their dominance certainly present an economic and political risk for Europe. Independent of the fact that the competing European project, Nabucco, has not been awarded the contract, the gas connection with Azerbaijan using the Trans Adriatic Pipeline (TAP) that has recently been agreed can be considered a success for the European and thus for the German supply of energy. That is to say that the aim of both pipelines was to form an alternative gas connection to the Russian South Stream pipeline, which has now succeeded. From a geopolitical perspective, Turkey is also gaining significance in terms of energy policy as the TAP runs through its territory. The extent to which Turkey will use this in other negotiations with the EU remains to be seen.

However, from a long-term perspective, renewable energy imports from outside of Europe will be of great importance to Germany. Initiatives such as DESERTEC or the Mediterranean Solar Plan thus play an important role. It is already conceivable that Germany will not be able to supply itself one hundred per cent, even if it meets its energy transition goals. Renewable energy sources from the EU itself, primarily from the MENA region, will play an important role. This may provide significantly more favourable prices. However, a prerequisite for the use of renewable energy in the EU-MENA region is that the states affected cultivate their own added value. For example, this will allow for regional creation of value and means their currently increasing energy demands can also be covered. Added to this is the need for stable political structures that enable an economic partnership in the first place. Therefore, Germany should focus on energy policy in terms of its development cooperation in the MENA region. In addition, new energy supply corridors must be developed and politically supported. Political dialogues with future intra-European electricity transit states, such as Spain, France and Italy, are already called for.

### Renewable Energy vs. Shale Gas

A range of economic hopes are tied up in the use of shale gas in the U.S. And, in effect, as the chemical sector has shown, the U.S.'s competitiveness may increase due to lower energy prices resulting from a surplus of domestic shale gas. In this context, a global shale gas transition is a popular topic of discussion since the vast supplies of shale gas are not situated in the U.S., but in Russia and China. From an economic perspective, the U.S. appears to be relying primarily on securing a technological leadership position in the field of exploration and excavation of shale gas. As a result, they would then be able to profit from other countries' even larger supplies. For the ongoing talks between the EU and the U.S. to establish a transatlantic free trade zone (Transatlantic Trade and Investment Partnership, TTIP), this aspect could prove highly explosive. Within the framework of various other free trade agreements, the U.S. is already exporting gas to other countries.

Importing shale gas from the U.S. into Europe may prove advantageous for the German shift toward alternative energy. Following the phase-out of nuclear energy programmes, Germany needs new energy sources or a mix of new energy sources to bridge the gap. The use of renewable energies still poses too many technical problems in terms of securing the supply of energy in the medium-term, such as the lack of storage capacity and high rates of fluctuation. For all intents and purposes, modern coal and gas-fired power stations would be suitable to fill these gaps, even from an environmental protection perspective. In addition, cheap and temporary gas imports based on an international marketplace would lessen the expansion of our own infrastructure. The problem lies in the current funding system (Renewable Energy Act) for renewable energy in Germany. The cost of electricity from renewable energy sources in this country are dependent on the stock market price of fossil fuels. If the stock market price of fossil fuels sinks, for example as may happen with an increased supply of gas or as is already being observed for coal, renewable energy becomes relatively more expensive in Germany. If it is possible to reduce this interdependence, for example, by reforming renewable energy subsidies in Germany, Germany may well benefit from the international boom in the natural gas industry. However, the chances of this happening are limited. This is the dilemma: The energy transition in Germany is taking place in the electricity, heating and fuel (e.g. for transport) sectors at different speeds, with electricity accounting for the smallest portion. As a result, for example, the German heating sector, which is not affected by the Renewable Energy Act, has benefitted from lower prices for fossil fuels, while the price of electricity has increased due to the mecha-



nisms of the Renewable Energy Act. Articulating foreign policy interests in this area, especially in terms of the TTIP negotiations, should therefore be carefully considered.

### **ACTION AREA 3: INTERNATIONAL ENERGY GOVERNANCE AND EMERGING ECONOMIES**

- Stepping up German engagement in international organisations committed to renewable energy, such as IRENA.
- Expanding the “Renewables Club” to include countries from the American continent and gradually developing the group’s political opportunities in various forums, such as the UN’s climate negotiations or the IEA.
- Expanding political and economic relations with emerging nations in the energy sector.
- Initiating a systematic discussion on “energy security” in the context of renewable energy and decentralised energy supply.
- Requiring greater coherence in energy policy discussions regarding energy security, economic feasibility and climate protection.

International energy governance is characterised by a high degree of fragmentation. A number of often very different organisations with an even greater variety of primary areas of interests, such as the United Nations, OPEC, the International Energy Agency (IEA), the Gas Exporting Countries Forum, the International Renewable Energy Agency (IRENA) and the G8/G20, feature prominently. In addition, international energy policy today is barely discernible from other policy fields, such as climate or economic policy. Organisations, such as the United Nations Framework Convention on Climate Change (UNFCCC) or the World Trade Organization (WTO), are thus addressed in making international energy policy decisions.

IRENA currently appears to be an appropriate forum for the German shift in energy policy. On the international stage it explicitly advocates for the expansion of renewable energy and thus forms a counterbalance to organisations such as the IEA, which advocates more for energy security to be based upon fossil fuels. However, temporary political alliances are becoming increasingly more important in energy policy, bringing together specific interests, for example, in expanding renewable energy, and comprehensively proposing them in various international energy governance forums.

One such alliance is the Renewables Club, recently founded by Federal Minister Peter Altmaier. The club was founded at an IRENA conference, with the aim of promoting renewable energy worldwide.<sup>1</sup> It would be expedient to also make use of this alliance specifically for gaining momentum, e.g. with the UNFCCC climate negotiations, or to more strongly emphasise the issue of renewable energy within the IEA. In addition, the alliance could also be supplemented by American members in order to achieve a broader impact.

From an economic perspective, emerging nations in particular, such as Brazil, Russia, India, China and South Africa (BRICS) will become increasingly important for energy efficiency in Germany as market outlets. They must find solutions for their growing energy demand. Germany is in possession of the technical expertise to do so. In addition, Germany is perceived quite positively in the emerging markets and there is great interest in participating in the experiences Germany is currently accumulating in implementing its energy transition. At this juncture, the focus is not only on developing energy efficient technologies or in the use of renewable energy, which have already been addressed by federal government initiatives; rather it has increasingly become concerned with issues such as the participation of the citizenry, planning processes and regulatory policy, which are essential for transforming a society’s energy system.

Another aspect of an energy transition foreign policy must be the systematic expansion of the classic debate on energy security to include the possibilities of renewable energy and decentralised energy supply systems. As yet, this aspect has been neglected and may certainly stand in the way of a possible energy transition foreign policy. This is also accompanied by the need for energy security policy to no longer be handled separately from climate and economic policy issues. International climate negotiations have a direct impact on a nation’s energy supply and economy and vice versa. In addition, a one-sided call for a regulatory framework for a global energy market will meet with little success so long as the energy supply remains largely in the hands of the state.

1| *Members of the club are China, Denmark, France, Germany, India, Morocco, South Africa, Tonga, the United Kingdom and the United Arab Emirates.*