

Oil Market Report – August 2017

OK, the summer holidays are over and it's back to business with another major election, this time in Germany. Few are betting against the ever popular Angela Merkel (who has been in power since 2005) winning another election and even fewer are betting that energy policy will take centre stage on the campaign trail. This is understandable of course with so many more pressing issues at hand, but it is still a shame because, **under Merkel's Chancellorship, German energy policy has followed an increasingly radical path.**

The stand-out energy problem for Germany – **as a certain leader in the 1940's discovered** – is that with the exception of coal the country has very few indigenous energy sources. Although possessing some crude oil production in the German North Sea Sector, volumes are tiny (20,000 barrels per day versus total North Sea production of 2.5m bpd) and clearly nowhere near enough to sustain the German economic machine. As one might expect though, the local infrastructure for processing crude oil (well over 95% of which is imported) is robust, with Germany **operating 14 refineries, compared to France's 8 and Britain's 6.**

If we look at gas, Germany also has some local production. But as with crude oil, it is again massively reliant on foreign production and in recent **times has imported as much as 70% of its gas from Russia. Such "exposure" to foreign imports has worried German politicians** for many years and it was partly this realpolitik – as much as any environmental ambitions – **that led Chancellor Merkel to introduce the 'Energiewende' plan of 2010** (literally Energy Transformation). This was to force the country on the route to a low carbon future - with a target of 100% renewable energy by 2050 - **and along the way, it would also reduce Germany's reliance on imported fossil fuels.**

Within only 12 months of launching, Energiewende faced its first major challenge in the face of the 2011 Fukushima Nuclear Incident. The **German Government's response was extreme to say the least, as literally days after events in Japan, Frau Merkel announced the** immediate closure of 8 German nuclear power plants and the total phasing out of nuclear energy by 2022. The Greens – for whom Nuclear Energy had always been a bête noire – were delighted and heaped praise upon the Chancellor. Everyone else just scratched their heads in puzzlement, as replacement energy was clearly going to be required and this would almost certainly come from coal. And so it transpired: as Nuclear capacity was reduced, coal-fired powers stations filled the gap and CO2 emissions initially rose by over 10%. Even now, with the increasing reliability of renewable energy (see below), Germany still relies on coal for 40% of its energy generation.

And there were more problems in store for Energiewende as the SPD members of the coalition found themselves in the unusual position of opposing environmental legislation, claiming that central spending on renewable projects (€8bn to date) was at the expense of healthcare and **social security spending. Nor was the policy a vote winner with the public, who unsurprisingly didn't warm to the 14% renewable energy surcharge** that was added to household bills. They also looked enviously over the border to nuclear dependent France, where household electricity bills are about half of those in Germany.

Despite all this, the Lady Merkel is "not for turning" and Energiewende has marched onwards with impressive results. On average, renewables now make up 20% of German energy generation (10% if you include energy used for transport), with a record 65% renewable electricity generation in April of this year. Almost all of this capacity has come from wind, which has been the undoubted success story of **Germany's** renewable sector and currently generates 12% of German electricity. These levels of usage have removed circa 150m tonnes of CO2 emissions on an annual basis and such successes have emboldened the German Government even further. They now have hugely ambitious plans to completely restructure the electricity grid, allowing the wind battered North to transfer its wind power to the energy intensive South, via so-called **"Renewable Energy Autobahns".**

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So as long as Frau Merkel remains in power, don't expect Energiewende to disappear anytime soon. And even in the unlikely event that she loses the election on Sep 24th, the extent of the programme's progress (not to mention the amount of public money already spent), means it will be difficult for any other political party to dismantle it, even if they wanted to. And that is Frau Merkel's energy legacy for Germany and possibly the world. For whilst the kneejerk decision to scrap nuclear energy may have been an initial environmental own-goal, Germany's long-term vision for the development of renewable energy as part of a balanced energy portfolio is the model that most countries will need to adopt if they are to get even close to meeting the environmental targets set by the Paris Climate Change Agreement.

