German MP fights back in policy debate

Looking for a planned economy? Don't look to Germany

In the Anglo world, politicians and energy experts have often held German-style feed-in tariffs to be antithetical to free markets. This misunderstanding has now also flared up in Germany. Now, a paper published by one of the policy's original co-authors clears things up quite well.

Vijay Vaitheswaren is the Indian-born, MIT-trained energy correspondent for the UK's Economist. A progressive thinker, he supports a lot of good ideas, but when I interviewed him in 2006, he called German feed-in tariffs "Stalinist."

Six years later, German President Joachim Gauck intimated that the country should not base its energy transition on policies that smacked of "planned economies." But as Hans-Josef Fell points out in a response (PDF only in German, but his office says an English translation may be forthcoming) the alternative approach involves even more government planning and intervention in the market.

Fell starts off by defining "planned economies," such as China's Five-Year Plans:

- the state sets specific targets
- the state uses tax money to subsidize industry to reach targets
- the state issues requests for proposals (RFPs) with specifications drawn up by state officials
- the state regulates this artificially created market and monitors target fulfillment, possibly also imposing penalties

While free-market proponents (in the Anglo world, but not in Germany) hold RFPs to be competitive – after all, they are also called "competitions" – in fact, Fell argues, it is usually only large firms that can compete; in other words, small and midsize firms are at a disadvantage when a market is based on RFPs, which then naturally lead to oligarchies and potentially monopolies. What's more, in the process the government selects which firms are to receive subsidies in awarding such contracts.

In contrast, German-style feed-in tariffs do not pick particular companies as winners but leaves that decision up to the market, nor does the policy set targets; while Germany does indeed have targets, these are set forth in its National Action Plan, which is required by the EU for all member states. Germany's Renewable Energy Act, which specifies feed-in tariffs, does not have any targets set as limits, so when Germany blows past its targets for wind, solar, etc. (which is generally the case), the market keeps going. As Fell puts it, "the market determines how much renewable capacity is installed." And if a target should ever not be met under feed-in tariffs, the government would not go around penalizing any companies as is done with RFPs.

Back in 2007, I pointed out the irony in such criticism of FITs from the US and the UK, where RFPs were praised for limiting "the role of government to certifying credits, monitoring compliance, and imposing penalties if necessary." If you want to limit the role of government, you want FITs, because no certifying, monitoring, and penalizing is then necessary at all.

Furthermore, tax money is not used for German feed-in tariffs; instead, the costs are directly passed on to ratepayers. This distinction may strike readers as minor for this debate about market freedom, but it at least shows that Germans immediately feel the impact of the boom in renewables. The cost is not hidden as some budgetary item that will be passed on to future generations as debt, nor is it passed on to the general public as an external risk (such as the risk of a nuclear accident or climate change brought about partly by emissions from coal plants). It is passed on directly and immediately as a cost to those who consume power today.

The next item in the Fell's list – RFPs – is perhaps most important. As Fell points out, when governmental officials specify the details of a project, they actually pick and choose technologies in a way that feed-in tariffs do not. FITs merely set a price, say, for solar power; that they are blind about technology. Under FITs, all technologies compete with each other, and the German market is clearly driven by small and midsize firms, Fell reminds readers.

Critics of FITs complain that renewables than do not compete with conventional power sources – which is true, Fell admits, but these critics overlook the more important ways in which FITs unleash market forces – and, of course, conventional energy sources have always been subsidized and continue to be.

Hans-Josef Fell is a member of the parliament for the Greens and a co-author of the original Renewable Energy Act of 2000.
Source: German Greens

German President Gauck and other opponents of feed-in tariffs in Germany want the country to switch to something more like the UK's Renewables Obligations, which are similar to the Renewable Energy Credits in the US. But as Fell points out, the UK had only installed seven megawatts of wind power by the end of 2011, compared to around 28 megawatts in Germany. More importantly, the average price in the UK for this wind power was 13 cents per kilowatt-hour, compared to around eight cents in Germany. (This list can be extended; as Renewables International has reported, the cost of solar in the US is roughly 60 percent greater in good sites than in cloudy Germany.) Fell says that this higher price comes about because "the British state… only got offers from large firms that expect great returns." He says that the legislation he helped design was intended to provide a return of "5 to 10 percent," which is the "reason why big power corporations have practically invested nothing in technologies eligible for feed-in tariffs."

"The UK has thus not produced a market with new midsize firms either in the power sector or in technology production, so no major innovations in wind power have come from the UK." His conclusion? "State RFPs are pure planned-economy tools."

Finally, Fell points out that investments in renewables in Germany have mainly come from millions of private investors, not big energy corporations. It is indeed a strange outcome for something that apparently reminds some misinformed people of Soviet and Chinese markets. (Craig Morris)