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Historical institutionalist perspective on the shift from feed-in tariffs towards auctioning in German renewable energy policy

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ABSTRACT

An early implementer of feed-in tariffs, Germany soon became feed-in champion, continuously resisting pressures – from the European Commission in particular – to adopt a competition-oriented approach. The European Commission never approved of the German feed-in tariff, seeing it as illegal state aid. However, after the good results in deployment of renewables, other countries followed suit and feed-in tariffs became the most popular support scheme for renewables in Europe. Despite this success, the nature of the *Energiewende* changed. Germany broke with its feed-in tradition two and a half decades later, introducing pilot auctions for solar energy in 2014. In 2016, it moved from a scheme under which every provider of renewable energy was entitled to support to a competition-oriented approach based on auctioning. Drawing on perspectives of historical institutionalism and adopting qualitative methods, we argue that the success of the feed-in tariff in terms of deployment of renewables altered coalitions of interests in Germany. The German government introduced auctioning with a view to controlling cost developments and protecting the conventional energy industries from insolvency. This happened under considerable EU pressures, given the European Commission's state aid guidelines, which prescribe a competition-oriented approach.

1. Introduction

Germany has received considerable attention since 2000, when the government introduced its policy plans for a pioneering energy transition, the *Energiewende*. The government had introduced strategies for this ambitious transformation already in the 1970s and has continuously reinforced such strategies ever since. To enable this transition, the government has introduced various policy instruments, including generous feed-in tariffs. This policy instrument has been globally important for the development and provision of renewable energy technology, and Germany's feed-in tariff instrument has attracted considerable attention as a role model for other countries. However, in 2014 Germany introduced pilot auctions for solar energy. Two years later, the government – controversially – decided to switch from feed-in tariffs to auctioning. That turn was decisive, marking a fundamental shift from a scheme under which every provider of renewable energy was entitled to support to a competitive approach based on auctioning. The turn changed the nature of the *Energiewende*, which is exceptional in terms of being an 'energy democracy', a concept that merges the technological energy transition with a strengthening of

democracy and public participation [1]. It also has implications for the design of the energy system transformation [2]. This is because individuals, small companies and communities that have installed solar panels on their roofs and invested in windmills have driven the *Energiewende* forward. This actor diversity has created widespread acceptance. In contrast, auctions tend to favour big companies [3]. The shift has been instrumental in changing the power relations between actors, because changes in support schemes influence the development of small-scale energy providers [4]. It is an example of political polarisation over sustainable energy transformation in Germany (see also the Introduction in this special issue [5]).

The policy change occurred at the same time as the European Commission (Commission) changed its state-aid guidelines in 2014. These new guidelines prescribe a competitive approach, one not compatible with feed-in tariffs. The EU has thereby been assumed to bear the responsibility for the introduction of auctioning [6,7]. This contrasts with earlier studies holding that national governments tend to adopt support schemes voluntarily (see e.g. [8]). Why did Germany introduce major changes to its renewable energy policy two and a half decades after initiating it, thereby breaking with its feed-in tradition?

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To explain this, we draw on insights from historical institutionalism and the Europeanisation literature. The Europeanisation literature is relevant for understanding whether and in what ways the EU has influenced the development of renewables policy in Germany. Researchers in the Europeanisation literature no longer treat the EU as an independent force for change, but instead hold that existing institutional arrangements in the member states influence adaptations to the EU [9,10]. Thus, it is also important to draw on perspectives that highlight factors potentially causing change domestically. In this respect, the perspectives of gradual institutional change are particularly relevant, as the German Renewable Energy Sources Act (EEG) was never meant to be static: it has been continuously evaluated and has changed accordingly. Since 2000, when the Act was first introduced, the German Parliament has reformed the law five times. Therefore, we assess whether the radical change in 2016 came about gradually or was propelled by a change in EU law.

The case study is important, given the increasing influence of the EU on national policies. The selection of Germany as a case provides the possibility of learning something about the nature of the relationship between a big member state with particularly strong interests in renewable energy policies and the EU, in a domain (i.e. energy policy) that is primarily a national responsibility. Moreover, auctioning is on the verge of becoming a predominant renewable energy policy instrument in Europe. This case study may help to explain why countries introduce auctioning, emphasising how the EU may contribute towards strengthening change agents within the countries.

The following sections begin by presenting the theoretical framework. Second, we elaborate on the methods employed in this study, before describing the development of Germany's policy of support for renewable electricity generation. Finally, we discuss the evidence in light of our theoretical framework. We conclude that, while the European Union has helped to speed up the process of introducing competition-oriented auctions for renewable energy support, an already existing push for change in the German political system made this possible. Due to increasing costs and insolvency issues that affected the big utilities, the political majority wanted to control the pace of renewable energy development and gradually introduced changes that radically changed the support policy for renewables.

2. Theoretical perspectives

One approach that social scientists have used to explain the development of the *Energiewende* is historical institutionalism. Christoph Stefes [11] uses this approach, arguing that new policies have consolidated the path of the *Energiewende*. Carol Hager [12] draws on institutionalism showing that the 'push for renewables in Germany arose almost entirely outside the prevailing channels of institutional power'. However, there is a need to update this literature and explore whether historical institutionalism also contributes to explain the more recent changes to the EEG, which seems to break with the path highlighted in the aforementioned literature.

Historical institutionalists focus on how institutions develop over time and affect the positions of actors in ways that may have been unintended or undesired by their creators. They study how institutions reinforce themselves, create path dependencies and lock-ins, and argue that it may be difficult to alter certain institutions, as reversals are costly or difficult [13]. Hence, one virtue of historical institutionalism is the ability to explain the stability of political institutions.

An important notion is 'path dependency', defined as 'social processes that exhibit positive feedback' ([13], 21). It implies that institutions over time are characterised by inertia. Path dependency curtails policy options through self-enforcing mechanisms that contribute to generating 'increasing returns' that benefit existing paths more than other solutions ([14], 94).

Despite the stability inherent in path dependency, policy change occurs. There are two distinct perspectives that explain policy change:

one highlights triggering events or sudden punctuations such as external shocks, crises or other events that disrupt periods of stability (e.g. [15]); the other perspective emphasises the slow-moving, continuous processes of reforms [16,17]. The first perspective highlights 'critical junctures', defined as 'brief moments in which opportunities for major institutional reforms appear, followed by long stretches of institutional stability' ([13], 134f). The second perspective is a theory of gradual institutional change developed by Kathleen Thelen and co-authors [16,17].

The model presented by [18] views the type of institutional change as depending on the type of the dominant change-agent in the context of the political system and the characteristics of the 'targeted' institution. The authors assume that actors who did not benefit from the old system will push for new institutions. Gradual displacement will ensue if those who favour the old system are unable to prevent new rules. They note four key types of change: displacement, layering, drift and conversion. Our focus here is gradual displacement and layering, as we are interested in the actual shift of rules, and not the interpretation of rules or whether actors abide by them – aspects more prominent in connection with drift and conversion. We find theories of gradual institutional change useful for studying policy change, because policies – like institutions – entail rules.

'Displacement' refers to the replacement of existing rules. While displacement may be radical and may seem abrupt, the gradual institutional perspective proposes that it has occurred slowly. 'Layering' differs from displacement as it entails revisions or additional 'layers' to existing rules, rather than replacing them by completely new ones. Such 'differential growth' [19] occurs when opponents, unable to shift the original rules, manage to circumvent the rules from within the system by introducing new voluntary rules on top of the existing ones [17]. Displacement is unlikely when the defenders of the existing rules are powerful: under such circumstances, layering is more likely [18].

The two perspectives within historical institutionalism suggest different ways by which to understand the role of the EU, and we are particularly interested in such an understanding, given that the state aid guidelines were changed about the same time as Germany introduced auctions: The EU can be considered as an external force or as an endogenous change-agent.

There is support for the external shock perspective in the Europeanisation literature. For example, court rulings are considered important formative moments for affecting policy change in favour of liberalisation (e.g. [20,21]). Hence, court rulings or the threat of litigation trigger policy change to otherwise stable institutional arrangements by bypassing reluctant member states or nudging them to compromise. However, whereas researchers used to treat the EU as an independent force for change, a new generation of literature holds that in a multilevel administrative system like the EU, the EU is not external to the member states; instead, there is bureaucratic inter-penetration across levels of governance (see [10]). One relevant example is state-aid guidelines, whereby the Commission 'bans' certain activities and negotiates with the member states rather than simply implementing formal decisions [22].

Drawing on such an understanding of Europeanisation, the EU may be considered a 'change agent' within the political system – or European political order may have created a context that has benefited certain actors at the expense of others. Given the Commission's promotion of competition and 'dislike' of feed-in tariffs, we expect the EU to have helped strengthen change agents that have promoted a change in the existing feed-in tariff policy.

3. Methods

To explain the shift from feed-in tariffs towards auctioning, we perform an in-depth analysis, exploring a case where such a shift did not seem likely. It did not seem likely due to the strong emphasis in Germany on energy democracy that has developed with the feed-in

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