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Hamburg in Need of a Liberal Energy Policy

by Karl Boldt, Hamburg

The heated argument about the energy policies to be pursued by the Federal Republic of Germany continues, without an end being in sight. Nor can this be expected as long as the problem is concatenated with that of the German hard coal industry's difficulties of selling its output, which prevents policy makers from being able to set their course unhesitatingly for the achievement of energy supplies that, at the same time, will be cheap, diversified, and absolutely reliable. In the current debate, seemingly incompatible opinions are ranged against each other. Its fierceness is subject to changes, and there is a constant shifting between economic, social, regional, and national reasoning displayed by the various protagonists of the different fuels and vested interests. To form a really balanced assessment of the situation, discussion has to be thoroughgoing, its main purpose being to produce sufficiently clear forecasts about the likely future effects caused by measures proposed by the advocates of a new energy policy, and to balance different effects against each other. Such forecasts are needed as experience of recent years has proved that the German economy may be adversely influenced in its structure by decisions made in favour of a particular energy policy.

High German Fuel and Energy Prices

The Government and the business community of Hamburg have always underlined these risks in the past. They pleaded for a national energy policy filling the needs of the entire economy. As the activities and interests of the big harbour and trading city closely interlock with the economic life of its hinterland, their foreign trade experiences and the interest in their town's own industrial development have made the Hamburgers particularly sensitive to the growing importance of energy pricing for the national economy. In addition, Hamburg is highly dependent on energy imports.

Basic for any critical analysis must be a comparison between energy prices in the several member countries of the European Economic Community, though strictly exact comparisons are virtually impossible in this market, on the one hand, because any energy market is a mosaic consisting of numerous partial markets, each of which presents highly varied relations between supply and demand, and on the other hand, because energy suppliers are concluding special bulk supply contracts with industrial users whose contents, as a rule, remain confidential. Never-

theless, allowing for these limitations, the table shown below presents a useful reflection of the order of the amounts by which national pricing of selected energy forms differs from the pricing system of each nation's neighbours. It can be seen from the table that West German energy prices are generally higher than those charged to the nationals of Germany's Common Market partners, with the exception of those for light fuel oil (heating oil) and low-voltage electricity.

Energy Prices in Selected European Countries

	West Germany	France	Italy	Netherlands	Belgium
Bituminous Coal, 1966 (Official list price quotations in \$ per metrical ton)	16.68	14.59	—	15.33	14.60
US Coal, 1966, in \$ per metrical ton	13.57 ¹	13.65	14.34	13.30	13.50
Light Fuel Oil (heating oil) Average Price to Consumer in April/May '67, in DM per 100 liters (22.2 gallons)	10.00	10.90	12.20	13.80	16.00
Heavy Fuel Oil Average Price to Consumer in April/May '67, in DM per metrical ton	80.00	79.00	74.00	74.00	66.00
High-voltage Electricity Supplies ² , 1965, in US Cents per kWh	1.88	1.35	1.55	1.40	1.74
Low-voltage Electricity Supplies ² , 1965, in US Cents per kWh	3.58	4.23	3.75	2.56	4.80

¹ Excluding Coal Import Duty of \$ 5 per metrical ton.

² Average revenue of public utility companies.

Sources: Statistical Office of the European Community, Yearbooks for the years 1950-1965; Returns of the Oil Companies and their professional associations.

The Burden on Different Industries

The level of energy prices assumes a major importance for the growth chances of any national economy¹. But for different industries and trades, the costs of the energy used are of varying weights. For example, all the primary industries, producers of key raw materials, and the industries manufacturing producer goods, are using particularly high quantities of energy. On the other hand, it would be inadmissible to consider, in judging the influence of energy costs, only those being paid directly by the user; it is essential that energy costs that are absorbed

¹ This observation was confirmed by two thorough studies of this subject published in 1966—the first one having been sponsored by the EEC Commission ("Economic Influences of Energy Prices"), the second one by the German Federal Government (Th. Wessels, "Energy Costs and their Impact on the National Economy").

indirectly, through goods and services bought, will not be neglected. Taking account, in this way, of total energy costs, their importance for the industries further "downstream" the manufacturing slope will be enhanced, over and above the seemingly low direct outlay on energy purchases of such industries.

In export industries, energy costs play a particularly dominant part: according to estimates made by the EEC Commission, all sectors of industry whose costs consist to the extent of at least five per cent of payments for energy supplies in their turn supply 36 per cent of all goods exported by the Federal Republic, and those producers whose total costs consist to the extent of at least ten per cent of outgoings on energy account still represent 24 per cent of all goods going into export. Mounting international competition in both the internal European market and in overseas exports will enforce the utilisation of all possible avenues leading to cost reductions. As a number of cost components are progressively being levelled out, e.g. through "harmonisation" within the EEC but also through faster and wider availability of technical know-how to both old-established industrial nations and to newcomers in this field, all obstacles in the way of evening out certain cost components will the more strongly affect competitiveness. This is especially true of energy prices, if their levelling out should be prevented by individual national energy policies. Hamburg's interests are identical, in this respect, with those of the entire German economy, as Hamburg as well as the whole nation are vitally committed to improving the German economy's competitiveness by using all the available expedients, and to preventing its being burdened by higher energy prices than those paid by its competitors.

The Advantage of Lower Energy Bills

In the economy of a world that is based on an extreme division of labour, safeguarding national energy supplies must not be mistaken for national self-sufficiency in fuel production. Indispensable precautions must only be taken for preventing serious shortages in case certain sources of supply may be temporarily cut off from their clients, which can best be done by diversifying the several sources of supply as much as possible. Germany to-day has to rely, to a growing extent, on foreign suppliers of its energy needs as well as for other materials, because we can never become self-sufficient again in this market. Our economy's vigorous growth has only been possible on the basis of sufficient energy imports having become available.

Apart from these general reasons, Hamburg, in particular, has a specific interest in liberalised imports which favour its own industrialisation programmes. Hamburg's Senate has laid down in 1965 certain guiding principles for its economic policies, which are designed to improve the city's economic structure by promoting the attraction of new, and

the expansion of old-established, businesses that show a high growth potential and high productivity. Businesses of this type exist mainly in industry. To achieve continuous growth of industrialisation, certain indispensable conditions have to be met, e.g. the opening-up of industrial areas, or estates, but especially the guarantee of diversified and cheap energy supplies. Some of the trailblazers of industrial growth during recent years, represented by petrochemicals, the processing of plastics, and aluminium production, etc., can operate only if they are assured of cheap energy resources.

Usually, such growth industries that gobble up vast quantities of fuel are at the same time processors of bulk commodities. As they can only thrive on cheap transport, they seek their locations in proximity to the sea coasts. Competing for the settlement of new industries on its territory, Hamburg therefore has not so much to fear inland rivals but mainly the comparable ports on the estuaries of the Rhine and the Scheldt. Successes reaped by such competitors in attracting new industries in recent years have largely been due, among other influences, to extremely cheap energy supplies offered to these factories.

What Causes Different Energy Prices?

Dearer energy—this is the lesson of such developments—will thus not only load the dice against the German economy's competitiveness but it may also affect adversely any natural or geographical advantages of German locations. In the long run, this may perhaps cause undesirable distortions of the German economic structure, which will be all but reversible. This commands us to make every effort for making good, as much as possible, existing disadvantages and weaknesses. However, before this can be profitably discussed, it will be necessary to find the causes of differing energy prices. In the main, the following influences may be quoted:

- ☐ Fiscal imposts placed on heavy fuel oil are much higher in West Germany than in other EEC countries;
- ☐ Cheap US coal is being admitted to some EEC countries duty-free. Only a quota of 6 million metrical tons of US coal annually may be imported free of duty into the Federal Republic, every additional metrical ton being burdened with an import charge of DM 20;
- ☐ Power station use of fuel oil has been restricted in West Germany under the "Second Electricity-from-Coal Law" (Zweites Verstromungsgesetz), which is supposed to promote hard-coal sales, and by certain "voluntary" supply restrictions accepted by the oil industry on the recommendation of the Federal Government. At the same time, the Government is specially favouring the construction of coal-based power stations, and the use of hard coal in existing thermal power stations. Through these measures, a changeover towards more efficient power generation with lower generating costs may very well be slowed down, in the long run.

□ Lastly, and exclusively in relation to the Netherlands, that country has the great advantage of possessing vast natural gas reserves, which are of particular significance as there are indications that Dutch natural gas is on offer for sale much cheaper at home than abroad.

The main cause for different energy prices, as can be seen, is the peculiar energy policy of the German Federal Government, which tries to boost coal sales by making the competing forms of energy, mainly heavy fuel oil, artificially expensive by a special tax, and more difficult of access to users through restricting their supplies.

Improving the Energy Supply for Hamburg

The City of Hamburg, in this situation, has long made strong efforts to improve its energy supplies. In the first instance, this was done by utilising to the full the city's own possibilities for diversifying the fuel types on offer as much as possible, and at the cheapest possible prices. On the whole, the gamut of energy forms available in Hamburg is sufficient for all the technical and economic requirements of industry. As Hamburg's public utility companies have been planning with a wide view to the future, not only traditional but also the most advanced forms of energy can be obtained within the city's boundaries. Already years ago, the authorities saw to it that natural gas should come to Hamburg through a trunk pipeline from the area of the Ems estuary and the Dollart bay (i.e. where the German-Dutch border lies). Large quantities of this gas are due to become available soon to all potential industrial users. Hamburg has also provided, in good time, for the economic availability of nuclear energy for the purpose of electricity generation. As electric power's relative importance is growing progressively, within the overall energy balance, this fact is of added significance, since nuclear power may not only lead to reduced electricity generating costs but also to guaranteed security of power supplies. The two electricity utilities, NWK (North-West German Power Stations) and HEW (Hamburg Electricity Authority), are planning to set up a jointly-owned and operated nuclear power station in the vicinity of Hamburg. Under present plans, this nuclear plant is to start operating by 1972. HEW and NWK have already in mind a second power station for a similar type, to become operative in the eighties.

Demands on German Energy Policies

However, Hamburg's own powers are limited, since the city's energy policies are decisively circumscribed by those adopted by the Federal Government and by the European Communities. Hamburg's efforts, for this reason, will largely be directed towards bringing its influence to bear, as far as possible and necessary, on the Bonn government's energy policies. Apart from Hamburg, two other German Länder are border-

ing on the North Sea: Lower Saxony and Schleswig-Holstein, and consequently, their energy interests are similar. This makes cooperation in this field advisable, and it was the reason why the Ministers (in Hamburg's case, he is called the "Senator") for Economic Questions of the three Länder, whilst taking part in the discussion on the Federal Government's "Hard Coal Mining and Hard Coal Mining Areas Reforming and Adaptation Bill", accepted a joint energy policy resolution which they sent to the Federal Minister of Economics. The resolution contained recommendations for matching German hard coal production capacities to the expected absorption potential of the market, whilst protesting strongly against new energy policies increasing the energy price level, as such measures would operate very much to the detriment of the three Länder bordering on the sea.

Some of these measures have been known as "out-flanking" steps. Among them would be a further reduction of the duty-free coal import quotas. Hamburg, in common with other North German towns, has traditionally always burned imported coal. In former times, it was the British coalfields, and now it is those of the United States, which are closer economically to Hamburg than hard coal from German colliery areas. This was the historical background for the original grant of a duty-free import quota for coal, but the concession was half-hearted. Should the law on admitting to Germany duty-free an annual quantity of 6 million metrical tons of this coal be whittled down or abolished altogether, this would not only deal a wicked blow to the energy supplies of Hamburg but also badly affect the ability of the entire West German economy to maintain its exports. Cutting-down this quota would therefore be completely inadmissible; on the contrary, in the long run, it ought to be made to grow in line with rising energy needs.

The resolution also protests against any further increase, if that should be thought possible, of the fuel oil tax and against its prolongation, against the imposition of any physical restrictions on oil imports, and against any further restrictions placed on fuel oil output. All these measures would place heavy new burdens on the shoulders of the German economy, through higher taxation or higher prices, and the Länder contiguous to the sea but far distant from the coalfields would thereby be hindered even more to benefit from their natural geographical advantages.

Hamburg, naturally, also acknowledges the difficult social and regional problems burdening the German hard coal mining areas, from the political angle. But these problems must not again be tackled at the expense mainly of certain branches of industry that are big energy users, and/or to the detriment of individual geographical areas of the national economy, because a repetition of such expedients would do deep and lasting harm to the entire economy.