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Shutdown of Nuclear Power Plants: What to Do Next?

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DIW Berlin — Deutsches Institut
für Wirtschaftsforschung e. V.
Mohrenstraße 58, 10117 Berlin
T +49 30 897 89 -0
F +49 30 897 89 -200

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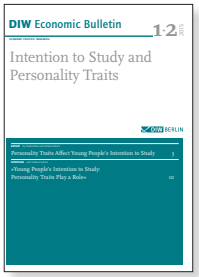

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NEXT WEEK IN DIW ECONOMIC BULLETIN

Governmental Support Schemes for System-Friendly Wind Turbines

German Nuclear Phase-Out Enters the Next Stage: Electricity Supply Remains Secure — Major Challenges and High Costs for Dismantling and Final Waste Disposal

By Christian von Hirschhausen, Clemens Gerbaulet, Claudia Kemfert, Felix Reitz and Cornelia Ziehm

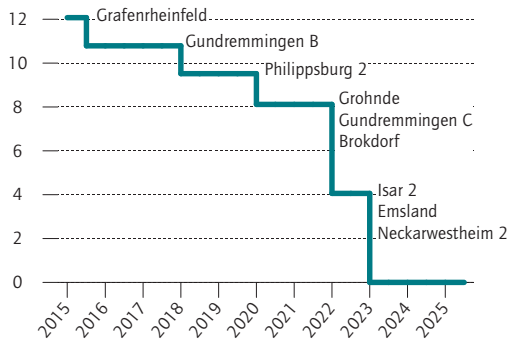
The June 2015 shutdown of the Grafenrheinfeld nuclear power plant marks the shift into a new phase of the energy transition, in which all nuclear power plants in Germany will gradually be shut down by 2022. But even with the end of the commercial use of nuclear power, the lights in this country will not go out: As DIW Berlin's calculations attest to, the electricity supply in Germany remains secure. It is even assumed that Germany will still export electricity in 2025. However, the real challenges – the dismantling of the nuclear power plants and the disposal of nuclear waste – have yet to come: The final disposal of the highly radioactive waste in a (yet-to-be-determined) repository will continue, in all likelihood, into the 22nd century. For the dismantling and final disposal, the estimated costs – which, so far, are not very reliable – are expected to be at least 50 to 70 billion EUR. As such, the 38 billion EUR of provisions set up by the nuclear power plant operators are unlikely to be sufficient to cover the expected costs. Given the major financial risks, DIW Berlin recommends that the provisions set up by the nuclear companies be promptly transferred into a public-law fund. For costs that go beyond the framework covered by the provisions, a reserve liability should be established.

After Chancellor Angela Merkel imposed a moratorium at short notice on March 14, 2011, in the wake of the nuclear disaster in Fukushima, the operating licenses for the seven oldest German nuclear power plants (NPP) as well as the Krümmel nuclear power plant were withdrawn in the same month.[1] According to the 13th amendment of the Atomic Energy Act, the operators of the eight remaining NPPs with capacities of twelve gigawatts (GW) must gradually remove them from the grid by 2022 at the very latest (Figure 1). This puts Germany in the same category as several European countries — among them Austria, Italy, Switzerland, and Sweden — that have decided against the continued civilian use of nuclear power. In a next step, the NPP in the Lower Fran-

1 Initially, the operating licenses were only withdrawn for three months; in summer 2011 they were withdrawn permanently.

Figure 1

Capacity development of nuclear power plants according to the Atomic Energy Act
In Gigawatt



Source: DIW Berlin based on the Atomic Energy Act from 28 August 2013.

The last nuclear power plant in Germany will shut down in 2022.

Figure 2

Nuclear power plants and nuclear waste disposal sites in Germany

Source: DIW Berlin.

The nuclear power plant Grafenrheinfeld will shut down in June 2015.

conian municipality of Grafenrheinfeld is being taken off the grid in June 2015.[2]

At the same time, the discussions in Germany concerning the storage of the nuclear waste are heating up. The planned deep geological repository is currently impossible due to the lack of an appropriate site for this kind of storage, and so, for the foreseeable future, the nuclear waste must be temporarily stored in the interim storage facilities close to the power plants themselves.[3] However, the operating licenses of these plants will expire by 2046, and even the intermediate storage containers (CASTOR) for fuel elements have an operating license of only 40 years.

In addition to the technical aspects of the final disposal, the economic challenges are increasingly coming into focus. The costs of the entire process, which is expected to continue into the next century, are not only very high, but also fraught with considerable uncertainties. There is mention of 50 to 70 billion EUR—which is nearly twice the value of the provisions that have been set up by the NPP operators.[4]

Impacts of the NPP shutdown on the energy industry are low

It is expected that the June 2015 shutdown of the Grafenrheinfeld nuclear power plant will create only minimal consequences for the energy sector. Both in Germany as well as in other European countries, there are sufficient reserves available on the electricity market to compensate for the loss of the 1,275-megawatt (MW) net output. Calculations show that around half of the reduced annual electricity production in Germany can be compensated for with five terawatt hours—mainly by coal, but also by lignite and natural gas. The difference will be provided from abroad.[5]

Even after 2022, by when all of the remaining nuclear power plants will have been shut down, the security of supply in Germany and in the neighboring countries will still be guaranteed, according to the current state of planning. In addition to the scenario framework for Germany, the scenarios concerning the capacity planning created by the European Transmission System Operators (ENTSO-E)—the so-called System Outlook & Adequacy Forecast (SOAF)—are used in the analysis. Accord-

2 The plant's operator, E.ON, had originally scheduled May 31, 2015 as the shutdown date, as staying in operation until the legally determined end date of December 31, 2015 would have required the replacement of fuel elements and the payment of the nuclear fuel tax. An unexpectedly low utilization in the recent mild winter months has allowed E.ON to keep the plant in operation longer, and thus the closure was postponed to June 20, 2015. See: Bavarian Broadcasting (2015): *AWK Grafenrheinfeld bleibt bis 20. Juni am Netz* (Grafenrheinfeld NPP to remain on the grid until June 20), http://www.br.de/nachrichten/unterfranken/inhalt/akw-atomkraftwerk-grafenrheinfeld-laufzeit-100.html, retrieved May 13, 2015.

3 For an overview of previously accumulated radioactive waste and projected radioactive waste in Germany, see BMUB (2015): *Verzeichnis radioaktiver Abfälle. Kommission Lagerung hoch radioaktiver Abfallstoffe.* (Directory of radioactive waste. Commission for the Storage of Highly Radioactive Waste), K-MAT 13 p. 22.

4 See: Wille, Joachim (2015): *Experten warnen vor Milliardenkosten für den Staat: Bis ein Endlager gefunden, eingerichtet und befüllt ist, könnten noch 150 Jahre ins Land gehen* (Experts warn of multibillion-euro government expenditures: Until a repository is chosen, established, and filled, it could be another 150 years). Frankfurter Rundschau Online, April 20, 2015, downloaded April 24, 2015.

5 These and other model works were created in connection with the "Bavarian Energy Dialogue." See: Robert Mieth, Clemens Gerbaulet, Christian von Hirschhausen, Claudia Kemfert, and Richard Weinhold (2015): *Perspektiven für eine zukunftsfähige und preiswerte Energieversorgung in Bayern auch nach Abschalten der Atomkraftwerke* (Perspectives for a sustainable and affordable energy supply in Bavaria after the shutdown of nuclear power plants). Berlin, DIW Berlin Politikberatung Kompakt 97.

ing to the current capacity planning of the ENTSO-E, capacities of 367 gigawatts of conventional capacity are expected for Germany and the neighboring countries. In the context of the Central European electricity market, the electricity supply in Germany is secured even during peak load hours; in these few extreme hours, Germany becomes a net importer.[6]

The electricity price forecast for the wholesale market is highly dependent on the selection of carbon dioxide (CO_2) and fuel prices. A comparison of the ordered price duration curve[7] of the SOAF standard scenario as well as that of a scenario with reduced commodity prices[8] for the year 2025 indicates a slight increase in prices overall — the exact amount, however, is uncertain. The average prices shown vary from 34 to 47 EUR per megawatt hour (Figure 2). The CO_2 emissions would increase moderately depending on the scenario.

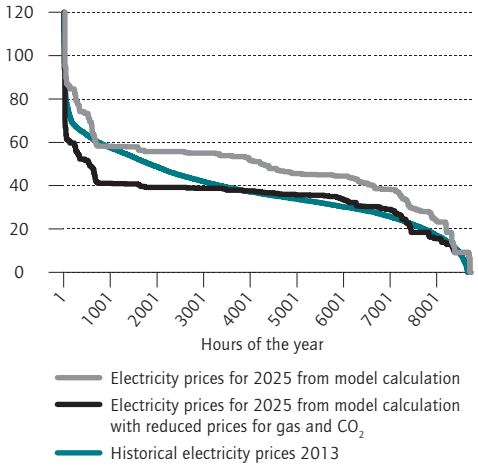
The next step: Dismantling the nuclear power plants

The shutdown of the nuclear power plants will be followed by the decommissioning and dismantling. The Atomic Energy Act allows for two approaches to dismantling: The first is "immediate dismantling," in which the dismantling of the power plant begins directly after the five-year post-operational period. Although this process generally takes about two decades, it can take longer and become more expensive if — as already seems to be the case — sufficient repository capacity for the radioactive waste is not established in time. In the second dismantling option — the so-called "safe enclosure" — the power plant is closed off for several decades and the control area, the nuclear reactor in particular, is not dismantled until after this time period.

One advantage of the immediate dismantling option is that the operational nuclear power plants' current staff and expertise can continue to be deployed. An argument in favor of the safe enclosure option is that the radioactivity decreases the most in the first decades following the shutdown, which simplifies the subsequent dismantling and potentially reduces the waste volumes. Internationally, immediate dismantling is the more common variant, and in Germany as well, the nuclear operators have chosen this variant.[9] A few other types of reactors are in safe enclosure.

Figure 3

Hourly wholesale electricity prices[1]
In Euro per Megawatt-hour



1 In descending order.

Source: DIW Berlin.

Fuel prices influence the development of the wholesale electricity price stronger than the nuclear phaseout.

The task of the century: The final disposal

Substantially more complex than the dismantling of the nuclear power plants is the search for long-term storage facilities for the radioactive waste.[10] This is largely due to the fact that the long-term, secure storage of highly radioactive waste has never been seriously addressed since the beginning of the German nuclear

6 In DIW Berlin's earlier model calculations, as well, it was shown that the current electricity system can cope with the loss of nuclear capacity. See: Kunz, Friedrich, et al. (2013): *Mittelfristige Strombedarfsdeckung durch Kraftwerke und Netze nicht gefährdet* (Medium-term electricity supply from power plants and grids not at risk). DIW Berlin Weekly Report 48-2013, pp 25–37. The calculations carried out in that instance include a detailed network modeling. A recent study conducted by the Central and Western European network operators for the period of 2020/21 also came to the conclusion that there are no bottlenecks in the German power grid. See: Pentalateral Energy Forum (2015): Pentalateral Generation Adequacy Probabilistic Assessment. Support Group Generation Adequacy Assessment, Final Report, March 5, 2015 online: http://www.bmwi.de/BMWi/Redaktion/PDF/G/gemeinsamer-versorgungssicherheitsbericht,property=pdf,bereich=bmwi2012,sprache=de,rwb=true.pdf, retrieved May 13, 2015.

7 In an ordered price duration curve, all 8,760 hourly wholesale prices from the course of one year are depicted in descending order.

8 This alternative scenario with reduced commodity prices assumes a price of 10 EUR (instead of 21 EUR) for each ton of CO_2 emitted and a natural gas price of 20 EUR (instead of 27 EUR) per megawatt hour (thermal).

9 Source: Operating companies' requests to the state authorities, see: atommuellreport.de; see: Sokoll, Jörg (2015): *Kernenergie: Erste Erfahrungen aus den Stilllegungen in Deutschland.* (Nuclear power: First experiences with decommissionings in Germany.) Energiewirtschaftliche Tagesfragen, Vol. 65, Issue 5, pp. 58–61.

10 This section as well as the next section of the weekly report are primarily based on a jurisprudential elaboration that arose in the context of joint research. See: Ziehm, Cornelia (2015): *Endlagerung radioaktiver Abfälle* (Final disposal of radioactive waste). Berlin, study commissioned by DIW Econ; printed in *Zeitschrift für neuen Energierecht (ZNER)* (Journal of New Energy Law).

program. Although the commercial use of nuclear power has been permitted in the Federal Republic of Germany ever since the passage of the Atomic Energy Act (AtG) in 1959, a safe option for the disposal of radioactive waste did not exist at that time. Only with the 1976 adoption of the Fourth Amendment to the Atomic Energy Act did the legislature establish a duty whereby the waste producers were ordered to remove the radioactive waste in an "organized" manner. Moreover, the law established henceforth the need for planning permission for a nuclear repository.

For the final disposal, the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB) is expecting a volume of around 190,000 cubic meters of low- and mid-level radioactive waste from German nuclear reactors. Along with other radioactive wastes, these are scheduled to be stored in the Konrad repository, which is currently being constructed.[11] Since the entire 303,000-cubic meter capacity of the Konrad repository has already been completely allocated, there is no space for the waste that is envisaged to be retrieved from the Asse II mine — an additional volume of about 175,000 to 220,000 cubic meters, according to the BMUB. To accommodate this waste, another repository would be needed; alternatively, the Konrad repository would need to be expanded. At present, the Federal Office for Radiation Protection (BfS) is making plans for an interim storage facility.

For the so-called "heat-generating waste" — which refers to the high-level radioactive waste that includes spent fuel elements, as well as the radioactive waste that originates from the reprocessing of irradiated nuclear fuel and is solidified in glass canisters — the BfS expects a waste volume of 28,100 cubic meters.[12] For this high-level radioactive waste, there is still no final repository, or even a planned repository site.[13] The only attempt to build such a repository for high-level waste took place in Gorleben, where the investigations of a salt dome to house such waste have been ongoing since 1979. A certificate of suitability based on geoscientific investigations, however, does not exist for the Gorleben salt dome. As well, no alternative locations have been examined more thoroughly thus far. The selection process of the 1970s, which ended with the selection of Gorleben, did not meet the necessary conditions.[14] So far, the costs of the Gorleben salt dome investigations have reached 1.6 billion EUR.[15]

The "Site Selection Law": A new beginning requires perseverance

During the course of the 2011 nuclear phase-out ruling, the issue of finding a suitable repository for nuclear waste also came back on the agenda. Subsequently, the Federal Parliament passed the Site Selection Act (StandAG) in 2013, which includes a transparent and scientific repository-selection process, as well as a comparison of potential sites involving extensive public participation. This organizational change represents a turning point in the decades-long history of the search for a repository is in Germany. Although the miners' investigation of the Gorleben salt dome stopped in 2012, the site is still being considered as one of the potential locations in the selection process, which is why the mine is currently being kept open.[16]

11 See: BMUB (2015): *Programm für eine verantwortungsvolle und sichere Entsorgung bestrahlter Brennelemente und radioaktiver Abfälle – Nationales Entsorgungsprogramm* (Program for responsible and safe management of spent fuel and radioactive waste – National Waste Management Program), draft from January 6, 2015, p. 10.

12 Federal Office of Radiation Protection: Forecasts for future waste volumes, online: http://www.bfs.de/de/endlager/abfaelle/prognose.html, retrieved May 14, 2015.

13 See: Ziehm, Cornelia (2015, ibid, Part 1).

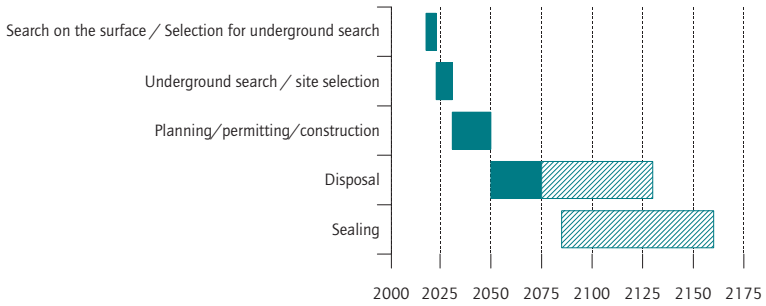
14 See: Ziehm (2015, ibid, p. 7).

15 See also: BMUB: http://www.bmub.bund.de/fileadmin/Daten_BMU/Download_PDF/Atomenergie/ einigung_offenhaltungsbetrieb_gorleben_bf.pdf.

16 The above-ground interim storage facility for highly radioactive waste still exists, but is no longer being filled. It currently contains 82 fuel elements, and 3,024 glass canisters of high-level radioactive waste that primarily originated from reprocessing. The location search will take place in Germany.

Figure 4

Schedule for the disposal of high-level radioactive waste (estimate)[1]



1 The begin of waste disposal in 2050 is an estimate. The actual timing is uncertain and might be delayed significantly.

Source: Endlagerkommission (Commission for the Storage of Highly Radioactive Waste, 2015): Prozesswege zu einer sicheren Lagerung hoch radioaktiver Abfälle unter Aspekten der Rückholbarkeit/Bergbarkeit/ Reversibilität, Papier der Vorsitzenden unter Einbeziehung von Kommentaren weiterer Mitglieder der AG 3, Kommission Lagerung hoch radioaktiver Abfallstoffe gemäß Paragraf 3 Standortauswahlgesetz, K-Drs./ AG3-12, 11. April 2015.

The waste disposal process will likely extend into the next century.

According to StandAG, the selection of underground sites to be investigated is scheduled to be completed by 2023. Accordingly, the final location decision shall be made by 2031. Therefore, only a few years remain for these steps to take place, after which comes the actual planning of the repository, the nuclear licensing procedures, possible judicial reviews of the site and commission decisions, and finally, the actual construction of the repository. It is already clear that a repository for high-level radioactive waste will not be ready before 2050. Despite these uncertainties, the currently convening *Commission for the Storage of High-level Radioactive Waste,* which was established through the Site Selection Act, has published an indicative timetable for the selection process and the final disposal process (Figure 3). It should be noted that unforeseen developments could push the duration of the final disposal process back by decades. The timeline of the ongoing process is associated with considerable uncertainties.[17]

Power plant operators' provisions: High demand for action

Pursuant to § 249 paragraph 1, sentence 1 of the German Commercial Code (HGB), the operators of NPPs set up provisions for unforeseeable liabilities arising from the dismantling of NPPs and the disposal of radioactive waste. At the end of the 2013 fiscal year, these provisions amounted to nearly 36 billion EUR (Table 1);[18] by the end of 2014, that amount had risen to about 38 billion EUR.[19] It is possible to distinguish between provisions for "decommissioning and dismantling" and provisions for "disposal."[20] Total amounts of provisions that were spent on specific tasks are likewise listed as payments made before 2013, and amount to around 2.7 billion EUR. With just under 22 billion EUR, the provisions for dismantling clearly exceed the provisions for disposal.

Although the operators of nuclear power plants set up the provisions, they are regularly redirected to the respective parent companies, where they are then used for other divisions. For the corporations, a comparatively low-cost financing source is therefore available for profitable investment opportunities.

Firstly, it is questionable whether the current provisions are sufficient to satisfy the disposal obligations placed on operators. Secondly, the question arises whether the value of the provisions is guaranteed until the settlement date. The provisions are — just like equity and debt — bound up in physical assets. The upheavals in

17 Even the schedule for the relatively simple "Konrad mine" project for low- and mid-level radioactive waste has already experienced significant delays: Between the 1982 application for the planning approval of the low-level radioactive waste repository and the actual approval in 2007, 25 years elapsed. The Federal Office for Radiation Protection expects that the repository currently under construction will not be completed before 2022, and does not cite any concrete completion date.

18 Däuper and Fouquet (2014): *Finanzielle Vorsorge im Kernenergiebereich - Etwaige Risiken des Status quo und mögliche Reformoptionen* (Finance provisions in the nuclear sector - possible risks of the status quo and potential reform options), study conducted on behalf of the Federal Ministry for Economic Affairs and Energy, Berlin, December 10, 2014. Here: pp. 26/27.

19 Küchler and Meyer (2015): *Atomrückstellungen für Stilllegung/Rückbau und Entsorgung, Analyse der Rückstellungen Ende 2014 – Konzerne und einzelne Kraftwerke* (Nuclear provisions for decommissioning / dismantling and disposal, analysis of the reserves, end of 2014 - companies and individual power plants), *Forum Ökosoziale Marktwirtschaft* (Green Budget Germany), April 2015 www.foes.de/pdf/2015-04-FOES-kurzanalyse -Atomrueckstellungen-2014.pdf

20 Däuper and Fouquet (2014), ibid.

Table 1

Provisions for decommissioning and dismantling of commercial nuclear power plants and final disposal of nuclear waste in Germany[1]

In million Euro

	Owner's declarations to the BMWi Provisions for nuclear power 2013	Collection by Becker/Büttner/Held based on annual financial statements	Already paid amounts until 2013 (especially for directive "EndlagerVLV")	Sum of columns 2 and 3	There of decommissioning and dismantling	There of final disposal
E.ON	14,607	14,607	1,134	15,741	10,308	5,433
RWE	10,250	10,250	790	11,040	4,769	6,271
EnBW	7,664	7,664	570	8,234	4,515	3,719
Vattenfall	1,652	1,659	91	1,751	1,155	595
Kernkraftwerk Krümmel Gmbh & Co oHG	1,805	1,805	149	1,954	900	1,054
Total	35,878	35,985	2,735	38,720	21,647	17,072

1 As of 31.12.2013.

Source: Däuper, O., Fouquet, D. (2014): Finanzielle Vorsorge im Kernenergiebereich297 – Etwaige Risiken des Status quo und mögliche Reformoptionen. Studie im Auftrag des Bundesministeriums für Wirtschaft und Energie. Berlin, 10. Dezember 2014, 25 f.

For the tasks ahead 36 billion euros were provisioned in Germany by the end of 2013.

the energy market that have taken place in recent years have shown that the value and profitability of physical assets can change at short notice. For this reason, there is no financing security for the long-term commitments, in particular, in the area of radioactive waste management. If an operating company becomes insolvent, the parent company is liable for the subsidiary, provided that a control and profit transfer agreement exists, or a so-called unrestricted comfort letter[21] has been submitted. The experiences from recent years, however, show that even allegedly financially strong companies like automobile manufacturers, banks, or major energy companies (such as U.S. corporation Enron or Japanese electric utility Tepco) may be at risk of insolvency as well. If a nuclear power plant operator were to become insolvent, there would be an increased risk that the federal government and thus the taxpayers would have to bear the additional dismantling and disposal costs.[22]

Independent of any risk of insolvency, some large energy companies are trying to reorganize their company structures — presumably to achieve a limitation of liability for possibly high future payment obligations:[23] For example, in 2012 the Swedish Vattenfall Europe AG (*Aktiengesellschaft*, or joint-stock company) turned into Vattenfall GmbH (*Gesellschaft mit beschränkter Haftung*, or limited liability company) with a capital fund of only 500 million EUR. As announced, the E.ON Group will split up on January 1, 2016;[24] at present, it is unclear what exactly is going to happen with the provisions in the aftermath. Even though a direct liability with respect to the parent company for the enforcement of public liabilities does not appear to be categorically excluded in the case of corporate transformations, it is, however, by no means secure. In any case, it would only be possible under strict conditions and would only reduce the risks for taxpayers to a limited extent if the parent company were to become insolvent.[25]

Considerable uncertainties concerning the future costs of dismantling and disposal

When implementing major projects, planners are regularly faced with the problem that the development of future costs is more or less uncertain. With the dismantling of nuclear power plants, however, the situation is even more complex. For one, this has to do with a lack of experience; for another, it has to do with the strategic behavior of the nuclear companies, the non-transparency of information, and the absence of control possibilities for the public sector. The few experiences with the dismantling of nuclear power plants differ greatly and do not allow for generalized conclusions about future costs: For example, the costs and time investments expanded considerably during the dismantling of the former East German nuclear power plant in Greifswald,[26] but because this plant has a fundamentally different type of reactor, there is not much that can be learned from this experience. The costs of dismantling the older, smaller NPP in Würgassen (Baden-Württemberg, 640 megawatts) exceeded 1 billion EUR.[27] Again, it is unclear what these costs were made up of and whether they are representative of future dismantling costs at other power plants.

Cost estimates from the energy industry itself are, however, only very roughly comprehensible — or not comprehensible at all. Such is the case in a study by Arthur D. Little, which estimates average dismantling costs of 930 EUR per kilowatt of installed capacity. Foreign cost estimates, which by their very nature are also subject to large uncertainties, can only provide a rough estimate due to differences in technical and institutional frameworks (for example, with regard to authorization procedures). In Switzerland, the dismantling costs are estimated at 962 EUR per kilowatt.[28]

There is therefore the risk that the provisions the nuclear operators have allocated for dismantling and decommissioning — which currently amount to just under 22 bil-

21 A parent company pledges with an unrestricted comfort letter to provide daughter firms with enough financial resources to be able to meet all financial obligations.

22 See: Däuper and Fouquet (2014, ibid, page 8f.), who likewise doubt that the state puts a high priority on debt claims. A similar problem is currently arising in the banking sector with the obligation of the member states to create reserves, which could be required in the process of bank liquidation, see ECB (2015):. Monthly Bulletin, Vol. 66, No. 6, June.

23 See also: Hermes, statement delivered as part of the expert consultation of the German Parliament on March 4, 2015, committee documents 18 (9) 372, as well as Irrek, in: Wirtschaftswoche from December 6, 2014

24 The "new" E.ON will take over the areas renewable energy, customer services, and the distribution network operators. The conventional business with nuclear, coal, and gas power plants as well as global energy trade, exploration, and production will be transferred into a new business called "Uniper."

25 Nawarotzky and van Beuningen (2015): *Einstandspflicht eines Unternehmens für* öffentlich-rechtliche *Verbindlichkeiten eines Tochterunternehmens nach Maßgabe des Gesellschaftsrechts* (Purchase price payment obligation of a company for public liabilities of a subsidiary in accordance with company law), elaboration of the Scientific Service of the German Parliament), WD 7-3000 - 283/14, Berlin, February 25, 2015. p. 6 and the following.

26 Estimated costs of 4.2 billion EUR, see: http://www.heise.de/newsticker/meldung/Nach-dem-AKW-Abbruch-Atom-Entsorger-stellen-sich-neu-auf-2073185.html.

27 See: Neue Westfälische online from October 25, 2015: *„Rückbau des AKW Würgassen nach 17 Jahren abgeschlossen - Kosten von mehr als einer Milliarde Euro"* ("Decommissioning of the Würgassen nuclear power plant completed after 17 years – costs in excess of 1 billion euros"). http://www.nw.de/lokal/kreis_hoexter/beverungen/beverungen/11276380_Rueckbau-des-AKW-Wuergassen-nach-17-Jahren-abgeschlossen.html.

28 See: Küchler, S. et al. (2014): *Atomrückstellungen für Stilllegung, Rückbau und Entsorgung - Kostenrisiken und Reformvorschläge für eine verursachergerechte Finanzierung*. (Nuclear provisions for decommissioning, dismantling, and disposal - cost risks and reform proposals for a polluter-pays-principle financing). Study conducted on behalf of the *Bund für Umwelt und Naturschutz Deutschland* (Friends of the Earth Germany). Online: http://www.bund.net/fileadmin/bundnet/pdfs/atomkraft/140917_bund_atomkraft_atomrueckstellungen_studie.pdf. Retrieved on May 8, 2015.

Table 2

Selected financing models for decommissioning and waste disposal in other European countries

	Switzerland	Finland	Sweden
Costs to be covered	Decommissioning and Dismantling of commercial reactors and intermediate storage, disposal of nuclear waste	Decommisisoning and dismantling of commercial and research reactors; disposal of nuclear waste	Decommisisoning and dismantling of commercial and research reactors; disposal of nuclear waste
Estimated total costs	CHF 20.65 bn ~4,000€/kW installed capacity	EUR 2.3 bn ~800€/kW installed capacity	SEK 123 bn ~1,300€/kW installed capacity
Financing	Yearly contibution by power plant operators; capital income (ex ante)	Yearly contibution by power plant operators; capital income (ex post)	Contribution per kWh produced plus fixed amount for decommissioned nuclear power plants; capital income (ex post)
Volume	2013: CHF 5.28 bn; ~1,200€/kW installed capacity	2013: EUR 2.27 bn ~800€/kW installed capacity	2013: SEK 51.4 bn ~500€/kW installed capacity
Guidelines for investments strategy	Adequate return and financial security → diversified portfolio	Financial security and liquidity → Government bonds and serial bonds	Financial security and liquidity → primarily swedish guarantees
Average yearly nominal rate of return	Decommissioning fund (since 1985): 4.6% Disposal fund (since 2002): 2.4%	No average values available 2012: 1.7%; 2013: 0.8%	Since 1996: ~5%

Source: DIW Berlin, based on Küchler, S. et al.(2014): Atomrückstellungen für Stilllegung, Rückbau und Entsorgung – Kostenrisiken und Reformvorschläge für eine verursachergerechte Finanzierung, Studie des Forums öko-soziale Marktwirtschaft im Auftrag des Bund für Umwelt- und Naturschutz. Berlin, Oktober 2014.

lion EUR — are not sufficient. The cost assumptions that the nuclear power plant operators use as a basis for their provisions have not been made public. As well, the very different amounts of the specific provisions in the four companies affected suggest uncertainty and a great variance of costs: For example, the energy company RWE accounts for only 600 EUR of dismantling costs per kilowatt of nuclear capacity. For Vattenfall, however, this figure stands at 1,400 EUR per kilowatt.[29]

Even more uncertain are the costs of the long-term storage of the nuclear waste that is produced during the dismantling process. A fundamental cost analysis is only possible once a site for high-level waste has been chosen. After analyzing available literature, Green Budget Germany (FÖS) assumes the costs will range from EUR 15 to 27 billion in an average scenario.[30]

Because the state of science and technology is continually developing, the requirements emanating from the nuclear law and thus the cost of dismantling may ultimately be higher than expected. As well, the provisions that have been set up most likely include no risk premiums to cover the potential costs of any necessary recoveries of radioactive waste, or redevelopments of the repositories after their closures.[31] The costs of the site selection process as well are to be borne proportionally by the waste producers. In particular, the investigation of areas that come into consideration as well as the above- and underground explorations of sites, including the respective safety investigations, have to be refinanced.[32]

A public fund as a suitable instrument

Internationally, there have been varying experiences with the creation of nuclear funds; the level of financial preparedness also differs greatly. In Switzerland, for example, costs of up to 4,000 EUR per kilowatt of installed

29 See: Küchler, et al. (2014, p. 12).

30 For example, in 2012 the French Court of Auditors raised the original estimate of the final disposal costs from 14–16 billion EUR to 35 billion EUR; in England, the cost estimates for the dismantling and cleanup of the nuclear sites increased from 57 billion British pounds (2004/05) to 104 billion British pounds (2012/13); see: *Länderberichte in Brunnengräber*, et al., (2015, ibid).

31 See: Meyer, B. (2012): Rückstellungen für Rückbau und Entsorgung im Atombereich – Analyse und Reformkonzept. Zeitschrift für neues Energierecht, 3/2012, 239.

32 Ziehm (ibid, p. 26) additionally criticizes the fact the total sum does not include costs that the nuclear power plant operators would likewise have to bear according to the polluter pays principle: This refers to the proportional costs for the safe closures of the Morsleben repository (approximately 2.2 billion EUR) and the Asse II repository, for which the total level of costs is still unknown.

power plant capacity are assumed, but only 1,200 EUR per kilowatt have been put aside in the nuclear fund. In Finland, the nuclear fund only covers a small portion of the expected costs (Table 2).[33] Therefore, there is a major risk in these countries that the difference in costs must be borne by the general public.

At present, different organizational models for the financing of dismantling and final disposal are being discussed in Germany. Various reasons are given in favor of establishing a public-law fund. Maintaining the status quo, in which the NPP operators alone are responsible for financing the unknown dismantling costs in the future as well, appears to make little sense due to the many unresolved issues, which include not just the level of costs, but the liability issues in cases of insolvency, as well. Moreover, the Federal Administrative Court has made it clear that the mere creation of provisions within the companies responsible is not sufficient to ensure the financing of decommissioning and post-closure obligations.[34]

Even the proposal for two separate funds — one for decommissioning and dismantling, the other for final disposal — appears risky given the uncertainties in both areas. For example, the creation of a private-law fund by the energy companies for dismantling and decommissioning, and a public-law fund for the final disposal, has occasionally been proposed.[35] It is a prerequisite of this proposal that the dismantling costs are possible to predict. However, since both technical as well as procedural issues — and therefore the expected costs, as well — are very uncertain, there would be the risk that the fund turns out to be too small, and the remaining costs either have to be transferred to the repository fund or end up being paid for by the public sector (as in the case of bankruptcy).

Therefore, the formation of a single public-law fund appears to be the appropriate solution: Since the business model of the traditional utility companies continues to be threatened and further losses are foreseeable, this fund should be established as quickly as possible.[36] The nuclear waste producers should be required to supplement this fund in order to cover the following: the additionally required costs that are not covered by the current provisions, including a realistic "cost-increase factor"; an appropriate risk reserve; and the anticipated costs of the site selection process. Also needed is an additional reserve liability to cover additional costs that will be incurred in the future.

Summary and economic policy conclusions

The June 2015 shutdown of the Grafenrheinfeld nuclear power plant marks the transition into the next step of the restructuring of the German electricity system. At the same time, this should in no way be considered an "exit" from nuclear power — rather, it should be viewed as an "entrance" into the economy of dismantling and, in particular, of final disposal.

DIW Berlin's calculations show that the electricity supply in Germany will be secure even after the shutdown of the nuclear power plants. The shutdown of the Grafenrheinfeld NPP is unlikely to have any negative effects on the German power system. The elimination of the net capacity totaling 1,275 MW will be compensated for by the currently ample excess capacity. Based on the scenario framework of the German and European TSOs, the model calculations also show that further closures of the remaining eight nuclear power plants by 2022 will not lead to supply bottlenecks in Germany or in neighboring countries. On the contrary, it is expected that Germany will still be able to export electricity in 2025. At that point, by far the largest part of the electricity supply will be covered by renewable energy sources. The peak load amounting to 84 gigawatts in Germany would be — as it already is today — secured with the framework of the Central European electricity market. The electricity prices and emissions will increase only slightly.

However, the shutdown of the Grafenrheinfeld nuclear power plant points toward far more complex challenges, namely the safe dismantling of NPPs and the long-term storage of nuclear waste — and at a time when it must be taken into account that the formerly financially strong NPP operators are facing increasing difficulties in fulfilling their obligations. With regard to the

33 See: Küchler, S. et al. (2014): *Atomrückstellungen für Stilllegung, Rückbau und Entsorgung - Kostenrisiken und Reformvorschläge für eine verursachergerechte Finanzierung* (Nuclear provisions for decommissioning, dismantling, and disposal - cost risks and reform proposals for a polluter-pays financing). Study conducted on behalf of the *Bund für Umwelt und Naturschutz Deutschland* (Friends of the Earth Germany). Online: http://www.bund.net/fileadmin/bundnet/pdfs/atomkraft/140917_bund_atomkraft_atomrueckstellungen_studie.pdf Retrieved May 8, 2015.

34 See: The statements of the Federal Administrative Court on the financing of waste landfills, as well as the discussion with Ziehm on this topic (2015, ibid, p. 27).

35 For example, there is a report on this recommendation commissioned by the BMWi, see: Däuper and Fouquet (2014, ibid).

36 See also the request from Schleswig-Holstein, Hesse, Rhineland-Palatinate: *Entschließung des Bundesrates zur Insolvenzsicherung der Rückstellungen für Stilllegung, Abbau und Entsorgung im Atombereich* (Resolution of the German Federal Council on the insolvency insurance of the provisions for decommissioning, dismantling, and disposal in the nuclear sector), Federal Council document 280/14, as well as the Federal Council's decision from October 10, 2014, plenary session 926 of the Federal Council. For a more detailed description of the public-law fund model, see: Hermes, statement delivered as part of the expert consultation of the German Parliament on March 4, 2015, committee documents 18(9)372.

dismantling of the NPPs, there are still no reliable cost estimates. All the same, the "immediate dismantling" immediately following the power plant shutdown would be preferable to the so-called "safe enclosure" option, in which the actual dismantling is put off for three to four decades.

Even today, six decades after the first commercial usage of nuclear power in Germany, there is still no repository — or even a planned location for a repository — for the high-level radioactive waste. The Site Selection Act presents the opportunity for a new attempt that is earnest and supported by broad sections of civil society. This, however, will require a special political commitment, because the dismantling and final disposal involves a time scale that is unusual in politics: from several decades to centuries. So it can be assumed from a current perspective that the final disposal of nuclear waste will come to an end in the first half of the 22nd century, at the earliest.

Particularly urgent demand for action prevails with regard to the security of the provisions set up by the NPP operators for dismantling and disposal. Firstly, these reserves are not protected against insolvency, and NPP operators might try to dodge the financial responsibility — for example, through corporate restructurings. Secondly, it is already foreseeable at the present that the current accumulated provisions, which amount to around 38 billion EUR, will not be enough to cover the costs. Therefore, provisions should be promptly transferred into a public-law fund. For the additional costs that are expected, a reserve liability should be provided.

Christian von Hirschhausen is Research Director for International Infrastructure Policy and Industrial Economics at DIW Berlin | chirschhausen@diw.de

Clemens Gerbaulet is a Research Associate of the Department Energy, Transportation, Environment at DIW Berlin | cgerbaulet@diw.de

Claudia Kemfert is head of the department Energy, Transportation, Environment of DIW Berlin | ckemfert@diw.de

Felix Reitz is a Student Research Assistant in the Department of Energy, Transportation, Environment at DIW Berlin | freitz@diw.de

Cornelia Ziehm is a lawyer and author of the study "Endlagerung radioaktiver Abfälle" | rechtsanwaeltin-ziehm@posteo.de

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Keywords: nuclear power, energy transition, nuclear waste disposal

Prof. Dr. Claudia Kemfert is head of the department energy, transportation, environment of DIW Berlin

SIX QUESTIONS TO CLAUDIA KEMFERT

»Public Service Fund Could Ensure Access to the Provisions of Nuclear Power Plant Operators«

1. Ms. Kemfert, the commercial use of nuclear power in Germany is scheduled to be eliminated by 2022. Will the power supply still be reliable after the shutdown of the nuclear power plants? Yes, the power supply will still be reliable after shutdown of the nuclear power plants. In fact we currently have an electricity supply surplus, and even after the impending shutdown of Grafenrheinfeld's nuclear power plant, this surplus is not going to decrease very much. Using model simulations, we have calculated that we will still have sufficient electricity capacities after 2022. In fact, we will still be an net exporter of electricity.

2. In June, the Grafenrheinfeld nuclear power plant will be decommissioned. How will the elimination of capacities be compensated for? At the moment, we have an electricity supply surplus. We are still producing a large proportion (45 percent) of our electricity using coal, and the share of renewable energies has risen sharply. We currently have the paradoxical situation in which modern, highly efficient gas turbine plants are shut down or: not producing electricity because they aren't profitable, because the electricity market price is too low. Nuclear power will be replaced not only by renewable energies – which is happening right now in Southern Germany as well – but also by gas turbine plants and efficient cogeneration.

3. How much will it cost to dismantle the Grafenrheinfeld nuclear power plant? The estimated cost of dismantling a nuclear power plant is approximately 1 billion EUR – but we now know from past experiences that the actual cost can be significantly higher. As well, apart from the dismantling of the power plant, there are additional costs emerging from the question of how to deal with the radioactive waste and the radioactive residues prior to their final disposal, which entails that they be stored thousands of years. It is therefore extremely difficult to make cost estimates.

4. Are the provisions of the plant operators sufficient to cover the costs of the nuclear phase-out? Quite a few studies show that the costs of the demolition, as well as the costs of the final disposal, may be much greater than the provisions the operating companies have set up. So it becomes a question of what can be done so that the money also remains available. Our recommendation at this juncture is to establish a fund guaranteed by public law. On the one hand, the provisions that have been set up by the operators can flow into these funds. On the other hand, a certain reserve liability should be guaranteed so that society does not end up bearing alone those additional costs that could arise in the end. We have to make sure that the companies share these costs, and therefore our proposal is the establishment of such a fund.

5. How great is the risk that the nuclear power plant operators will shirk their responsibility? For example, what happens in the event of insolvency? If an operating company goes bankrupt, we have to pay attention to what happens with the provisions and who actually has access to the assets that a company still has even when it is insolvent. On the one hand, we can use the liability laws to ensure that the provisions are always secure and accessible. But on the other hand that is not a one hundred percent safe approach. Therefore, it would make more sense to set up a fund like the ones that already exist in other countries so that there is the guaranteed possibility of being able to use this money.

6. It is said that by 2031, a nuclear waste storage site will have been selected. When do you think such a repository will actually be put into service? That is extremely uncertain; we simply don't know when a mutual agreement will be reached. We already have quite a few decades of discussions behind us – and now the question is, how many more decades are needed before we can finally reach an agreement? We can only hope that the politicians will come to an agreement one day.

Interview by Erich Wittenberg

The Evolution of Germany's Net Foreign Asset Position

By Guido Baldi and Björn Bremer

Available data suggest that, between 2006 and 2012, Germany may have suffered losses to the value of more than 20% of annual economic output on its net foreign assets. Were these presumed losses on German net foreign assets coincidental or can they be attributed to deeper causes? Over time, fluctuating asset valuations are nothing unusual, per se. Losses can quickly turn into profits and vice versa. In addition, the available data should be interpreted with some caution. However, this report also shows that there are lessons to be learned from the loss in value on foreign assets. First, losses have been for the most part in portfolio investments, whereas foreign direct investments by German firms (strategic equity investments) have shown reasonable valuation gains since 2006 by international comparison. At the same time, foreign investors have also seen profit on their direct investments in Germany. With hindsight, it might have been a better strategy for German entrepreneurs and investors to either increase domestic investment or make long-term investments abroad. Further, a comparison with investment behavior in the United States (US) suggests that the profitability of German foreign asset placement has been low. Both countries attract capital from abroad for fixed-interest bonds because both Germany and the US profit from the fact that investors see them as "safe havens" and must pay comparatively low interest rates on bonds. However, while companies and private individuals in the US have simultaneously invested abroad in bonds with high value return, this can generally not be said for German investors in recent years. Some of Germany's net losses can even be attributed to foreign investors making valuation gains on their investments in Germany.

Since 2001, Germany has exhibited high current account surpluses, i.e., it has invested a lot more capital abroad than foreign investors have invested in Germany.[1] Germany's net foreign assets now constitute more than 40% of its gross domestic product (see Figure 1). Since 2006, however, Germany has suffered accumulated valuation losses amounting to more than 20% of the annual economic performance on its net foreign assets (see box 1). These losses have occurred even though Germany's nominal effective exchange rate changed very little over this period. Other Eurozone countries such as Belgium, Italy, or Austria saw profits in the same period or, like France, were able to generally avoid losses. Even countries outside the Eurozone, such as Japan or Switzerland, have seen profits since 2006. Germany is not, however, an isolated case. Several other countries such as Belgium, the Netherlands or Switzerland suffered short-term or early losses that, in relation to GDP, were similar to or even higher than Germany's recent losses. The contrasting development of the USA's net foreign assets is particularly noteworthy. In the past, the USA has been able to achieve consistently high gains on valuations, with peak valuations between 2002 and 2007. In this way, they have managed to contain their negative net foreign asset position despite high current account deficits since the beginning of the 1990s.

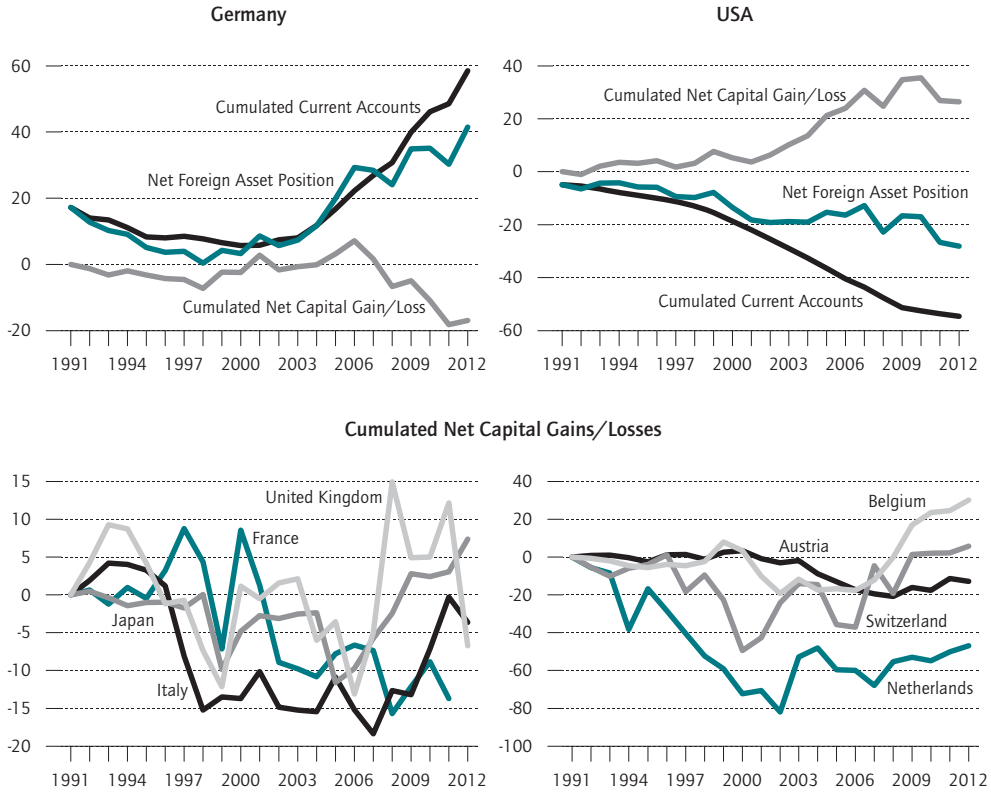
Profits and losses by foreign asset investment category

Looking at the changes in net valuation over time, developments for several countries are difficult to explain,

1 This is a (slightly revised) translated reprint of Baldi and Bremer, 2013: „Verluste auf das deutsche Nettoauslandsvermögen – wie sind sie entstanden?," DIW Wochenbericht, DIW Berlin, German Institute for Economic Research, vol. 80(49), pp. 32-40. Along with other publications (see e. g. Bach et al. (2013), „More Growth through Higher Investment," DIW Economic Bulletin, DIW Berlin, German Institute for Economic Research, vol. 3(8), it led to a debate about the evolution of Germany's net foreign assets. For a discussion of the challenges and shortcomings in the determination of net foreign assets and value changes, see, among others, Frey et al. (2014): „Fallstricke bei der Bestimmung von Vermögensverlusten deutscher Anleger im Ausland," Wirtschaftsdienst, vol. 94(11).

Figure 1

Net Foreign Assets and Capital Gains/Losses
In percent of GDP



Sources: IMF; own calculations.

Germany saw high losses on its net foreign asset position.

and seem almost random at first glance. One explanation for this pronounced volatility emerges when considering gross positions, i.e. a country's external assets as well as liabilities. Since the beginning of the 1990s, these have risen dramatically and much more than production in the countries under consideration. Germany's gross positions overseas have grown by around 200% in the last two decades, to around 250% of annual economic performance. When a country's total assets expand, we would expect even minor valuation changes on holdings to effect substantial fluctuations in value in relation to GDP. In the same way, measurement errors and inadequately recorded transactions or balances can cause significant value fluctuations in official figures. Determining foreign assets is subject to considerable uncertainties; this must be remembered during the following discussion.

This comparative analysis is limited to the US, Japan, and France. Together with Germany (and China), these countries comprise the five largest national economies in the world. However, the chosen countries are mainly comparable for other reasons. First, they are similar to Germany in that they are home to many international companies, which are active in the most diverse sectors of industry and which invest in a variety of different countries. In other countries such as the Netherlands, Switzerland, or Sweden, the development of net foreign assets is much more likely to be driven by individual large companies. Second, Germany and the three chosen countries all attract large amounts of international capital. Investments in the four countries were relatively secure by international standards between the years 2006 and 2012; country-specific risk premiums were either rare or insignificant. The US and Germany, in particular, were the target of capital inflows during the global financial crisis and the debt crisis in the Eurozone, and were considered "safe havens". Both countries are net borrowers from abroad in the (particularly secure)

Box 1

Calculating valuation gains and losses

Calculation of value gains and losses from foreign assets is carried out analogous to the approach outlined in the academic literature. A country's net foreign assets (NFA_t) can be determined by their net foreign assets in the preceding period (NFA_{t-1}) added to their current account balance (CA_t) and value gain (VG_t), which becomes negative in the case of a loss of value.

$$NFA_t = NFA_{t-1} + CA_t + VG_t$$

Thus, change in value can be derived from available data on net foreign assets and current account balances:

$$NFA_t = NFA_t - NFA_{t-1} - CA_t$$

This can be summed over the course of several years through recursive substitution, from which the cumulative valuation gain or loss (CVG_T) can be obtained:

$$CVG_T = \sum_{t=0}^{t=T} (NFA_t - NFA_{t-1} - CA_t) = NFA_T - \sum_{t=0}^{t=T} CA_t$$

This approach can also be applied to gross positions as well as individual investment categories. Thus, in order to determine cumulative value changes to the gross amount of receivables in the category of direct investments, the following equation is used:

$$CVG_T^{FDIA} = \sum_{t=0}^{t=n} (K_t^{FDIA} - K_{t-1}^{FDIA} - FDI_t^A) = K_T^{FDIA} - \sum_{t=0}^{t=n} FDI_t^A$$

CVG_T^{FDIA} denotes cumulative value changes, K_T^{FDIA} is the current volume of receivables, and FDI_t^A represents direct investments made in the given period.

bonds category. This makes a comparison between Germany and the US especially interesting. Third, all these countries have a well-developed finance system with international finance centers. Their finance systems are, however, not so significant in relation to GDP that they themselves could cause substantial value fluctuations, as in the case of the United Kingdom or Switzerland.

The following section will examine in which investment categories valuation losses occurred.[2] For this purpose, assets and liabilities are divided into foreign direct investment, portfolio investments in equity securities (such as stocks and funds), portfolio investments in fixed-income securities (e.g., government and corporate bonds), as well as other investments (such as loans, including trade credit and savings deposits). Official reserves and financial derivatives (for which data coverage is limited) are not considered. The following discussion will concentrate on the period between 2006 and 2012, because the losses on German net foreign assets occurred at this time. For optimal historical context, development since 1991 will be shown in the figures.

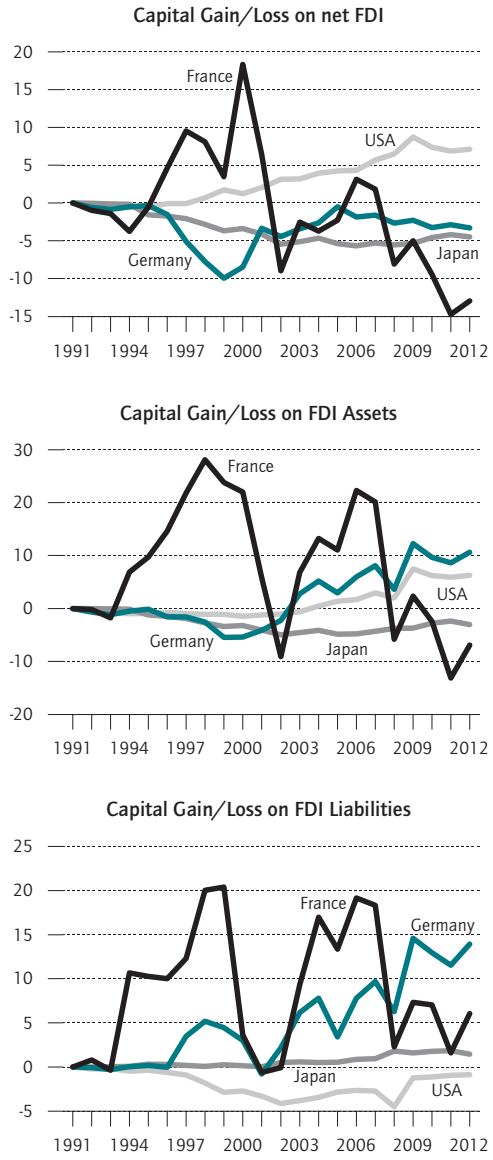
In the foreign *direct investment* category, Germany has suffered only insignificant net losses since 2006 (Figure 2). German firms have even recorded valuation gains abroad. Valuation gains by German companies on foreign assets are striking in comparison to the other countries under consideration, and could only be matched by the US over this period. However, liabilities (i.e. direct investments in Germany by foreign firms) have yielded higher valuation gains than assets, resulting in a net loss overall. Against a background of valuation gains on direct investment in Germany, it is remarkable that accumulated annual foreign direct investment in Germany has shown insignificant growth relative to the country's economic strength since 2006, and has remained more or less constant since the beginning of the 2000s (Figure 3). This may well have contributed to investment weakness in Germany. In the light of valuation gains on direct investments, it is clear that investors probably underestimated profitability in Germany.

Since 2006, Germany has seen significant losses on portfolio investments in *equity securities* (Figure 4). Since 2012, these have grown to around 8% of GDP. This is more than one third of the total loss of value suffered by Germany on net foreign assets. These net valuation losses have occurred in foreign assets. German companies, banks and savers have thus lost a lot on their foreign investments. Foreign investors have, on the other

2 It would be preferable to distinguish between valuation changes in local currency and pure exchange rate fluctuations. However, this is difficult due to limited availability of data, as well as various other factors. Therefore, and because the nominal (trade-weighted) effective exchange rate in Germany has been quite stable in recent years, currency effects will not be determined separately in this paper. This does not exclude the possibility that net losses on foreign assets are partly determined by currency effects. Determining an effective "financial" exchange rate derived from the structure of the foreign assets would be helpful in this context.

Figure 2

Capital Gains/Losses and Foreign Direct Investment
In percent of GDP



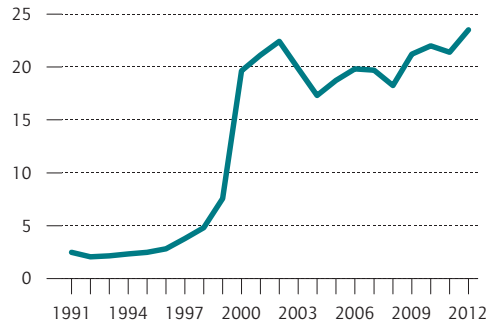
Sources: IMF; own calculations.

Net losses on foreign direct investment were low for Germany.

hand, barely seen any losses on their investments in Germany since 2006, although these were subject to high volatility. Among the countries under consideration, the US once again shows high net valuation gains between 2002 and 2006. In subsequent years, however, the US suffered losses in this category, while Japan and France reported moderate gains.

Figure 3

German FDI Liabilities
In percent of GDP



Sources: IMF; own calculations.

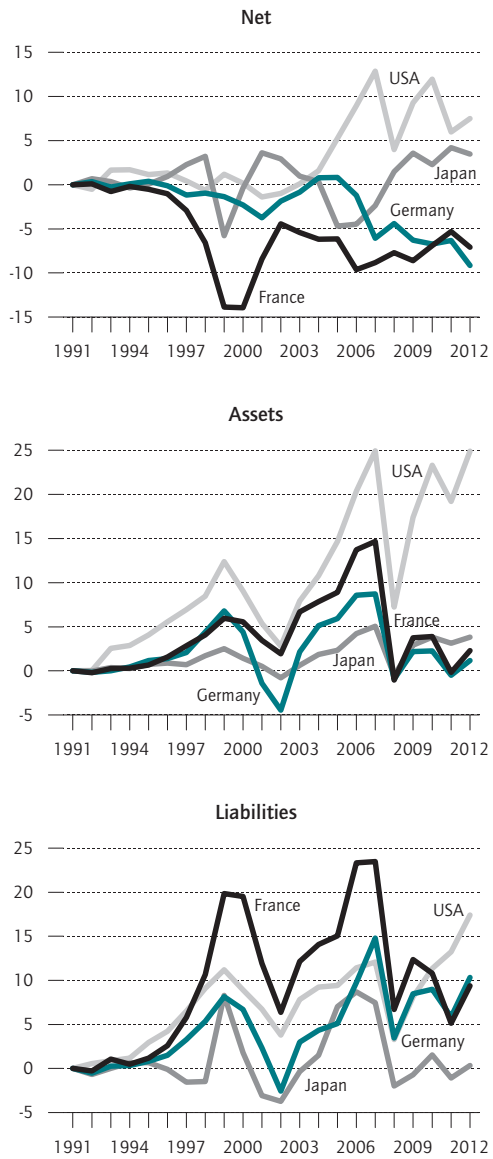
Foreign direct investments to Germany have stagnated.

Germany also suffered substantial losses on portfolio investments in *fixed-interest securities* – more than 8% of GDP since 2006 (Figure 5). Together with an approximate 8% loss on equity securities, the total German net valuation losses of over 20% can largely be traced back to portfolio investments. However, in contrast to net losses on equities, those on fixed-income securities occurred on assets and also because of valuation gains for foreign investors in German bonds. One factor contributing to this was probably Germany's status as a safe haven, particularly since 2006; as a result a large amount of capital was invested in bonds that were considered relatively secure. This high demand, in turn, pushed up the market value of German bonds, raising Germany's external liabilities by around 4%, at least on paper. The value of American liabilities has also risen by around 5% since 2006, underscoring the role of the US as a safe haven. At the same time, however, the US has seen valuation gains on its receivables, in contrast to Germany. Looking at Japan and France reveals a similar picture. These countries have also experienced a rise in the value of liabilities since 2006, probably because of low perceived country risk, while simultaneously there have been no or only insignificant losses on receivables – unlike in Germany.

Since 2006, Germany has also seen valuation losses on *other investments*; these amount to a net total of just under 6% of GDP (Figure 6). In contrast, the US was able to show valuation gains. Japan and France experienced only insignificant valuation losses. The German losses primarily occurred on foreign receivables, probably due to losses on credit to foreign companies, while the value of liabilities remained more or less stable.

Figure 4

Capital Gain/Loss on Portfolio Equity
In percent of GDP

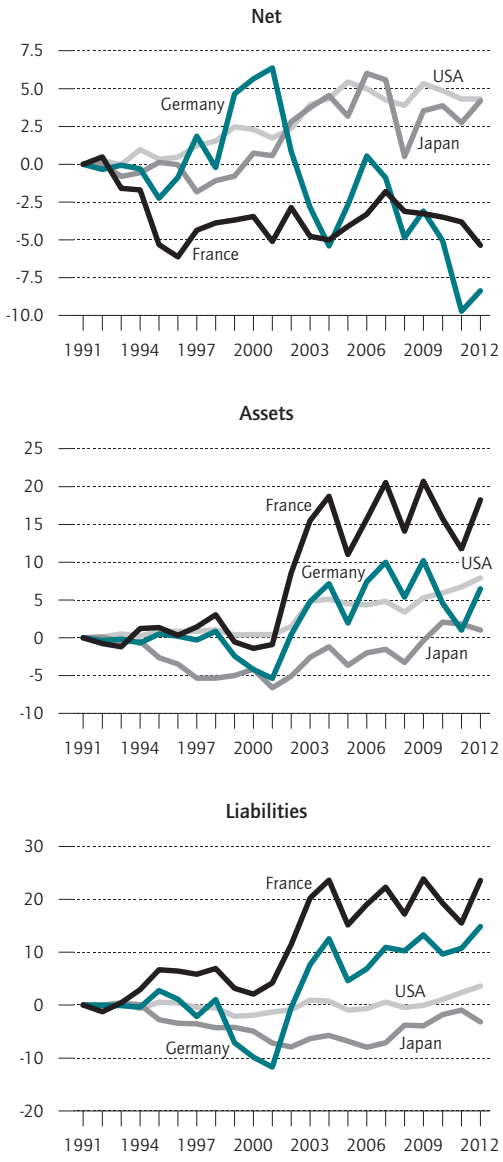


Sources: IMF; own calculations.

High losses occured for German investors abroad.

Figure 5

Capital Gain/Loss on Portfolio Debt
In percent of GDP



Sources: IMF; own calculations.

High demand for German bonds increased their value.

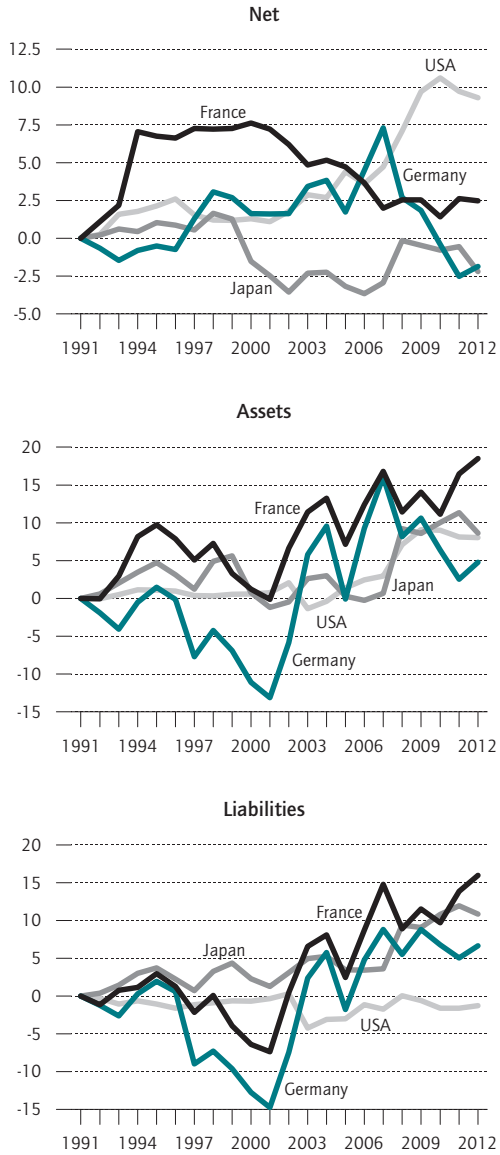
Can Germany learn from the USA's investment behavior?

From the analysis thus far, it is clear that Germany's performance since 2006, in all investment categories except direct investment, has generally been worse than that of the other countries in the study, especially the USA. Can Germany learn from the USA's investment behavior? This question will be addressed via a simulation. We will investigate whether Germany would have been able to achieve a higher total return on foreign assets with the same foreign asset structure as the US.

To simulate total returns on foreign assets, fluctuations in value and the income generated from foreign assets will be considered (Box B, am Ende dieses Dokuments).

Figure 6

Capital Gain/Loss on Other Investments
In percent of GDP



Sources: IMF; own calculations.

The value of German assets abroad decreased after 2006.

This includes dividends and interest, among others. Net investment income (i.e., the difference between investment income and payments on foreign receivables and liabilities) currently makes up around 2% of German GDP and almost one third of the German current account surplus. This is mainly attributable to the positive net foreign wealth, whereby more income was received than payments made. However, because valuation changes are often much higher than investment income and fluctuates more, total returns on foreign assets will often be determined primarily by means of valuation changes.

When the differences in total returns between receivables and liabilities are each summarized as six-year averages (Table 1), we can see that Germany exhibits a negative total nominal return difference over all periods under consideration. Japan and France, however, also often exhibit a negative or very small positive return over the same periods. According to available data, only the US was able to achieve a high return difference across the whole period, which even increased over time. It would be interesting to see if, given the same interest payable on receivables and liabilities as in the past, but with the same capital assets structure as in the US, Germany would have been able to achieve a higher total return.

As a matter of fact, a corresponding simulation for Germany (as well as for France and Japan) results in a markedly higher return for the last six years. According to the results of the simulation, using the USA's investment structure would have produced a yield of 5.8% (rather than a negative return of 1%). This would be almost as high as the 8.7% yield the US was able to achieve in the same period. This thought experiment illustrates how keenly the US can profit from its role as safe hav-

Table

Return Differentials[1] on Net Foreign Asset Position
In percentage points

	Actual Return Differential	Simulated Return Differential[2]
France		
1993–1999	0.0	1.8
2000–2006	–1.1	1.9
2007–2012	–0.1	6.2
Germany		
1993–1999	–2.9	0.3
2000–2006	–0.5	0.8
2007–2012	–1.0	5.8
Japan		
1993–1999	0.4	3.6
2000–2006	–5.8	2.4
2007–2012	0.4	3.3
USA		
1993–1999	4.3	4.3
2000–2006	5.8	5.8
2007–2012	8.7	8.7

1 Return on Assets minus Return on Liabilities.
2 If Foreign Asset Composition as for the US.

Sources: IMF;, own calculations.

Only the US manages to constantly get high returns on its net foreign assets.

Box 2

Calculating yields from foreign assets

The present derivation of yields from foreign assets is accomplished on the basis of the relevant literature[1]. Yields consist of the sum of value changes incurred and income achieved within a period divided by the amount at the start of the period. As an example, for the claims in each category *j*, this is calculated using a simple formula:

$$r_t^{Aj} = \frac{I_t^{Aj}}{A_{t-1}^{j}} + \frac{VG_t^{Aj}}{A_{t-1}^{j}} \quad i_t^{Aj} + vg_t^{Aj}$$

r_t^{Aj} stands for nominal yields, i_t^{Aj} for nominal investment income and vg_t^{Aj} to the respective change in valuation relative to the amount A_{t-1}^{j} in the preceding period. Calculation for yields which foreign countries generate from German assets is analogous:

$$r_t^{Lj} = i_t^{Lj} + vg_t^{Lj}$$

The individual yields in their respective categories can now be used to calculate the total yields as well as the difference between yields from assets and those from liabilities.

$$r_t^{A} - r_t^{L} = \sum (\alpha_t^{j} r_t^{Aj} - \lambda_t^{j} r_t^{Lj})$$

r_t^{Aj} and r_t^{Lj} designate the yields from assets and liabilities, respectively, in the category *j*. α_t^{j} is the weight of an investment category among total assets, λ_t^{j} is the weight of an investment category among liabilities. This distribution of the overall yield differential onto individual investment categories makes it possible to carry out simulations to determine which yields Germany could obtain with the same structure of fixed assets as the United States.

1 See for instance Lane and Milesi-Ferretti, 2001, „The External Wealth of Nations Mark II", Journal of International Economics vol. 55(2), pages 263-294; also Habib, 2010, "Excess returns on net foreign assets: the exorbitant privilege from a global perspective," Working Paper Series 1158, European Central Bank.

en and from low interest on its bonds. Germany plays a very similar role but has been unable to invest Germany plays a similar role but has been unable to invest in foreign assets as well as the US.

Conclusion

This paper asked whether the losses on German net foreign assets were coincidental or could be attributed to deeper causes. This investigation implies that, while chance may have played a considerable role, other factors were also important. Germany has performed worse than all other countries in the study in all investment categories except direct investment. German direct investments abroad have developed well by international standards, but there were no net gains, since international direct investments in Germany yielded foreign valuation gains as well. Losses, however, have incurred in the other investment categories. In retrospect, the question arises as to why the Germany's high national savings did not flow more into direct investment overseas or into domestic investment.

Overall, the results of this investigation suggest that Germany failed to take full advantage of favorable conditions; its position as net borrower in low-yield bonds was ideal for simultaneously making high gains in other, higher yielding categories such as direct investment. However, it would be incorrect to speak of a collectively erroneous investment strategy. Only a few countries, such as the US, are in a position to enjoy gains or avoid losses on foreign assets over a longer period of time. Even if it is neither possible nor desirable to follow a collective investment strategy, in the long term it is important for the welfare of a country that businesses and investors do not suffer losses on foreign assets. Only in this way will it be possible for future generations to benefit from the present German current account surpluses.

Guido Baldi is a Research Associate in the Department Forecasting and Economic Policy at DIW Berlin | gbaldi@diw.de

Björn Bremer is a PhD candidate at the European University Institute in Florence | bjoern.bremer@eui.eu

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