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EWEA briefing on the European Commission's Renewable Energy Strategy

EWEA welcomes the publication of the Communication on "Renewable energy: a major player in the European energy market" (the Renewable Energy Strategy) as the first follow-up document from the Commission's energy roadmap 2050. In the roadmap, a substantially higher share of renewables, together with efficiency and infrastructure, was acknowledged as one of the three "no regrets options" on the way to full decarbonisation in 2050.

The Renewable Energy Strategy provides a good basis for discussions on a post-2020 framework for renewable energy aiming at providing investors with more long-term certainty. While most of the instruments necessary for an effective EU renewable energy policy are covered, they are very often aimed at the period to 2020, rather than post-2020. **EWEA believes that the cornerstone of a post-2020 legislative framework for renewable energy should be an ambitious and binding 2030 target for renewable energy.**

A renewable energy target for 2030

Ambitious targets are at the core of the EU's policies to promote energy from renewable sources. Due to the early adoption of ambitious national and EU targets, European companies are world leaders in wind power technology, and have a leading share of the world market. In 2010 Europe sourced 20% of its electricity from renewable energy sources, including 6% from wind energy, just below the indicative target set by the 2001 Renewable Electricity Directive. In 2020, according to the Renewable Energy Directive's 27 National Renewable Energy Action Plans, 34% of the EU's total electricity consumption will come from renewable energy sources, with wind energy expected to meet 14% of consumption¹. The EU has therefore provided the power sector with a very clear trajectory until 2020. But the Communication rightly warns that renewable energy annual growth could slump from 6% to 1% post-2020 if business as usual is pursued, and advocates that "*to maintain robust growth beyond 2020...a supportive policy framework will be needed*". A clear trajectory to 2050 must therefore be set, with a focus on 2030, in order to provide the energy sector with the necessary investment stability and predictability as early as possible. The cornerstone of a post-2020 legislative framework for renewable energy should be an ambitious and binding target for renewable energy for 2030.

The Renewables Strategy's Impact Assessment Compares 4 options for a post-2020 framework for RES:

1. Business as usual: the ETS continues with its current linear factor
2. Decarbonisation without RES targets post-2020: strengthened GHG reduction targets only
3. Binding RES targets post-2020 and coordinated support: GHG, national RES and energy efficiency targets.
4. EU renewable energy target and harmonised measures: EU-wide RES target backed-up by a harmonised support scheme for RES and harmonised electricity system management.

Option 3 appears to be favoured by the Impact Assessment, on the following grounds:

- Greater economic activity related to RES
- Less fossil fuel imports
- Innovation for all technologies, not just the cheapest, and competitiveness on the long run
- More jobs, less infrastructure and better public acceptance than option 4

The Communication only timidly hints towards this: it states that "*specific 2030 renewables milestones can only be designed reflecting on the state of development of post 2020 climate policy, the degree of competition in Europe's electricity, heating and transport fuel markets, as well as the degree of energy diversity and technology innovation that is expected by 2020*". But it also affirms that "*whatever form the post 2020 renewable energy milestones take, they must ensure ... that Europe maintains its research and industrial leadership globally. Only in this way can we continue to develop our renewable energy resources in a cost*

¹ The European Commission, its Joint Research Centre, ENTSO-E, and EWEA have similar expectations.

effective, indeed, affordable manner and grasp the associated competitiveness, economic and job opportunities. For this reason, the Commission will also launch proposals for a renewable energy policy regime for the post 2020 period."

EWEA calls on Member States and the European Parliament to recognise the economic benefits of renewable energy targets and to call on the Commission to propose an ambitious 2030 EU renewable energy target, based on a high Efficiency and Renewable Energy scenario for 2030. Such a scenario was unfortunately missing from the European Commission's 2050 Energy Roadmap.

Technology maturity and national support mechanisms

The wind industry is committed to bringing down the cost of wind energy and already has a positive track record in this respect, namely thanks to continuous R&D efforts in the sector. Unfortunately, these have not been complemented to any significant degree by EU R&D funding. The success of onshore wind in bringing down costs will be replicated offshore in the coming years unlocking the exploitation of Europe's largest indigenous and eternal energy source, but it does require a greater EU commitment and changed priorities when it comes to energy R&D funding.

The Communication recognises the decrease in costs of mature technologies, notably onshore wind. EWEA welcomes the approach suggested for the successful development towards competitiveness and market integration of renewable energy technologies, notably:

- The call for a removal of "*policies which hinder investment in renewables*", including phasing out of fossil fuel subsidies and calls for well-functioning and well-designed carbon market and energy taxes respectively. However, EWEA would like to see rhetoric replaced by action in this field.
- The recognition that project costs are also driven by administrative and capital costs, and hence that "*simple administrative regimes, stable and reliable support schemes and easier access to capital (for example through public support schemes) will contribute to the competitiveness of renewable energy*"
- The calls for "*stable and reliable support schemes*" and condemnation by the Commission of abrupt (in particular retro-active) changes in support mechanisms which undermine investor confidence in the sector and thereby increases the risks related to RES investments and their costs
- The announced move towards more convergence of support schemes and schemes which expose producers to market prices and encourage cost reductions.

EWEA is however concerned about the approach concerning:

- "*Some form of R&D and other financial or administrative support may continue to be needed for newer, less mature technologies. Thus certain cost effective and well-targeted support schemes may still be necessary beyond 2020.*" This formulation seems to confuse R&D funding with support mechanisms, while ignoring the still considerably higher current funding for more mature fossil fuels and nuclear energy. EWEA supports the phasing out of support to technologies that do not need it, but this must apply throughout the energy sector – not only to renewables, as implied here.
- When addressing support schemes for renewables, the Commission needs to take a holistic approach and address all issues affecting project costs and technology competitiveness: energy markets, capital costs, administrative and grid connection costs, and financial supports mechanisms.

We look forward to cooperating with the European Commission on the guidelines for support mechanism reform.

The Communication also announces guidelines to facilitate the use of cooperation mechanisms and to facilitate imports notably from the Mediterranean. EWEA looks forward to working with the Commission on this in order to ensure the 2020 targets can be met cost-efficiently and in the spirit of the 2009 Renewable Energy Directive.

Development of electricity infrastructure, system operation and fair and open markets

Were all the electricity markets to function properly and were they more integrated at EU level and adapted to variable renewables (incl. shorter gate closure time in intra-day and day ahead), wind energy's low marginal cost would ensure that all wind generated electricity would be sold in the market ahead of any other technology's.

The Communication does recognise the importance of open electricity markets to the successful integration of renewable energy. It also mentions allowing trading closer to real time and removing obstacles to a truly integrated market. But it remains vague and implies that the "target model" to 2014 could be sufficient; EWEA considers it would have been beneficial to have:

- a stronger reference to the national implementation of the liberalisation packages (there are 17 ongoing infringement procedures) and more willingness to address structural market deficits, such as market concentration and regulated energy prices which are still very high Member States, and show how far we still are from a liberalised market,
- a stronger call for a better uptake of intra-day and balancing markets at national level and their integration at EU level, given that they are crucial for the successful integration of variable energy sources like wind energy.

The caution against national capacity markets is positive but a mention of broader EU markets based on grid support services is lacking. Wind energy producers could also benefit from such markets which would address

the “missing-money” issue due to the merit order effect (low marginal cost renewables decrease wholesale market prices, but the benefits are often not passed to end consumers) in a less distortive manner than capacity markets; EWEA looks forward to the Commission’s communication on the internal energy market to be published in October.

The Communication also rightly recognises that developing electricity infrastructure is critical to the integration of renewable energy. But no mention of the North Seas Countries’ Offshore Grid is made in the text, at a time where over 140 GW of offshore wind projects have been announced.ⁱ

EU financial commitment to R&D

EWEA welcomes the reference to the SET Plan and looks forward to the Commission’s 2013 Communication on a “SET Plan 2”. But the tone of the Strategy seems to indicate that EU R&D and national support mechanisms have brought some technologies to maturity and the EU should now focus on new technologies. More mature renewable energy technologies have been chronically underfunded by the EU Budget until today and the needs and potentials for cost reductions remain huge for the onshore wind sector. It remains crucial for the EU to take action and commit to financing the €6 billion 10 year wind energy R&D programme of the European Wind Initiative (under the EU’s SET-Plan) for both onshore and offshore wind, and to begin to consider post-2020 needs of the wind industry. The Industry has already committed to contributing 50% of the financing, with research focused on new turbines and components, offshore technology, grid integration, and resource assessment.

Access to Finance

At times of austerity where access to finance becomes more and more difficult in many Member States, and where the historically low general interest rate level does not benefit project developers due to the economic challenges of Europe, the Strategy is weak on access to capital and its cost. While it is obvious that long term certainty and a 2030 target for renewable energy is the best way to give investors the necessary confidence and reduce the investor risk, not least in technologies such as offshore wind, the Commission should have explored more in detail, innovative instruments and made proposals (e.g. how to involve pension funds and insurance companies in wind energy project finance; how to encourage Member States to develop green investment banks, or how to involve the EIB more effectively in renewable energy finance).

An Industrial Strategy for wind energy

Europe has a competitive advantage in renewables, in onshore and offshore wind power in particular. The wind energy sector is a motor for other European economic sectors, including metals, electric and electronics equipment, IT, construction, transport and financial services. While it strongly contributes to secure Europe’s future competitiveness, it does not benefit from any industrial strategy guiding its development.

While onshore wind is getting cost-competitive, offshore wind is a young industry facing challenges and which is depending on firm political support at EU level. Acknowledging the success of the industrial strategies the Commission deployed for the automotive, aircraft and shipbuilding sectors, EWEA calls on the European Commission to develop an industrial strategy for wind energy, particularly for the offshore sector and if necessary within the context of a strategy for renewables, including the relevant actors (industry and government) at regional and local level, so that the newly created economic opportunities become permanent and Europe maintains its global leadership of the sector.

This industrial strategy, built on industry and government public commitment, should focus on three work streams: technology innovation, supply chain bottlenecks and financing. Its objective would be to regard the offshore industry as one business, proactively considering its risks, whether created by regulation or industry practices, and assigning the appropriate participants on solutions to the issues raised.

Removal of trade and investment barriers

Trade is given only one paragraph in the Strategy, where the Commission rightly advocates continuing to foster fair and liberalised trade notably by eliminating "local content rules". It also announces partial closure of public procurement markets.

The Renewable Energy Strategy could have had as a key objective the replacement of costly energy imports (such as coal, gas, uranium) with the export of renewable energy technologies, particularly wind power. The European Union should take the lead in pursuing an international trade agreement on environmental goods and services (EGSA), focused on renewable energy technologies in order to ensure the removal of all trade barriers, both tariff and non-tariff barriers, including local content requirements. The EU should also give high priority to improving market access for the wind industry in relation to FTA negotiations with EU’s main trading partners.

ⁱ Of the already 141GW projects EWEA identified in European waters, either online, under construction, consented or planned, 60% or 84GW will be located in the North Sea, 16% or 22GW in the Atlantic and 14% or 20GW in the Baltic. 10% will be in the Mediterranean.