

# Promotion of the use of energy from renewable sources. Renewable Energy Directive

2008/0016(COD) - 31/01/2011 - Follow-up document

In accordance with Directive 2009/28/EC (the Renewable Energy Directive) the Commission presents a Staff Working Document reviewing European and national financing of renewable energy, which accompanies the [renewable energy progress report](#). It recalls the new European framework for promoting renewable energy, including legally binding national targets for 2020, such that the EU will reach a 20% share of renewable energy overall. Europe has established the regulatory framework for creating a low carbon economy, starting with pricing greenhouse gas emissions and a major drive to develop renewable energy technologies and deploying them in all sectors of our economy. However, providing the stable regulatory environment necessary to encourage investment in this industry, in all Member States, is not easy. Changes are needed to planning and building regimes and to electricity grids. In addition, the financing of the growth of the renewables sector needs more attention. Striving to compete with incumbent energy companies, technologies and traditional infrastructure, with fossil fuels and nuclear power still receiving four times the level of subsidies, renewable energy is often more expensive than traditional sources.

The document reviews the instruments available for filling this investment need and the European and national support instruments used. It contains suggestions for reform and improvement. It also explores actions to improve cooperation regarding national renewable energy support schemes, to ensure they are consistent with technological progress and do not hinder innovation or competitiveness.

The analysis undertaken for the Commission found that annual capital investment in renewable energy (including 62% of new power investment) would need to double to EUR 70bn to ensure we achieve our goals. Whilst the production cost of most renewable energy technologies is declining (wind production costs have declined by 20% over the 9 years to 2006 and solar PV by 57%), the growing scale and market share of the renewable energy sector requires additional funding to fill the gap. Moreover, whilst some forms of renewable electricity generation have already reached "grid parity" (off grid wind and PV, large hydro, biomass/waste plants, in good circumstances, can be as cheap as grid electricity), widespread grid parity (and the consequent phasing out of subsidies) will only occur after 2020.

In addition to the choice of technology, location and scale, the financing instrument used can also affect costs. Supporting investment can reduce capital costs; certain types of operating support can reduce project revenue risks and so reduce costs. Coordinated action across Member States can help exploit resources more efficiently and so create savings. Analysis undertaken for the Commission suggests that choosing more efficient technologies and sites, mitigating risk and coordinating resource development across Europe rather than from a national perspective, could reduce costs by as much as 10%; reducing the annual investment need from €70bn to €62bn. The report discusses the whole toolbox of instruments available, and looks at ways of improving the functioning of national systems for supporting renewable energy, in the electricity, heating and transport sectors

Despite the strong political support, ambitious European policy and legal framework (albeit with lagged implementation in some Member States), the EU financial support given to renewables is relatively low. For the period 2007-2009, funds spent on renewable energy amounted to roughly EUR 9.8bn, (EUR 3.26 bn/a), the bulk of which in the form of loans from the European Investment Bank.

The document states that a reorientation of EU budget priorities is appropriate. This is possible both in terms of more focused use of existing instruments and in developing new European instruments. The

report discusses funds from both Structural funds and Cohesion policy, the European Agricultural Fund for Rural Development; the EU R&D budget, and EIB funding. With the wide range of European instruments used to finance renewable energy projects with a European dimension, there is scope for ensuring that in the forthcoming review of the European financial perspectives maximum use is made of targeted and effective instruments. Indeed, in its recent budget review the Commission emphasised the catalytic role European funds should play in leveraging public and private financial resources. In this context, following the Commission's proposal for the next multi-annual financial framework, the Commission intends to maximise the leverage of private capital into energy projects of regional European interest. It will strive to facilitate the uptake of the Renewable Energy Directive's cooperation mechanisms, the intended use of which is disappointingly low. This would improve regional cooperation and begin the harmonisation of support schemes. It could ensure savings of as much as €10bn annually<sup>16</sup> and that renewable energy starts to be integrated into the European market.

At the national level, the reform of financing instruments occurs regularly, in a manner which generally strives to avoid creating investor uncertainty. However such reforms occur in an uncoordinated manner. The Commission intends to lead national cooperation on financing renewables, based on the new framework for Member State cooperation contained in the Renewable Energy Directive. In this way the cost of achieving the targets whilst promoting the growth and future prosperity of the European renewable energy industry can be minimised.

To ensure the achievement of these objectives, reflecting the conclusions of the Communication on renewable energy, action could include:

- preparation of guidelines for more harmonised reform of national renewable energy support schemes, through the use of the Directive's cooperation mechanisms;
- facilitation of the development of cooperation mechanisms both between Member States and with third countries (e.g. in the context of large scale industrial renewable energy initiatives such as the Mediterranean Solar Plan and Desertec Initiative);
- promotion of reforms in the southern Mediterranean to facilitate the growth of renewable energy and the scope for third country cooperation post 2020;
- the review of European Structural Funds and Cohesion Fund in the context of the EU Budget Review to examine the scope for an improved contribution of the funds to EU energy and climate targets in line with the Europe 2020 Strategy;
- continued work with financial institutions to improve European support for private investment in renewable energy projects;
- expanded use of innovative financial instruments as a device for achieving greater private sector leverage for European policy priorities and maximising the EU value added of financing in the energy sector.