Current challenges and opportunities for renewable energy on the European internal energy market

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PURPOSE: Commission Communication on the integration of renewable energy into the Single Market.

CONTEXT: in 2007 the EU set the ambitious goal of achieving a 20% share of renewable energy and a 10% share of renewable energy in transport by 2020 and has flanked these objectives by a series of supporting policies. The renewable energy goal is a headline target of the Europe 2020 strategy for smart, sustainable and inclusive growth. At the start of 2012, these policies are beginning to work and the EU is currently on track to achieve its goals.

However, the economic crisis has made investors cautious about the energy sector. In Europe's liberalised energy markets, the growth of renewable energy depends on private sector investment, which in turn relies on the stability of renewable energy policy. Investment in infrastructure, manufacturing and logistics also requires related investment - in testing facilities, cable production, factories and ships to build offshore wind installations. In parallel to a rigorous implementation of the Renewable Energy Directive, **clarity on longer-term policy is needed to ensure that the necessary investment is made**.

The Energy Roadmap 2050 builds on the single energy market, the implementation of the energy infrastructure package and climate objectives as outlined in the 2050 Low Carbon Economy Roadmap. Regardless of scenario choice, the biggest share of energy supply in 2050 will come from renewable energy.

However, despite the strong framework to 2020, the **Roadmap suggests that growth of renewable energy will drop after 2020 without further intervention due to their higher costs** and barriers compared to fossil fuels. Early policy clarity on the post 2020 regime will generate real benefits for investors in industry and infrastructure as well as for renewable energy investors directly.

Whilst the Renewable Energy Directive (2009/28/EC) provides for setting a post2020 roadmap in 2018, stakeholders have already been asking for clarity regarding policy developments after 2020.

This is why the Commission believes it is **important to start preparing now for the period beyond 2020.**

CONTENT: this Communication i) explains how renewable energy is being integrated into the single market; ii) gives some guidance on the current framework until 2020, and iii) outlines possible policy options for beyond 2020, to ensure continuity and stability, enabling Europe's renewable energy production to continue to grow to 2030 and beyond.

The Communication indicates the following areas where efforts should be stepped up until 2020 to achieve renewable energy goals whilst being cost-efficient:

Internal market for energy: strong growth in renewable energy markets suggests that significant "maturing" of technologies is occurring. Achieving competitiveness, however, requires political

commitment to regulatory frameworks that support industrial policy, technology development and removal of market distortions. It is important to **drive down costs, to ensure renewable energy technologies become competitive and ultimately market driven**.

1) Policies that hinder investment in renewables should be revised and in particular, **fossil fuel subsidies should be phased out**.

2) In view of the complementarity of climate and renewable energy policies, a well-functioning carbon market is necessary together with **properly designed energy taxes** to give investors strong incentives to invest in low carbon technologies and their development.

3) At the same time **renewable energy should be gradually integrated into the market** with reduced or no support, and should over time contribute to the stability and security of the grid on a level footing with conventional electricity generators and competitive electricity prices.

Improving support schemes: today, most renewable energy technologies benefit from national support schemes, but only a small share of the energy market is affected: less than a third of the 19% of electricity from renewable energy is sheltered from market prices. Mature technologies operating in competitive markets, with a well-functioning carbon market should ultimately no longer need support. However, s**ome form of R&D and other financial or administrative support may continue to be needed** for newer, less mature technologies.

Recent changes to support schemes have in some cases been triggered by unexpectedly high growth rapidly increasing expenditure on renewable energy, which is not sustainable in the short term. In some Member States, changes to support schemes have lacked transparency, have been introduced suddenly and at times have even been imposed retroactively or have introduced moratoriums. For new technologies and investment still dependant on support, **such practices undermine investor confidence** in the sector. Moreover diverging national support schemes, based on differing incentives may **create barriers to entry** and prevent market operators from deploying cross-border business models, possibly hindering business development. Such a risk of impairing the single market must be avoided and more action is also needed to ensure consistency of approach and remove distortions. To encourage this, the Commission plans to **prepare guidance on best practice** and experience gained in these matters and, if needed, on **support scheme reform**, to avoid fragmentation of the internal market. Principles for support schemes need to be established that **minimise market distortions, avoid over compensation and ensure consistency across Member States.**

Boosting cooperation and trade: the Renewable Energy Directive created cooperation mechanisms to enable renewable energy produced in one Member State to count towards the target of another. **These have not yet been widely exploited** despite the potential economic benefits for both parties. Only two Member States have indicated that they would use cooperation mechanisms to achieve their 2020 targets.

To encourage the development of renewable energy production in and with neighbouring countries, the Commission will facilitate international cooperation on renewable energy development by both enabling full use of the cooperation mechanisms which could develop renewables in the **Southern Mediterranean.**

Transforming infrastructures: the challenge of meeting future infrastructure needs will very much depend on our capacity to develop renewables, grid infrastructure and better operational solutions together in a single market. **Infrastructure development is therefore both urgent and critical** for the success of the single market and for the integration of renewable energy. Early adoption of the legislative proposals of the energy infrastructure package is crucial in that respect, in particular for speeding up the construction of new infrastructure with a cross-border impact. The Commission will continue to work with distribution and transmission system operators, regulators, Member States and industry to ensure the development of

energy infrastructure is **accelerated to complete the process of integrating Europe's networks and markets**.

Driving technology innovation: research and development (R&D) funding continues to be crucial to support technology innovation and development. The Strategic Energy Technology (SET) plan and the forthcoming Horizon 2020 research programme are the EU's main contribution to driving developments in key energy technologies. The Commission's 2013 Communication on energy technology policy will identify future R&D needs and challenges in line with the priorities identified in Horizon 2020. It will develop plans to ensure Europe will compete globally to drive innovation forward on a broad range of renewable energy technologies, including new ones, as well as explore further scope for action in promoting existing SET Plan technologies.

Post 2020: the Commission states that if current policy initiatives are not adequate to achieve our long-term energy and climate policy objectives, as the 2050 Roadmap suggests, **renewable energy annual growth would slump from 6% to 1%.** To maintain robust growth of renewable energy beyond 2020, which is a "no regrets" conclusion of the 2050 analysis, a supportive policy framework will be needed to address remaining market or infrastructure inadequacies. It is crucial to consider the options for concrete 2030 milestones. The impact assessment accompanying the report discusses three policy options. These are:

- a decarbonisation without renewable energy targets option, relying on the carbon market and a revised ETS (Directive 2009/29/EC);

- the continuation of the current regime, with binding renewable energy, emissions reductions and energy efficiency targets; and

- an enhanced, more harmonised management of our whole energy sector with an EU renewable energy target.

It is clear that specific 2030 renewables milestones can only be designed after reflection on the state of post-2020 climate policy, the degree of competition in Europe's electricity, heating and cooling and transport fuel markets, and the degree of energy diversity and technology innovation expected by 2020.