



European Renewable Energy Council
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Providing Flexibility for Member States to meet the renewable energy target

Brussels, 4th of December 2007: The European Commission called in January 2007 for a renewed energy policy for Europe contributing to sustainability, competitiveness and security of supply. The European Heads of State agreed in March 2007 to an EU binding target of 20% share of renewable energies by 2020 to be translated into national targets. EREC warmly welcomes this ambitious, and achievable, EU target.

The European Renewable Energy Council appreciates the clarification of Energy Commissioner Piebalgs that the European Commission will not propose a mandatory certificate trading scheme for renewables electricity and renewable heating installations. We also value his statement that the Commission does not intend to harmonise or endanger existing successful national support mechanisms.

Indeed, scientific evidence shows that the continuation of different national support schemes is currently the most effective and efficient way of boosting the share of renewable electricity in a cost effective manner.

In contrast, the introduction of a virtual certificate trade –mandatory or voluntary- as initially debated by the European Commission would sooner or later endanger and undermine successful national support systems, both feed-in tariffs and certificate mechanisms, and could be up to 100 billion Euro more expensive¹. This is despite the logic that flexibility mechanisms should be designed to reach the 20% target in a cost-effective manner.

Furthermore, the introduction of such a mechanism would strengthen the market dominance of incumbent utilities by creating serious problems of investment security to new market entrants (a majority of SMEs). Many would experience bankability problems and would not be able to face the financial risks of a certificate market. **A complicated certificate trading mechanism necessarily leads to enforcement of dominant players. Introducing such a system would send contradictory signals from the Commission:** On the one hand, the Commission praises those national markets where new market entrants (mainly renewables) increase competition, and on the other, it plans to introduce a mechanism strengthening dominant market players thus leading to the opposite effect. While this would please utilities which have been calling for such a mechanism for a long time, it would also certainly undermine the Competition Commissioner's fight against energy monopolies and oligopolies for the benefits of European citizens.

All scientific and economic evidence² demonstrates that a mechanism of tradable green certificates would not be the appropriate solution: This mechanism would interfere with successful mechanisms, be much more expensive and create investor uncertainty. By that, it will progressively destabilise new market entrants and only benefit big utilities to the detriment of European consumers. Virtual trade, even on a voluntary basis, would not encourage efforts by Member States to build up national capacity.

However, EREC fully acknowledges the importance of granting flexibility for Member States to help them reach their individual targets.

We are aware that small Member States or Member States with a lower GDP feel the need for more flexibility to achieve the ambitious 2020 targets. EREC fully appreciates these demands of flexibility provided that **existing national support schemes are maintained, further developed and not**

¹ *European renewable energy trade based on Guarantees of Origin (GOs) – concepts, critical issues, and recommendations for design*". Klessmann, Ensslin; Ecofys Ragwitz; Fraunhofer Institute for Systems and Innovation Research, G. Resch; Energy Economics Group. October 2007

² *ibid*

directly or indirectly undermined. At the same time, provisions have to be included to ensure that flexibility mechanisms do not endanger meeting the overall 20% target.

Therefore EREC supports the potential introduction of a flexible mechanism allowing exchange or cross-border fulfilment and trading of renewables credits (for target fulfilment), provided it is granted under the right boundary conditions. We believe that such a mechanism can be introduced in a very easy way based on a few core principles:

- 1. The mechanism must be operated on a Member State level only and not on a company level**
- 2. National binding intermediate targets must be put in place**
- 3. The use of such a mechanism should be allowed only after the exporting country has met its national intermediate target and is on course to meet its next target.**
- 4. Only production exceeding the (interim) target may be transferred**

Only such a mechanism would guarantee flexibility to Member States and at the same time would not interfere with national support mechanisms.

Justification:

1. The operation on Member State level rather than on company level gives the responsibility to where it should be. National governments are responsible for meeting the targets, not the utilities. Flexibility on a company level would mean that a government would totally lose control over its commitments although ultimately it is the government that is responsible for meeting the target and not the companies. For companies this would only be a welcome approach to strengthen their position in the market, but these companies would not serve the needs and commitments of governments. So all logic leads to an operation of a trading mechanism on the Member State level.
2. It is also very clear that a country cannot sell something which it does not possess. The renewable energy target is not virtual, but real. So if a Member State wants to sell renewable energy credits or certificates, it must already have fulfilled its own national target. Only surplus can then be sold or exchanged with another government. This creates incentives for governments to do more than just fulfilling their targets. It also does not set a practical cap on renewables development. Setting a cap on renewables development at the national target's level would send a wrong signal in terms of investor insecurity. By selling only surplus capacity to other governments this limitation is avoided and flexibility is given to both more ambitious countries and countries with less realisable potential. At the same time it would guarantee that trading would not lead to a strategic gambling exercise where "hot-air" is sold without resulting in a real development of renewables.
3. Such an approach obviously requires the setting of intermediate targets in order for it to already work before 2020. Therefore intermediate targets (every year or every second year, starting no later than 2012) would guarantee gradual progress and flexibility. They would provide sufficient flexibility for those countries that wish to buy or sell part of their renewable electricity needed for target compliance.

Any other solution could seriously threaten the development of a sustainable renewable sector, whereas this above outlined approach is fully supported by the industry.

EREC, the European Renewable Energy Council, is the umbrella organisation of the major European renewable energy industry, trade and research associations active in the field of photovoltaics, small hydropower, solar thermal, bioenergy, ocean & marine, geothermal, wind energy and biofuels. It represents an industry with an annual turnover of more than 30 billion € and more than 350.000 employees.

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