



Post-2013 Multiannual Financial Framework

“Aligning the EU Budget Priorities to achieve the Energy & Climate Targets by 2020”

EREC Position paper



Post-2013 EU Multi-Annual Financial Framework

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In 2009, European leaders agreed on a legal framework promoting renewable energy sources (RES), including binding national targets for 2020, for the EU to reach a 20% share of RES. The objective was to fight climate change and to demonstrate EU leadership. In 2010, the Commission and European Council included in the Europe 2020 Strategy - their strategy for long-term recovery - the 2020 RES target as one of five headline targets to achieve a smart, inclusive and sustainable growth¹. According to the Commission's Communication on renewable energy², annual capital investments in RES would need to double to €70bn to reach the 2020 target. The EU budget should play an important part in delivering this objective.

The European Commission is due to present before 1 July 2011 a communication on the next multiannual financial framework (MFF) - the overarching regulation for the EU budget. By the end of the year, legislative proposals will be presented by the European Commission on specific policy areas of the MFF. The next programming period provides the EU with a unique opportunity to adapt its budget and funding priorities to achieve the Europe 2020 objectives by allocating dedicated and sufficient funds to fight climate change in line with the Commission's proposed Flagship Initiative "Resource efficient Europe"³.

This position paper drafted by the European Renewable Energy Council, which represents the European Renewable Energy Industry, sets out ways to support all the steps required for renewable energy to develop, achieve the binding target set at EU level and to keep EU's technological leadership.

¹European Council conclusions 25/26 March 2010

²COM (2011) 31 final Renewable Energy: progressing towards the 2020 target.

³COM(2010)2020, Europe 2020: A strategy for smart, sustainable and inclusive growth.



EREC Key Proposals

- To adopt a strong and well-designed Framework Programme for Research & Innovation regulation with a **substantial increase** in the funding share for renewable energy technologies to reflect the EU's energy policy priorities.
- To **dedicate € 8 bn of EU funding** to renewable energy technologies in the upcoming "horizon 2020 Framework Programme for Research and Innovation" over the next multiannual financial framework⁴
- To put the **Strategic Energy Technology Plan (SET-Plan) at the heart of the funding** for renewable energy sources by 2020, as the outcome of a valuable process that has enabled the industry to define its research needs.
- To include in the EU budget a **dedicated budget line for each of the SET-Plan renewable energy technologies** with funds representing a total of €3.25 bn to ensure the implementation of the SET-Plan.
- To **create European Industry Initiatives for all other RES Technologies** currently outside the SET Plan with funds representing €4.7bn, and dedicated budget lines, to ensure their development and input in achieving EU 2020 goals.
- To **increase the Intelligent Energy Europe's budget to € 0.8 bn** to address non technological administrative barriers to RES.
- To **adapt the Risk Sharing Finance Facility (RSFF)** to the increased needs of financing RES innovative projects of European added value.
- To set up new reinforced financial instruments to boost investment in energy infrastructures such as the revision of cost allocation for cross border infrastructures, hereby ensuring an appropriate rate of return for Transmission System Operators (TSOs), and the development of incentives at a national level for Distribution System Operators (DSOs). Structural and cohesion policy funding should help finance the creation and refurbishment of district heating and cooling networks.
- To adopt structural and cohesion funds regulations earmarked for renewable energy and energy efficiency technologies and to double the funds dedicated to RES and EE compared to the current programming period.

⁴ This is in line with the demand made by the European Parliament of having an additional €2 bn a year in new funding for developing low carbon technologies (EP resolution on the European Strategic Energy Technology Plan 2008/2008(INI), 9 July 2008).



Renewable Energy Benefits to the EU

■ The economy

The EU exports, according to the EC, an estimated €350 billion of its wealth annually, mainly to countries rich in oil and natural gas. According to the International Energy Agency, the EU's import bill rose by \$70 billion in 2010, an amount equal to the budget deficits of Greece and Portugal. The increase, due to high crude oil prices, is equivalent to a loss of about 0.5% of total European income. Investing this money in renewable energy in Europe means that this money is put to work at home.

■ Environment

In total, the deployment of renewable energy avoided about 880Mt of energy related CO₂ emissions in 2010. This is equivalent to a total reduction of energy related emissions of about 22% against 1990 levels. Considering a carbon price of €20/t, the additional total CO₂ benefits from renewable energy sources can be calculated as being about €18 billion⁵ in 2010.

■ Energy security

The EU currently imports 54% of its energy and this is set to increase to 70% by 2030. EU energy imports come from unstable regions and countries such as the Middle East and Russia. Using an indigenous source of energy means that the EU can be self-reliant, providing its own energy.

■ Skilled jobs

The European renewable energy industry currently employs 550 000 people. According to the European Commission's 2009 Employ-RES report, the renewable energy industry could create 2.8 million indirect new jobs and 1.1% GDP growth if the 2020 renewables target is met.

■ Technology Leadership

The EU is the cradle of renewable energy innovation. For Europe to keep its first mover advantage, and global leadership, the EU needs to maintain its R&D momentum.

⁵ European Renewable Energy Council, "45% by 2030, towards a truly sustainable energy system in the EU", 2011.

Annex

The annex to this position paper sets out ways to support the steps required for renewable energy to develop, achieve the binding targets set at EU level and to keep EU's technological leadership.

I. A STRONG AND WELL-DESIGNED FRAMEWORK PROGRAMME FOR RESEARCH AND INNOVATION

€ 8 BN SHOULD GO TO RENEWABLE ENERGY SOURCES FROM THE EU BUDGET

While energy is very high on the European political agenda, the funding allocated to the energy theme is only 4.6% of the FP7 money⁶. The high political relevance of non-nuclear energy should be reflected in the EU budget, leading to a dramatic increase in funding energy research.

In spite of its binding 2020 target, the EU attributes a very low percentage of its R&D energy money to RES. In the current financial perspectives, only about 15% of energy research funds go to energy efficiency and renewable energy, while 69% goes to nuclear energy⁷. The remaining 16% go to hydrogen, carbon capture and storage, smart grids.

In its 2008 resolution on the SET-Plan⁸, the European Parliament called for the EU to contribute an additional €2 billion a year in new funding for developing low carbon technologies. According to EREC, €8bn should go to renewable energy sources to ensure reaching the renewable energy target by 2020.

IMPLEMENTATION OF THE STRATEGIC ENERGY TECHNOLOGY PLAN (SET-PLAN)

The SET-Plan aims at accelerating the development of low-carbon technologies and to improve Europe's energy security and competitiveness. As part of the SET-Plan the European Commission has initiated and launched, together with the industry and the Member States, 10 year Research and Development plans for wind, photovoltaics, concentrated solar power and bioenergy and established European Industrial initiatives (EIs).

⁶ Total funding of the 7th Framework Programme for 2007-13 is € 50.5 bn. Some €2.35 bn were allocated to 'Energy' (renewable energy, energy saving technologies, hydrogen and carbon storage technologies) as indicated on [the website](#) of DG Research.

⁷ Over 2007-2013, nuclear energy (Euratom) received € 5.31 bn and non-nuclear "energy research" in FP7 € 2.35 bn (of which 51% was spent on RES, energy efficiency and smart grids during 2007-2010) . The Euratom figure takes into account the € 2.75 bn for 2007-2011 attributed by the Council Decision 2006/970/Euratom and the € 2,56 bn proposed by the EC for 2012-2013 in its Decision COM(2011)72.

⁸ European Parliament resolution of 9 July 2008 on the European Strategic Energy Technology Plan (2008/2005(INI)).

The implementation of these EIs will lead to the creation of 650 000 skilled jobs. According to EREC estimations, the EU budget should contribute €3.25 bn⁹ for 2014 to 2020 to fund the European Wind Initiative, the Solar Thermal Electricity Industry Initiative and the Solar Europe Industry Initiative (SEII). However, the SET-Plan still lacks a financial commitment from the EU - although the dedicated budget line is within the EU budget since 2010, it is still empty. It is essential to commit funds for the SET-Plan.

The best way would be to include in the EU budget a dedicated budget line for each of the SET-Plan renewable energy technologies with funds representing a total of €3.25 bn to ensure the implementation of the SET-Plan which is EU's energy 2020 technological pillar. The EU financial contribution should be clarified to mobilize private investments and push the industry to develop and submit ambitious project proposals.

CREATION OF EIIS FOR RES TECHNOLOGIES CURRENTLY OUTSIDE THE SET PLAN

European Industry Initiatives are needed in renewable energy heating and cooling technologies, geothermal electricity, marine energy and hydropower. These technologies need to be given the support to create implementation plans and to interact with Member States and the European Commission in EI teams. The Council opened the door for this to happen for ocean energy in its Conclusion dating from 28th February 2011¹⁰. The Renewable Heating and Cooling Platform plans this work for 2013.

European Industry Initiatives are needed for the RES Technologies currently outside the SET Plan with funds representing €4.7bn, and dedicated budget lines, to ensure their development and input in achieving the EU 2020 goals.

REINFORCEMENT OF THE INTELLIGENT ENERGY EUROPE PROGRAMME (IEE)

Institutional, financial, behavioural and information barriers still slow down the uptake of RES. The "Intelligent Energy Europe" programme contributes to the achievement of the RES 2020 target addressing non-technological barriers, facilitating EU policy implementation (e.g. through the Concerted Actions on the Renewable Energy Directive), sharing best practices (i.e. Qualicert Project on the certification and accreditation of installers of small scale renewable energy sources) and raising awareness (the IEE now reaches up to 2 335 private actors, of which more than 70% are SMEs). The Programme has a total budget of 727 M€ between 2007 and 2013. An increased budget would indeed take due account of the growth of

⁹ R&D public and private investments for the EIs have been estimated in the Commission's 2009 Communication on "Investing in the Development of Low Carbon Technologies (SET-Plan)". For the Solar Thermal Electricity Industry Initiative, EU budget has been estimated to contribute 15% of the investments, resulting in 1.05 bn€ for the period 2010-2020, 10% for the Solar European Industry Initiative - 0.9 bn €- and 31% of the European Wind Initiative, leading to 1.304 bn €. The total contribution from the EU for the financing of the EIs amounts to €3.254 bn. As almost none of this money has been spent so far, these funding expectations are still valid for the 2014-2020 period.

¹⁰ TTE Council Conclusions on "Energy 2020: A Strategy for competitive, sustainable and secure energy", 28 February 2011



the renewable energy industry. EREC believes that the successor of the IEE should be dedicated around €800 M to continue its successful activities.

STRENGTHENING THE RISK SHARING FINANCE FACILITY (RSFF)

RSFF is an innovative scheme to improve access to debt financing for private companies or public institutions promoting activities in the field of research, development and innovation, including complex products and technologies, unproven markets, and other risky activities answering the needs of the renewable energy projects. The European Community allocates up to € 1bn of funds available under the Seventh Framework Programme (2007-2013) to RSFF. In parallel, the EIB is contributing up to € 1bn from its own resources. Together, these funds are to be used to back up financing operations with a higher risk profile than the average EIB lending portfolio. EREC calls for increased allocations to RSFF to reflect the increased number of innovative projects in renewable energies.

II. REINFORCED INNOVATIVE FINANCIAL INSTRUMENTS FOR ENERGY INFRASTRUCTURES

Due to ageing infrastructures, growth in energy demand, the increase of RES, the lack of an internal energy market as well as security of supply issues, massive investments in European energy networks will be required. As pointed out in the EC Communication 'Energy infrastructure priorities for 2020 and beyond'¹¹, important investments should be made between now and 2020, for electricity both at the transmission level (€200 bn) and at the distribution level (€400 bn). For transmission infrastructure in electricity an investment amount of €142 billion¹² is estimated of which € 90 billion is assumed to be commercially viable under current market and regulatory conditions for infrastructure investments in the Member States, therefore leaving a financial gap of € 52 billion¹³. For heating and cooling, the refurbishment of existing DH systems and the construction of new ones are required.

BOOSTING INVESTMENTS IN CROSS-BORDER ELECTRICITY INFRASTRUCTURE

There is a need for a revised regulatory approach for cost allocation of investment in cross border electricity grid infrastructure.

¹¹ European Commission, Energy infrastructure priorities for 2020 and beyond – a blueprint for an integrated European energy network, 2010 COM (2010) 0677 final, 17 November 2010

¹² The €142 billion figure is broken down as follows: €70 billion for transmission infrastructure (of which € 28 billion is for interconnections), €32 billion for offshore grid infrastructure, €40 billion for smart grid infrastructure in distribution and transmission networks.

¹³ The European Commission regards € 32 billion Euros for offshore grid infrastructure and half of the € 40 billion Euros for smart grid infrastructure in distribution and transmission networks as not commercially viable, see impact assessment accompanying the EC Infrastructure Communication, page 33: <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=SEC:2010:1395:FIN:EN:PDF>.



A comprehensive regulatory framework needs to allow appropriate fund raising. An adequate rate of return is crucial to raise the funds needed to build Europe's Transmission System.

A revised methodology would help regulators to assess the cost allocation of cross border infrastructure and hence help TSOs invest in cross border projects. Currently, regulators mainly look at the sole benefit of relieving congestion, without taking into account benefits such as improved system operation, avoided fuel costs or avoided CO₂ emissions. Infrastructure investments are best assessed with regard to their benefits and costs from an energy system-wide perspective. This includes – among others – the integration of RES into the network.

Given the importance of the needs identified, the market should play a central role for investments in the energy grids. Investments will mainly be undertaken by private actors (TSOs and DSOs) at a national level. However, where leveraging private investments is not possible, in particular when projects are driven by security of supply concerns, involve highly innovative technologies or very complex cost-allocation, EU financial support is needed be it through grants or a new mechanism dedicated to energy infrastructures development. Other instrument such as the EU Project Bond Initiative should also be supported.

DISTRIBUTION & SMART GRIDS

It will be crucial for the EU to support the development of appropriate tariff setting procedures to incentivise DSOs to invest in distribution grids.

Smart grids, intelligent management of demand and grid management and optimisation alleviate pressure on the entire network and can remove the need for extensive and expensive investments at the transmission level.

Cohesion Policy funding should help finance smart grid developments that have been identified as a European infrastructure priority.

DISTRICT HEATING AND COOLING NETWORKS WITH RES, AND COMBINED WITH CHP

District heating and cooling networks are crucial to ensure the large scale integration of renewable energy sources in the heating and cooling sector. Cohesion Policy funding should help finance the creation and refurbishment of district heating and cooling networks.



III. BETTER USE OF STRUCTURAL AND COHESION FUNDS

Structural and Cohesion Funds (SCF) can make it easier for Member States to implement the Renewable Energy Directive and reach their RES targets, especially now that national budgets are struggling to recover from the financial and economic crisis and that access to bank loans becomes increasingly difficult.

The next SCF should build on the National Renewable Energy Action Plans to help implement the Renewable Energy Directive, on the Sustainable Energy Action Plans submitted under the Covenant of Mayors and on the recast of the Energy Performance of Building's Directive. Problems causing low absorption should be addressed immediately.

While renewable energy had been defined as a priority in the 2006 Community strategic guidelines on Cohesion¹⁴ and in the ERDF, only 1.4% of the total Structural and Cohesion Funds (€4.8 billion out of 347 billion EUR) have been made available for RES projects over 2007-2013¹⁵.

The Fifth report on Economic, Social and Territorial Cohesion¹⁶ recommends setting a limited number of priorities. As emphasised by the EC, "given the regional employment and small and medium-sized enterprises benefits that can result from developing renewable energy, there is a clear scope for targeting the sector to achieve cohesion policy goals"¹⁷.

RES & EE should be part of the compulsory priorities to be included in the development and investment partnership contracts, which will set out investment priorities for Member States.

A recent EC Communication called for a doubling of annual capital investments in renewable energy from €35 bn /year to 70 bn a year¹⁸. To follow this principle, it is important to at least double the amount of funding made available to RES projects under the SCF from €4.8bn to €9.6 bn.

¹⁴ COUNCIL DECISION of 6 October 2006 on Community strategic guidelines on cohesion 2006/702/EC.

¹⁵ European Commission (2008). Working for the regions, EU regional policy 2007-2013.

¹⁶ European Commission, Fifth report on economic, social and territorial cohesion "Investing in Europe's future", November 2010.

¹⁷ Funding the Future: Financing renewable energy development effectively EC Communication, 15.11.2010.

¹⁸ European Commission, Renewable Energy: Progressing towards the 2020 target, COM (2011)31 final.



Who is EREC?

EREC is the united voice of the European renewable energy industry encompassing all major industry, trade and research associations active in the field of photovoltaics, small hydropower, solar thermal, bioenergy, ocean, geothermal, wind energy, and solar thermal electricity. It now has 11 members, which in turn, comprise globally active companies within their membership. EREC represents an industry with an annual turnover of more than €70 billion employing more than 550,000 people.

EREC' members:

AEBIOM (European Biomass Association)
EGEC (European Geothermal Energy Council)
EPIA (European Photovoltaic Industry Association)
EREF (European Renewable Energies Federation)
ESHA (European Small Hydropower Association)
ESTELA (European Solar Thermal Electricity Association)
ESTIF (European Solar Thermal Industry Federation)
EUBIA (European Biomass Industry Association)
EU-OEA (European Ocean Energy Association)
EUREC Agency (European Association of Renewable Energy Research Centres)
EWEA (European Wind Energy Association)

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