EUROPEAN UNION: Germany may guide renewables revamp

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Abstract (summary)

Changes to EU renewables policy.

This autumn, the European Commission plans to steer a major revision of renewables policy. It will likely limit the type and scale of support that renewables have enjoyed in many member states. However, member states may still be wary of submitting to a single system for renewable development, while supporters of renewables argue that the proposed changes would -- when added to those already taking place at the national level -- jeopardise the future development of the sector, making it harder to meet EU objectives for 2020 and beyond.

Full Text

SUBJECT:Changes to EU renewables policy.

SIGNIFICANCE:This autumn, the European Commission plans to steer a major revision of renewables policy. It will likely limit the type and scale of support that renewables have enjoyed in many member states. However, member states may still be wary of submitting to a single system for renewable development, while supporters of renewables argue that the proposed changes would -- when added to those already taking place at the national level -- jeopardise the future development of the sector, making it harder to meet EU objectives for 2020 and beyond.

ANALYSIS: Impacts.

Germany’s present coalition has already accelerated the reduction of support to the renewables sector.

However, the opposition Social Democrats (SPD) blocked a major reform earlier this year and could do so again if not in government.

The SPD and Greens appear to favour maintaining support to the sector but cutting taxes on household bills.

At first glance, the track record of renewables in the EU has been impressive in recent years (see EUROPEAN UNION: Renewables post-2020 hinges on targets - June 20, 2012). While data for the EU are not yet available for last year, recently published estimates from the International Energy Agency for Europe, which covers all the main EU member states and some non-EU countries, are available:

Renewables accounted for 11.5% of total energy requirements in 2012 -- a 7.5% increase in its share on the previous year.

For electricity, the share was 27%, 11.5% up on 2011.

Much of this increase was due to the expansion of solar power, with production up nearly 100%, and a significant growth in wind generation (20%).

However, this strong performance has been largely achieved on the basis of significant financial support (see INTERNATIONAL: Shale is potential threat to renewables - April 23, 2013), much of it funded from surcharges on electricity bills.

Higher electricity costs.

This has contributed to higher electricity bills in many countries, unwelcome at any time but particularly when economic conditions are so dismal. Rising costs have intensified worries about industrial competitiveness, while hopes that the surge in renewable development would generate a new industrial base have not been realised as much as had been envisaged.

Within the electricity sector, the guaranteed access of renewable-based electricity has had a highly disruptive effect on conventional power generation, with the major German utilities mothballing significant amounts of coal- and gas-fired plant because it has been rendered uneconomic or surplus to requirements. The utilities have also criticised the effects of renewable expansion on the operation of their networks (see EUROPE: Pressured utilities face far-reaching changes - January 6, 2012).

Renewables backlash.

As a result, a number of member states have been downgrading their support plans to the renewable sector:

Spain.

Earlier this summer, the Spanish government announced another wave of changes to its policy on renewables. The need for reforms is particularly acute because the costs of past growth in renewable use have not been fully passed on to consumers, leaving a substantial deficit of over 25 billion euros (33 billion dollars) between the costs incurred by utilities and revenues from tariffs. The new policy will further reduce the payments made to renewable suppliers, and continues the practice of retroactively imposing cuts to previously guaranteed prices.

Czech Republic.

The Czech government has imposed a further wave of cuts in support to renewables following previous efforts to contain the growth of projects and associated increases in power prices. From the start of 2014, it will end subsidies to new solar and biogas projects, and cease those to other new renewable projects by the end of that year. It will also levy a tax of 10% on existing solar projects. The law was passed by the lower house and awaits senate and presidential approval, although this may be delayed by the forthcoming elections (see CZECH REPUBLIC: Necas exit puts government in turmoil - June 18, 2013).

Romania.

Concerns about the effects of renewable charges on household bills and industry competitiveness have prompted the Romanian government to reverse its previous policy of generous subsidies to the sector. New projects will receive less support than had been envisaged (cuts in the level of support were not supposed to apply for another four years). This has damaged the profitability and feasibility of a number of planned investments.

EU changes to renewables support.

The European Commission retains its overall support for renewable development, both for the 2020 target and for the longer run, and has criticised the retroactive conduct of some member states in changing their renewable policies. However, it wants to limit the degree of support given to the sector and require it to compete on equal terms with other energy sources in the internal energy market:

New rules ahead.

The Commission is planning changes to the rules on aid for energy and environment purposes and will produce proposals on renewable policy which, taken together, would create a harmonised and market-based system of developing renewable projects and their integration into the electricity market.

State aid under fire.

It is considering investigations of the extent to which current national policies may be at odds with state aid rules. In particular, Germany's rules are under scrutiny not just because of the aid given to renewable operators but also the exemption given to energy-intensive industries from renewable charges -- a move criticised by other German consumers and which arguably provides the companies with an unfair advantage in international markets.

CONCLUSION: The next German government may have a decisive impact on the future direction of policy at the EU level. If the current coalition is returned following the September 22 election, it will likely embark on a major revision of the country's renewables law. Less clear is what would happen if Chancellor Angela Merkel's Christian Democrats (CDU) remain the largest party but lose their coalition partner, the Free Democrats (FDP). The CDU might seek an agreement with the Greens -- but they would be unwilling to abandon their flagship policy of energy transition.

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