

# **Renewable Energy and Energy Efficiency- Innovative policies and financing instruments for the EU's southern and eastern neighbours**

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## **Session 1: Successful Policies for Renewable Energy**

*Steve Sawyer, Secretary General, Global Wind Energy Council (GWEC)*

*Notes for statement:*

Renewable Energy development strengthens the European Neighbourhood through increased Energy security, particularly in terms of self-sufficiency. Also, it enhances:

- physical security by not being the subject of 'weaponised' energy resources;
- physical security through a decrease in the amount of fissile nuclear materials in circulation;
- economic security through strengthened manufacturing and employment base;
- economic security through insulating European economies from the macroeconomic shocks caused by the dependence on international commodity markets and the inevitable increase in the volatility of those markets.

### 1. Principles for successful RE development:

The hundreds of billions per year in subsidies to conventional and well established energy industries contributes dramatically to what Stern calls 'the greatest market failure' in history.

So, it's not that RE technologies are expensive, some of them are, and some of them aren't but they can't compete with established industries still receiving tens or hundreds of billions in taxpayer support every years.

What are needed are support schemes, 'smart' support schemes rather than politically motivated 'pork' which characterizes the current industry support, whether it be coal in Germany, oil just about everywhere and nuclear (Euratom, limited liability schemes, etc.).

If one wants to attract private investors, and raise capital at reasonable rates, then the signals that governments send must be:

Long = 15 years minimum, more is better

Loud – clear, relatively simple, unambiguous expressions of political will

Legal – be based on legally binding frameworks enshrined in national law and in accord with international agreements.

All support schemes must have most of the following characteristics to work:

Experience has shown that a successful policy framework for renewable energy must include the political will to develop appropriate measures in each of the four vital fields:

- Well designed payment mechanism
- Grid access and strategic development of the grids
- Good governance and appropriate administrative procedures
- Public acceptance

If one or more of these key components is missing from an overall framework, little progress will take place. Historically, no country has ever managed to develop a market for renewable electricity through the application of just one policy, but success has been the result of combinations of policies adapted to the local, regional or national context.

2. The experiences of different RE support systems to date:

- feed in tariffs/premium systems: By far the best results to date, providing investor security, reducing the risk (and hence the cost) of capital...needs development in terms of sophistication and technological differentiation which can come over time.

- renewable portfolio systems: Until recently, not terribly successful, but recent developments in the US deserve attention, particularly in the wind industry when combined with the federal production tax credit and various state-level support programmes has put the US in the position of the the global leader in annual installed capacity for both of the last two years.

- tradeable certificate systems: While economists continue to tout the theoretical economic efficiency of these systems, the result, at least in Europe, is the most expensive wind power in the market in the best wind regimes in Europe; primarily because of the large risks and uncertainties investors face with this system, which makes the cost of capital very high. As renewable energy markets grow and the global carbon market is fully elaborated and stabilized, this may change.

NB: None of these are sufficient, i.e., there must be other supporting policies as outlined above for RE development to be successful!!!!

Conclusion:

The European Neighbourhood Programme would benefit greatly from a new energy policy based on renewable energy and energy efficiency.