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BUSINESSEUROPE COMMENTS ON HOW TO PROGRESS TOWARDS THE 2020 RENEWABLE ENERGY GOALS IN THE EU**Executive Summary**

BUSINESSEUROPE acknowledges the role of renewable energy sources for tackling the energy and climate challenges in the EU. At the same time it is important to be aware that the 20% objective set by the European Council is very high. Its achievement by 2020 constitutes a major challenge.

Consequently, BUSINESSEUROPE urges public authorities to take great care when designing incentives for renewables, adopting only those with high economic efficiency. The EU must progress towards the 2020 renewable energy goals by thoroughly taking into account the following recommendations:

- Allow flexibility in meeting sector targets
- Strengthen the internal energy market and electricity grid across Europe
- Lower administrative burden for renewable energy projects
- Set common criteria for support schemes
- Allow for trading in electricity from renewable energy sources
- Take into account competitive disadvantages for energy-intensive industries
- Do not distort competition for use of raw materials
- Use final energy consumption as basis for the 20% goal
- Assess all options for biofuels
- Create the right incentives in the heating and cooling sector

**Introduction**

In March 2007 the European Council decided to adopt an ambitious EU energy and climate change policy. There is now an urgent need to develop the right framework in order to move towards the target of increasing the share of renewable energy to 20% by 2020 in the most cost-efficient way. BUSINESSEUROPE acknowledges that the deployment of renewable energy technologies plays a role with regard to environmental issues and long-term security of supply. In addition, Europe's technological and market leadership in renewable energy technologies brings economic benefits to European societies in terms of jobs, health, etc. That being said, it is important to be aware that the 20% objective is very high. Its achievement by 2020 constitutes a major challenge.

Consequently, BUSINESSEUROPE urges public authorities to take great care when designing incentives for renewables, adopting only those with high economic efficiency. Experience in the past has shown that measures to promote renewables have not always been cost-effective, and industry does not want this experience to be repeated, driven by a determination to achieve the 20% target at any price. An open discussion with stakeholders is needed on assumptions and results of the European Commission's ongoing modelling exercise on how to implement the 2020 targets. It would also be useful to put in place milestones to mark progress towards the targets.

Measures are needed in particular to promote research, development and demonstration (RD&D) in the area of renewables, bearing in mind the fact that public resources must also be mobilised to advance RDD in other areas of energy production and energy efficiency. Therefore, all regulatory and support measures taken in view of the renewable energy goals must leave room for the market to decide on where investments should best be made with a view to meeting the European energy challenges. Climate change and energy policies must not harm industry's competitiveness, since this would gradually push energy-intensive industry – in particular – out of Europe, which would mean not only a loss of jobs and welfare in the EU, but also an increase in emissions due to production of energy-intensive products outside the EU and their transportation into the EU.

In view of the legislative measures the European Commission will be proposing at the end of 2007 for implementing the legally binding goals on renewable energy, BUSINESSEUROPE draws particular attention to the following points:

**Allow flexibility in meeting sector targets**

Separate binding targets for sectors (heat, transport, electricity) limit the possibilities to take into account national and local circumstances and therefore may prevent an optimal allocation of resources and raise the overall costs of increasing the use of renewable energy. BUSINESSEUROPE strongly advises against the setting of binding sector targets at European level. Member States should be given the flexibility to allocate their target in line with their circumstances and should be able to decide whether or not to adopt binding sector targets.

Strengthen the internal energy market and electricity grid across Europe

The extension of renewable energy use in Europe necessitates a well-functioning internal energy market. This calls for improved transparency, equal access to the grid, harmonised rules and regulations, strong and independent regulators and Transmission System Operators (TSOs), and effective unbundling.

It also necessitates simultaneous grid extensions as well as new investments in infrastructure and inter-connections between Member States. In some Member States, the current grid system is not sufficiently equipped to handle intermittent sources of renewable energy. For example in Denmark over Christmas 2006, wind power had to be cut off due to an inability to handle sudden and large inflows of electricity from renewable energy sources (RES-E). In contrast, renewable energy sources sometimes produce very low levels of electricity depending on meteorological conditions. The grid system in Europe must be able to handle stochastic inflows of RES-E and also able to feed in conventional power when necessary. Planning and authorisation procedures should therefore be streamlined, harmonised and accelerated by strengthening cooperation between TSOs, which will monitor and analyse planning developments at regional level.

Lower administrative burden for renewable energy projects

The bureaucratic process for developing renewable energy projects is quite extensive in many Member States. BUSINESSEUROPE therefore supports the idea of introducing "one-stop shops", where one body is responsible for applications and granting of building permits, in order to lower administrative burdens for project developers.

Set common criteria for support schemes

Public support schemes for renewables should aim at establishing a market for renewable energies instead of separating them from the market by giving extensive and long-term support independent of economic conditions. The current multiplicity of non-coordinated subsidy mechanisms in EU Member States stands in the way of competition in an internal market for energy, and leads to misdirected incentives to build installations at unfavourable locations. Hence, subsidies for renewable energies should be harmonised at European level for efficient allocation across Europe. For introduction of a harmonised support scheme, BUSINESSEUROPE calls on a specific and realistic road map, including timetables, on how to implement a harmonised scheme.



Support schemes in Europe should:

- be technology-neutral, meaning that all technologies should receive the same support, and thus be directed towards the most cost-efficient technologies which have not yet become competitive in the market;
- promote technologies remote from the market through research, development and demonstration and capital support and not through higher financial support of electricity production that interferes with the proper functioning of the market;
- aim at bridging the gap between demonstration projects and commercialisation in order to bring the benefit of research, development and demonstration to the market;
- encourage development of the most productive and efficient stations in optimum locations;
- take into account the market value of the energy produced;
- assess the sustainability of the renewable energy production, in particular when raw materials are used for fuel. The same sustainability criteria should apply to the production of biofuels as to the production of other products on the basis of biomass.

Allow for trading in electricity from renewable energy sources

Flexible, market-based approaches should be developed allowing Member States to reach their national 2020 targets through cross-border trading in electricity from renewable energy sources (RES-E). To facilitate this, the Commission should build on the current system for tradable Guaranties of Origin (GoO) to facilitate production of RES-E in countries where it is relatively inexpensive to do so. In order to facilitate trade in GoOs, which refers to a specific amount of RES-E, there is a need to ensure that all Member States fulfil 2001/77/EC directive and therefore mutually recognise GoOs from other countries. The buyer of a GoO should be able to count this amount towards its national renewable energies target.

Take into account competitive disadvantages for energy-intensive industries

European energy-intensive industries compete globally, i.e. prices for their goods and services are set on the world market. Hence they would be disadvantaged compared with their global competitors by the expected rise in electricity prices in Europe due to the cost of support for renewable energy. Energy-intensive industries should therefore be protected from burdens generated by any support scheme. Models for burden exemptions are already in place in several EU Member States. It will be important that the exemption rules allow the parties concerned to make long-term plans.

In order to secure a level playing field among energy-intensive industries, Member States should be encouraged to consider the effects that the support of renewable energies has on energy-intensive industries. The Commission could also provide guidance in this regard by promotion of best-practice models for burden exemptions.



Do not distort competition for use of raw materials

Attention should be paid to the aspect of competition for raw material use (such as for electricity, heat, fuels, use as material, food). Promotion of renewable energy sources should not create market distortions and result in changes in the availability or price of raw materials used for example by the pulp and paper, chemicals and food industries. For instance, the chemicals industry and the rest of manufacturing industry use cultivated raw materials from agricultural and forestry products such as meat, plants and timber and their derivatives such as fats and oils, cellulose, starch, sugar and fibres in their production. Any instrument that uses state intervention to divert at least some of the cultivated raw materials into other uses will have the consequence that they will only be available for industrial production in insufficient quantities and at higher prices. Pure combustion removes valuable raw materials from a production chain which could have been used as material in manufacturing industry with much higher added value. A recent study¹ found that the value added of using raw materials for the pulp and paper industry is four times higher than in the bioenergy sector. Substitutes would primarily involve greater use of fossil raw materials, which would be inconsistent with the ecological approach of the entire initiative.

Only the market must decide on the most efficient use of cultivated raw materials. EU institutions should urgently examine the possibility of moving forward on the common agricultural policy notably so that it is possible to make large imports of feedstocks and biofuels at world prices.

Use final energy consumption as basis for the 20% goal

Strengthening the European Energy Market will increase the trading and transport of electricity between Member States. To avoid distortions between exporting and importing countries, the 20% target for renewable energies should be based on final energy consumption. This will allow an adequate target-setting, because the real energy consumption of the Member States is taken into account. In contrast, the relationship of targets to primary energy consumption may lead to inadequate target-setting, since deviations may occur.

The main benefit of using final energy is that it treats all forms of electricity generation and importation in a neutral way. One kilowatt-hour of electricity is equally important in the final energy calculation independent of its origin, whereas primary energy calculation gives more weight to thermal power generation compared with wind, hydro or solar. Primary energy calculation would give a wrong incentive to Member States to rely more on electricity importation rather than on increasing generation capacity.

Biofuels – assess all options

Fuel supply – just like electricity supply – needs to be placed on a broader basis of energy sources in the longer term. All alternative options to petrol and diesel must be assessed, not only for their economic and environmental results but also for their technical usability and long-term availability. In this respect, it is above all essential to evaluate new fuels in terms of their sustainability criteria and in particular of their CO₂ performance throughout their production and use (“well to wheel”).

¹ “Value Added Creation in the European Pulp & Paper Industry and Bio-energy Sector”, Pöyry Forest Industry Consulting Oy for CEPI, 2006.



For this evaluation, which can only be carried out against a global background, considerable R&D measures are still needed. Beyond the first-generation biogenic fuels currently in use (rape methylester and biogenic ethanol), there are technical procedures and first realisations for production of second-generation biogenic fuels. Further optimisation of fuel qualities in connection with the development of highly efficient engines requires an integration-oriented approach to research in order to exploit this potential.

Create the right incentives in the heating and cooling sector

Renewables can play an important role in the supply of heating and cooling. BUSINESSEUROPE pleads for an approach that supports the growth of these sources without leading to additional burdens for the energy market or distorting the biomass markets.

A wide range of technologies is already available for renewable based heating and cooling. Options include heat pumps, solar thermal, geothermal or biomass-based technologies. Combined heat and power generation (CHP) is also an important option for using renewable sources for heating and cooling purposes, as it provides high-efficiency, well-proven technology. CHP systems may be used in existing infrastructure e.g. by co-firing or by establishing new local supply systems. This whole range of technologies must be taken into account for achieving future goals.

Finding the right incentives is another major concern. The market for renewable heating is already growing rapidly, leading to supply shortages among the manufacturers of these technologies and price increases for wood pellets and other biomass materials. Renewable sources for heating have already proved to be competitive with conventional solutions. However, information deficits on the customer side still exist. Thus, information campaigns supporting the customer to decide for systems based on renewable energies are the most important means of extending renewables usage.

Introducing support mechanisms to increase the growth may lead to higher prices for technical equipment and biomass without further positive ecological effects. To avoid this, best support practices from Member States should be used, since many support programmes already exist in the different Member States. An example is the German market incentive programme, which has proved very successful, as it allows the investor to decide at the moment of purchase.
