

7 April 2008

## DRAFT DIRECTIVE ON THE PROMOTION OF RENEWABLE ENERGY SOURCES (RES)

### BUSINESSEUROPE'S COMMENTS IN VIEW OF THE FIRST READING IN THE EUROPEAN PARLIAMENT

***Political message:***

BUSINESSEUROPE acknowledges the role of renewable energy sources for tackling energy and climate challenges. Nevertheless, as it will be extremely costly to reach the EU's ambitious renewable targets by 2020, the directive on the promotion of the use of energy from renewable sources must allow for utmost flexibility and market-based instruments to minimise the costs of reaching these targets.

The legislative package proposed by the European Commission on 23 January has not opted for the political scenario which would provide the highest cost-efficiency according to the Commission's impact assessment.<sup>1</sup> BUSINESSEUROPE therefore asks the EU institutions to review that approach in order to move towards a more cost-efficient scenario. In particular, the large potential of energy and emissions savings achievable through energy efficiency measures must be taken into account.

BUSINESSEUROPE stresses the following items in particular:

▪ ***Mitigate cost increases for energy-intensive industries***

Given the expected substantial cost increases for electricity and raw materials as a consequence of renewable energy policies, mitigation measures should be developed, especially for energy-intensive industry sectors and sectors exposed to international competition. Account should be taken of these cost increases, for example when determining the scope and quantity of free allowances allocation for energy-intensive sectors in the Emission Trading Scheme. Revenues from the auctioning of allowances should also be used to mitigate the impact of the climate package on the electricity/energy cost for industry.

▪ ***Improve conditions for trading in Guarantees of Origin (GoO)***

In order to give Member States the possibility to comply with their national renewable energy targets at the lowest cost, BUSINESSEUROPE supports cross-border trading of GoO provided that this new mechanism is designed with great caution. Free trading of GoO is likely to over time lead to the optimisation of cost for renewable energy

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<sup>1</sup> The cost-efficient reference scenario of the impact assessment expects an incentive price of 45 Euros/MWh for renewable energy in order to reach the renewable targets, whereas the scenario which has been chosen de facto (redistribution of non-ETS targets, no CDM, redistribution of the renewables targets, no RES trade) expects an incentive price of 51 Euros/MWh.

production across Europe. National support schemes should however not be disrupted by GoO trading. Trading should also be designed to minimise bureaucracy costs. Member States should have the possibility for flexible target-reaching. Countries outside the EU/EEA should have the possibility to participate fully in GoO trading, including through virtual trading. Therefore, article 5.9(a) of the draft directive should be deleted.

Producers of renewable energy should have some flexibility to shift between either receiving support from their national scheme or trading their GoO to other parties. The current text seems to stipulate that producers must decide at the outset whether they wish to receive national support or trade their GoO. Producers would then not be able to switch between these options during the whole operation time of their installation. For this reason article 8.2. of the draft directive should be amended.

All producers of electricity and heat from renewable energies should be able to receive GoOs upon request. Clear and harmonised specifications should apply across Europe.

▪ ***Move towards harmonisation of national support in the long term***

Public support 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 uncoordinated 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, in the long term subsidies for renewable energies should be harmonised Europe-wide for efficient allocation across Europe. The support schemes applied to increase the use of renewable energy must not endanger the use of biomass as an industrial raw material or result in greater support than needed. In the short term, national approaches for supporting renewables must be monitored and the adoption of best practices encouraged.

▪ ***Reconsider the 10% target for biofuels in transport***

As a research paper on biofuels by the European Commission's Joint Research Centre (JRC) as well as several other recent studies show, the EU will face a huge challenge to provide the biomass needed for biofuel and bio-energy production. The energy package has become a land-use issue and an important element in the review and reform of the Common Agricultural Policy. Based on the JRC paper, the EU should reconsider the 10% target for biofuels in transport, especially in the absence of a breakthrough in second-generation biofuels. A reconsideration of this target would also imply an appropriate correction of the overall renewable energy target.

Within the renewable sector biofuels in transport is not the most cost- and environment-effective way of using biomass, compared to e.g. power generation.

▪ ***Clarify sustainability criteria for biofuels and biomass***

Industry welcomes the provision in the draft directive to evaluate biofuels in terms of sustainability criteria and in particular of their CO<sub>2</sub> performance throughout their production and use. In this context it is important that sustainability criteria are also defined for biomass earlier than 2010 as announced in recital 36.

Sustainability criteria in the current text must be clarified. In view of the international nature of the biofuels market the scheme should not discriminate between EU and non-EU sources and allow for accreditation of international sustainability standards. A

single pan-European biofuels sustainability/GHG certification scheme should be achieved, while maintaining fungibility of fuel components and finished fuels, avoiding market distortions and preventing operational barriers and unnecessary costs. The certification scheme must only include criteria that can lead to measurable, verifiable indicators. Existing criteria and instruments should be mentioned: the Ministerial Conference on the Protection of Forests in Europe has established clear sustainability criteria and indicators, which have been endorsed by all EU Member States and the European Commission.

▪ ***Interim targets should not become legally binding***

While setting interim targets to be reached ahead of 2020 could have some merit in terms of harmonising the speed of extending renewable energy production across Member States, the indicative nature of interim targets in the current text should be retained. As renewable energy production often fluctuates from year to year according to meteorological conditions, interim targets linked to penalty measures would risk making the achievement of the renewable goals even more costly. Furthermore due to the lead time of renewable energy projects binding interim targets may hinder appropriate and sound investment in new capacity. As technical procedures are not well established in all Member States, verifying binding interim targets would also be difficult, especially in the first years.

▪ ***Clarify the definition of final energy consumption***

The definition of final energy consumption in Article 2 should clarify that final energy consumption means energy supplied to the final consumer's door.

▪ ***Facilitate administrative processes for renewable energy projects***

BUSINESSEUROPE supports in particular the idea of introducing, as soon as possible, "one-stop shops", where one body is responsible for applications and granting of building permits, in order to lower administrative burdens for project developers and improve stability of the regulatory framework. This concept should be encouraged in the directive.

BUSINESSEUROPE also supports the establishment of specialised RES centres where the administrative body gives all useful RES project information to the potential targets groups.

▪ ***Strengthen the internal energy market and electricity grid across Europe***

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

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