

Subsidy cuts in EU countries in the aftermath of the credit crunch and the consequence for investments in RES

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Most investments in renewable energies are long term investments and require a stable predictable framework for investments. Frequent and unpredicted changes to the framework will have negative consequences for the renewable investments and consequently the possibility to reach the 2020 targets.

In the aftermath of the credit crunch in 2009 and 2010 several European governments had to evaluate their support schemes for renewables energies. Especially if the scheme tied up pay outs from the National budget for many years ahead or were dependent on yearly support from Governmental funds/budgets or was too generous and consequently over delivered according to expectations. This spread uncertainty in many European countries with respect to the willingness and the stability of the support for the renewable sector.

Over delivering was especially related to feed in tariffs for solar energy. Spain introduced retroactive cuts in feed in tariffs causing the investment to fall sharply both in 2009 and 2010. There was a similar situation in the Czech Republic. Both governments are now facing legal actions from investors. At the same time the Spanish government approved a 35 % cut to incentives until 2013 for wind projects covered by the 2007 subsidy regime, estimated to be around 25 % of the market. In addition support for solar thermal projects in the first year of operation was removed. The ruling also limits the number of hours wind and thermal plants will have the right to government support. The revision came after Spain cuts of up to 45 % to the country's solar PV industry in November 2010.

In a draft decree announced by the French government December 2010 a four-month suspension on feed-in tariffs for new solar PV installations of more than 3kW capacity was suggested, in a bid to prevent what the French prime minister called a "veritable speculative bubble". The French industry protested against the moratorium and called it "unbearable" and "absurd" and claimed that it increased the uncertainty in the market.

In UK there was a boom in investments in smaller (less than 5MW) installations due to new feed in for this segment. However, the offshore wind farms saw a fall in investments due to uncertainty in framework for investments. The new government wanted to change the certificate system (ROC) with a feed in tariff system. The new system came in force summer 2011. Also here the feed in for PVs were under review due to high interest and danger of over filling targets. Germany made a cut in future projects causing a high investment level in 2010 in PVs. France restricted the amount of new capacity that would be supported.

Both Bulgaria and Hungary revise their tariffs annually for all installations with references to inflation and electricity price developments. Latvia adjusts the tariffs to take account of exchange rate against the Euro and price of gas imported from Russia.

It is less clear how regularly and systematically support levels are updated to reflect changes in production costs as well as to incentivize progress in technology development. The German system can be seen as best practice in this respect. This is handled by reducing feed-in tariffs gradually by a prescribed percentage to provide incentives for future technology development.

The premium granted in the Netherlands is determined yearly is directly financed from the public budget, which also puts an overall cap on the cost of the system. The Dutch system is present under evaluation and a recent report have compared the Dutch system to the German and the Swedish system concluding that the Swedish system is the most cost effective scheme for the Netherlands to reach the 2020 targets (Jansen et al, 2011).