Press Release

Energy Transition

Supporting Renewable Electricity: EU Member States Should Coordinate Reform Efforts

Potsdam, December 15, 2020. **The European Union recently adopted more ambitious climate goals for 2030 – their implementation is now the focus of debate. What do the Member States need to consider? A new study shows how important it is that governments coordinate policy reforms to support renewable electricity. Otherwise, many investors are likely to shift their focus to technologies that will continue to be subsidized or to countries where subsidies are still available. This outcome would increase the overall costs of expanding renewable electricity generation in Europe.**

Many European countries have phased out fixed remuneration feed-in tariffs in recent years, replacing these with auction schemes that award supply contracts to the lowest bidder. With the cost of renewable electricity falling significantly in recent years, political pressure has been building to abolish fixed-price tariffs altogether and to push renewables onto the free market. This issue has been the subject of debate among scientists. But how would different models of support influence the decision-making of investors? IASS researchers Marc Melliger and Johan Lilliestam have investigated this question.

Large investors respond more flexibly to political reforms

Investors' preferences are clear: if they were free to choose, most would invest in their home country in photovoltaic or onshore wind projects with the lowest possible price risks. Many investors would rather invest in a different technology or abroad if this would enable them to tap into fixed price support schemes. Larger investors are more willing and able to shift their activities to new countries should they identify an attractive, low-risk market situation.

"In other words: larger projects would relocate. These shifts could skew the European energy mix in a way that fosters dependency on a single, less mature technology or a specific generation region. For example, photovoltaics first became competitive in the sunnier countries of southern Europe. If these countries were to phase out their support schemes, investors would favour photovoltaic plants in northern European countries that still provide subsidies. This would increase the overall cost of the European energy transition," explains lead author Marc Melliger. Under these circumstances, it is vital that reforms are coordinated across Europe.

Strengthening coordination can keep investment "on track"
While policy coordination across the European Union has increased in recent years, countries retain a high degree of freedom in policy design and implementation. "Increased coordination between countries would add complexity and raise the required policy effort, but it could also help keep investments on track," points out co-author Johan Lilliestam. Marc Melliger adds: "Policy changes seeking to expose renewables to the free market aim to reduce costs. But if these reforms are not coordinated, there is a risk that costs will ultimately be higher."

Study:

Melliger, M. A., Lilliestam, J. (2021): Effects of coordinating support policy changes on renewable power investor choices in Europe. - Energy Policy, 148, 111993.
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