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## **REPORT**

on Electricity from renewable sources and the internal electricity  
market  
(SEC(1999) 470 – C5-0342/1999 – 2000/2002(COS))

Committee on Industry, External Trade, Research and Energy

Rapporteur: Claude Turmes

25 February 2000

# **OPINION**

of the Committee on the Environment, Public Health and Consumer Policy

for the Committee on Industry, External Trade, Research and Energy

on 'Electricity from renewable energy sources and the internal electricity market'  
(SEC(1999)470 – C5-0342/1999 – 2000/2002(COS))

Draftsman: Johann Kronberger

## **PROCEDURE**

The Committee on the Environment, Public Health and Consumer Policy appointed Johann KRONBERGER draftsman at its meeting of 26 January 2000.

It considered the draft opinion at its meeting of 24 February 2000.

At this meeting it adopted the amendments below unanimously.

The following were present for the vote: Lage, acting chairman; De Roo, vice-chairman; Kronberger, draftsman; Arvidsson, Ayuso Gonzalez, Blokland, Corbey, Fitzsimons, Flemming, Goodwill, Lange, Lannoye (for Breyer), Lund, Roth-Behrendt, Scheele and Taylor.

## SHORT JUSTIFICATION

On 13 April 1999, on the basis of legislative measures voted by the European Parliament<sup>1</sup> and approved by the Council on 11 May 1999<sup>2</sup>, the Commission drew up a working paper (supplemented by an annex of 10 May 1999) for the Council of Ministers of Energy. This working paper contains one of the concerns dealt with the White Paper entitled 'Energy for the Future: Renewable Sources of Energy': the need for rapid development of renewable energy resources is related to the internal market in electricity which is now covered by an internal market directive which came into force last February.

The rapid development and exploitation of electricity from renewable energy sources must be given priority, for a number of reasons:

- (a) renewables will create 500 000 – 900 000 permanent jobs either directly in the renewables sector or indirectly in the supply industry<sup>3</sup>.
- (b) 'Achieving the indicative objective of 12% (share of renewables in total energy market) in 2010 would lead to an increase in the market for European industry'<sup>4</sup>. A 17 billion ECU annual export business exploiting renewables is projected for 2010, creating potentially as many as 350 000 additional jobs<sup>5</sup>.
- (c) Renewables will help reduce greenhouse gases and thus achieve the Kyoto objective. (By 2008-2012 the EU has undertaken to reduce its greenhouse gas emissions by 8% compared with 1990)<sup>6</sup>. If the White Paper objectives are achieved the Commission is assuming fuel savings to the sum of 21 billion euro and reductions in CO<sub>2</sub> emissions by 402 m tons per year (reference year 1997)<sup>7</sup>.
- (d) The creation of a peace perspective will reduce the danger of further military conflict in the struggle for raw materials and energy resources. Military conflicts over access to raw material resources are escalating (Gulf War, wars in Africa and the Chechnya conflict etc.).
- (e) Recent studies by recognised institutes, e.g. the Ludwig-Bölkow Institute, have shown that serious shortages of oil are to be expected in the next decade<sup>8</sup>.
- (f) 'Renewable energy sources are indigenous, and can therefore contribute to reducing dependency on energy imports and increasing security of supply'<sup>9</sup>. The White Paper points out that the EU's dependency on energy imports will rise from its current 50% to 70% in 2020 if no appropriate action is taken. This is true of oil and natural gas in particular<sup>10</sup>.
- (g) In view of the huge fluctuations in the oil price, in 1999 between 10 and 27 dollars a barrel, the contribution of renewables must be increased as speedily as possible to protect the EU economy against this instability. The Prognos

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<sup>1</sup> Linkohr report, A4-0199/1998, adopted on 17 June 1998, OJ C 210, 6.7.1998.

<sup>2</sup> Council decision referring to the Council Resolution of 8 June 1998, OJ C 198, 24.6.1998.

<sup>3</sup> White Paper: Energy for the Future: Renewable Sources of Energy, COM(1997)599 final, Chapter 1.4.

<sup>4</sup> *ibid.*, 2.3.2.

<sup>5</sup> *ibid.*, 1.4.

<sup>6</sup> *ibid.*, 2.1.

<sup>7</sup> *ibid.*, 1.4.

<sup>8</sup> Ludwig Bölkow-Systemtechnik GmbH, D-85581 Ottobrunn.

<sup>9</sup> White Paper, Chapter 1.

<sup>10</sup> *ibid.*

Institute of Switzerland predicts that after 2010 rising oil prices, up to 60 dollars a barrel, should be expected, and that natural gas prices will rise at the same time.

- (h) In view of the direct and indirect support granted by the Member States to nuclear and fossil fuels and the failure to take external costs into account, the electricity market can at present be described as distorted in their favour. Appropriate support for renewables cannot therefore be described as distorting competition, but rather as evening things up. Article 3 of the Directive on the internal market in electricity<sup>11</sup> allows measures in the general economic interest (e.g. environmental protection) and Articles 8(3) and 11(3) allow priority in dispatching to be given to installations using renewable energy sources<sup>12</sup>. Renewables do not cause consequential costs, and support should therefore be considered on the basis of avoided consequential costs. Support for renewables must also be regarded as an economically sound investment, as the Commission notes in its White Paper<sup>13</sup>.

## CONCLUSIONS

The Committee on the Environment, Public Health and Consumer Policy calls on the committee responsible to take the following aspects in particular into account:

- (a) The remuneration for electricity generated from renewable resources should ensure that, if properly run, the commercial operation of the various types of plant generating electricity from those sources is fundamentally viable. This should stimulate dynamic development, mobilising private capital, increasing demand for renewable energy electricity generating plant, making it possible to start mass production, leading to reduced prices, improving the competitiveness of renewables and thus allowing them greater market penetration<sup>14</sup>. Power generation from renewables is dependent on geographical circumstances, so calculating the costs of renewables depends not only on technical productivity but also, to a greater extent than with conventional energy sources, on location. A completely harmonised energy market would therefore entail substantial distortion, so the varying geographical factors need to be taken into account when calculated remuneration for electricity generated from renewables.
- (b) As minimum feed-in regulation has proved the most effective means of increasing electricity generation from renewables, this should be mandatorily introduced in all Member States. Remuneration should be calculated on the basis of avoided consequential costs. For the optimum utilisation of renewable energy sources and an acceleration of market penetration, and to take geographical circumstances into account as best possible, Member States must be allowed to grant higher prices in order to meet the objectives set out in the

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<sup>11</sup> Directive 96/92 EC of 19 December 1996.

<sup>12</sup> See the opinion by Mr Kronberger in the Linkohr report, A4-0199/1998 on network access for renewable energies – creating a European directive on the feeding in of electricity from renewable sources of energy in the European Union.

<sup>13</sup> White Paper op. cit. Chapter 1.4.

<sup>14</sup> See draft law on support for electricity generation from renewable energy sources and amending the mineral oil tax law in the Federal Republic of Germany.

White Paper.

- (c) To ensure economic operation at the pioneer stage and thus to allow renewable energy resources to be put on the market on a broad front, a suspension of transport tariffs should be provided for, from the start-up stage until commercial maturity.
- (d) Past experience has clearly shown that feed-in systems, by comparisons with quota and tendering systems, lead to high effectiveness, dynamic market development and considerable reductions in the burden on the environment. Their other advantages are incentives to efficiency, unbureaucratic procedures, largely decentralised development, high degrees of acceptance and local participation, the development of an efficient manufacturing industry and strengthening of regional economic structures<sup>15</sup>.
- (e) Empirical studies show that countries with feed-in laws, such as Germany, Denmark and Spain, have been able to achieve far higher percentages of renewable energy sources than countries with tendering systems, under which only the lowest bidders receive fixed-term electricity contracts, in the UK, Ireland and France for example<sup>16</sup>. Thus in 1998 wind power achieved increases of 1,568 MW in Germany, 250 MW in Denmark and 346 MW in Spain, while the figures were much lower over the same period in countries with tendering systems (UK, 18 MW, Ireland, 5 MW, France, 3 MW).<sup>17</sup>
- (f) Under quota systems, regional power suppliers are obliged to take fixed amounts of electricity from renewable energy sources at fixed prices. Contracts go to the lowest bidder. Quotas are introduced for individual renewable energy technologies and this means that only a fraction of potential renewable energy sources is exploited. This denies access to the market to potentially valuable techniques which are then nipped in the bud. The 'curse of the lowest bidder' also results in unrealistically low tenders being submitted to obtain the contract. Competitors vie to offer lower tenders, which depresses the development of the market in renewables in quality terms. A quota system should therefore be contemplated only in a supplementary role.
- (g) Member States should be obliged to implement the injunctions of the White Paper in order to achieve the overall goal. Each Member State must set objectives in the form of set quantified targets. Member States should also make progress reports to the Commission every two years. Penalties must be imposed for failure to meet the objectives.

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<sup>15</sup> 'Europäischer Strombinnenmarkt und Einspeisevergütungen', Andreas Wagner, FGW Fördergesellschaft Windenergie e. V., Brunsbüttel (D).

<sup>16</sup> *ibid.*

<sup>17</sup> 'Stand und Perspektiven der Windkraft in Europa', Andreas Wagner FGW Fördergesellschaft Windenergie e. V., Brunsbüttel (D).