Draft letter to Finance Minister regarding renewable energy and the EU Budget
cc. Energy Minister

Dear Minister,

I attach a set of recommendations that Sir Graham Watson MEP, the Chairman of the Climate Parliament, has sent to José Manuel Barroso, President of the European Commission, regarding support for renewable energy in future EU budgets. This follows a previous letter that was sent to Mr Barroso last December, signed by more than 150 Parliamentarians from across the political spectrum, urging that support for renewables should be significantly increased in the EU's next Multiannual Financial Framework (MFF). As you know, the new MFF is currently under consideration in the European Council.

As you can see, the Climate Parliament is proposing that at least 5% of the EU Budget (some €7 billion a year) should be devoted to 3 main priorities:

- **€2 billion a year for research and development** on low carbon technologies, as proposed by the European Parliament.
- **€4 billion a year for building a European grid and supporting large-scale renewable energy installations** such as offshore wind farms and solar power stations. At least €3 billion could come from structural funds, and €1 billion from the new Connecting Europe Facility which the Commission is proposing, in a combination of direct investments and innovative financial instruments such as project bond guarantees.
- **€1 billion a year to support renewable energy in developing countries**.

The Commission has presented its draft MFF to the Council and European Parliament, to be followed by the various budget instruments which will allocate the money in more detail under the headings of research, energy networks, development assistance, etc. I would be very grateful for your views on these proposals. Is it possible that our Government might be prepared to support or propose some or all of these recommendations in the Council?

I look forward to hearing from you.

Yours sincerely,

Climate Parliament

Climate Parliament recommendations for the EU Budget

The Climate Parliament has been consulting widely about how support for renewable energy could be increased in the new Multiannual Financial Framework (MFF). We will summarise our proposals on this page, and then go on to explain them in more detail.

In brief, we believe that at least 5% (some €7 billion) of the annual EU Budget should be devoted to supporting renewable energy. Those funds could be allocated to support the following three priorities:

1. **Accelerate research and development**. In July 2008, in a resolution sponsored by now-President Buzek, the European Parliament called for at least €2 billion a year of new funding from the EU budget to support the development of low carbon technologies through the Strategic Energy Technology (SET) Plan. This recommendation should be implemented in the new MFF.
2. **Support the construction of a European grid and large-scale renewable energy installations**. This could be done in two ways:
    a. Devote at least **€1 billion a year to the European grid under the new Connecting Europe Facility which the Commission is proposing**. This should be comprised of a combination of direct investments and innovative financial instruments such as the Commission's excellent Project Bond Initiative.
    b. Devote at least **€3 billion a year of cohesion policy funds** (structural funds) towards building long-distance grid connections and large-scale wind farms, solar power stations and other renewable installations.

    In its MFF resolution on June 8, Parliament noted that the private and public investment needed for trans-European energy networks are in the order of €1000 billion by 2020, and called for "a substantial allocation from the European Union budget for innovative financial instruments in this field."
3. **Support renewable energy in developing countries**. Most future growth in global greenhouse gas emissions will take place in developing countries. In the same resolution, the European Parliament has called for "new and additional" funds, beyond existing development aid, to meet our commitments from Copenhagen and Cancun to help developing countries address climate change. We should devote at least €1 billion a year of the EU Budget to helping those countries switch from fossil fuels to renewable energy.

We believe these steps would go far to help ensure the implementation of the Commission's *Roadmap for moving to a competitive low carbon economy in 2050*, which was issued on March 8 this year. The *Roadmap* highlights the benefits to be gained if we can achieve our stated aim of reducing the EU's emissions by at least 80% by 2050. We would:

- **Lead the world towards the global emissions reductions** that are necessary if our children are to inherit the Earth as we know it.
- **Reduce our fuel costs by between €175 billion and €320 billion per year** over the next 40 years. This is not only an issue for the future: the Commission reports that our energy import bill just rose by $70 billion in one year from 2009 to 2010!
- **Create millions of new jobs**. In the last five years alone, the renewables industry in Europe has already increased its workforce from 230,000 to 550,000.
- **Save hundreds of thousands of lives** that will otherwise be lost to lung disease from fossil fuel air pollution in the coming decades.
- **Increase our energy security** by relying mainly on local renewable sources.
- **Ensure that European industry can match its competitors** in China, Japan, Korea, the US and elsewhere in the vast future market for clean energy.

The same benefits were demonstrated in detail by the recent *Roadmap 2050* study carried out by McKinsey and others for the European Climate Foundation. These would be major achievements, and they merit at least 5% of our budget. If used intelligently, these funds could trigger far greater quantities of private investment.

The Commission's *Roadmap* also shows clearly that current policies and budgets will not achieve these benefits. That is why we must seize the opportunity of the new Multiannual Financial Framework to put the EU's financial leverage to work on a large scale to speed up the clean energy transition.

The Climate Parliament is focused on promoting the global transition from fossil fuels to renewable energy, since 75% of greenhouse gas emissions come from oil, coal and gas. We are therefore confining ourselves to how future EU budgets could help to accelerate investment in wind, solar and other renewable energy technologies, and investment in new grids. We of course recognise the crucial importance of other steps being taken simultaneously, including energy efficiency measures and the shift to electric cars.

To explain each recommendation in more detail:

1. €2bn for Research and Development

The Commission's *Roadmap* says: **"Full implementation of the Strategic Energy Technology plan, requiring an additional investment in R&D and demonstration of €50 billion over the next 10 years, is indispensable."** Almost everyone agrees that the SET plan is crucial. It covers R&D on all the major renewable technologies, plus smart grids, CCS and nuclear. There is just one problem: nobody has contributed any extra money for it whatsoever. It was hoped that national governments would contribute substantially, but this hasn't happened. The only funding has been produced by the Commission reorienting its current spending on energy R&D (around €0.3 billion a year) towards implementing the SET Plan.

Nothing is more urgent than accelerating the development of technologies such as floating wind turbines, cheaper solar panels and highly efficient solar thermal power stations, so that renewable energy can achieve price parity with fossil fuels as quickly as possible. These are the technologies on which the future of humanity may well depend. The EU needs to take the lead, and commit €2 billion a year to the SET Plan, with much of the remaining €3 billion coming from private investment.

In fact, this has already been formally proposed by the European Parliament as expressed in its resolution of 9 July 2008 on the SET Plan (2008/2005[INI]). The resolution was drafted by President Buzek when he acted as Rapporteur on the 7th Framework Programme for Research and Development. The €2 billion target now needs to be implemented.

2. Support the construction of a European grid and large-scale renewable energy installations

The Commission's *Roadmap* says: **"Given that the central role of electricity in the low carbon economy requires significant use of renewables, many of which have variable output, considerable investments in networks are required to ensure continuity of supply at all times."** The development of a truly pan-European electricity grid, bringing the long-envisaged common market in electricity closer to reality, should be a top priority for the EU.

Only by combining through a common grid the power of the wind in the Northern seas, the sun in the Mediterranean region, hydropower in the mountain ranges, and other renewable sources across our whole region, can we create a reliable supply of clean energy for everyone. Even if much of our energy comes from decentralised generating technology, we still need to share our energy resources to a much larger degree across Europe to overcome the variability of local wind and sun. This has been confirmed by the Commission's recent *Blueprint for an integrated European energy network*, as well as by the European Climate Foundation study referred to earlier. The grid should almost certainly extend to North Africa, so as to benefit from the vast solar resources of the desert. The creation of a European grid should be a flagship EU project, and for a limited period should be given even higher priority than other infrastructure developments such as road-building. This is clearly a project for which the EU can truly offer 'added value' beyond the capabilities of individual member states.

Meanwhile, we must ensure that large-scale renewable installations such as new offshore wind farms and solar power stations are built as quickly as possible, to feed a rapidly-growing supply of clean energy into the European grid.

We should allocate at least €3 billion to these tasks, through two different parts of the budget.

a. Devote at least €1 billion a year to the European grid under the new Connecting Europe Facility which the Commission is proposing.

As part of the economic recovery package, the EU has spent considerable sums on electricity interconnectors. Building on this, we need to budget at least €2 billion a year to ensure that the essential links that will form part of a future European "supergrid" get built as quickly as possible.

As the Commission is proposing, part of the support from the Connecting Europe Facility should be in the form of **"innovative financial instruments."**

Whether we can make the shift to renewables in time to avoid severe climate impacts and fossil fuel price spikes depends on whether we can mobilise a big increase in private investment. The Commission's Roadmap states: **"Additional public private financing mechanisms are key in order to overcome initial financing risks and cash flow barriers. Public finance through innovative financing instruments, such as revolving funds, preferential interest rates, guarantee schemes, risk-sharing facilities and blending mechanisms can mobilise and steer the required private finance."** The Commission's Project Bonds Initiative, in which we would provide a guarantee for bonds issued to help fund major infrastructure projects, is a good example of what could be done.

Such mechanisms will reduce the cost of capital for investments in low-carbon infrastructure, and will generate much more private investment. For example, the Commission estimates that each euro devoted to project bond guarantees can stimulate as much as €25 in private investment. This is an extremely effective use of public money, as it simply goes into an escrow account; the public purse is only affected if projects fail. The EU could even make a profit, as companies receiving an EU bond guarantee typically pay a fee for it.

We should also be prepared to create new, EU-backed savings products such as 'Eurobonds' for infrastructure projects, which mobilise large sums of capital for vital projects such as the European grid without putting unnecessary strain on the EU budget. As Energy Commissioner Günther Oettinger recently said in a presentation to MEPs, there is a need for "some public funding for projects that are not perceived as commercially viable".

b. At least €2bn, and preferably a great deal more, in assistance for renewables and grid connections in the EU's lower-income regions

Of the more than €40bn committed annually to the various funds comprising the EU's regional policy, at least €2bn – and preferably more – should be devoted to investments in the renewable energy sector and in cross-border grid connections. This can be done by the Commission taking on a larger role in setting the criteria against which Member States assess projects' eligibility, or by creating sufficient incentives for structural funds to be spent in this area, such as reduced co-financing requirements.

3. €1bn of the EU's Development Assistance Budget should Support Renewables in Less-Industrialised Countries

The *Roadmap* remarks that the EU produces little more than 10% of global emissions, and that **"if no firm global action is taken against climate change, temperatures might increase by more than 2°C already by 2050, and more than 4°C by 2100."** Most future growth in emissions will take place in developing countries, and unless those countries choose low-carbon growth, Europe's efforts to reduce greenhouse gas emissions will have a limited impact. Fortunately, as the provider of more than half the world's development assistance, we in Europe are in a position to make a big difference to the choices made by developing country governments.

The Climate Parliament has worked extensively with legislators in Africa, India and the small island states, and we find keen interest everywhere in promoting renewable energy. Some countries are pressing ahead fast with national renewable energy programmes. The reasons to do so are exactly the same as those for Europe – with the important additional reason that renewables are perfectly suited for providing energy to off-grid rural villages. But for many countries struggling with poverty, while coal-fired power stations remain cheaper than most low-carbon alternatives there is still a strong incentive to keep using coal.

We can use development assistance to help reduce the cost of renewable energy in a number of ways. By using innovative financial mechanisms similar to those being considered for Europe, we can reduce the cost of capital, and thus the cost of the electricity produced. We can also help to support feed-in tariffs, renewable purchase obligations and other incentive mechanisms to encourage private investment.

In its MFF resolution on June 8, the European Parliament "underlines the global responsibility of the EU in tackling climate change; recalls that pledges resulting from the Copenhagen and Cancun agreements aimed at helping developing countries to address climate change must be 'new and additional' to the existing development aid …; suggests that a new programme be created for this purpose; … calls for the integration of the EU international climate change pledges in the EU budget in order to achieve a maximum leverage effect of community resources…"

As the Parliament says, new funding should be provided from the EU budget to support the shift to clean energy in developing countries. We recommend that at least €1bn a year, and preferably more, be dedicated to supporting renewable energy and the new grid connections it requires.

By taking the steps outlined here, we would be putting the EU firmly in the lead of the global shift to an economy powered by clean energy. We would be developing new technology, and putting our companies in pole position to deliver it to Europe and the world. We would be equipping all parts of the Union for a prosperous low-carbon future. And we would be helping to ensure that where Europe leads, others follow.

Attached: December 17, 2010 letter signed by 153 Members of Parliament