

# EREF

**European Renewable Energies Federation**

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Reference State aid reform

## **Comments on the State Aid Action Plan by EREF - the European Renewable Energies Federation**

EREF is the European association which represents independant renewable energy producers in Europe. Therefore we would like to concentrate our comments on reforming state aid policy in the energy sector to establish a level playing field.

According to the State Aid Action Plan (SAAP) the European Commission wants to reform the state aid policy to contribute to sustainable growth, competitiveness, social and regional cohesion and environmental protection.

### **Quotations from the SAAP**

In I.1 Nr. 6 the Commission writes: "Functioning markets are an essential element in providing consumers with the products they wish to obtain, at low prices. Competition is furthermore essential to enhance the competitiveness of the European economy, as it creates an environment in which efficient and innovative companies are rewarded properly."

In I.1 Nr. 7 the Commission points out that "State Aid control comes from the need to maintain a level playing field for all undertakings active in the Single European Market, no matter in which Member State they are established."

In I.11 Nr.11 the Commission says: "However, state aid should only be used when it is an appropriate instrument for meeting a well defined objective, when it creates the right incentives, is proportionate and when it distorts competition to the least possible extent. For that reason, appreciating the compability of state aid is fundamentally

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about balancing the negative effects of aid on competition with its positive effects in terms of common interest."

The Commission wants also to reform EC state aid policy to achieve the aims set out in the so-called Lisbon Strategy.

## **Comments**

### **I. State Aid in the electricity and energy sector**

It is very difficult to evaluate the sum of state aids which is given to the energy sector in the last fifty years by the member states and also the European Union, but it is clear that the fossil energies like nuclear power, oil, natural gas and coal received the largest parts of the direct and indirect support and that renewable energies just got a very minor part often for the R & D sector. There are only a few reports on state aids and subsidies in the energy sector. European Commission (2003a), Inventory of public aid granted to different energy sources, Staff Working Paper SEC(2002)1275 and Frans Oosterhuis, Energy subsidies in the European Union. Final Report, European Parliament, July 2001.

The fossil energies continue to benefit from the state aids in the past regarding infrastructure, overall development and legislation which is focused on them.

The renewable energy sector is still developing and it is clear that this sector will still need support in the future.

### **I. 1 Level playing field, Competition and Market Failures**

An existing level playing field is crucial for competition. The Commission gives on page 6 of the SAAP an analysis of market failures and points out that this is one key element to identify reasons why the markets do not achieve desired objectives.

EREF comments the market failures which distort competition and the establishing of a level playing field for renewable energies in the electricity and energy markets according to the terms used in the SAAP on page 7.

#### **I. 1. Externalities**

##### **I. 1.1 Externalities of fossil energies**

Externalities can be described as costs for which companies don't have to pay for the total social cost. The use of fossil energies like coal, natural gas oil and nuclear power has severe consequences on the environment and human health. Sulphur dioxide and nitrogen oxide cause acid rain, carbon dioxide and methane provoke global warming and climate change. The burning of fossil fuels is responsible for air pollution with particular matter. According to the World Health Organisation – European Office this pollution claims an average of 8.6 months from the life of every person in the European Union (EU). In the EU, the estimated annual monetary benefit from decreased population mortality attributed to PM is €58-161 billion, and savings on the costs of diseases attributed to PM account for €29 billion (Please find the press release enclosed).

The electricity production from brown coal provokes also external costs which are socialised. On September 13th the German minister stated that the costs of recultivation of brown coal striping mining amount up to 13 billion Euro (Please find the

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press release enclosed). The coal sector is also benefiting from the Council Regulation (EC) 1407/2002 on State aid to the coal industry.

Nuclear power generation neither reflects the external costs as a ultimate disposal place for nuclear waste hasn't been found yet and the financial risk for an worst case nuclear accident is just not insurable. The risks for nuclear accidents are thus socialised. The nuclear sector is also benefiting from the Euratom treaty which supports nuclear energy through different measures for example low interest rates and aids for R & D.

The oil and gas sector in the UK and the Netherlands is benefiting from preferential tax treatment for medium and large users of gas as well as exploration and researching for new gas and oil fields is supported via tax exemptions.

EREF points out the necessity to drive down and stop state aids which are given to fossil energies due to their negative effects on society and nature. This should also include the Council regulation on State aid to the coal industry and the Euratom treaty. It is necessary to better calculate and internalise external costs into the pricing of electricity and energy. EREF also suggests to apply fully the polluters principle on electricity and energy production from fossil fuels.

#### **I. 1.1.2 Externalities of renewable energies**

Renewable energies have no or significantly lower environmental impacts than fossil energies and generate no or just little external costs.

As long as the full internalisation of external costs is not obtained and the inequality is continuing to distort the markets, EREF suggests to support renewable energies with state aids and other instruments. Therefore we suggest to use Feed-in-Tariffs to promote renewable energies and to counterbalance the imparity in the electricity and energy markets between fossil and renewable energies.

#### **I. 2.1 Market power**

##### **I. 2.1.1 Market power of fossil energies**

Former state-owned utilities like Electricité de France or ENEL in Italy or big utilities like E.ON or RWE in Germany are dominating the electricity and energy markets with the result that there is little or no competition. Although the electricity and energy market was said to be liberalized these oligopoly structures dictate the prices and hinder the entrance to the disadvantage of new competitors. Actual electricity prices only reflect the marginal costs of production from existing power plants.

The centralized power generation in big power plants is hindering the change to decentralised power generation with renewable energies.

Renewable energy systems as decentralised units face on the one hand the structural disadvantage that the existing transmission and distribution systems are designed for centralised power generation. On the other hand they are discouraged by long procedures to gain grid access to the electricity grids which are owned by the big utilities. The existing utilities are abusing their market dominating position to hinder the entrance of new players in the electricity and energy markets.

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State Aid to fossil energies and centralised energy infrastructure should be driven down and finally stopped to establish a level playing field in the electricity and energy market.

#### **I.2.1.2 Market power of renewable energies**

Big-scale hydropower plants which were built centuries ago and often owned by former state-owned utilities like EDF are dominating in some countries the sector of renewable energies and so are hindering also the development of other renewable energies as small-scale hydropower, wind, solar and biomass plants. New renewable energy plants can't compete with these old depreciated installations as they have to finance as well the capital costs which the depreciated plants don't have to.

EREF asks the Commission to reduce the market power of the big power companies which distort the electricity and energy markets to the detriment of independent renewable power producers in the sectors of generation, transmission and distribution.

### **II. Focusing on the Key priorities**

The Commission has chosen several key priorities

#### **II.1 Targeting Innovation and R&D to strengthen the knowledge society**

The Commission states in the SAAP II.1 Nr. 24 that "Europe's future economic development depends on its ability to create and grow high-value, innovative and researched-based sectors capable of competing with the best in the world...State aid can be justified when it is necessary to increase incentive to innovate and when it does not lead to a crowding out of private initiatives or to unfair competition.

EREF supports the idea to direct state aids to strengthen R & D in the renewable energy sector.

The sector of renewable energies is a highly innovative one. Small and medium-sized entrepreneurs and companies are the cornerstones of research activities, develop new products which can be sold on the world markets and even develop new markets for decentralised power generation and application.

The European wind energy industry is the world technological leader, also the European photovoltaic industry is together with the Japanese solar industry on the top. The Commission should take the importance and chances of the renewable energy sector into account and shift resources within the Community Framework for Research and Development from the fossil fuels to the renewable energies.

#### **II.2 Better prioritization through simplification and consolidation**

EREF encourages the European Commission to elaborate a regulation on group exemptions for renewable energies. Some renewable energy systems, such as photovoltaic technologies still need an extra financial push to get into the market. Group exemption for renewable energies would help to facilitate direct state support for these technologies in order to create an attractive framework . At present, the Commission must be notified of all proposed state aid or market support schemes for renewable technologies and give approval for them. This kind of procedure is hindering and slowing down the development of the renewable energy sector.

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### **II.3 Encouraging an environmentally sustainable future**

The Commission discussed in 2000/2001 on the first drafts of the new Guideline on State Aid for the Environment the introduction of a regulation for a group exemption for state aid for renewable energies. EREF supports the introduction of such a group exemption which could be a very helpful means and a strong positive signal for advancing Renewables. It would help to reach the targets of the Renewable Energy Directive 2001/77 EC.

### **II.4 Setting up modern transport, energy and information and communication technology infrastructures**

EREF wants to point out that the investment in transnational energy infrastructures which is designed for centralised power generation with fossil fuels is not a sustainable solution. The European Commission should in fact support the emerging sector of decentralised power generation.

### **III. Conclusion and suggestions**

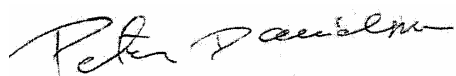
EREF asks the European Commission to drive down state aids which are given to fossil energies and use state aid wisely to establish a level playing field for renewable energies in the electricity and energy market.

We suggest increasing state aids for R & D in the renewable energy sector in combination with a block exemption for renewable energies to strengthen this emerging sector.

Financial support via reforming state aid policy in favour of Renewable Energies will create new jobs, strengthen the European competitiveness and lead to a better environment.

EREF suggests to establish a regularly reporting of State aids in the electricity and energy sector in order to survey and to react to the market failures.

Brussels, the 15 th September 2005



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