

E U R O P E A N E C O N O M I C A R E A
S T A N D I N G C O M M I T T E E
O F T H E E F T A S T A T E S

1/EM/W/008
17 March 1997
Brussels

WORKING GROUP ON ENERGY MATTERS

**Comments by the EFTA Working Group on the Commission Green Paper for a
Community strategy on - “Energy for the Future: Renewable Sources of Energy”**

I INTRODUCTION

1. The EFTA countries party to the European Economic Area Agreement have reviewed the Green Paper for a Community strategy “Energy for the Future: Renewable sources of Energy”. In general, the EFTA/EEA States welcome the paper, in particular, the intention of the Commission to prepare a Community-wide strategy with a view to laying down concrete steps to promote renewables in the Community. The EFTA/EEA countries are of the opinion that the strengthening of policies to promote renewable energy sources is an important element in a long-term sustainable energy policy. Furthermore, the EFTA/EEA countries consider a strategy in this field, together with parallel efforts for energy efficiency, to be of fundamental importance for an overall strategy to combat climate change and attain the long-term objective of the UN Framework Convention on Climate Change.

II RELEVANCE FOR THE EFTA COUNTRIES AND THE EEA AGREEMENT

2. The Green Paper for a Community Strategy on Renewable Sources of Energy is of interest to the EFTA/EEA countries in several ways.

3. The Green Paper on renewable energy is expected to have an impact on the developments in the internal energy market, on the specific policies for promoting renewable energy sources and on the further work of the EU on energy policy in general. These policy elements are relevant to parts of the EEA-cooperation. From the EFTA/EEA countries’ point of view, it is important to consider the consequences of a future strategy on renewables for other policy objectives, such as the development of the internal market. Vice-versa, certain elements in the internal market strategy, as in the adopted electricity directive, contain incentives to promote renewable energy sources. It is important that there is a level playing field for competition between various European energy sources. In particular, this is important for Norway as an energy exporter.

4. The EFTA/EEA countries fully participate in the Community’s work on renewables within the framework of the EEA Agreement, both with respect to the

ALTENER programme and Research, Development & Demonstration activities (RD&D). A significant and positive development in 1996 was the decision by the EEA Joint Committee to include the ALTENER programme in the EEA Agreement. This decision opened up to full participation by the EFTA/EEA States in the programme. Furthermore, the discussion on the Green Paper will form a basis for the formulation and negotiations on a possible new ALTENER II programme which could be part of the strategy for renewables. The EFTA/EEA States consider the ALTENER programme to be an important policy response to combat climate change. In this context, it is recalled that an interest to explore closer ties with the EU in climate change policy issues has been expressed. The EFTA/EEA countries intend to comment separately on the proposal for a new ALTENER II programme under the framework of the EEA Agreement.

III EFTA/EEA SUPPORT FOR THE NEXT STAGES IN THE DEVELOPMENT OF A STRATEGY ON RENEWABLES

5. The EFTA/EEA countries are very positive towards the work undertaken by the Commission to prepare for the next steps in the strategy to promote renewable energy sources. The EFTA/EEA countries view the development of renewable energy sources to be a major opportunity, whether looked at from the perspective of the industry, RD&D or the environment. The policies in the EFTA/EEA States have always been to base the domestic uses of energy on renewable energy sources. Indeed more than two-thirds of the primary energy consumption in Iceland is based on renewable energy sources. In Norway this share is about 55 per cent and in Liechtenstein in excess of 7 per cent. The EFTA/EEA countries possess substantial knowledge and experience from utilising these sources, in particular, hydro energy and geothermal energy. Therefore, we welcome that hydroelectricity (large, as well as small facilities) is seen as a part of the strategy on renewable energy sources, but we also support the promotion of other renewable energy sources through RD&D and instruments of market introduction in order to overcome market barriers.

6. An important concern for the EFTA/EEA countries is to look for synergy between national efforts and international cooperative efforts. Therefore, the EFTA/EEA countries would support the proposed next phase in the strategy to promote commercially viable renewable energy sources as discussed in the Green Paper.

IV VIEWS ON THE APPROPRIATE OBJECTIVES

7. The Green Paper touches upon the question of what should be the appropriate objective, including a discussion on the possible quantification of targets. The Commission has invited interested parties to discuss whether the quantification of indicative targets is a wise approach. Until now, the objectives in the ALTENER programme have been indicative in the sense that they are not binding for national governments.

8. The EFTA/EEA countries are at this stage somewhat concerned about the idea to establish quantitative binding targets for renewables on national or Community levels. It is important that the nature of such targets is clear. If the point of departure is that the Community as a whole should obtain a certain share of its total energy supply from renewables, a quantitative indicative target could be merited. However, if the intention is that every country should attain a pre-defined quantitative marginal increase in the share of renewables in their energy supply, the EFTA/EEA countries fear the measure will become self-defeating. In other words, for quantitative targets to be useful, they have to take into account cost-effectiveness and different national circumstances.

V IMPACT ON ENERGY MARKETS OF A POLICY ON RENEWABLES

9. The Directive on common rules for the internal market in electricity was adopted by the Community on 19 December 1996 and work is ongoing concerning the proposal on common rules for the internal market in natural gas. We have noted that some provisions in the electricity directive are relevant for renewable energies. In this context, the EFTA/EEA countries would stress that one should basically avoid that a future strategy on renewables creates distortions in the network-based energy markets. Discrimination against more environmentally sound fuels such as natural gas must not be an effect of a strategy to promote renewables. Policies which have an impact on different energy sources should be balanced, even under a strategy and through policy instruments where the development and use of renewables are promoted. The common efforts to promote renewables and to analyse how to reconcile possible conflicting goals of promoting non-hydro renewables and develop competitive markets is both a policy challenge and an important subject for further discussion.

VI DISCUSSION ON POLICY INSTRUMENTS

10. The discussion on policy instruments in the Green Paper is important. The EFTA/EEA countries support the notion that national programmes and instruments should be the main mechanisms to promote renewables. This is in line with the principle of subsidiarity. The situations are different and policies have to be adapted according to local circumstances. This concerns both the type of policy instrument and which renewables should be promoted in the energy system.

11. Our point of departure in a discussion on policy instruments to promote renewables is that such instruments should be market-oriented and cost-effective. This is in line with our general policy in the energy and environment area. The costs of introducing renewables would vary according to the specifics of the energy systems. In addition, the share of renewables in the various systems differs. The challenge would, therefore, be to look for investments in renewable energy sources which become viable in a competitive environment.

12. In order to enhance the use of renewable energy, it is important that the measures applied are as cost-effective as possible. Since renewable energy sources give rise to lower emissions, this ought to be reflected in lower rates of environment taxes when such taxes are applied. We would, however, like to emphasise that such a tax system should also be cost-effective in other respects. In particular, coal should be taxed more heavily than oil and natural gas, in order to reflect the higher emissions from coal.

13. The EFTA/EEA countries would have a preference for measures such as information and competence-building. We would have some concern for the distortive effects on energy markets if direct grants and state aids are promoted too strongly. The EFTA/EEA States will therefore closely follow the further discussions on how the rules concerning state aids are developed to achieve better harmonisation of grants to promote renewables. There could be a need for further clarification of the criteria for state aid in the area of the promotion of renewable energy.

14. The financial instruments proposed in the proposal for ALTENER II will, in this respect, be of some importance because it will possibly define a standard for financial support between demonstration and commercialisation.

15. The EFTA/EEA countries support a continuation of efforts to promote technology developments under the RD&D programmes. The objective should be to achieve the best possible synergy between the technology policies and the policy elements which are closer to the market-place. Furthermore, the EFTA/EEA countries support enhanced measures to increase confidence from investors, governments and users of renewable energy sources by EEA wide dissemination of information and demonstration of the economic viability of renewable sources of energy.

16. Integrated Resource Planning (IRP) as a mechanism to promote renewable energy sources is depicted very positively in the Green Paper. We would like to point out that IRP, as a policy instrument, presupposes a more centrally-planned model and is very hard to reconcile with a competitive market for electricity. This inherent conflict should have been addressed in a discussion document like the Green Paper, since certain countries in the EU/EEA have implemented legislation in the electricity sector which excludes the application of IRP.

VII INTEGRATION WITH OTHER POLICY AREAS

17. The Green Paper states that a strategy on renewables will be integrated in other policy areas like agriculture and regional policies. From the EFTA side, we would like to stress that a strategy on renewables as a premise should be driven by energy policy objectives. This is an important factor to stress, bearing in mind that policies on renewables could obviously have positive side effects for developments in other sectors.

VIII CONCLUSION

18. In this position paper, we have stressed that the Green Paper is relevant for EFTA countries party to the European Economic Area Agreement and provisions in the EEA Agreement. We support and will follow closely the next stages in the development of a strategy on renewables. In the context of the Green Paper, hydropower is an important renewable energy source. The EFTA/EEA countries have some concerns regarding the discussion on target-setting and the share of renewables in the energy system. Concerning the impacts on the grid-based energy markets, it is important that a strategy does not create distortions in these markets. Policy instruments promoting renewables should be market-oriented and cost-effective. Furthermore, subsidies over national budgets to promote renewables should be transparent.

19. The EFTA/EEA countries will follow the discussion on the Green Paper and the next steps concerning the future strategy on renewables. This also includes any concrete proposals in a White Paper on a strategy on renewable energy sources. We look forward to further discussions on the matter within the framework of the EEA Agreement.

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