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panorama

Part one of an on-going series

Despite Europe's economic woes, hunger for renewables project investment remains

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Dan McCue

In the nearly four years that have elapsed since the collapse of Lehman Brothers and the onset of the global financial crisis, the economic news coming across the Atlantic from Europe to American has been almost unrelentingly bad.

The Eurozone crisis. Threats of sovereign debt default. Staggeringly high unemployment. The role back of government incentives.

Yet somehow in the renewable energy sector, deals continued to be made and projects continued to find those willing – scratch that – eager to finance them.

How could that be? We wondered.

How was it that in the worst possible days for the continent's banks and financial infrastructure, dreamers could still dream big and have a reasonable expectation that their wind farm, solar facility or tidal energy array could indeed rise up along the horizon?

Hoping to get a handle on this, we turned first to that London bastion of intellectual ideas, Chatham House, and to Kirsty Hamilton, an associate fellow at the independent public policy institute specializing in climate change and energy policy.

Chatham House, of course, is probably best known around the world for its promulgating the "Chatham House rule."

Those who abide by it understand that participants in any meeting or discussion held under its auspices are free to use any information received, so long as they agree that neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed.

The rule has been invoked at meetings since Chatham House's founding in St. James Square in 1920 to encourage openness and the sharing of information.

Apart from that tradition, the august institution is a leading source of independent analysis, informed debate and influential ideas.

It is in that context that Hamilton has been working with what she described "as fairly mainstream financiers" who are active practitioners and doing renewable energy deals.

"What I'm hearing in regard to renewables is that there is a huge appetite out there for bankable deals, and that governments that retain clear and well-designed policy regimes will continue to capitalize investments," she said.

Of course, capital is practically liquid in its mobility; as a result, financiers in London can and have been looking to Europe, the Middle East, Africa, the U.S. and China for opportunities.

"That said, there are a few things that continue to ripple through the market," Hamilton said. "[These inlude] the retrospective changes to the Spanish renewables regime, the Czech regime, and a some of the details of the

Portuguese bailout that people are continuing to grapple with; After all, you are in a policy-driven market with renewables and a key part of the policy is going to be the support mechanism."

But Hamilton hastened to add that support mechanisms are only one aspect of renewables policy that investors look at.

"There are some countries where there have clearly been changes made to tariff regimes linked to the cost of those regimes, but those changes are also linked, in part, to how the effected markets looked when the regimes were crafted and how they've changed," she said.

"For example, as it relates to solar PV, there is reason to acknowledge the context of the dramatic cost reduction of the technology," she added.

Hamilton believes the best designed policy regimes of the future will include provisions specifically designed to respond to cost reductions in technology over time. This is because program affordability is now recognized as a key issue for policy durability.

"If a policy is unaffordable, then ultimately, it is not going to be stable, and it's been my observation that financiers actually share an agenda around affordability – linked to the perception that a policy's affordability provides them with a sense of underlying stability for investment," she said.

"That's why what Spain did was so big," Hamilton continued, referring to dramatic roll-backs in subsidies for solar and wind in 2010 and 2011. Until then, Spain's support for both sectors had been among the most generous in all of Europe.

"In Spain the changes that were made were retrospective and therefore, they had a much bigger ripple effect, not just in Spain itself, or in Europe, but in the wider markets because it threw up the possibility of governments simply reversing things in a way that could impact actual, existing contracts," she said, adding, "Now, there have been some roll backs and reviews in other countries, but the retrospective nature of Spain's cuts… that was the damaging thing."

Other views on the current state of policy

Another group following European policy activities as they relate to energy, climate change and resource efficiency is the European Policy Centre in Brussels, where Annika Ahtonen works as a policy analyst.

"I think that especially with climate change policy, Europe has tried to be a moral leader, as evidenced by the international negotiations," Ahtonen said when asked how years of bad financial news had impacted renewables and climate change policy.

"I think it has also had quite a bit of convincing to do within the EU at the moment because the emphasis is somewhere else, the financial crisis itself," she said.

"Overall though, I think whether you are talking about climate change or renewables policy or energy policy in general, the big question of the day is, 'How will implementing our ambitious objectives in these areas actually add to economic growth and help to address the economic crisis?" Ahtonen continued.

"As long as the discussion [about renewable energy and/or climate change] keeps on going and as long as people keep putting that discussion back on the table, there will be interest, but there are a lot of other things vying for attention right now," she said.

The irony of the financial crisis is that the resulting slowdown in manufacturing and other business activities may have actually helped Europe meet its target of a 20 percent reduction in greenhouse gas emissions by 2020.

But meeting the corresponding goal of having 20 percent of Europe's electricity generated from renewables is another matter.

"In the first case, it will not be our deeds, our decided actions, but our circumstances that will result in the meeting of the emissions reduction goals," Ahtonen said. "I'm a bit more pessimistic on the renewables front.

"But, having said that, it's still on the agenda; it's still being discussed," she said. "And while some are fighting it, there's also a push for the EU to become a leader in these technologies and to try to become an important player in these technologies on the international scene. So there is still reason to believe we'll stay on this development path."

However, when it comes to energy efficiency, Ahtonen was far more bleak.

"Energy efficiency is a good example of how clearly the economic crisis is being used as an excuse why we won't meet the target of a 20 percent increase in efficiency by 2020," she said. "A number of member states in the EU are now saying, 'No way. We can't make it a binding target because as a result of the economic crisis, we will not be able to carry out the needed measures."

"That's the atmosphere. That's where we are," Ahtonen said.

The search for new sources of growth

Against this backdrop, the European Policy Centre has been trying to frame the discussion of all these policy issues with linkages to economic growth, equating the fostering of the green economy with other, traditional efforts to fire job creation.

“It comes down to this,” Ahtonen explained. “If we want to get the[[economic] growth we so desperately need, and if we want to exit this crisis once and for all, we have to look at new ways of being innovative; we have to look at new sources of growth.

“We feel that the bigger picture of a greener economy – a renewables-based and more resource efficient economy – can actually provide us with the solutions that we so desperately need at the moment,” she said.

But jobs have long been an integral part of the discussion about increasing renewables share of the economy, and in recent years, statements by the European Commission and others that said renewable will create X amount of jobs for Europe have been greeted with cynicism.

“There is great criticism,” Ahtonen conceded. “For instance, when the European Commission puts out a job projection, the trade unions pointedly ask, ‘Where are these figures coming from?’ ‘These may be new jobs, but people are losing their old jobs at the same time. So it’s a zero-sum game. What is the story?’

“Personally I think it’s good to be mindful of such questions and to be forced to account for good answers to them,” she said. “A lot of people have become quite leery of talking about ‘green jobs’. I mean, even in the coal industry, there can be people who are trying to make the coal cleaner, so shouldn’t their jobs be called green jobs as well? The whole jobs discussion is quite complicated, I find.”

Perhaps an even harder discussion is what role the 27 individual members of the European Union should be playing for the good of the whole when it comes to renewable energy.

“Energy policy is nationally based; it’s the national interest driving everything, and frankly, I find that’s been the biggest problem with the development of renewables,” Ahtonen said. “That’s why we have seen solar panels being put in places where the sun doesn’t shine and wind turbines being placed in areas where the wind doesn’t blow.

"The good news is that people have begun to recognize this; to recognize that some of what was done in the past just didn’t make any sense,” she said. “People realize that if we really want to move forward with renewables in the EU, we need to cooperate.”

Yet another view of renewables policy in Europe and how it effects investment was offered by Stephen Tindale, of the Centre for European Reform, a think-tank that describes itself as being devoted to improving the quality of the debate on the European Union.

“In other words, we’re pro-European, but not uncritical,” Tindale said as he stepped into his garden --where, explained, the reception was a little better -- to take a call from the US.

For Tindale, the barriers to a completely investment friendly environment for renewables are two-fold: regulatory instability and poor land-use planning.

“Now each of these challenges is very different in different European countries and the UK is probably the worst in some respects,” he said.

“To begin with, there’s the matter of the renewable portfolio standard, which doesn’t provide potential investors with the guaranteed income they’d get through a feed-in tariff; plus, the additional uncertainty of such a regime puts the price of capital up,” he said.

“Of course, we do now have a feed-in tariff for small scale, but the government keeps messing around with the rate, so the cost of capital goes up again,” he added.

As for the issue of land-use policy, Tindale again pointed to the UK.

“The problem here is that if the project is less than 50 MW, its fate is decided by the local planning counsel and the opponents, the not in my backyard brigade, try to block everything and basically are successful about 2/3rds of the time,” he explained. “It’s very frustrating.”

As for Europe as a whole, Tindale said the main things he’d like to see the European Commission focus on is building a Europe-wide power grid.

“I mean, for a reason why, just look at the situation with France and Spain,” he said. “There’s very little grid between them because of the Pyrenees mountains, so very little electricity can be transmitted from one to the other.”

But while he sees a Europe-wide grid as essential, the one thing he said he does not want to see is the European Commission try to harmonize all the currently sovereign power and subsidy structures.

“Because [such a move] would just lead to yet more regulatory instability,” he said. “The one thing you want to avoid at all costs is a situation where people think, ‘Well, I’m not going to invest in this because who knows what the government will do tomorrow!’”

Hamilton said such questions and concerns are inevitable, but she believes they’ve done nothing to sate the underlying appetite for investing in renewables.

“Where a government is able to demonstrate a clear policy regime – not just a support regime, but [measures] built into the utility and power sector more broadly – you have what I’d describe as an 'investment grade' policy, and if a policy is ‘investment grade’, then it is going to be attractive and money will flow,” she said.

"I mean, that's certainly the way investors might describe it," Hamilton added. "Maybe they wouldn't use the term 'investment grade'; perhaps it'd be more appropriate to say, 'if the project is bankable, the money will flow.'"

For additional information:

Chatham House

European Policy Centre

Centre for European Reform

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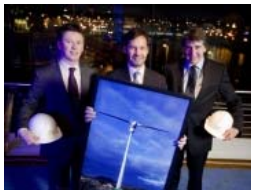

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