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European renewable energy policy at crossroadsâ€™”Focus on electricity support mechanisms

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Abstract

The European Union has adopted targets for the expanded use of renewable energies (REs) as one mean to achieve improved energy security, reduced greenhouse gas (GHG) emissions, and improved competitiveness of the European economies. Realising that rapid expansion of RE will not happen in the energy market place, as it now exists, various support mechanisms are under consideration, most prominently these may be grouped into two major categories, tradable green certificates (TGC) and feed-in tariffs (FiT). Experiences from a number of countries in Europe suggest that FiT deliver larger and faster penetration of RE than TGC, at lower cost.

The two major systems are compared in overall terms. In a TGC system, a target for RE penetration is set by public authorities seeking to minimise cost for achieving this target.

The certificate price is set by the market. In a FiT system, public authorities set an effective price but are not limiting the quantity installed. This has led to impressive growth rates, particularly in Denmark, Germany, and Spain. It is found that investor risks are much lower in a FiT system, and that innovation incentives are larger. Against this background, the European Commission proposal for an EU-wide TGC system is discussed. It is found that such a system is likely to be less effective and less efficient than maintaining national FiT systems, and that it also risks time-consuming legal processes during which investor uncertainties would risk a marked slow-down in investments. Given the underlying objective of addressing security, climate change and competitiveness, it therefore appears that, at least for the time being, continued reliance on national systems, especially FiT would be preferred.



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Keywords

Europe; Renewables; Energy

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