



Climate Parliament

José Manuel Barroso
President
European Commission

European Parliament
23 May 2011

Dear President,

On December 17 last year, I and a group of colleagues from across Europe wrote to you about the urgent need to increase the percentage of future EU budgets devoted to renewable energy. I attach a copy of the letter, which has now been signed by more than 150 MEPs and national MPs from EU Member States. The signatories are roughly evenly balanced between centre-right and centre-left.

The Climate Parliament has been consulting widely about how this could be done in different parts of the Budget, with a view to the new Multiannual Financial Framework which the Commission is now drafting. I am writing now to make a series of recommendations for the MFF which we hope the Commission will include in the draft. Let me first 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 €6 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 three ways:
 - a. Devote **€1 billion a year to an expanded Trans-European Energy Networks (TEN-E) programme** to help build long-distance grid connections, just as we have done through the economic recovery package, in order to build a European grid.
 - b. Devote **€1 billion a year of structural funds** towards building long-distance grid connections and large-scale wind farms, solar power stations and other renewable installations.
 - c. Devote **€1 billion a year to support innovative financial instruments** such as the Commission's excellent Project Bond Initiative, in order to support new grid connections and renewable energy installations.
3. **Support renewable energy in developing countries.** Most future growth in global greenhouse gas emissions will take place in developing countries. We should devote at least €1 billion a year 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. I am therefore confining myself 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.

Let me now explain each recommendation in a little 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 our 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-envisioned 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 area, 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 that I 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 three different parts of the budget.

a. An expanded budget for trans-European electricity connections

As you know, the EU's Trans-European Energy Networks budget currently consists of just some €25 million a year, spent mainly on feasibility studies for electricity interconnectors and gas pipelines. As part of the economic recovery package, we spent considerably larger sums on electricity interconnectors. Building on this, we need a budget on quite a different scale to ensure that the essential links that will form part of a future European "supergrid" get built as quickly as possible. We should allocate €1 billion a year for investment in long-distance grid connections.

b. At least €1bn in assistance for renewables and grid connections in the EU's low-income regions

Of the nearly €50bn committed annually to the various funds comprising the EU's regional policy, at least €1bn – and preferably more – should be devoted to investments in the renewable energy sector and in cross-border grid connections. This could 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.

c. €2bn for Innovative Financing Mechanisms for Grids and Renewables

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.

I understand that the Commission is proposing to include funding for such financial instruments in the MFF to help build new European infrastructure. This is to be welcomed. But current indications are that the amounts currently allocated for building a European grid and for major renewable energy projects will not be sufficient to make a big difference to our chances of completing the energy transition within the timeframe envisaged by the Commission. We should press for at least €1 billion a year to be allocated to innovative financial instruments for clean energy, with the funds applied both to investments in electricity transmission infrastructure and in renewable energy generation capacity. Since Europe needs to invest literally hundreds

of billions of euros in both over the next 20 years, from public and above all private sources, this would represent a major step in the right direction.

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 €20 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".

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.

Of a total annual EU development assistance budget (including the European Development Fund) of some €11bn, we recommend that at least €1bn a year be dedicated to supporting renewable energy and the new grid connections it requires. This could be done within the context of a more general reordering of priorities in which roughly equal resources are devoted to the four main areas of development assistance: health and education; agriculture and food security; democratic governance; and environment, climate and renewable energy.

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.

We very much hope that the MFF and the Basic Acts that govern its implementation will reflect these priorities, and will support them with at least 5% of the total budget.

I look forward to hearing from you.

Kind regards,

A handwritten signature in black ink, appearing to read 'Graham Watson', written in a cursive style.

Graham Watson MEP
Chairman
Climate Parliament

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



Climate Parliament

17 December 2010

Mr. José Manuel Barroso,
President of the European Commission
Brussels
Belgium

Dear President,

We are writing in response to the Commission's Communication of 19 October regarding the EU Budget Review. We would like to express our view that promoting renewable energy should receive much higher priority in future budgets than is currently envisaged.

Climate and energy issues receive a great deal of political attention within the EU, but the importance of these issues is not yet reflected in the EU budget. It is time for this to change.

These are not just ordinary issues. Climate change is likely to inflict increasingly intense droughts, heat waves and floods on Europe. It threatens our coastlines with sea-level rise, and will bring a flood of refugees to our shores. Meanwhile, our dependence on other regions for much of our fossil fuel supplies undermines our security.

A rapid shift to renewables can make Europe largely self-sufficient in energy, and can eliminate most of our greenhouse gas emissions. The recent *Roadmap 2050* study carried out by McKinsey and others for the European Climate Foundation showed that moving to a low carbon economy also makes good economic sense. Indeed, the study found that by 2050 using the free fuels of sun, wind and water, combined with energy efficiency measures, could save every European household as much as €1500 a year – or even more if fossil fuel prices rise sharply.

In the light of these imperatives, a significantly larger percentage of the budgets of the EU and the European Investment Bank should be devoted to promoting renewables. Among other urgent steps, more of our research funds should help to develop technologies such as cheaper solar panels and floating

wind turbines. Rural development funds should help farmers deploy small scale renewables. The EuropeAid budget should make promoting renewables in developing countries a top priority. And substantial funds should be devoted to supporting new long-distance grid connections to enable us to combine Europe's wind, solar, hydroelectric, geothermal and other renewable energy sources into a reliable supply for everyone.

We hope these priorities will feature more prominently in the draft Financial Perspectives due next year. We look forward to working with the Commission and the Council to shape a budget that fully reflects the crucial importance of climate and energy issues for the future of the European Union.

Yours sincerely,

Graham Watson, MEP, *Chairman of the Climate Parliament*

Lord Alderdice, United Kingdom, (Liberal)

Sonia Alfano, MEP, (Liberal)

Manuel Altava, Senator, Spain, (EPP)

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Lord Archer of Sandwell, United Kingdom, (Socialist)

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