Wind turbines installed up to fifteen years ago required heavy state subsidies, usually in the form of feed-in tariffs, remarks Giles Dickson. But this is no longer the case, he says, urging governments to use market-based systems like auctions, which guarantee stable revenues.
Giles Dickson is CEO of WindEurope, the wind energy trade association. He spoke to EURACTIV’s energy and environment editor, Frédéric Simon.
Europe claims to be a leader in renewable energy but it seems to have been leapfrogged by China on solar and wind power. Is Europe still a leader? And what would it take to reclaim this position?
Europe is no longer number one in renewables – that is very clear. And we haven’t been for a while now. China has overtaken Europe in terms of installed capacity for wind, the Chinese market for newly installed wind capacity is twice as large as the European market so China has installed twice as many wind turbines as Europe every year at the moment.
And it doesn’t look like changing. Europe still produces the world’s best technology for wind power and European companies still have a very significant share of the global market for wind turbines.
…including those that are being installed in China?
Less so in China. There, it’s really the Chinese turbine manufacturers that dominate the market. But in Latin America, the Middle East, North Africa, South Asia, the European turbine manufacturers are competing very well still. We have globally a 40% share of all the wind turbines sold.
But to maintain a strong market share, we need to have a buoyant domestic market. And as things stand, the level of ambition around Europe is not going to give us that strong domestic market.
You’re talking about the EU’s set of proposals contained in the so-called clean energy package for 2030?
Yes. The proposed share of 27% for renewables is absolutely not enough, the target should be at least 35%. Just on business as usual, we will get to 24% by 2030, so 27% is not at all ambitious. And 35% is very achievable in terms of the industrial capacity that we have here in Europe. The costs of installing wind farms have fallen down so it’s very doable.
Now, there is the level of ambition at European level and the level of ambition at the national level. Today, only eight out of 28 EU member states have clear policies and targets in place for renewables beyond the year 2020. So they all had legally-binding targets for 2020 and eight have decided to have targets beyond that as well.
It’s entirely up to them now. There are no longer national targets for renewables in the EU policy framework for 2030…

Yes, it’s up to them, you’re right. But they all have to write their national energy and climate action plans and they all need to make contributions towards the legally-binding collective EU target, whatever it ends up being. And what they put in their national plans, the exact extent to which it will be binding remains to be seen.
The interesting thing is that the eight countries that have decided to do it have done so because they see it made economic and business sense for them. Not because anybody has forced them. And this includes France, Germany and other major economies in Europe. They understand that not only is this affordable but it’s in their own interests to invest in renewables. Because it’s the cheapest form of new power generation capacity, it creates jobs and growth locally, it’s a local energy source, it’s good for energy security, it reduces their fossil fuel import bill, it reduces their total import bill, it’s good for their balance of payments – all of those arguments.
Talking about investments, the dramatic fall in the wholesale cost of electricity is mainly attributed to renewables, and wind in particular. This is hampering investment in the energy sector – coal and gas in particular. By knock-on effect, is this also hurting investments in wind capacity?
Let’s look at the figures. The average cost of onshore wind is in the €45-50 per megawatt hour, for offshore wind it’s around €60-70 per megawatt hour. This is cheaper than any other form of new power generation capacity. And we are seeing that a number of countries are recognising this and are planning to deploy increasing amounts of wind energy.
Now, there is a political issue still out there. The consumers of electricity in Europe are still paying for yesterday’s renewables. By yesterday, I mean anything up to 15 years old. Because the deal is, if you built a wind farm 15 years ago, you got a feed-in tariff for a fixed price for 15 years, which was linked to the technology costs 15 years ago which were significantly higher than they are today.
The problem is that, 13-14 years on, consumers are still paying for the costs back then. So the consumers are still paying for an old technology and their bills haven’t gone down. But in the meantime, the relative costs of renewables have gone way below that.
When will that change?
This will work itself out of the system mathematically and chronologically, with time. And if you build wind capacity now, the level of public financial support required is significantly lower than 15 years ago.
Coming back to our economic performance, the wind industry in Europe exports €8bn worth of equipment every year. So we are a major contributor to Europe’s positive balance of payments. We employ close to 300,000 people across Europe and we contribute significant

amounts to GDP as well.

People in the electricity industry say that renewables and wind power in particular have now clearly won the battle of the cost per megawatt hour. Some are now saying it is time to end all forms of subsidies for renewables. Why should European taxpayers continue to subsidise an industry which is now competitive?

If you go back to five years ago, public support for renewables took the form of feed-in tariffs, which are in fact subsidies: you generate wind electricity and the government guarantees you will receive a certain amount of money, irrespective of what is happening in the market.

We’ve moved away from that. Now, public financial support comes in the form of auctions. If you want to build a wind farm in Germany, you place a bid and you win the auction if you offer the cheapest electricity price. And then you will be guaranteed that price in the German system for 20 years or so.

What is different now is that the price you’re getting from the state is not the feed-in tariff anymore but the price at which you were bidding, competing with everybody else, which is linked to the wholesale electricity price. So it’s much more market-oriented.

The key now is revenue stabilisation, it’s not subsidies. And that is what really matters, because our industry is very capital-intensive, the money is being put upfront into these large structures. There are no fuel costs for wind so our operating costs are very small compared to fossil fuels. And the investors need to cover their capital costs. So what matters is the prospect of stable revenues. And this is not subsidies at all.

People who’ve just won the last offshore wind auction in the UK placed a bid at £58 per megawatt hour (€65), including the cost of grid connection. For 15 years, they will get that amount. But if the price of electricity rises above £58, they’ve got to pay back the difference to the government, they don’t earn the extra amount.

So it’s a market-based two-sided contract, which at least guarantees revenue for the 15 years of that project. And therefore, investors are comfortable putting in their money, they know they’re going to get stable revenue.

And that’s the model that should be pursued at EU level?

We’re not saying Europe should have a single harmonised model for how to finance renewables. But we’re actively encouraging other governments to pursue these market-based revenue stabilisation mechanisms which, if properly managed, could end up being cost neutral.

The issue of retroactive changes to funding rules for renewables in Europe has been a cause for disputes in several countries, notably Spain. Do you consider this history now or are you

still worried about that? Should something be done at European level to prevent this from happening?
There is a ‘grandfathering’ clause in the renewable energy directive that makes it extremely difficult for member states to make these sorts of retroactive policy changes in the future. Are you confident that this clause will go through the decision-making process unscathed?
It looks very much as though the European Parliament will support it. But there are a few question marks still left in the Council.
Can you name the countries?
You can see from records of Council discussions which member states have problems with this. We see that Spain has not supported the article exactly as the European Commission had tabled it for example. And there are maybe one or two countries in Central and Eastern Europe.
Poland?
Yes. Look, it will be supported by the Parliament. And many member states in the Council support it as well.
Generally it is recognised that these retroactive changes have not helped for a number of reasons. And an important one is that they have put up the cost of capital. And when you are a capital-intensive industry like ours, this basically makes renewables unaffordable. And they put up the cost of capital because the investors don’t trust they regulatory framework in those countries.
So if you want to build a new onshore wind farm today in Germany, your cost of capital will be 4% on average. In France it will be 6%, in Italy 8%, in Spain 10% and Greece 12%. These are huge variations, even within the eurozone. By capital costs we mean here debt costs and equity costs combined. And it’s really the equity costs where the investors demand the extra premium because they don’t trust the regulation.
In its clean energy package tabled a year ago, the Commission vowed to put “prosumers” in control. But wind power is quite the opposite – we’re talking about large, capital intensive installations owned by big companies. Has the wind industry now become too large for its own good?
No, absolutely not. Look, there are lots of large wind farms being built and lots of small ones as well. If you look at France, they have a new regime this year to support wind farms that are smaller than six turbines. And it’s heavily popular, it’s hugely oversubscribed.
Large energy utilities often compete hard in local bids for renewable energy capacity. This is often done to the detriment of local community-owned projects, which have complained about unfair competition from big players. Do you see this as a problem? And how can some

balance be restored?
We don’t see it as a reality, let alone a problem. If you take the two onshore wind auctions that Germany has done this year, community projects have won them both. And in France, half of the capacity is made up of wind farms that are smaller than six turbines. And these tenders are oversubscribed.
There are separate tenders for much larger wind farms, we’ll see in a few weeks how many companies will bid for those. But there are lots of small and medium-sized developers of wind farms that are very active in France and Germany and you see that elsewhere in Europe too.
How confident are you, looking forward to the vote on the renewable energy directive taking place in the European Parliament’s industry committee on 28 November?
There have been a number of positive developments in the Parliament, certainly on the renewable energy directive. Are we confident? – Yes. We are more concerned about developments in the Council on the clean energy package than we are in the Parliament.
The issue of priority grid access for renewables was a big source of worry when the clean energy package was tabled in November last year. How worried are you now, one year after the package was tabled?
The Commission proposal was about right on this: phase out priority dispatch for new renewables but keep it for existing ones. Some say phase it out for existing renewables too. But look, these are assets people invested in because governments were promising priority dispatch and the projected revenue streams factored this in.
If you move the goalposts retroactively, you undermine the finances of existing assets – and send a very negative signal to investors about the value of future government promises.
The Clean Energy Package makes it much harder for governments to make these retroactive changes. So Europe shouldn’t be encouraging it on priority dispatch! The Parliament seems to get this. The Council is not there yet.
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