

Green Paper "A 2030 framework for climate and energy policies" – Response from RSA Insurance Group

Overview

RSA Insurance Group welcomes the Commission's Green Paper on climate and energy policies for 2030 and recognises that energy security, and in particular security of supply, will be critical in the coming years. We welcome the Green Paper's efforts to rebalance areas that the 2009 climate and energy package neglected, in particular the management challenges linked to the introduction of renewables.

With ever increasing energy demand, coupled with the closure of older and more polluting generation plants, renewables will have to play a key role in creating the indigenous power sources needed to meet the EU's energy needs in a sustainable and efficient manner. However, such demand can only be met with a stable and positive regulatory environment, which enables the necessary investment in renewables to take place, and ensures that Europe is able to capitalise on its existing expertise in the green economy.

Without a clear policy and regulatory framework beyond 2020, there is a risk that the EU will miss out on the wealth creation opportunities from inward investment; with investors increasingly looking abroad to Asia, South America and South Africa.

In particular, RSA has used this response to highlight the need to see clear long term targets for renewables and carbon emission reductions beyond 2020, as well as long term plans to reform the Emissions Trading System and ensure it can provide adequate incentives to encourage the development of a low carbon economy. We look forward to working with the EU institutions to take forward these plans and ensure a stable investment environment for renewable energy across Europe.

About RSA Insurance Group

As a multinational insurance group writing business in 130 countries, RSA is a market leader in the provision of renewable energy insurance. We are the market leader for insuring CSP solar in Spain, as well as the global leader in insuring offshore wind, with an approximate 40% share of the world market. We are also involved in the wind energy insurance programmes of all of the top ten European utility companies. This expertise can be traced to the strength of our office in Denmark from the late 1970s, in the early stages of the development of the offshore wind industry. We also recruit from the renewable energy sector, to ensure we have the most up to date and relevant technical capability.

Questions

4.1. General

- Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The 2020 framework has demonstrated that policy certainty is what is needed in Europe to ensure progress towards a more sustainable and secure energy supply. RSA welcomes the Green Paper and

would like to see a coherent policy framework up to 2030 and beyond, consisting of clear EU renewable energy targets that will help to provide the industry and investors with the long term policy stability they need.

4.2. Targets

• Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

The 2030 framework should include EU targets for GHG emissions and renewable energy targets that are legally binding on Member States. The Energy Roadmap for 2050 shows that the share of renewables in the energy system must continue to increase after 2020; and RSA would like to see a specific target for 2030 to ensure a clear trajectory along this path.

Such targets are vital to providing the policy stability that is necessary to encourage investment in renewables. In turn, investment is vital to help reduce the cost of renewable technologies in the long term and to create jobs and growth, in the energy sector, and in other related industries, such as the insurance sector.

The current lack of a longer-term market signal beyond 2020 risks making some renewable projects, such as the UK's Round 3 offshore wind programme, uneconomic given the long timeframes involved. We therefore strongly urge the Commission to set out plans for a 2030 renewables target as quickly as possible.

• Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

N/A

• Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so, which ones? For example, is a renewables target necessary for transport, given the targets for CO2 reductions for passenger cars and light commercial vehicles?

The issue of specific targets for individual sectors and sub-sectors is only one part of the wider 2030 package. However, RSA believes that sectoral targets will allow similar companies to compare and contrast best practices in carbon emission reduction activities, and stimulate competition between sectors as to how best to achieve their individual targets. We believe all sectors have the potential to achieve targets for a low-carbon economy, and that such targets will help to encourage investment.

• How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

The 2030 framework should ensure that Member States are able to effectively differentiate the support they provide to renewables, in order to better reflect the economic viability of a technology and its proximity to market. For example, offshore wind investors of larger scale projects and those in deeper waters should not lose out as a result of the complexity and more advanced technology required to take forward these projects. Differentiated support levels to reflect the varying complexity and additional risks involved in offshore projects that are further out to sea and which require more advanced construction techniques will enable continued investment in such emerging technologies and ensure Europe can remain at the forefront of innovation.

Taking the initiative to insure wind technology in the early stages of development when many other insurers were reluctant to do so, has enabled RSA to position itself as a world leader in the sector. We want to be able to continue expanding our renewable energy business globally based on the opportunities that exist now in Europe.

- **How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?**

N/A

4.3. Instruments

- **Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?**

RSA would welcome more coherence across EU policy instruments to ensure effective support for investment in renewables. In particular, urgent action is needed to ensure that carbon pricing under the EU Emissions Trading System provides an adequate incentive to encourage investment in low carbon energy solutions. As the Commission develops the 2030 framework, it needs to secure an extension of the ETS beyond 2020. We also welcome recent efforts to progress backloading proposals for allowances (as a short term measure to provide temporary stability by raising carbon prices); and to legislate to deliver proper structural reform to the EU ETS in the longer term.

More joined up policy instruments to support renewables are also needed at Member State level. For example, the UK Government's carbon floor price will support the growth of the renewables sector; but implementing such a measure in one Member State may have unintended consequences at European level. As a significant amount of renewable energy investors operate across the EU, Member States should co-ordinate their national level action on carbon floor prices at EU level.

- **How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?**

N/A

- **How can fragmentation of the internal energy market best be avoided particularly in relation to the need to encourage and mobilise investment?**

One way to avoid fragmentation of the internal energy market would be to take forward plans for a European Supergrid. The linked power grids would allow countries across Europe to share the most efficient power plants; lower the cost of power; help to ensure security of supply; and support the growth of the renewables sector. RSA is keen to engage with the Commission as it takes forward work in this area, to ensure it can provide effective interconnectivity; and that any associated insurance risks are managed proactively. We welcome recent grid developments which are paving the way for a more joined up energy infrastructure, such as Eirgrid (Ireland).

- **Which measures could be envisaged to make further energy savings most cost effectively?**

RSA supports the work the Commission is undertaking to create energy savings through energy efficiency targets and lower energy consumption, but the EU will not achieve its emissions targets through energy efficiency measures alone. The EU will need to work to increase renewable energy penetration in order to meet its emissions targets and support the growth of the green economy.

For our part, as a global business, RSA works to continually reduce our direct and indirect environmental impacts and promote energy efficiency. We are on track to achieve our 2020 target for a 50% reduction in CO2 emissions from 2006 levels; and we were the first carbon neutral insurer. Measures we have introduced include installing energy-efficient technologies in offices; and reducing business travel, paper and water use. We continue to work with suppliers to reduce environmental impacts – in 2012 we introduced new claims processes, resulting in significant reductions in our carbon emissions.

• How can EU research and innovation policies best support the achievement of the 2030 framework?

We would welcome increased focus on and funding for engineering-based research. There is significant opportunity for further research in this area to provide the insight and innovation to help deliver the renewable energy technologies and new markets of the future, in the medium and longer term. Research on the engineering related aspects of renewables would also help to reduce the risk of current and emerging renewables technologies – bringing them to market faster and / or making them more economically viable.

4.4. Competitiveness and security of supply

• Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

As noted above, it is vital that the Commission works to ensure a positive policy and regulatory Framework that enables Europe to continue to attract investment in renewables and build on its existing expertise to become a leader in the green economy. Local examples in the UK show that significant investment creates jobs and growth. According to the UK Department for Energy and Climate Change, since 2010 more than £29 billion worth of investment has been announced in renewable energy, which has the potential to support an additional 30,000 jobs.

To achieve this level of investment, clear long term targets are needed for renewables and Carbon emission reductions beyond 2020. Alongside this, further action needs to be taken to widen the scope of the ETS and to ensure long term reform of the scheme. These measures need to be underpinned by a stable political environment, with consistent and supportive statements from officials and Commissioners about the Commission's long term commitment to the growth of a green economy.

We would also welcome increased recognition from the Commission of the importance of creating more clusters of expertise in renewables across the EU, to promote job creation, growth and competitiveness. A good example is Bremerhaven in Germany, where four of the country's North Sea and Baltic Sea major ports have been transformed into the country's primary wind industry centre - creating a hub of equipment manufacturing and supply bases, as well as a logistical centre for the export of wind turbines. This enabled the city to positively position itself to take advantage of the rapidly expanding offshore wind sector, which resulted in the creation of 700 new jobs in region over the period 2006-09, and this has now increased to around 1200 jobs. In order to continue on this growth path, Bremerhaven University now offers a graduate and masters programme in wind energy to ensure a continuous supply of well-trained engineers and other specialists.

• What evidence is there for carbon leakage under the current framework and can this be quantified? How could this problem be addressed in the 2030 framework?

N/A

• **What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?**

There are a number of factors that impact on energy costs, but given RSA's experience as an insurer, we would like to specifically highlight the importance of managing risk effectively to ensure the costs of renewable energy can be reduced.

We would therefore encourage the Commission to look at ways in which it can ensure a co-ordinated approach to risk management across renewable technologies. This will help to lower insurance premiums and in turn reduce the cost of offshore wind, ensuring long term viability of the industry.

We would also encourage the Commission to ensure that renewable energy developers engage with insurers early on in the initial development stages, rather than waiting until a project is near completion. RSA employs specialist engineers to assess the risks relating to the renewable energy projects it insures; and this expertise is valuable in helping developers to minimise their risk and lower insurance premiums, particularly helping to lower costs of emerging technologies. Insurers' involvement at the earliest stages can also help with the acceptance process of financiers considering funding projects.

• **How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?**

RSA has no opinion on the level of commitments that specific countries should make to on-going international negotiations. However, we acknowledge that the EU has been a long standing and active player in pushing for international targets on climate change, so should continue to take a leading role in promoting renewables and low carbon energy in the international arena.

• **How to increase regulatory certainty for business while building in flexibility to adapt to changing circumstances (e.g. progress in international climate negotiations and changes in energy markets)?**

As previously stated, the Commission can provide greater regulatory certainty to investors in renewable energy by setting long term renewable and carbon reduction targets. Long term clarity up until 2030 will help to bring forward the necessary investment in renewable projects, particularly given that some projects such as offshore wind parks can take a decade from planning to completion. This certainty will ensure Europe is able to create a cluster of expertise in the sector so that it can compete with its international counterparts and build a thriving green economy.

• **How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?**

RSA has no specific view on the role of the auctioning of allowances in increasing innovation capacity. We support the principle of measures aimed to support businesses in the renewable manufacturing industry, particularly those involved in research and development in the more advanced technologies. Such innovation should be supported by effective risk management to help lower the costs of new technologies and ensure long term market viability.

- **How can the EU best exploit the development of indigenous conventional and unconventional energy sources within the EU to contribute to reduced energy prices and import dependency?**

The International Energy Agency (IEA) estimates that the EU oil import bill increased by \$70 billion as a result of high oil prices in 2010 alone. Such dependency not only opens the UK up to the risk of energy supply disruption, but also threatens to push up insurance premiums as businesses become increasingly concerned by the threat of power outages; and being reliant on energy supply from countries with challenging geopolitical risks.

It is therefore clearly in the EU's interest to decarbonise its energy supply in order to become less dependent on international fossil fuel markets in the longer term. Renewables will have to play a key role in creating the indigenous power sources needed to meet ever growing demand, as well as ensure we can meet our energy needs in a sustainable and efficient manner. However, such demand can only be met with a stable and positive regulatory environment to allow the necessary investment in renewables to take place, and ensure Europe is able to capitalise on its existing expertise in this sector.

- **How can the EU best improve security of energy supply internally by ensuring the full and effective functioning of the internal energy market (e.g. through the development of necessary interconnections), and externally by diversifying energy supply routes?**

RSA supports the call of various businesses, urging their governments to move quickly to ensure fundraising, infrastructure and regulatory requirements are in place to enable the necessary investment in energy infrastructure, particularly in renewables, to ensure Member States can achieve security of supply and alleviate business concerns about the need to secure against the threat of power disruptions. As mentioned above, at EU level, the development of the European Supergrid would allow countries across Europe to help to ensure security of supply.

4.5. Capacity and distributional aspects

- **How should the new framework ensure an equitable distribution of effort among Member States? What concrete steps can be taken to reflect their different abilities to implement climate and energy measures?**

RSA agrees that the 2030 policy framework should strike a balance between concrete implementing measures at the EU level and Member States' flexibility to meet targets in ways which are most appropriate to national circumstances, while being consistent with the internal market.

- **What mechanisms can be envisaged to promote cooperation and a fair effort sharing between Member States whilst seeking the most cost-effective delivery of new climate and energy objectives?**

RSA recognises the need for flexibility to allow Member States to make the best use of individual resources and capabilities, as long as all states work together effectively and their national level efforts do not undermine the overall ambition of the 2030 framework.

- **Are new financing instruments or arrangements required to support the new 2030 framework?**
N/A

Contact Details

June Deasy

Acting Head of Public Affairs

Group Corporate Centre

9th Floor, One Plantation Place, 30 Fenchurch Street,

London EC3M 3BD United Kingdom

Tel: +44 (0)207 111 1930

Email: june.deasy@gcc.rsagroup.com