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A step back from the subsidy shock

Incentive schemes for renewable energy in Europe are going through turbulent times as governments scramble to bring down subsidies in line with falling technology costs.

German environment minister Norbert Roettgen announced last week a one-off cut – of up to 29 per cent – in the feed-in tariffs available for PV installations. The cut on March 9 will be followed by prescribed monthly reductions until the end of the year, and annual cuts thereafter.

The announcement hit solar stocks around the world – the largest decliner on the WilderHill New Energy Global Innovation Index, or NEX, last week was Chinese PV manufacturer Yingli Green Energy, whose shares fell 19.4 per cent. Other solar companies – Trina Solar (China; -19 per cent), SolarWorld (Germany; -18 per cent) and First Solar (US; -16.5 per cent) – saw similar drops.

The NEX, which tracks the performance of 97 clean energy stocks worldwide, slipped 2.5 per cent last week but remains 14 per cent up this year.

The move by Germany comes after the UK revealed its plans to bring down PV tariffs through regular and predictable cuts, aiming to avoid a repeat of the courtroom fiasco of its last attempt to reduce solar subsidies. Under the plans, which are going through consultation, tariffs could potentially be cut each month, depending on the amount of capacity installed.

Other European countries have attempted to keep a lid on subsidies, and to allocate them cost-effectively, in novel ways. Last week, the Netherlands legislated for its new subsidy scheme for 2012. This pits different renewable energy technologies against each other as they compete for a limited budget.

But the one-off cut in Germany shows that even well-designed schemes may not be able to keep track of developments in the market without resorting to exceptional policy changes, which are liable to spook investors.

Spain may take an even more dramatic step over the budgetary pressure resulting from renewable energy subsidies, by restricting existing plants' profits, according to notes published by Standard & Poor's and Banco Bilbao Vizcaya Argentaria. The feed-in tariff scheme was suspended last month for new projects.

The policy uncertainty related to the design of subsidy schemes is worsened by wider moods in national politics. In the UK, a petition by 100 backbench Conservative MPs against onshore wind has put a question mark over politicians' appetite for further projects, at a time when the industry is waiting for confirmation of the new Renewable Obligation Certificate bandings.

GE Energy managing director Magued Eldaief told *The Guardian*, "Our investment is on hold until we have certainty and clarity regarding the policy environment that we are in." Vestas, Mitsubishi, Gamesa and Siemens have expressed similar concerns.

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