

Country Report

Romania

Romania: The Target for Renewable Energy Production for 2020 Has Already Been Reached – but Is It Really Good News?

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In 2014, Romania has reached the renewable energy production target for 2020. However, this is not necessarily good news. The green certificates prices have reached their peak, which poses heavy burdens on national companies. These burdens are reflected in the price of Romanian products, which makes them non-competitive on the EU market. On the other hand, governmental measures taken in order to ease the burden of local producers are chasing away investors in renewable energy.

I. Background

In November 2008, the Romanian Parliament adopted Law no. 220 for the establishment of a system to promote renewable energy generation (hereinafter “the Law”)¹ by which it increased the number of green certificates (hereinafter GCs) granted to “green” electricity producers. In this way Romania hoped it would attract investors in renewable energy in order to reach the national target set by the EU (24% share of renewable energy in the gross final consumption)² and those undertaken in the National Strategy for Energy Security of Romania 2007-2020 (promotion of energy production from renewable sources, so that the share of electricity produced from these sources in the total gross electricity consumption is 33% in

2010, 35% in 2015 and 38% in 2020).³ Additionally, the mandatory quota system placed on suppliers was meant to both encourage competition⁴ and reduce prices supported by the consumers and protect investors in renewable energy projects.⁵

II. Effects of the Scheme

The expectations concerning the price were highly unreasonable given that operating costs of green energy usually lead to increase of prices for final users⁶ and the scheme itself was designed in such a way that the actual price for GCs was covered by them.⁷ Moreover, the gap between the mandatory renewable energy quotas imposed on energy market suppliers and

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1 Law no 220/2008 published in the Official Gazette of Romania (OGR) no 743 /03.11.2008. The law was amended and republished in 2010, in OGR no 577/13.08.2010.

2 Directive 2009/28/EC.

3 The document was amended in 2011 and it is available online, solely in Romanian, at http://mmediu.ro/new/wp-content/uploads/2014/01/2011-11-07_evaluare_impact_planuri_strategiaenergeticaactualizata2011.pdf, last visited 16.02.2015, p. 27.

4 Daniel-Catalin Velicu, ‘CertIFICATELE VERZI SI TRANZACZIONAREA ACESTORA’, (www.juridice.ro, 1 July 2013) <<http://www.juridice.ro/268773/certificatele-verzi-si-tranzactionarea-acestora-3.html>> accessed 16 February 2015.

5 For a detailed description of the GV system in Romania see: Ion Plumb, Andreea-Ileana Zamfir, ‘A comparative analysis of green certificates markets in the European Union’ [2009] 20 Management of Environmental Quality: An International Journal 684, 691. Also: Leontina Pavaloaia, ‘The Influence of Green Certificate System over the Electrical Energy Market’ [2012] 55 Lucrari Stiintifice, Supliment, seria Agronomie 249, 250-252.

6 Adrian Georgian Ardeleanu, ‘Analyze of Green Market Certificate, Case Study, Romania’ [2011] Journal of Knowledge Management, Economics and Information Technology 1, 5. Also: Lucian Paul, ‘Energy for Romania from Renewable Resources’ [2012] 7 Studies in Business and Economics 110, 113.

7 Anca Jurcovan, Andreea Oprisan, ‘Romania. Romanian Support Scheme for the Generation of Renewable Energy: The Road from Initial Authorization to Re-notification’ [2014] European State Aid Law Quarterly 399.

the actual amount of available GCs necessary to meet the quota led to an imbalance which kept the price of GCs near the top of the price range established by law.⁸

Due to the aforementioned imbalance between supply and demand, the price of GCs had a low level of volatility, maintaining them at the upper levels, and encouraging investment,⁹ which probably was the desired effect. For the same purpose, Romanian GC's could only be traded or purchased on the national market.¹⁰ The scheme proved more successful than anticipated, Romania experiencing a huge increase in renewable energy investments.¹¹ Hence, in 2013 it reached the national target established by the EU for 2020.¹² However, the news was not as good as it sounds for it carried perverse side effects.

III. Consequences of Reaching the Target

The main adverse result of reaching the target was that for the period 2013-2020, the price of the GCs would have been at its maximum. In practice it meant, on the one hand, that Romanian products would have incurred serious losses in competitive-

ness on the internal market¹³ and, on the other hand, that consumers would pay increased costs for their electricity bills,¹⁴ thus resulting in a serious social crisis.¹⁵ What followed was that, under the pressure and lobby of big energy consumers from the industry¹⁶ (to be either exempted from paying for GCs or to decrease the mandatory quota),¹⁷ the government decided to amend the law and somehow decrease the level of over-compensation of renewable energy generation.¹⁸ The method chosen was to suspend the payment for part of the GCs awarded by law until 2017, without providing guarantees that those GCs would eventually be recovered.

The measure taken by the government, besides causing debates between the Prime-Minister and the President, did not satisfy the industrial producers,¹⁹ but managed to destabilize the sector and infuriate the investors,²⁰ who started cancelling on-going projects and left the country.

IV. Conclusion

The GCs scheme introduced in Romania proved to be rapidly successful due to the over-compensation

- 8 Triglav Carpati Slovenian Romanian Business Club, *Analysis of the Renewable Energy Market in Romania. An Overview of the Renewable Energy Market in Romania*, 30 September 2011, <<http://www.izvoznookno.si/Dokumenti/AKTUALNO/2011/ANALYSIS%20OF%20THE%20RENEWABLE%20ENERGY%20MARKET%20IN%20ROMANIA.pdf>>, accessed 16 February 2015, p. 18.
- 9 Lene Nielsen, Tim Jeppesen, 'Tradable Green Certificates in selected European countries – overview and assessment' [2003] 31 Energy Policy 3, 5.
- 10 As Nielsen and Jeppesen explained, allowing GCs to be purchased on international markets would reduce the price of GCs but would also preclude the installment of new technologies in countries where the market price is higher than the penalty in other countries. *Ibid* 10.
- 11 According to the Explanatory Memorandum of the amendments to the Law, the support scheme led only in 2012 to an increase of 190% of the installed production capacity from renewable energy. <<http://www.cdep.ro/proiecte/2013/200/20/7/em227.pdf>> accessed 16 February 2015, p. 2.
- 12 Alina Toma Vereha, 'Romania has reached its target for the weight renewable sources of energy' (*Bursa On Line*, 19 November 2013) <http://www.bursa.ro/exclusive-romania-has-reached-its-target-for-the-weight-of-renewable-sources-of-energy-222454&s=print&sr=articol&id_articol=222454.html> accessed 16 February 2015.
- 13 Explanatory Memorandum of the amendments to the Law, <<http://www.cdep.ro/proiecte/2013/200/20/7/em227.pdf>> accessed 16 February 2015, p. 3.
- 14 *Ibid* 3-4.
- 15 Daniel Ionascu, 'Bomba sociala din spatele certificatelor verzi', *Adevarul*, 13 March 2014, <http://adevarul.ro/economie/stiri-economice/bomba-sociala-spatele-certificatelor-verzi-1_5321e5f20d133766a8df3f29/index.html> accessed 16 February 2015.

- 16 Anca Jurcovan, Andreea Oprisan, 'Romania. Romanian Support Scheme for the Generation of Renewable Energy: The Road from Initial Authorization to Re-notification' (n 7) 400. Also Irina Popescu, 'Romanian aluminium producer Alro ends 2013 on a loss', (*Romanian insider*, 18 February 2014) <<http://www.romania-insider.com/romanian-aluminum-producer-alro-ends-2013-on-a-loss/115512/>> accessed 16 February 2015: "[...] Alro's efforts to remain competitive and the authorities' efforts to keep under control the accelerated growth rate of the subsidy for the renewable sector were almost completely neutralized by the explosion of new projects in the photovoltaic sector."
- 17 Irina Popescu, 'Romanian president passes green certificates law. But does it solve green certificates issue raised by the industrial producers?' (*Romanian insider*, 14 March 2014) <<http://www.romania-insider.com/romanian-president-passes-green-certificates-law-but-does-it-solve-green-certificates-issue-raised-by-industrial-producers/117330/>> accessed 16 February 2015.
- 18 Vladimir Pekic, 'Romania to cut green certificates' (*Pv Magazine*, 10 June 2013) <http://www.pv-magazine.com/news/details/beitrag/romania-to-cut-green-certificates_100011636/#axzz3SDRwi9l> accessed 16 February 2015.
- 19 Irina Popescu, 'Romanian aluminium producer Alro, on ecotax impact: We could resist only few more months on the market' (*Romania insider*, 12 March 2014) <<http://www.romania-insider.com/romanian-aluminum-producer-alro-on-ecotax-impact-we-could-resist-only-few-more-months-on-the-market/117128/>> accessed 16 February 2015.
- 20 Pekic, 'Romania to cut green certificates', (n 18). The position of the investors was that by cutting down the number of green certificates awarded, made projects unattractive and not bankable, thus decreasing the level of foreign investment in Romania.

provided to investors in renewable energy production. It helped reach the national target long before the deadline imposed by the EU. Being among the front-runners in the field led to perverse and adverse results. It did not reduce the electric bill price for final consumers but escalated it. At the same time it heavily affected industrial producers and decreased the competitiveness of Romanian products. It led to abnormal and paradoxical situations such as the fact that one of the poorest member states in the EU was paying the highest price on GCs, thus overburdening the final consumers.

The measures taken by the government to address the abovementioned issues were not wrong *per se*. What was wrong is the fact that due to improper planning and law making, the government had to change the rules during the game, causing a lack of predictability, affecting projects under development and chasing investors away. It is a good example of how *not* to do things. One may argue that if the rules would have been clear from the outset of the scheme and price range would have been established in such a way not to balance more than 3-5%, most likely Romania would have been a leading example of GCs schemes. Unfortunately, this is not the case.