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# Policy uncertainty and renewable energy investments in Romania

Mihnea-George Filip, CIES Research Assistant, The Graduate Institute

Mobilizing private investments for the renewable energy transition requires credible policy support over the long-term. This Policy Brief discusses how Romania's abrupt policy changes and inconsistent policy signals over the last decade have deterred private investments in the renewable energy sector. The example of Romania provides key policy lessons for other countries engaged in the energy transition.

Romania has one of the highest renewable energy potentials in Europe (up to 71 GW), which is approximately six times higher than the country's current renewable deployment (IRENA 2017). As shown in Figure 1, wind and solar PV energy experienced a significant boom between 2009 and 2013 followed by a more or less complete stagnation since 2014.

### Frequent and unpredictable changes in Green Certificate scheme

The boom in installed renewable energy capacity was mostly the result of an ambitious Green Certificate (GC) support scheme passed into law in 2008. However, frequent changes to the GC support scheme in recent years, together with the country-specific risk of an emerging economy, created a surge of policy uncertainty for both domestic and foreign investors. Such policy instability contributed to discourage further investments, placing the cost of renewable energy capital at one of the highest levels in the EU (Cîrstea et al 2018) and explaining the stagnation of renewable energy investments over the last years. While legislative changes to the GC scheme occurred every year since 2011, the most detrimental policy change -

especially to small-scale renewable energy producers - was the 2013 abrogation and subsequent reduction of the mandatory annual GC quotas set out in the original 2008 law (due to concerns of the impact of the policy on final energy bills), especially as these amendments also applied retroactively.

Further to this, the government decided at the end of 2016 to completely terminate the GC support scheme for any future eligible renewable energy investments (while continuing to run for prior investments until 2032). Ever since the closing of the scheme, Romania has registered no new investments in wind or solar PV installed capacity. Notably, the original 2008 law did not include concrete provisions outlining a process as to how key design elements such as the mandatory quotas of GCs should change in light of new information or circumstances and did not detail any mechanism to protect against applying amendments retroactively to prior investments.

### Inconsistent National Energy Strategy

More recently, Romania's National Energy Strategy (NES) 2019-2030, published in 2018, also contributed to send inconsistent policy signals to investors. First, the national strategy did not include concrete targets for the country's renewable energy share by 2030 and corresponding trajec-

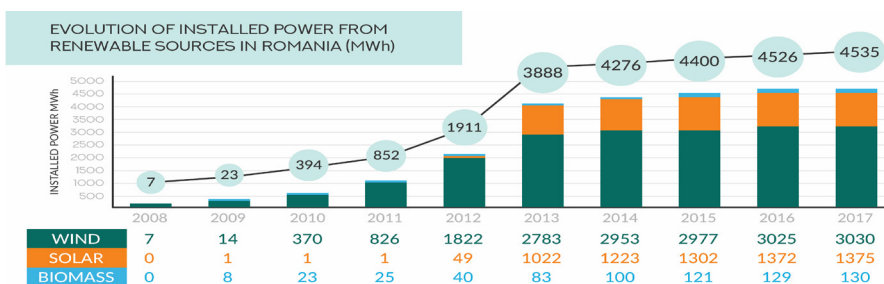


Figure: Evolution of Installed Power From Renewable Sources in Romania. Source: Dudau (Energy Policy Group) 2019.

tory, but rather offered some estimated projections regarding total installed capacity by type of technology. Second, while the government expressed its intention to establish at least ten areas for the infrastructure development of wind and photovoltaic power plants on national territory, it set itself a generous deadline of 2025 for the carrying out of studies necessary to delineate these ones. Third, the strategy highlighted the realization of a new 600MW lignite (coal) power plant in Rovinari as one of its four strategic investment programs of national interest. With the growing global imperative of phasing out coal and decarbonizing national energy sectors, the fact that the strategy not only failed to provide a plan regarding the closing of its current coal facilities but also listed the development of a new plant contributed to send a strong negative signal to renewable energy investors.

### Outlook

Nevertheless, despite the tumultuous experience of private investors faced with Romania's lack of policy credibility and commitment, recent developments show the potential for a more positive outlook to 2030. First, Romania's final National Energy and Climate Plan (NECP), sub-

mitted to the European Commission in April 2020, includes a 30,7% RES share target for 2030 and outlines a corresponding trajectory (Government of Romania, 2020). While the government is still facing pressure from the European Commission as well as from local renewable energy groups for an upward revision to at least 34%, the target is nonetheless an improvement from the 27,9% commitment in the draft version of the proposal. Furthermore, the 600 MW lignite power plant at Rovinari mentioned in the National Energy Strategy has been removed from the list of future projects in the NECP, although the document still indicates neither a timeline nor concrete measures as to when and how the country plans to phase out coal. In terms of renewable energy policy credibility, the NECP is a key document as it ties Romania's proposed measures to binding EU-level objectives.

Furthermore, additional policy developments over the last years provide renewed hope for investors in renewable energy. In 2018, the establishment of a formal framework for electricity produced by renewable sources belonging to prosumers acted as a positive signal of the country's energy transition efforts, despite doubts

regarding the effectiveness of implementation. The 2020 partial re-introduction of afore-banned Power Purchase Agreements is also promising to regain the trust of both local and foreign investors, ensuring the bankability for new renewable projects as well as EU compliance. Finally, Romania's final NECP introduces a new mechanism of 'Contracts for Difference' to support renewable energy producers. In practice however, it remains to be seen whether these contracts will be used as a means of discriminatory support for certain types of low-emission energy sources (such as nuclear power or carbon capture and storage), leading to the delay of others (such as renewable energy) (Energy Policy Group 2018).

As renewable energy investor confidence returns and projects become increasingly viable, Romania must commit to placing an ambitious transition at the heart of its energy policy vision - as sending credible long-term policy signals is a key success factor.

### References

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**CENTRE FOR INTERNATIONAL ENVIRONMENTAL STUDIES**  
 GRADUATE INSTITUTE OF INTERNATIONAL AND DEVELOPMENT STUDIES  
 Case postale 1672, 1211 Genève 1  
 T +41 22 908 44 61  
[cies@graduateinstitute.ch](mailto:cies@graduateinstitute.ch)  
[www.graduateinstitute.ch/cies](http://www.graduateinstitute.ch/cies)