

Roundtable

The Potential of Global Value Chains of Renewable Energies as Regional Integration Tool

Berlin, 22 September 2016, 09:00h – 12:30h

This document summarises the key findings and policy recommendations that were put forward at the roundtable. The results will feed into the EPF-FGV research project on “The Potential of Global Value Chains of Renewable Energies as a Regional Integration Tool”, as part of EPF’s Policy Initiative on Inclusive Regional Integration. Furthermore, this document aims to provide a starting point for further collaboration and joint initiatives between the participants of the roundtable, further experts who already expressed their interest in getting engaged as well as any others interested in joining in later on.

Introduction

There were four questions driving (with focus on South America) the roundtable’s discussion:

1. Can a regional production-supply-nexus or other bottom-up approaches facilitate political and juridical integration processes?
2. Which economic, political and social dynamics arise from the growth of production and consumption of energy derived from wind and solar?
3. What framework conditions should be built up by policy makers to foster cross-border innovative and low-carbon value chains?
4. How can value chains in this industry be created?

Kick-Off Presentation by Dr. R. Pimentel, FGV

South America (SA) faces a lack of technology but not of resources. Asia was able to make huge technological progress while SA is still lagging behind. This lack of technology is one reason for the need of partnerships around the world to ensure an exchange of distinct valuable experiences regarding new techniques of producing clean energy.

On the regional level, there is not any cross-border cooperation in place yet combining renewable energy capacities. The photovoltaic industry is still at the beginning of its establishment and only Chile has invested in solar at a large scale so far. The SA wind power industry is led by Brazil whereas other countries still do not possess their own industries yet. The question arises how such an industry can be established among the respective regions when there are only few companies producing in one country.

Obstacles for the development of renewable energies in SA that have to be overcome are a lack of human capacity on the one hand, and on the other hand, the unstable political situation in the biggest country in the region, Brazil.

Policy Recommendations

To South American policy makers on the national level

- Align national climate policy with energy policy, in particular with the Intended Nationally Determined Contributions (INDCs) committed to under the UNFCCC Paris Agreement. This could result in a national renewable energy and energy efficiency strategy.
- Establish a sound energy governance system, first on a national, then on a regional level that makes renewable energies a reliable source. Germany’s grid regulators manage the energy transition through the merit order effect in its power system regulation management and through balancing out power oversupply in the cross-

border grid systems. In SA, hydropower could serve as a climate-friendly source balancing the base load, whilst wind and solar power would match the increase in demand of around 5% per year.

- Foster technological innovation and services around renewable energies and establish Technical Vocational Education and Training (TVET). In Europe a lot of R&D and business innovation is done in the area of energy storage, smart grids (IT) and distributed power installations. Build upon existing industries in the country taking into account regional conditions and making use of synergies. Such existing industries may be able to facilitate the establishment and integration of a renewable energy industry by sharing technical capacities and manpower (e.g., iron and steel industry, biofuel industry).
- Enact industrial policies favouring renewable energies over fossil fuels on a national level. Such industrial policies have to be based on quantitative data and mapping of local industrial conditions and potentials.

To South American policy makers on the regional level

- Elaborate on potential options in the clean energy sector and use the results of economic and spatial modelling (incl. mapping of industrial areas, of capacities, public institutions etc.) to avoid implementing socially-costly industrial policies driven by the government. The objective should be to identify comparative market advantages of South American countries. Brazil, for example, might have comparative advantages in industries other than wind and solar power, e.g. in biomass power generation or in creating innovative business models and technologies for energy efficiency.
- Launch a joint renewable energy strategy and create a common vision of how the SA energy sector could be de-carbonized. A common vision would be an important base for business ventures and investments into green energy infrastructure. This should also include the elimination of subsidies for fossil fuels and other carbon-subsidies that impede the development of clean energy.
- Discuss designing and implementing an Emission Trading System for SA, since this could be an incentive for companies to innovate in terms of energy efficiency and renewable energies.
- Learn from the experiences of the German energy transition, the European energy governance and Mediterranean initiatives such as Desertec.
- Consider tariff reductions (e.g. by Mercosur towards other countries) and other trade-related incentives to attract international corporations to lead the development of global value chains and the privatization of the energy sector in SA countries.

The experts recommend revising the priorities of the FGV-EPF research, i.e. formulating a coherent step-by-step strategy on the creation of value chains in the wind and power industry.

The results of the debate and the insights from the visiting programme will feed into the EPF-FGV project as well as creating new networks and collaborative activities around energy policy and/or regional integration. The output of the current joint EPF-FGV research project will be a paper which is going to be published by December 2016 and will include an in-depth analysis of the wind and solar power value chains in the region, as well as policy recommendations. The paper will then be conveyed to decision-makers in Brazil, Latin America, and in international fora.

Various participants of the roundtable and further experts have expressed their interest in joining further similar roundtables on the interconnection of the energy policy and the regional integration initiatives. EPF might offer soon more and invites all interested experts to propose new joint activities.