

RESEARCH SHOWS THE UK LAGS BEHIND IN THE GLOBAL RACE FOR ENERGY INVESTMENT



The UK's energy investment environment consistently ranks average; falling behind investment 'hot spots' USA, France and Germany. Ranking on average 5th out of 10 in a comparison of individual country energy policies, the UK's lack of policy guarantees, financial support and opportunities of scale hinder its ability to attract the investment needed to ensure a viable future for UK energy.

China, Germany, France and the USA emerged as fierce competitors for energy investment, with Central and Eastern Europe (CEE) becoming more attractive due to an increasingly supportive operating environment for foreign investors.

Diverse Energy Mix

A diverse energy mix is key and the majority of countries studied are encouraging investment across their total energy mix via policy, fiscal and infrastructure incentives. Germany and France have both implemented the same recipe for success when launching their drive for more renewable energy programmes - suitable feed in tariffs and long term purchasing agreements. The UK implemented feed in tariffs in February 2010 however Germany has had feed in tariffs and purchasing agreements in place since the 1990s.

Until recently there has been a great deal of support for a carbon price (either via a carbon levy or carbon/green trading certificates), however today many analysts find the system easily prone to fraud, not effective in reducing carbon emissions and detrimental to the wider economy. The use of varying national policies and energy security factors creates an interesting framework for ranking energy investment. Start up funding, feed in tariffs and purchasing agreements also drive alternative energy investor's top priorities. A competitive national energy policy must include all elements in order to encourage investment across the appropriate energy mix.

Renewables

China is the world's largest investor in renewable energy projects having invested an estimated USD\$120-160 billion between 2007-2010 and Germany is Europe's largest and most consistent investor mostly via subsidised loans worth several billion euros. There exists a direct positive correlation between government funding and installed renewable electricity generating capacity. In the USA alone, the government has pledged USD\$17.3 billion over the next three years to support clean energy projects and energy infrastructure modernisation and expansion.

In the UK, public funding is to be replaced by private funding via the Green Investment Bank (GIB). This is unique to other countries but is lacking in investor confidence and with the GIB not operational for at least three years this will have a serious impact on the UK's ability to attract funds. For the GIB to succeed there needs to be acceleration, greater clarity and consistent commitment.

Energy Investment Environment Ranking;

	Country	Fossil Fuel Policy and Investment Climate
1	USA	87.9
2	France	75.6
3	Germany	71.5
4	China	70.2
5	CEE	66.9
6	UK/UAE	65.2
7	Spain	64.2
8	Balkans	52.8
9	Russia	46.9

	Country	Nuclear Policy and Investment Climate
1	France	88.9
2	USA	81.1
3	Germany	70.8
4	UK	67.2
5	CEE	66.9
6	China	66.8
7	Balkans	63.5
8	UAE	61.9
9	Spain	52.5
10	Russia	51.9

	Country	Renewables Policy and Investment Climate
1	Germany	93.8
2	France	85.6
3	USA	76.2
4	China	75.6
5	UK/Balkans	64.5
6	CEE	58.6
7	UAE	49.9
8	Russia	43.5
9	Spain	43.1

- Policy incentives are strong. Supportive operating environment for foreign entities
- Policy incentives exist though could be stronger. Operating environment poses some hindrance to foreign investors
- Lack of policy incentives and/or a difficult operating environment

Rankings are out of 100 points
 Rankings are based on energy policies, business environments, future growth projections in GDP, FDI and electricity consumption; amongst others.

Nuclear

Nuclear investors favour working with governments who have advanced implementation and regulation frameworks and demonstrate openness to foreign investment. Governments must instil confidence in nuclear investors of their ability to support nuclear projects along side other energy sources.

Research highlights that France and the USA possess the best environments for investment in nuclear however several new players are entering the field with the UAE and CEE both building nuclear frameworks with strong government backing and finance.

Poland's government in particular is keen to diversify into nuclear and is now on track to build two nuclear power plants. The first is to start operation in 2020 and together these plants would cover 20-25% of the country's electricity needs by 2025.

Fossil Fuels

Societies will continue to depend on fossil fuels for the foreseeable future. Even by 2030 most countries will only have 30% of their energy needs covered by alternatives, with only Germany, out of the countries studies set to derive 100% of electricity from alternatives by 2050.

The USA's investment environment tops the table with 71% of electricity generated in the USA coming from coal. This sector of energy receives the most subsidies, loan guarantees of up to 80% and potential exemption from the effects of any future carbon price.

Carbon Capture and Storage technology and coal to gas processing are becoming increasingly popular as a way to cut carbon emissions and continue to derive value from cheap coal. Governments need to put in place a clear policy framework and financial support mechanisms to attract investment in cleaner fossil fuels generation.

The new UK Coalition government is working to improve its position having recently solidified feed in tariffs across the renewables sector and announcing 32 actions to improve the UK's energy policy. However until it formulates its implementation strategy, it's unclear as to how the country will move towards greater energy independence and a 'low carbon economy'.

About the research

EC Harris conducted a comparison of energy policies across key geographical locations, benchmarking investment opportunity in fossil fuels, nuclear and renewables sectors based on key determining factors such as government policies and incentives, business environment and growth predictions in GDP, FDI and electricity consumption.

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