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Cyprus

RENEWABLE ENERGY

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This country-specific Q&A provides an overview of renewable energy laws and regulations applicable in Cyprus.

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CYPRUS

RENEWABLE ENERGY



1. Does your jurisdiction have an established renewable energy industry? What are the main types and sizes of current and planned renewable energy projects? What are the current production levels?

Cyprus has made remarkable strides in recent years to foster the production and utilization of renewable energy, in line with the objectives outlined in EU Directive 2009/28/EC. The nation's unwavering commitment to meet the European Union's mandated national targets has been pivotal in driving these endeavors.

Having surpassed the target of achieving a 13% share of renewable energy sources (RES) in gross final energy consumption by 2020, Cyprus demonstrated its proactive approach by accomplishing an impressive 13.8% share in 2018. Looking forward to 2030, Cyprus aims to further amplify its renewable energy penetration, with a determined focus on the heating, cooling, and electricity sectors, aspiring to achieve an ambitious 22.9% share.

The renewable energy landscape in Cyprus currently boasts a diverse array of technologies, prominently including solar photovoltaic systems, wind turbines, biomass, and heliothermic systems. Solar photovoltaic systems and wind turbines emerge as the frontrunners, significantly contributing to the country's national power grid. Cyprus currently hosts several operational wind parks and solar parks, with a substantial number of projects under construction or undergoing licensing.

Moving ahead, Cyprus seeks to diversify its energy sources through the extraction and utilization of hydrocarbons from the Cyprus Exclusive Economic Zone. This strategic initiative is poised to position Cyprus as a trailblazing force, cementing its stature as a leading player in the Eastern Mediterranean basin and solidifying its role in energy exploration and exploitation endeavors.

2. What are your country's net zero/carbon reduction targets? Are they law or an aspiration?

The National Energy and Climate Plan (NECP) provides a general overview of the existing energy sector in Cyprus. Pursuant to the said NECP, quantitative policy targets have been set for the period up to the year 2030, stemming from national priorities as well as from the climate and energy objectives developed and agreed at EU level. They also comprise 'intermediate' targets in the framework of key international and European projects and long-term strategies to reduce greenhouse gas emissions by 2050.

For the year 2030, the following targets have been set:

1. 24% reduction in non-ETS greenhouse gas emissions compared to 2005.
2. Ensure that greenhouse gas emissions from land use, land use change or forestry are offset by at least an equivalent removal of CO₂ from the atmosphere
3. 23% RES penetration into gross final energy consumption for the year 2030. Regarding the three indicative sub-targets for the promotion of RES in gross electricity consumption, (at least up to 26%, heating and cooling (up to 39%) and transport (up to 14%), by 2030 were set.
4. National indicative key targets set for energy efficiency: Final Energy Consumption of 2.0 Mtoe in 2030 and Primary Energy Consumption of 2.4 Mtoe in 2030. National obligatory target for achieving cumulative end use energy savings of 243.04 ktoe during 2021-2030. These targets are expected to be achieved in the context of energy planning.

It is worth noting that the country's forestry department is implementing an afforestation programme, favouring non-invasive indigenous species that are already adapted to the country's climatic conditions. The aim under this programme is to plant up to 300 000 trees a

year up until 2030. These measures are expected to play an important role in the expected 86 % increase in carbon sink functions by 2040 compared with 2019 levels.

As stated above, the above targets have been set by the NECP, the formation of which was a requirement following the EU Directive of the Use of Energy from Renewable Sources (2009/28/EU). If Cyprus does not meet the goals set, then basically Cyprus shall have failed to uphold its obligations under an EU directive and infringement proceedings may be initiated against Cyprus by the European Commission.

3. Is there a legal definition of 'renewable energy' in your jurisdiction?

Pursuant to Article 2 of the Law on the Promotion and Encouragement of the Use of Renewable Energy Sources (Law 107(I)/2022), energy from renewable sources or renewable energy is defined as “energy from renewable non-fossil sources, namely wind, solar (solar thermal and solar photovoltaic), geothermal, ambient, tidal, wave and other forms of ocean energy, hydropower, biomass energy, energy from landfill gas emissions and energy from gases produced in waste water treatment plants and from biogases.

The same definition is found in the Law on the Regulation of the Electricity Market, as well.

4. Who are the key political and regulatory influencers for renewables industry in your jurisdiction and who are the key private sector players that are driving the green renewable energy transition in your jurisdiction?

The renewables industry is under the umbrella of the Ministry of Energy, Commerce and Industry (MECI), Energy Services Department. The said department is responsible for the planning, coordination, and implementation of energy policies and projects in Cyprus. It plays a key role in supporting the development of renewable energy projects and implementing the NECP.

Cyprus renewable energy is being promoted through the partnership with the International Renewable Energy Agency (IRENA), an intergovernmental agency that works with countries to transition to greener energy futures while maintaining economic growth and social development. Alongside NECP, the Cyprus government has worked with IRENA to release the Renewable Energy

Roadmap for the Republic of Cyprus to highlight the obstacles and proposed initiatives to drive the Cyprus renewable energy efforts for the next few years.

Among others, the European Bank for Reconstruction and Development (EBRD) is one of the key private players in Cyprus financing five solar parks across the island with an investment of EURO 10.85M to increase photovoltaic capacity in Cyprus to 12%. Further, Scandinavian Solar Parks, a Cyprus company with Swedish investors, has established nine solar power generation parks.

5. What are the approaches businesses are taking to access renewable energy? Are some solutions easier to implement than others?

Businesses in Cyprus are adopting several approaches to access renewable energy sources. These strategies include:

On-site Generation: Many businesses are investing in on-site renewable energy generation systems, such as solar photovoltaic (PV) installations or wind turbines. By producing their own clean energy, companies can reduce their reliance on the traditional power grid and lower their carbon footprint.

Power Purchase Agreements (PPAs): Some businesses opt to enter into PPAs with renewable energy developers. These agreements allow companies to purchase a predetermined amount of energy generated from renewable sources over a specified period. PPAs provide businesses with a reliable and consistent supply of renewable energy without the need for infrastructure investments.

Off-site Renewable Energy Procurement: Businesses can also procure renewable energy from off-site sources, such as solar or wind farms. This approach involves signing contracts with energy suppliers who specialize in generating renewable power. It allows companies to access clean energy without the need for on-site installations.

Government Incentives and Programs: Cyprus offers various government incentives and support programs to encourage businesses to transition to renewable energy. These incentives may include financial grants, tax incentives, or favorable regulatory frameworks, making it easier and more cost-effective for businesses to invest in renewable energy systems.

Energy Efficiency Measures: Before transitioning to renewable energy, businesses often prioritize energy

efficiency measures. By implementing energy-efficient technologies, optimizing energy consumption, and adopting smart energy management systems, companies can reduce their overall energy demand and optimize the use of renewable energy resources.

The choice of approach depends on factors such as available resources, financial capacity, location, and long-term energy goals. Each approach has its advantages and challenges, and businesses in Cyprus evaluate these factors to determine the most suitable approach for their specific needs and circumstances.

6. Has the business approach noticeably changed in the last year in its engagement with renewable energy? If it has why is this (e.g. because of ESG, Paris Agreement, price spikes, political or regulatory change)?

It is true, that within the last year even more businesses turn into renewable energy. This may be explained, among others, by the increase of the electricity prices in Cyprus (fossil fuels based). To this end, even more businesses proceed with installation of solar panels on their buildings for on-site generation of energy in order to decrease energy goals. Further, the Power Purchase Agreements are becoming even more popular among businesses so as to meet their sustainability goals, reduce carbon emissions, and enhance their brand image.

Nonetheless, the eagerness of banking institutions to offer green financing can be considered as a noticeable cause for the turn of the businesses towards renewable energy, as the margin of profit from renewable energy projects offers to banking institutions security for such investments.

7. How visible and mature are discussions in business around reducing carbon emissions; and how much support is being given from a political and regulatory perspective to this area (including energy efficiency)?

1. Business Awareness and Engagement: Many businesses in Cyprus, including both local companies and multinational corporations operating in the region, were becoming increasingly aware of the importance of reducing carbon emissions and adopting sustainable practices. There was a growing

recognition that addressing climate change and sustainability could bring long-term benefits, such as cost savings, improved brand reputation, and access to new markets.

2. Regulatory Framework: Cyprus had begun taking steps to support the transition to a low-carbon economy. In 2020, the country adopted the National Energy and Climate Plan, outlining its goals and strategies for renewable energy, energy efficiency, and emission reduction targets. The plan aligns with the European Union's objectives and commitments under the Paris Agreement.
3. Renewable Energy Incentives: The government of Cyprus has implemented various incentive programs to promote renewable energy development. These initiatives include feed-in tariffs, net metering, and financial support schemes to encourage the adoption of solar and wind energy systems. These measures aimed to attract investments and facilitate the transition towards a more sustainable energy sector.
4. Carbon Pricing: Even though Cyprus had not implemented a nationwide carbon pricing mechanism, the European Union's Emissions Trading System (EU ETS) applies to certain industries in Cyprus, imposing a cap on their carbon emissions and creating economic incentives for emission reductions.
5. International Commitments: Cyprus is a signatory to international agreements like the Paris Agreement, which outlines the global effort to combat climate change. This commitment indicates a broader acknowledgment of the need to address carbon emissions and transition to cleaner energy sources.

8. How are rights to explore/set up or transfer renewable energy projects, such as solar or wind farms, granted? How do these differ based on the source of energy, i.e. solar, wind (on and offshore), nuclear, carbon capture, hydrogen, CHP, hydropower, geothermal and biomass?

First and foremost, for a company or physical person to participate in the Electricity Market, it is a prerequisite to obtain a license from CERA in accordance with articles 26 and 27 of the Law on the Regulation of the Electricity Market. Pursuant to article 27(4) of the said law, CERA may grant an exemption from obligation to hold a license for (a) generation of electricity for own use from

systems with a capacity of more than 30kW up to 1MW, and (b) generation of electricity from renewable energy power plants with a capacity of more than 50kW up to 8MW.

For such license to be issued, the interested person must submit the application form and all the requisite documents/information alongside with a prescribed fee to CERA. The CERA will inform the applicant about the following actions.

It should be noted that there are different types of licenses depending on the purpose needed and the scope of operation, i.e., general licence, construction and operation license, energy storey system installation license, energy storage system operation license, supply license, electricity market operator license, balance responsible party license, aggregator license, interconnection line owner license, interconnection line operator license, license for regulator of close system distribution.

Further, depending on the sources or technologies, such licenses may also vary.

9. Is the government directly involved with the renewables industry? Is there a government-owned renewables company or are there plans for one?

The government through the Electricity Authority of Cyprus (EAC), a public corporate body, is making efforts to reduce island's dependence on fossil fuels and promote RES.

Apart from a Solar PV Park at Nicosia area, EAC has also begun work on the construction of a new 12MW Solar PV Park in the Akrotiri area in Limassol. Moreover, in the context of a joint venture between EAC and the Holy Archbishopric of Cyprus, the design is now complete for a large Photovoltaic Park in the Achera area.

10. What are the government's plans and strategies in terms of the renewables industry? Please also provide a brief overview of key legislation and regulation in the renewable energy sector, including any anticipated legislative proposals?

The European Council has reached a consensus on the energy and climate framework for the EU for the year 2030. This comprehensive plan centres around four primary targets: a 40% reduction in greenhouse gas emissions, a minimum 32.5% improvement in energy

efficiency, a minimum 32% utilization of renewable energy, and a minimum 15% enhancement in electricity interconnection. To achieve these targets, Member States, including Cyprus, have formulated their respective 10-year national energy and climate plans (2021-2030). These plans outline specific targets, measures, objectives, and policies pertaining to energy efficiency, energy security, the internal energy market, renewable energy sources, and research, innovation, and competitiveness.

Cyprus has set a goal of achieving 22.9% renewable energy consumption in its overall energy consumption by 2030, alongside targeting 14% renewable energy integration in the transport sector. Currently, Cyprus is implementing the installation of solar systems and thermal insulation in all public schools, as well as exploring the integration of renewable energy solutions, such as solar panels and wind power generators, in the livestock and agriculture sectors, even in cases where these systems are not connected to the national power grid.

Furthermore, Cyprus intends to renovate close to 33,000 residential and 10,000 non-residential buildings by 2030. The proposed action will require an investment over the 2020-2030 period of up to €800 million and will comprise measures tackling regulation, finance, awareness raising, user behaviour, training and development of supporting schemes.

Emission reductions in the transport sector are to be achieved by means of vehicle taxation, an old vehicle substitution scheme, sustainable urban mobility plans, electromobility and a charging infrastructure.

Regarding key legislation and regulation in the renewable energy sector, we set out, indicatively, the following: –

1. For the purposes of harmonization with Article 57 of the European Union Act entitled: "Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market in electricity and amending Directive 2012/27/EU", and Article 39 of the European Union Act entitled: "Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 on common rules for the internal market in natural gas and repealing Directive 2003/55/EC", the Law on the Establishment and Operation of the Energy Regulatory Authority Law of 2021 was adopted.
2. For the purposes of harmonization with European Union Directive 2003/55/EU of the European Parliament and of the Council of 26

June 2003 on common rules for the internal market of natural gas, the Law on the Establishment on the Natural Gas Market Law 2004, as amended.

3. For the purposes of partial harmonization with the European Community act entitled "Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources", the law on the Promotion and Encouragement of the Use of Renewable Energy Sources of 2022 (L.107(I)/2022) was introduced which repealed the laws on the Promotion and Encouragement of the Use of Renewable Energy Sources of 2013 – 2018 (L.112(I)/2013).
4. For the purposes of harmonization with the European Community act entitled "Directive 2006/32/EC of the European Parliament and of the Council of 5 April 2006 on energy end-use efficiency and energy services" the Energy Efficiency in the Final Use and Energy Services Law of 2009 was introduced and amended by Laws 53(I)/2012, 56(I)/2014 and 149(I)/2015.
5. Last but not least, the Law on the Operation of the Renewable Energy Sources and Energy Saving Fund of 2022 (108(I)/2022), the purpose of which is to grant and/or subsidise various investments and activities for the promotion of energy from renewable sources and energy saving.

11. Are there any government incentive schemes promoting renewable energy (direct or indirect)? For example, are there any special tax deductions or subsidies offered? Equally, are there any disincentives?

The Renewable Energy Sources and Energy Conservation Fund (the Fund) is the main financial tool of the Republic of Cyprus to promote Renewable Energy Sources (RES) and Energy Conservation (EC), with a view to achieving the binding national targets, as defined by the legislation and the relevant European Directives.

The purpose of the establishment of the Fund is to provide financial incentives in the form of state grants or subsidy for various investments or activities which promote renewable energy sources and energy saving. In accordance with the legislation and in compliance with the provisions of the Support Schemes in force, the Fund may provide financial incentives for:

1. renewable energy sources installations and equipment;
2. the production or, where relevant, the purchase of electricity from renewable energy sources;
3. installations, equipment and other energy-saving activities;
4. various programmes to promote renewable energy sources and energy saving, including cogeneration of electricity and heat, as well as programmes for public awareness;
5. any other relevant expenditure deemed necessary by the Committee for the promotion of renewable energy sources and energy saving.

12. Has your Government had to help with the basic cost of energy over the last year and has that led to any discussion about de-linking the gas price and renewables prices?

Following the immense increase in fuel and electricity prices following the Russian invasion in Ukraine, in order to alleviate such burden upon the citizens, in March 2023 the Cyprus Government passed a decree concerning the reduction of tax consumption in fuels and electricity.

13. If there was one emerging example of how businesses are engaging in renewable energy, what would that be? For example, purchasing green power from a supplier, direct corporate PPAs or use of assets like roofs to generate solar or wind?

One emerging example of how businesses are engaging in renewable energy is through the establishment of corporate renewable PPAs. PPAs involve businesses entering into long-term contracts with renewable energy developers to purchase electricity directly from their solar, wind, or other renewable energy projects. This approach allows businesses to support and benefit from renewable energy generation without having to invest in infrastructure themselves.

PPAs provide several advantages to businesses:

Renewable Energy Procurement: Businesses can secure a stable and often cost-effective supply of renewable energy. By purchasing renewable energy through PPAs, businesses can ensure a portion or even the entirety of their electricity consumption is sourced from renewable sources, reducing their reliance on fossil fuels.

Price Stability: PPAs often involve fixed or indexed pricing, providing businesses with long-term price stability and protection against volatile energy markets. This can offer budget certainty and mitigate the risk of fluctuating energy prices.

Sustainability Goals: Engaging in PPAs aligns with businesses' sustainability goals and corporate social responsibility initiatives. By procuring renewable energy, businesses can reduce their carbon footprint, contribute to environmental preservation, and enhance their brand reputation.

Energy Resilience: Investing in renewable energy through PPAs can provide businesses with a measure of energy resilience. By diversifying their energy sources and reducing dependence on the grid, businesses can increase their energy security and resilience to potential disruptions.

14. What are the significant barriers that impede both the renewables industry and businesses' access to renewable energy? For example, permitting, grid delays, credit worthiness of counterparties, restrictions on foreign investment.

Some significant barriers that could be encountered by renewables industry and businesses' access to renewable energy are the below:

1. **Regulatory and Policy Framework:** The regulatory and policy framework plays a crucial role in facilitating the development and deployment of renewable energy. In some cases, time consuming and complex regulations, permitting processes, and bureaucratic hurdles may create barriers for renewable energy projects.
2. **Grid Integration and Infrastructure:** Integrating renewable energy into the existing power grid can pose challenges. The grid infrastructure may need to be upgraded or expanded to accommodate the intermittent nature of renewable energy sources. In some cases, the geographical location of renewable energy resources may be far from load centers, requiring significant transmission and distribution infrastructure investments.
3. **Financing and Investment:** Access to financing and investment is critical for the development of renewable energy projects. Lack of available capital, high upfront costs, and perceived risks associated with renewable energy investments can hinder project

development. However, EU fundings, governmental funding plans and private sector investments do exist to overcome such issues.

15. What are the key contracts you typically expect to see in a new-build renewable energy project?

A new-build renewable energy project involves a range of contracts that vary depending on the project type, size, and financing. Here, we outline some commonly encountered contract types in such projects:

- Lease agreements or Sale and Purchase Agreements.
- Construction contracts.
- Permits.
- Grid Connection Agreements.
- Operation and Maintenance (O&M) Contracts.
- Power Purchase Agreements (PPAs).
- Financing Agreements.

These contractual relationships address various aspects of project development, facilitating its successful implementation within the renewable energy sector.

16. Are there any restrictions on the export of renewable energy, local content obligations or domestic supply obligations?

Generally, Cyprus does not yet engage in exporting renewable energy.

17. Has deployment of renewables been impacted in the last year by any non-country specific factors: For example, financing costs, supply chain or Covid 19?

Changes in financing costs, including interest rates and availability of funding, can influence the development and deployment of renewable energy projects. It is noted however that due to the nature of the projects financing may be available in the form of subsidies, but also in the form of "green loans" offering financing with lower interest rates.

The COVID-19 pandemic has had wide-ranging impacts on economies and industries worldwide. It may have affected the renewable energy sector in Cyprus as well, leading to delays in project development, supply chain disruptions, reduced investment, or changes in government policies and incentives.

18. Could you provide a brief overview of the major projects that are currently happening in your jurisdiction?

Cyprus has some of the best conditions within Europe for the production of solar energy, and in this respect several foreign, as well as, local investors are currently developing a number of solar PV projects in Cyprus.

Indicatively, an environmental impact assessment (EIA) has been submitted for a renewable energy project combining solar PV and energy storage on the Mediterranean island nation of Cyprus.

The project would combine 72MW of solar PV with a 41MW/82MWh lithium-ion battery energy storage system (BESS), making it the largest to-date of either technology type. It would be located in the Akaki area of the Nicosia province and the plan is for construction to be completed by 2028.

19. How confident are you that your jurisdiction can become a leader in newer areas like offshore wind or hydrogen?

We are confident that Cyprus has the potential to become a leader in newer areas like offshore wind and hydrogen, leveraging its geographical advantages and renewable energy resources. In essence, Cyprus has a significant offshore wind energy potential due to its strategic location in the Eastern Mediterranean, which

experiences strong and consistent winds. Developing offshore wind projects can diversify the country's renewable energy mix and contribute to its clean energy goals. Cyprus can tap into its expertise in the maritime sector and collaborate with experienced offshore wind developers to harness this potential.

Further, Cyprus, with its abundant sunshine, can explore the production of green hydrogen through electrolysis, utilizing renewable energy sources like solar power. Hydrogen can play a crucial role in decarbonizing sectors like transportation, industry, and heating. Cyprus can focus on developing hydrogen infrastructure, fostering research and development, and attracting investments to become a regional hub for hydrogen production and utilization.

20. How are renewables projects commonly financed in your jurisdiction?

Renewable energy projects in Cyprus are commonly financed through one of the below options:

- Investments by major project developers or companies mainly coming from abroad.
- Loans from banking institutions upon competitive terms due to the nature of the projects.
- Government Incentives and Grants which are provided to support renewable energy projects in the form of feed-in tariffs, power purchase agreements (PPAs), tax incentives, grants, and subsidies.

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