

# Consultation Response

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Avenue Louise 375, Box 4 • B-1050 Brussels

**Subject: Public Consultation on Financial Support for Energy Efficiency in Buildings**

## **Eurima Response to the EC consultation: “Financial Support for Energy Efficiency in Buildings”**

### **Summary**

**EURIMA welcomes the consultation and subsequent work on the subject of financing energy efficiency in buildings.** Indeed, in spite of the widespread recognition of the need to do more to unlock the very large energy savings potential of buildings, the perceived lack of upfront as well as of longer-term financing, heightened by the on-going financial crisis, are being put forward by decision-makers and other stakeholders as reasons not to act in a coordinated fashion to improve the condition and the energy performance of the EU's building stock.

This **misperception regarding the availability of financing** is partly due to a simple lack of awareness. It is a lack of awareness of the enormous savings potential offered by buildings, of the immediate and highly significant return on investment afforded by reduced energy consumption, and a lack of awareness of the many existing and functional financing schemes. In addition, this gap between perception and reality regarding the potential, the cash flow from investments in energy savings, and the availability of financing, can be explained by a perceived risk picture that leads to a reluctance by the financing community to engage in refurbishment programmes.

**Indeed, investors need perspectives and additional confidence in a new, seemingly unknown emerging market, to engage actively and more constructively in it.**

EURIMA believes that this lack of engagement and confidence will be overcome by **designing long-term European strategies and national refurbishment roadmaps**. These will provide frameworks for developing strategies and objectives for all actors at national, regional, district and local level engaged (or willing to engage) in the renovation of the EU building stock. It will once again ensure investors and other market actors that energy efficiency in buildings is and will remain a top priority for many decades to come.

**National renovation roadmaps** will enable national stakeholders to take ownership of the energy savings potential that lies in their own buildings. Such frameworks, which should include the necessary elements in the building and financing chain—such as technical assistance, best practices information on technology and techniques, appropriate training and education, up-front and long-term financing and business models, will induce a paradigm shift regarding attitude. Rather than reflecting upon barriers and problems, the focus will be on concrete actions to reach a common goal. Not least, designing such roadmaps at national level would decouple, at least to some extent, energy efficiency in buildings from short term electoral concerns and measures, which currently act as an additional deterrent for investors to engage in this market.

We believe that the **EU should provide guidance** on what such national roadmaps should cover and how it could be elaborated, implemented and monitored, while leaving to Member States choices concerning the detailed methodologies needed to carry them out.

## Specific replies

### (1) Addressing market failures

- (a) Are the barriers identified in this document the most important ones? If not, which barriers are missing and why are they important?*
- (b) Which market failures would be most urgent to address? At what level (i.e. EU, national/regional/local) would these failures be best addressed?*

Many pertinent barriers have been rightly identified by the Commission in its consultation document, but in order to gain in clarity, not only for identifying missing barriers, but also for assessing the ones that need to be addressed most urgently, and at which level, we believe that there is a need for a clear systematisation of the existing hurdles.

We propose to follow two types of criteria in this exercise:

- A. On one hand, barriers could be classified depending on their **source**.

Some of the barriers have **regulatory and institutional** origins, others are originated by the lack of **information**, while other are derived from the incorrect **perception** of the problems faced.

Regulatory barriers, including inadequate legislation that does not reflect all environmental and social costs in energy market prices, split incentives arising from institutional frameworks and practices, lack of administrative capacity to develop and monitor the implementation and application of energy efficiency legislation, regulations and laws that are short term and lack a long-term vision, to name just a few. These can be removed by direct engagement by legislators (from EU level, or national / regional or local level). In this case, the role of the EU should be to provide guidance, enabling an analysis at national, regional and local levels of the various hurdles in all the Member States, possibly by elaborating a template approach for national legislators to follow or to use as guidance.

Informational (and training and educational) barriers can be resolved with appropriate infusion of resources and technical assistance to fill the identified information or training gap. The role of the EU in this respect is also essential, as the financial and promotional support to overcome these barriers would be key. An example of this would be more programmes and projects like EU Build Up.

Perceived barriers are harder to change immediately and can take significant resources and have slow rates of change because of their clearly behavioural nature. .

The main conclusion here is that regulatory and informational barriers must be resolved first, before undertaking time and resource-consuming perception changes.

- B. On the other hand, barriers could be classified depending on **their effect**.

It is clear that, irrespective of their origin, some barriers are more important than others depending on the consequences or impact they provoke. The guiding principle to assess this importance should be to ask to what extent these barriers are an obstacle to reaching the Commission's aims and objectives, expressed in the consultation's background document: to **fully tap the potential for energy savings in buildings**.

The key questions then should be "are we identifying the barriers that, if removed, would help to realise in a cost-optimal manner the potential for savings"? Which of them are missing? And which should be addressed first?

**Estimating and addressing the savings potential with national renovation roadmaps**  
What is this potential? It has been demonstrated that energy consumption in the EU building

stock as a whole can be significantly reduced (up to 80% savings) with available technology if a long-term strategy if the right solid, long-term legislative and financial strategy is set up<sup>1</sup>.

In this respect, we miss from the list elaborated by the Commission a clear assessment, among the market failures mentioned, of the economic and financial impact caused by the **lack of consistent, long-term national political strategies and frameworks in all EU Member States for increasing the rate and -especially- the depth of building renovation**. These should include as well guidance on the necessary elements in the building and financing chain—such as technical assistance, best practices, appropriate training and educational regimes, and financing and business models. Indeed, given the current average poor performance of EU buildings, the main aim should be to reduce the energy waste of most of them by a factor of 4 or 5. Current refurbishment cycles are between 30-40 years, and it is clear that renovations undertaken during this period must have sufficient ambition if we don't want to “lock in” an enormous energy saving potential for decades to come.

Another clear barrier to reaching the goal of fully tapping the potential for savings in buildings is the **strong temptation, in poorly framed policy objectives, financing criteria, and savings obligations, including white certificate programmes, is the practice of “cherry picking”** (just undergoing a shallow renovation to deliver cheap but easy-to-reach energy consumption reductions by 2020) for a high investment rate of return and short-payback period, leaving the deeper and harder-to-undertake measures for a later/ unspecified date.

This has also its reflection in the various barrier sub-sections identified by the Commission in the consultation document. In the specific case of ESCOs, we agree that the development of an ESCO market is essential. But above all, the biggest hurdle for making ESCOs a huge energy saving market is the fact that the **actors involved in the energy services are not encouraged to undertake long-term saving projects such as deep renovations in buildings**, due to the important need not only for up-front financing, but also for making clear the long-term cash-flow over the lifecycle of the building needed to induce potential financiers to undertake ambitious projects. There is an obvious need here for clearing houses and special funds and banks at national level both to aggregate many smaller financing needs into larger instruments such as bonds (regulated securitization) and to provide technical knowledge to the financiers of the objects being renovated and financed.

Another barrier that is not sufficiently reflected in the Commission's document is, in our opinion, the **sub-optimal Decision Frameworks in the Public Sector for EE Investments**: It has been noted in the context of consumers the “short payback periods” required (3-4 years or high discount rates for retrofits e.g. 20%). Yet the Public Sector suffers problematic accounting methods, decision making practice, internal split incentives (between departments) and budgetary hurdles to overcome which collectively lead to unnecessarily high risk perception of energy efficiency and sub-optimal economic decision making (especially detrimental to long-term sustainable measures with low returns over many years).

**To sum-up, priority should be given to those barriers that are preventing the biggest savings from being realised. And among those, the EU should address first place the ones with a regulatory origin.**

**Also, in order to enable national actors to take the full measure of their specific barriers and to efficiently solve them; we believe that the role of the EU should be to enable Member States to make a structured analysis of the relative importance and interactions between the barriers (regulatory and financial) at national level.** A template methodology could be elaborated by the EU. There are several existing structured decision-making methodologies that could fit particularly well in this context, specially designed to enable actors who have been facing an issue for a long time, to look at it in a fresh manner, to efficiently identify the real cause of the problem, instead of looking at the symptoms or secondary barriers only (like they have mostly been doing for several years). Having identified the main roots of the issue, actors would then focus the design of solutions on targeting the most important barriers. Such methodologies, also called *consensus-building or interactive management methodologies*, also encourage the

<sup>1</sup> Ecofys, May 2012.

buy-in of all actors involved in the process, hence tremendously increasing the chance of success of measures implemented. In order to be effective, the choice of relevant actors to be involved in the process is a phase where the Commission could suggest a template for adequate representativeness of all relevant stakeholders.

*(c) How could these failures be best addressed? For example; how could behavioural change needed for quicker uptake of energy efficiency measures by society be triggered at the national level?*

One of the main elements to induce behavioural changes around energy efficiency should be to increase the positive visibility of the savings made. This calls for a stronger implementation of **more reliable energy performance certificates**.

However we believe that **behavioural changes can only be efficiently driven by the existence of a strong regulatory and financial framework**, together with solid information and training. Measures related to behaviour should be considered as “good to have”, but only if preceded by the most important ones.

Drawing a parallel with the pollution originated by cars, behavioural measures to persuade owners of SUVs to drive more eco-efficiently could make a difference and have been substantiated by research studies. But those measures will never be as good -and as logical- as starting by reducing the number of those polluting cars in the market.

In the same way, we believe that it is important to increase awareness on the role of behaviour, but it would be irresponsible to let citizens believe that their energy bills will be magically divided by a factor 4 or 5 -what most buildings currently can achieve- only through changing their behaviour, when in fact the badly performing structure (envelope) of the building is responsible for the huge bills they are paying each month and the huge amount of energy that is being wasted.

*What could be done to increase awareness raising and promotion of energy efficiency in buildings?*

From the regulatory side, essential contributions could be the improvement and enforcement of certification schemes and a compulsory increased visibility of certificates in public buildings.

From an information point of view, very focused EU-wide campaigns about the side-benefits of energy efficient houses (for comfort, health, low energy bills, outdoor air quality, etc) could be essential. In addition, successful national, regional and local projects of building and neighbourhood renovations should be shared and publicised as much as possible. The Covenant of Mayors could be essential in this respect.

In addition, legislators should try to link (and package in an attractive manner) energy efficiency refurbishments **as part of other improvements decisions being taken on buildings**. Also, more attention should be paid to encouraging energy renovations when a **change of ownership or occupancy happens**. Indeed, the barrier linked with the decision of “doing an energy type refurbishment” becomes far less relevant when there is a change of owner or occupant, as this becomes more a matter of programming it. This calls also for a stronger consideration of energy-efficient renovation when a house is sold, but also for better exploring, at national level and with relevant stakeholders, how to use the potential offered by the huge number of property market transactions.

A further valuable tool for this would be **ensuring that all environmental and social costs are reflected in future energy market prices**. This could be done following the example set by the recently adopted Regulation on the methodology for the calculation of cost-optimal levels of minimum energy performance requirements for buildings and building elements<sup>2</sup>, where the cost of greenhouse gas emissions must be taken into account. The EU could establish a

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<sup>2</sup> Commission delegated Regulation (EU) No 244/2012 of 16 January 2012

framework to identify and measure all environmental and social costs missing from energy prices at Member State level. Then, similarly to Regulation 244/2012, the EU should use this framework to identify substantial deviations at Member State level from “fully-costed energy prices” and implement the processes through which the Member States must address this deviation.

*How could the business community (e.g. building sector, ESCOs, local banks, etc.) be better supported in delivering energy efficiency in buildings?*

The transformation of the vicious circle of inaction (or insufficient action) in the field of energy efficiency in buildings starts from the insufficient commitment by public authorities in this respect. A **clear, ambitious sign from the regulator with a solid legislative framework for a long-term perspective** (for instance a EED with solid regulatory and financial support for ambitious, long-term building refurbishment programmes).

This would “unlock” the reluctance from the financial sector to commit into longer payback investments, boosting ESCO’s confidence to undertake more, deeper building refurbishments, encouraging building sector professionals to train the working force (in order to perform according to the strict regulations that would focus on good performance for ensuring final savings) and enabling home owners and tenants to benefit from the multiple (economic, social, personal) advantages of living or working in more energy efficient buildings.

*How could the split incentive problem be best tackled?*

First, we should take into account that, according to recent studies analysing in depth the EU building stock<sup>3</sup>, only 50% of the EU’s building stock is rented. Therefore, the “split incentive” would apply potentially to half of our buildings.

Once said that, it is important to know that there exist some cases in the EU where those barriers have been tackled efficiently: On the one side, national fiscal measures, as is the case in the Netherlands’ Energiel investeringsaftrek, have contributed making energy savings a “business case” for the tenant. On the other side, attaching a loan to the property rather than to the person, as it happens in the UK Green Deal, can solve the problem of inaction from the buildings occupier.

In order to make energy efficiency more attractive to building owners, the enforcement of energy labelling -with the subsequent increase of value of the property- could be a good solution.

## (2) Improving access to financing

*(a) Are the current EU-level financial tools for energy efficiency in buildings effective? How could the uptake of EU-level funding for energy efficiency (including cohesion policy funding) be improved? As a complement to tailor-made national or regional financial instruments (e.g. set up with a contribution from cohesion policy funds), what could be the future role of centrally-managed financial instruments at EU level in this context?*

See below reply to questions 3a and 3b on MMF earmarking and ring-fencing of funds for building refurbishment at national level.

*(b) How could more private financing (both from institutional investors as well as building owners) for energy efficiency projects be mobilised? What would be the role of public funding (both at EU and national level) in this context? Is access to (project development) technical assistance an issue and how could it be provided most efficiently at the national, regional and local level? How could both national and EU*

<sup>3</sup> Europe's Buildings under the Microscope: country-by-country review of the energy performance of Europe's buildings, BPIE, October 2011

*financing schemes be improved to best cover all segments of the market (residential, commercial, public buildings, etc.)?*

The best way to mobilise private finance is to create a long-term stable investment environment that will build investor confidence. There is a need for long term programming of measures and policies in the shape of roadmaps.

Before this comes into place, widespread publicity of successful best practice examples of national programmes and privately financed projects should be undertaken. Finally, using public funding strategically to lower interest rates, as has been put in place by the KfW scheme, or to reward proven high performance buildings would also be good ways to mobilise private finance.

*(c) Is there a need for guarantee systems related to building efficiency investments? If so, what guarantee systems for efficiency investments would be necessary and how should they be designed? Is there a need for other enabling mechanisms (e.g. risk-sharing, investment vehicles)?*

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*(d) How could the capacity, knowledge and risk perception regarding energy efficiency investments be improved, both at financial institutions as well as with private investors and administrations at all levels?*

First, risk perception can be efficiently improved through providing a long term perspective to the finance community. This goes along with encouraging the design of long term roadmaps at national level.

Also in order for banks and financing institutions to engage in the markets, the return from such investment needs to become more tangible and more transparent, promising and applicable to more and bigger projects. This goes along with making the savings more visible and making energy prices better reflect the real value of energy and the use of life-cycle costing (internalising external costs).

*(e) Are there examples of good practice at national or regional level (with data on costs and benefits) that could be applied more widely?*

Some examples:

- The KfW scheme
- The Irish Home Energy Savings scheme
- The Green Deal
- The Kredex Fund

### **(3) Strengthening the regulatory framework**

*(a) Is there any need for further EU-level regulation to stimulate energy efficiency investments in buildings beyond the Commission proposal for a new Energy Efficiency Directive? If so, what should these measures entail?*

It is essential that the **EU boosts the adoption of a long term perspective at national level**, through providing an overall target for the reduction of consumption of the EU building stock, providing a framework for each country to elaborate its exact objective, milestones and measures to get there, and also for national stakeholders to take ownership of the potential of their building stock.

This is fundamental due to the average poor performance of the current buildings in the EU, but also given the size of the EU building stock. Indeed, there are about 210 million buildings



in Europe, out of which about 190 million need to be renovated before 2050. At current renovation rates it is estimated that it would take more than 100 years to renovate them all.

In this respect, **the EED is a unique opportunity** to put in force the pertinent regulatory framework to make ambitious building refurbishment of the EU building stock, with all its well-known ancillary benefits, a reality.

In addition, we believe that this proposal comes at the right moment, because building refurbishment is a key element for solving the current financial crisis, with unemployment being the main stumbling block for the economic re-launch in most EU Member States.

In order to be effective and fully integrated into the forthcoming “growth and jobs” initiative, the EED must incorporate an **ambitious long-term target** for the reduction of the EU building stock’s energy consumption by 80% in 2050, compared to 2010 levels. This target, which was not initially established in the Commission’s proposal but has been incorporated by the Parliament in **Article 3a**, is essential if the EU is serious about the objective set out in the Low Carbon Roadmap adopted in March 2011, of reducing the CO2 emissions from the residential sector by 88-91% in 2050.

The target should be accompanied by **national Roadmaps** setting out the steps that EU Member States need to take in order to ensure the achievement of the final goal (interim targets for 2020, 2030 and 2040 should be established, allowing each Member State to design and implement the steps to be given at the national level, according to national building stock specificities and climatic conditions).

As a first needed step for developing the longer-term Roadmaps, the EED must integrate an **ambitious plan for renovation of public buildings**. **Article 4** of the EED proposal is essential to ensure that public authorities will show leadership and demonstrate best practices. This will also promote the development of a renovation market and accelerate the learning curve. To have the desired effect, this will require a high level of ambition regarding the quality and depth of renovations. But without a long-term view and a clear objective provided by Article 3a, Article 4 is reduced to a “stand-alone” measure with little additional impact on the remaining building stock.

The EED must also include a **strong financing framework** (without which the provisions for building refurbishment would be reduced to wishful thinking). **Article 15a** (as proposed by the Council) needs to be much strengthened, in the same vein as proposed in the Parliamentary amendments, actually requiring Member States to establish financial facilities, and linking them to the appropriate Community funding sources (mainly Structural and Cohesion Funds).

But beyond the EED, the EU has another golden opportunity to stimulate energy efficiency investments in buildings: the future Regulations on the **Multiannual financial framework**. There, the EU must demonstrate its commitment to energy efficiency in general and energy efficiency in buildings in particular.

In its legislative package of October 2011 for the future Cohesion Policy 2014-2020, the European Commission has proposed that around 17 billion Euro of the European Regional Development Fund is earmarked for the thematic objective of “supporting the shift to a low-carbon economy in all sectors”. This would mean 20% of the budget for developed and transition regions and 6% for less developed regions.

The 20% earmarking in rich regions should be maintained, and the 6% earmarking in less developed regions should be strengthened to at least 10% as suggested by the current debate in the REGI Committee in the European Parliament (taking into account that those regions receive about 70% of total ERDF money).

This earmarking of EU funds should be accompanied by a **strong ring-fencing** for money allocated to building refurbishment, avoiding to the maximal extent that money assigned to this scope is finally used by national / regional administrations for other purposes.

*(b) What could be specific measures to be taken at national level to implement and complement most effectively the EU-level regulatory framework for energy efficiency?*

As explained, an overall EU target for the buildings stock needs to be embedded in national objectives. **National roadmaps to achieve each individual target should be tailor-made to the national situations**, based on an **initial assessment** of the potential of each national building stock, as well as on the respective **maturity of each renovation market**. Measures to achieve the end goal should derive from the **in-depth and structured analysis of the barriers** in each given markets (see above under Chapter 1 on barriers).

Roadmaps should include, besides an **assessment of the potential** of the stock, a series of measures and **instruments to tackle the main barriers**, with clear deliverables and a clear timeframe. A **progressive approach** should ideally be implemented, whereby key segments of the markets are taking the lead as pilot ones, enabling a faster and quicker uptake of similar measures by other segments in a next phase.

Agreeing on a long-term objectives will **encourage a better focus on what has to be done and when**. The simple exercise of setting the target will **trigger consensus amongst all actors involved**. It will boost consumer and investor confidence that the priority given to renovation will stay high on the political agenda for decades to come. It will give all business actors and in particular industry the confidence to invest in the manufacturing capacity needed to deliver the targets. It will encourage industry to play a more prominent role in the education & training challenges that belong to ambitious renovation programmes. It will boost property valuation of renovated buildings: if everyone is renovating or planning to do a renovation, within a decade, the prospects for selling poorly performing buildings at good price will decrease

*(c) What are the specific needs for policy guidance and awareness raising among different stakeholder groups?*

There are many cases all through the EU in which energy efficiency in buildings is taken seriously by regional or local authorities, as a key element for the local economic development, not only in the short-term, but also in the longer run (with many 2050 strategies for building refurbishment being brought forward). The EU should put a strong emphasis on best practice sharing (through the Covenant of Mayors, for instance), in order to promote the replication of these cases all through the Continent.

Each stakeholder group that will be key for the implementation of national roadmaps should have a say in its elaboration. National roadmaps should be elaborated in a collaborative manner with stakeholders group, involved according to their role and representativeness in the refurbishment markets.