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Lafarge position on the European Commission consultation Financial support for energy efficiency in buildings

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?

- We agree that the identified barriers - market failures, financial barriers and inadequate regulatory framework - constitute a real problem for implementing energy efficiency measures in buildings at a large scale.
- Furthermore, there are some other barriers to energy efficiency of buildings :
 - EU policies usually focus mainly on the supply side whereas market demand for energy efficient buildings needs to be incentivised
 - Lack of competitive returns of engaged capital in construction projects and in particular in energy efficient buildings (retrofits, replacement through demolition and reconstruction and new builds).
 - Low running costs of energy efficient buildings reduce the default payment risk of the borrower's loan. This risk reduction factor is not taken into account by financial institutions.
 - Lack of long term visibility on the evolution of thermal regulations requirements for existing buildings, and on financial, fiscal and other incentives.
 - Large gap between planned and real energy performance of buildings. This problem is linked to the low awareness of how buildings are to be run and the importance of occupant's behaviour on energy use. This gap results in uncertainty in (energy) cost/benefit (savings) ratios, which lead owners or occupiers to be reluctant when considering energy efficient investments.
 - Lack of consistent understanding of "green", "nearly zero energy" and other ill-defined terms.
 - Energy savings are low in the priority list of homeowners. There aren't enough motivating factors to engage in implementing energy efficient measures, in particular for retrofits. This example is partly linked to the low awareness of benefits of energy efficiency, to the lack of a price premium when the property is re-sold, and to the dilemma between "certain upfront costs" versus "hypothetical future benefits".

(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?

- The most urgent market failure is the lack of demand for energy efficient buildings. They should be made more attractive financially and more desirable from a societal viewpoint. To create this demand, we need to raise awareness of targeted decision makers – e.g. the general public, designers, contractors, developers and capital providers. Specific supportive frameworks need to be put in place, which are relevant to each of them. Benefits of building energy efficiency measures need to be formulated in ways that are relevant to each decision maker. Differentiated pathways (depending on each decision maker) need to be drawn out on how they can act towards a transformation to energy efficient buildings. The pathways can include measures on skilling manpower, access to finance, and design & technological solutions.
- This process is going to take time to reach the needed scale and to deliver the expected benefits. That's why the second most pressing issue is to place energy efficiency in buildings high on the political agenda. It will need to be tackled at all levels EU, national/regional/local, in particular because there is a huge gap between the current situation and the target.
- The most urgent "practical" problem is to find more financial support to carry out new energy efficient projects. First-time home buyers in particular, have difficulties to find credits: few bank loans are

available for energy efficient investments, loan durations are generally short, the loan process is complex, and there are insufficient tax benefits for energy efficiency.

- To improve the chances of success and to streamline the organisational burden, an overall common EU approach is needed, which should be coordinated and implemented at country and regional level.

(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? How could the development of an energy services market for households be further stimulated? What could be done to increase awareness raising and promotion of energy efficiency in buildings? How could the business community (e.g. building sector, ESCOs, local banks, etc.) be better supported in delivering energy efficiency in buildings? How could the split incentive problem be best tackled?

- The most efficient way to address these failures should be to develop a range of measures adapted to each actor of the construction value chain: all the parties are concerned and should be part of the solution simultaneously.
- Awareness-raising campaign for a better understanding of the cost and value of an energy efficient building is a necessity. But training and information will need huge financial and organisational resources for the decades to come. A first important step would consist in organizing at EU level more experiences sharing among the construction industry and financial institutions.
- The information challenge could be dealt with through more dissemination of the labels used throughout Member States, especially the Low Consumption Building (Bâtiment Basse Consommation, BBC in French) label which apply for new buildings and the more recent Refurbishment BBC. Of course, companies consider that labels are relevant tools only if their requirements are stricter than the ongoing regulation
- Promote a Life Cycle approach
- Acknowledge that demolition and re-construction – as a complement to retrofitting programs - is a very efficient way to gradually transform the building stock (case in point Japan). Demolition and reconstruction has many benefits: job creation, higher certainty of energy performance compared to the energy retrofits, buildings can be designed to be more flexible and suitable to modern working and living environment, they can be financially more attractive than retrofits, because buildings can have a more efficient layout and/or more surface area to let or rent for the same land area.
- A clear roadmap should be designed at EU level to set long term targets for existing and new buildings' energy and CO2 emission performances. Each country should plan for intermediary targets at defined dates such as 2020, 2030, 2040 and 2050. Such targets should be made specific by building segment / building type: public buildings, single family homes, commercial buildings, etc. Through this measure, every actor will have a clear vision on their long term obligations and can plan for investments. Also, this allow the market to have a guidance on the solutions that will be in demand.

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 ?

- The EU must continue to support Member States in developing focused national programmes; provide technical assistance on the use of structural funds
- When it comes to granting funds, financial support to projects, the EU must decide according to the building performance in terms of energy used over its entire life cycle.
- The EU must encourage industry to actively participate in R&D programmes by establishing and reinforcing public-private partnerships.
- Monitoring is required to ensure the allocated funds are used in the intended way. Barriers for access to such funds - such as where MSs are required to put up matching money in order to gain access to funds - should not be as high as to prevent their effective use.

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

- The main issue for refurbishment investment is that the pay back period is too long and less attractive than on a deposit on a saving account. Therefore, companies consider that energy efficiency investments should be packaged with other investments on buildings in order to bring sufficient benefits to the decision maker.
- Banks should be more supportive of energy efficient investments. EU supporting funds could target to reduced bank's risk (KfW model), so that energy efficient investments become more attractive to them.
- EU should remunerate building energy efficient buildings by implementing tax benefits (lower property taxes for example) for energy efficiency or higher taxes for those that don't reach a defined energy class.
- Link the loans given to energy retrofits to the property itself and not to the owner, as explored by the UK in the context of its green deal.

(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)?

- We agree that there is a need for performance guarantee. The difficulty is that the building performance is also dependant on the occupier(s). The main factors are the number of people, the operating hours, occupant's behaviour, equipment maintenance and climate conditions. A normalised "ideal" but realistic energy consumption level can be assessed by a recognized expert for each building by using for example the energy performance certificate.
- The building owner has to guarantee an energy performance to the tenant, based on a normalised behaviour. The tenant in return, would need to agree to pay to the utility a higher kWh price in case the consumption is higher than the guaranteed building energy performance level. Temperature and energy consumption recording devices will need to be part of the building to reduce the risk of disputes between the parties.

(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?

- Dissemination of best practices can help to change this behaviour, for example the German programme developed with the KfW state bank
- Member States can implement capacity-building programmes to support commercial banks

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

- In France, energy performance contracting (ESCO Model) has recently been launched in order to help finance investments paid by energy savings.
- White certificates schemes

(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?

- Overlapping or contradictory regulatory initiatives should be avoided. The Energy Performance of Buildings Directive (EPBD) and the Construction Products Regulation (CPR) are the key pieces of legislation for the construction sector
- Develop a specific legislative measure fostering demolition and energy efficient reconstruction
- As mentioned in section 1, a roadmap for energy efficient building is necessary in order to enhance investment in view of the 2020, 2030, 2040 and 2050 milestones, both at country and specific building

levels. In order to help reach those targets, new incentives should be defined at EU and national levels, based on the relevant labels defined across EU such as the BBC level. In this context, it is also wished that the European Commission harmonises at EU level the different classes of energy and CO2 labelling for buildings (this action is led by private actors in view of 2015 but the Commission could usefully check that enough coherence is reached).

- The following regulatory actions are also needed:
 - Facilitate effective use of existing financial instruments by improving regulatory framework, offer grants, subsidies, fiscal measures and VAT reduction
 - Encourage use of public procurement policy to promote energy efficiency, in particular by promoting the use of whole life cycle costing including maintenance and energy costs.
 - Implement tax benefits for energy efficiency

(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?

- Actions for better funding:
 - Member States to make full use of available structural funds
 - Member States to revise operational programmes and request permission to reallocate unused money to energy efficiency programmes.
 - Use of structural funds as a means to achieve societal policy objectives, e.g. investment in the construction sector as a means to provide economic growth and job creations.
- Actions for more efficient implementation:
 - Adapt best practice models and innovative investment schemes
 - Determine an evaluation methodology going beyond CO2 emission reduction, e.g. energy saving costs.

National authorities should also enable long duration loans and not only concentrate on interest rates.

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

Raise awareness of the benefits of the energy efficient reconstruction scheme / option. Compared to renovation, reconstructions can answer several challenges such as energy efficiency, occupant's comfort and productivity, high standard of living, fire safety or social integration.

During the last decade, the construction sector has noticeably progressed, especially thanks to new technologies and industrialisation of construction methods. These innovations make **the energy efficient reconstruction option a real alternative** to deep renovations and a complement to many energy retrofits. Member States should ensure a level playing field when the relevant public authorities choose decide to go for a new building as a replacement to an existing one with poor energy performance.

Reconstruction, similar to deep renovation, improves the energy performance of buildings and in case of buildings in poor conditions, reconstruction is very often the most beneficial from a life-cycle costing perspective.