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EHI contribution to the European Commission Consultation Paper

“Financial support for energy efficiency in buildings”

EHI, the Association of the European Heating Industry, represents and promotes the common interests of 35 market leading company members in the European heating sector, which produce advanced technologies for heating in buildings, including: boilers, burners, heat pumps, micro CHP, solar thermal, geothermal, biomass and radiators. In addition, members comprise 13 national industry associations from the EU Member States, Liechtenstein and Switzerland. The industry invests massively in research and development in order to create technically advanced, safe and energy efficient heating systems.

EHI strongly believes in the need for continuous action, in order to meet the ambitious EU energy and climate goals for 2020 and beyond, based on energy efficiency, sustainability, affordability and security.

EHI welcomes the opportunity to contribute to the European Commission’s consultation paper on “Financial support for energy efficiency in buildings” and therefore provides below a series of reflections on the main barriers affecting the financing of energy efficiency.

Market failures

It is difficult, even admitting that environmental and social costs are not reflected, to quantify the relatively **low cost of energy** as a market failure.

For owners of commercial buildings energy costs are one of the many costs which they try to contain or reduce in order to offer attractive buildings. However location and accessibility outweigh in importance the energy costs which often represent at most 5 % of operating costs.

For residential buildings different situations appear. Owner-occupiers do realise the importance of energy costs. However in their case the economic climate and continuous changes in regulations and access to finance renders them hesitant to invest in energy efficiency. Prospective buyers of new buildings are aware of energy costs but also in their case location is an issue and offset by transport costs, which are also energy related.

In the rental market the situation is diverse and indeed the owners, private or public, do not pay the energy bill.

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Rather than referring to **information failure**, possibly the **information overflow** renders the deployment of energy efficient technologies difficult. The current thinking whereby the focus lies on the trias energetica and hence the high costs for deep renovations does not fit with the economic and life expectancy perspective owners have.

The trias energetica approach leads to even greater uncertainty with building owners regarding investments to be made. Would they go for the long-term results of the deep renovations that are in general advocated or would they opt for another order in their choice of investment? The financing of deep renovation, which is presented as the energy efficient solution, is out of reach for many owner-occupiers. Other and smaller investments, also aimed at ensuring considerable energy savings, such as the replacement of technical installations, are postponed because they believe that first the insulation characteristics of the building need to be improved.

Additionally, many Member States oblige energy utilities to take care of investments in renewable energy and energy efficiency in order to realise action plans required by EU legislation. This has the perverse effect of increasing energy prices for those in the public that cannot afford investment in these technologies. The utilities do integrate the subsidy schemes, feed-in tariffs in the energy price. This price increase may therefore reduce the time for return on investment in energy efficiency but does this at a social cost.

Lack of harmonisation, main barrier for effective financial tools

In addition the **implementation of the Energy Performance of Buildings** in Member States or their Regions has fragmented the approach to evaluating buildings. Already under the original Energy Performance of Buildings it was demonstrated the very same building with the very same materials is evaluated differently regarding its energy performance.

Under those conditions it is extremely difficult for the financial sector to develop financial products for energy efficiency. In countries with regional energy performance requirements this would require the development of specific and region orientated financial tools. This is exactly the opposite of what good management within financial institutions require.

The financial sector would only seriously look at and be able to offer tools that benefit from economies of scale when a coherent approach to evaluating energy efficiency would be available.

EU level funding also suffering from lack of harmonisation

Moreover, the lack of harmonisation consequently also does not allow for an adequate and appropriate evaluation of the funding at EU-level. A coherent financial policy regarding energy efficiency requires a coherent toolbox at the level of energy performance of buildings.

For this, **a harmonised approach and harmonised calculation tools are the very first condition**. To this aim the EU should invest in harmonisation of the various energy performance calculations models or to impose a European model on the Member States and Regions. The physics behind the model are the same and objective climatic parameters which are available for regions and even for towns and villages can fit into a harmonised calculation model.

The current regional or national tailor-made instruments do yield some result but overall they fail.

Instruments that perform in a given region will fail in another simply because the administrative boundary conditions set by energy performance calculations there are different.

An overall simplification would offer many benefits to both EU, authorities, industries, building owners and consumers. The proliferation of tools at various levels to access financial support is bewildering.

Many regions have developed programmes that allow the consumer to identify the financial support he could qualify for. These programmes show the proliferation and differences that exist between neighbouring towns and villages. Under these conditions it is very hard for financial institutes to develop products.

Depending on the calculation tools and support available the return on investments varies greatly between neighbouring places. This gives rise to even more uncertainty with building owners and for that reason they tend to postpone investments.

Without a harmonised basis for evaluating energy efficiency guarantee systems, efficiency investments are likely to fail.

A return to basics is required: optimisation of financial support mechanisms

The EU could create a stable base for energy efficiency by in first instance **making sure that Member States and Regions implement the EU directives and regulations in a comparable manner**. This would provide financial institutions with a framework in which financial support tools may be developed in a coherent manner. It is also a necessary boundary condition if the EU would wish to impose and control energy saving schemes under a future Energy Efficiency Directive. All parties involved would benefit from a stable environment based on objective boundary conditions shared across Europe.

The administrative complexity which is subject to frequent change de facto is one of the reasons why incentive schemes, when available, often do not work properly or do not reach the target audience.

An **optimisation and reduction** (coordination and simplification) of the proliferation **of financial support mechanisms** may provide for a wider and more effective use of a reduced number of financial instruments which can be understood easily. Preferably, at the same time, the ambiguity and complexity within national and regional legislative frameworks should be revised and simplified as well.