

## Financing Energy Efficiency in Buildings

### Public Consultation - European Commission

#### FIEC Response – Final Version

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#### Questions:

##### (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?**

*FIEC agrees with the consultation document insofar as it covers to a large degree, the major barriers though FIEC would also like to underscore the lack of reliable consumer information on the financial benefits of energy savings that still acts as an impediment to ending inertia and the market gaining traction. FIEC also believes that the lack of predictable, long term financial support mechanisms is also preventing full market development. Stop and go policy mechanisms, as have been observed in some countries, send confusing signals to the market and stifle investor confidence. Subsidy and tax incentive schemes - once adopted - should have a long duration so they are known to consumers and thus serve the purpose of correcting the market failure. Furthermore, national authorities should ensure that the rules to qualify for loans or grants are sufficiently clear and simple to consumers to promote uptake.*

*Finally FIEC would like to stress the difficulty experienced by **companies**, especially SMEs in covering the insurance risks associated with innovative products and processes. Companies wishing to guarantee performance following works often have great difficulty in securing coverage against deficiencies. This reveals, more generally, the hurdles the building sector faces when looking to innovate.*

**(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?**

*In FIEC's view the most important barriers to achieving a market for energy efficiency in buildings is the information barrier which includes the visibility and attractiveness of energy saving measures. Another factor in the information challenge is creating confidence in the market through a clear understanding of pay-back periods.*

*The financing barrier is also extremely important to address in terms of either securing credit for private homeowners to undertake works themselves or through schemes for third parties to undertake works with the upfront cost of works covered by a financial institution.*

*FIEC also calls for a robust approach from the Commission in ensuring that the provisions of the recast EPBD adopted in July 2010 are implemented in the timeframe foreseen in the directive. One of the reasons the 2002 Directive has not been effective is through the slow and sub-standard roll-out of **EPCs** in many Member States. This has had not encouraged*

*market take-up of energy efficiency measures but rather has been perceived merely as a regulatory burden. The EPC must become an effective marketing tool and be linked to financing measures.*

**(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?**

*1. The easiest nut to crack is the **social housing stock**. There government should use legislation to ensure that social housing, whether owned publically or through cooperatives or housing associations, is renovated at regular intervals in order to ensure steady, cost-effective, gains in energy performance. Such gains should be tied to the Energy Performance Certificate.*

*2. The real market failure is in the privately owned sphere where owners still see little benefit to invest money in the energy performance of their property over other interventions where the perceived benefit is more immediately visible. Here the **split incentive problem** in housing can be best tackled by financial facilities that either cover the upfront cost with the cost recouped from energy bills (Green Deal model) or through being able to write off part of the works against tax. Another barrier is the issue of **mutiple ownership of the same building**. This is the case often with residential multi-family buildings where all owners have to agree to works being carried out. In the first instance stronger owner syndicates have to be formed in order to strengthen owners' financial clout to collectively commission such works.*

*2. Another question is that of the capacity of rental markets to absorb higher rents resulting from energy upgrades. In some cases the local rental market will simply not support the increase in rents due to insufficient household incomes. In order for measures in existing buildings to be a success the capacity of local communities to afford newly renovated rental properties must be properly factored into the equation.*

*3. A third point is the role of **utilities**. Part of their energy savings obligations in those countries where such obligations are in force or under the proposed Energy Efficiency Directive (Article 6) if it comes into force, could be met either through energy retrofit campaigns or through the provision of training of building enterprises in energy efficiency techniques at national level, in coordination with recognised national training bodies and contractors' federations.*

*4. The **building sector has a key role to play in informing consumers** on the benefits of upgrading their property's energy performance as the local contractor is often a consumer's first port of call when looking to refurbish or renovate part or all of their property. Some of FIEC's members have understood the potential for contractors to offer this service and are offering training courses on energy efficiency renovations which are recognized by national authorities. Therefore, the Commission should encourage national and regional authorities to involve representatives of the building chain when planning strategies to improve the energy performance of existing buildings.*

*5. Finally the **Energy Performance Certificate** itself is very important in overcoming market inertia. Rather than simply being a piece of paperwork that provides little added value, the*

*certificate must give concrete and practical advice to consumers as to how best they can improve the energy performance of their property.*

## **(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?**

*1. FIEC does not believe that the current EU level financial tools are completely effective when it comes to promoting the uptake of energy saving measures. Existing funding often focuses on one-off demonstration projects rather than using finance to leverage private investment into large scale energy saving programmes. Here the Kredex example from Estonia is one that could be replicated elsewhere.*

*2. It is clear that structural fund expenditure on energy efficiency which is currently permitted up to a 4% threshold is still marginal due, in part, to a lack of information at national level. FIEC is supportive of the Commission's proposal in the next Multi-Annual Financial Framework that 20% of ERDF expenditure should be ring-fenced for energy efficiency investments in the most developed regions and proportionally more in the least developed regions. This would send a strong signal to investors that sizeable public investment is being channeled into this area.*

**(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 European Commission has a role in facilitating risk-sharing facilities through the European Investment Bank to provide debt financing to retail banks to cover the risk of investment in energy savings. EU financing should be focused on the market take-up side of energy savings and should be focused on helping markets at national level gain sufficient momentum. FIEC also believes that funding through the European Energy Efficiency Fund should be strengthened and the visibility of the fund increased so that take-up is accelerated.*

**(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)?**

*See above*

**(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?**

*As mentioned above, the lack of reliable information and the perceived investment risk acts as a real barrier to the take up of energy efficiency measures in buildings. Doubts over pay-back periods and guarantees over the real effectiveness of works in terms of lower energy*

*bills can tip the balance against energy efficiency works in favour of more cosmetic changes to the building, such as a new kitchen or extension that will add immediate financial value to the property.*

*Awareness raising of the importance and potential benefit of energy savings along with sound guidance on pay-back periods needs to be undertaken among consumers, the investment community and building procurement officers. Only by creating confidence and knowledge will the energy savings market gain traction.*

*The Commission should promote the partnership approach where national and regional governments and representatives of the property and building sectors join together in partnership to develop long-term road maps for saving energy in buildings. Such roadmaps should have the broadest possible political consensus in order to ensure that incentive measures do not fall victim to changed political priorities.*

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

*The KfW example in Germany raised in the Jülich study and referred to in the Consultation Document is of particular interest. This shows clearly the added value in terms of jobs but also avoided welfare payments and additional tax revenue of investment in energy efficient retrofits of the building stock.*

### **(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?**

*No, not at this stage. The priority should be the correct implementation of the EPBD.*

**(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?**

*There is a need to develop a robust quality assurance system for works that accompanies SMEs during the retrofit process and that does not just undertake ex-post evaluation of the quality of works done. The development of such a quality assurance system that accompanies the SMEs that will be working at the coal face in upgrading the energy performance buildings, will be crucial in promoting consumer confidence in the private market.*

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

*As mentioned above.*

**Consumers:** *Need for confidence in the market and in the support schemes on offer at national and sub-national level. Awareness raising can be spearheaded by national level building sector associations in partnership with ESCOs, utilities and national and sub-national authorities.*

**Member States:** *The desirability of energy efficiency upgrades is often touted at national level but this often does not translate into the necessary long term policy framework with stable and predictable support mechanisms. It is vital that both the European Commission*

*and industry join together to impress upon Member States the need for a clear commitment to developing this market.*