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CBI response to the European Commission's consultation on the review of progress towards the 2020 energy efficiency objective and a 2030 energy efficiency policy framework

The CBI (Confederation of British Industry)

The CBI is the UK's premier business lobbying organisation, providing a voice for employers at a national and international level. We speak for more than 240,000 companies of every size, including many in the FTSE 100 and FTSE 350, medium and small businesses, micro businesses, private and family owned businesses, start-ups, and trade associations.

We represent businesses in every sector, including agriculture, automotive, aerospace and defence, construction, creative and communications, financial services, IT and e-business, management consultancy, manufacturing, professional services, retail, transport, tourism and utilities.

We aim to promote the conditions in which businesses of all sizes and sectors in the UK can compete and prosper for the benefit of all. To achieve this, we campaign in the UK, the EU and internationally for a competitive policy landscape.

The CBI welcomes the opportunity to respond to the Commission's consultation on the progress towards the 2020 energy efficiency objective and a 2030 energy efficiency policy framework. The CBI has identified three key priorities for a 2030 energy and climate framework:

1. **An ambitious and credible single EU-wide emissions target**. The CBI supports a single European GHG target of 40%, which we believe to be the most cost effective way to deliver Europe's three objectives of security, decarbonisation and affordability.

2. **Putting the EU Emissions Trading System (EU ETS) as the cornerstone of EU energy and climate change policy.** An effective EU ETS is key to delivering future targets, and any structural reform of this mechanism must be considered within the long-term context of a 2030 target.

3. **A commitment to ensuring industrial competitiveness.** Improved, evidence-based EU support for businesses most at risk of carbon leakage must be at the heart of an energy and climate package, not a bolt-on.

Within this context, this submission recognises the importance of energy efficiency in achieving our energy and climate change goals whilst stressing that the Commission should focus on retaining flexibility for Member States within both the 2020 energy and climate change framework, as well as in consideration of the 2030 package.

This consultation response argues that:

- **UK business welcomes the Commission's focus on energy efficiency**
- **Member States should retain flexibility in delivering energy efficiency**

<u>UK business welcomes the Commission's focus on energy efficiency</u>

Energy efficiency has the potential to offer a triple win for consumers, the environment and the economy. Energy efficiency is fundamental to achieving Europe's long-term energy and climate change objectives of reducing carbon emissions, ensuring energy security and making sure that bills remain manageable for energy users.

One of the primary motivations for both households and businesses to use energy more efficiently is to reduce their energy bills, and mitigate against future price increases. For example, in the UK, the average energy bill

for an industrial energy user is predicted to go up between 20-30% by 2020[1], while the average household bill, without any policy intervention is likely to face an increase of almost £200 - costs which could be offset by energy efficient measures with DECC predicting that such measures would save households 11% on bills. The CBI's 2013 report, *Shining a Light: Uncovering the Business Energy Efficiency Opportunity,* demonstrated that many businesses are also approaching energy efficiency as a business growth opportunity, seeking to increase their competitiveness, grow their customer base and capitalise on new markets, both at home and abroad.

This can translate into a material impact for the economy, supporting a domestic market worth 17.6bn and employing 136,000 people across the UK[2]. Indeed, a recent report from the International Energy Agency (IEA) indicated that energy efficiency – in both businesses and households – could boost a country's GDP by around 1%.

Importantly, greater energy efficiency can contribute significantly towards a more secure and sustainable energy system, enabling both the EU and Member States in meeting their long-term decarbonisation goals.

The UK – and UK business - have recognised this opportunity and taken concerted action. The UK government has introduced a range of policies and initiatives to encourage energy efficiency, and we are currently on target to reach our 20% reduction in final energy consumption by 2020 (relative to a 2007 business as usual projection)[3]. Several such policies are:

- **Climate Change Agreements** have been in place since 2001 providing a discount from the Climate Change Levy for energy intensive industries if they achieve sector wide energy efficiency targets.
- The **Carbon Reduction Commitment** is intended to drive energy efficiency is large public and private sector organisations by, amongst other things, requiring the purchase of allowances for every tonne of carbon emitted.
- **Mandatory GHG reporting** require large businesses to report their GHG emissions in the annual Directors Report raising awareness at the top of energy usage.
- The UK has implemented Article 8 of the Energy Efficiency Directive by introducing the **Energy Savings Opportunity Scheme** which requires all non-SME businesses to carry out energy audits and identify possible areas for energy savings.
- **The Green Deal** is a scheme which enables people to pay for some or all of the cost of energy efficiency improvements through savings on their energy bills rather than upfront and links the repayments to the property.
- Energy efficiency in households is also achieved through the **Energy Companies Obligation** which places legal obligations on the larger energy suppliers to deliver energy efficiency measures to domestic energy users.

Businesses in the UK have also been playing their part, with many seizing the energy efficiency opportunity. Using energy more efficiently, as previously mentioned, can bring multiple benefits to businesses of all sectors and sizes, with many already investing in proven technologies to deliver consistent improvements. A CBI survey conducted last year showed that businesses across the board are looking seriously at what they can do to better manage their energy use, with 80% of respondents citing energy efficiency as a 'quite high' or 'very high' priority. The survey also found that 90% of firms had made energy efficiency investments within the last year.

<u>Member States should retain flexibility in delivering energy efficiency</u>

Despite the clear benefits and considerable progress being made, the CBI agrees that there is further to go in maximising both the EU and the UK's cost-effective energy efficiency potential. However, the Commission should remain committed to the principle of Member States flexibility, allowing them to take action in a way that best suits their national circumstances within both the current 2020 energy and climate change framework, as well as in consideration of the 2030 package.

Resources should be focused on implementation and simplification of existing policy within the current energy and climate change framework. The CBI supported the Energy Efficiency Directive, and contributed to the policy debate during its formulation. Having only entered into force at the end of 2012, with a deadline for transposition by Member States this summer, the CBI would caution against re-opening the Directive for further debate at this stage. Rather than risking creating considerable uncertainty for Member

States and businesses alike, the Commission should focus its efforts on supporting the implementation of policies across Europe.

In doing this, the Commission could helpfully complement Member States' efforts by supporting the flow of finance towards energy efficiency investments, as well as helping to share best practice across Member States. Accessing finance for energy efficiency measures is a key barrier faced by businesses of all sizes and sectors. For large energy users, managing energy use is already high on the agenda, meaning that significant progress on energy efficiency will have already been made. As such, further progress will require long-term finance for breakthrough technology, often at a large scale, which the European Commission could seek to support. When finance is available, the range of options can be vast and confusing – particularly for small and medium-sized businesses. As such, further support in ensuring that firms can access finance in a business-friendly way should be encouraged.

In the UK, one of the major challenges in achieving greater energy efficiency in businesses is in ensuring that the landscape of energy efficiency policies is not overly complex, which can often deter, rather than encourage, investment. The Commission should therefore act, not to further proliferate policies, but to support efforts by Member States to simplify the policy landscape.

A single emissions reduction target remains the right approach for 2030. The CBI continues to support a single GHG emission reductions target of 40% as the most cost effective way to deliver Europe's three objectives of decarbonisation, energy security and affordability – nationally binding renewable energy and energy efficiency targets are likely to unhelpfully overlap with emissions targets.

With investment cycles in mind the CBI is calling for all EU Member States to agree an ambitious binding GHG reduction target as soon as possible in 2014, in order to facilitate a comprehensive global climate agreement in 2015. An emissions-target only approach provides Member States with the flexibility to meet the target in the most cost efficient way for their national circumstances, using a technology neutral approach. For the UK, we have argued that the objectives of decarbonisation, energy security and affordability are best achieved through a balanced energy mix, including nuclear, renewables, gas and Carbon Capture and Storage (CCS), as well as energy efficiency.

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[1] Department of Energy and Climate Change, *Estimated impacts of energy and climate change policies on energy prices and bills,* March 2013
[2] Department for Business, Innovation and Skills, *Low-Carbon Environmental Goods and Services,* June 2012
[3] Department of Energy and Climate Change, *Energy Efficiency Strategy – 2013 Update,* December 2013