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CONSULTATION PAPER

"FINANCIAL SUPPORT FOR ENERGY EFFICIENCY IN BUILDINGS"

SUMMARY[1]

1. SETTING THE SCENE

Energy efficiency is at the heart of the European Union's Europe 2020 Strategy for smart, sustainable and inclusive growth and of the transition to a resource efficient economy. However, calculations show that the EU is not on track to realise this goal. Although the latest 'business-as-usual' scenario shows a break in the trend towards ever-increasing energy demand, the reduction in energy consumption is estimated to be only about 9% in 2020 in primary energy use.

In reaction to this, the European Council on Energy in February 2011 emphasised that "*The 2020 20% energy efficiency target…, which is presently not on track, must be delivered. This requires determined action to tap the considerable potential for higher energy savings of buildings, transport and products and processes*".

2. WHY FOCUS ON BUILDINGS?

Buildings must be central to the EU's energy efficiency policy, as nearly 40% of final energy consumption (and 36% of greenhouse gas emissions) is in houses, offices, shops and other buildings. Moreover, buildings provide the second largest untapped cost-effective potential for energy savings, estimated to be 65 million ton oil equivalent (Mtoe). This corresponds to a cumulated investment need of approximately 587 billion € for the period 2011-2020, i.e. around 60 billion € per year to realise this savings potential.

Furthermore, although often difficult to quantify exactly, increasing the level of investment in building energy efficiency would also have a strong effect on job creation. For example, the French Ministry for Ecology, Energy, Sustainable Development and Spatial Planning estimates that for every 1 million Euros of investment in property-

[1] For the purpose of this summary all footnotes and figures have been removed. They can be found in the full consultation document (available only in English)

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related thermal renovation, 14.2 jobs are created or maintained in the field of energy performance-related work. Applying these numbers to the above-identified investment need of 60 billion € per year would result in the creation or retention of around 850.000 jobs per year in the EU.

3. WHAT IS BEING DONE TO IMPROVE THE ENERGY EFFICIENCY OF BUILDINGS?

3.1. The regulatory framework

The main regulatory instrument in the EU for tackling the energy consumption of buildings is Directive 2010/31/EU on the Energy Performance of Buildings recast (EPBD recast) which will replace the original Directive of 2002 (2002/91/EC) in February 2012 and will have to be transposed by Member States in July 2012. A proper implementation and enforcement of the Directive's provisions will make an important contribution to improving the energy performance of buildings.

In addition to the EPBD recast, the Commission is also elaborating various implementing measures under the Eco-design and the Energy labelling Directives. Directly relevant for buildings are the requirements for products used in technical building systems such as boilers, hot water heaters and air-conditioning equipment.

Finally, in response to the identified gap in reaching the 20% energy savings objective in 2020, the Commission proposed in June 2011 a new Energy Efficiency Directive aimed at putting the EU back on track towards achieving this target. The proposal covers, amongst others, a number of measures regarding the energy efficiency of buildings and related financing. The Directive aims to bridge the gap in energy savings until 2020 and become a strong driver for energy efficiency investments.

3.2. Financial support mechanisms

At EU level, financial support is available through various instruments aimed at assisting Member States in supporting the implementation of EU directives and initiating associated investments. The main instruments include Cohesion funds, research programmes, the Intelligent Energy – Europe programme and the European Energy Efficiency Facility.

Looking forward, in its proposals for the next Multiannual Financial Framework for 2014-2020, in order to increase spending on energy efficiency and renewable energy (including energy efficiency in buildings), the Commission has proposed to concentrate funding from the European Regional Development Fund (ERDF) in this area: 20% of the ERDF should be spent on energy efficiency and renewable energy in more developed and transition regions; this is 6% in less-developed regions.

Moreover, under the Horizon 2020 research programme €6.5 billion is to be allocated to research and innovation in "Secure, clean and efficient energy" in 2014-2020.

Nevertheless, even assuming that most of the proposed allocations would go to energy efficiency in buildings, this would only constitute a small amount compared to the estimated investment need of around €60 billion per year.

4. WHY IS THE SAVING AND JOB POTENTIAL FOR BUILDINGS NOT BEING REALISED?

Despite the above-outlined efforts, the proven cost-effective opportunities for reducing energy consumption in buildings, and the positive effects on employment and revenues, the potential for energy efficiency in the sector remains largely untapped. Based on a preliminary analysis, many reasons for this so-called 'energy efficiency gap' can be identified, including:

Market failures, for example:

- Poor reflection of environmental and social costs in energy market prices;
- Split incentives or principal-agent problem;
- Information failure;
- Lack of adequate training and knowledge regarding energy efficiency issues with many actors in the building sector.

Financial barriers, for example:

- Relatively high level of initial investment costs;
- Limited access to credit (worsened by the current economic and financial crisis);
- Biased financial perceptions with private investors about initial costs and pay-back periods;
- Absence of awareness and knowledge among financiers;
- Relatively high transaction costs due to small size of energy-efficient projects compared to other investments and a lack of a systemic approach to bundling investments;
- Longer-term returns of energy efficiency investments (and their current illiquidity) in combination with a lack of energy savings-backed securities.

Regulatory framework, for example:

- Lack of enforcement of building energy codes;
- Lack of administrative capacity to develop energy efficiency legislation (including support instruments);
- Too frequent changes in the legal framework and financial support programmes;
- Often decentralised nature of the institutional competences in the building sector, with national, regional and local authorities playing different roles in enforcement, subsidy allocation, tax policy, etc.

5. PUBLIC CONSULTATION

5.1. Objective of the consultation

Given the need to improve the financial support for energy efficiency measures in buildings in view of reaching the 2020 energy savings target, it is considered important to obtain the views of all relevant stakeholders in this area, including – but not necessarily limited to – the:

- Member States (e.g. national, regional and local authorities, etc.);
- Financial sector (e.g. public and commercial banks, institutional investors, hedge funds, etc.);
- Building sector (e.g. construction companies, manufacturers of building materials, technical building systems and components, installers, etc.);
- Energy sector (e.g. energy suppliers, energy service companies, energy auditors, etc.);
- Non-governmental organisations (e.g. consumer representatives, environmental groups, trade unions, etc.), and;
- Building owners (e.g. real estate companies, the retail sector, hotel groups, private households, etc.).

Moreover, under the EPBD recast the Commission is requested "*to present an analysis on, in particular;*

(a) the effectiveness of structural funds and framework programmes that were used for increasing energy efficiency in buildings, especially in housing;

(b) the effectiveness of the use of funds from the EIB and other public finance institutions;

(c) the coordination of Union and national funding and other forms of support that can act as a leverage for stimulating investments in energy efficiency and the adequacy of such funds for achieving Union objectives."

The public consultation will provide an important contribution to this analysis.

5.2. Consultation questions

Based on the clusters of barriers identified in the previous chapter, stakeholders are requested to provide answers on the following 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?

(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?

(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?

(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?

(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.)?

(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)?

(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?

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

(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?

(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?

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