Object: EIB Consultation on lending in the energy sector

Dear Madam, Dear Sir,

Please find below the response of CDC Group to the European Investment Bank’s consultation on lending in the energy sector.

2. How does investment in the energy sector contribute to growth and employment? Are investments in all energy sub-sectors equally valuable? And how does investment in the energy sector rank relative to other investments in the economy which support growth and employment?

In the energy sector, recent studies suggest that energy efficiency and particularly building retrofitting is the area where the most jobs could be created in a transition scenario, both in absolute value (tens of millions of homes and offices are in need of retrofit) and in jobs per M€ invested (the construction sector is well known as being one of the most job intensive throughout the economy). Moreover, most of these jobs, concerning the actual installation of equipment and building material, would be local and could not be off-shored. In terms of economic growth, energy efficiency seems to be an underexploited source for increasing the productivity of the overall economy, which is the main driver for improving standard living conditions. Thus, energy efficiency has a direct positive impact on the consumers’ energy bills, and therefore on their purchasing power. On a longer term, energy efficiency contributes to the mitigation of negative externalities associated with energy use, as GHG emissions, and thus foster long term economic growth prospect by reducing economic costs associated with climate change or other negative externalities.

10. What do you think are the main barriers to energy efficiency investments? What might be done to overcome these?

As mentioned in the consultation paper, “Most of the EE potential yet to be developed lies in the building sector and the SME sector to a lesser extent”. The challenges of addressing a great number of complex, small CAPEX, long payback projects, with financial schemes, are manifold: the costs of transaction, from informing to triggering the decision to assessing the technical and financial worthiness of the project, shall be extremely high. In order to optimize them, commercial banks and their dense networks are key players, along
with a combination of public local energy agencies and/or incentivizing supply chain players. The counterparty risks will be higher for those who most need to enroll in such projects: the fuel poor. The use of guarantee tools and/or loan softening should be considered as a way to make financial schemes accessible at a reasonable cost for these market segments. The track record for ambitious retrofits is limited, limiting the attractiveness of such projects for institutional financers whereas tens of billions of euros are needed each year if the EU is to meet its 2020 and 2050 objective, public budgets as well as banks’ lending capacity are highly constrained.

Profitability on these projects ultimately depends on the future prices of energy on the medium and long term which is nothing less than uncertain. This lack of information slows down projects uptake, and hinders efforts to build the track record that shall be needed for massive private money involvement when energy prices do get higher. In all these respects, the involvement of public financial institutions is decisive to kick start the market and bridge the financial gap. Further, perhaps it is worthwhile to mention the owner-renter issue? What can be done is either changes in property rights regime, specifically in condominiums or give financial incentives (and thus public financial institutions can have a role their).

The example of social building:

Regarding the real estate market, and more specifically social buildings, the main problem comes from diverging approaches between public authorities and investors, because of the low rentability of energy efficient investments. On one side, public authority fix the access to incentives mechanisms on criteria based on energy performance aims, on the other side, actors operate choices related to economic criteria. The advantages provided by public authorities to operators for compensating the relative cost of energy efficiency investments compared to the potential benefits from lower energy cost are usually insufficient. Therefore, operators tend to adopt patrimonial choices that do not integrate necessarily energy efficiency investment.

This phenomenon is worsen by computation modalities that do not take into account the rate of occupation of the buildings. For instance, in France, thermic rules criteria of computation (for instance for internal temperature) are minored compared to real level observed. They often express a primary performance, applying, for instance to electricity with a coefficient of 2.58 resulting in a very large gap between computed performance and observed performance.

Investments do not always perform such a reduction in energy cost than expected. Selecting criteria purchasing general energy and environmental aims while integrating local specificities would better favor investments. Another possibility would be to increase the consistency between the different level of financing around some common criteria. The excellent rate of use of FEDER dedicated to energy efficiency is partly related to its fit with the criteria of environmental loans for social building. This integration of common modalities of allocation would permit a better articulation between subventions, fiscal advantages, and loans. Energy efficient investment in housing would therefore become more attractive.
11. What role can Energy Service Companies (ESCOs) play in developing energy efficiency investments?

ESCOs could play a significant role in developing energy efficiency investment, and spearheading the market, as soon as adequate legal frameworks are available. Some segments of the EE markets, such as office or administrative buildings, where user behavior is more controllable, are more relevant for ESCOs and energy performance contracts (EPCs). On the other hand, the transaction costs involved in EPCs limit the effectiveness of ESCOs for individual housing.

13. Do you consider the criteria used by the Bank to categorise projects as Energy Efficiency projects appropriate (see Annex 1)? What alternative would you propose?

While mainstreaming an energy efficiency criterion in all project sectors financed by the EIB may be useful to capture the full diversity of these projects, the relative unattractiveness of such investments to enterprises (industries, offices and SMEs) compared to other, core business investments, means that such an approach shall attract a limited quantity of projects. It needs to be complemented with more proactive schemes, displaying dedicated resources. The same is true for domestic EE, and in particular retrofits, insofar as the banks have relatively little incentives to finance such projects (see above). Therefore, the Caisse des dépôts believes in the necessity to create dedicated financial circuits, like the examples mentioned in the consultation paper in Germany or the United Kingdom.