EuroACE response to the Public Consultation on the review of the EIB’s Energy Sector Lending Policy
EUROPEAN INVESTMENT BANK
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4.1 General energy and economic context

Particularly in the current economic climate, is there a trade-off between promoting a competitive and secure energy supply and one which is environmentally sustainable? Where should the balance lie and what implications does this have for energy sector investments?

Given that 25 out of the 27 EU MS are net energy importers, primarily of oil and gas, and the negative impact these energy imports have on the balance of trade (72% of France’s negative balance of trade is due to its energy imports1), the EU must reduce its dependence on foreign imports if it is to achieve a competitive, secure energy system which is economically viable. Reducing the EU’s dependence on fossil fuel imports is a priority, but this must and can be done in an environmentally sustainable way: through energy efficiency and savings.

Energy efficiency and savings is the most attractive and low cost options to reduce the emissions of CO2 and improve energy security in the EU. The buildings sector has been highlighted as the sector with the largest untapped economic potential (up to 80% in the EU in the IEA’s WEO2), as well as being the largest consuming sector ahead of transport and industry - a full 40% of all energy in the EU is consumed by its buildings. In fact, buildings account for 38% of direct Natural Gas consumption and 59% of the total EU electricity consumption3. With technologies currently available on the market, we could reduce the energy demand of the EU building stock by 80% by 2050 as compared to 2005 levels through the implementation of coherent renovation programmes4.

Harvesting renovation opportunities could bring huge benefits to the EU economy over the coming decades, in terms of job creation, increased economic activity, reduced energy imports and lower strains on public finances resulting from healthcare needs and subsidies to alloy fuel poverty. A recent study5 suggests that undertaking energy efficient renovations at current energy prices often pay for themselves i.e. have negative investment costs. Based on available estimates of the potential for energy savings from renovation of buildings, this study also estimates the monetised permanent annual benefit to society of energy savings from renovation of buildings at €104-175 billion in 2020 depending on the level of investments made from 2012 to 2020. If the health benefits from improved indoor climate are included, the benefits are increased by an additional €42-88 billion per year. If investments are continued after 2020, these annual benefits can be doubled by 2030.

Given this demonstrated return on investment, Member States must be encouraged by the EU and its institutions to invest in the economic opportunities offered by energy efficiency in buildings, in order to reduce EU energy demand and achieve a competitive, secure energy system which is environmentally sustainable. Now is a particularly good

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2 The World Energy Outlook 2012. International Energy Agency, November 2012; According to the IEA World Energy Outlook 2012, two-thirds of the economic potential to improve energy efficiency will remain untapped in the period to 2035 in the absence of new measures in these sectors. The untapped potentials amount to more than 80% in buildings, a bit more than 60% in transport, and just below 60% in industry.
4 Renovate Europe Campaign, www.renovate-europe.eu; Renovation tracks for Europe up to 2050, Building Renovation in Europe, What are the Choices? Ecflys, 2012
5 Multiple Benefits of Investing in Energy Efficient Renovation of Buildings, Copenhagen Economics, October 2012
time for pursuing such renovations as it will produce a much needed stimulus to the European economy at a time of economic underperformance, spare capacity and record low real interest rates in a number of countries.

**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?**

Investment in energy efficiency in buildings represents a tangible economic stimulus to increase domestic employment in the EU and generate sustainable economic growth.

The renovation market is a labour-intensive market, which if activated correctly would generate a substantial number of jobs (between 16-19 jobs created/maintained for every €1 million invested\(^6\), compared to less than 6 jobs in the energy transformation sector\(^7\)). Given the nature of the renovation sector, these jobs would be local jobs which cannot be outsourced, and which would spread across the construction sector, from blue collars workers in shape of construction workers, plumbers and electricians, to white collar workers, including engineers and surveyors. This job creation would be compounded with a need for a high-level of training in order to match the skills demand of a changing economy, thereby stimulating another sector of the job market. The high potential of energy efficiency projects in terms of job creation is all the more important when considering the high rate of unemployment of construction workers, estimated at about 17% at present across the EU, which could easily be activated into employment through ambitious renovation programmes.

The benefits accrued in terms of job creation will inevitably have a positive impact on government revenues as a result of additional tax revenue and social security contributions and a reduction in unemployment costs and subsidies for fuel poverty. A recent study\(^8\) on behalf of the German KfW has shown that each Euro spent by the state on the promotion of energy-efficient construction and renovation, generated revenue of up to 5 Euros to the public coffers.

By significantly reduce the energy demand in the EU through energy efficiency in buildings, such investments will inevitably lead to a reduced need for generation capacity. If EU energy consumption is decreased only by 1% this would avoid the otherwise necessary construction of about 50 coal power plants units or 25,000 wind turbines\(^9\) and the accompanying infrastructure. If reduced energy consumption in the EU were to reach the 20% target, Europe would need to construct 1000 less coal power plants units or half a million less wind turbines. Energy efficiency is therefore undoubtedly the better investment option\(^10\) in the energy sector.

### 4.3. Energy Efficiency

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

Obstacles to energy efficiency investments include market failures, financial barriers and regulatory inadequacies.

A major barrier to energy efficiency investments in buildings is that energy-efficient projects are usually smaller in size compared to other investments, which significantly increases the transaction costs and reduces their attractiveness to financial investors who prefer larger single projects which can receive large budget allocations. One solution to tackle this problem is to bundle similar projects under the same allocation fund, in order to reduce transaction costs and scale up the investment. This can significantly reduce administrative costs and technical risks

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\(^7\) Rio 2012 Issues Briefs, Green jobs and social inclusion, UNCSD Secretariat, 2011


\(^9\) Based on the assumption that each power plant unit is 600 MW, operating 7000 hours/year; for wind: average turbine size of 4 MW in 2020, operating 2300 h/year (Ref Footnote 10)

associated with smaller projects, and increase the overall economic benefits of such an investment. Being able to reap the best practices and standardizing criteria from successful ‘bundled’ projects, and thereby encourage that such bundling be replicated for other similar renovation projects would also be beneficial, but this is often a difficult task given the sheer diversity of the building stock in Europe. Indeed, in the case when the bundling of projects is not feasible, it is important that new business models are created (such as ESCOs) in order to provide a smaller tailormade investment for a particular building/group of buildings. The model of intermediary banks which are able to channel the funds for smaller projects (less than €1 million) is a successful concept coined by the EIB, but which needs greater promotion and utilization.

In addition to their small size, energy efficient projects are also highly technical by nature, and complex due to the large number of actors involved. The technical assistance which the EIB offers under the ELENA programme is therefore crucial to helping local authorities to understand how to put together bankable energy efficient projects for their cities. Maintaining and expanding the ELENA facility is essential.

Capacity-building and skills training for all actors throughout the energy efficient project and building chain is also important in ensuring that the project is accurately implemented and that the full energy savings potential is maximized - ensuring that the promising energy efficiency results are delivered will be crucial to creating confidence, facilitating credibility and thus the development of the energy efficiency market.

A generalized lack of awareness about the huge untapped energy savings potential in buildings, and about the vast economic, environmental and social benefits that accrue from energy efficient investments is another challenge. This is compounded by the fact that the benefits of energy efficient projects are inherently less visible and tangible in terms of ‘photo opportunities’, and energy efficiency therefore attracts limited attention on the political agenda. Increased awareness-raising about energy efficiency projects and their economic benefits, through the EIB’s EPEC, is a very welcome initiative which will no doubt amplify the reach and the success of the EIB’s Energy Lending Policy. Providing funds for subsidized energy audits from an independent assessor with a good overview of the complexity of the local market would also be a valuable contribution the EIB could make in order to raise awareness and the opportunity for an increased number of energy efficient projects. Maximising the reach of the intermediary banks used to finance smaller projects as an outlet for raising awareness about energy efficient projects is also important.

Increased awareness-raising about the complementarity of the EIB funds with other EU funding streams is also to be encouraged. Using the technical assistance provided by the EIB’s ELENA to compile an economically viable project with the local promoters in order to access the budget delivery through the Structural Funds is a very welcome initiative, but one which unfortunately is under-utilised. Indeed, in the last funding period, there was a low absorption rate for the Structural Funds allocated for energy efficiency 17, which could potentially have been tapped into through a wider dissemination of information about ELENA at the local level. The fact that the EIB is able to become the ‘co-financer’ in lieu of the Member State in the use of the Structural Funds for energy efficient investments is another striking opportunity not grasped by local authorities. Further complementarity and synergies between the EIB, the Commission and other financing institutions are strongly encouraged. Additional simplification of the application procedures for EIB projects, and possible cooperation and reduction of overlapping administrative requirements for funding applications between the EIB and the Structural Funds would also increase the number of energy efficiency projects.

Building the confidence of the financial sector is a pre-requisite to unlocking the potential of the energy efficiency market. Energy efficient investments suffer from various drawbacks: the initial upfront cost is relatively high, payback periods are usually longer than desired, and lending for energy efficient is cash-flow based, linked to projects, rather asset-based. As a result, financial actors still remain cautious. This is an area where the EIB energy lending policy can undoubtedly contribute, by providing access to affordable capital to address high upfront costs, and by building trust in energy efficiency policies, via reducing the perceived risks from financial markets to undertake energy efficiency projects, which will in turn reduce the cost of lending money on the private market.

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17 In the 2007-2013 budgetary period, using Cohesion Policy as an example, out of the €348 billion allocated, €11.1 billion was destined to energy related projects, and only €4.5 billion was spent on energy efficiency.
In addition, the energy efficient market is still rather immature, and lacks the stable, long-term climate needed to build trust and confidence for investors. The long-term strategies for mobilizing investment in the renovation of the building stock required in the newly adopted Energy Efficiency Directive will go some way to contributing to a long-term perspective, but only if taken up and implemented rapidly by Member States. The EIB can help by pro-actively accompanying the ongoing developments towards long term, more stable and ambitious renovation markets, aimed at increasing both the rate and the depth of renovation. In addition to stimulating investments, this market confidence is needed for the upgrading of skills across the building chain to happen.

An inadequate regulatory framework, and poor implementation of the relevant European directives (namely the Energy Performance of Buildings Directive) is also a great hindrance to energy efficiency investments. A strong regulatory framework would be a strong driver to building confidence in the energy efficiency market. Attaching an ex-ante conditionality to the Structural Funds is one way of encouraging the implementation of EU directives in the release of EU funds. The EIB could take inspiration from such ex-ante conditionality, without however preventing the issuance of funds for valid projects and handicapping the motivation of certain local authorities because a failure or inability to comply at national level. The ambitions and high potential set by the EED if accurately implemented by the Member States should also be reflected in the EIB’s updated lending policy.

Another barrier which energy efficient investments face is the split incentive, whereby the decision maker is removed from the benefits, particularly for the residential sector. This problem is to be tackled more at the national level through modifying the rent regulation to allow rental price increases following renovation works. Ensuring that a loan is tied to the property itself rather than the property owner is another way to challenge this issue, and one which the EIB could consider in its loan allocations.

Finally, the energy efficient market suffers from a high 'inconvenience' barrier, linked to the practicalities of moving out during a building renovation. This is a problem whose highest chance of success lies in the development of new more 'flexible' technologies, processes and methods. The EIB lending policy on RDI can assist in accelerating this needed development.

**What role can Energy Service Companies play in developing energy efficiency investments?**

Given the fragmented nature and complexity of the energy efficiency market, energy services companies can be helpful in providing an independent technology-neutral opinion for a customer on a wide range of energy efficient improvements, through Energy Performance Contracting (EPC). By providing that initial upfront cost, which will be paid back with the money saved on lower energy bills, ESCOs also take on the risk of long payback. This problem is more acute in the residential sector, which has a low ESCO and EPC penetration rate although it represents 75% of the EU building stock. The opportunities for ESCOs to expand in the residential sector are more difficult than it is for instance in the commercial sector, as the impact of behavioural change is much more important in the residential

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12 Buildings Under the Microscope, BPIE, 2011
sector, making projects more unreliable and risky to guarantee savings. Additional support on behalf of the EIB would therefore be welcome to reach out to the residential sector.

The high level of misplaced distrust in the ESCO model both from customers and from financing institutions is due to a lack of information and to the perceived financial and technical risks associated with energy efficiency improvements. This further hinders the development of the ESCO market. Awareness-raising about the types of services ESCOs can offer and the high success rate for projects, is needed, and both the EPEC initiative on behalf of the EIB and the EPC campaign launched by the Commission are welcome initiatives in this respect, which will need sustained support.

Do you consider the criteria used by the Bank to categorise projects as energy efficiency projects (see Annex 1)? What alternative would you propose?

The general criteria used to assess the validity of projects for the EIB include consistency with EU policies and ensuring that the project is technically, economically and financially viable. Assessed against these criteria, energy efficiency projects are a priority for the EIB, given the strong economic case for investing in energy efficiency, and the alignment of energy efficiency in the EU Climate objectives and Growth Agenda. As a result, the EIB should not hesitate to be a front-runner in this field, and take the lead for the EU in investing in an increased number of energy efficiency projects.

In terms of criteria for energy efficiency projects, they must demonstrate that they will reduce energy consumption by at least 20% compared to situation before implementation, or ensure that the energy savings resulting from the project account for at least 50% of the investment cost over the project’s life. Given that the estimated savings potential of the EU building stock is 80% using the technology currently available on the market, the prescribed 20% energy savings threshold appears very low for buildings projects. It is important that incentives are set at the right level, with the aim of raising ambition and increasing both the depth and the rate of renovation in Europe, in order to reap the full savings potential in line with the objectives set out in the EED. Lowering the energy savings to a 20% threshold for energy efficiency projects will have the effect of locking in the savings potential of buildings\(^\text{13}\), which could have a detrimental effect on the buildings sector as a whole in the long-term, not only in terms of locked-in savings, but also in terms of confidence building for energy efficiency improvements. A 20% reduction in energy savings is likely to have a very limited impact for lowering the energy bill, reducing greenhouse gas emissions and increased health benefits for the occupier. There will be lower take-up rate of other energy efficiency improvements as a result of poor ‘word-of-mouth’ on the benefits of such a project, which it is important to recall has a high ‘inconvenience’ rate. It will also yield few ‘success stories’ which could be replicated to other buildings. A ‘sliding scale’ could be implemented for future projects, whereby a higher percentage of funding could be allocated to projects which have the highest expected energy savings.

In terms of evaluating criteria, EuroACE would also encourage the EIB to always consider full life-cycle costs for projects, rather than simple payback periods. A long-term vision provides the opportunity to assess many of the co-benefits (in terms of increased economic activity, better health conditions etc.) that will be difficult tangibly in the short-term. A key barrier to energy efficiency investments is the low cost of energy compared to many other cost factors. This is valid both in the commercial sector (where labor cost are a greater consideration) and for the residential sector. If the linked environmental and social costs accrued through pollution, greenhouse gas emissions or geopolitical dependency, as well as those ‘hidden’ costs related to energy subsidies to fossil fuels were to be internalised, the cost of energy would be much higher, and the urgency to reduce demand would become more visible.

With the aim of an increased uptake of energy efficiency projects for the €85 billion expected to be available every year to 2020, increased awareness-raising will be needed, but redirecting the technical assistance more upstream could also help. Indeed, given the highly fragmented nature of the renovation market, the decentralised nature of

\(^{13}\) The lock-in effect refers to the long cycle which characterizes the building sector (40-60 years for energy efficient improvements), and the potential energy savings will be ‘locked-into’ the building until another renovation is considered at a later stage.
the institutional competences in the building sector, and the technical nature of an energy efficiency project, providing technical assistance at an earlier pre-proposal stage could also trigger more uptakes.

With regard to the budget allocation decided for energy efficiency projects, it will also be important to adapt this, and particularly the need for increased technical assistance, to the expected increase in Structural Funds allocation for climate and energy for the next funding period. Increased clarification concerning the real allocation to energy efficiency projects and those allocated to renewables (both are merged in the consultation graph) would be helpful in order to better assess the needs of energy efficiency. Including CHP projects under energy efficiency projects can also be very misleading, given the considerably larger size of CHP projects and their potential to swallow up disproportionate amounts of budget to the detriment of the smaller energy efficiency in buildings projects.

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EuroACE represents Europe’s leading companies involved with the manufacture, distribution and installation of energy saving goods and services for buildings. EuroACE members have a total turnover of around €140 billion per year in efficiency-related business and they employ approximately 172,000 people in these activities in Europe. The mission of EuroACE is to work together with the EU institutions to help Europe move towards a more efficient use of energy in buildings, thereby contributing to Europe’s commitments on climate change, energy security and economic growth.

EuroACE Members (December 2012) are: