



AN EFFICIENT ENERGY UNION

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Energy Union stutters on efficiency

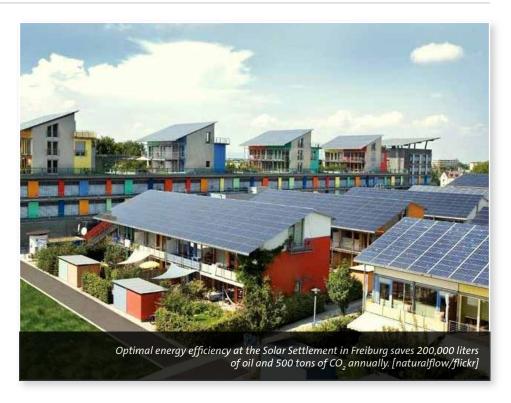
Experts are divided on whether the European Commission's proposals to foster an Energy Union are strong enough to drive forward energy efficiency measures, and in particular the renovation of existing buildings.

Retrofitting the building stock has enormous potential to make huge savings and give the construction sector a much needed shot in the arm.

70% of the EU's existing building stock is highly inefficient, Climate Action and Energy Commissioner Miguel Cañete told reporters at a press conference after EU energy ministers met in Brussels on Thursday (5 March). Meeting Europe's full efficiency potential would cut gas imports by 40% over the next fifteen years, according to Commission analysis.

On 25 February, the executive published its proposals for the Energy Union, a flagship initiative to strengthen the bloc against the risk of energy shortages. The EU imports more than half of its energy every year.

The paper sets out the Commission's thinking on what it describes as the biggest energy project since the creation of the Coal and Steel Community. The vision, put simply, is to create a bloc where surplus energy in one place can be moved to where there is a shortage, thereby bolstering the EU's resilience to shortages.



The Energy Union was given political impetus after the Ukraine crisis brutally exposed Europe's energy dependence and vulnerability. Shortages caused by Russia turning off the taps in 2009 have prompted the union to develop plans which go beyond to encompass issues such as climate change.

Five dimensions

Energy Union has five "dimensions": Energy security, internal energy market, energy efficiency, climate, and research and innovation.

Some campaigners have pushed for "efficiency first". RenovateEurope insisted on giving priority to energy demand rather than supply.

The Commission stopped short of that. Instead, it used less definitive language, calling on member states to give efficiency "primary consideration" in their national policies.

But it did come out strongly in support of efficiency and, explicitly, building repovation

"Buildings have huge potential for energy efficiency gains," it says. "Retrofitting existing buildings to make them energy efficient and making full use of sustainable space heating and cooling will reduce the EU's energy import bills, reinforce energy security and cut energy costs for households and businesses."

"Member states and regions should make more use of European funds for renovation of housing," it adds.

The Commission will develop a "Smart Financing for Smart Buildings" initiative to make existing buildings more energy-

efficient. The initiative will make applying for those existing funds easier. The executive will also propose a strategy to facilitate investment in heating and cooling.

Any strategy will be worthless without proper implementation. There are EU building efficiency laws, for new and existing buildings, but they have not all been properly implemented by member states.

The Commission can draw attention to the issue, draft laws and give guidance. But without strong backing from national, regional and local governments, building renovations will simply not happen, said EU officials.

Energy efficiency has a significant role in both energy security, reducing the amount of energy used, and minimising the impact on climate. It should be regarded as another kind of energy supply, Cañete said last week.

But it has to compete with the other dimensions of the Energy Union, such as an overhaul of the internal electricity market, or the construction of new infrastructure, for attention, priority and, crucially, funding.

Energy security

When it comes to the supply side, the debate ranges over finding new energy suppliers in the Caspian region, the Middle East and Africa, and improving interconnectivity within the EU itself.

Fresh investment in fossil fuel infrastructure, such as gas, drains possible EU backing for efficiency from, for example, the Juncker investment plan.

Campaigners explain that if one accepts efficiency as an energy source, then the argument could be made that EU's building stock be classified as infrastructure for investment purposes. That could allow private investors to benefit from a lighter regulatory touch if they chose to invest in renovation.

But, according to environmental activists, the Ukraine crisis has led to policymakers concentrating too much on gas infrastructure, ignoring the fact gas demand is predicted to drop in the future. That will

lead to stranded pipelines, they warn,

The situation in Ukraine remains highly volatile after the annexation of Crimea, the shooting down of the Malaysia Airlines flight by Russian-backed separatists, and EU sanctions on Russia.

The Minsk ceasefire was only struck last month but remains fragile. In such a context, it's understandable that EU leaders' attention is drawn away from the relatively staid question of renovating buildings.

That was highlighted last week by the omission of energy efficiency from the draft agenda for the 19-20 March meeting of EU leaders in Brussels.

The document, circulated by the European Council secretariat to member states, focused on responses to Russia and to climate change.

Council President Donald Tusk spearheaded the idea of Energy Union, when he was Poland's prime minister. Given Poland's relationship with Russia, and fossil fuel industry, it's not surprising green groups leapt on the omission.

But it also gives a concrete example, early on in the process, of how energy efficiency in buildings, and in general, can easily drop down policymakers' priorities.

EurActiv understands that, at the meeting of EU energy ministers, 11 member states – and the Commission – pushed for efficiency to be included in the conclusions of the 19 March summit. They were Germany, Sweden, Denmark, France, Belgium, Greece, Spain, Luxembourg, Netherlands, the United Kingdom and Czech Republic.

The next iteration of the conclusions, which will ultimately be agreed by the heads of state and government, may reflect that desire or, at the very least, include stronger language supporting the efficiency dimension.

Climate

Climate change and diplomacy is also high on the political agenda. That is of crucial importance in the run-up to the UN Climate Change Conference in Paris in December. The conference aims to set a legally binding target of keeping global warming below two degrees.

In October last year, EU leaders agreed a legally binding target of 40% reduction of greenhouse gas emissions, compared to 1990 levels. But they were only able to agree an EU-wide target of 27% for energy efficiency. That goal is also non-binding at national level.

That raises questions about how such a goal is to be reached or enforced.

"In 2015 and 2016, the Commission will review all relevant energy efficiency legislation and will propose revisions, where needed, to underpin the 2030 target," the Energy Union blueprint states.

The 2030 climate and energy targets are a signal of intent before Paris. It is only after Paris that work will begin on deciding how the governance framework will work, and start drafting EU legislation.

EU energy ministers were united in demanding an energy governance framework, Cańete said last week.

But in practice, it is likely to be a fractious process with member states guarding their authority over their energy mix and policy. That has already been demonstrated by the inability to agree national level binding targets.

One idea, from the renewables industry, is to have a tendering process to allow the EU to hit its EU-wide 27% target, even if individual member states don't hit their 27% at national level.

In the case of a percentage shortfall at EU level, the difference would be put out to tender, with companies - a Spanish windfarm for example - bidding to make it up.

Such a framework could be put in place but EurActiv understands it is at the very earliest stage of consideration at the Commission.

Last week's Energy Union proposals raised many questions. It is, after all, just the first step in what is a hugely ambitious project.

This special report will focus on energy efficiency's role in the new Energy Union, with a particular focus on the role of existing buildings and their renovation.

Katainen: Private sector will decide if EU money goes to energy efficiency

The European Union will not ringfence funds from the Juncker plan to pay for renovation projects to boost the energy efficiency of buildings, the Commission Vice-President in charge of the €315 billion investment package told EurActiv yesterday (9 March).



Jyrki Katainen, responsible for jobs, growth, investment and competitiveness, said it was up to the private sector to choose which projects got the cash.

Public money from the Juncker plan will act as risk guarantees on the projects, to entice private investors.

Building sector industries had called for investment plan money to be earmarked for renovating buildings, after the publication Tuesday (9 March) of a report by Copenhagen Economics, a consultancy.

The report said that deep renovation



projects would deliver returns for investors, help the EU hit efficiency targets and create jobs and growth. "Shovel ready" investments with a quick roll-out and high rate of return on societal benefits should be prioritised, it said.

"Energy efficiency is one of the Commission's key priorities," Katainen said, "and that's why I expect there will be energy efficiency projects. But it's up to the private sector to apply or establish those projects."

However, a national or regional platform concentrating on energy investment could apply for resources for efficiency from the European Fund for Strategic Investments (EFSI), Katainen said at a press conference in Brussels.

That could then be channelled to efficiency projects such as smart grids, he added. Smart grids use digital technology to improve the efficiency and reliability of electricity supply.

Katainen had earlier met EU finance ministers, who agreed on the regulation to set up the EFSI. The EFSI is the legislation which will distribute the €21 billion euros of public money that – it is hoped – will leverage at least €315 billion of private investment over the next three years.

Economics report

Deep building renovation projects respond more effectively and cost-efficiently

to the key operational objectives of the EFSI, the Copenhagen Economics report states.

"The EFSI aims to give priority to projects that boost short and medium-term activity while providing high returns to society," said Adrian Joyce, secretary general of EuroAce and Renovate Europe campaign director. "This report shows that building renovation can respond very effectively to all these requirements"

Jan te Bos, director general of the European Insulation Manufacturers Association (EURIMA), said the research and experience showed that deep renovation of buildings are fully adapted to the main EU priorities.

"They reduce greenhouse gas emissions and import dependence, and provide great returns in terms of growth and jobs, as recognised in the recently adopted Energy Union strategy," he said.

"The EU institutions must follow suit by ring-fencing a sub-fund in the EFSI, which would be devoted to investments on large, deep renovation programmes," he added.

Bertrand Cazes, secretary general of Glass for Europe, an industry association, added, "Building renovation projects should be given high priority if we take our building stock as an essential part of our energy infrastructure."

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Šefčovič: 'huge opportunity' in buldings efficiency

Speaking at a European Policy Centre event last week, Commission Vice-President Maroš Šefčovič said that part of the Juncker investment plan should go to energy efficiency in buildings.

About 29% of the projects proposed by Member States for package funding were for energy infrastructure, which was underinvested as a result of the crisis, he said.

He said, "Only 10% of our buildings are energy efficient so there is a huge opportunity for us to save, investors to invest, and for our apartment owners, households, and administrative bodies to save a lot of energy if we invest in the technology available on market."

Šefčovič said that the Energy Union, the EU's initiative to bolster its resilience to shortages, would also play a role in incentivising investment.

"I had a meeting with the representatives of pension funds, which are ready, and willing, and interested in investing in energy efficiency projects," he said. "They proudly told me that they are representing assets of nine trillion euros."

"What they need is the help on how to prepare these kinds of projects, how to package them for institutional long-term investors and how to guarantee the regulatory stability which is always important for these types of projects," he added.

Šefčovič said the review of EU energy efficiency regulation – part of the project's roadmap – would give investors the certainty they need.

The Energy Union's Smart Financing for Smart Buildings initiative would also make it easier for actors to access existing EU funding instruments.

The creation of an investment advisory hub, under the Juncker investment plan, would also help renovation projects get EU funds, he said. The hub will be a single portal for investors, public authorities and project promoters to get advice and technical support.

EuroAce: Energy Union should push EU efficiency laws

The recognition in the Energy Union of the importance of improving energy efficiency in the EU's building stock is welcome. But unless existing measures are properly implemented by national governments, the multiple benefits of renovation will not be exploited to the full, Céline Carrétold EurActiv.



Céline Carré is vice-president of EuroAce, the Alliance of Companies for Energy Efficiency in Buildings. She spoke to deputy news editor James Crisp.

What does EuroAce think of the Energy Union communication?

For EuroAce, it is a good first step forward. The wording on energy efficiency reflects what we've been calling for. The concept is there and that has been shown by [Energy and Climate Action] Commissioner Miguel Arias Cañete's words afterwards.

We've been calling for energy efficiency to be treated as a source of energy in its own right, and that is the direction the Energy Union is going towards.

You were pushing for the executive to include the words "efficiency first" in the final document. Instead, it says member states should give energy efficiency "primary consideration" in their national policies.

That's part of the picture of what we were calling for. But the question is now how this will be implemented. How are we going to bring this concept to life? How do you ensure that energy efficiency can compete with capacity?

We are also calling for the prioritisation of buildings, compared to what we have on table on the 2030 targets. There is a legally-binding 40% reduction target for greenhouse gases, but non-legally binding national targets of 27% for renewables and 27% for energy efficiency, the latter being coupled with the request from the member states to the Commission to work on priority sectors.

We welcome the recognition of the need to do something on buildings and the multiple benefits of doing so. There is enormous wastage in buildings not performing efficiently.

There's a good level of consideration at which level things can change. I agree this will be at national, regional, and local level.

And there's recognition of the need to do work on finance and to come up with good models, for example an "off-the-shelf financing template", the Smart Financing for Smart Buildings" initiative for building renovation.

The important thing is that buildings are looked at first, and given priority. That applies to public, residential and commercial buildings, although different strategies are needed for each segment of the building stock.

That will take money...

This should be considered alongside the Juncker investment plan. What sort of

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governance matrix and criteria for assessing different projects will there be? The criteria should reflect the importance of energy efficiency in building, so they can be funded by the package.

Let me give you a very concrete example: the time it takes to get a project running and implemented. It's usual with infrastructure to take a long time, 13-15 years.

By contrast, building renovation projects can be deployed more quickly, in less than two to three years, with immediate benefits for both society and individuals.

The construction sector in Europe is only just recovering. So now it's a good time to give that sector a boost in job creation.

But how can this be delivered? Presumably there needs to some governance, and behind that, some teeth.

That's a missing element. It's all very nice to say things will happen at national, regional and local level. Yet we are still looking for encouragement and a clear vision at EU level on what the building sector should deliver.

What's missing in the Energy Union communication is the link to Article 4 of the Energy Efficiency Directive. That is a missed opportunity.

[The European Union's Energy Efficiency Directive in late 2012 was expected to trigger the largest revamp of Europe's existing building stock to date. Under article 4 of the directive, countries are obliged to publish national renovation strategies. Some member states are not complying with the directive's requirements.]

Under Article 4, countries are obliged to publish national renovation strategies. The plans are needed to drive investment in renovation and to provide visibility to all actors.

Some member states have taken the opportunity to publish their strategies, to show where they want their building stock to aim for, but most have not seized that opportunity. And some of member states have published their strategies, but did not

properly consult with stakeholders.

Boosting building renovation faces multiple barrier issues so it needs multiple solutions, which require good coordination to move things forward. So you need to coordinate national renovation strategies.

What can policymakers do to remedy that?

Thanks to all of the available modern technologies, buildings' energy demands can be cut by 80%. But in order for that to happen, there needs to be an effective regulatory and legislative framework in place.

The second version of the renovation roadmap is due in 2017. We would like a more ambitious vision with proper consultation with stakeholders.

There's a lot to be done in existing EU legislation but implementation has been poor. If it was implemented properly, we would have been in a much better starting place.

On renovation in general, and in particular on long term strategies, there has to be more exchange of best practices, understanding which conditions are prevailing in different areas or countries, and which success factors make renovation policies work.

Policymakers need to identify what makes implementation of building legislation stable over time, and make that more visible to all the actors involved.

One of the big challenges is that building renovation is dependent on what each new national government scheme wants to do. Each scheme will have its goals or policy instruments, where more consistency is needed.

In the absence of long term goals for renovation, there is often not enough consensus through the different majorities. There has to be more stability and more vision. As a result, national government schemes are not consistent enough to drive change over time. You need to know that the priority level for efficiency is going to stay in place for investor certainty and to engage people.

New EU legislation needs to be encouraged and the review and implementation of the Energy Efficiency Directive will be very important when it comes to our existing buildings.

Do EU policymakers consider the building stock as infrastructure?

This depends what you call infrastructure. There is understanding that we need to more towards more an efficient energy system, and that buildings have to be part of it. Energy efficiency in buildings should be placed on an equal footing with other projects.

But whether it is classified as infrastructure could have an impact on investment. Infrastructure, as a long term investment, is expected to benefit from a more favourable regulatory treatment to incentive private backing of the projects...

Quite likely. We've been trying to draw parallels to the UK, where energy efficiency in buildings is being increasingly considered part of the infrastructure debate.

There is now a much better understanding of the multiple benefits of energy efficiency, thanks to numerous studies among which those by Renovate Europe, the International Energy Agency and others.

What's clear is that energy efficiency's benefits exceed just the energy savings themselves. But the link has to be made operational between the multiple benefits that building renovation brings and to other projects, such as the Energy Union and the Juncker Plan.

How is this going to be paid for?

It will be a combination of public money and private investors. We hear everywhere that the money is there.

The greater the visibility on what works, and the long-term goals in terms of efficiency, the more likely it will be that private investors will be willing to engage.

That's somewhere where the European Commission can play a central role, especially in terms of buildings. Because we are not there yet.

Energy efficiency investment must increase five-fold, warns report

Private investment in energyefficient buildings renovation must increase five-fold by 2030, according to a group set up by the European Commission and the United Nations Environment Programme (UNEP) Finance Initiative.

The Energy Efficiency Financial Institutions Group (EEFIG) called for a "historic level of public-private collaboration" to bridge the funding gap for energy savings projects.

The EEFIG is a platform involving the financial sector, EU policymakers, the International Energy Agency and other business and efficiency experts.

The lack of public and private money for buildings, industry and SMEs, meant that EU countries risked missing efficiency targets for 2020 and beyond, the group's report, Energy Efficiency – the first fuel for the EU Economy, said.

Regulation setting the levels of capital financial institutions like banks must hold against risk should correctly reflect the lower risk of long-term efficiency investments, it recommended.

The European Commission has signalled it may be willing to look at risk calibrations in the Capital Requirements Directive for banks, to encourage lending and investment. The comments were made in the context of safer securitisation instruments championed in the Commission proposal for Capital Markets Union.

New prudential regulation, such as the Solvency II capital law for insurers,



should not prejudice those investments either, the report said.

How to include energy efficiency and energy costs in mortgage affordability calculations should also be investigated, to expand the green mortgage market, it continued. Common standards and procedures for both debt and equity investment in energy efficiency and building renovation projects should also be developed.

Targets

The EU has committed to cut its energy consumption by 20% by the end of the decade. The European Commission had called for an efficiency goal of 30% by 2030. That was reduced to 27% across the EU.

The EU level target is not legally binding at the national level or EU level and will be reviewed in 2020 "having in mind" a 30% EU-level target, according to the deal struck by EU leaders at a summit last October.

"Only half of the estimated €60 – 100 billion annual investment required to achieve Europe's 2020 energy efficiency targets in buildings is being met," said Achim Steiner, under secretary-general of

the UN and UNEP executive director.

Bolstering energy efficiency is one of the dimensions of the Energy Union project, designed to strengthen the bloc's resilience to shortages. The project was given political impetus by the Ukraine Crisis, which exposed the EU's dependence on Russian gas imports.

Launched on 25 February, the Commission's Energy Union communication stressed the importance of saving energy in buildings. Meeting Europe's full efficiency potential would cut gas imports by 40% over the next fifteen years, according to Commission analysis.

But experts are divided on whether the Energy Union proposals are strong enough to drive forward efficiency measures, and in particular the renovation of existing buildings, which is the most challenging.

Most cost-effective

The EEFIG report, which took 16 months to write, said that energy efficiency investment is the most cost effective manner to reduce reliance on

imports. The EU spends over €400 billion a year on imports.

Energy efficiency should be viewed as "the first fuel". "It is competitive, cost-effective to produce, widely available and delIvers multiple benefits to project hosts and national economies," the report said.

The multiple benefits include better energy security, greenhouse gas reduction, job creation, and health.

EEFIG rapporteur Peter Sweatman said the report made a strong case for using public funds blended with private sector investment to achieve the scale of financing needed.

Smart financial instruments were needed, according to the report, and have to be tailored by sector to encourage reduction of energy use.

The Commission has already moved to trial two such blended instruments, the Private Finance for Energy Efficiency and Natural Capital Financing Facility. They combine European Investment Bank loans with financing under the EU LIFE Programme for Environment and Climate Action to encourage and leverage private sector investment.

At the launch, Climate Action and Energy Commissioner Miguel Cañete said Energy Union would be built on public guarantees for private investment across the five pillars of the planned Energy Union - energy security, renewables, energy efficiency, internal energy market, and research and innovation.

Maroš Šefčovič, the Vice-President in charge of Energy Union, confirmed the Commission would develop new financial instruments to promote the retrofitting of buildings with the European Investment Bank and other financial institutions.

"We will try with this double approach. Better regulation, but at same time financial incentives for starting what I hope will become a European movement for efficiency in our buildings," he said after

last week's meeting of EU energy ministers.

The Smart Financing for Smart Buildings initiative will also increase access to existing financial instruments for efficiency, he said.

Juncker plan

The Juncker investment plan is the highest profile example of this blended approach. It will use €21 billion of public money to leverage at least €315 billion in private investment, according to the Commission.

The EEFIG called for energy efficiency projects to be given priority in the deployment of Juncker plan money. But, on Wednesday (11 March), Jyrki Katainen, the Commission Vice-President in charge of the €315 billion investment package, said the private sector would choose which projects to invest in.

They would be the projects that got funding, he said.

Brussels toughens up on policing EU energy efficiency laws

EU leaders will discuss strengthening the enforcement of existing energy laws at their 19 March summit, after the European Commission signalled it would toughen its policing of efficiency rules by launching infringement procedures against recalcitrant EU member states.

The European Commission was on track to launch infringement procedures against member states that have not properly



implemented EU energy efficiency law, Energy and Climate Action Commissioner Miguel Arias Cañete told EurActiv.

Draft conclusions for the European Council in Brussels, seen by EurActiv, have efficiency laws on the agenda for the heads of state and government, as part of discussions over the new Energy Union.

The draft, dated 9 March, represents a

shift from an earlier leaked paper. Guidelines for the conclusions were circulated by the Council secretariat, to sketch out subjects for the talks. But the guidelines did not mention energy efficiency at all, and only mentioned renewables in the context of cutting national support schemes.

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Efficiency and renewables have a much stronger presence in the new draft, suggesting Council officials had reacted to feedback from the European Commission and EU energy ministers at a Council of the EU meeting last week.

"One of the things we are doing [...] and was asked by Member States to do, is to implement fully the Third Energy Package before coming up with new legislation," Cañete said after the Council of Ministers meeting.

Dana Reizniece-Ozola, Latvia's Minister of the Economy, who chaired the meeting, said, "Many of my colleagues concurred with the call for the Commission to put efficiency first."

New draft conclusions

As well as "fully implementing and rigorously enforcing" existing laws, reviewing energy efficiency and renewables legislation to ensure the EU hits the 2030 Climate and Energy targets will be on the EU leaders' schedule.

Plans to overhaul the EU's electricity market were due to be discussed. But now the document states that the overhaul must help integrate renewables.

The measures are outlined in the Energy Union communication, launched on 25 February. It is the EU's strategy to bolster its resilience to shortages and lesson its dependence on Russian gas. How the governance of the Energy Union will work is one of the key questions policymakers must answer.

Yesterday in Strasbourg (11 March), MEPs raised concerns about the lack of efficiency on the earlier paper during an Energy Union debate.

Belgian Socialist Kathleen Van Brempt said she wanted it to be discussed by EU leaders. "We'd like to emphasise the importance of energy efficiency," she said.

"40% of the EU's energy demand is in buildings, and much of that is from gas heating. Better insulation can be Europe's secret weapon against dependency on Russian gas supplies," said Brook Riley, a campaigner with Friends of the Earth Europe.

Highly inefficient

75% of the EU's building stock is highly inefficient, said Cañete last week. "This is a clear area where the possibilities are enormous," he added.

Despite that, the Energy Efficiency Directive, and articles related to the performance of buildings, were areas where member states were more at risk of infringement than others, he said.

EU countries have primary responsibility for the correct and timely application of EU Treaties and legislation, and the Commission monitors the application of Union law. If no solution can be found at an early stage, the Commission can open formal infringement proceedings and eventually refer the Member State to the European Court of Justice.

"The Commission is on track at the moment to launch all infringement procedures against all the Member States who have not applied the regulation in many areas - but mainly in energy efficiency," Cañete said.

Asked after the press conference which states in particular were in the firing line, Cañete told EurActiv any country not properly implementing the laws would be targeted.

The Commission will adopt its next monthly infringement package on Thursday, 26 March. The executive would not reveal whether any more procedures were planned.

Maroš Šefčovič, the Vice-President in charge of Energy Union, said tougher action would be coupled with financial incentives to launch a European movement for efficiency in EU buildings.

"We would like not only to regulate," he said, "but incentivise."

The Commission would develop new financial instruments to promote the retrofitting of buildings with the European Investment Bank and other financial institutions, he said.

"So we will try with this double approach. Better regulation, but at same time financial incentives for starting what I hope will become a European movement for efficiency in our buildings," he added.

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