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COMMENTS ON THE ENERGY EFFICIENCY PLAN 2011

Executive Summary

BUSINESSEUROPE welcomes publication of the Energy Efficiency Plan 2011. Its success will depend mainly on the ability to find the right balance between measures taken at European level and the need to ensure that member states have sufficient flexibility to pursue the actions they are already deploying.

Public sector as a frontrunner

Public authorities must indeed commit strongly to implementing measures to improve energy efficiency. This must entail ambitious targets for renovation of the public building stock, notably through greater use of market instruments such as the energy performance contract. More uniform use of the European framework for “green” public procurement policies will also have a key role to play.

Low-energy buildings

Buildings account for 40% of Europe’s energy consumption. Looking beyond public buildings, renovation of the European building stock is unquestionably a major project for the decades ahead. The Energy Efficiency Plan 2011 rightly identifies improvement of heating and cooling systems, training of qualified craftsmen and development of energy service companies as levers with powerful potential.

Energy efficient industry

Extreme vigilance is required to avoid placing fresh constraints on industry when numerous European laws and national initiatives are already in place. In particular, a mandatory energy audit for large companies would very likely place a question mark over a number of existing voluntary long-term agreements in numerous member states. Although it offers interesting prospects, development of co-generation and schemes of national energy saving obligations must meet a number of strict criteria.

Financing energy efficiency

The next multi-annual financial framework will have to earmark a larger envelope for financing actions linked to improved energy efficiency. However, the scale of the necessary investments is such that much more than this will be needed in order to release available private capital.

Consumer choice

The Energy Efficiency Plan 2011 rightly targets the use of the eco-design and energy labelling directives as well as development of smart grid technologies. Better information to consumers on their energy use and the energy performance of the equipment they purchase will play a central role in encouraging markets to develop.

Sustainable transport

The further development of sustainable and safe transport requires a blend of initiatives to work in combination with each other, in particular the completion of the internal market, the development of modern infrastructures, the support to innovation and the promotion of co-modality.



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Introduction

Implementing energy efficiency measures is the crucial step towards addressing climate, energy security and competitiveness challenges cost-effectively. Therefore, BUSINESSEUROPE supports the Commission efforts and welcomes publication of the Energy Efficiency Plan 2011, which must serve as a catalyst for reaching the target of improving energy efficiency by 20% to the horizon 2020.

Industry has been at the forefront of efforts in the EU to enhance energy efficiency. By reducing its energy intensity by 30% over 20 years, manufacturing industry has made more progress than all other sectors of the European economy.

The proposed Energy Efficiency Plan 2011 rightly addresses all the various stages in the energy supply chain from generation to end-use and places great emphasis on buildings. Buildings account for 40% of Europe's energy consumption. As such, concrete and ambitious action to tackle unnecessary energy use in the EU's building stock is key.

The Energy Efficiency Plan 2011 contains a set of concrete policy actions, which the Commission proposes to implement in the coming years. These proposals need to be carefully scrutinised to ensure smart and supportive energy efficiency policies across all sections of society. In particular, it is crucial to allow Member States the flexibility they need to introduce measures, which are the most appropriate and cost-effective for their domestic context. Such flexibility will help to avoid unhelpful and costly duplication of domestic requirements. On several key proposals, BUSINESSEUROPE would like to contribute with the following comments.

For reasons of clarity, the position paper follows the structure of the Energy Efficiency Plan 2011.

Public sector as a frontrunner

Public authorities certainly have a role to play in promoting energy efficiency, leading by example and opening up new markets by creating demand for efficient products, services and works. BUSINESSEUROPE supports the ambition whereby the public sector acts as a frontrunner when it comes to refurbishment of public buildings and public procurement.

Refurbishment of public buildings

Retrofitting is one of the most cost-effective methods to improve the energy efficiency of buildings and many Member States are already employing it as a means to achieve their 20% energy efficiency target. However, as the Energy Efficiency Plan 2011 rightly says, it is imperative that a full and thorough impact assessment is undertaken on the proposed **3% annual renovation target of public buildings** with a view to assessing the situation in each Member State and thereby avoid duplication. In order to reach the



best long-term solution both economically and environmentally renovations will have to include the building, technical installations, inside equipment and also take the surrounding energy system into account.

The experience gained in some Member States with instruments such as **energy performance contracting** for the renovation of public buildings can be useful on a wider scale. Greater clarity on its definition and contract modalities would certainly support its dissemination across Europe. Its use may however not always be sufficient as energy efficiency measures cannot systematically cover refurbishment costs (especially when targeting highly ambitious levels such as the best 10% of national building stock). In such cases, energy performance contracting can still be used as a catalyst for the overall cost-effectiveness of more conventional building upgrades.

“Green” public procurement

Public procurement practices offer many opportunities to incentivise the market for energy efficient products, services and works. In addition to the specific references made in the 2004 public procurement directives on integrating environmental considerations (such as energy efficiency) in tender documents, the Commission has also taken a series of practical steps to facilitate the inclusion of environmental aspects in public procurement¹.

Sector specific laws at EU level also define energy efficiency criteria for procurement practices in certain specific sectors such as vehicles, buildings or appliances.

In order that contracting authorities make the best use of these policy instruments, additional training and exchange of best practices as well as devoted tools will be required. Intensified monitoring of the uptake on green public procurement practices in the Member States will help to benchmark.

The Energy Efficiency Plan 2011 proposes that high **energy efficiency standards** should systematically be applied when public authorities purchase goods, services and works. While more uniform application of energy efficiency criteria across Europe would help to stimulate markets and give companies legal certainty, caution is necessary as the development of such criteria is complex and a series of general principles need to be fully respected, such as:

- Criteria must be objective, science-based, verifiable and not too prescriptive.
- There should be an economic rationale behind them, taking into account the whole lifecycle of a product or work.
- National and sectoral market specificities must be taken into account.
- Criteria must be developed and updated together with industry in transparent processes.

¹ E.g. a Buying Green Handbook was published in 2004 explaining in concrete terms how environmental considerations can be integrated into public procurement procedures; A GPP Helpdesk has been set up to promote and disseminate information about GPP; Common GPP criteria have been developed for 18 product and service groups in different sectors (construction, textiles, office IT equipment, etc.)



The question on whether or not the 2004 public procurement directives should be adapted needs to be cautiously assessed. These directives provide an open, transparent and fair legal framework where, for instance, energy efficiency requirements for goods, services or works can already be pursued. In the context of the on-going consultation on the green paper on the modernisation of EU public procurement policy – Towards a more efficient European Procurement Market, BUSINESSEUROPE intends to provide more detailed views.

Low-energy buildings

Reducing energy consumption in the building stock has been shown to represent the most cost-effective way of achieving the 20% energy efficiency target. Therefore, BUSINESSEUROPE welcomes the focus of the Energy Efficiency Plan 2011 on buildings as the market needs an ambitious drive to provide the necessary regulatory and financial incentives to meet the challenge of retrofitting existing buildings and ensuring progress is made towards zero energy new buildings.

Beyond considering an annual 3% renovation target of public buildings and a proper implementation of the Energy Performance of Buildings directive, the Energy Efficiency Plan 2011 rightly defines a number of priority areas for action, such as:

- the **heating (and cooling) sector**. Heat is the major end-use of energy in the EU and cooling demand is also set to grow significantly over the coming decades. With increased use of district heating a lot of the energy wasted today could be distributed to end-users. Wide-scale and deep renovation programmes of the building stock will be needed to improve the energy performance.
- the need to overcome the **landlord-tenant dilemma**.
- the need for fostering a **skilled workforce** in energy efficiency techniques. EU actions on the identification of best practices examples of courses and curricula as well as on facilitating the mutual recognition of qualifications would bring added value.
- the development of **Energy Service Companies** and energy performance contracting is desirable as market-based instruments to carry-out building renovation. Access to financing should be properly tackled, especially in a time of public budget constraints and stricter access to investment capital.

Energy efficient industry

At EU level, a dense and effective regulatory framework is already in place. EU rules such as the EU Emissions Trading Scheme, the Industrial Emissions Directive or product policies (eco-design and energy labelling directives) have already driven and will continue to drive further energy efficiency improvements in industry across Europe. The risk of multiple layers of regulation and additional burden should therefore be carefully assessed. The EU policy framework can however still be optimised in order to incentivise further actions.



The development of a **market for energy efficiency services** is a driver for energy efficiency improvements and offer new business opportunities. While various policy and measures at national and EU level have already impacted the demand for energy services, it can be further incentivised, through both supply- and demand-side measures.

Supply-side measures

In the energy supply sector, the EU Emissions Trading Scheme is a strong and good instrument for promoting energy efficiency, covering almost all electricity and heat generation installations across Europe. In addition, the liberalisation of the power market is creating a competitive environment that, combined with forecasts of growing energy demand and limited spatial planning, de facto fosters investments in more efficient electricity and heat generators.

The Energy Efficiency Plan 2011 correctly targets **Combined Heat and Power (CHP)** and **district heating and cooling** as areas, which can significantly improve the efficiency of power generation. CHP for example offers energy savings ranging between 15-40% when compared with the supply of power and heat from conventional power stations and boilers. However, the proposal to make authorisation for new thermal power generation conditional on its being combined with systems allowing the heat to be used, should be based on a number of economic and technical criteria:

- It should apply where it is socio-economically viable as CHP might not always be the optimal choice.
- Extra costs should be fairly divided between the cost of heat and the cost of power.
- Existing and future heat and power demand/supply should also be carefully investigated.

In some Member States, the proposed **priority grid access** for power from CHP is helping to boost more efficient energy generation and support its initial penetration. As the technology gains market momentum the impacts of priority grid access on market dynamics should be periodically reviewed.

The proposal for **national energy saving obligation scheme** formulated in the Energy Efficiency Plan 2011 needs to be clarified and thoroughly assessed. The national experiences should be carefully analysed and compared before proposing EU-wide initiatives. EU initiatives should be consistent with existing measures, deliver added value, and be cost-effective.

Demand-side measures

Demand-side measures will have to be developed further. End-users (individuals, companies and authorities) will be the ones who will ultimately need to take action by buying energy efficiency services. Customised information campaigns and integration of energy efficiency in educational curriculum, combined with supportive policy measures (public procurement practices, eco-design, etc.) and public funding in case of market failure will encourage take-up of energy efficiency services.



Large companies recognise and already widely apply energy audits or energy management systems as useful tools to monitor energy consumption. In many cases, they are part of national voluntary and long-term agreements (see list in annex) that yield increases in energy efficiency in line with national targets.

Mandatory energy audits would run counter to the creation of these types of agreements for which it is vital to grant Member States discretion in modelling their incentive schemes. In addition mandatory energy audits may cause such politically sensitive agreements to be abandoned or renegotiated. Therefore, in Member States where such agreements are a viable option, large companies should be granted the same opportunity as SMEs to improve voluntarily. They should not be burdened with additional legislation leading to bureaucracy and costs.

While a more comprehensive and robust analysis of its impacts is needed², the **eco-design directive** has already achieved positive results to promote energy efficiency and provides businesses with the confidence to invest. As regards the further implementation of the directive, the decision as to whether or not to add new product categories (cf. working plan 2012 – 2014) must be based on in-depth cost-benefit analysis and impact assessment. As the Energy Efficiency Plan 2011 rightly says, the potential of **voluntary agreements** should be explored as it provides an effective and flexible approach to promote improvements in energy efficiency as compared with obligations.

Two issues on the eco-design directive require particular attention:

- A number of requirements in the directive³ must be duly taken into account when considering applying it for **industrial processes or systems**. Unlike a fridge or a household washing machine an industrial plant or process is not necessarily placed on the market by one manufacturer who could be held responsible for the whole plant/process. It should therefore be carefully assessed if the eco-design directive and the underlying methodology are appropriate instruments to regulate industrial processes and systems. Furthermore it must not be forgotten that industrial process-related legislation already exists (e.g. the Industrial Emissions Directive)
- The current use of **2.5 as the conversion factor** from electricity to primary energy in the preparation of some implementing measures (boilers, water heaters) raises questions. It is hardly compatible with the energy mix in some European countries and may make some electric appliances unusable. This would undermine the objectives of a low-carbon economy, particularly on reducing greenhouse gas emissions and on the promotion of renewable energy sources.

² On-going Commission study aimed at reviewing and assessing the effectiveness of the eco-design directive and its implementing measures: http://cses.co.uk/ecodesign_evaluation

³ e.g. Article 1 of the eco-design directive requires products to be placed on the market. Consequently, the directive can only be implemented if the product regulated is placed on the market by a manufacturer who is responsible for the whole product. Furthermore, the directive foresees certain criteria in its article 15 such as a market volume of 200 000 units/year.



Financing energy efficiency

The private sector will substantially drive the development of energy efficient technologies, products or services. Access to financing will be essential, especially in a time of public budget constraints and stricter access to investment capital. In particular, it is important to put in place mechanisms, which unblock the large volume a capital at the level of third parties.

Given the sheer scale of investment needed the public sector must take a large share of the responsibility. BUSINESSEUROPE supports the attention paid on EU funding in the Energy Efficiency Plan 2011, but care must be taken not to direct resource into specific technologies too early, i.e. public support must avoid trying to pick a winner at an early stage.

Beyond available EU funding programmes (e.g. cohesion policy, the Intelligent Energy Europe Programme 2007-2013, the European Economic Recovery Programme, etc.), an enhanced envelope to energy efficiency and climate mitigation must be mobilised in the next **multi-annual financial framework**. The forthcoming EU budget should also contain measures to leverage investments opportunities in energy savings in all sectors of the economy, e.g. via European Investment Bank instruments or Public and Private Partnerships.

The Commission should also encourage national incentive schemes to grant subsidies or relief from taxation schemes, for example when businesses introduce energy management systems. Options to harmonise and centralise such schemes must be considered in order to avoid distortion of competition between member states.

Consumer choice

Better information towards end-users (individuals, companies and authorities) about their overall energy consumption patterns or the energy performance of individual products will contribute to driving the desired changes in the market. Information and awareness raising campaigns should support technological developments aimed at empowering consumers.

The recently revised **eco-design directive** and **energy-labelling directive** will strengthen energy-efficiency information towards consumers and help build public trust in energy efficiency claims. Their proper implementation, taking into account a full lifecycle thinking, will be decisive. The role of industrial stakeholders in the implementation process should be strengthened.

While the last revision of the two directives has improved the coherence between these two instruments, the time-lag for the next review stages (and possible revision) is problematic. The eco-design directive shall be reviewed no later than 2012, whereas the energy-labelling directive no later than December 2014. An alignment of the two review (and possible revision) processes should be considered.

Smart grids technologies will play a key role in ensuring real time information flows between consumers, large production plants and distributed generation units. BUSINESSEUROPE welcomes the focus on smart grids and invites the Commission to



put forward a communication on smart grids and smart metering. It is important that the communication not only encompasses electricity consumption, but also ties together intelligent solutions for gas, heating, electricity and transport. Moreover, building components and installations must be part of the smart grid solution.

Sustainable transport

BUSINESSEUROPE supports a more sustainable transport system and believes that improvements in all aspects of transport should be handled within the framework of a balanced approach taking into account economic, social and environmental dimensions.

The further development of sustainable and safe transport requires a blend of initiatives to work in combination with each other. In particular BUSINESSEUROPE supports:

- Completion of the internal market for transport and the removal of regulatory, administrative and technical barriers in all modes of transport;
- The need for a modern infrastructure, in particular the speeding up of the implementation of the Trans-European Transport Network (TEN-T) and the focus of EU funding on cross-border sections;
- Initiatives to support innovation to achieve cleaner transport;
- The promotion of co-modality using all modes efficiently and recognising that the various modes are complementary to each other.

Further details will be provided in BUSINESSEUROPE's upcoming response to the Commission's White Paper on Transport.

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ANNEX: Examples of voluntary and long-term agreements in EU Member States

The Netherlands: Dutch industry and VNO-NCW are committed to a national savings percentage of 2% annually, based on voluntary agreements with the non-ETS sector. Progress is independently monitored on a yearly basis. Since the start of the agreements in 1990, a yearly efficiency target of 2% on average has been reached. In the period 2006 – 2009, 8.5% progress in efficiency has been reached compared to 2005. This result is in line with the agreed national savings targets. For the ETS sector, VNO-NCW and the branch organisations of beer, chemicals, glass, paper, oil, steel, sugar and the government signed an energy efficiency voluntary agreement in October 2009. Monitoring results for 2010 are expected this year. On average the ETS companies in the Netherlands are already in the top 10% of most energy efficient companies globally.

Germany: Under the current system energy-intensive industries receive a tax deduction in return for a certain reduction in CO₂ emissions. The system's legal basis is Art. 17 par 1b of the current Energy Tax Directive. German industry has reduced its CO₂ emissions significantly. A revision of the present tax deduction model is due in 2012. One possible solution could be a new agreement based on the introduction of energy management systems.

UK: For large energy intensive sectors, Climate Change Agreements (CCAs) have successfully provided a voluntary carrot and stick policy. CCAs cover 52 sector associations and about 10,000 facilities. Participants receive up to a 65% reduction on Climate Change Levy (ensures that with discount companies still pay the EU minimum energy tax) if they audit and manage their energy use to reach voluntary carbon reduction targets. In 2010 CCAs created annual carbon savings of 11 MtCO₂, which is 21% greater than the UK Government anticipated in 2000. CCAs have therefore been one of the only policies that have overachieved emission reductions and have fostered important and useful sectoral cooperation on emission reduction efforts.

Since 1996 **Denmark** has used voluntary agreements on energy efficiency as an instrument to improve the energy efficiency in industry. The voluntary agreement scheme is closely integrated with the Green Tax Package, as companies which enter an agreement receive a rebate on the green taxes. The agreement system contains three essential elements the industry has to implement: 1) energy management 2) special investigations focusing on improving energy efficiency of the primary production 3) processes investments in projects improving the energy efficiency. Approximately 107 companies participate in the agreement. Only companies fulfilling certain criteria can participate. An evaluation of the Danish energy saving effort in 2008 concluded that the voluntary agreement scheme was the most cost effective energy savings measure of the existing policies.

Sweden: Swedish Programme for Energy Efficiency is a voluntary agreement with the energy intensive industry that started in 2005. The “carrot” is a tax relief from the minimum level of energy tax. The companies participating are covering 70% of the energy use in the energy-intensive industry and around 50% of the total energy use in Swedish industry. Participating companies has saved 5% of their electricity use compared to before during the first five-year period.



Finland: From as early as the 1990 long-term voluntary agreements have been used to promote energy efficiency in Finland. The present period of 2008-2016 covers about 50-60 % of Finnish energy use. There are specific action plans for business sector, municipal sector, oil sector, transport, housing properties, communities, agriculture, etc. The business sector means energy-intensive and the other industry, energy production, energy services and private services. For example, almost 100% of energy-intensive industries have joined the scheme. All these agreements are run by the responsible ministry together with the sectors they concern. The government subsidises energy audits, analyses and energy efficiency investments. The results are reported yearly, and they are steadily in the good level (9 TWh/a in 1997-2007; 1,4 TWh/a during 2008-2009).

Luxembourg: Industry runs a voluntary agreement with the Luxembourg government. In the last version of the agreement 2002-2010, companies consuming more than 500.000 GJ/year agreed to produce audits by independent bodies, including internal group audits by specialized teams (the latter applies to some bigger multinationals with internal energy audit teams). A new agreement for 2011-2017 will soon be signed wherein the same category of companies agree to produce new audits if they haven't already done so in the last two years. These audits have to be executed according to a scheme published in a national regulation on state aid for energy audits.

Belgium: Energy policy in industry is principally articulated around voluntary agreements known as sectoral agreements, benchmarking or audit covenants between regional authorities and industrial sectors. Taken together, these agreements cover a very large proportion (80 to 90%) of Belgian industry's energy consumption. Under the terms of these agreements, industrial sectors or companies directly commit to a target for improving their energy efficiency and their greenhouse gas emission performance to a given horizon (currently 2012 for the main industrial sectors). In return, regional public authorities undertake not to impose any additional energy and greenhouse gas emission regulation, be it at regional and/or federal level (fiscal aspects).