BUSINESSEUROPE

POSITION PAPER

9 September 2011

# BUSINESSEUROPE'S COMMENTS ON THE PROPOSAL FOR A DIRECTIVE ON ENERGY EFFICIENCY (COM(2011) 370)

## Executive Summary

BUSINESSEUROPE welcomes the publication of the Commission's proposal for a directive on energy efficiency. It tackles a central theme which has unfortunately received too little attention at European level in recent years.

This position paper puts forward a number of recommendations on how the proposal should be improved so that it can contribute to reaching the 20% energy efficiency objective and at the same time enhancing the competitiveness of the EU.

At this stage, BUSINESSEUROPE has identified the following key issues which can be categorised in three blocks:

Positive elements:

- The 3% renovation target for annual renovation of public buildings will underpin long-term investments.
- The encouragement for public authorities to purchase and use energy-efficient products and services.
- While the proposal merits adjustments, it rightly turns its attention to the potential of Combined Heat and Power (CHP).

Further action needed:

- Financing the renovation of private buildings will have to attract much more attention.
- A clear path to guarantee a good level of harmonisation on the methodology for measuring progress on energy efficiency.

Main concerns:

- Energy efficiency targets should be counted in relative (instead of absolute) terms to ensure it will not be a barrier to economic growth.
- Energy audits for large companies must continue to be voluntary.
- The energy efficiency obligation scheme (setting an annual 1.5% energy saving target) must be re-defined based on criteria such as early actions and potential for further cost-efficient improvements.
- Requirements on CHP and waste heat must not oblige companies to make uneconomic or inapplicable investments.
- The directive must not open the possibility to set aside a certain amount of ETS emission allowances.

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**BUSINESSEUROPE'S COMMENTS ON THE PROPOSAL FOR A DIRECTIVE ON ENERGY EFFICIENCY (COM(2011) 370)**

## Introduction

BUSINESSEUROPE welcomes the publication of the Commission's proposal for a directive on energy efficiency. This proposal places at the heart of debate a central theme which has unfortunately received too little attention at European level in recent years. Given the energy challenges that the EU will have to meet (e.g. increased energy prices, management of demand peaks, growth dynamic of renewable and grids, probable decommissioning of power generators, etc.), management of energy demand and hence energy efficiency will have to play a major role.

By bringing together supply-side and demand-side measures in a single directive, this legislative proposal rightly seeks to adopt an integrated approach to a European energy efficiency policy. While it is not covered by this directive, the contribution by the transport sector (co-modality, modern infrastructures, facilitating the penetration of more energy-efficient vehicles, etc.) will be essential to achieve the overall EU energy efficiency target.

The measures proposed in the directive need to be assessed against key criteria:

- Complementary to effective programmes and laws in Member States;
- Allow companies to apply cost-effective and economically feasible solutions;
- Do not lead to an excessive increase in administrative burden.
- Consistency with existing energy-climate, industrial and energy liberalisation policies in order to avoid possible negative impacts on market dynamics, upcoming investments and on the prices of energy.

BUSINESSEUROPE's comments on the Energy Efficiency Plan 2011 (April 2011) have set out some principles and have given initial views on the core elements of the proposed long-term policy. In the present paper, BUSINESSEUROPE assesses the way the Commission is proposing to transform into concrete EU-wide (binding) measures those core elements and, where appropriate, gives recommendations on how it should be improved so that it can meet its aims and at the same time improve the competitiveness of the EU economy.

## Common EU methodology and the 20% energy efficiency target

The draft directive deals only very superficially with the issue of a common methodology for measuring progress on energy efficiency. Yet this is a key tool for putting in place a coherent long-term European policy and for making a solid assessment of progress.

The question of defining the 20% target for energy efficiency is also linked in the first instance to the issue of methodology. Whereas most countries inside and outside

Europe (e.g. Japan, China) define energy efficiency as a function of energy intensity – the use of energy in relation to economic output indicators such as the GDP – it is difficult to understand why the EU persists in thinking in terms of absolute energy savings.

In addition, since member states can implement the directive at the earliest in 2013 (depending on the time required to reach an agreement with the Council and the European Parliament), an assessment of implementation of the measures and of progress made towards the 20% target by mid-2014 appears as premature.

BUSINESSEUROPE recommends:

- Rethink the definition of energy efficiency as energy intensity – the use of energy in relation to economic indicators such as GDP (article 3(1)).

- Clarify a path to be implemented by Member States, under the coordination of the European Commission, that would guarantee an appropriate degree of harmonisation on the calculation of energy efficiency improvements (article 3(1)).

- Review the appropriateness of setting the default Primary Energy Factor at 2.5 for electrical energy (annex IV).

- Postpone the date for the assessment of implementation of the directive and of progress made towards the 20% target in order to ensure a quality review process (article 3(2)).

**Renovation of buildings**

By confirming a 3% target for annual renovation of public buildings, the proposed directive underpins long-term investments in a sector where significant energy savings can be made in a cost-effective way. Over time, these renovations will enable a reduction in the energy bills for public buildings. However, it is necessary to take into account the budgetary constraints which many Member States are currently facing and their impacts on future allocation of public resources.

Financing the renovation of private buildings will have to attract much more attention as it is not properly tackled yet. It is promising to see that the Commission proposal for the EU Multiannual Financial Framework 2014-2020 identifies the renovation of buildings as an area where the EU budget can bring strong added-value by leveraging private capital.

EU financial instruments, complemented by adequate national measures such as fiscal incentives, will have to play a prominent role to trigger new investments in the buildings renovation.

BUSINESSEUROPE recommends:

- Ensure that national and local administrations have sufficient leeway to implement the 3% target for annual renovation of public buildings (article 4).

- The Commission should present, by 2013, proposals to solve the owner and tenant dilemma on the one hand, and address administrative and accounting barriers in Member States' budgets which prevent them from planning long-term financial savings further to investments in energy efficiency measures (article 15).

**Public purchasing of products, services and buildings**

Overall, the proposal offers a balanced framework for encouraging public authorities to buy products with a good energy performance while keeping an eye on the economic viability of the efficiency criteria and ensuring the existence of a competitive market. However, this balance is not maintained for products covered by the eco-design directive (Annex III (b)) and by the tyre labelling regulation (Annex III(d)).

A 'life-cycle costing' approach ensures that all costs incurring during the lifetime of the relevant products or services (i.e. procuring, owning and disposing) are properly assessed in the purchasing decision. It is a decisive parameter when considering purchase of energy efficient products and services, which is missing from the Commission proposal.

BUSINESSEUROPE recommends:

- Harmonise the provisions relating to products covered by the energy labelling directive (Annex III (a)) and the provisions relating to products covered by the eco-design directive and by the tyre labelling regulation (annex III (b) and (d)) to ensure, in both cases, the economic viability and the existence of a competitive market for public purchases.

- Encourage an assessment of the cost-effectiveness of products and services throughout their entire life-cycle (Art. 5 and Annex III).

**Energy audits for large companies**

Large companies, for which energy is a major part of operating costs, recognise and already widely apply energy audits or energy management systems as essential tools to monitor and to optimise energy consumption. In many cases, they are part of national voluntary and long-term agreements that yield increases in energy efficiency in line with national targets.

BUSINESSEUROPE remains concerned by the proposal to impose mandatory energy audits on large companies which would not add value to many of them and could run counter to the creation and/or the renewal of national agreements. To ensure flexibility and an optimal outcome, it is vital to grant Member States a certain level of discretion in modelling their national schemes, instead of imposing certain types of measure.

The acceptance of 'in-house' experts to perform the audits is welcomed as it leaves companies room for discretion on how to carry them out. It should be up to companies to decide what suits their specific needs – to make use of their company-own expertise or to recourse to independent external consultants.

BUSINESSEUROPE recommends:

- Ensure that energy audits for large companies are not obliged by EU legislation in order to leave Member States which so wish room for manoeuvre to include them as part of wider voluntary and long-term agreements between industry and governments (article 7 (2)).

- Clarify that 'in-house' experts can perform audits as detailed in the recital 20 (article 7 (3))

**Energy efficiency obligation schemes**

Whereas the concept of energy efficiency obligation schemes is not unattractive, the conditions to reach the full market potential for energy savings vary greatly from one country to another. The situation is equally diversified at the sector level with energy-intensive industries having already exploited a large part of their potential compared with other sectors.

The proposed 1.5% national target disregards energy efficiency increases achieved earlier on in some member states (early actions) and the remaining potential for further improvements achievable in a cost-efficient manner. A number of points in the Commission proposal should therefore be adapted in order to ensure that it does not constitute a barrier to economic growth, particularly during the current rebuilding phase after the economic crisis.

BUSINESSEUROPE welcomes the proposal's flexible approach allowing member states to develop alternatives to the proposed obligation scheme (Article 6(9)).Whatever measures are developed by Member States, it should lead to the development of a market for energy efficiency services which are a key driver for energy efficiency improvements and offer new business opportunities.

BUSINESSEUROPE recommends:

- A clarification that the energy-saving target refers to a relative target in terms of improvements of energy efficiency, not an absolute one in terms of the volume of energy saved (Art. 6(1)).

- The gradual introduction of an energy-saving target, with a starting level differentiated on a national basis in order to take into full account early actions and actual potential for further cost-efficient improvements (Art. 6).

- An opt-out option for energy-intensive industries from the scope of the obligation scheme (Art. 6(1)).

- A clarification on the role to be played by energy services companies in the overall achievement of the energy saving target.

**<u>Combined Heat and Power</u>**

The Commission proposal rightly turns its attention to and addresses bottlenecks in Combined Heat and Power (CHP); and in district heating and cooling, both well-known technologies which have proven their potential in terms of energy savings. Both are already widespread in some Member States and in some industrial sectors. However, their potential for deployment across Europe – and for gains in energy efficiency – is not fully exploited due to some market barriers and information gaps. While market share of CHP can potentially increase from 11% in 2010 to 19% of electricity produced in the EU in 2020, take-up of co-generation is reported to have stagnated in recent years.

At the same time, it should be acknowledged that the technology does not necessarily suit all industrial processes or national circumstances (e.g. heat demand in southern Europe is more limited as well as more variable). It is also important to avoid effects such as higher power costs, notably for industries which are not in a position to use it.

Therefore, tailor-made measures are more advisable than “one size fits all” measures. Such an approach will make it possible to find the right balance between addressing barriers currently faced by operators of existing CHP installations and avoiding clumsy intervention on the market.

BUSINESSEUROPE supports CHP where it is socio-economically viable. The proposed exemption clauses from CHP obligations (article 10 (4), (7) and (8)) should respect this principle and avoid forcing businesses to make investments without a competitive return on its investment. As with the provisions for financing heat networks and access to the grid, the Commission’s proposal nevertheless merits some adjustments.

BUSINESSEUROPE recommends:

- Require all Member States to agree on identical conditions for exemption from the obligations to equip new and existing power plants and industrial installations with co-generation or systems to capture waste heat (article 10 (4), (7) and (8)). These exemptions must take into account the specificities of industrial processes and guarantee that companies will not be obliged to make uneconomic investments. Industry must be involved in the preparation of the methodology for the cost-benefit analysis (article 10(9)).

- Clarify that connection charges and costs for the development of heating and cooling networks should be fairly distributed between the involved actors, ensuring that benefits for the industry outweigh the costs (article 10 (8) second paragraph). Secure long-term ability of companies investing in systems to capture waste heat to sell heat produced to a second party, be it industrial facilities or district heating networks (article 10(8)).

- Ensure that the measures for grid access and dispatch for electricity produced from CHP are coordinated with the provisions for other energy sources, especially renewable sources. A close definition of what "priority access" means would also be required (article 12 (5)).

- Make sure that the exemption rules take into account the specificities of nuclear power plants, which operate with a high load factor.

**<u>Set-aside ETS emission allowances</u>**

BUSINESSEUROPE considers that the EU Emission Trading Scheme (EU ETS) must continue to be the primary tool to reduce European industrial greenhouse gas emissions by 2020 and beyond in order to maximise cost-efficiency of reduction efforts.

For the EU ETS to play this role, it is of crucial importance that the regulator refrains from undue intervention in the market mechanisms to steer the allowances' price in one direction or another. Incentives for emission reductions must in principle only spring from political agreements on the overall cap on emissions, and not from active interference with the carbon market. In the 2020 horizon, this cap was set by the climate and energy package in 2008, and any direct or indirect means of altering temporarily or permanently this target, other than through agreed political processes, would reduce predictability for industry and the market's faith in the EU ETS.

While a correction of the present ETS framework could compensate for price discrepancies caused by national initiatives such as the UK floor price, BUSINESSEUROPE's Members on balance agree that it would be highly inappropriate to set aside emission allowances during the 3rd trading period and thereby negatively interfere with the functioning of the market mechanisms that have already been established.

BUSINESSEUROPE recommends:

- Refrain from creating uncertainties by suggesting within the scope of this Directive the possibility to set aside a certain amount of emissions allowances (section 2.2 in the explanatory statement, recital 34 and article 19(5)).

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