EGMONT Royal Institute for International Relations

Development Group

Energy Transition: A Multifaceted Challenge for Europe

3rd Symposium: Energy efficiency in the EU from 2020 to 2030 Bridging the gap between expectations and realities

- Report -

Egmont – The Royal Institute for International Relations and the Development Group organised a symposium entitled 'Energy efficiency in the EU from 2020 to 12030 – Bridging the gap between expectations and realities' on the 30th of September 2014. The symposium took place within the framework of a series of events related to the multifaceted challenges of the EU energy transition towards a low-carbon economy which have been held in Brussels since 2011. It was the third of a series of four events in 2014.

Keynote address: Energy Efficiency as part of the 2030 Energy and Climate Framework, in light of the October 2014 European Council

After a short introduction of Viscount Etienne Davignon, President of the Egmont Institute, the keynote address was provided by Peter Van Kemseke, Special Advisor to the President of the European Council, Herman van Rompuy. He began by pointing out the member states' high mobilisation and the stakeholders' high expectations for the next European Council on 23-24 October 2014. He explained that the energy transition could be considered as an energy revolution given the significant global changes in this sector. Everybody should be considered as an actor of this revolution. The decisions taken today will have an impact on our economies for several decades from now. A more predictable framework for investors and consumers is therefore needed. He outlined the four priorities of the 2030 energy and climate framework: (1) turning our mosaic of 28 energy markets into a single internal energy market; (2) replacing our aging infrastructure via important investments, particularly from the private sector; (3) tackling the EU energy dependency – which costs the EU €400 billion per year for fossil fuel imports – by diversifying our energy resources and improving the coordination between member states; (4) setting energy efficiency (EE) as a top priority. Besides energy efficiency has numerous other benefits, such as creating jobs, contributing to economic growth and healthier national budgets, offering important market opportunities, spurring innovation as well as social and health benefits.

The implementation of these benefits implies a mentality shift in all member states. EE could be the first and most secure fuel. In the last years, some progress has been achieved through an approach based on three elements: (1) an indicative 2020 target. Despite its non-binding nature, it has brought member states to take measures.

The question is thus whether we should have a binding 2030 target or continue with a non-binding one. (2) The legislation on EE, even though the implementation in some member states is seriously lagging behind. (3) The financing, which has been increased with the last MFF via the structural investment funds. He finished by explaining that despite these positive developments, the potential of EE remains largely untapped.

Session 1: How can we explain the 'energy efficiency gap' in the EU? Lessons from the (difficult) 2020 implementation

Frank Donkers, Managing Director of Kingspan for the Benelux, opened up the first session by explaining the golden circle, which consists in: (1) *thinking* about sustainable solutions; (2) *acting* by building energy saving buildings in the most cost-effective way; and (3) *communicating* best practices and making alliance of companies. The building sector represents the highest share in the EU energy use, with the highest savings potential. But many obstacles remain, i.e. making costs and benefits transparent, guarantying energy savings to investors, addressing the fact that investing in energy saving buildings are large investments with long payback period, the lack of pressure from governments, users and consumers, the lack of awareness of stakeholders, and problems with permits and regulations. Then, he outlined the many benefits of a 40% EE target by 2030, among which a reduction of €335 billion in the costs of importing energy compared to 2011, a reduction of GHG emissions (from 49% to 61%) and an increased share of renewables (from 35% to 48%). He also promoted the advantages of a binding sectorial target for buildings and stressed the importance of setting EE as the first political priority of the 2030 framework. The date cannot be pushed from 2020 to 2030 or 2040, the golden circle must roll now.

Afterwards, Harry Verhaar, Head of Global Public and Government Affairs at Philips Lighting, recalled that we live in fast changing world, where global trends pose new challenges to government, business and society. By adopting an ambitious and mandatory energy saving target, the EU could reduce energy prices, create jobs, decrease energy consumption and CO_2 emissions, cut energy imports, offset investments needed for European energy infrastructures, and boost growth. Then, he interestingly pointed out that the EE improvement rate of the 20% target by 2020 is 1.5%, while the 30% target by 2030 proposed by the Commission would entail an EE improvement rate of only 1%, which is actually less than what is being done now! The EU has not yet drilled into its EE potential and the proposed target will not help to achieve it. The EU's best option is thus to double the EE improvement rate to unlock the enormous socio-economic potential of EE. Finally, he called for actions in order to promote an ambitious regulators framework for buildings, infrastructure and appliances; accelerate infrastructure renovation through public procurement; enforce implementation of EU legislation; support innovative financial incentives; invest in innovation and increase public awareness about what can be done, showing tangible benefits.

Next, Martin Bornholdt, Managing Director at DENEFF (German Business Initiative for Energy Efficiency) started by reminding the lesson learned from the EU 2020 framework. The non-binding EE target decided in 2007 was not taken seriously until the Commission issued the EE directive in 2012. Now, there are only 5 years remaining to achieve the target, which is useless for investment planning of EE businesses. Therefore, he outlined the importance of a binding and ambitious EE target by 2030. This would reduce dependency from foreign gas (-43% in case of a 40% target), foster growth and competitiveness (+4.5% in case of a 40% target), create jobs at large scale (+3% in case of a 40% target) and fight climate change (74% of CO2 reduction in case of a 40% target). Finally, he cited a quote of McKinsey, which says "EE is the economic, ecological and social imperative of the 21st century".

Lastly, as discussant, Monica Frassoni, President of the European Alliance to Save Energy agreed on the fact that an ambitious and binding 2030 target must be adopted at the European Council in October. According to her, the European Commission has not been very ambitious on the proposed target. If the latter is adopted, it risks not only to reduce our current effort, but also to demotivate people to invest by 2020. The number will thus be a decisive element of the discussions. Then, she underlined that EE must not be considered as a separate element in the discussion on energy security. It needs to be considered as an energy source in order to compete with other energy sources in terms of costs and availability. Finally, she stressed that the European Council is not a legislative institution. Therefore, the door should remain open for further discussions after the Council decision.

Session 2: How can the EU bridge the 'energy efficiency gap' in the 2030 energy and climate framework?

Robert Durdilly, President of the French Union of Electricity (UFE), opened the second session by stating that the key to bridge the EU "EE gap" is to be clearly focused. Firstly, the focus is political. Investing in EE actions means a new burden on public finance, an impact on companies' competitiveness and an impact on consumer purchasing power. The current economic situation commands thus to be very careful in implementing the EE policy. Secondly, an economical focus is key. A general approach of EE must be firmly rejected. Only sustainable return on investments (ROIs), which takes around 5 years for companies and 10 for consumers, must be searched for. The highest ROI can be expected in the most degraded situations. Thirdly, a financial focus is needed as well. Public funding must be focused on fuel poor assistance. Then, the highest ROIs must be dealt with classical loans and intermediate situations may benefit from special assistance coming from national financing schemes or from Structural Funds. Fourthly, a focus must be set on the different sectors. The EE directive has put too much emphasis on the building sector. Regarding that transportation represents 33% of the EU energy use, it should be considered as a priority as well. Fifthly, the focus must be set on technologies with the strongest impact on GHG emissions and energy imports, as well as resident technologies. Finally, a competencies focus is necessary. The EU EE policy needs to find a clear response to the fact that the evolution of eco-design and buildings create new needs in engineering competencies.

Following, Amal Lotfi, Director of the Basics and Products Department at ista International, outlined the benefits of submetering. He started his presentation by explaining the evolution from metering to submetering. The submetering, which introduces billing of individual consumptions, could save 20% of heating and hot water energy/costs every year. Considering that about 80% of the energy used in domestic homes are due to heating and hot water, it is essential to empower consumers by submetering, which addresses about 72% of the overall energy consumption of domestic homes. Then, he outlined what are the success factors of submetering: (1) a governance at the European, national and local levels; (2) a financing system that allows pass-through costs to tenants/users in order to guarantee maximum energy saving incentive and to overcome investor dilemma; (3) a mandatory legislation, which allows to seize submetering's energy saving potential; (4) strong enforcement tools, including sanctions, in order to ensure effective implementation. Finally, he explained that a fully automated, highly integrated self-contained system with more transparency for consumers offers further energy saving potentials.

Afterwards, Ingrid Holmes, Associate Director at E3G, explained how an effective framework for EE could be built. The European Council called for EE to be the first step towards solving the current energy security crisis. However, the 30% EE target proposed by the EC for 2030 would leave more than 50% of Europe's cost effective energy saving potential untapped. The regulatory approaches (on cars, ecodesign and labelling, buildings) have worked but more and smarter interventions are needed. The Council should give a clear mandate to the new Commission to launch a fresh review of remaining market, economic, financial and institutional barriers with the task of then developing a comprehensive new EE framework to address them. If creating markets for EE is key, so are the broader reforms that sit within discussions about the fiscal compact, the Energy Union, the Capital Market Union and the 2030 framework. In terms of financial reforms, it is essential to make private finance available, to better understand and qualify risks and to better value public investment. In terms of economic reforms, sufficient scope of public investment should be created, long-term economic thinking should be embedded as part of the European Semester process, and best value investment should be facilitated by revising State Aid rules. Regarding the institutional and governance reforms, better insight into the challenges, more clarity in terms of methodology, a new cluster named DG Resource Efficiency, operationalize thinking and better delivery should be established. In terms of market reforms, it is necessary to create equal opportunities for demand side power sector investment and a single market for EE building, goods and services, to improve supply side efficiency and to continue ecodesign and ecolabelling reforms. The EU cannot compete on being the biggest or the cheapest market but it can compete on being the smartest.

Finally, as discussant, Paul Hodson, Head of Unit on Energy Efficiency at the DG Energy of the EC, reacted on six key points. Firstly, he stressed that some progress has been made regarding the evolution of the EE story so far. Whereas in 2010, the EC hoped for the achievement of a 10% improvement by 2020, today it thinks that the EU is heading for 18-19%. In order to achieve the 20% target, the implementation of the legislation by member states and proper monitoring will be key. Secondly, he explained that the EC estimates that the economic situation accounts to about 1/3 of the progress being made and EE accounts for the other 2/3. He outlined that a big part of EE investments is made by autonomous decisions of companies, as they know they will never compete on cheap energy prices. Before being based on national and European policies, choices are thus based on the market. Thirdly, with the 30% target, the EC wanted to carry on at the same pace for the following decade, so that the amount of efforts remains the same. However, he recognised that the EC's decision constitutes a central reading of different figures. Fourthly, he discussed costs and benefits. In terms of costs, he outlined that all costs for all scenarios the EC looked at were pretty similar. In terms of benefits, apart from the GHG emissions contribution, the reason the EC proposed what it did is clearly related to jobs and gas imports. The other numbers regarding the benefits depend largely on the method of calculation. Fifthly, the implementation of the legislation will be essential, particularly for buildings, transport and smart metering. Finally, he said that finance is the most important element. Getting finance right is critical if we want to get the numerous benefits of EE.

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