Eurima Response to the consultation on EIB's Energy Lending Policy

How does investment in the energy sector contribute to growth and employment? Are investments in all energy sub-sectors equally valuable? And how does investment in the energy sector rank relative to other investments in the economy which support growth and employment?

Investments in the building sub-sector have proven to be particularly valuable in their contribution to growth and employment next to addressing the climate problem. More precisely, investment on building refurbishment plays a key role in:

- Enhancing the competitiveness of the EU industry: The construction is a key area of the EU's economy. It generates almost 10% of EU's GDP and provides 20 million jobs, mainly in micro and small enterprises. However, the economic and financial crisis has hardly hit this area of activity (building and infrastructure works fell by 16% between January 2008 and November 2011 across the EU-27). Given the fact that new building represent approximately 1.2% of the annual activity in the sector, the re-launch of construction works requires strong action on refurbishment of existing buildings.

The EIB's energy lending policy could play an essential role here, since the improvement of energy efficiency is a key aspect of building refurbishment; therefore an ambitious investment policy on energy-related renovation of buildings would play a key role in the growth of EU economy.

- Making more money available: According to the European Commission, the EU energy imports were worth 400 billion € in 2011. Improved energy efficiency in buildings (which are responsible for 40% of the EU's final energy use) would make a significant part of this money accessible for being spent on useful projects promoting sustainable development at home.

- Creating stable and durable jobs: Numerous studies have demonstrated that for every million Euro invested in deep renovations, there are 18 jobs created. Moreover, studies have also demonstrated that “deeper” refurbishments (i.e. concentrating on energy-related aspects), create -at least- twice as many jobs as less ambitious “shallow” renovations.

- Improving resilience to energy price increases: Energy Efficiency investments deserve a leading position in a balanced energy portfolio for their unique ability to improve a Country’s resilience to increasing energy prices. This economic rationale is reinforced by the higher number of jobs per Euro invested (compared to alternative investments), the reduced costs and the increased future competitiveness created.

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2 Ibid
3 This figure comes from desk based research summarising the average findings of 15 international white papers and studies on the subject, cited in the report from the Spanish Working Group for Rehabilitation – “A National Perspective on Spain’s Buildings Sector. A Roadmap for a New Housing Sector”, November 2011
4 “Renovation Tracks for Europe up to 2050. Building renovation in Europe: what are the choices?” Ecofys, 2012
What impact do you consider the current economic crisis will have on the energy sector (demand, policies, supply)?

The current economic crisis is causing a reduction of energy demand across all sectors (indeed, there are signs that the economic downturn could contribute to the achievement of EU’s target on energy efficiency), but energy efficiency and savings should not be perceived as a “circumstantial” effect of the crisis, but as a solid and “structural” long-term goal for putting the EU on track towards an economically and environmentally sustainable future.

Making Europe’s countries and industries some of the most energy efficient in the world will go a long way towards the structural shift required for Europe’s growth to resume and its businesses to regain their competitiveness. This points to a strategic shift in funding priorities to identify the best opportunities of energy efficiency investing.

An ambitious long-term energy savings policy must be accompanied by the corresponding financing support from Institutions such as the EIB, concentrating in the substantial reduction of energy demand in key areas - such as the building sector, where the biggest cost-effective potential lies.

Do you consider the criteria used by the Bank to categorise projects as Energy Efficiency projects appropriate? What alternative would you propose?

The EIB consultation paper recognises that “most of the energy efficiency potential yet to be developed lies in the building sector”. Eurima agrees with this statement, and considers that the criteria used by the Bank to categorise projects as “Energy Efficiency projects” should live up to the ambitious action needed in order to tap this potential.

Moreover, the consultation paper also states that “as a policy-driven bank, the EIB is committed to supporting the EU’s objectives”. Over the last years, the EU has adopted numerous policy initiatives aiming to improve the energy performance of new and existing buildings, which have set the scene under which EIB’s Energy Efficiency projects related to buildings is developed:

- On the one hand, the 2050 Roadmap for a Low Carbon Europe stated that the EU residential sector should reduce its CO2 emissions by 88-91% in 2050. Studies have demonstrated that the most cost-effective way to reach this goal is by achieving a similar reduction on energy demand in the average of the EU building stock.

  This long-term horizon requires ambitious action in building refurbishment, and the EIB should consider this broader policy goal when taking decisions on how to shape its policy-driven financing.

- On the other hand, the recently adopted Energy Efficiency Directive mandates that Member States shall draw-up long-term strategies for mobilising investments in the renovation of the national stock. These strategies shall encompass, inter alia, policies and measures to stimulate cost-effective deep renovations of buildings, including staged deep renovations.

  The EIB should consider the offer of Technical Assistance lines to Member States together with expert guidance for their production of investment grade buildings roadmaps with the local policy framework to ensure that public and private sector funding works together to deliver them. Again, EIB’s lending for energy efficiency should reflect this clear policy call for ambitious action in building refurbishment.

Unfortunately, the significant level of ambition required by the above-mentioned EU policies seems not to be matched with EIB’s current level of ambition to categorise Energy Efficiency projects: If the current EIB policy to fund projects “where it is enough to reduce energy consumption “by at least 20% compared to the situation before their implementation” is applied to buildings, the result would indeed be that EIB’s lending would hamper the achievement of the above-mentioned long-term goals and policies.
This hampering comes from the lock-in of savings potential provoked by sub-optimal renovations. If a given building has a technical, cost-effective potential to reduce its energy demand by -say- 80% and a refurbishment achieving just 20% improvement is undertaken, the remaining 60% potential will be locked-in for several decades (the normal renovation cycle of a building is about 30-40 years). This wasted opportunity for energy savings will have its logic equivalent in CO₂ emissions.

If the EIB energy lending for building refurbishment wants to ensure that no project will work against Europe’s long-term goals, financial support to sub-optimal renovations needs to stop.

Eurima therefore urges the EIB to scale-up its current level of ambition in general and specifically in building renovation projects - in conjunction with partner public and private banks in Member States, leading to refurbishments that reduce the energy demand of a building by a significant percentage (at least 75%) compared with the pre-renovation levels.