Consultation Response

Brussels, 26 July 2007

Subject: Green Paper on Market-Based Instruments for Environment and Related Policy Purposes

Eurima Response to the European Commission Consultation

Eurima welcomes the launch by the European Commission of a debate on the use of market-based instruments (MBI) for environment and energy purposes and calls on all EU institutions and Member States to swiftly adopt action in this area.

Buildings are the largest consumer of energy in Europe, representing over 40% of total consumption. The implementation of a realistic set of measures targeting this sector would lead to an annual saving in energy costs of 270 billion EURO a year, the reduction of 460 million tonnes of CO₂ per year, a reduction in energy use of 3.3 million barrels of oil a day and the creation of up to an estimated 530,000 jobs. To attain these goals the traditional regulatory measures such as building codes should be complemented by a broad range of MBI which will address the market failures in the building sector and give households incentives to save energy in the most cost-effective way.

1. EURIMA AGREES WITH THE COMMISSION THAT MBI HELP TO OPTIMISE THE COST OF FIGHTING CLIMATE CHANGE AND CAN BE EFFECTIVE IN CORRECTING MARKET-FAILURES

Above all MBI have the following two merits:

A) Provide a flexible and cost-effective means for reaching policy objectives. Indeed MBI, if designed and administered properly, allow allocating resources efficiently and cost-effectively, assuring that they are not invested in fashionable or politically attractive, but inefficient measures. In what regards greenhouse gases, a recent study by McKinsey showed that the lowest cost of abating 1t of CO₂ is achieved through wall and roof insulation (in fact this cost is negative, i.e. it leads to savings also in financial terms). This is not necessarily matched with proportional investment in those measures which clearly shows that climate change policies could be more effective if they were based on their real value.

B) Have the ability to correct market-failures in a cost-effective way. The buildings sector is particularly affected by market-failures. They include those that:

- Disincentives households from making investments in energy-efficiency. In several EU countries over 50% of buildings are rented. In these cases neither the tenants (as they don’t own the houses) nor the landlords (as they don’t pay the energy bills) have incentives to invest in such measures as well insulation. In such cases MBI should create incentives for landlords and tenants to make the right investment. Such measures could include tax-breaks on the refurbishment of houses or revolving funds for the same purpose which would make these investments more affordable for the tenants, decreasing their pay-back time.

- Straightforwardly give households perverse incentives regarding their energy use. In that respect subsides of energy and flat-rate tariffs for district heating create perverse incentives for energy consumers, decoupling the energy price from its use. In such
cases harmful subsidies or badly-designed schemes should be removed or redesigned.

2. SEVERAL DIRECTIVES CURRENTLY BEING IMPLEMENTED IN MEMBER STATES GIVE A GOOD BASIS FOR FURTHER DEVELOPMENT OF MBI TARGETING ENERGY-EFFICIENCY

The Directive on Energy Services and End-use Efficiency stipulates that “Member States shall repeal or amend national legislation and regulations, other than those of a clearly fiscal nature, that unnecessarily or disproportionately impede or restrict the use of financial instruments for energy savings in the market for energy services or other energy efficiency improvement measures.” This provision which lays the ground for the creation of a market for energy services has the potential to increase drastically investments in end-use energy efficiency. In that respect we call on the Commission to enforce this law and assist Member State in its implementation. This is also a good basis for the mandate that the Commission received from the Council to draft by 2008 a roadmap for removing harmful subsidies.

The Energy Performance of Buildings Directive requires Member States to set a system of buildings certificates which will certify their level of energy-efficiency. In order to be effective this requirement should be complemented with financial incentives. Homeowners should be encouraged to make energy-efficiency improvements by for example by linking buildings certification to tax deductions on the investment in energy efficiency measures. The Commission should establish a platform through which Member States could learn on the best and most effective policies.

3. REVIEWED DIRECTIVES ON ENERGY TAXATION AND THE APLICATION OF VAT SHOULD USE PRICE SIGNALS TO ENCOURAGE A MORE EFFICIENT AND RATIONAL USE OF ENERGY

In several cases the current fiscal policy creates perverse incentives to the detriment of the consumer and the environment as well. The current VAT regime encourages end-users to use energy inefficiently by applying a 5% VAT rate on energy supplies, while at the same time discouraging them to apply solutions, such as insulation, which would rationalise the use of energy and which are usually covered by a significantly higher VAT rate.

We agree with the Commission that a closer link should be established between the Energy Taxation Directive and the EU goals on environment and climate change. In terms of encouraging a more rational use of energy by end-users, the prices of energy should reflect its real cost, also in environmental terms. Moreover a mechanism of regular and accurate indexation of energy prices should be put in place.

In light of the upcoming revision of the VAT Directive, we call on the Commission to draft a proposal on reduced VAT for energy-saving products and materials, which would be in line with the EU priorities on energy, climate change, economic growth and employment.

4. THE EXTENSION OF TRADABLE SCHEMES TO BUILDINGS HAS TO BE SERIOUSLY CONSIDERED BUT THEIR DESIGN SHOULD ENCOURAGE INVESTEMENT IN THE BEST OVERALL VALUE MEASURES

We welcome the Commission statement that it will analyse the broadening of emission trading schemes. In fact, The Energy Efficiency Action Plan proposed the development of an EU-wide white certificate scheme by 2008 and several Member States are currently implementing such systems, where utilities have to make savings at the level of end-users. The main merit of such systems is that they put a price on emissions and oblige the energy providers to invest in energy-efficiency measures where the potential is the biggest, i.e. in the households.
Our limited experience in this area indicates however that in order to be efficient they have to be carefully designed. The certificates ownership and period in which savings can be banked should be adjusted to the lifetime of different measures, creating thus incentives to choose the most cost-effective measures even if they payback time is considerable. At the same time these systems should be relatively simple and transparent so as to avoid increasing the transaction costs.

5. THE KEY ELEMENTS WILL BE THE ADJUSTEMENT OF MBI TO PARTICULAR MARKET FAILURES AND THE PROVISION OF TAILORED FINANCIAL INCENTIVES FOR INVESTING IN ENERGY-EFFICIENCY

A recent study commissioned by EURIMA showed that the starting point of any successful policy is a careful analysis of sector-specific problems and market failures. Tenure situation (public/private) and type of building call for different combinations of instruments. In what regards private-occupied residential buildings the most effective measure will be preferential loans; whereas in commercial buildings tax credits for installing energy-saving products will be more effective. In general, loan schemes, which provide a building owner with the means to invest in building improvement without having to use cash resources, are more effective than efficient than most subsidy plans.

Non-owners are usually those with the lowest incomes and thus the less likely to be able to afford a major refurbishment or obtain a loan for this purpose. This group should be targeted with revolving funds and other preferential financing schemes. Finally, Structural Funds should be used to realise the huge energy-saving potential that lies in multi-family housing in the New Member States.

CONCLUSION

In what regards energy-efficiency and buildings there is no contradiction between greater competitiveness, cleaner environment and increased use of MBI. Although traditional measures such as building codes should be the basis of policies targeting energy-efficiency in buildings, they should be flanked by carefully designed and properly implemented market-based instruments which have the potential to decrease our energy consumption in a cost-effective way. Current legislation should be used as a basis for the removal of harmful subsidies and the development of MBI that will promote the best value measures for tackling climate change. MBI should be adapted to specific sectors and tailored financial support should be set up.