POSITION PAPER

BUSINESSEUROPE

28 April 2014

BUSINESSEUROPE response to the EC consultation on Energy Efficiency

1. Energy efficiency should be about *doing more with less*. A true debate on how to best qualify and measure energy efficiency in the heterogeneous landscape of EU sectors is of upmost importance.

2. Before 2020, the focus should be on the cost-effective implementation of the Energy Efficiency Directive and of the Eco-design Directive and allow flexibility for Member States to take into account their domestic contexts.

3. Towards 2030, a single GHG target will provide the necessary long-term perspective to business and investors and increase market-driven investments in energy efficiency. Therefore an energy efficiency target across the EU economy should not be pursued. Any future energy efficiency measures should take a differentiated approach by sectors taking stock of those with the highest potential for improvement.

4. European businesses have greatly contributed to make Europe one of the most energy efficient regions in the world. The latest projections have shown that manufacturing industry has made more progress than any other sector across the European economy. Therefore industrial sectors should not be subjected to any new legislative energy efficiency initiatives and targets.

5. Buildings account for 40% of Europe's energy consumption, a sector where much more could be done on energy efficiency with a large potential for emission reductions.

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BUSINESSEUROPE RESPONSE TO THE EC CONSULTATION ON THE REVIEW OF PROGRESS TOWARDS THE 2020 ENERGY EFFICIENCY OBJECTIVE AND A 2030 ENERGY EFFICIENCY POLICY FRAMEWORK

BUSINESSEUROPE has engaged pro-actively in the co-decision process leading to the adoption of the Energy Efficiency Directive in 2012 and more recently in the policy debate on the preparation of a 2030 climate and energy package. The European business community is committed to ensure that EU's energy and climate become real drivers of economic growth. Undoubtedly, being energy efficient is the way forward and significant improvements achieved in many industrial sectors show it is in the DNA of European entrepreneurs. However, the way the policy framework is designed is crucial if we want the EU to progress further in a fair, non-distortive and cost-effective way.

This paper outlines BUSINESSEUROPE views on whether or not to change the path to 2020 as well as on the main characteristics of an EU policy framework for energy efficiency post-2020. Further details on BUSINESSEUROPE positions regarding the 2030 climate and energy package are available on our website: www.businesseurope.eu

1. Doing more with less

Before specifying the ***means*** to achieve energy efficiency, it is imperative to define its ***meaning***. Energy efficiency means the intelligent use of energy, which is often but not necessarily linked to energy savings, it should be about doing more with less. Therefore before discussing a policy framework for the 2030 horizon, it is necessary to achieve a common understanding on what the concept of energy efficiency means. BUSINESSEUROPE believes that a true debate on how to best qualify and measure energy efficiency in the heterogeneous landscape of sectors across EU's economy (industry, buildings, transport, agriculture, etc.) is of upmost importance.

In industry, increasing energy efficiency has always been viewed as diminishing the amount of energy needed for the same process or product, such as increasing energy productivity. On the contrary, an absolute reduction of energy consumption would provide the wrong incentive to "consume less" and risk capping future growth prospects instead of "being more efficient".

In residential or office buildings, energy efficiency can be achieved by better insulation, through energy efficient equipment and by improving operation and maintenance. Real energy efficiency should be a measurement of the amount of energy saved after implementation of energy efficiency improvement measures while external factors (changes in production volumes, production portfolios and weather conditions) should not be included in the definition.

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2. Pre-2020: focusing on cost-effective implementation of the Energy Efficiency Directive and of the Eco-design Directive

The Energy Efficiency Directive has been adopted in 2012 following a two years policy debate. It entered into force in 4 December 2012 and intensive stakeholders' consultations have ensued in order to put into practice the new requirements agreed by the directive. The deadline for transposition of the directive by Member States is June 2014.

BUSINESSEUROPE is convinced that re-opening of the Energy Efficiency Directive (EED) at such an early stage would be counter-productive. It risks creating uncertainties for public authorities and stakeholders currently involved in the implementation of the existing directive. Therefore, BUSINESSEUROPE calls on EU policy-makers to resist adding new legal uncertainties and supports focusing efforts on its cost-effective **implementation**.

The Directive imposes new and highly demanding requirements on a wide range of industrial actors. The way the European Commission and national authorities interpret, implement and enforce these requirements is essential to ensure a cost-effective implementation process. In particular, the following issues require careful consideration:

- Member States should refrain from setting additional requirements for the improvement of energy efficiency in ETS-companies in order to comply with their national targets under Article 7 of the EED. If these requirements were to be put in place, they would severely undermine the effectiveness of the EU ETS' objective of achieving GHG reductions at the lowest possible cost for society.

- Implementation of energy efficiency obligation schemes should take national circumstances into consideration, such as energy efficiency potential, the likely evolution of national GDPs and the previous energy savings achieved by every Member State.

- Common sense should be used when carrying out audits of "large" companies, notably the practical implications for companies who may have one office employing 1 to 2 people based in the EU and another office abroad with hundreds of employees should be taken into account.

The Eco-design directive, which aims at removing the least performing products from the EU market, is another pivotal legal instrument when it comes to energy efficiency. The 2012 revision of the Directive, which led to an extension of its scope to so-called energy-related products, offers interesting perspectives to further improve the performance of a wide range of products and equipments. However, it is important that EU policy-makers keep the directive aligned with the principles of proportionality (focus on products with significant energy savings potentials), cost-efficiency and no double

regulation e.g. with the Industrial Emissions Directive. In addition, the use of primary energy factors (PEFs) should also be reconsidered for eco-design purposes.[1]

3. A single GHG reductions target towards 2030

BUSINESSEUROPE strongly believes that a single EU greenhouse gas (GHG) emissions reduction target for 2030 should be the main driver to incentivise the transition towards a low-carbon economy in Europe. Setting an overarching GHG target to 2030 will give the needed medium- to long-term perspective to business and investors while increasing the predictability of the energy and climate regulatory framework. EU economy-wide targets for energy efficiency and renewable energy sources should not be continued after 2020 as they distort the market, create inconsistencies and are not economically efficient.
This EU economy-wide target approach will avoid the repetition of instruments and targets undermining each other and technologies being picked by policymakers instead of the market. In addition, as far as they are available, alternative measures (voluntary agreements, energy labelling schemes, training, education, etc.) should be maximised in order to improve energy efficiency in a less burdensome way for the economy.

4. A sector-specific approach towards 2030

BUSINESSEUROPE strongly believes that a top-down and economy-wide target is incompatible with the complexity of the energy efficiency concept. What Europe needs is a sector-specific and tailor-made approach taking due account of past efforts, prioritizing actions in those sectors with the highest potential for cost-effective improvements and avoiding overlapping between EU policy instruments.

a) Industry

European business have greatly contributed to making Europe one of the most energy efficient regions in the world providing the market with innovative products and technologies ranging from light bulbs, through low rolling tyres, lightweight plastic materials, insulation materials, efficient manufacturing equipment, efficient heating and cooling systems for residential and commercial buildings or novel technologies to capture and recover waste heat. By improving its energy efficiency around 30% over 20 years, manufacturing industry has made more progress than any other sector of the European economy. *(Source: European Environment Agency, 2012)*

In addition, at EU level, an encompassing regulatory framework for the reduction of GHG emissions and the improvement of energy efficiency is already in place for industry. EU rules such as the Energy Efficiency Directive, the EU Emissions Trading Scheme, the Industrial Emissions Directive or product-specific policies have already driven and should continue to drive further energy efficiency improvements in industry across Europe. Therefore, BUSINESSEUROPE is opposed to any new legislative initiatives and targets for industrial sectors.

[1] BUSINESSEUROPE's Position Paper on the use of PEFs in the eco-design Directive, 2011

While the development of a market for energy efficiency services (such as energy performance contracting) is a driver for energy efficiency improvements and offer new business opportunities, the risk of multiple layers of regulation and additional burdens should be avoided. This is particularly true for companies that fall under the EU ETS. In order to allow the ETS to deliver GHG reductions at the lowest possible cost, ETS companies should be excluded from any further regulatory instruments aiming at improving energy efficiency. In addition, ETS revenues coming from industry should remain within the sector to finance industry research and efficiency projects instead of supporting non-ETS sector improvements.

b) Buildings

Buildings account for 40% of Europe's energy consumption (both residential, public and commercial), and have a large potential for emission reductions. Three quarters of buildings standing in the EU were constructed at a time without or minimal building codes. Moreover, buildings have an average life expectancy of about 50-100 years and 75% of buildings standing today are expected to remain in use in 2050. In order to unlock the energy efficiency potential in buildings and related appliances, the EU should pave the way for new financing models. The scale of finance needed to upgrade the building stock cannot be achieved by the private sector alone. Appropriate use of Horizon 2020, structural and cohesion funds should boost private sector engagement. On the basis of the first review of the EED, a target for energy savings in the building sector should also be considered as an option to trigger additional investments, new financing models and guarantee mechanisms. This would entail the development of wide-scale renovation programmes and the need for a skilled workforce in energy efficient techniques such as smart meters, insulation, glazing and lighting. Public authorities must also assume a strong role in the implementation of this target and work as frontrunners of energy efficiency improvements for the public building stock. In addition to buildings as such, special attention should also be devoted to the whole energy chain related to the use of buildings, such as innovative district heat and cooling systems, roofs, walls and windows.

a) Transport

At present transport is responsible for about a quarter of EU CO_2 emissions and the European car fleet is predicted to substantially decrease its fuels consumption. Further improvements could be achieved through increased efficiency of engines, penetration of alternatively fuelled vehicles and the deployment of sustainable recharging/refueling points for cost-effective alternative fuels, supported by an adequate R&D framework that provides innovation and R&D incentives to achieve these goals. Additional development of sustainable transport will require a blend of combined initiatives, in particular the completion of the internal market, the development of modern infrastructures, the support to innovation and the promotion of co-modality. These should however not compromise mobility. It is crucial that future measures incentivise without penalising transport sector to take the right steps forward to develop a more energy efficient transport system.

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