EuroACE
THE EUROPEAN ALLIANCE OF COMPANIES FOR ENERGY EFFICIENCY IN BUILDINGS

EuroACE Position Paper
The EU Multiannual Financial Framework post-2020
Investing in energy renovation of buildings: why, how much, and how?

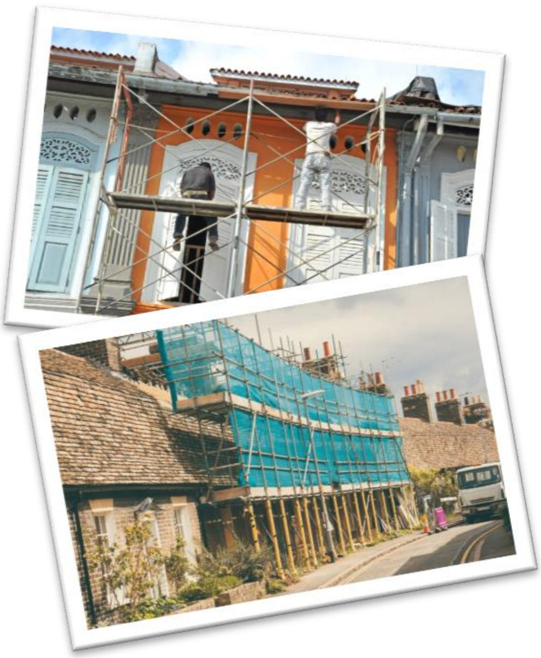
The Multiannual Financial Framework (MFF) is the EU Budget system over a 7-year period and determines the spending priorities on different policies. The European Commission is expected to present its proposal for the MFF 2021-2028 at the beginning of May 2018, while the European Parliament and Member States are starting their discussion. This Position Paper was developed for submission to the European Commission Public Consultations on the future of the MFF and lays down the EuroACE position on the next EU Budget.

EuroACE focuses its contribution on how to best spend the money. Issues such as the overall size of the budget, or where the resources should come from, are not tackled. More specifically, this Paper describes how the MFF should be designed, and which principles it should respect, to secure enough funding for energy renovations of buildings, a key measure to achieve the decarbonisation of the EU economy by 2050.

Why invest in energy renovation of buildings?
An EU Budget targeted towards our political priorities that brings added-value to citizens

For the European Commission, it is quite clear that **the MFF** is not a mere accounting exercise but should rather **translate EU political priorities**. EuroACE agrees with the principle, but deeply regrets that climate action, energy transition or decarbonisation objectives were barely mentioned in the European Commission Communication '*A new modern MFF for the EU that delivers efficiently on its priorities post-2020*' (14th February 2018).

It is quite clear that to be in line with international commitments, the EU will have to move towards a **decarbonised economy by 2050**. According to the International Energy Agency, 75% of additional investments to cut GHG emissions in Europe to respect the Paris Agreement will have to be done on **energy efficiency**. More specifically, it is in the buildings sector that has the biggest potential for efficiency gains. In conclusion, there is a clear case for **investing EU budget into energy renovation of buildings**, since actions in that sector will ultimately contribute to the achievement of one of the main goals for the EU, i.e. decarbonising its economy.



What is more, funding measures to energy renovate buildings brings additional benefits, showing a **clear EU added-value**. Besides creating local jobs, economic opportunities, and boosting competitiveness of EU businesses, policies on building renovation improve air quality and provide Europeans with warm, healthy and comfortable homes. Additional benefits include solving inequalities between regions and support to social stability. What better solution when the EU is currently prioritising for its next budget the **security and protection of its citizens,** as well as creating a **prosperous and sustainable Europe**.

Policies to energy renovate buildings are people-centric. They deliver services and public goods to citizens, leading to **an improvement or an addition to national policies**, while contributing to fight against the consequences of climate change, which can be considered as a cross-border threat. These are all reasons why energy renovation of buildings should be considered as **a policy with a clear EU added-value**. Therefore, it deserves to be widely funded through the EU Budget.

How much to invest in energy renovation of buildings?
An EU Budget that increases its spending and leverages private financing

According to a 2018 study for the ITRE Committee ('*Energy and the MFF*'), spending in the **buildings sector** currently represents €100 billion annually, and this is where the **largest (75%) additional investment need lies (€132 billion annually)** to achieve a 30% energy efficiency target by 2030. Therefore, the challenge is to **increase spending on energy renovation of buildings** – this could be done in a twofold manner.

Direct more of the EU budget towards energy renovation of buildings

First, **more of the EU budget should be directly or indirectly channelled** to energy renovation of buildings. Put more bluntly, we could say that *where there is an EU responsibility, there should be EU money*. This goes in line with the German-Italian statement (21st February 2018) that the EU Budget should be **directed towards public goods**. At EuroACE, we believe that buildings, in which we spent 90% of our time, whether at home, at work or at school, are European public goods of which we should take care. In general, the importance of the **EU public budget to act as a 'role model'** and to invest in buildings has also been recognised recently by 14 Member States (Green Growth Group statement, 5th March 2018).

Increasing financing of energy renovation of buildings could be done by **increasing the share of the EU budget directly dedicated to climate spending**, **which currently stands at 20%.** Some Member States called for raising that share well above 20%, such as France. The European Parliament BUDG Committee adopted the OLBRYCHT-THOMAS Report (§6), calling for "*climate related spending [to] be significantly increased compared to the current MFF and reach 30 % as soon as possible and at the latest by 2027*". For EuroACE, the climate-related spending part should be **increased well above 30%,** but more importantly, it should be ensured that budget lines falling under this designation truly fund actions contributing to the achievement of a **highly energy efficient and fully decarbonised energy system and EU economy**. It is regrettable that under the current MFF, around half of the climate-related spending comes from 'greening' the CAP, and another 25% from investing in rail infrastructure, instead of financing measures which contribute to the energy transition and create a good number of jobs – which is the case for energy renovation of buildings. It is **important, for accountability and effectiveness reasons, that climate-related spending gets more scrutiny and monitoring**, as it is estimated that by 2020, only 18.9% of the EU Budget will fall under that category, below the committed 20%.

In practice, spending more on climate could be achieved by **increasing spending on EU policies** which have other purposes than solely energy renovation of buildings, but contribute to it. The ECOFIN Ministers agreed (March 2017) that **climate mainstreaming** is an appropriate tool to bring the EU Budget in line with the Paris commitments. Therefore, all the following funds should increasingly feature in the EU Budget and earmark a share for energy renovation of buildings.

- **Regional Policy (ERDF & CF)**, for helping urban regeneration. Energy efficiency projects only represent 4-5% (including less than 2% on housing) of the overall spending for the 2014-2020 programming period, while such projects bring clear benefits. For example, in the previous programming period in France, an ERDF-funded energy renovation project in social housing, created 15,000 local jobs;
- **Erasmus+ and European Social Fund**: today only 1% of these funds is spent on training and upskilling the workforce into high quality jobs, preparing it to the challenges of a modernised and digitalised construction sector, which would especially be beneficial to coal regions in transition;
- **Framework Programme 9** for research & innovation. 35% of the current Horizon 2020 programme is being spent on climate-related purposes, but this share should be increased, e.g. to move our building stock towards efficient, smart and decarbonised buildings;
- **Invest EU Fund**, for investing in a sustainable infrastructure, i.e. our buildings. This is especially important as in some Member States, between 40 and 80% of public infrastructure investment comes from the EU Budget.

Finally, it is important to assign a good part of the dedicated **Environment & Climate Programme** (currently called *LIFE*) to energy efficiency, for example by clearly **earmarking or ringfencing** funds towards energy renovation of buildings. The Court of Auditors assessed that **pre-allocation helps spending**. However, the current LIFE programme is very small, representing around 0.35% of the total EU Budget – which is clearly not enough to meet the needs, and it should be **raised to at least 1%.**

EuroACE believes that directing more of the EU Budget towards energy renovation of buildings will also **meet the Europeans' expectations and match EU values**. According to a recent Eurobarometer survey, 95% of citizens stated that protecting the environment was important for them, while 84% agreed that more EU funding should be given to environment-friendly activities. Therefore, the Commission should follow its own motto from the Reflection Paper on the Future of EU Finances (June 2017) that the "*EU Budget helps to deliver on the things that matter for Europeans*", and dedicate sufficient funding from the MFF to energy renovation of homes, schools, and offices.

Leverage more private financing through the EU Budget

Second, the EU budget should be designed in a way to **leverage more private financing** towards energy renovation of buildings. The Commission has already started developing some '**enabling tools'** to that purpose, such as the *Smart Finance for Smart Buildings Initiative*, in collaboration with the European Investment Bank.

However, after 2020, three developments should take place:
- Create **more similar tools** (leveraging private financing through a public fund guarantee);
- **Increase the volume** of the EU budget used as guarantee;
- Relax the rules to allow **more blending** of public and private financing, e.g. regional funds and Energy Performance Contracting.

This all together would ensure that more private financing will be leveraged thanks to the EU Budget and directed towards energy renovation of buildings policies.

Private investors are eager to invest in energy efficiency, notably on energy renovation of buildings. For example, the Institutional Investors Group on Climate Change (IIGCC), which manages over €21 trillion in assets globally, called for '*aligning Europe's financial system with the Paris Agreement*' (October 2017). The One Planet Summit (December 2017) showed how strongly investors are keen to shift their investments towards projects which contribute highly to the energy transition. Currently, €1 of public investment in energy efficiency measures can trigger private investments of up to €4-20. But those private investors first need sufficient confidence that the EU is serious about providing sufficient guarantees and setting the right direction with its own budget.

It is also worth noticing that spending on energy efficiency and energy renovation of buildings is a low risk investment, thus with a **low risk of under spending in case of high pre-allocation**. According to the European Mortgage Federation, financing an energy efficiency loan is less risky, as it has a lower probability of default than conventional loans.

All in all, the Commission should be consistent and **match the EU Budget spending volume on energy transition with the regulatory ambition** it has set out in the Energy Union legislative framework in November 2016, and consistently defended in inter-institutional negotiations in 2017-2018.

How to invest in energy renovation of buildings?
An EU Budget that is 'Paris-compliant' and a few principles to deliver on priorities

While this Paper makes the case for focusing a good part of the EU budget towards investing *in and around* energy renovation of buildings, there are also a few principles which should guide overall MFF structure, as **quality matters as much as quantity**. First, **the EU Budget should be 'Paris-compliant'**. This means that the entire MFF, not only the climate-related spending part, should be aligned with the EU objective to lead on the Paris Agreement commitments. This is even mentioned in the Paris Agreement itself, with its Article 2§1c stating that signatories should *"make financial flows consistent with a pathway towards low GHG emissions*". For the EU Budget, and for the sake of efficiently using funding, this means that an ***ex ante*** **compatibility check** should be done on each budget line, and that **no policy should be funded if it is detrimental to the achievement of the Paris Agreement objectives**.

Second, from a purely cost-effectiveness point of view, a Paris-compliant EU Budget also makes sense, as it would **avoid investing in stranded assets**. The EU Budget, which is an 'investment budget' for the Commission, should respect the **Energy Efficiency First principle**. It means that before committing to investments in supply-side infrastructure, especially fossil fuels, one should always consider efficiency first. If considering the different options between demand-side and supply-side shows that demand-side represents better value, then policy should prioritise efficiency investments and measures.

Third, and consequently, the EU Budget should **enable funding to go directly to demand-side projects** such as **aggregated projects for energy renovation of buildings**. This could take different forms:

- Funding projects from a list of Projects of Common Interest (PCIs) for energy efficiency. The High-Level Expert Group on Sustainable Finance called for a '*Sustainable Infrastructure Europe'* facility, and renovating our buildings can be considered as investing in sustainable infrastructure. Therefore, it could also fall under a new form of the Connecting Europe Facility which would finance demand-side investments;
- Funding directly cities & regions and their energy & climate plans, or one-stop-shops for energy renovations. National and regional renovation strategies could be considered as a 'programming channel' (as *Operational Programmes* in Regional Policy), to which EU funds could be directly allocated to ensure better roll-out and implementation. Therefore, eligibility criteria should be revised and relaxed in favour of local actors;
- Funding Project Development Assistance programmes, to build 'investment pipelines'.

Fourth, **the EU Budget should be focused on delivering results to citizens and businesses**, **by linking policy and financing with a 2030 and beyond perspective.** This means that National Climate & Energy Plans (currently being developed in the *Governance Regulation*) as well as the national long-term renovation strategies (in the *Energy Performance of Buildings Directive*) should be seen by Member States as **investment roadmaps.** They should also be used by the Commission to monitor policy achievements and close any ambition or delivery gaps with the 2030 targets. One could think of using more of ***ex ante* conditionalities** to link policy requirements with access to financing. This has been done quite successfully in the current MFF period, between energy efficiency legislation and access to EU Regional Funds.

Fifth, the Commission should ensure that Member States allocate sufficient funding to those measures included in such policy strategies, to ensure their implementation. This would also respect the principle of '**Vertical Coherence'**, introduced by the High-Level Group on Own Resources (December 2016). It means that Member States should plan their national investments in line with the EU Budget priorities, and that **EU and national budgets should reinforce each other**.

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About EuroACE
EuroACE represents Europe's leading companies involved with the manufacture, distribution and installation of energy saving goods and services for buildings. EuroACE members employ over 305.000 people in these activities in Europe and have around 1.400 production facilities and office locations. The mission of EuroACE is to work together with the EU institutions to help Europe move towards a more efficient use of energy in buildings, thereby contributing to Europe's commitments on climate change, energy security and economic growth.

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