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PU Europe Response to the Green Paper on EU Post 2020 Climate and Energy Policy

PU Europe sees the strategic discussion on the EU's climate and energy policy as an opportunity to transform this important policy area into an instrument that truly stimulates sustainable growth while reducing the environmental footprint of our societies.

Summary:

- Focusing Europe's climate and energy policy solely on greenhouse gas emissions does not grasp the complexity of today's economic, social and environmental situation.
- Policy development must start from the question as to how the EU can boost growth and jobs while reducing the environmental impacts of all sectors and increasing supply security.
- There is significant evidence that energy efficiency measures can achieve all these goals in a cost-effective way. Europe should therefore first and foremost set a binding energy efficiency target for 2030 based on the cost-effective savings potentials of buildings, transport, industry, agriculture and energy supply.
- The target should be expressed as a percentage of energy savings through energy efficiency measures compared to a baseline and not constitute an absolute cap on energy consumption. Due to its very substantial cost effective savings potential and continued market failure, a separate goal for buildings accompanied by binding measures should be proposed. Any target for industry must respect investment cycles and be expressed as energy intensity.
- As a next step, a renewables target should be fixed taking into account cost-effectiveness and competitiveness.
- In a third step, the CO₂ emission savings from the energy efficiency and renewables targets should be added and included in the greenhouse gas emission (GHG) reduction trajectory towards 2050.
- This procedure will ensure that the three binding targets are coherent and mutually reinforcing.

General

Which lessons from the 2020 framework and the present state of the EU energy system are most important when designing policies for 2030?

The following lessons should be drawn:

Need for clear long-term framework through binding targets

Out of the three 2020 targets, only the energy efficiency target is not on track to be met. Incidentally, this is the only target which is not binding. Only binding targets, especially in the building industry, drive strong legislation and provide a long-term prospective to industry and other stakeholders.

Need for targets to cover all sectors of society

Setting binding targets only for GHG emission reductions puts an undue burden on the industry sectors covered by the Emissions Trading Scheme (ETS). The efforts imposed on those companies need to be re-balanced with those to be delivered by not-ETS sectors to eliminate negative effects on the EU's overall competitiveness. Sectors, such as buildings, can offer a far more significant cost-effective savings potential.

Need for targets to be based on real potentials

The decision to set the 20-20-20 targets for 2020 was a political decision and communication exercise rather than one based on real potentials.

Future targets need to be determined through a bottom-up approach. Regarding energy efficiency, cost-effective savings potentials of the major sectors such as buildings, transport, industry, agriculture and energy supply should be determined and consolidated in an overall savings target based on energy efficiency improvements.

Need for coherence in target setting

Setting targets in an isolated manner may lead to overlaps and reduced effectiveness. All three targets must be based on real cost-effective potentials and developed jointly so that they become meaningful and mutually reinforcing. As a matter of example, the contribution of energy efficiency to reducing greenhouse gas emissions and increasing renewable energy shares must be assessed before setting requirements / targets for these two areas.

Need for long-term vision

The overall 2030 target for energy efficiency should not be looked at in isolation. It should be seen as a crucial intermediate step in delivering the EU strategy for 2050, providing a clear vision combined with policy predictability and investment security for companies and other stakeholders, but also taking into account international trends.

Instruments

Which targets for 2030 would be most effective in driving the objectives of climate and energy policy? At what level should they apply (EU, Member States, or sectoral), and to what extent should they be legally binding?

Numerous studies demonstrate that energy efficiency measures represent the most cost-effective tool to stimulate growth and job creation¹ while reducing the environmental impacts of all sectors, enhancing resource efficiency, increasing supply security and tackling fuel poverty^{2, 3}.

Europe should therefore first and foremost set a binding energy efficiency target for 2030 based on the cost-effective savings potentials of buildings, transport, industry, agriculture and energy supply. The target should be expressed as a percentage of energy savings through energy efficiency measures compared to a baseline. Due to its very substantial cost effective savings potential, a separate goal for buildings, especially the renovation of buildings, accompanied by binding measures should be proposed. It is well documented that market failures continue to slow down the uptake of energy efficiency measures in buildings even when they are cost-effective. Any target for industry must respect investment cycles and defined as energy intensity.

As a next step, a renewables target should be fixed taking account of cost-effectiveness and competitiveness.

In a third step, the CO₂ emission reductions through the energy efficiency and the renewable energy targets should be added and compared to the greenhouse gas emission reduction trajectory towards 2050.

¹ Impact on public budgets of KfW promotional programmes in the field of 'Energy-efficient building and rehabilitation'", KfW (2011) and Europe's Buildings Under the Microscope" by the Buildings Performance Institute of Europe (2012)

² "Multiple Benefits of Investing in Energy Efficient Renovations - Impact on Public Finances", Copenhagen Economics, (2012)

³ "Tackling Fuel Poverty in Europe: Recommendations Guide for Policy Makers", Epee, Ademe, IEE, 2009

Have there been inconsistencies in the current 2020 targets and if so how can the coherence of potential 2030 targets be better ensured?

As outlined above, the 2020 targets were set in a top-down approach to fit a nice communication slogan: 20-20-20 by 2020. Future targets must be based on real potentials (bottom-up approach as described above). Keeping the energy efficiency target non-binding would attach a second-order importance label to it for the next 16 years.

As stated above, and following the *trias energetica* principles, the energy and climate policy framework should start from the energy efficiency target, followed by a renewables target. Once their potentials are translated into emission reductions, an overall GHG emission reduction target should be defined.

The energy efficiency target should be expressed as a percentage of energy savings through energy efficiency measures compared to a baseline scenario. It must not become a cap on energy consumption.

Are targets for sub-sectors such as transport, agriculture, industry appropriate and, if so which ones?

The European climate and energy policy should address the cost-effective potentials of all sectors in order to increase the likelihood of achieving the EU's long-term goals and include all parts of society in this process.

As stated above, the overall energy efficiency target should be based on the cost-effective savings potentials of all major sub-sectors.

One of them, **buildings**, offers the highest cost-effective savings potential, but is extremely fragmented and subject to market failures. A clear long-term target, expressed as net energy savings and accompanied by binding and flexible long-term measures, is therefore of the utmost importance.

As regards **industry**, the cost-effective potential is lower, as efficiency is usually a key element of investment plans. Targets should take account of investment cycles and be expressed in terms of energy intensity (relative target).

How can targets reflect better the economic viability and the changing degree of maturity of technologies in the 2030 framework?

The quantification of cost-effective sectoral potentials must look into the availability and maturity of technologies and new technologies likely to become widely used in a foreseeable future. Building targets on speculation may lead to unrealistic expectations and must be avoided.

Moreover, targets must take account of investment cycles for industry and renovation intervals and replacement rates for buildings / building elements.

Ideally, the target setting process should also identify obstacles to the wider uptake of already existing technologies. For example, products and design solutions exist today to build nearly zero energy or even energy plus buildings. Legislation must drive market uptake, while learning curves will reduce costs and, thus, increase economic viability.

How should progress be assessed for other aspects of EU energy policy, such as security of supply, which may not be captured by the headline targets?

Security of supply is based on import dependency, in other words the share of imported energy in the total EU energy consumption (minus energy exports).

Two ways exist to increase the security of supply: the first is the reduction of energy consumption through energy efficiency measures. The second option is to increase domestic energy generation, mainly through the development of cost-competitive renewable sources of energy.

Therefore, the issue of supply security can best be addressed by setting ambitious targets for energy efficiency and renewable energy. In doing so, grid stability must be ensured at any moment in time.

Instruments

Are changes necessary to other policy instruments and how they interact with one another, including between the EU and national levels?

Current legal instruments do not address the trajectory for buildings towards 2050. Buildings account for 40% of total energy use and 35% of CO₂ emissions. About 80-90% of this is due to the energy use of the existing building stock. If the EU wants to achieve its 2050 climate goals, buildings must reduce their energy demand by 80% by that date. This needs to be clearly reflected in European legislation such as the Energy Efficiency Directive. A clear pathway for building renovation towards this 2050 goal needs to be established.

Responding to the need to increase the resource efficiency of the built environment, the European Commission mandated CEN to develop a series of standards to assess the performance of buildings in terms of resource and energy use and their impact on climate, acidification, eutrophication, ozone depletion, waste and others. The standards are published, supported by industry and other construction stakeholders and increasingly used across Europe.

However, in parallel to this initiative, the Commission developed numerous other tools which do not provide additional benefits but lead to confusion in the market and substantially increase compliance cost for industry. These tools directly or indirectly affect buildings and construction products. They include Ecodesign, Ecolabel, Green Public Procurement, Energy label, Product Environmental Footprint, Environmental Technology Verification scheme and, last but not least, the new Basic Works Requirement n°7 of the Construction Products Regulation.

Europe and Member States should agree on one single framework. As the CEN standards are already used and widely recognised, they should become this single assessment and communication tool.

How should specific measures at the EU and national level best be defined to optimise cost-efficiency of meeting climate and energy objectives?

Energy efficiency measures offer by far the highest certainty of cost effectiveness.

In the case of buildings, it is well documented that nearly zero energy buildings can be delivered today at no or very low extra cost. The Energy performance of buildings directive introduced the need to set minimum building (component) efficiency requirements at cost-optimal levels. Learning curves will drive down costs and cost-optimal efficiency levels will increase, including for the renovation of existing buildings.

As regards industry, investment cycles of companies need to be respected. When investments are planned, companies usually use the full cost-effective savings potential offered by new technologies. Regular energy audits, as introduced by the Energy Efficiency Directive, will ensure that all companies become aware of these potentials.

Which measures could be envisaged to make further energy savings most cost-efficiently?

As outlined above, investment cycles of companies need to be respected.

As to buildings, it must be ensured that efficiency improvement measures are implemented when a building / building component is renovated. With a view to avoiding lock-in effects, such improvement measures should not only be implemented to minimum efficiency standards, but to cost-optimal levels. This will avoid costly upgrading within the useful life span of the investment.

Competitiveness and security of supply

Which elements of the framework for climate and energy policies could be strengthened to better promote job creation, growth and competitiveness?

Stimulating economic growth, job creation and competitiveness, while reducing environmental impacts, must indeed serve as starting points of the new policy framework.

There is significant evidence that energy efficiency measures can achieve all these goals in a cost-effective way whilst avoiding carbon leakage. Europe should therefore first and foremost set a binding energy efficiency target for 2030 based on the cost-effective savings potentials of buildings, transport,

industry, agriculture and energy supply. Due to its very substantial cost-effective savings and job creation potentials, a separate goal for buildings accompanied by binding measures should be proposed. Any industry targets should be of relative nature (energy intensity). The challenges of renovating Europe's building stock and creating the above-mentioned positive effects require a wide-ranging training and qualification initiative for the construction sector including architects and contractors.

What are the specific drivers in observed trends in energy costs and to what extent can the EU influence them?

Energy costs can be defined as the amount of money a family / company has to pay to sustain its activities. This cost is affected by two major elements:

- The energy price is driven by global energy markets, generation / distribution costs and, to an increasing extent, taxation. The EU has only limited powers to influence this price.
- Even when prices go up, costs can remain stable or even decrease if energy efficiency potentials are fully utilised. The EU could stimulate energy efficiency measures through binding targets and measures.

How should uncertainty about efforts and the level of commitments that other developed countries and economically important developing nations will make in the on-going international negotiations be taken into account?

The EU must strike a balance between setting high internal ambitions on the one hand and the need to strengthen global competitiveness on the other. Hence, there should be regular "reality checks" to ensure that the gap between EU ambitions on those of other countries does not grow too high.

How can the EU increase the innovation capacity of manufacturing industry? Is there a role for the revenues from the auctioning of allowances?

Industry will invest in innovation provided

- There is a market for new products and reasonable returns on investment can be realised.
- A sufficient level of profitability allows for investments in innovation.
- The regulatory environment provides sufficient long-term stability. Ever changing legal requirements, in particular in the field of environmental policy, increase uncertainties.

The EU should reduce the burden of legislation by simplifying existing rules, avoid duplication and provide a long-term vision.

As regards buildings, a long-term roadmap towards 2030 and 2050 comprising clear targets for building renovation in terms of efficiency levels and renovation rates would provide construction stakeholders with useful indications on training and technology needs and future market volumes.

Capacity and distributional aspects

How should the new framework ensure an equitable distribution of effort among Member States?

Regarding energy efficiency, cost-effective savings potentials should be determined per sector and country taking account of learning curves. This would ensure that early actions of progressive Member States are taken into account.

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