EUROPEAN ALLIANCE TO SAVE ENERGY

Creating an Energy-Efficient Europe

A CLIMATE-PROOF BUDGET TO DRIVE THE EU CLEAN ENERGY TRANSITION TO A LOW CARBON ECONOMY

Danfoss

Ingersoll Rand

Kingspan

KNAUF INSULATION

signify

Schneider Electric

SIEMENS

SAINT-GOBAIN

VEOLIA

E3G

European Climate Foundation

Kyoto Club

TABLE OF CONTENTS

March 2018

The European Union (EU) Multi Annual Financial Framework (MFF) post 2020 will define the financial means to address societal, economic and environmental challenges the EU is currently facing.

The MFF is also a unique opportunity for the EU to demonstrate coherence with its long-term energy and climate policy objectives and deliver tangible benefits to European citizens.

With that in mind and in line with the EU's Paris Agreement commitments, this paper presents the views of a cross-sectoral alliance of businesses united by the shared vision that energy efficiency, by driving growth, jobs and delivering European added value, is the key to a cost-efficient and competitive decarbonization of our economy.

BUILDING ON A GOOD STARTING POINT

The current MFF 2014-2020 foresaw a strategic link to the EU2020 climate and energy framework, which consists of a political target to spend 20% of its total funding resources on climate-related actions. Such earmarking indicates an important improvement on previous multiannual financial frameworks (which did not have explicit climate-related and percentage-based budget allocations to specific priorities). However, given the challenges ahead, simple earmarking of resources will not make the grade for two reasons:

- At the current rate and in the absence of plans to increase and improve the focus of expenditure, the target for 20% climate spending by 2020 will be missed[1].

- The lack of quality evaluation of the earmarked expenditure makes it impossible to assess the climate performance of the budget expended, sending a weak political signal for mobilizing private investment.

DELIVERING INTERNATIONAL AND EUROPEAN CLIMATE OBJECTIVES

The post 2020 MFF will need to be developed in compliance with current EU and global energy and climate targets and fill the significant investment gap to meet them. Paris Agreement commitments require a "*finance flow consistent with a pathway towards low GHG emission and climate-resilient development*" (Art.2 Paris Agreement).

At the same time, an EU budget which facilitates the cost-efficient decarbonization of the European economy will help foster EU technological leadership[2], strengthen the domestic market for clean energy technologies and solutions, and provide a springboard for EU businesses to sell their technologies and know-how globally.

PUTTING ENERGY EFFICIENCY FIRST

Energy efficiency is the key enabler for a decarbonized Europe and is beneficial both to businesses and consumers. It also makes up the low carbon investment gap needing to be filled. Hence, the Energy Efficiency First principle should guide the MFF's post 2020 investments strategy, with the aim to:

- Go beyond the EU 2030 energy efficiency milestones set in the revised Energy Efficiency Directive (EED) which are insufficiently ambitious to meet the more challenging Paris objectives
- Boost the energy productivity and the competitiveness of Europe's industries
- Increase confidence and drive private investment in efficiency by providing a long term political signal to the business and investor communities
- Drive public investments to address market failures to lower total energy system costs and contribute to the creation of broader social benefits for citizens such as improved health outcomes
- Reduce energy imports and strengthen EU energy security and political stability
- Contribute to concrete developments for more efficient resource management and the circular economy

BUILDING CAPACITY AND CREATING GREEN JOBS

The transition to a decarbonised society, driven by a technological revolution, is generating new sources of economic growth and creating between 3.3 and 4.9 million jobs[3] across Europe.

A forward-looking and climate-oriented MFF post 2020 should catalyse research and innovation and foster capacity and skills development for the new low-carbon economy. In parallel, it should support a socially just transition, offering valuable alternatives when job relocation is required, in particular in currently carbon-intensive regions.

With instruments such as the European Social Fund, the future MFF is key to delivering more systemic responses to the highly transformative impact of the clean energy transition on European society, and to delivering adequately resourced long-term strategies to maximize benefits and minimize hardships for working people in this process.

TEN POLICY ASKS FOR A CLIMATE-PROOF MFF POST 2020

1

NO to EU budget reductions.

The MFF must be conceived as part of relaunching the European Project after Brexit. Innovation, resilience to climate change and decarbonization of the European economy should be the priorities of a stronger Europe in the decade 2020-2030. This will require more resources, to be spent in a more intelligent, efficient and effective way, on priorities with the highest economic, societal and environmental value.

2

NO to unnecessary investment in energy supply infrastructure that fails to pass the Energy Efficiency First Principle.

All investment decisions in the field of climate and energy must be guided by long term decarbonization objectives and follow the 'Energy Efficiency First' principle to avoid the creation of stranded assets. Namely, the MFF should embed the principle to first reduce consumption through smart and cost-effective energy efficiency solutions before investing in sustainable new supply capacity.

3

YES to increased overall climate action expenditure.

The overall budget earmarked for climate action should be increased for the EU to be able to meet its new ambitions in light of the Paris Agreement's long-term strategy.

4

YES to energy efficient renovation of buildings.

Earmarking resources for the energy efficient renovation of the residential building stock means investing in a sector with an enormous saving potential. Up to 40% of the EU's energy consumption takes place in buildings. The MFF post 2020 should kick start a Europe-wide programme to improve their energy performance, supporting EU economic growth, job creation and better living conditions for citizens. Projects aligned with a long term goal of a decarbonised and highly energy efficient building stock, targeting nZEB level, should be rewarded.

5

YES to prioritizing energy efficiency projects and Research and Innovation (R&I).

Investing in high-potential and cost-effective demand- and supply-side efficiency projects should remain at the core of Cohesion spending and should become a priority for an expanded and more energy efficiency focused R&I budget.

6

YES to energy efficiency projects funded by the Connecting Europe Facility (CEF).

The new CEF should enable energy efficiency investment in demand- and supply-side infrastructure, in particular where they have the potential to avoid unnecessary network investment. The EU's buildings collectively constitute strategic infrastructure, which needs to be energy efficient and therefore resilient to shocks from the energy supply system, while embedded within the grid to drive the e-mobility revolution.

7

YES to better funds allocation.

EU funds allocation should be conditioned to the respect of the rule of law and the integral transposition and application of key energy efficiency legislation such as the Energy Efficiency Directive (EED), the Energy Performance of Buildings Directive (EPBD) and the Governance 2030 Regulation. National Energy and Climate Plans (NECPs) are investment pipelines for each Member State: the next MFF will play an important role in addressing investment barriers and encouraging private investments to delivering the plans. The Commission should also ensure that investment mechanisms in the next MFF are used to facilitate higher ambition in the NECPs. Funding streams for projects and policies which are not 'Paris-compliant' should be closed.

8

YES to better climate action tracking.

It will be necessary to improve monitoring methodologies and mainstream a climate investment appraisal toolkit (incorporating an Energy Efficiency First assessment) to properly evaluate the EU budget's climate action spending impact. This will help promote higher quality interventions and stimulate greater investment from third parties in areas with high economic, social and environmental return potential.

9

YES to the creation of a 'Sustainable Infrastructure Europe' Facility.

The MFF is the best opportunity to fulfil the High-Level Expert Group on Sustainable Finance's recommendation to establish a 'Sustainable Infrastructure Europe' Facility. The Facility is needed to expand project development capacity for high-quality infrastructure in EU member states that helps to meet the EU's sustainability objectives[4].

10

YES to financial instruments.

The EU budget should be designed to mobilise private financial flows - hopefully continuing to have a multiplier effect of 1:15[5]. Increasing the share of financial instruments, in particular revenue-generating projects, and reducing the share of public grants will empower the private sector to build viable business models for energy efficiency projects, and incentivise the public sector to leverage investments through Energy Performance Contracting (EPC), benefiting from new rules that enable them to be accounted for off the balance sheet.

ABBREVIATIONS AND FOOTNOTES

CEF	Connecting Europe Facility
EED	Energy Efficiency Directive
EPBD	Energy Performance of Buildings Directive
EPC	Energy Performance Contracting
EU	European Union
GHG	Green House Gas
MFF	Multi Annual Financial Framework
NECPs	National Energy and Climate Plans
nZEB	nearly Zero Energy Building
R&I	Research and Innovation

[1]Analysis from the Commission and the European Court of Auditors, for instance, shows that the average climate spending between 2014 and 2016 was 17.6 percent. Source: Politico 22 February 2018

[2]The 2017 Global Cleantech Innovation Index ranks five EU countries among the top 10 on emerging clean technology innovations. The Global Cleantech Innovation Index 2017 Report, https://www.cleantech.com/2017-global-cleantech-innovation-index-a-look-at-where-entrepreneurial-clean-technology-companies-are-most-likely-to-emerge-from-over-the-next-10-years-and-why/

[3]European Commision Impact assessment, 2016, SWD(2016) 405 final, PART 1/3, Table 15, Employment impacts in EU28 in 2030 (from EUCO27 to EUO40)

[4]According to the High-Level Expert Group on Sustainable Finance, a Sustainable Infrastructure Europe" facility aims to increase energy efficiency investment in the EU by

- Supporting MSs in the design of national infrastructure development plans – turning the National Energy and Climate Plans into investable project pipelines.
- Supporting an upgrade in project development capacity at national and local level – leveraging the role of the EIB's European Investment Advisory Hub and new Urban platform (URBIS)
- Reducing uncertainty in member states' regulatory environment and therefore helping to reduce the cost of capital of projects in the MSs that need investment the most – beneficial to EE projects in CEE countries.

[5]European Commission, Economic and Financial Affairs
http://ec.europa.eu/newsroom/ecfin/newsletter-specific-archive-issue.cfm?newsletter_service_id=199&newsletter_issue_id=4381&pdf=true&fullDate=Wed%2007%20Jun%202017&lang=default

ABOUT THE EUROPEAN ALLIANCE TO SAVE ENERGY

EU-ASE was established in December 2010 by some of Europe's leading multinational companies.

The Alliance creates a platform from which our companies (Danfoss, Ingersoll Rand, Kingspan, Knauf Insulation, Philips Lighting, Schneider Electric, Saint-Gobain, Siemens and Veolia) can join with politicians and thought leaders to ensure the voice of energy efficiency is heard from across the business and political community.

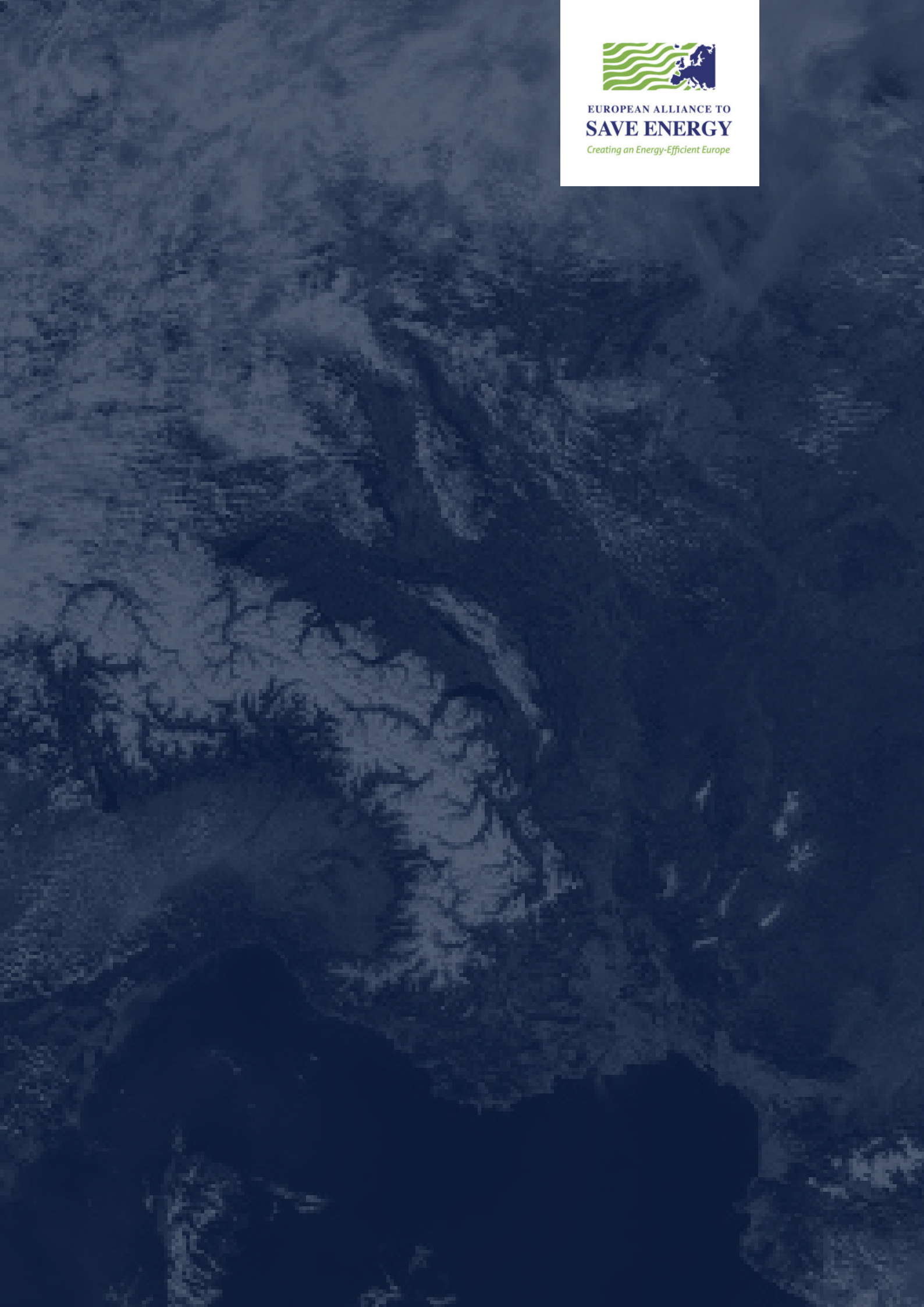
EU-ASE members have operations across the 28 Member States of the European Union, employ over 340.000 people in Europe and have an aggregated annual turnover of €115 billion.

For more information:

www.euase.eu
info@euase.eu

@EUASE

EUROPEAN ALLIANCE TO
SAVE ENERGY
Creating an Energy-Efficient Europe



EUROPEAN ALLIANCE TO
SAVE ENERGY
Creating an Energy-Efficient Europe